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1. Introduction

According to the Neoclassical Economics the economic dynamic is predetermined by tastes, endowments and technologies. Human actions reveal economic future but do not create it. I think that such approach can be treated as “Determinism in Dynamic Economics”. One of the properties of this approach is neglect of the fact that the past is irreversible, and the future is uncertain.

The opposite conception – advocated by the Austrian School – believes that only absolutely subjective decisions of independent agents form economic future, therefore any mathematical models of the economic dynamic are futile. I think that this approach can be treated as “Voluntarism in Dynamic Economics”. One of the properties of such approach is neglect of the importance of resources and institutions (especially, power relations) for economic development. Both approaches, to my mind, give perverted, one-sided picture of the dynamic economic reality.

Is it possible to go beyond dualism between determinism and voluntarism in dynamic economics? It is possible to construct more realistic conception of economic dynamics? I suppose that the students can use instruments of the Post Keynesian macroeconomics which is characterized, among other things [1; 8], by two important features. One of them is the principle of “originative”, “creative” decision. According to this principle, economic agents, making decision, “create history”, that is, determine future outcomes in the economy. The actions of people are not passive consequences of the previous events. Moreover, typical individual, unlike Neoclassical approach dogmas, is not “taste-satisfying machine” [10, p. 218]. People can often form and alter own purposes and preferences independently. In this way even the decisions based on the achievement of current goals (utility, etc.) can be autonomous. Naturally, the decisions concerned with expectations are autonomous and independent in a more degree. Moreover, the longer is period of expectations, the more spontaneity in the decisions will be. Therefore the most independent, “uncaused” decisions are long-term fixed capital investment ones (see below section 5).

Such role of the decision in the economics of Keynes and Shackle is explained by the following reason. These economists studied economy in historical time, and to go beyond dualism between determinism and voluntarism in dynamic economics. It is Post Keynesian macroeconomics – permanently reconsidered and updated – that works in this direction.
that is, in one-directional time. Whilst Neoclassical economists and (often) Mainstream Keynesians examined logical or two-directional time. In the historical time the past is irreversible, the future is uncertain. In other words, historical time cannot move back, in distinction from logical time, therefore each decision can in principle create unique economic position. While in the logical time human beings can only discover the future, in the historical time people can create it [see 8, p. 167]. That is why Shackle criticized dynamic deterministic models of such Keynesians, as Kaldor, Kalecki, Harrod and Hicks, because they produced “…a self-contained system, where everything which happens is explained from within the system” [24, p. 29].

In such models almost all decisions were fully predetermined, as in the contemporary models of the New Classical economists. And that is why Post Keynesian economists follow Keynes and Shackle, stressing the importance of “creative”, “uncaused” human decisions. 3. The “Shifting Equilibrium Approach”

The “shifting equilibrium approach” is fundamental characteristics of the “historical time economics” (that is, Post Keynesian economics). The point is that in the historical time the economy cannot have a tendency toward certain “state of rest” (“long-run equilibrium”, “state of tranquility”, “steady-state rate of growth”, etc.). Because each human decision can influence on the future outcomes, any economic position can appear only once. Shifts and changes of different economic states are imprescriptible features of the “history-creating decisions economies”. This approach was first invented by Keynes [11, p. 293]. The essence of it is more clearly explained by Deprez and Milberg [9, p. 517 – 518]:

“In a historical model... the actual situation of one period feeds into the next period’s decisions and outcomes, which feed into those of the next period, and so on. That is, the economy’s evolution is a cumulative sequence of short-period situations... In this view of dynamic theory each sequence depends upon its own history and its own future and to talk separately of a cycle and a trend is unacceptable”. It is clearly, that this sentence is confronted with the Neoclassical approach to the analysis of economic dynamics.

Therefore any theories describing the tendency of the economy to the “state of rest” does not reflect the real world of the “historical time economic systems”. This statement was most brilliantly proved by Hyman Minsky in his “financial fragility hypothesis” [17; 18; 26; 27; 19]. In accordance with this conception, when the economy is in “state of tranquility”, economic agents make decisions, which “disequilibrate” economic system. In other words, the firms accomplish highly-leveraged capital investment; these actions generate boom. Further, it turns out, that these companies cannot meet the cash payment commitments that grow out of previously undertaken financial obligations. This circumstance leads to economic recession. In other words, in the historical time, almost any economic position contains in itself seeds of subsequent positions. All these described ideas are the common point in Post Keynesian macroeconomics. As I think, these ideas are not so unambiguous and simple. 4. The “Paradox”

I believe that the principle of “history-creating decision” contains one internal contradiction concerned with the “shifting equilibrium approach” (which is, as I pointed out, inherent to the former feature of Post Keynesian macroeconomics). I try now to explain the “paradox” by the following example.

Suppose, that economic agent (or the group of economic agents) makes decision A in the period 1. Assume that this decision is absolutely autonomous and “creative”. It means that, on the one hand, this decision is independent from the previous and current event, and, on the other hand, this decision determines future economic outcomes, for example, outcomes in the period 2. Then what will happen in the period 2? Economic situation in this period will be determined by the decision A, making in the period 1. In other words, actions and decisions of economic agents in the period 2 will be predetermined by the decision A. These actions and decisions will not be “uncauised” and “creative”; it will be only passive transmitters of past affairs and events.

Is there the possibility of “uncauisedness” and “creativity” of the decisions making in the period 2? Yes, but then the decision A will not “create history”; it will be powerless (in the terminology of Shackle [24, p. 74], because it will not influence on the actions of agents in the future (in this example – in the period 2). This example leads to the following conclusion. Many decisions of economic agents cannot be fully “uncauised” and “creative” in any “historical time economy”. Shackle was not right, when he wrote [24, p. 85]: “If... history is not determinate, each decision-maker may be conceived to create history by each of his decisions”.

In other words, the “paradox” consists in the following. “Uncauisedness” and “creativity” of one decision means inevitably “cauisedness” and “emptiness” of another one. “Originativity” of actions of one economic agent(s) means “passivity” of ones of other agent(s). The special significance – and all the same “creativity” – of one economic positions implies that other economic states are passive (and may be even mechanical) by-product of the past economic development. In other words, not all economic positions matter for the determination of final outcomes. That is why, for example, the models of “cumulative causation” (circular
interaction between variables) and “lock-in” (the dependency of the current behavior of a decision-maker on his (or her) own actions in the past or on the current decisions of other agents), which tried to embody the “shifting equilibrium approach”, were not consistent with the theories of “creative” decisions. Both types of theories (on the one hand, “cumulative causation” and “lock-in” models, on the other hand, “originative” decisions models) were theories in historical time. But the point is that the “cumulative causation” and “lock-in” theories contained deterministic features as distinguished from the “creative” decisions theories. In connection with it Setterfield [22, p. 22 – 23] noted:

“The “dynamic determinism” inherent in these concepts [“cumulative causation” and “lock-in” – I.R.] means that, apart from the initial conditions (and in the absence of shocks), no other part of the historical trajectory of a system exerts an independent influence on the long-run or final outcome of the system, since all subsequent points on this trajectory derive in a deterministic fashion from the initial conditions themselves”.

5. The Attempts of Dealing with Paradox

In the previous section I came to conclusion, that not all decisions are absolutely “creative”. It can imply two things. First, as I pointed out above, some decisions “create history”, others are passive consequences of the previous events. Second, in principle, each decision may be partly autonomous and “creative”, and partly “caused” and “empty”.

On the other hand, if this statement – not all decisions are absolutely “creative” – is applicable to all economic events, then no decision can be fully autonomous and “originative”. I think that such point of view is an extreme one. There are fully “uncaused” and “creative” decisions; there are decisions, which are deterministic and “empty” or “powerless”; there are decisions which contain features of two preceding kinds of ones. I believe that the last statement is relevant to the degree of “creativity” of economic agents, variables and states of the economy [see also 22, p. 23].

What factors determine the degree of “uncausedness” and “creativity” of economic decisions? I suppose that the main factors here are the following: (a) the time period, during which outcomes of the decision will be realized; (b) the degree of the irrevocability of the decision; and (c) the amount of resources provided by this decision for the realization of other decisions. The more time period, the more is the irrevocability, and the larger is the amount of resources (which is necessary for the accomplishment of other decisions), the more spontaneity and “creativity” of the decision will be. Why? In the first place, the more is given time period, the less importance of the past and present events will be. If, for example, the outcomes of the decision will realize a twenty years later, that making-decision agent will not take into account current situation. In the second place, if such “long-term decisions” are one-off, then the decision-making agent cannot use past or current data as a statistical basis for this making. In the third place, these decisions “create history” because it is making of such ones that determine the degree of realization of other decisions.

It is clearly that the most autonomous and “creative” decisions are fixed capital investment ones. Such decisions are very long-term, does not repeat often and determine the production possibilities – and, therefore, income – of the economy. The last feature means that decisions concerned with the allocation of the production possibilities, for example, consumption and saving ones, cannot be “uncased”, because given possibilities depend upon exogenous factor – fixed capital investment. The level of consumption is determined not by the will and intentions by economic agents, but by income. Income, in turn, is determined by capital investment. The Accelerator models of investment and business cycles are rejected by many Post Keynesians [see, for example, 2, p. 291] because these theories do not recognize spontaneity of fixed capital investment.

That is why those agents, who make fixed capital investment decisions, “rule the roost” of the economy [1, p. 45]. I have in mind the large companies. It is big business that “create history” by making its decisions, whilst the role of households is rather more passive (but not always, as it will be shown below). The same reasoning is applicable to the economic positions. The state of the economy, in which massive fixed capital investment (or disinvestment) decisions are making, is crucial for subsequent economic evolution. The phase of moderate expansion determines significantly the following phase of boom. As well as the “dying down” of the investment activity in the phase of slump determines the deepness of subsequent depression. In other words, the most important (more exactly, “originative”) “points” during the business cycle are the initial phases of expansion and recession. In the former points the actions of firms determine when the economy ceases to be in the depression and what the prosperity will be. In the latter points the actions of firms determine when the boom ends up and how the economy will sink in the gulf of collapse.

These deductions are one of the most important ones in this paper and complement the conclusions derived by Setterfield [22, p. 23] which asserted that not all events can be important: “... “mild” historical events may not really matter in the sense of their not having an influence on long-run or final outcomes”.
“Non-mild” events (massive fixed capital investment or disinvestment, and also, perhaps, successful “investments” in technologies and institutions), on the contrary, do the influence on the final outcomes. In other words, the “selective history” takes place [3, 22]. It is also clearly, for example, why many financial investment decisions are not so “originative” and “creative”. These decisions are not always long-term and one-off. Moreover, such decisions do not often form resources which necessary for the realization of other decisions. Nevertheless, some financial investment decisions are extremely important in the historical, “creative” sense...

6. The “Objective Restrictors” and Institutions
The above reasoning led to the conclusion that the absolutely “uncaused” and “creative” decisions can however take place. Such decisions are fixed capital investment ones. But this deduction is true only if two important conditions hold: if there is the absence of the “objective restrictors” of investment and if the social institutions do not change quickly.

The former condition means sufficient amount of the physical and especially financial resources, which are necessary for investing. The access to the physical resources is not very serious problem, because the “monetary production economy” – a Post Keynesian „nickname” of the capitalism [1; 19] – is rarely reaches the full employment position. The access to the financial resources problem is rather more crucial. The lack of liquidity can stop economic growth if even economic agents are bullish and ready to invest in the stock capital. Such lack can be treated as a special kind of the “liquidity trap” (Davidson, 1965, p. 62; 1968; 1969) and is a consequence of (mostly) high level of and/or increase in the liquidity preference. High liquidity preference (which can be often “uncaused”) can force agents not to invest in profitable but risky financial assets (for example, obligations of highly-leveraged business firms) and then some capital investment will not occur. It is in these circumstances that financial investment decisions can be “creative”? Therefore not only companies, but also banks [1, p. 45] and wealthy households can influence on the history of the economy in calendar time. Keynes [13, p. 668] asserted: “The banks hold the key position in the transition from a lower to a higher scale of activity”.

I think also that the large capital disinvestment in the beginning of a slump are not the passive pre-determined consequences of past events, but are often generated by extreme liquidity shortage, that is, by absence of necessary resources.

The second condition can be violated if there are rapid changes in the taxation, political, distributional and/or property rights systems. Capital investment decisions cannot be “uncaused” if, for example, taxes’ rates rise or massive nationalization takes place. Spontaneity and “originativeness” of investment decisions are possible only under a more or less stable institutional structure. For example, investment collapse in the CIS countries (including Russia) in the 1990-s was a consequence of not so “originative decisions” of economic agents as adverse institutional changes and circumstances (political disintegration, too quick privatization, increase in the taxes, destruction of formal institutions due to rapid institutional transformation [20, p. 38] and so on).

7. Summary and Conclusions
The statements about the absolute spontaneity and “creativity” of all human decisions in the economy moving in (historical) time – in the „monetary production economy” – are in a more degree not true. There are some reasons for this conclusion.

First, absolute “uncausedness” and “creativity” of one decision means automatically deterministic nature of other decisions. “Creation of history” means that “created” historical events (and, therefore, human decisions and actions) are not spontaneous and “originative”.

Second, those decisions which are independent from the past and present decisions and acts (because such ones are long-term and one-off), cannot be realized when the necessary resources are absent. For example, capital investment with long period gestation cannot be occur if there is a lack of finances, which are necessary for providing this transaction.

Third, human decisions cannot be fully autonomous and “creative” when the social institutions (taxes, property rights, political system) change rapidly. Such changes do not permit to “look into the (far) future” (by imagination) and, therefore, realistically to ground these decisions. This sentence is touched upon the problem of “investor myopia” [21].

Such, only some (long-term and one-off) human decisions can be “uncaused” and “creative”, but it is possible, when there are no the lack of physical and financial resources (that is, “objective restrictors” are absent) and when changes in the institutional structure of the society do not occur. On the other hand, it should be kept in sight that the amount of some resources and the institutions can be itself are the outcomes of the human decisions (for example, investment decisions determine the production possibilities – see section 5 – and so on).

However, these sentences do not mean recognition of the determinism in the economics. Really, the economy is not mechanism, and the economics is not creation of mechanical analogues of the economy, as Mainstream economists prove [see, for example, 16, p. 281]. The essential investment decisions create new future and make the macroeconomy devoid of determinism. But the moving forces of the economy in historical time are not only the
will and spontaneous, capricious affairs of economic agents, as Austrian School economists think (and as Shackle believed). Yes, of course, in historical time the situation is impossible, when „the motion of the economy from state to state is independent of decisions made by individuals in the economy” [16, p. 69]. Historical time makes determinism impossible. But there are „parameters” which also do the influence on this motion: the availability of necessary – physical and financial – resources and the social institutions. I can agree here with Lawson [14, p. 920], who wrote:

“Individual actions and social practices each presuppose each other” [see also 15; 4].

In other words, resources, institutions and human decisions together determine the motion of the economy in historical time. As I think, Shackle overstated the role of “originative” decisions and underestimated the importance of the “objective restrictors” and institutional environment. Besides that he (together with Austrian School economists) did not take into account the “paradox of history-creating decision”. As a result, the theories of Austrians and Shackle did not describe economic processes of the real world and did not contribute to the solution of the problems of this world (in distinction from, for example, theories of Keynes and Minsky).

Broadly speaking, the main conclusion here for Post Keynesian macroeconomics is the following. If the students do not take into account the social institutions and the availability of resources and do not see the “paradox of history-creating decision”, that they cannot understand macro-relations in the “historical time economy”. The situation when any human decision can “create history” is impossible, because such “creation” means pre-determined nature of “created” all events, acts and decisions. The recognition of importance of the historical time and the refusal from building of the mechanical models should not lead to the overestimation of the human decisions “creativity”. It is the only way to go beyond dualism between determinism and voluntarism in the analysis of economic dynamics and to understand how to take into account in economic analysis both “creative” character of human decisions and the binding role of resources and institutions.

References
Розмайнський І. В. За пределами детермінізму і волюнтаризму в динамічній економічній теорії, або Нарис про „парадокс рішення, що створює історію”

Стаття містить спробу виходу за межі дуалізму між детермінізмом і волюнтаризмом в динамічній економічній теорії. З одного боку, економічна динаміка не зумовлена смаками, початковими запасами ресурсів і технологіями (як учити неокласична школа). З іншого боку, економічна динаміка не є наслідком абсолютно суб'єктивних і спонтанних усіх індивідів (як учити австрійська школа). Щоб вирішити поставлену задачу, автор застосовує посткейнсіанський підхід до аналізу економічної динаміки і акцентує важливість таких концепцій, як принцип креативного рішення і принцип рівноваги рівноваги. Він формулює і досліджує „парадокс рішення, що створює історію”. Цей парадокс полягає в тому, що автономність і креативність якогось одного рішення неминуче означає причіну зумовленості і відсутності впливовості якогось іншого рішення. Різні рішення характеризуються різними ступенями автономності і креативності. У статті формулюються критерії, що впливають на це.

Ключові слова: детермінізм в економічній науці, волюнтаризм в економічній науці, посткейнсіанська економічна теорія, історичний час, креативне рішення, рівновага рівноваги, парадокс рішення, що створює історію.

Розмайнський І. В. За пределами детермінізму в волюнтаризм в динамічній економічній теорії, або Очерк о „парадокс рішення, що створює історію”

Стаття містить попитання виходу за пределі дуалізму межа детермінізму і волюнтаризму в динамічній економічній теорії. З одной бочно, економічна динаміка не предопреділена вкій, рішеннями змінами ресурсів і технологіями (як учити неокласична школа). С другой бочно, економічна динаміка не є абсолютно суб'єктивних і спонтанних усіх індивідів видов (як учит австрійська школа). Чтобы решить поставленную задачу, автор применяет посткейнсіанский подход к анализу экономической динамики и акцентирует важность таких концепциях, как принцип креативного решения и принцип подвижного равновесия. Он формулирует и исследует „парадокс решения, создающего историю”. Этот парадокс состоит в том, что автономность и креативность какого-то одного решения неизбежно означает причинную обусловленность и отсутствие влиятельности какого-то другого решения. Разные решения характеризуются разными степенями автономности и креативности. В статье формулируются критерии, влияющие на это.

Ключевые слова: детерминизм в экономической науке, волюнтаризм в экономической науке, посткейнсіанская экономическая теория, историческое время, креативное решение, подвижное равновесие, парадокс решения, создающего историю.

