



ISMA
ANNO 1994

**MANAGEMENT MECHANISMS AND DEVELOPMENT STRATEGIES
OF ECONOMIC ENTITIES IN CONDITIONS OF INSTITUTIONAL
TRANSFORMATIONS OF THE GLOBAL ENVIRONMENT**

Collective monograph edited by M. Bezpartochnyi

Kovalenko Viktoriya

*Dr. of Sc. (Economics), Professor,
Department of Banking
Odessa National University of Economics*

Bolgar Tatiana

*Dr. of Sc. (Economics), Associate
Professor, Head of Department of
International Finance, Accounting and
Taxation
Alfred Nobel University*

Sheludko Sergey

*PhD (Economics), Senior Lecturer of the
Department of Banking
Odessa National University of Economics*

Garkusha Julia

*PhD (Economics), Senior Lecturer of the
Department of Banking
Odessa National University of Economics
(Odessa, Dnepr, Ukraine)*

**COMPETITIVENESS
OF BANKS AS A
SUBSIDIARIES OF
ECONOMIC
ACTIVITY IN THE
MODERN
CONDITIONS OF
DEVELOPMENT OF
FINANCIAL MARKET**

In the context of deepening the globalization processes facing Ukraine, the creation of the bases for the implementation of progressive structural changes in the economy, which contribute to the sustainable and long-term development of the country, becomes of paramount importance.

The degree of development of the financial system and banking system, its main element, the nature and efficiency of monetary policy and financial policy largely determine the real opportunities of the domestic economy in addressing issues of ensuring competitiveness, the nature of the country's participation in global integration processes.

The stability of the banking system is one of the most important conditions for the development of any national economy [1, p. 49]. Resilience, transparency and predictability of the banking system can significantly increase the predictability of its activities for investors and increase attractiveness for economic entities. In view of this, the study of banks' market position indicators in the current conditions of banking services market development becomes relevant.

Modern conditions for banking business, the emergence of new market niches in the market of banking services, the introduction of new

banking technologies cause increased competition in the monetary market. In such circumstances, banks are forced to expand the list of their own operations and services, improve the quality of service in order to attract more customers, increase profitability of its activity in general. Strengthening banking competition, which manifests itself in rivalries between banks and other non-bank financial and credit institutions, banks seek to secure leading positions in certain segments of the banking services market, which ultimately determine the overall competitive position. In the process of competition, banks solve the problem of competitive positioning, that is, the choice, acquisition and formation of a market position.

Competitiveness is inherent in all elements of the economic system, but it manifests itself in situations of conflict, the result of which should be redistribution of the market [2, p. 12]. Competitiveness determines the ability to withstand competition compared with similar actors in the market. That is, the competitiveness of any financial institution can be defined as a complex comparative characteristic that reflects the level of the benefits of a set of performance indicators that determine the success on a particular segment of banking market over a period of time relative to indicators of competitors.

The problem of ensuring the competitiveness of banks is devoted to a significant number of scientific works, which examine both problems and mechanisms for ensuring a competitive position. So, V. Mishchenko examines the problem of ensuring competitiveness through defining criteria and directions for increasing capitalization of banks [3, p. 12]. Ye. Neizvestna identifies marketing channels for ensuring the competitiveness of banks [4, p. 209]. A. Hamidullin focuses on the regional aspects of ensuring the competitiveness of banks [5, p. 79]. O. Shevtsova emphasizes that the achievement of the competitive position of banks should be based on the model of strategic and innovative development [6, p. 102].

Summing up the above mentioned views on the competitiveness of banks, we conclude that it implies their ability to operate effectively in a banking environment, which is achieved through the constant use of innovations to create competitive advantages for their products and services on the market to achieve profitability and financial sustainability in the future, taking into account the social aspect of banking activity and general economic situation.

The current state of development of the banking system of Ukraine is associated with certain problems in the economy, the effect of the macro

and micro factors on the functioning of the financial market in general. Characteristics of the main factors affecting the competitiveness of Ukrainian banks are presented in Table 3.7.