Розмайнський І. В. Beyond Dualism Between Determinism and Voluntarism in Dynamic Economics, or Essay on the “Paradigm of History-creating Decision”

The paper contains attempt to go beyond dualism between determinism and voluntarism in dynamic economics. On one hand, economic dynamics is not predetermined by tastes, endowments and technologies (as Neoclassical Economics teaches). On the other hand, economic dynamics is not a consequence of absolutely subjective and spontaneous affairs of individuals (as Austrian Economics teaches). In order to solve the problem author applies Post Keynesian approach to the analysis of economic dynamics and emphasizes such conceptions as the principle of “creative” decision and the principle of shifting equilibrium. He formulates and explores the “paradigm of history-creating decision”. This paradox is the fact that “uncausedness” and “creativity” of one decision means inevitably “causedness” and “emptiness” of another one. All human decisions cannot be autonomous “creative”. The different decisions are characterized by the different degrees of “originativeness” and “creativity”. The paper formulates criteria which influence on it.

Key words: determinism in economics, voluntarism in economics, post keynesian economics, historical time, creative decision, shifting equilibrium, paradox of history-creating decision.

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Socio-economic inequality in modern society

Introduction

The statement that socio-economic inequality has a massive character and in many parts of the world is getting wider is to be found in modern books devoted to this problem. For example, income inequality in the United States, the richest society on earth, has widened in every year since the 1980s. By 2000, nearly 3 per cent of American households were living on less than $5,000 a year while over 13 percent had incomes of $100,000 and over. This statistical evidence indicates the scale of inequality, but it does not allow us to understand its social nature and impact [1]. Blossfeld et al. (2011) explains an aspect which was unclear: how the patterns of social inequality in modern societies are changing through globalization. Therefore, his research compares the consequences of globalization for the development of social inequalities in Europe by analyzing nine European countries from five welfare and labour market regimes [2].

Walby assumes that equality matters not only because it is a major contemporary framework of justice and progress, but also because inequalities affect the different forms and speed of economic and human development. For instance, class is an evident inequality, but not the only significant one. Inequalities are also associated with gender, ethnicity, race, nation, religion, able-bodiedness, sexual orientation, age, generation, linguistic community and more. These inequalities affect the differences between forms of modernity as well as the key dynamics of social change [3]. “Economic inequality is particularly significant for people’s capacity to have access to and command of resources. Inequality has an impact right across society” [4]. Beramendi and Anderson show how democracy helps to shape levels of income inequality in society [5]. Li and Reuveny also raise a question about how democracy influences distribution of income [6]. The OECD also devoted recent articles to the income inequality problems. In many OECD countries, income inequality has increased over the past decades. In some countries, top incomes have captured a large share of the overall income gains, while income for others has risen little. At the same time, poverty remains a pressing policy issue, not only because of the negative effects of the recent economic crises [7].

Multiple Complex Inequalities

It is widely known that inequality refers to disparities between individuals, groups and nations in access to resources, opportunities, assets and income. Ridge / Wright (2008) as well as other researchers write that inequality has a high impact right across society. It can be seen in people’s life chances, their health and life expectancy and their education and employment opportunities [4]. Unequal social relations involve difference as well as inequality. Some aspects of the different activities may be positively valued, while others will be considered as unjust. A concept of ‘complex inequalities’ combines inequality and difference [3].

Class has traditionally been seen as the main form of social inequality [3]. But now some sociologists have claimed that the study of class is no longer relevant to understanding contemporary society at all, if it ever was [1]. Walby (2009) considers gender and ethnicity important forms of inequality, as can be the case with disability, faith, age, and sexual orientation (it is illegal to discriminate on grounds of gender, ethnicity, disability, faith, age, and sexual orientation in the EU: see the European Commission 2007a [3]. She also shows a new form of inequalities, such as global warming, which has had stronger effects on the poor South rather than the rich North of the world and on future generations.

Class can be a complex inequality and is often seen as inequality in which the defining feature is economic exploitation, a presumption of a common standard of access to income and wealth against which to measure inequality. Class regime is to be found not only in the economy, but also in the polity, violence and civil society [3]. In Britain, for example, the official Registrar General’s (RG) social class scheme has historically been used as a part of employment aggregate approach (Reid, 1998) [1]. This scheme (Table 1) groups a large number of occupations into a smaller number of hierarchically organized classes.Occupationally based class schemes can be correlated with a large number of other variables, such as rates of illness or the proportion of young people going to university, and this allows the measurement of statistical correlations between occupational class and differences in health, education, income, etc. [1].

“Research on health inequalities has shown that mortality rates follow a ‘class gradient’; in other words that the percentages of the population dying and being ill are highest among social class V (unskilled occupations) and they decrease as one moves ‘up’ the class scheme to their lowest level in class I (professionals)”[1]. This scheme was replaced from 2001 by an alternative more
complex scheme, the National Statistics Socio-Economic Classification (NS-SEC) [1].

There is an approach which segregates the bases of each of the categories: class is grounded in the economy; gender is a discourse about sexual and biological differences; ethnicity relates to discourses about exclusion and inclusion. It can be noted that gender relations are a complex inequality. A current model is found in modernization theory as applied to gender relations. According to this approach, economic development is seen to increase women's employment which in turn erodes the traditional family form and then all other forms of gender inequality. A key focus was on the duality of family-welfare state relationship to produce distinctive varieties of male breadwinner regimes. There are differences in the extent to which there is a 'male breadwinner-female housewife' model, ranging from 'strong male breadwinner' and 'modified male breadwinner' to 'weak male breadwinner' (sometimes referred to as 'dual earner'). Ireland, for example, is taken as most typical of the strong male breadwinner model, with Britain sometimes being included, while others such as Germany, are seen as a modified male breadwinner model. Sweden is seen to follow a weak male breadwinner model and sometimes dual earner [3]. There are domestic and public forms of gender regime for women. In the state with the domestic gender regime women are only rarely present in the formal institutions of political power, such as parliaments, cabinets, and the governing bodies of organized religions. In the public gender regime women are present in these institutions [3].

Ethnic relations are also complex inequalities. Ethnic groups usually take themselves as sharing a common background and heritage in contrast to other types of groups [3]. "The minoritization of some ethnic groups is an active process and not pregiven, and involves the economy, polity, violence, and civil society, even though dominant ethnic groups will often treat themselves as the norm without an ethnicity" [3]. Further regimes of complex inequalities are disability and sexual orientation. According to Walby (2009), disability is considered as a medical matter concerning impaired bodies and as having little to do with society. However, the environment may be enabling or disabling. An impaired body is only disable if the environment is disabling. For example, with contact lenses a person with poor eyesight is not visually disabled. In economic sense a disabling environment may mean that people with impairments have difficulty earning a good income while economic resources are needed to ensure that an environment is not disabling. Disability has a political dimension (access to political power), violence component and a civil society dimension. As for the sexual orientation, there can be discrimination in employment and in access to resources. There can be risks of violence and harassment against gay and lesbian people [3].

"Regimes of inequality intersect within each institutional domain and there are usually multiple regimes within each such domain. Each regime of complex inequality is constituted in the institutional domains of civil society, economy, polity, and violence. When addressing class inequalities the most frequent focus has been on the economy, with only a secondary interest in culture and civil society" [3].

### Inequality on Labour Markets

According to Blossfeld et al. (2011), the form and extent of labour market flexibility may strongly vary in the different regimes of Europe and should be shaped decisively by the given configuration of country-specific labour markets, welfare states, and education systems. The author says that in regimes with a low degree of flexibility in their labour markets (e.g., Germany, the Netherlands, Italy, Spain), the globalization process should have led to an increasing division of society into a strongly protected group of high earners and ever-larger marginalized group of people who have difficulties in finding stable employment. In these systems well-qualified male employees in their mid-career are firmly and securely...
established in the labour market and today are strongly protected against the competition of job seekers. In flexible labour market regimes, employment risks are alleviated by relatively rapid integration or reintegration chances. This is less possible in systems with well-protected insiders. Hence, this means that in countries with less flexible labour markets, the growing economic competition resulting from the globalization process has led to a sudden increase in labour market risks, above all for young people starting their careers, women after employment breaks and the unemployed and unqualified. In Southern European regimes, the inequalities between insiders and outsiders in the globalization process are even stronger than in conservative regimes, because their labour market structures are more inelastic and the welfare state is far more fragmented than in the conservative countries of Central Europe [2].

Differences in labour earnings inequality (inequality among those who earn an income from employment) and labour income inequality (inequality among all people in the working-age population) are influenced by cross-country differences in wage rates, hours worked and inactivity rates. Among the OECD countries, earnings inequality for full-time employees is highest in Chile, the United States and Portugal, while Switzerland, Belgium and Denmark are the most equal countries. Inequality is generally higher for all the full-time employed, reflecting the wider dispersion of earnings among the self-employed [7].

The Gini coefficient is a commonly used measure of inequality. A Gini coefficient of zero represents complete equality, where income is shared equally among all households. A Gini coefficient of 100 represents complete inequality, where only one household has all the income and the rest have none [4]. “Extending the analysis to part-time workers, the unemployed and the inactive raises the Gini index, reflecting the large income differentials for these groups and the group of full-time workers (unemployed individuals and the inactive enter the calculation with zero income as transfers are not taken into account). The increase in the Gini index is particularly large for countries where part-time workers make up a sizable share of total employment and for countries with a high unemployment rate and many inactive people of working age. While the Gini indices of the population sub-groups are highly correlated (the correlation coefficients are between 0.8 and 0.9), there are several countries, such as Belgium, Italy and Estonia, for which the choice of the group matters considerably for the inequality ranking” [7].

Effects of Democracy and Economic Openness

There are considerable differences in the level of disposable income inequality across rich countries. Mexico and Russia have the most unequal distributions, followed by English-speaking countries together with Southern European countries. Other continental European nations come next, and the Nordic countries show the lowest level of inequality. Most Eastern European countries show low to medium levels of inequality, while Taiwan and Japan are in an intermediate position [5]. „This clustering owes much to the working of the national tax-and-benefit systems, which play a considerable role in narrowing the original market income distribution” [5].

Li and Reuveny (2009) have demonstrated the need to study the effects on income inequality of economic openness and democracy together. They claimed that better theoretical explanations of inequality should consider economic openness and democracy together. Their statistical findings indicate that the trade openness tends to be associated with more equitable income distribution within countries, but foreign direct investments leads to greater income inequality, and foreign financial capital inflows do not have any significant effect on income inequality. A rise in democracy reduces the level of income inequality within countries. In addition, democratic governance mediates and weakens the undesirable impact of foreign direct investment on income inequality in the OECD world but not in developed countries [6].

Progress indicators

There are four major types of approach to progress in the contemporary global era: economic development, equality, human rights and capabilities. Increases in economic development are linked to increases in other aspects of the good life [3]. According to Walby (2009), the main challenge is to use the indicators of economic development as measures of progress. There are also other matters that are important, including human rights and a broader notion of human and not just economic development [3]. „People in the countries in the OECD have the highest incomes, those in Sub-Saharan Africa are lowest” [3]. Financial aid from developed countries and international organizations to less developed countries should be designed to reduce poverty [6]. Equality is the main challenge to the acceptance of progress as economic development [3].

Walby (2009) indicates that class-based economic inequalities within countries are increasing in many countries, while gender-based economic inequalities within countries are often declining. „When the whole world is taken as the unit within which to analyse inequality rather than individual countries, then the centuries-long increase in global economic inequalities has stopped as a result of the surging economic growth in China and to a lesser extent India. There has been an increase in the democratic access to power, not only an increase in a narrowly defined suffrage-democracy but also the increased presence of women in parliaments (though this is not so everywhere)” [3]. There is some
reduction in the use of violence as a form of power against women [3].

**Conclusion**

This paper wants to emphasize an impact of existing socio-economic inequalities on the modern society. Firstly it has briefly represented complex inequalities such as class, gender, ethnic relations and other inequalities like disability and sexual orientation. Problems of income inequality are given a particular place in this paper. The current situation on labour market is briefly analyzed by describing labour income inequality and employment inequalities in different countries. The Gini coefficient is still a commonly used measure of inequality. However, Li and Reuveny have demonstrated an improved methodology of measuring income inequality by adding effects of democracy, trade openness, foreign direct investments and foreign financial capital inflows. Their main suggestion is to reduce poverty with the help of financial aid from developed countries and international organizations to less developed countries. And finally four major types of approach to progress such as economic development, equality, human rights and capabilities are introduced in this work. The last findings show that class-based economic inequalities within countries are increasing in many countries, while gender-based economic inequalities within countries are often declining. Also an increasing influence of democracy on inequalities and some reduction in the use of violence are seen in a modern society. Therefore, it can be expected that some inequalities will be lower, and this can improve the socio-economic situation in the world.

**References**


**Rudenko L. V., Steshenko P. O. Socio-economic inequality in modern society**

Based on up-to-date data, this paper wants to show how different patterns of social and economic inequality develop in modern society. Referring to the research by Sylvia Walby, Tim Butler and Paul Watt, Quan Li and Rafael Reuveny, Blossfeld et al., Pablo Beramendi and Christopher J. Anderson, Peter Hoeller, this paper considers inequality as a massive and extending phenomenon as well as describes more precisely income inequality measurement and aspects. Finally it determines the directions of society’s improvement and describes a progress in this field of studying.

**Key words:** complex inequality, income inequality, social class, Gini index, economic openness.

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A NEW APPROACH TO HUMAN SOCIETY DEVELOPMENT IN GLOBAL WORLD

Arguments in support of the article. In all times people thought on the future of society, and today this question becomes more relevant and urgent because the development of the society reached the bifurcation point after which there is either more perfect organized society or its termination.

Imperfection of the society can be explained primarily by the fact that the development of the society is more and more breaking off the objective laws of nature harmony directing to disharmony of the public relations that is revealed in growth of needs of the society on the cost of reducing the scope of its capabilities of being, in increasing the share of wealthy people at the expense of increasing the number of poor ones, in strengthening the power of the few leading countries at the expense of the satellite countries. Basing on the negative trends of world development at the present stage, it is quite possible to assume the scenario of the civilization collapse as well as life on earth even at the time of one current generation life.

Review of the literature. Problems of organization and functioning of society, search for their bases and driving forces as well as construction of model of the social development have been paid much attention since ancient times by the greatest scientists of that period, among which the most ancient – Heraclitus, Pericles, Protagoras, Socrates, Democritus, Antispheines, Plato, Aristotle, Epicurus, and others, well known illuminators such as K.Gelvetsy, Thomas Moore, T.Kampanella, utopian philosophers K. Saint-Simon, Sh.Fure, R.Ouen. Linear paradigm adhered Frank-M.Volter, E.Kondilyak, Morelli, Diderot, P.Golbah, I.Gerder, Imanuel Kant, the cyclic paradigm was characterized by N.Danilevskim, Leontyev, Spengler, Toynbee, the paradigm of linear cyclic synthesis, “spiral” is presented in the written works of Karl Marx and G. Gege.

The modern world-system paradigm of F. Braudel about segment type of social time was continued in I. Vallerstaya’s theory. In the development of the theory of N. Kondrayev’s long waves and Y. Shumpeter’s waves of innovative development Glaziev characterized six technological modes of scientific and technological development.

Different approaches to analysis of the world development such as formation, civilizational, economic and anthropological, economic, historical, progressorist types have been worked out by present day in the works of titled and other scientists. However in these approaches the society is at a distance from human environment in which it is developing like parasitizing element. At the same time V. I. Vernadsky in his work on anthroposphere asserted that the society being essential part of nature must develop in harmony with it. “The man – Vernadsky wrote – the first time really understood (and in fact still haven't understood, author's note.) that he is an inhabitant of the planet and can – must – think and act in a new way, not only in the aspect of individual, family or genus, states or their unions, but also in the planetary aspect” [1, p. 35].

The purpose of this paper is to justify the need to change the current paradigm of development based on consumerism, a new paradigm – the spiritual improvement of the society and search for a way of such a transformation on the basis of the doctrine of the Vernadsky’s anthroposphere (noosphere).

Discussion. In the Yensen’s book “The Society of Dream” the author understands the future society inseparable from the market which character feature will be a choice of goods on the basis of emotion, bloodless wars, the poor in the slums and a prosperous middle class, three of the nine cities are located in the successful parts of the world [2, p. 244]. That is, the inequality of men, emerging markets remain, but it is unlikely this could be a dream of humanity as a whole.

At the same time, industrialization, and then superindustrialization of the world economy, the dynamic acceleration of scientific and technical progress, the entry in the age of information can create the basis for the possibility of the production of sufficient quantity of goods needed for evenly distribution, the creation of conditions of life, worthy for every member of society. A person can feel relatively free when he is able at first to provide his guaranteed physiological needs (food, clothing, safety, housing, means of transportation). There are some possibilities as follows:

Today, when there are millions of starving people the problem is not manufacturing food but the food accessibility, because the volume of the world’s goods can be brought to the level of modern manufacturing optimum needs of the world population. In this case, food preservation technology (used for example for astronauts) may provide their metered consumption of each person without the use of home-cooked food and a variety of catering. Gluttony should not remain a passion of human, when his thoughts are directed toward the world.

Developing information technology allows to take into account with the necessary level of accuracy and reliability the population, its status, migration, and hence the need for each region in real time.

Modernized transport and communications systems allow the delivery of necessary benefits produced in abundance in any part of the globe required for a particular community.

The main determinants in this context are:
- The principles of distribution – who must allocate, how to combine humanity in the allocation with equity,
i.e. to combine the creativity of an individual with its actual holocaust and dedication to his work;

– The principles of freedom and power – motivation, forced labor, crime prevention and punishment for the offense;

– The principles of institutional forms of district, regional and supra-regional entities as the structural units of the managed world economic system;

– The principles of regional entities representation in a single pole of regulatory mechanism of economy.

An obstacle to the implementation of the above mentioned principles is, in our opinion, the market economy, which forms ultima analyti, the basis of all conflict situations on a global scale, declining spirituality society. No special proof is necessary to the fact that the economy, understood here as a system of relationships between people in the process of production, distribution, exchange and consumption, is one of the main factors contributing to the increase of the harm caused by mankind to the biosphere. For the sake of profit entrepreneur goes all length to any violation of the environment. Scientific and technical progress, in principle, can provide an environmentally friendly production in any field of human activity, but the economic expenses reducing the efficiency of production, or even make it unprofitable, lead often to the neglect of scientific advances in this field.

Today, however, of particular importance is not so much ignoring the results of the scientific-and-technological advance as their correlations, as well as the correlation of entire economy and the noosphere. If we regard human society as part of the noosphere and compare it with the development of parallel or, more likely, the interconnected development of the biosphere, the questions arise:

1. Whether the economy is just inherent to the human community as a binding and lasting condition for its existence?

2. Are economic dependencies in the production, distribution, exchange and consumption objective laws?

3. Whether the economy is humane, especially in the form of a market?

4. Does the economy allow a man to be free?

5. Does it have its own information aura?

The ideas of a society of social justice, free from economic dependence, have always lived, breaking the century. They got the scientific direction in the works of the Marxism supporters and found some expression in life of a socialist society.

There appeared two different economic systems: one – private property, the market, the competition stimulated the individualism, antagonism in human relations, the primacy of the power of money over all other principles of human existence, and in the other – communal ownership, centralized governance, the ideas of communism brought collectivism, social consciousness, unselfishness, enthusiasm, humanity, etc. But the high moral principles of the code of communism ethics at this stage of development of the society were less adapted to life and gradually gave way to money grubbing, baser human feelings, and more recently to largely crime. Was the ancient Chinese apologist of state exploitation Xun Zi right in case when he started from “evil nature” of man [3, p. 202 – 203, 204]?

In the biosphere, a part of which, by Vernadsky’s definition is the man we don’t see examples of “evil nature”. In it there are no wars, no deadly competition, no harm destroying the environment. What makes a man endowed with much more ability to meet their needs (the basis of life of the entire biosphere) and its development in comparison with other individuals of the biosphere, to live so far from harmonious, not by the laws of the noosphere?

The answer is seen in the self-interest of economic relations. It is believed that they are objective so that they can be called laws and, therefore, they are constant and objective.

Recognizing the existence of certain economic relationships in the process of production and distribution, the nature of which every time corresponds to a specific socio-historical conditions, it is possible at the same time to say that these relationships, which are formed in a more or less stable and long-term trends, have no objective reasons and cannot be determined as the laws of development.

In a biosphere world a man is distinguished by conscious work. But there are different views on the conditions challenging a man to work. Many of them are related to the economy, the need to provide funds for the existence and to meet the continuously growing needs. It is obvious that this need is a man’s dependence on the economy. That is, he is not free in his work: he has to work there, and so, and as much, where, how and as he is able to meet his specific needs. At the same time free labor is associated with self-expression, with the desire to create, to create beyond the limitations of time, plan or economic stimulus. Such work cannot be practically normal market economic system, but such work is the dreams of almost every person. However, firstly such work is possible, if that people will be able to meet their needs regardless of the outcome of the work, and secondly if the implementation of the results of his work will be carried out depending on the capabilities of the employee. That is, we can talk about the distribution system.

Will the role of money be preserved in this system as the exchange ratio, or not? “Only the money set in motion all in our world” – they asserted since ancient times. But today the distribution of plastic cards, cashless payment system, growing role of electronic communications increasingly make the role of money virtual.

Humanity has been faced with ever increasing contradictions between their needs and the growing inability of the biosphere to provide them without being destroyed. “Consumer consciousness” has an impact on the motives of the people and the entire world social dynamics, not going beyond the logic of the consumer society at the expense of natural resources.

XXI-st century is marked by the growing importance of the pole of knowledge, but not the pole mind. The task is to join these poles. The movement of humanity towards sustainable development should lead
at the end to formation of the predicted by V. I. Vernadsky sphere of sense, the noosphere where the spiritual values and knowledge of a man living in harmony with the environment will become as the measure of national and individual wealth.

A new strategy for the civilization development should determine the position of the international community in joining forces in the name of humanity’s survival and continued development and conservation of the biosphere. Can politicians, which run the states in favor of oligarchic structures, positively perceive only the profit of the business / come to this idea? Obviously, they can’t.

A. Pechei noted that macro-problems increasingly threaten humanity. To survive and to preserve the planet it is necessary to join the efforts in research works and joint planning of the future. To that end, he founded the Club of Rome eminent scientists from different countries, which aimed to inform the world population about the realities of the impending disaster and justified the idea of “one world”. According to A.Pechet supra-national and supra-regional bodies should be instituted in parallel to the United Nations (since the latter is too politicized), who will be able to take control of the chaotic movement of humanity, setting a single development plan for the entire planet. [4] But Vernadsky also wrote on the need to internationalize the scientists [1, p. 51]. “They have to to internationalize the scientists [1, p. 51]. “They have to bind their work with the best organization of the whole mankind” [1, p. 305].

From our point of view, decisive intervention in the sphere of control society the scientists as experts, thinkers on the nature of their activities with the necessary awareness, objectivity, breadth and depth of analysis and strategically is necessary. “Science of the future – rightly pointed out A. Svetlov, continuing Vernadsky – as the most conscious force of society should ensure the development of humanity in the direction of spiritual evolution ... Today, scientists’ priorities should not become the interests of individual persons or sections of society and even the state interests, but only the interests of the whole mankind” [5].

And with it the advance strategy of the world governing, the essence of which is to develop the principles of the ideal model of society, with a mission: a worthy life of every member of society in harmony with the biosphere is necessary.

**Conclusions.**

1. The main man’s problem in satisfaction of his vital needs is not the production of the required products but their distribution.
2. Market as the main mechanism that differentiates people by the poles of conflict should be excluded from human life.
3. There is an urgent need to establish scientists’ International, and to develop a model of the ideal society – a special international institute of scientists.

**References**


**Buzni A. M. Новий підхід до розвитку людського суспільства в глобальному світі**

Розглянуто погрози існування цивілізації і життя на Землі в умовах ринкової економіки й обґрунтовується підхід до розвитку світового співтовариства на основі заміни споживчої свідомості духовною, висловлений в навчанні В. I. Вернадського про ноосферу. Автор Пропонує реалізувати ідею В. I. Вернадського про інтернаціонал вчених і, зокрема, створення міжнародного інституту вчених для розробки моделі ідеального суспільства.

**Ключові слова:** світовий розвиток суспільства, керування соціумом, ноосфера, економіка, розподіл на система, духовність

**Buzni A. N. Новий підхід к розвитку человеческого общества в глобальном мире**

Рассмотрены угрозы существования цивилизации и жизни на Земле в условиях рыночной экономики и обосновывается подход к развитию мирового сообщества на основе замены потребительского социального духовным, высказанным в учении В. И. Вернадского о ноосфере. Автор предлагает реализовать идею В. И. Вернадского об интернационале учёных и, в частности, создание международного института учённых для разработки модели идеального общества.

**Ключевые слова:** мировое развитие общества, управление социумом, ноосфера, экономика, распределительная система, духовность

**Buzni A. M. A New Approach to Human Society Development in Global World**

The threats to the survival of civilization and life on Earth in market economy conditions were under consideration and the approach to the development of the international community on the basis of change in consumer consciousness to spiritual one made in Vernadsky’s work on noosphere is justified. The author proposes to implement the Vernadsky’s idea about scientists’ International establishing and, in particular, the creation of an international institute of scientists to develop a model of the ideal society.

**Key words:** development of global society, the management of social medium, the noosphere, the economy, the distribution system, spirituality.

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CURRENT APPROACHES TO COUNTRY RISK ANALYSIS

Introduction

Analyzing risks is a natural part of investment decision-making process. Every investor considers different types of risk, but majority of professional investors agree that this process must begin with a country risk analysis. To check, if this approach is correct or not, one can simply look through the current news. This article is written in 2013, and just the year before, in 2012, investors, governments, and citizens of the Eurozone suffered a huge loss resulting from a sovereign default of Greece [1]. The other European country – Cyprus, was one of the Greece creditors. But in the March of 2013 Cyprus itself went into a debt crisis [2].

Cyprus is a relatively small European country, but outcomes of its possible default are significant. This country was known as a tax haven, or an offshore-zone, mostly used by the countries of Eastern Europe – especially by Russia and Ukraine. It is enough to say, that Cyprus is the biggest source of investment flows into Ukraine, which is in fact mostly Ukrainian money, coming back from Cyprus banks performing role of a financial laundry. Cyprus served as a base (officially) for many financial institutions, funds, banks, etc. The latest news is such that Cyprus financial system will receive a bail-out from EU [3]. However, foreign deposits in Cyprus banks are most likely to be taxed. It all results in a huge loss for those, who invested (or stored) their money in Cyprus financial sector.

Current approaches to assessment of country risk

In a modern economy it is a role of global institutions (usually rating agencies) to analyze the country risk. Of course, comprehensive investment analysis usually includes a country risk assessment made “in-house”, however:

a. Even if analysis is made in-house, it usually relies on the competent data and opinion of rating agencies

b. Country risk is considered an important question on the early stages of the investment decisions, when full analysis isn't done yet. In this case, ratings of the country risk are the only source of information.

There are several agencies that could be seen as reliable sources, like Standard & Poor’s, Moody’s, Fitch, Economist Intelligence Unit, Euromoney, Institutional Investor, Political Risk Services, Business Environmental Risk Intelligence, Control Risks Information Services, international banks in general and others institutions. Some of them also provide information and analysis of economic sectors, companies and operations, assigning related ratings.

Nowadays, the rating system is wide known and used all over the world. Moody’s and Standard & Poor’s rating systems use to divide countries in categories as below and the four first levels of each one are considered “investment grades” (better quality of the asset in risk terms). Based on their evaluations, the agencies give their opinion in the form of letter grades, which are published for use by investors (see table 1 below). For the typical investor, risk is judged not by a subjectively formulated probability distribution of possible returns but by the credit rating assigned to the asset by investment agencies. In their ratings, the agencies attempt to rank issues according to the probability of default. Both agencies also have a Credit Watch list that alerts investors when the agency is considering a change in rating for a particular borrower.

Moody’s and Standard & Poor’s do not have an econometric model for country risk analysis. Standard & Poor’s follows the behavior of many macroeconomic variables and other relevant information, and compares the outcomes with the peer group of countries.

Moody’s believes that credit rating is by nature subjective. Moreover, because long-term credit judgments involve so many factors unique to particular industries, issuers and countries that any attempt to reduce credit rating to a formulaic methodology would be misleading and would lead to serious mistakes. Thus, Moody’s, following analytical principles, deals with several relevant risk factors (including quantitative ratios as an objective and factual starting), building scenarios and relying on the judgment of a diverse group of credit risk professionals to weight those factors and establish the ratings.

Another popular way of evaluating risk is the system of risk assessment of various countries through the so-called “BERI index”, developed by the Swiss company of the same name. This abbreviation stands for “Business Environment Risk Intelligence”. The evaluation system is based on giving each type of risk a certain weight reflecting its importance to the success of a business and the level of risk rating scale from 0 (very high risk) to 4 (lowest risk). For convenience, the sum of coefficients is reduced to 25 points, so that the country, the least risky in all respects, has a chance to get a total
of 100 points, the most risky and will have the least amount of points approaching zero. Scheme for the construction of the integral index BERI is displayed in the table 3.

BERI index is provided for 140 countries worldwide. Professionals working in each region present their estimates three times a year. Experts of the company through a special computer programs analyze large amounts of statistical information for each country, with which the index is calculated. Next, expert opinions and statistical data compiled by experts of the company and reduced to the overall country index. This allows the company to forecast BERI degree of country risk in the long term of 1 to 5 years. Similarly, the company is building BERI indices to evaluate individual risks. As these private ratings BERI gives the index of political, financial and operational risk. In the private ratings the same criteria are used, but in smaller numbers and with increasing coefficients.

Comparative rating systems, using similar methodology, are developed by consulting firms Frost & Sullivan (Rating World Political Risk Forecast), Business International and Data Resources Inc. (rating Policon) and many others. Most of them are available online. Another widely used country risk rating system is provided by the magazine “Euromoney” and is called “Euromoney’s Country Risk Index”. It is determined by the score of 9 parameters, each of which has a certain weight in the overall rankings. Overall rating describes

<table>
<thead>
<tr>
<th>Grade</th>
<th>Meaning of the grade</th>
</tr>
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<tbody>
<tr>
<td>Aaa</td>
<td>Best quality</td>
</tr>
<tr>
<td>Aa</td>
<td>High quality</td>
</tr>
<tr>
<td>A</td>
<td>Upper medium grade</td>
</tr>
<tr>
<td>Baa</td>
<td>Medium grade</td>
</tr>
<tr>
<td>Ba</td>
<td>Possess speculative elements</td>
</tr>
<tr>
<td>B</td>
<td>Generally lack characteristics of a desirable investment</td>
</tr>
<tr>
<td>Caa</td>
<td>Poor standing: may be in default</td>
</tr>
<tr>
<td>Ca</td>
<td>Speculative in a high degree; often in a default</td>
</tr>
<tr>
<td>C</td>
<td>Lowest grade; extremely poor prospects</td>
</tr>
</tbody>
</table>

Table 1

Credit ratings by investment agency Moody’s [4]

<table>
<thead>
<tr>
<th>Grade</th>
<th>Meaning of the grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>Highest rating: extremely capacity to pay interest/principal.</td>
</tr>
<tr>
<td>AA</td>
<td>Very strong capacity to pay</td>
</tr>
<tr>
<td>A</td>
<td>Strong capacity to pay</td>
</tr>
<tr>
<td>BBB</td>
<td>Adequate capacity to pay</td>
</tr>
<tr>
<td>BB</td>
<td>Uncertainties that could lead to inadequate capacity to pay</td>
</tr>
<tr>
<td>B</td>
<td>Greater vulnerability to default, but currently has capacity to pay</td>
</tr>
<tr>
<td>CCC</td>
<td>Vulnerable to default</td>
</tr>
<tr>
<td>CC</td>
<td>For debt subordinated to that with CCC rating</td>
</tr>
<tr>
<td>C</td>
<td>For debt subordinated to that with CCC – rating or bankruptcy petition has been filed</td>
</tr>
<tr>
<td>D</td>
<td>In payment default</td>
</tr>
</tbody>
</table>

Table 2

Credit ratings by investment agency Standard & Poor’s [5]
the economic opportunity of the country to pay for the borrowing of funds. The maximum final grade for the country is 100.

The structure of the credit rating by “Euromoney” includes following indicators:

- political risk (25% weight in the overall ranking);
- economic outlook (25% weight);
- 3 financial indicators (10% weight in the overall rating for each);
- 4 bank indicators (each of 5% of the weight in the overall rankings.)

The rating is made twice a year, in March and September, and now covers more than 180 countries [6].

1. Political risk. These are the most common categories: the possibility of non-payment for the supply of goods and services, the non-payment of loans, financial liabilities, dividends, and the impossibility of repatriation of invested capital. The lower the risk, the higher the ranking score. In this case, the maximum possible amount of points is 25.

2. Economic perspectives (Economic performance). The index is based on the predictions of the countries in this and next year. The maximum possible amount of points is 25. Economic data for the ranking is compiled from a review of 35 economists from major banks, financial and economic institutions.

3. Indicator of external debt (Debt Indicator). The maximum possible amount of points is 10. Estimates for this parameter are taken on the basis of the World Bank’s “Global Development Finance”.

4. Debt in connection with the default or in connection with the restructuring of debt (Debt in default or rescheduled). The highest score (10 points) is received by those countries which did not have non-payment. Zero is assigned to the country, which has had the failure of all financial obligations or term of payment was moved across the debt. Estimates are based on the source of the World Bank “Global Development Finance”.

5. Credit rating or credit rating of solvency debts (Credit rating). Credit ratings are taken as the average of the ratings by “Moody’s” and „Standart & Poor’s”.

6. Access to banking resources (access to bank finance). This is calculated by experts as a percentage of private, long-term, unsecured loans to GDP. In the best variant the maximum number of points reached is 5.

7. Access to short-term financial resources (access to short-time finance).

8. Access to capital markets (access to capital markets). The highest rating is given to those countries that were able to get the resources from the capital markets, the zero mark - if access was completely impossible.

9. Access to forfeiting services (Discount on forfeiting).

Overview of country risk analysis systems given in this article is far from being complete. There exist many other rating systems, evaluated by different agencies, magazines, universities, etc.

Ukrainian performance

All three major international credit rating agencies — Moody’s, Standard & Poors and Fitch assign their sovereign credit ratings to Ukraine. Latest Ukrainian credit rating by Moody’s was assigned on 05.12.2012 and is B3. Moody’s explained downgrade of the rating by “low institutional sustainability, lack of external liquidity and negative forecast for Ukrainian economy in general” [7] Historical evolution of this rating is presented in a following table.

According to the Euromoney Country Risk results for June 2011 [10], Ukraine scores 44.08 out of 100 points which corresponds to the 85-th place in the rating of 186 countries.

Results of the different country risk ratings listed above can be interpreted by the international investor as relatively poor, which is unfavorable for the future of the Ukrainian economy. Main reasons for such a low performance are political risks connected with political instability, various economical risks mainly due to insufficient protection of private capital, insufficient government control of financial sector, imperfection of the law base. Other important problem, affecting country risk of Ukraine in latest years is growing sovereign debt.


Conclusion

Analyzing the country risk is an important part of the investment process. Usually such analysis is held on the early stages of the investment process. Latest political and economic events, particularly debt crisis’s in Greece and Cyprus underline the importance of such analysis – as many investors already lost their money in one country and are likely to lose in the other one.

Professional analysis of country risk is usually held by specific global institutions with required competence — rating agencies. Three leading companies on these market are Moody’s, Standard & Poors and Fitch. All of them provide ratings in form of letter grades accordingly to their own grading tables. Different methodology is used to form these ratings — one way is to analyze and compare different variables with peer countries, and the other — to collect opinions of experts from the region under review. Besides these rating agencies, there are many other competent organizations providing there all ratings. In this article, in particular, the BERI country risk and the Euromoney country risk indexes are examined. Those are more complex and cover different types of risk. Political and economic risks are separated from each
Because ratings of country risk are considered by investors, it is an important question how well does Ukraine perform in these ratings. Ukrainian results are relatively low. In rating agencies ratings Ukraine never reaches “investment grade” zone, which is preferred by investors. In 2011 Euromoney country risk rating it only scores 44 points out of 100, which is not a favorable result. Possible reasons, according to rating agencies, are structural problems, weakness of the important institutions and political instability.