Table 3.7

Characteristics of factors influencing the competitiveness of Ukrainian banks

No.	Group of factors	Characterization of factors
1.	Structural imbalances of the economy of Ukraine	Reduction of the real sector of the economy; the acceleration of inflation has led to a decline in income and consumption in real terms; increase in the outflow of funds from the Ukrainian economy for defense; the development of the financial sector is accompanied by rapid growth reduction of banks, reduction of deposit base and offer of loans; in 2015, wear capital exceeded investment; Savings are concentrated in financial institutions, government and in households; raw material orientation of industrial production; increased vulnerability to macroeconomic tactical shock; "Chronic" payment imbalances; import dependence
2.	Factors macro environment functioning banks	Volumes of industrial production; activation of business entities activities; the standard of living of the population of Ukraine; the degree of development of the stock market; acts Visiting of foreign economic activity of enterprises of Ukraine; deployment of inflation spiral; unemployment rate
3.	Factors macro environment functioning banks	The speed and timing of the bank's development of the business cycle of a particular business or certain banking product; commodity policy, including assortment and volume policy; price policy (dismemberment and price differentiation, balancing pricing); sales policy (organization of sales network); communication policy (actual sales, advertising, public relations, sales promotion); development and implementation of client-relevant corporate strategy

Source: systematized by the authors

Banking competition differs from classical competition between commodity producers. These differences are:

- the object of banking competition is not goods, but the resources that the bank generates to carry out active operations;
- in banking market, banks can act as a seller, not only the buyer;
- the implementation of banking services may be carried out within the bank without the involvement of external sales channels;
- the situation of competition arises not only between banking institutions, it is also connected with the activities of non-banking financial institutions;
- the activities of banking institutions are strictly regulated by the National Bank of Ukraine [7, p. 91].

In a competitive environment, each of the banks may either be a partner bank or a competitor bank in different segments of the services offered on the banking market. Consequently, the feature of the competitive advantage is that it can simultaneously act as a means, and the result of a competitive struggle.

The analysis of the results of the research of different approaches of scientists to determine the factors of competitive advantages allowed us to group and classify:

- organizational structural – organizational, branch network, competence the staff, certainty Informational management base, complexity and topicality normative and methodical bases management, interaction divisions and networked;
- resource – availability resource base (finances, information, personnel), access to borrowed resource for affordable price, attractiveness for investor's ability to attract investment more successful than competitors;
- technical and technological – security modern equipment, security software complexes, availability and diversification of channels communication and exchange information, the share of new ones banking products and services in total volume;
- managerial – Quality management, using systems management quality, competence managers of all levels, Level corporate the culture of the bank, internal marketing, effective external and internal communication;
- marketplace – Level competition on markets banking services, borrowed financial resources, barrier price entry into the market and exit from it, exclusivity for the market banking services, effective sales system.

In order to determine the factors of competitive advantage, that is, qualitative characteristics reflecting these bank benefits, it is necessary to constantly analyze which criteria of banking activity are considered by clients as essential or key in the process of choosing one or another bank, a particular banking product or service.

From the figure below, it is evident that there is a large number of different factors that are structured by the author on the following grounds: factors of organizational structure, resource, technological, managerial, market. Consequently, competitive advantages are a concentrated manifestation of the advantages over competitors in financial, technical, information, organizational and other areas of the bank's activities.

Factors that determine the bank's advantage over competitors are characterized by economic indicators such as: additional profit, higher profitability, market share, sales, that is, they characterize the quality of the tasks of competitive and financial strategies.

Note that the competitiveness of any bank is the result of the efficient work of the personnel of all its units (that is, it is achieved by the quality of the organization and functioning of its internal environment), as well as the quality of its anti-crisis preventive management (timely identification of changes in external factors of influence). At the same time, a special condition for any bank is the ability to respond promptly and adequately to changes in customer behavior, to their needs for innovative and traditional, but with new features, products, and services and benefits. Competitiveness of the bank in the market is the result of qualitative performance of the tasks assigned to them by the strategic management.

The development of the Ukrainian economy, which is taking place in the current crisis, negatively affects the domestic banking system: there is a low level of capitalization of the resource base, narrowing the range of banking products and services, increasing the level of bank risks, increasing the amount of reserves for possible losses from poor-quality active operations, decreasing profitability of banking activity.