References

Table 3

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Wage</th>
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</thead>
<tbody>
<tr>
<td>Political stability</td>
<td>3</td>
</tr>
<tr>
<td>Treatment of foreign investors and their profits</td>
<td>1.5</td>
</tr>
<tr>
<td>Risk of nationalization</td>
<td>1.5</td>
</tr>
<tr>
<td>The devaluation of the national currency</td>
<td>1.5</td>
</tr>
<tr>
<td>Balance of payments</td>
<td>1.5</td>
</tr>
<tr>
<td>Bureaucratic barriers</td>
<td>1</td>
</tr>
<tr>
<td>Economic growth</td>
<td>2.5</td>
</tr>
<tr>
<td>Convertibility of currency</td>
<td>2.5</td>
</tr>
<tr>
<td>Ability to implement and contracts trials</td>
<td>1.5</td>
</tr>
<tr>
<td>Labor costs and labor productivity</td>
<td>2</td>
</tr>
<tr>
<td>The presence of experts and expertise</td>
<td>0.5</td>
</tr>
<tr>
<td>Communication and transport</td>
<td>1</td>
</tr>
<tr>
<td>The availability of local managers and partners</td>
<td>1</td>
</tr>
<tr>
<td>The possibility of short-term loans</td>
<td>2</td>
</tr>
<tr>
<td>The possibility of long-term loans and the availability of equity capital</td>
<td>2</td>
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<tr>
<td><strong>Overall</strong></td>
<td>25</td>
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Table 4

<table>
<thead>
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<tbody>
<tr>
<td>06.02.1998</td>
<td>B2</td>
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<tr>
<td>09.09.1998</td>
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<td>05.01.2000</td>
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<tr>
<td>24.01.2002</td>
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<tr>
<td>10.11.2003</td>
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<td>08.08.2008</td>
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<td>12.05.2009</td>
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<tr>
<td>05.12.2012</td>
<td>B3</td>
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### Current Approaches to Country Risk Analysis

This article deals with the topic of country risk analysis. Different approaches to this problem, ratings developed by international rating agencies and their grades were examined. Ukrainian performance in these ratings was examined, as well as reasons of such performance.

**Key words:** country risk, investor, rating, approach, expert's opinion, political risk, crisis.

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<table>
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<td>B</td>
</tr>
<tr>
<td>25.06.2003</td>
<td>B+</td>
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<tr>
<td>21.01.2005</td>
<td>BB-</td>
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<td>08.06.2005</td>
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<td>12.01.2006</td>
<td>BB-</td>
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<td>25.10.2006</td>
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### The structure of the integral BERI index

**Table 5**

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<th>Date</th>
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THE INFLUENCE OF EU ENLARGEMENT ON EURO

Introduction. Today the problems of the EU hit the headlines of mass media and Internet resources. We observe as the European Parliament has recently been forced to extend the credit tranche in connection with the debt crisis in Greece, with Spain and Portugal to follow. The current economic situation is the concern of the EU politicians, economists and the public. The Euro currency instability is currently a buzz word in publications devoted to facing the challengers of the EU member states, old and newly excessed countries. “Angela Merkel said that there is no point in constant enlargement of the EU if such growth will not allow the union to function properly.” A lot of authors tried to predict and research the situation with the stabilization of EU, like Stéfanie Laulhé Shaelou with the book “The EU and Cyprus: Principles and Strategies of Full Integration”, also Jacek Więclawski researched the Eastern enlargement of the EU and its impact on internal and external relations, the analyses and forecasts available before enlargement, it presents the real consequences of the process [1 – 2], [3 – 6]. But still the question is remained to be open and it is known that there are expressed fears that the EU enlargement causes destabilization of Euro currency and this may even result in the EU disintegration. So my research makes an attempt to trace in what way the EU enlargement impacts the stability of the Euro currency.

The purpose and the objective. The first aim is going to analyze EU enlargement as a controversial phenomenon which causes contradictory expectations, which are summarized in the following.

So on one hand the Europhiles of enlargement argue that:

1. The extension of the zone of peace, stability and prosperity in Europe will enhance the security of all its peoples.
2. The addition of rapidly growing economies with more than 100 million people to the EU market will boost economic growth and create jobs in both old and new member states.
3. There will be a better quality of life for citizens throughout Europe as the new members adopt the EU policies for the environmental protection and the fight against crime, drugs and illegal immigration.
4. The arrival of new members will enrich the EU through increased cultural diversity, interchange of ideas, and better understanding of other peoples.

5. enlargement will strengthen the Union’s role in the world affairs – in foreign and security policy, trade policy, and the other fields of global governance [3].

In their turn, the Eurosceptics maintain that:

1. The EU enlargement could lead to mass immigration, and increased organized crime.
2. Workers from poorer countries will take jobs from the EU nationals, and companies will relocate to countries with lower labor costs and worse social protection.
3. The richer member states cannot afford to pay huge subsidies to the poorer states.
4. The broader the EU gets, the more difficult it is to achieve deep integration.
5. This will impede the EU development and will make negotiation and agreement process within the Union more complicated.
6. The expansion of the Euro union will cause depreciation of the euro currency.

The later opinion of Eurosceptics made me think whether there exists the direct dependence of Euro currency stability and the EU enlargement.

Thus, the purpose of this research is to determine to what extent and in what way the EU enlargement can work as a destabilizing factor for the euro currency [4].

To answer this question it is necessary

1. to look at the importance of euro stability for EU economies;
2. to summarize the factors that influence the currency stability;
3. to evaluate the quality of this influence using the multifactor model.

So, why is the exchange rate stability so important for the European Union? The exchange rate has a significant impact on creating of conditions of national stability currencies. Its fluctuation volatility influences the value of exports and on the inflation expectations of economic agents, on the capital inflows and outflows between the foreign exchange market and other sectors of the financial market.

The higher level of integration into the world economy, the more open the economy is, the more important for it to maintain the stability of the exchange rate in the anti-inflationary purposes [2].
To understand the nature of stability and instability of the euro currency I found it reasonable to make an analogy with physics Pic.1 that studies the phenomenon of stability.

The System stability in physics is the property of a system in which any departure from an equilibrium state gives rise to forces or influences which tend to return the system to equilibrium. That is, a factor that is destabilized, feels and behaves like this ball on the top of a hill in the picture. But not all systems that are not stable are unstable.

Similarly, going back in the history, we witness the ups and downs of the euro currency, but somehow as the monetary system it came back to its equilibrium. The global economic crisis of 2008 serves as a striking example. There was a collapse in the stock markets that had a negative impact on the stability of the euro. But over time, and thanks to the International Monetary Fund funding the system restored itself and resumed its functionality [5].

Certainly, there is a significant number of factors, which influence the exchange rate, but I have chosen only five factors:
Total Government Debt, GDP, Employment rate, Budget deficit and Inflation rate. The reason for this choice is dictated by the Maastricht Treaty convergence criteria of 1991.

In this research, we put forward the hypothesis that Eurocurrency is the self-repairing system. Therefore, probably, the deviation in the figures that reflect the factors chosen cannot prove that the system – the euro currency – is destabilized.

We will try to prove this hypothesis with the help of empirical research. As can be seen on the following table (1) I have used the time series tested on five factors from 1999 to 2011 as statistical tools. (For last 13 years). There was carried out the correlation-regression analysis and built the multifactor model.

We observed that some of the factors mentioned are not representative for our purposes as weak and strong EU economies show similar figures.

For instance, the average value of GDP by country groups is similar, as you can see on Fig. 5.

So it is impossible to prove with this factor that...
The exchange rate of euro was taken against the dollar. The higher rate of the euro – the lower value of Euro/USD, and therefore there is an inverse dependence (correlation coefficient of GDP to Euro and Employment rate to Euro with a negative sign) [7].

**Conclusion.** As a result, we can observe that a change of one of the factors on the unit results in changing the exchange rate of currency on the value of its coefficient.

With the help of correlation analysis it is possible to evaluate the quality of the influence of these factors on the euro currency and can get the regression statistics model. Analyzing the multi-factor model, we can say that if a similar situation in the strong countries is not so critical for the whole European Union, the effect cannot destabilize the euro currency completely, while for the new member countries (initially economically-weak) it is a period of adaptation is needed. (The factors which influence on the Euro have passed the criteria by Fisher and Student).

Thus, the factors taken into account in the model, demonstrate the negative impact that leads to the destabilization of the currency. However, this does not lead to the destabilization of the overall system – Euro currency because, not all systems that are not stable are unstable. Destabilization of any factors – this is a normal phenomenon, if the system is willing and able to recover. I believe that the EU enlargement may cause only a temporary destabilization of the euro currency in the period of adaptation of new members – countries. As history of the European currency shows despite various factors of disability the system is capable of recovery. So pessimism by Eurosceptics does not prove to be well grounded.

**References**


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**Table 1**

<table>
<thead>
<tr>
<th>Regression statistics of multifactor model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple R</td>
</tr>
<tr>
<td>R-squared</td>
</tr>
<tr>
<td>Normalized R-squared</td>
</tr>
</tbody>
</table>

**Table 2**

<table>
<thead>
<tr>
<th>The coefficients of the equation obtained from the regression</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-intersection</td>
</tr>
<tr>
<td>Employment rate</td>
</tr>
<tr>
<td>Gross domestic product (in US dollars, current prices and PPPs)</td>
</tr>
</tbody>
</table>
Кірнос І. О., Лукашенко Т. М. Вплив розширення Євросоюзу на Євровалюту

У статті розглянуто застосування моделі кореляційно-регресійного аналізу, з допомогою чого автори виявили тісноту і якість впливу певних факторів, дестабілізуючих рівень Євровалюти. Автори констатують, що це не призведе до дестабілізації всієї системи – Євровалюти, оскільки не всі системи, які не є стабільними, є нестійкими. Дестабілізація будь-яких факторів – це нормальне явище, якщо система працює, і має можливість відновитися.

Ключові слова: розширення ЄС як дискусійне явище, модель кореляційно-регресійного аналізу, система стабільності фізики.

Kirnos I. O., Lukashenko T. M. The Influence of EU Enlargement on EURO

This article deals with application of model correlation-regression analysis whereby, We can evaluate the quality of the influence of certain factors which destabilize the level of euro currency. But it was stated that this does not lead to the destabilization of the overall system – Euro currency because not all systems that are not stable are unstable. Destabilization of any factors – this is a normal phenomenon, if the system is willing and able to recover.

Key words: EU enlargement as a controversial phenomenon, model correlation – regression analysis, the System stability in physics.

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and final form 04.12.2013
General definition of the problem. In today’s information society the relevant problem of territorial inequalities is far from being simple. It is important to understand that social, economic and territorial inequalities are unprejudiced. They were, are and will be present in the future, and no socio-economic regional policy can overcome them, because they are based on unbiased different preconditions for regional development. There are no areas with equal preconditions. The objective of effective regional policy is to take account of unbiased preconditions to the maximum extent and, if possible, to overcome the hypertrophied inequalities.

For modern Ukraine it is vital to develop and implement the regional development strategy, the main goal of which shall be: welfare of citizens (in the broad sense); territorial justice (equality of citizens regardless of their residence); territorial integrity of the state. Many regional differences of social nature require a long period to be eliminated or at least smoothed. At the same time, there are such differences, which are to be maintained and developed: for example, national traditions, peculiar features of the cultural heritage, labour skills of the population [5, p.14 – 15].

Review of the researches in recent years and highlights of the outstanding aspects of the problem. One of the main areas of a comprehensive study of regional systems and at the same time the method of learning the territorial features of social development is social zoning, which has important practical implications for the regional policy and regional planning. Among the key issues of this type of zoning it is necessary to mention definitions of the level of regions’ social development that is characterized by a set of indicators.

Thus, for the whole country or its region such indicators may be those that reflect: 1) social structure of the population; 2) level of education; 3) access and intensity of information use; 4) development of science and scientific and technical progress, etc.

According to scientists Ilin, Shkaratan and Zlobin, the list of benefits that underpin the social reproduction of inequality is unchanged. These are the economic resources, political resources, social resources (access to high-quality social networks and social relations) and human capital [3, 8].

Information society is increasingly becoming a reality in the country and some regions, including Donetsk region. It has historical, scientific, technical and social preconditions. In this sense, the survey of information component in social development is relevant.

Poorly studied issue is the level info-communications at the regional level and their impact on development and quality of regional society. The information component can be characterized by the concepts of information resource, information products, information activities and information service. Social and political dictionary defines the information service, performance of information activity in the form set by the law to communicate the information products to consumers in order to meet their information needs [1, p.106].

Task definition. Information resources are the important part of modern society, that is why the purpose of this article is to analyse the development trends and territorial organization of information resources in Donetsk region during 2002 – 2011.

Presentation of the basic study materials. The information resources of Donetsk region are telecommunications services, Internet services and mail services.

Telecommunication services (telephone, telegraph and computer communications, wire broadcasting, terrestrial television and radio broadcasting and cable television) in the region are provided by more than 350 communication market entities of various forms of ownership and subordination. According to the Strategy of Information Policy in Donetsk region 6, p. 11 the principal means of information presentation to the regional citizens are central television in the first place and local television and Internet for the second and third places, respectively. Similarly the credibility of information sources is distributed.

The main telecommunications operators are Donetsk branch of “Ukrtelecom” OJSC, “Farlep-Telecom-Holding” CJSC, Donbass branch of “Telecommunications Company “Velton.Telecom” OJSC, “Promtelecom” OJSC, “Ukrvugletelecom” OJSC, Donetsk branch of “Golden.Telecom” LLC, “Doris” CJSC, Donetsk branch of “Ukrainian Radiosystems” CJSC, Donetsk branch of “Telesystems of Ukraine” CJSC.
Stationary telephone communication services in the region are provided to 1.2 million subscribers and over 800 thousand subscribers have stationary residential telephones. The services of mobile operators are used by about 9.0 million subscribers and there are over 280 thousand cable television subscribers.

Postal services in the region are provided by Donetsk Department of Ukrainian State Enterprise “Ukrposhta”, 53 types of services are provided to population, businesses and organizations in the region via 933 entities of postal communication. Postmen deliver the pensions and allowances to about 745 thousand pensioners, serving over 1.6 million subscribers, which have about 120 million periods delivered throughout the year.

Modern information services (Internet access; transmission of data, voice and video; creation of virtual private networks; electronic mail, etc.) are provided by more than 40 telecommunication companies in the region. The best known are Donetsk branch of “Ukrtelecom” OJSC, “Data-Internet” CJSC, “Farlep-Telecom-Holding” CJSC, Donbass branch of “Telecommunications Company” Velton.Telecom” LLC, “Nadezhda” TRC, “IVK-Donbass” LLC, “NTP “Donbastelesputnyk” LLC. These companies built wire and wireless multiservice network data transmission networks in the region, which can meet the needs of individuals and legal entities for the modern information services. Internet services are provided to about 300 thousand subscribers 4, 7.

Spreading of Internet and mobile communication are the most obvious signs of the information society. The processes of information system development lead to the radical changes in society, changing also the economic sphere, where generation and consumption of services rank first, and information services take a prominent place among them 2, p. 22.

Review of the regional distribution of Internet detected the uneven distribution of subscribers (Table 1). The largest number of subscribers is found in Donetsk

<table>
<thead>
<tr>
<th>Cities, districts</th>
<th>Internet subscribers</th>
<th>Subscribers of OGO+dlial-up+service</th>
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<tr>
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<td>121152</td>
</tr>
<tr>
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<tr>
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<td>2672</td>
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<td>Telmanove</td>
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<td>603</td>
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<tr>
<td>Torez</td>
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<td>4392</td>
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<tr>
<td>Shakhтарsk</td>
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<td>1704</td>
<td>1704</td>
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<tr>
<td>Yasynuvata</td>
<td>-</td>
<td>4355</td>
<td>4355</td>
</tr>
<tr>
<td>Avdiivka</td>
<td>762</td>
<td>-</td>
<td>762</td>
</tr>
<tr>
<td>Total</td>
<td>187175</td>
<td>90532</td>
<td>277707</td>
</tr>
</tbody>
</table>

Table 1

Економічний вісник Донбасу № 4 (34), 2013
(121 thousand subscribers), Mariupol (52 thousand subscribers), Kramatorsk (22 thousand subscribers) and Horlivka (11 thousand subscribers). This may be due to the fact that these cities are powerful industrial areas and at the same time the central cities of urban conglomerates. Less number of subscribers is registered in Oleksandrivka (431 subscribers), Telmanove (603 subscribers), Velyka Novosilka (698 subscribers) and Avdiivka (762 subscribers), which is related both to small number of population in these towns and to poor development of infrastructure in the areas of their location. At the beginning of 2012, 277707 thousand Internet subscribers were registered in the region, which totals 6.3% of population in the region.

In terms of districts, the following groups can be allocated according to the number of subscribers 1) from 0 to 2 thousand subscribers (Krasnolymansk, Oleksandrivka, Dobropillia, Velyka Novosilka, Amvrosiivka, Volnovakha, Telmanove, Volodarske, Pershotravneve, Novoazovsk districts); 2) from 2100 to 4 thousand subscribers (Kostiantynivka, Marinka, Starobeshhev districts); 3) from 4100 to 6 thousand subscribers (Krasnoarmiisk, Yasynuvata districts); 4) from 6100 to 8 thousand subscribers (Sloviansk, Artemivsk districts) (Fig.1).

Industrial cities and districts of the region are the most information active ones, while the southern rural areas have the potential to Internet spreading.

Dynamics of the Internet growth and spread shows that the largest rates of subscribers number growth is observed since 2007 (Fig. 2).

The highest rates of growth over the past five years demonstrate Starobesheve (30 times), Volnovakha district (28 times), Amvrosiivka (20 times), Torez (17 times), Dzerzhynsk, Snizhne, Oleksandrivka (more than 10 times), while the less rates of growth compared to the leaders are shown by Avdiivka (1.7 times),

**Conclusions and prospects for further developments.** Total number of Internet subscribers in the last five years has increased more than 4 times within

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**Fig. 1. Territorial organization of Internet subscribers in Donetsk region**
(Developed by the author using source 4)
the region. These trends show a slight levelling of the territorial distribution of Internet subscribers within the region. Thus, the central and eastern areas and cities increase the rate of spreading, approaching the leaders. However, the southern and western rural areas increase the rates more slowly, within the limits of 30 – 50%. Nevertheless, the process of informational activity covers the whole Donetsk region.

Since quantitative indicators show the positive trend of Internet and telecommunications spreading, many problems are encountered with regard to the quality of information resources. The main problems of information support in Donetsk region are defined as follows:

– overcoming the negative regional image in external and internal environment;
– lack of professionalism in the media and, consequently, their reduced credibility;
– insufficient information work regarding the audit of strategic programmes implementation.

Also the impact of the Internet on qualitative changes in regional society needs to be studied.

References

Закотнюк О. Л. Розвиток інформаційних ресурсів в регіональному аспекті (на прикладі Донецької області)

Досліджено територіальні кількісні зміни інформаційної складової регіонального соціуму. Виявлено тенденції, динаміку розвитку та розповсюдження інформаційних ресурсів, визначено проблеми інформаційної політики регіону.

Ключові слова: інформаційні ресурси, територіальні нерівності, інформаційне суспільство, абоненти Інтернет, інформаційна політика, імідж області.

Закотнюк О. Л. Розвитне інформаційних ресурсов в регіональному аспекте (на прикладе Донецької області)

В статье исследованы территориальные количественные изменения информационной составляющей регионального социума. Выявлены тенденции, динамика развития и распространения информационных ресурсов, определены проблемы информационной политики региона.

Ключевые слова: информационные ресурсы, территориальные диспропорции, информационное общество, абоненты Интернет, информационная политика, имидж области.

Zakotniuk O. L. Development of Information Resources in Regional Aspect (Donetsk Region Case Study)

Territorial quantitative changes in the information component of the regional society were studied in the article. The tendencies and dynamics of information resources development and dissemination were identified and the problems of regional information policy were defined.

Key words: information resources, territorial inequalities, information society, Internet subscribers, information policy, regional image.

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and final form 04.12.2013
THE INTEGRATION INTERESTS OF UKRAINE: THE EUROPEAN UNION OR CUSTOMS UNION

One of the main tendencies of the international economic relations development is an economic globalization nowadays. The stage has begun when economic, social, political and other processes and events leave national boundaries. It is possible to assess social and economic politics of some countries through the globalization prism.

On the modern stage of Ukraine’s economy development there is a question about integration interests of the country. The main question is: the European Union (EU) or the Commonwealth Independent States (CIS).

The position of Ukraine in its integration interests is ambivalent. On the one hand, it develops economic relations with many countries of the world and makes efforts of more active participation in forming international integration grouping. And on the other hand, its national economy continues to be the part of the post-Soviet economic system that has been forming during existence of single country. The place of Ukraine in international global processes is defined by these geo-economic priorities: wish for the integration to the EU and natural link to post-Soviet countries. It is important to use this duality for realization of current and perspective tasks of social and economic development of the country.

The study indicates that development of the largest economies within the post-Soviet area (Russia, Ukraine, Belarus, and Kazakhstan) is associated with structural changes. Potential for significant economic growth based on raw exports and outdated processing industries is nearing exhaustion. For this reason, the growth rates required by the population can be achieved only by modifying the overall structure of the economy, developing the manufacturing sector and service industries. For the first time in the last 20 years, the study formulates an inter-industry set of analytical forecasting models for the region’s four leading countries. The merit of the work lies in the fact that it applies a single methodology to the inter-industry analysis. Taking such an approach has allowed the authors to model common economic dynamics and structural changes, as well as to obtain sound assessments of possible integration scenarios throughout the post-Soviet area.

The aim of the study was to define the macroeconomic effect created by the establishment of the Customs Union and the Common Economic Space between Russia, Belarus and Kazakhstan, to define the current situation and prospects for development of integration links between Ukraine and the member states of the Customs Union, and to identify the most efficient forms and directions for the development of integration processes between the four countries [1].

The baseline scenario for development of the Ukrainian economy assumes continuation of the key trends of economic development observed in recent years. The main problem encountered by Ukraine under implementation of the baseline scenario lies in the fact that under increasing energy-commodity prices, maintaining the necessary level of competitiveness only becomes possible under accelerated energy-intensity reduction. Radical energy-intensity reduction, in turn, requires major investments. Revenue losses against the backdrop of rising costs trigger the continuation of relatively low fixed capital accumulation rates. Simultaneously, production growth is tempered by the gradual retirement of “old” idle capital. Thus, the economy is confronted by an acute capital restriction problem. Nevertheless, the remaining potential to achieve growth based on of aging facilities enables the Ukrainian economy to post higher economic-growth rates than Belarus, which is experiencing tighter fixed-capital restrictions. It should be noted that the lack of significant changes to the structure of the economy results in a slowdown in economic growth rates, given the impossibility of achieving accelerated output growth in the export sectors. The Ukrainian GDP dynamic obtained under the baseline scenario drops over the long-term from 4.4% in 2010 – 2015 to 3.6% in 2025 – 2030 [2, p. 12].

So, it is needed to examine the international trade relations of Ukraine with the EU and CIS countries (fig. 1).

This figure shows the active international trade both with the CIS and the EU countries. And in both cases it is visualized the domination of imports above exports. The negative balance shows this tendency. It is necessary to conclude that both the CIS and the EU countries are very important Ukraine's trade partners.
Integration mechanisms in the CIS are perceived not unambiguously by many politicians and scientists because of many causes. A lot of documents and coordinating institutes in the CIS didn’t lead to the development of integration processes. The instruments of international economic interaction are not effective and aren’t worked through. The countries of a region are afraid to be in dependence from Russian economy and look for the new trade partners among distant foreign countries. The Russian Federation, at 67th place, drops one position since last year. A sharp improvement in the macroeconomic environment—up from 44th to 22nd position because of low government debt and a government budget that has moved into surplus—has not been enough to allow the country to compensate for the poorer assessment of its already weak public institutions (133rd) and the innovation capacity of the country (85th this year, down from 57th in the 2010–2011 edition of the GCI) \[4\].

At the same time today the conditions for the reintegration of the CIS not only didn’t go down but raised because of many factors. During 2008–2012 it is visualized the stable growth of both exports and imports of Ukraine (except for 2009 because of world economic crisis). But the trade balance shows the domination of imports from the CIS countries above exports to these countries. So in the exports structure in 2012 the CIS countries compose more than a third (nearly 37%). In other words it is observed the active foreign trade of Ukraine with these countries (table 1).

Even though today ten countries compose the CIS (without Ukraine) average part in exports of these countries) compostes nearly 37% against 26% of the EU (fig. 2).

Then it is the goods structure of international trade of Ukraine (table 2).

This table shows 27% (18889.85 mn US dollar) of exports in 2012 base metals compose. As for imports, nearly 33% (27542.30 mn US dollar) mineral products compose (fig. 3).

95% of mineral products are oil and gas which are imported from the Russian Federation. In other
<table>
<thead>
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<th>No</th>
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<th>2008</th>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
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<td>Azerbaijan</td>
<td>-970.05</td>
<td>1347.49</td>
<td>378.80</td>
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<td>1874.65</td>
</tr>
<tr>
<td>2</td>
<td>the Republic of Belarus</td>
<td>-704.08</td>
<td>1258.94</td>
<td>554.86</td>
<td>282.79</td>
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<td>165.63</td>
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<td>137.41</td>
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<td>5</td>
<td>Kazakhstan</td>
<td>-1296.26</td>
<td>1418.43</td>
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<td>6</td>
<td>Kyrgyzstan</td>
<td>4.81</td>
<td>75.04</td>
<td>6.18</td>
<td>68.86</td>
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<td>7</td>
<td>Moldova</td>
<td>169.57</td>
<td>493.62</td>
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<td>641.56</td>
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<td>8</td>
<td>Russian Federation</td>
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<td>405.07</td>
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<tr>
<td>9</td>
<td>Tajikistan</td>
<td>5.36</td>
<td>72.31</td>
<td>80.38</td>
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<td>10</td>
<td>Turkmenistan</td>
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<td>718.29</td>
<td>-303.12</td>
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<td>11</td>
<td>Uzbekistan</td>
<td>-1522.99</td>
<td>406.17</td>
<td>1601.17</td>
<td>-1234.60</td>
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</tr>
</tbody>
</table>

Table 1

words dependence of Ukraine from importing resources is seen.

As to experts, they say that the integration of Ukraine to the Customs Union allows to save from 3 to 6 billion US dollar for Russian oil and gas annually. The most dependent branches from prices on resources – metallurgy, machinery and chemistry will get a new impulse of development under preferential prices. Besides contacts widening with post-Soviet partners will open new opportunities to Ukrainian business. As a result of this the increase of new jobsites quantity will be.

Next it is seen the goods structure of Ukraine’s exports to the Russian Federation (table 3).

As it is seen from this table 85% (5963,47 mn US dollar) of exports to the Russian Federation, equipment and mechanisms compose. Big parts of exports

Table 2

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Live animals and livestock products</td>
<td>783,40</td>
<td>1702,02</td>
<td>595,97</td>
<td>1267,56</td>
<td>771,39</td>
<td>1241,69</td>
<td>936,61</td>
<td>1035,37</td>
<td>961,32</td>
<td>1718,37</td>
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<tr>
<td>2</td>
<td>Plant products</td>
<td>5577,38</td>
<td>1462,48</td>
<td>5034,89</td>
<td>1259,95</td>
<td>3976,33</td>
<td>1563,71</td>
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<td>1815,94</td>
<td>9215,90</td>
<td>2429,66</td>
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<td>3</td>
<td>Animal or plant fats and oils</td>
<td>1945,75</td>
<td>612,87</td>
<td>1796,02</td>
<td>374,27</td>
<td>2617,31</td>
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<td>3396,41</td>
<td>468,67</td>
<td>4211,46</td>
<td>406,25</td>
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<td>4</td>
<td>Finished food industry products</td>
<td>2518,16</td>
<td>2679,18</td>
<td>2088,05</td>
<td>2034,28</td>
<td>2571,07</td>
<td>2504,93</td>
<td>2939,14</td>
<td>3026,73</td>
<td>3493,92</td>
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<td>25441,28</td>
<td>3900,09</td>
<td>15695,09</td>
<td>6731,33</td>
<td>21127,92</td>
<td>10259,70</td>
<td>30029,57</td>
<td>7650,42</td>
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<tr>
<td>6</td>
<td>Products of chemical and allied industries</td>
<td>5045,33</td>
<td>6959,12</td>
<td>2515,15</td>
<td>5319,27</td>
<td>3479,17</td>
<td>6441,66</td>
<td>5390,33</td>
<td>8020,85</td>
<td>5058,92</td>
<td>8586,39</td>
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<td>Polymeric materials</td>
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<td>2663,83</td>
<td>685,28</td>
<td>3661,44</td>
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<td>999,58</td>
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<td>Raw leather and currying leather</td>
<td>359,52</td>
<td>232,46</td>
<td>178,10</td>
<td>124,20</td>
<td>173,82</td>
<td>177,29</td>
<td>168,45</td>
<td>199,78</td>
<td>135,63</td>
<td>247,21</td>
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<td>Wood and articles of wood</td>
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<td>545,76</td>
<td>669,97</td>
<td>271,78</td>
<td>828,20</td>
<td>341,53</td>
<td>1078,32</td>
<td>393,02</td>
<td>1060,61</td>
<td>369,57</td>
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<td>Paper balk of wood</td>
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<td>1835,25</td>
<td>806,97</td>
<td>1373,33</td>
<td>940,52</td>
<td>1658,31</td>
<td>1105,32</td>
<td>1836,68</td>
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<td>1812,62</td>
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<td>2099,24</td>
<td>712,95</td>
<td>1416,92</td>
<td>735,84</td>
<td>1974,82</td>
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<td>1989,86</td>
<td>783,84</td>
<td>2563,72</td>
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<td>Footwear, hats, umbrellas</td>
<td>178,10</td>
<td>531,11</td>
<td>144,51</td>
<td>286,49</td>
<td>174,76</td>
<td>490,30</td>
<td>208,84</td>
<td>361,52</td>
<td>175,91</td>
<td>793,68</td>
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<td>Products from stone</td>
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<td>1276,48</td>
<td>285,23</td>
<td>635,23</td>
<td>399,48</td>
<td>889,67</td>
<td>549,24</td>
<td>1156,09</td>
<td>582,78</td>
<td>1106,95</td>
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<td>Pearls, precious stones</td>
<td>146,88</td>
<td>1032,04</td>
<td>84,20</td>
<td>159,75</td>
<td>74,23</td>
<td>302,69</td>
<td>100,75</td>
<td>743,45</td>
<td>139,78</td>
<td>493,43</td>
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<td>Base metals</td>
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<td>6390,07</td>
<td>12816,76</td>
<td>2676,56</td>
<td>17332,55</td>
<td>4127,97</td>
<td>22101,00</td>
<td>5697,09</td>
<td>18889,85</td>
<td>5238,91</td>
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<td>16</td>
<td>Machines, equipment and mechanisms</td>
<td>6341,14</td>
<td>13379,84</td>
<td>5014,32</td>
<td>6257,04</td>
<td>5670,42</td>
<td>8166,97</td>
<td>6759,00</td>
<td>12795,10</td>
<td>7026,67</td>
<td>13178,67</td>
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<td>Ground, oil and water transport facilities</td>
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<td>12091,41</td>
<td>1596,43</td>
<td>2163,83</td>
<td>3262,44</td>
<td>3664,29</td>
<td>4854,76</td>
<td>6204,22</td>
<td>5963,47</td>
<td>8067,05</td>
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<tr>
<td>18</td>
<td>Optical apparatus</td>
<td>242,73</td>
<td>1222,61</td>
<td>278,71</td>
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<td>252,31</td>
<td>886,37</td>
<td>281,48</td>
<td>1047,48</td>
<td>296,46</td>
<td>1218,89</td>
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<td>Different industrial products</td>
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<td>310,60</td>
<td>500,10</td>
<td>416,63</td>
<td>681,98</td>
<td>556,23</td>
<td>847,04</td>
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<td>1015,03</td>
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<td>Art articles</td>
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<td>4,11</td>
<td>0,69</td>
<td>1,00</td>
<td>0,24</td>
<td>2,08</td>
<td>1,14</td>
<td>24,30</td>
<td>0,35</td>
<td>5,32</td>
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<td>21</td>
<td>Other</td>
<td>4302,34</td>
<td>550,46</td>
<td>309,97</td>
<td>284,35</td>
<td>337,18</td>
<td>382,83</td>
<td>374,53</td>
<td>417,08</td>
<td>423,81</td>
<td>382,58</td>
</tr>
</tbody>
</table>
to the Russian Federation belong to the live animals and livestock products goods group (599,55 mn US dollar or 62%), polymeric materials (507,54 mn US dollar or 51%), wood and article of wood (85,22 mn US dollar or 63%), paper balk of wood (810,33 mn US dollar or 72%), products from stone (330,16 mn US dollar or 57%) and ground, oil and water transport facilities (3339,27 mn US dollar or 56%).

As to goods structure of Ukraine’s import (table 2), it shows the Ukraine’s dependence from importing machinery which compose 25% of imports (machines, equipment and mechanisms, ground, oil and water transport facilities).

Judging from these data it is necessary to set the imports quota on these goods groups:

\[
Q(i) = \left( \frac{I}{GDP} \right) \times 100\% = \left( \frac{21245,72}{176111,13} \right) \times 100\% = 12\%,
\]

where

- \( Q(i) \) – imports quota;
- \( I \) – imports;
- \( GDP \) – gross domestic product [6].

For the benefit of domestic machinery producers it is necessary to decrease the imports to 12% from the State statistics service of Ukraine figure. So, it is supposed that the free trade area creating with the EU will cause imports quoting impossibility and will increase it in many times what will have the negative effect on Ukraine’s machinery.

As to the goods structure of exports, 40% or 26540,27 mn US dollar in 2012 mineral products and base metals compose. It is supposed that under the free trade area creating with the EU some “packing” of Ukrainian high-tech branches will happen. In other words Ukraine’s economy development will return to the stage of factor-driven economy my World Bank methodology.

Following a protracted economic crisis, Ukraine bounces back to 73rd position in this year’s GCI. The country’s competitiveness benefits notably from a healthier macroeconomic environment than in previous years. The budget deficit was cut to 2,7% of GDP in 2011, the debt-to-GDP ratio fell somewhat, and inflation was reduced, although it still remains fairly high at almost 8%. Overall, Ukraine maintains its competitive strengths; these result from its large market size (38th) and a solid educational system that provides easy access to all levels of education (ranked 47th on higher education and training and 54th on primary education). The good educational outcomes provide a basis for further developing the innovation capacity of the country (71st). Putting economic growth on a more stable footing in future will require Ukraine to address important challenges. Arguably, the country’s most important challenge is the needed overhaul of its institutional framework, which cannot be relied on because it suffers from red tape, lack of transparency, and favoritism. Ukraine could realize further efficiency gains from instilling more competition into the goods and services markets (117th) and continuing the reform of the financial and banking sector (114th) [4].

As to free trade area creating with the EU after five years of intense negotiations, the EU and Ukraine finally started initializing their Association Agreement in Brussels, on March, 30 2012. Every single one of the 160 pages of the political document needed to be signed, before the economic chapter on the free trade area DCFTA (Deep and Comprehensive Free Trade Area) – comprising 1100 pages – was initialized on July, 19 2012.

It covers the following fields of cooperation:

The approximation of the European Union and
Ukraine on the grounds of common values and an increased participation of Ukraine in EU programs;

A cross-border cooperation in the field of external and security policy, inter alia in conflict prevention and military cooperation;

Helping Ukraine to achieve European standards in the policy areas of justice and home affairs by promoting the rule of law, democracy and human rights in Ukraine, as well as providing support in the combat of corruption, in the improvement of the judiciary’s efficiency and data security;

An enhanced economic cooperation by establishing a deepened and strengthened free trade area between the EU and Ukraine. Moreover, specific sectorial cooperation in over 30 areas, for example in the fields of agriculture, industry, energy supply and consumer protection;

Launching new ways of cooperation, providing funds and building up a platform for a civil society [7].

Based on the general rules of interpreting international treaties, the meaning of the “association” concept should be expanded through interpretation of the totality of the Agreement’s provisions. However, practice of the recent decades proves that application and interpretation of each Association Agreement is focused on the EU acquits regarding association relations with third countries. Thus, the Ukrainian side should be prepared for that the Association Agreement will establish specific features of association relations with Ukraine based on rooted principles and traditions.

Since it was Ukraine that insisted that the “new enhanced agreement” were an association agreement, the EU rightly expects that the Ukrainian side fully understands the meaning of the “association relations” concept and is ready to follow it. Above all – those association agreements are the most advanced type of international treaties that

---

**Table 3**


<table>
<thead>
<tr>
<th>№</th>
<th>Goods group under the IAGUC</th>
<th>Exports in 2012, mn US dollar</th>
<th>The part in total exports, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Live animals and livestock products</td>
<td>961,32</td>
<td>62</td>
</tr>
<tr>
<td>2</td>
<td>Plant products</td>
<td>9213,90</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Animal or plant fats and oils</td>
<td>4211,46</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Finished food industry products</td>
<td>3493,92</td>
<td>33</td>
</tr>
<tr>
<td>5</td>
<td>Mineral products</td>
<td>7650,42</td>
<td>17</td>
</tr>
<tr>
<td>6</td>
<td>Products of chemical and allied industries</td>
<td>5058,92</td>
<td>25</td>
</tr>
<tr>
<td>7</td>
<td>Polymeric materials</td>
<td>999,58</td>
<td>51</td>
</tr>
<tr>
<td>8</td>
<td>Raw leather and curry leather</td>
<td>135,63</td>
<td>3</td>
</tr>
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<td>9</td>
<td>Wood and articles of wood</td>
<td>1060,61</td>
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</tr>
<tr>
<td>10</td>
<td>Paper bulk of wood</td>
<td>1132,08</td>
<td>72</td>
</tr>
<tr>
<td>11</td>
<td>Textiles materials</td>
<td>783,84</td>
<td>19</td>
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<tr>
<td>12</td>
<td>Footwear, hats, umbrellas</td>
<td>175,91</td>
<td>23</td>
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<tr>
<td>13</td>
<td>Products from stone</td>
<td>582,78</td>
<td>57</td>
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<td>14</td>
<td>Pearls, precious stones</td>
<td>139,78</td>
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<td>Base metals</td>
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<tr>
<td>20</td>
<td>Art articles</td>
<td>0,35</td>
<td>7</td>
</tr>
</tbody>
</table>
the EU may conclude with third countries – the countries with which the EU is ready to develop strong long-term alliance relations based on mutual trust and respect for common values [7].