An analysis of the scientific works of M. Porter, I. Ansoff, G. Azoyev, A. Thompson and A.J. Strickland made it possible to define different approaches to the definition of the essence of competitive strategies and to classify them into four types: violent ("power") strategy, patient (niche) strategy, commutant ("adaptive") strategy and an exploratory ("pioneer") strategy [7-11].

Researchers in their writings offer different concepts of competitive

strategies, but if we analyze their essence, it can be concluded that their main characteristics, consistent with the opinion of Porter [8]. In connection with the above, give a more detailed description of competitive strategies of M. Porter, which, as already noted, were developed three basic options for a competitive strategy. These strategies are: cost leadership, differentiation and focusing, in our opinion, can be used in the organization of strategic management of the activities of banks.

The essence of each of the options of competitive strategies proposed by M. Porter, taking into account the specifics of the banks.

Firstly, *Strategy Leadership in Expenses*. It requires cost minimization, which in turn leads to constant search for effective cost management methods as well as constant investment in new technologies that would reduce the costs of banks. With regard to the banking business, the strategy of leadership in reducing costs implies that the bank focuses on a large market and offers its products and services in large numbers. By implementing large volumes of such services, the bank can minimize its costs and sell them at relatively low prices. This allows you to have a higher share of profits compared with competitors, better respond to the growth of the cost of banking services and attract customers oriented to lower prices, and, thereby, increase profitability.

Leadership spending strategy can be applied to markets of standardized goods and services in perfect competition and homogeneous oligopoly. In banking, such a strategy is used in the field of mass (standardized) services for the population. With the effective implementation of this type of strategy, banks face a number of problems. The main of these problems are: the lack of opportunities for the bank to influence the value of borrowed credit resources, because their value as a whole is determined by macroeconomic factors; insufficient capitalization of most domestic banks, so banks use expensive borrowed resources; the lack of methods for implementing qualitative financial planning in banks, which, in turn, leads to biased results of forecasting costs in different segments of the banking market, and also reduces the possibility of their optimization.

Secondly, *Strategy of differentiation*. It involves the development of such a banking product or service that would have a set of unique characteristics, which in turn would lead to the formation of a loyal customer relationship with the bank, expansion of its product line in general, as well as lower sensitivity to the price of the product. When

using this type of strategy, banks will need more investment in research and innovation than the strategy of spending leadership. M. Porter, as an important difference in the strategy of differentiation from leadership in spending, highlighted the possibility of a significant narrowing of the market segment, in which the bank operates.

The problems that can be faced by the bank in implementing this strategy include: relatively low level of confidence in the domestic banking system; insignificant experience in the organization of processes of providing some modern innovative types of banking products. Competitive banks, using cost leadership strategies, can copy a set of characteristics of a banking product and offer on the market more favorable prices for customers.

The strategy of product differentiation means that the bank focuses on a large market by offering a service that is unique and is distinguished by its reliability, availability or other qualities. This, in turn, allows you to form competitive advantages that are not very dependent on the price. Such a strategy is more effective in the markets of differentiated products and services of banks (monopolistic competition, differentiated oligopoly) and can be applied by banks in the area of providing services for enterprises and individual service of the population, as well as the introduction of new banking products and services on the market.

Thirdly. *Focusing strategy*. The content of this strategy is that the bank concentrates its efforts on identifying and satisfying the needs of a certain type of its clients (segmentation by branch or segmentation by business scale, by age characteristics of individuals) or geographic region, or emphasizes the development of a particular product line, what bank can achieve leadership in the market.

Focusing strategy is designed to focus (focus) the bank on a narrow market or market segment (in a certain type of product or service, in a specific group of consumers or customers, in a particular region). If the first two strategies can be used, first of all, by universal banks, then this strategy is acceptable to specialized financial and credit institutions (for example, for a bank focused on providing services to the population, a "pocket" bank of a large corporation or an "elitist" private bank).

Other competitive strategies proposed by researchers, in our opinion, complement the content of the strategies of M. Porter. We have also adapted their essence, taking into account the specifics of the bank's activities on the market. The essence of violent strategies is the desire of the bank to dominate a fairly wide market space due to high internal

labor productivity of personnel, low cost of production of banking products, and, consequently, low prices for such products and services. The achievement of such target positions requires a mass-market producing of services oriented to the average buyer with average needs and capabilities.