It is necessary to note on the possibility of associating membership of Ukraine in the EU. In the basic European Commission documents there is no definition such as “associating membership”. There are some variants of agreement about association with the EU. The first – is the agreement about stabilization and association which has been subscribed with several west-Balkan countries. Another variant of agreement that gives the prospect of the EU membership is the European agreements which have been subscribed between Brussels and Central and Eastern Europe countries which later became the EU members. Other agreements don’t give the prospect of the EU membership. In any case using the “associating membership” isn’t correct. These countries are the participants of some process but they aren’t the members of the EU.

Only Ukraine among the post-Soviet countries negotiates with the EU about the association agreement. But as say the European Commission experts this future agreement doesn’t give the prospect of the EU membership.

**Conclusion.** The geographic and goods structure of foreign trade of Ukraine is analyzed and such conclusion was made.

The integration of Ukraine to the Customs Union allows to save fund on importing resources and put in order cooperating relations with the CIS countries which were lost after the USSR reintegration.

The free trade area creating with the EU is going to have such consequences: returning Ukrainian economic system to the stage of factor-driven economy; “packing” of native machinery; active using of Ukrainian mining branches of industry.

**References**


**Лимар В. В. Інтеграційні інтереси України: Європейський Союз чи Митний союз**

У статті розглянуто проблеми та перспективи розвитку економіки України в результаті створення зони вільної торгівлі з ЄС та інтеграції до Митного союзу. Проаналізовано товарну та географічну структуру зовнішньої торгівлі України та зроблено висновок щодо стратегічної важливості для економіки України ринку країн пострадянського простору.

**Ключові слова:** економічна глобалізація, інтеграційні інтереси, зона вільної торгівлі, Митний союз, структура зовнішньої торгівлі, імпортна квота.

**Лимарь В. В. Интеграционные интересы Украины: Европейский Союз или Таможенный Союз**

В статье рассмотрены проблемы и перспективы развития экономики Украины в результате создания зоны свободной торговли с ЕС и интеграции Украины в Таможенный союз. Проанализированы товарная и географическая структуры внешней торговли Украины и сделан вывод относительно стратегической важности для экономики Украины рынка стран постсоветского пространства.

**Ключевые слова:** экономическая глобализация, интеграционные интересы, зона свободной торговли, Таможенный союз, структура внешней торговли, импортная квота.

**Lymar V. V. The Integration Interests of Ukraine: the European Union or Customs Union**

The article is devoted to the problems and prospects of Ukrainian economy development as a result of free trade area creating with the EU and integration to the Customs Union. The geographic and goods structure of the international trade are analyzed and it is made the conclusion about the strategic importance of post-Soviet area market for the Ukrainian economy.

**Key words:** economic globalization, integration interests, free trade area, customs union, international Trade structure, imports quota.

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GLOBAL DEVELOPMENT DIVERGENCE AND CONTEMPORARY GRAVITATIONAL PROCESSES IN GEO-ECONOMIC SPACE

Introduction
The history of global development shows that the euphoric interest in perfect social order projects, around which agiotage grew but subsequently died away with the advent of a new era, has been arising since the turn of the last century. The period from the end of the twentieth century and the beginning of the twenty-first century was no exception, as it was marked by dynamic economic progress. As a result, the world became more interconnected but at the same time more separated and more dissymmetric. And if the interdependence of this world needs more stability and convergence then dissymmetric becomes the reason of growing dispassion and divergence. In the similar turning points the world tends to stability, but it is clear that it cannot be really achieved. As experience shows, balance and convergence – in their orthodox meanings and which had turned into the idée fixe of the twentieth century – failed at the end of the first decade of the twenty-first century. Growing divergence was marked by the far-seeing conclusion that is perceived as weird: “…the world will not be balanced as this world is always in the condition of constant changes and imbalances.” (P. Bernstein) [1, p. 227].

In the last century, in which there was a historical transit from the industrial to the postindustrial epoch, ended in geo-political faults that demonstrated to the whole world that “the global balance is very fragile and can be easily destroyed…” (Pavel Bobkov) [2, p. 22]. It is a paradox, but in the epoch of globalization the world became less safe than during the period of restriction. This syndrome will be difficult to overcome as more actors have come to the forefront and conflict lines have become more clear and their significance less transparent (Vladislav Inozemtsev) [3, p. 520]. There is a need to understand the deep nature of processes that had turned into the global-centric world. Questions of radical importance have appeared on the agenda: Why has the contemporary world become less predictable and balanced than it was in the years of polar geo-political systems with all their contradictions? Why has the international community witnessed the frequent growth of currency and intensification of financial crisis, significant market fluctuations, price shock on the world markets, and global currency volatility? How significant is the influence of global gravitational processes on the national development of some countries and regions? What new threats and challenges will the world encounter in the third millennium? What architecture of the new world order will humanity develop?

There is no single answer to these questions. Instead, quite lively discussions and debates on the formation of innovative foundations and the construction of new “fundamental frames” for contemporary paradigms of global development are being held.

Analysis of Recent Research and Publications Related to This Topic
Western scientists Z. Bauman, D. Bell, M. Castells, J. Rosenau, A. Toffler, F. Fukuyama, and Russian scientists E. Kochetov, M. Cheshkov, Y. Yakovets have made important contributions research on fundamental issues of contemporary global transformations. In recent years, the problem of convergence and global disparities, and of inequality and global economic development asymmetry have been revealed in the research works of many foreign and Ukrainian scientists (S. Amin, H. Berry, R. Wade, B. Gesling, A. Giddens, M. Guillen, R. Korzhenevych, T. Moran, M. Spence, G. Firebaugh, A. Hendi, A. Halchynskyi, D. Lukyanenko and Y. Stolarchuk). However, “gravitational processes” that occur in geo-economic space, which are accompanied by the destruction of vertical hierarchic and linear- determined systems, have not received due attention, especially in terms of heterogeneity, reain The analysis given in this article is an attempt to outline the problem that lies on the plane of relevant global-intersystem transformations.

The Hypothesis of This Research and Its Formulation
The hypothesis of this research is that the level of increases in gravitational charge in the condition global development asymmetry has been deepening. In this context, the following methodological construction is being singled out: asymmetries in global development have activated gravitational processes in geo-economic space. These processes have caused heterogeneity and a divergence of global development under the influence of gravitational factors of both an endogenous and exogenous nature. The purpose of this article, then, is to highlight systematic determinants of gravitational processes in geo-economic space, to build a geo-strategic matrix of divergences in global development, to assess
Ukrainian geo-strategic positioning in geo-economic space, and to project on problems related to global-intersystem transformations.

**Results**

From the conceptual point of view, this research is one of the key and at the same time one of the most controversial problems in the methodology of modern intersystem transformations related to the systematic uncertainty of the correlation “divergence – convergence of global development”. Ambiguous points of view on this problem abound. One of them, “orthodox-conservative” divergence (from Latin divergere – deviate, diverge), is seen as the antithesis of convergence (from Latin convergentio – converge). Due to this etiological reference we can state that the term “divergence” is used in economics to represent the quantitative dynamics of trends deviation (the gap between the development level of certain countries becomes wider, their macroeconomic indicators deviate from those averaged in the region or integrated association) as well as to deepen the qualitative differences among models of national economics and their separate structures and arrangements. In the sphere of the international policy, this divergence is logically identified with the increase of heterogeneity in political institution, social and cultural forces, and ideological and other forms of international affairs that as a rule lead to the complication of already existing systems and the emergence of new ones.

Another point of view defines convergence and divergence as two complementary determinants of global development. Thus, the contradictions between them define inevitable conflicts within the process. In this context, the idea of convergence (unlike divergence) is the main one concerning the argumentation and interpretation of integration, internationalization, and globalization processes. Integration processes and world economic globalization determine the prevailing idea on convergence as being the gradual convergence of different economic systems. On this basis, more countries have been involved in the general direction of world civilization. Therefore, scientific discourse currently believes that globalization and convergence are so complementarily united that they are almost impossible to separate, globalization being the essential determinant of this convergence and finally the logical consequence of globalization. However the following quotation corrects the correlation of main research objects: “The real world is a combination and interaction of heterogeneous substances. Its power is based on this, and it will remain the same. Its systematic integrity, which in future will be established in natural way, will develop not according to the principles of subjects’ unification and vertical subordination, but according to the principles of decentralization, priorities establishment of global space horizontal articulations, its heterogeneity”. (A. Galchynskyi) [4, p. 325, 333]. Researchers speak about the prospects of “the new multi-format, multidirectional, nonhierarchical, asymmetric globalization unity formation” in terms of which there is “a significant complication of correspondent interdependences, and thus there is these interdependences subordination to the logic of complicated dissipative systems” [4, p. 326], which develop on the basis of nonlinear dynamics and the logic of gravitational processes in geo-economic space. In this context, the facts and empirical realities convincingly prove that dozens of countries due to certain reasons – for example, the unevenness of economic development structural factors allocation; the asynchrony of cyclic countries and development of integration units; the differentiation of their social and economic spheres; and their institutional, political, social, and cultural models – are not ready to adapt to the imperatives of global development. As a result, the gap between developing countries and global leaders increases. Also, geo-space and the deep marginalization of global-development outsiders in the aggregate have led to existing system complications of stratified geopolitical and geo-economic relations. Therefore, conflicts of interest within heterogeneous economic, political, and social agents, as well as with in the heterogeneous actors of the world economy, prove the existence of global development divergence.

When focusing on relevant uncertainty, we have to stress several myths (popular theses), the discussion of which has a significant methodological importance in the context of contemporary global intersystem transformations.

**First myth:** “Globalization and unification are the main determinants of global development”. The contemporary world, on the one hand, is gradually and objectively transformed by the sphere of global interaction between all components. On the other hand, despite the increasing trend towards the synchronization of economic cycles, the specificity of reproductive processes both in separate countries and unions remains. The lay-up on geo-space traditional structures of new institutions and relationships, new forms of cooperation and competition, partnership and mutual confrontation, consensus building and conflict in aggravation – the contemporary global crisis only has intensified these tendencies putting on to the agenda the problem of global development divergence. During the pre-crisis period, reminders of this were anti-globalization and myopic pessimism. Over recent years, such phrases as “globalization decline”, “economic nationalism and protectionism”, and “new reality” threaten not only in words to push the idea of globalization to the
side of global development evolutionary dynamics, but they also break traditional notions about the principles and rules of economic development, which should in the nearest future form the foundation of global economic development. Based on this the problems of dualism in global development dualism are actualized. On one side stands the traditional system of relationships between countries, principles of intergovernmental relations according to the settings of traditional diplomacy, protection of national interests and national sovereignty. On the other side resides the idea of a “transnational global world” in which the sovereignty of a national state gradually becomes narrower, and the economic and political decisions on certain vital issues are often made in consideration of global tendencies.

In this context, the questions outnumber the predictable responses. Can the Western model of democracy effectively respond to the challenges of new historical realities in a world where only 15% of countries have passed the test for full compliance with the principles defining a democratic civil society, where more than 50% profess authoritarian (including hybrid) modes of government? How does one question the sacred Anglo-Saxon model of market economy and those values, principles, and directives that form its social and philosophic, moral and ethical basis? In this context, the global crisis has shattered the mythology of the “Washington consensus”, the symbol with which the principles and postulates of theses regarding the era of globalization – the free market triumph and total restriction of state intervention in the economy – has been justified. It is paradoxical, but it is necessary to recognize that traditional economic theories and models, which seem to have been demonstrating the adequacy of market-economy functions and the ability to propose necessary vectors and instruments for the solving of the most difficult problems, under the conditions of contemporary global realities instead have demonstrated their inadequacy. In turn, the so called “Beijing Consensus” has gained increasing popularity based on state regulation of the economy, national interests, and the priority of national sovereignty. So what are the models and priorities that will define the main vectors of global development in the twenty-first century? This is one of the key questions.  

Second Myth: “Globalization is the way to convergence and a unipolar world”. Tough changes in trends of global development during the 2000s that occurred within the intensification of global processes to some extent have contributed to the convergence of social and economic models. No essential change of national institutions that define the character of economic and social systems of countries and regions has taken place.

As a result, the current global crisis in its open form convincingly has demonstrated a rapid self-destruction of the unipolar world idea, the steady destruction of foreign policy conceptions that are implicitly built on the idea of “economic and military superiority of the West over the rest of the world”, reaffirming the problem of global development asymmetry and polycentricism. Note how the world economic development vector has shifted in the direction of developing countries. In particular, the world has witnessed an obvious redistribution of geopolitical and geo-economic influence, wealth, and economic potential in the countries of East and South-Eastern Asia and Latin America, the most industrially developed of which have become members of “convergence clubs”. Currently, “new gravitation fields” in world economic policy concerning China, India, Brazil, Russia, and Mexico are being formed alongside the “old” ones: the United States, Japan, and Western Europe. In the nearest future, these countries will form the “higher league” of geopolitics and geo-economics. Regional leaders have appeared, the “second echelon” of geopolitics and geo-economics, including the Republic of South Korea, Turkey, Argentina, Chili, Indonesia, South Africa, Saudi Arabia, the United Arab Emirates and other countries which rapidly have increased their economic, military, and political power. There is a tendency of small countries geo-economic activity growth, that have a powerful scientific and technical, financial potential.

Many questions need answers. What are the perspectives of the higher league of countries expanding? When and on what scientific and technological bases will this come to pass? And will the countries of the “second echelon” became “the bearing structure of regional stability and democratization of the world order”? Surely, their strategic positioning in geo-space remains the essential determinant of the divergence in global development.  

Third Myth: “Globalization in its pro-Western variant undergoes inversion”. While developing the concept of geo-space polycentricism, researchers must acknowledge how accelerated changes in world GDP redistribution, economic power, and wealth diffusion have become. As a result of this acceleration, the countries of the non-Western world have been transformed into energetic actors in the world economy. In this context, the traditional division of countries into three worlds gradually has lost meaning, especially the notion of the Third World. In the context of unprecedented changes of qualitative and quantitative composition of global development leading countries, globalization in its pro-Western variant became gradually to undergo inversion. But amid these optimistic forecasts exists the fact that in the beginning of the twenty-first century, the so-called the “Age of Post-Industrialism”, over 1 million people (one-
sixth the world population) live in slums. The countries of Asia top this list with 60% of their populations living in slums. African countries come next with 20%. Finally, in Latin America the rate is 14%. The countries of the “old gravitational centres” report having 54 million people (6% of their populations) living in slums.

Scientists have to admit that “all the self-deception about the new world order actually sprang from the Faustian collusion between the East and the West”. This collusion has allowed Eastern economies to escape from the grim reality of the Third World through interventions by Western customers and infrastructure development. However, Western customers have enjoyed unreal salaries and standards of living from Walt Street to Stuttgart, as the unfair collusion has led to the concentration of wealth among the world industrial and financial titans. This paradox represents only the outer shell of global inequality, whereas the fundamental basis of “architectural construction” of the world-financial pyramidal structure (in the laws and proportions of the world GDP redistribution and economic power and wealth diffusion) remains unchanged. The world financial oligarchy sits at the top of this pyramid, but they do not have a definite registration; the “centre of the international market system” as George Soros terms the economies of developed countries, occupy the middle layer; and finally the lowest layer are the economies of the “world capitalism periphery”. The world-financial pyramidal structure proves that in the global-centered economy the principles of foreign exchange and redistribution equality and equity do not work. The principle of the global society proprietary polarization works instead.

In summary, the problem involves changing S. Amina’s “three world projects” to restore positive, evolutionary human dynamics. Unless we find an adequate answer to this fundamental question any hope for overcoming the global crisis and constructing a new world order will remain an idé fixe of the twenty-first century.

Fourth myth: “Country marginalization in geo-space is the consequence of globalization”. Despite the background of optimistic rhetoric about the convergence totality the phenomena of the states’ marginalization in the process of global development which is often appropriated with the status of “fallidos”. Spanish for “losers”, remain unsolved under a guise of populism and sophistry about globalization benefits. The problem is not globalization as it is usually interpreted, but in the fact that the benefits of globalization as a rule do not reach their social and economic area, and thus they remain the “marginalized roadside” of not only globalized post-industrial society but also the undisclosed subject of modern comparative literature. Due to the lack of economic development structural factors, these countries have different survival techniques, from domain-names trade in Tuvalu and the Federal States of Micronesia to massive emigration and export-commodity flows in Kobo-Verde, Kiribati, and the Kumar Islands. Nauru offers illegal shelter to immigrants, while the creation of offshore zones flourishes in Vanuatu, Dominic, and Samoa. Antigua and Barbuda, Barbados, St Kits, and Nevis, then, participate in tourism.

Thus, the beginning of the twenty-first century witnessed “the sharp turn” in the geo-political and geo-economic relations that caused the balance deviation on a global basis and affected the dynamics of economic relations internationalization. This “sharp turn”, without exaggeration of historical significance, is characterized by the fundamental and system transformation of economic, political, sociocultural and inter-civilization correlation. The number of states is increasing - so-called “gravitational centres”, some of which are permanently going to the status of geo-strategic global and regional leaders, their influence is growing, including by means of traditional leading countries of the Western world. The “club” of economic and political cooperation, the system of diplomatic institutions and “places for political dialogues” begin to build up by actions of such countries in the Asian region.

To answer this question, researchers should refer to the analysis of the global development divergence geo-strategic matrix. (Fig.1). The main idea is to reveal the systemic determinants of gravitational processes in geo-economic space that lead to nonlinear dynamics in global development; to outline the regions that will be the most dynamic in the future; to show the way redistribution processes of world economic wealth and the diffusion of economic strength between the “old” and “new” gravitational centres; and to stress the problems of global development asymmetry through multi-dimensional and multi-level asymmetry in geo-space. At the foundation of the geo-strategic-matrix lie a cluster analysis based on linguistic changes and the integrated analysis of key tendencies of the state and global development in a wide range of socio-demographics, socio-economics, energy technologies, geo-politics, and institutional and sociocultural aspects. That is why grouping countries into convergence clubs was held not only on the principle of their economic or civilization proximity but also by a consideration of levels of economic wealth and economic human freedom, their greater or lesser risk appetite of global imbalances, and social and geo-political shocks.

[6, p. 156 – 244].
Fig. 1. Geo-strategic matrix of the global development divergence*

*Worked out by the author
**Countries exporting primary commodities and/or fuel have been marked.
Convergence clubs, located on the plane of the "adaptation syndrome" vector field (Fig.1 – diagonal from the lower left to the upper right corner) are marginal and the most dynamic gravitational fields regarding positioning in geo-space. They are "wandering internationalized cores" (Ernest Kochetov) [7, p. 122 – 124] in geo-space that can lose their geo-strategic positions in the case of low-development levels of the "adaptation syndrome". The four large world economies that cooperate under the well-known acronym BRIC (Brazil, Russia, India, and China) are located on this diagonal, as well as the dynamically developing economies of Mexico, Turkey, Indonesia, and the Republic of Korea, which together can become the new "gravitational centres of global economic development" or at least they possess the prerequisites to obtain this position. Occupying 9% of Earth's landmass with a population of 47.3% of all people in the world, the countries located on this diagonal produce 38.3% of the world GDP and concentrate 30.2% of the world's population into financial potential. Almost all countries from these gravitational fields gravitate toward cooperation in production and investing, leading to an increase of in the supply of a networked, internationalized character. Through the formation of global and regional value-added chains, these countries are connected closely with the markets of the "old gravitational centres" – the United States and the countries of Western Europe – and therefore tend to produce asymmetric shocks and conjuncture fluctuations on these markets.

"Convergence clubs" located above the diagonal include eighteen countries with a general area of 6% of the Earth's landmass and a population of almost 11% of all humanity. They account for 47.5% of the world GDP and 64% of the world population's financial potential that actually forms global consumer demand. Countries that are members of this club differ in that they have a high level of rights and freedoms in their collective social and political life. All of them without exception have evolved through agrarian and industrial development stages and are currently working through a post-industrial stage characterized by a leading role in the service national economy, where from 60% to 80% of the world GDP is produced; high consumer demand; continuous progress in the science and technology; and state and social policy strengthening. In general, these countries have concentrated the enormous potential of wealth for the amortization of economic and social consequences of the crisis. Despite the structural problems related to their economic development, imbalances in the sector of employment, and failures in the regulation mechanisms of financial markets that were especially clearly manifested in conditions of the current global crisis, all the "old gravitational centres" will continue their gradual development in the coming decade. However, researchers cannot neglect the fact that these nations fully encountered the phenomenon of "imperial overpressure" (P. Kennedy) [8] – that is, a lack of various strategic resources needed to support geo-strategic advantages. Among the key factors that can provoke gravitational processes and influence their geo-strategic positioning in the global space in the coming decades include a combination of pressures due to migration, social consequences of structural problems associated with an aging population, and a reduction in productivity.

"Convergence clubs" located under the diagonal are very prone to global imbalances due to their underdeveloped levels of "adaptation syndrome". In fact, the formation of internationalized reproductive cores in these countries is historically determined by the nature of their foreign economic affairs. The prevailing trade and intermediary model of foreign economic relations makes the situation when their inner economic situation is primarily determined by the growth of their foreign trade that outruns the international productive cooperation rate of growth. In due course, the accumulation of their foreign trade flow has not been supported in time by the industrial cooperation and technological integration through the development of value-added chains. This fact was one of the reasons these countries suffered serious national economic backlogs in the single internationalized reproductive process. Because of these tendencies, the task of integration appeared to be massive. At the beginning of the twenty-first century, trade and intermediary models prevail for most of these countries, and this has caused their national economies to become mired in severe structural crisis. The weak political and economic institutions of these countries of Convergence Club 6 and Convergence Club 9 play a crucial role in such slow and ineffective economic development.

Taking into consideration the above it should be noted that global transformation is not finished yet and the new polycentric architecture of geo-space has not been formed completely. Simply put, there is not a steady balance of economic and political forces in geo-space. But to the contrary, the near future should bring gravitation-process growth in geo-economic space under the influence of fragmentation in the development of information and state technologies, the aggravation of energetic problems, an increase in environmental risks and disasters, and adverse socio-demographic trends [9]. The divergence in global development will be also strengthened by institutional "failures" and socio-cultural bars as well [10]. These aspects should become the subject of the scientific research and the theoretical basis of a new approach to problems in global development. These issues should be taken into consideration while
outlining geo-strategic state positions in the contemporary polycentric and heterogeneous world.

Further summary of the research results is dedicated to the analysis of the system determinants that define the Ukrainian geo-strategic position in geo-economic space. Ukraine is located in the gravitational field of Convergence Club 6 that combines thirty countries, including five countries in Eastern Europe (Belorussia, Bulgaria, Romania, Serbia and Ukraine); five countries in Latin America (Argentina, Bolivarian Republic of Venezuela, Ecuador, Colombia, Peru); nine countries in Africa (Algeria, Angola, Egypt, Libya, Morocco, Nigeria, South Africa, Sudan, Tunisia); four countries in South-East Asia (Vietnam, Indonesia, Thailand, Philippines); three countries in South Asia (Bangladesh, Sri Lanka, Pakistan); three countries in South-West Asia (Iraq, the Islamic Republic of Iran, Syrian Arab Republic); and one country in Central Asia (Kazakhstan). These countries form a cluster of unstable economic systems in the phase of “transition to changes”. Developmental impulses appear. In particular, new political ideas and new ideologies, social mobility increases, as does the potential for scientific and technological development. Although, systems seem inert, structural, institutional and political crises become aggravated. Civil society in these local geo-strategic centres remains very weak, and the democratic institutions are, in most cases, the simulacra that mask the uncontrolled domination of officials. In this club’s countries, the preponderance of lower economic populations and their level of freedom lie on the plane of “social stratification” (P. Sorokin). Social stratification based on economics, population-income differentiation define the political, social, and legal statuses of citizens, their rights and privileges, their responsibilities and obligations, their power and influence, and their responsibilities and obligations.

Considering the specificity of social stratification among the countries in Convergence Club 6, it is important to note that the level of economic freedom is simultaneously defined by several determinants.

First, it is defined by ambiguities within social policies and the parameters of civil society parameters, by the low level of economic socialization, by institutional transformations and property-relations democratization, by the violation of parity between labor and capital, and by undeveloped-state regulators. But overall the decisive factor remains the low level of social mobility not only horizontally but also vertically, vertical migration being that which provides individuals with the ability to move from lower to higher social stratification groups.

Second, it is defined by the action of “natural forces deepening stratification” that fit the concept of “stratification cycles structure” (P. Sorokin). This not only has to do with the theoretical construction of a “stratification fluctuation model”, with a real affiliation of Convergence Club 6 countries to different stratification cycles (Fig.2). Some countries are in the phase of transition from the third to fourth cycle (the countries of Latin America and the South-African Republic) where the stratification increases to the “saturation point” after which a society cannot continue moving without a risk of a “major disaster”. Other countries are in the stage of the fourth cycle (Egypt, Libya, Tunisia, Syria) where the maximum limit has already been reached (the saturation point), and the alignment forces begin to act (including the civil unrest, revolution, etc.) designed to limit upper sections of the population and on this basis to “cut off” the boundary stratification fluctuations. Finally, the countries of the third cycle (e.g. Ukraine) are on the stage of social differentiation strengthening, increase of social fluctuations to the “saturation point”, that conditions the necessity of the new constructional (institutional) intervention in social processes.

Third, along with political and institutional factors the decisive influence on the gravitational processes in the unstable economic systems is made by “initial conditions” [11, p. 185 – 186]. Research on their influence contains much analysis by which the following decisions can be reached:

1) Almost all members of the Convergence Club 6 have experienced fundamental changes in the social system as a result of crucial contradictions incidental to the legacy system or directly influenced by other countries that are more powerful in political and economic spheres. Thus, the state of economic instability is caused by the contradiction between the elements of the new system and inevitable remnants of the old one that is increased by the action of the exogenous factors;

2) At the same time, significant structural imbalances in the economies of almost all countries, which are the members of this club, become the reasons of their involvement in the permanent structural crisis, amplified by incomplete institutional reforms and political instability in most of them and accompanied by the intersystem transformations;

3) Ten of thirty countries are only the countries exporting commodities or fuel (Libya, Iran, Venezuela, Algeria, Peru, Iraq, Ecuador, Angola, Nigeria, and Sudan). Though, the natural resources endowment conditions the inflow of investments and budget revenue, but it also restrains the structural reforms and becomes the reason of the “resource curse”;

4) Some of these countries’ proximity to the economically developed countries has a positive influence on their economic subjects’ ability to adapt to new economic conditions;
5) The maximum growth in prosperity can be reached in those countries where the policy directed on the entry into the world and regional political and economic societies has been declared (e.g. Bulgaria and Romania are the members of the European Union and the international political and military organization NATO, Argentina, Indonesia, South Africa – members of the G-20, the Philippines, Indonesia, Thailand, Vietnam – members of geopolitical and economic international organization ASEAN).

Considering “initial conditions” the countries that are the members of this convergence club tend toward heightened risk of global imbalances because there are no regulatory mechanisms or the ones in place are very weak. Regulatory mechanisms can implement automatic anti-crisis regulation and enhance the stabilization effect by relying on internal adaptive capacities. Besides, the specific feature of the instable economic system is that the crisis factors arise not only as a result of economic-system – inner-contradictions accumulation but also as inherited because of the change of social economic political system, so they are of above-system nature. The key determinants of the economic development strategy in the instable economic systems rely on macro-economic stabilization, structural and institutional reforms conduction, and surmounting the crisis. Thus, the effect of traditional market mechanisms of self-regulation is insufficient for economic stabilization.

Fourth, while analyzing social stratification it is important to take into consideration not only the premise but also the effectiveness of reforms. [12, p. 331 – 332]. The question is:

– **national strategy existence.** If while introducing reforms, the political elite clearly defines final goals and methods of conduct, and if these goals and methods are shared by the majority of the society, the possibility for radical reform increases as with, for example, Romania, Bulgaria and Serbia’s reversion in the “womb of civilization”, or as with the forcing of the “economic-centric strategies of export potential increase” in the countries of South-East Asia (Indonesia, Thailand, the Philippines). If the majority of the elite and society realizes the importance of reforms and imagine the strategic goals, but there is no unanimity in the reform methods introduction then the orientation on the evolutional development variant (Vietnam, Bangladesh, Sri Lanka, and Latin America) or less radical reform variant (Belarus, Kazakhstan) is possible; and finally, initial radicalism in the absence of a national strategy can turn into quite contradictory results, such as in Ukraine);

– **political elite quality** (if the political elite quality is not high enough on the level of professionalism, especially in terms of moral responsibility to society, reforms introduction is accompanied by the permanent errors and selective nature in the “interests of individual groups”);

– **interests abidance of all population groups** (we mean the reform “justice” that is characterized by the

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<th>Stage 1 Depression</th>
<th>Stage 2 Reactivation</th>
<th>Stage 3 Upturn</th>
<th>Stage 4 Crisis</th>
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<tr>
<td>Upper Stratification Point</td>
<td>Stratification imbalance weakness and stratification proportions leveling</td>
<td>Social differentiation strengthening, increase of social fluctuations, which can lead to the “saturation point” and crisis situation</td>
<td>Stratification reaches the “saturation point”, after which a society cannot continue moving without a risk of a “major disaster”</td>
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<td>Disasters, economic life destruction, mass impoverishment</td>
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<td>Lower limit – “w” society</td>
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*constructed by author

Fig. 2. Stratification cycles curve*
income dynamic of the most society members (especially in comparison with the income level of the richest population groups); by competition spread and small business (not only big business). Consideration of these criteria gives us grounds to conclude that in most countries from the “convergence club 6” only a narrow population segment can experience the reform results (as evidenced by Gini index which in most countries – South Africa, Colombia, Ecuador, Nigeria, Peru, Venezuela, Argentina – is next-higher order than worldwide average).

- So a peculiar variant of a “dualistic society” has been formed in the countries of “convergence club 6” with: 1) contrast social polarization; 2) uneven development of different regions; 3) coexistence of post-industrial and traditional sectors; 4) appropriate value and cultural transformations that occur in a complex combination of geopolitical and socio-economic contradictions – a kind of “fault lines” (Rahuram Radgan) [13]. In view of the foregoing, the peculiarity of these countries’ geo-strategic development lies not in the transition to industrial or post-industrial market system (this is the simplified linear global transformation comprehension), but in clearer orientation on general civilization parameters and criteria.

Discussions, conclusions on this research and the prospects for further development

In the result of this research we can conclude that the global development at the beginning of the XXI century is accompanied by the simultaneous deployment of polar vector processes. Along with a pronounced increase in global convergence the heterogeneity of the global centric economy components (different countries’ economies approximation, their involvement in the general stream of the world civilization) is increasing. Due to different reasons, many countries are not ready to adapt to the imperatives of the contemporary scientific and technical progress, to the structural changes on the world market. In the result, the contemporary globalization processes, international economic integration and convergence occur in the complex combination of the geo-political and social and economic contradictions that strengthen the gravitational processes in the geo-economic space and global development divergence.

The geo-strategic matrix analysis of the global development divergence in several dimensions proves the nonlinear dynamics of the globalization processes and the redistribution of world economic wealth between the “old” and “new gravitation centres” that is accompanied contradiction aggravation between: 1) capital cosmopolitism and state sovereignty as a form of society organization; 2) harmonization processes, social and economic development unification on the principles of globalism and political power that is still concentrated on the state level; 3) between the traditional state decesion-making institutions and new global centres that control the necessary for their resources and economic processes. In the result of the unrealized ideas and social economic convergence tasks the global development asymmetry is deepening and so along with the integration processes the gravitation processes grow. Hence, the main conclusion is that on the one hand the world becomes homogenous and interconnected; on the other hand, it is heterogeneous and divided. One of the key tasks in the frames of the contemporary postmodern alternative is to search the combination reasons of the global development divergence polarities and factors.

References

Кравчук Н. Глобальний розвиток дивергенції та гравітаційні процеси у геоекономічному просторі

Композиційно дослідження розгортається у двох основних напрямках: перший – аналіз асиметрій глобального розвитку, що активізують гравітаційні процеси у геоекономічному просторі; другий – зорієнтований на поглиблене вивчення причин гетерогенізації геоекономічного простору і дивергенції глобального розвитку під впливом гравітаційних факторів ендогенного та екзогенного характеру. Розкрито системні детермінанти гравітаційних процесів у геоекономічному просторі, побудовано геостратегічну матрицю дивергенції глобального розвитку, окреслено геостратегічні позиції України у геоекономічному просторі у проекції на проблематику глобальних міжсистемних трансформацій. Доведено, що рівень гравітаційного навантаження зростає в умовах поглиблення асиметрії глобального розвитку.

Ключові слова: конвергенція, дивергенція, глобальний розвиток, геоекономічний простір, гравітаційні процеси, гравітаційні центри, клуби конвергенції, фрагментарність гео простору, асиметрії глобального розвитку.

Кравчук Н. Глобальне развитие дивергенции и гравитационные процессы в геоэкономическом пространстве

Композиционно исследование разворачивается в двух основных направлениях: первое – анализ асимметрий глобального развития, активизирующих гравитационные процессы в геоэкономическом пространстве; второе – посвященное углубленному изучению причины гетерогенизации геоэкономического пространства и дивергенции глобального развития под влиянием гравитационных факторов эндогенного и экзогенного характера. Раскрыты системные детерминанты гравитационных процессов в геоэкономическом пространстве, построено геостратегическую матрицу дивергенции глобального развития, очерчены геостратегические позиции Украины в геоэкономическом пространстве в проекции на проблематику глобальных межсистемных трансформаций. Доказано, что уровень гравитационной нагрузки возрастает в условиях углубления асимметрии глобального развития.

Ключевые слова: конвергенция, дивергенция, глобальное развитие, геоэкономическое пространство, гравитационные процессы, гравитационные центры, клубы конвергенции, фрагментарность гео пространства, асимметрии глобального развития.

Kravchuk N. Global Development Divergence and Contemporary Gravitional Process in Geo-Economic Space

From the compositional point of view, research on this topic has revealed two main directions: (1) an analysis of global development asymmetry that has activated gravitational processes in geo-economic space; and (2) a direction that focuses on the profound study of the causes for heterogeneity in geo-economic space and divergence in global development under the influence of gravitational factors of nature on the endogenous-exogenous axis. Systemic determinants of gravitational processes in the geo-economic space have been revealed, a geo-strategic matrix of divergence in global development has been built, and Ukrainian geo-strategic positions in the geo-economic space in the projection of problems on global intersystem transformations have been outlined. It has been proved that the level of gravitational charge grows under conditions involving the deepening of global development asymmetries has been proved.

Key words: convergence, divergence, global development, geo-economic space, gravitational processes, gravitational centres, convergence clubs, geo-space fragmentation, global development asymmetries.

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Strategic Development of Socially Oriented Business Environment of Lviv

Statement and relevance of the problem. Effective institutional organization of domestic business environment, creation of civilized competitive conditions for stable business entities’ activity, first of all, are particularly important due to the strategic role of entrepreneurship in the social and economic development of the country. Second, the incompleteness and inconsistency of public policy of economic activities regulation, especially counteraction to such deformations of institutional business environment as corruption, raiding, shadow economy and economic crime are the obstacles to the entrepreneurial capacity maximal usage and development. Third, formal institutions of the business environment were created in Ukraine through the import of the most liberal rules and regulations of developed countries, while informal institutions of business ethics, fair competition, socially responsible behaviour and entrepreneurial culture requires the gradual institutionalization. Changes in the relationship between business and society through the formation of socially oriented business environment is determined by the elimination of the institutional deformations under the conditions of the increasing role of intangible factors of economic growth, which are associated with the development of human, intellectual and social capital, as well as the lack of budgetary resources for adequate social and economic policy.

Domestic reforms of 90-ies of the last century were carried out according to the liberal market economy model, where the central figure is the “economic man” with rational and selfish behaviour of personal interests’ achievement. This to some extent has led to the deformation of the business social role, moreover the values and moral guidelines changes were not accompanied by the emergence of new socially attractive ideas of society cohesion. National economy development on the basis of business environment social orientation is possible within the social agreement between government, business and society that guarantees the rights and responsibilities of economic agents’ maintenance and will stimulate their socially responsible behaviour.