Patient strategies suggest that the bank limits the range and volume of products offered to customers in the market, while at the same time paying special attention to their quality. The essence of this approach is the desire to evade the direct influence of competitors-violent through the definition and active formation in the banking market segments with specific needs.

Commutant strategies target the bank for the fastest satisfaction of the small volume of short-term and changing needs of customers in the market.

Explorative strategies orient the bank for radical innovations and the development of the demand on the banking market for brand new products and services.

References

1. Vitlinsky V., Pernarovsky O. (2000). *Financial stability as a systemic characteristic of a commercial bank*, // *Banking*, Vol. 6, pp. 48-51.
2. *Information Management for Competitiveness Management*, Encyclopedia of Marketing. Available at: <http://marketing.spb.ru/read/m19/index.htm>. (Accessed 23 November 2018).
3. Mishchenko V. (2013). *Capitalization of the Banking System of Ukraine: Present and Prospects*, *Bulletin of the National Bank of Ukraine*, Vol. 8, pp. 11-17.
4. Neizvestnaya Ye. V. (2015). *The marketing aspect of banking competition*, *Problems of the economy*, Vol. 3, pp. 208-215.
5. Khamidullin A.V. (2011). *The main factors of the competitive advantage of a commercial bank in the region's economy*, *Economic Sciences*, Vol. 5, Issue 74, pp. 78-80.
6. Kovalenko I.V., Shevtsova O.Y. (2011). *Competitive position of the bank: strategic aspect of innovation*, *Visnyk Dnipropetrovsk University, Seriya "Economy"*, Vol. 5, Issue 3, pp. 101-108.
7. Kovalenko V.V. (2006). *Ensuring the competitiveness of the banking system of Ukraine*, *Academic review*, Vol. 1, pp. 89-95.
8. Porter M. (1993). *International Competition*, Moscow: MO, 896 p.
9. Robinson D.V. (1986). *The Economic Theory of Imperfect Competition*, Moscow: Progress, 471 p.

11. Stoyka V.S. (2017). Possibilities of restoring confidence in the banking system of Ukraine in modern conditions, *Scientific Bulletin of Uzhgorod University*, Vol. 1 (49), pp. 289-294.
12. Bagelot Walter. *Lombard Street: A Description of the Money Market*. Available at: <http://oll.libertyfund.org/simple.php?id=128>. (Accessed 23 November 2018).
13. Lukin D., Mazilo T. (2004). Ethical Aspects of Business of Ukrainian Banks, *Bulletin of the National Bank of Ukraine*, Vol. 2, pp. 22 - 24.
14. Khilko A. Revive Ukraine through trust in banks Available at: <http://n-v.com.ua/vidrodit-ukra%D1%97nu-cherez-doviru-do-bankiv/>. (Accessed 25 November 2018).
15. Kovalenko V.V. (2015). Influence of deposit policy on formation of architectonics of banks development, *Scientific Journal «Science Rise», Economic sciences*, Vol. 3 (8), pp. 78 - 81.
16. Bashinsky T.V. (2014). Social responsibility of the banking sector of Ukraine, *Scientific Papers of Kirovograd National Technical University. Economic sciences*, Vol. 25, pp. 104 - 110.
17. Basadze K. M. (2015). Restoration of confidence in the banking system: myth or reality, *Financial Space*, Vol. 1 (17), pp. 18 - 22.
18. How to restore confidence in banks? Available at: <http://kyiv1.org/news/yakvidnoviti-doviru-do-bankiv-043152/>. (Accessed 26 November 2018).
19. Torahian J.I., Antimonik K.V. (2013). New trends in banking marketing: domestic and foreign experience, *Bulletin of the University of Banking of the NBU*, Vol. 1, pp. 219 - 224.

Paliukas Vytautas

M.B.A, Lecturer, Head of Applied Research and Non-formal Education Department, Panevezys College
dr. Savaneviciene Asta
Professor Principal Investigator of Sustainable Management Research Group at the School of Economics and Business
Kaunas University of Technology
(Panevezys, Kaunas, Lithuania)

1. Importance of Human resources for competitiveness

Successful business and competitive institutions is moved forward by employees who play most significant role in the company and help to achieve the purpose of this article is to disclose the resource development for ensuring the competitiveness of entities.

1.1. Human resources as a source of competitive entities competences