The main material. Socially oriented business environment is determined as the system of institutional preconditions, factors, values and mechanisms of legal, political, economic, social and cultural nature that promote the socially responsible business culture behaviour and increase the degree of solidarity around the interests of social development. In its turn, social responsibility to society is the system of requirements, rules and regulations of business community, companies’ and individual businesses’ behaviour, which is focused on the production of quality products and services for consumers, creation of decent jobs, payment of official salaries, investments in human capacity, compliance with tax, labour, environmental legislation, efficient business conduction for creation of added value and contribution to the civil society development through the partnership projects and programs for the local community development. Social cohesion as the ability to cooperate for the implementation of public purposes serves as the factor of knowledge, skills and experience consolidation. The higher level of business environment social cohesion ensures the better long-term opportunities for unpopular but economically crucial structural reforms implementation.

Socially oriented business environment as a social institution is a form of organization, management and streamlining of public activity and behaviour of individuals in society. As an economic institution it is a system of rules and restrictions of behaviour in business activities. Business assumes the obligation of market “failures” compensation by their own resources in an ideal by extending the values range in economic, social and ethical aspects of activities.

Analysis of the socially responsible behaviour of economic agents makes it possible to distinguish four levels of socially-oriented business environment. On the basic level of socially oriented business environment formation business entities are carrying out the direct obligations to the society and state regarding the fair wages, timely payment of taxes, compliance with standards of product quality, performance of contractual obligations according to the institutionally enshrined formal and informal rules and norms of behaviour. Intermediate level is associated with institutional consolidation through the mechanisms of stimulation and revitalization of the business entities’ activities in the direction of social services and investment in human capital at the level of the workforce members. Regional...
and national social programs, projects of state-private partnership, participation in the development and implementation of social and economic state and regional policy, cooperation with non-profit organizations and charity are included into the social investments objects at the third level of the socially oriented business environment. The highest level of socially oriented business environment suggests the presence in the domestic community of business associations and organizations – the members of socially significant projects not only internal, but of other countries through the investment in humanitarian and environmental projects of international and megaregional importance.

Institutionalization of socially oriented business environment principles and criteria is based on: structuring of the formal rules of social responsibility and cohesion, their consolidation in the relevant laws and regulations and informal conventional norms of economic relations (contract culture, values systems, activities ethics, codes of honour, dignity and traditions); mechanisms of the goals and values system implementation for the stimulation of the development of socially-oriented business environment, public recognition of its necessity and benefits.

The establishment of socially oriented business environment institution is inextricably connected with transplant dysfunctions that cause the following socio-economic threats: incompatibility of the social responsibility standards and business cohesion with cultural traditions and established formal institutions of the national economy leads to their atrophy, and consequently, degeneration, mainly destructive; lack of demand in society for new formal rules or their coercive transplantation without adequate replacement generates exclusion of certain norms and activation of alternative in order to deviate from the accepted rules and principles that provokes institutional “traps”.

Tax and administrative stimulation of socially responsible behaviour and consumers support, including through investing of savings in stocks of socially responsible companies are currently among the preconditions of socially oriented business environment formation. The latter, in turn, gains competitive advantages caused by the increase of demand for their products and the ability to attract additional investments and high-quality human capital. Expanding of the number of socially responsible business entities reduces risks and economic expenses of socially responsible behaviour, contributes to the institutional foundations for new moral and cultural norms and rules in the economic relations socialization process. In return, the avoidance of responsibility in solving social problems by business entities leads to social polarization, exclusion (deprivation of the access to social rights), destabilization and, consequently, increase of tax burden on business. In other words, socialization of business environment is the basic requirement of business competitiveness increasing.

Conducted survey of Lviv city enterprises in 2011 showed that social responsibility policy is directed primarily at their employees and customers. Socially responsible activities are related to the development of its own staff. Particularly, social investments were attracted to its professional training, retraining and professional development; the programs for the improvement of organization and enrichment of the labour content, labour safety and health protection of the employees as well as health protection and safety of consumers.

Social investment into programs of regional and national importance, particularly in transport infrastructure and landscaping are the least widespread. Investments in social and environmental projects of international importance are not practically conducted (Fig. 1). Less than the third of the business entities have developed social responsibility strategies approved by the mission and behaviour codes. Herewith, the understanding of social responsibility as a tool for the enterprises competitiveness improvement is increasing, but their informational openness to the public and the rate of cooperation with other organizations in social programs development and implementation still remains quite low.

The motives of moral and ethical nature (74.9%) and internal principles of the company activities (50.1%) are in the foreground among the key factors that motivate companies to implement social responsibility activities according to the research results at 2011. Such factors as sales growth (23.4%), the desire to get ahead of the socially responsible competitors (13.5%) and religious reasons (16.7%) are quite significant.

An effective system of incentives, such as tax preferences for socially responsible businesses, regulatory burden of regional authorities reducing, positive experience of social policies implementation of different companies, public recognition and trust from the authorities, consumers and communities are the main incentives of social responsibility development and formation of a socially oriented business environment for the vast majority of respondents from Lviv enterprises (Fig. 2). Significant obstacles of social investment remain to be the following: lack of social investment funds, tax burden, inadequate legal and regulatory framework for the social responsibility promotion, incompleteness of information and experience in the implementation of social programs, insignificant public interest.

The process of socially oriented business environment formation in the country is generally
complicated and constrained by the unsolved problems and the effects of transition period, which are associated with the following:

- social programs decrease and lack of social infrastructure support;
- underestimation of the potential to improve market position, competitiveness and economic efficiency through the social investments and social policy by top managers and business owners;
- spread of the shadow economic relations and insufficient level of adherence to legal requirements, which distorts the principles of social responsibility beyond the fulfillment of the obligations on wages and taxes;
- low level of organizational culture and business ethics;
- inefficiency of trade unions activities in conditions of lack of their status of an independent real participant in the negotiations between business, government authorities and employees;
- underdevelopment of civil society and social partnership due to paternalistic treatment of workers that is depriving them of independence and discourages the development of corporate citizenship in partnership basis;
- the absence of scientifically based policy of the socially oriented business environment formation, including the mechanisms for social investment stimulation;
- ineffectiveness of domestic macroeconomic regulation system, which is manifested in imbalanced direct and inverse economic relation and is aggravated by the resistance of particular social groups’ representatives (government officials, business and public associations) with rent-seeking behavior model.

Strategy of the socially oriented business environment formation includes the complex of organizational and economic instruments for its implementation towards the following strategic goals: the institutionalization of socially responsible behavior norms of business (development and implementation of proper legal regulations); satisfaction of the social citizens needs; social cohesion of the business, government and society; increasing of the prestige of economic agents' socially responsible behavior; justification of the public policy for social responsibility stimulation.

Institutionalization of socially responsible business behavior norms is the process of establishment of formal institutions that regulate (provide) proper behavior

![Fig. 1. Distribution of answers to the question](image-url)
of business entities and complementary to them informal voluntary agreements, "game rules", behavior stereotypes, business activities traditions and contractual relationships. Gradual replacement of inefficient informal institutions by the legitimate standards ensures the transformation of economic actors' spontaneous behavior to the predictable one, which is based on the institutional field expansion, achieving of synchronization of the institutions functioning, localization of economic uncertainty as well as institutionalizing of the mechanisms of interaction between business and the state. The main purpose of the informal norms transformation into the institutional is the stable economic development, because the forecasted rate of economic growth is correlated with the formal rules and regulations development as well as with the satisfaction of public demand for them, which also provides a more localized informal activity. Particularly, the most effective way of combating 'illegal shadow economy is the legalization of shadow capital and assets that will surely provide economic growth through more efficient allocation of financial resources and eliminating of their illegal restrictions. Thus, the process of informal institutions displacement by the legitimate standards ensures the predictability of the business entities' economic behavior in the business environment.

In our opinion, the same named conception and law should become the consolidating regulatory, legal and institutional framework of the socially-oriented business environment development under the current civilization requirements. However, the following fact remains: laws can be perfectly and properly prescribed, but the desired result from their adoption can not be achieved without the organizational, contractual and business culture and ethics as well as without the elimination of the informal nature negatives in economic relations.

As for the second strategic goal of the socially oriented business environment formation – the satisfaction of citizens’ social needs – taking into account the importance of higher stage of business positioning in society for meeting its social needs the domestic enterprises should replace its mostly charitable activity and one-time donations by the substantiated corporate social policy, developed strategy and social projects and programs planning with evaluation of the implementation results, i.e. to move to productive social investments. Social investments gain more importance in the conditions of the economic growth slowdown, because it is possible to enhance the competitive positions through the preservation and development of the human capital, relationships with partners, improvement of the reputation and prestige not only in economic but also in social space.

![Fig. 2. Distribution of answers on the question “What can encourage the socially responsible behavior of your company and the formation of socially oriented business environment?”](image-url)

* Source: own research
Social investments may have an internal nature that means their focusing on the enterprise for enhancing of the competency, health, labor safety, safety conditions, corporate culture, etc., and external nature – landscaping, environmental protection, housing and communal services, social support and protection of certain population groups, support and development of health care, education, culture, etc.

Social cohesion is ensured through the institutionalization of effective mechanisms for coordination of interests and strategic goals of government, business and society (lobbying, social and public-private partnerships, social marketing and fundraising, charity, sponsorship, patronage and social welfare), which serves as the basis for absorption of new social, ecological and management technologies, resolving of contradiction at the macro, meso and micro levels and implementation of the unpopular but important for the development of the national economy, industries, sectors, and regions structural reforms and corresponding to them institutional transformations.

Institutional support of the public-private partnership efficiency in Ukraine as one of the institutions of social cohesion requires a systematic approach in taking into account the public tasks of governmental authorities, international experience in various forms of partnership implementation, factors that influence its effectiveness and effective functioning barriers. Main factors that ensure the effectiveness of public-private partnership are the following: understanding of the importance and institutional support of private sector participation in the social projects implementation, transparent governmental authorities activities to justify the cooperation perspectives, evaluate the opportunities of the potential private partners and their competitive selection with ensuring of maximum level of competition between them, the common approaches usage for the partnership management, calculation of costs, revenues and risks. The main barriers to the effective functioning of the public-private partnership in Ukraine are the imperfect and incomplete legal support for its implementation, regulatory policy instability, lack of initiative from the government authorities to implement partnerships, inequivalence of financial support for the private partner, allocation of functions and risks.

Socially responsible behavior prestige increasing is possible through its promotion in the media, business encouragement programs, competitions of social business projects, exhibitions, awards, implementation of public service announcements projects, maintenance of National Register of socially responsible companies and their social policies effectiveness comparison.

**Conclusions.** State policy of the social responsibility stimulation should include the establishment of the following mechanisms:

- of open, constructive and equitable dialog of business with social groups, state and local authorities, public organizations for the common solution of the important social and economic problems and priorities of the development; application of the procedures and rules for the social groups interests harmonization;
- of the approval of international, primarily European, standards of corporate social responsibility;
- of the introduction of effective legal and organizational support of the social investment stimulation system;
- of the creation of conditions for business and competition freedom, demonopolization of the economy, development of the entrepreneurship self-regulation mechanisms, public recognition of socially responsible companies and their political and legal support at highly competitive foreign markets;
- of the promotion of the ideas of socially oriented business environment in higher and special education systems (educational programs of business schools, economics departments of higher education institutions) and the public and non-profit organizations activities in the media.

Possible economic instruments of the social responsibility stimulation policy are the following: fiscal stimulus through the expenses list expanding (into the human capital and social investments development), which may be included into the enterprises expenses; exemption from the taxation of the part of profit that goes to socially responsible projects (according to the international experience these incentives are approximately equal to 5% of before-tax profit); granting of regional preferences to socially responsible businesses regarding land acquisition and construction and the support through the government orders system; state guaranteeing of loans; relief from customs duty of the equipment import that is oriented at social, energy-saving and ecologically safe projects implementation and their promotion through the institutional framework improving and public-private partnerships activation.

Herewith, business entities surely should: perform their social obligations entirely; predict the social responsibility and social investment in business development strategy as a prerequisite for the formation of its innovation and long-term competitive advantages; establish principles and standards of social responsibility in the corporate management philosophy; practice and share positive experiences and promote best traditions in social responsibility and cohesion in social, professional and expert audiences.
Мельник М. І. Стратегія розвитку соціально-орієнтованого бізнес-середовища м. Львова

У статті обґрунтовані стратегічні піроритети та рекомендації щодо формування і розвитку соціально-орієнтованого бізнес-середовища; запропонована авторська концепція формування соціально-орієнтованого бізнес-середовища, яка базується на визначенні його системних характеристик, рівнів, принципів, критеріїв, передумов розвитку. Стратегія розвитку соціально-орієнтованого бізнес-середовища містить організаційно-економічні інструменти стимулювання соціальної відповідальності та зґуртованості бізнесу, держави і суспільства, підвищення престижу й інституціалізації соціально-відповідальної культури поведінки економічних суб'єктів.

Ключові слова: бізнес-середовище, соціальна відповідальність і зґуртованість, соціально орієнтоване бізнес-середовище, стратегія формування соціально-орієнтованого бізнес-середовища.

References


Мельник М. И. Стратегия развития социально-ориентированной бизнес-среды г. Львова

В статье обоснованы стратегические приоритеты и рекомендации формирования и развития бизнес-среды; предложена авторская концепция формирования социально ориентированной бизнес-среды, базирующаяся на определении его системных характеристик, основных уровней, принципов, критериев, предпосылок развития. Стратегия развития социально ориентированной бизнес-среды содержит организацийно-экономические инструменты стимулирования социальной ответственности и сплоченности бизнеса, государства и общества, повышения престижа и институционализации социально ответственной культуры по- ведения экономических субъектов.

Ключевые слова: бизнес-среда, социальная ответственность и сплоченность, социально ориентированная бизнес-среда, стратегия формирования социально ориентированной бизнес-среды.

Melnyk M. I. Strategy of Development of Socially Oriented Business Environment of Lviv

In the article strategic priorities and recommendations concerning formation and development of socially-oriented business-environment are substantiated; author’s concept on formation of a socially-oriented business-environment is offered, which is based on the definition of its system characteristics, levels, principles, criteria, prerequisites. The development strategy of socially-oriented business environment contains organizational and economic instruments promoting social responsibility and solidarity of business, government and society, and enhance the prestige of institutionalization of socially responsible standards of behavior of economic agents.

Keywords: business-environment, social responsibility, social cohesion, socially-oriented business-environment, strategy of formation of socially-oriented business-environment.

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PROPORTIONALITY’S ANALYSIS OF REGIONAL DEVELOPMENT

Statement of the problem. A characteristic feature of the most national economies at the end of XX–in the beginning of XXI century it has increased of inequality, which manifests itself at different levels – international, within individual countries for specific regions. The territorial inequality is a powerful factor that causes significant changes in the development of all spheres of life, it essentially weights with significantly affects the function’s efficiency of the national economy in general and with the conformation of international economic relations. As a result of economic development’s inequality is often a violation of proportionality and the emergence of problematic situations in parts (regions) of the national economy, for characteristic estimation with of them at the scientific literature which has been actively used like “regional disparities” lately. However, unfortunately, it has not received a detailed interpretation and correct definition by this time.

Ambiguous interpretation and understanding of regional disparities complicates the identification of the causes that contribute to their occurrence in real life. In consequence of this limited capabilities about realizing of classification and quantitative assessment of disproportionate development of the national economy and, the most of all, inhibited the process of developing guidelines and measures concerning reducing their negative impact.

Analysis of recent research and publications. The genesis of regional economic research’ methods observed in scientific studies of foreign and domestic scholars. Among them, in particular, can be identified works of N. Baransky, H. Boss, J. Budvilya, N. Bunkinoyi, Z. Varnaliya, V. Vorotin, Z. Gerasymachuk, M. Nether, W. Izard, V. Leksina, O. Meadow, A. Marshall, K. Pavlov, F. Perry, M. Porter, P. Potier, J. Stolyarchuk, J. Friedman, P. Hagget, J. Harveya, T. Heherstranda, V. Chuzhikov, A. Shvetsov and others. In most publications reveal general theoretical and methodological foundations of proportionality and balanced of regional development. And publications of the application points considered deficiently.

The purpose of the article. To analyze the proportionality of regional development in terms of Luhansk region.

The main material. One of the requirements for sustainable development of the region is its proportionality. The concept of “proportionality” is close in to the concept of “balance”. Thus, when the balance is understood like poise and balance of the economic system, for example, is treated as a state system, characterized by equality of demand and proportion of all resources [4].

During the control of region we want to eliminate all formed and projected “imbalances”, but because of resources’ deficit we have to select specific priorities of development, the trigger imbalance. In other words, a certain imbalance inherent in any model of regional development, and therefore it does not seem quite right to bring reques about the balance for the character of regional development.

In general, the ratio – is proportionality, certain balance of relationship’s parts between themself. As regards to regional economic definition of proportionality was given by E. B. Alayev: “Spatial social and economic proportions should characterize a dynamic balance between social, economic and natural elements of the area, which eliminates genesis of inconsistencies that lead to a decrease in labor productivity (or tempo of this performance’s growing), decrease living standards of population, environmental degradation” [1].

This definition needs to be clarified.

Firstly, it had to consider the scope of regional management. Practice shows convincingly that the various imbalances inside this area (e.g., lack of skilled management that can effectively address a wide range of issues of social and economic development in the contemporary economy) and intersectoral character hamper the regional development.

Secondly, it does not take into account interregional – relationships definition, which is an important factor of regional development.

Thirdly, as shown above, ensuring of dynamic equilibrium or balance in regional development in principle achievable.

And finally, fourth, it should be emphasized that the emergence of imbalances leads to additional difficulties in achieving the strategic objectives of socio-economic development.

Given the considerations expressed by the proportionality of regional development means achieving certain relationships between:

– Main areas such complex socio-economic system region;
– Elements that make up each of the areas;  
– Regions of different ranks that interact with this region in the process of socio-economic development.

Imbalance suggests an imbalance in development sectors. Thus the development of certain economic processes at the expense of others. Throughout the economy it may appear that a violation of proportionality within a given region is the accelerated development of the other (for example, on account of cross-flow of labor or capital). A characteristic feature of disruption of natural proportionality is usually an active response from the population as a change of residence and work, political speeches, etc., negative dynamic of social indicators is reduced of birthrate and span of life, decline of demographics situation, rising of crime and so on.

Today, the most quantity of factors that cause regional disparities are classified as follows [9]:

– Natural: geopolitical location, climatic conditions, the presence and level of development of natural resources, environmental condition.
– Production: cyclical economic processes, the structure of production and the level of innovation, the level of development of industrial infrastructure, the concentration of production and economies of scale; domestically competition; imbalance of certain activities.
– Institutional: action of economic laws, the organization of the government and the system of relations between its different branches, strategy and tactics of implementation of economic policy, national cultural and historical traditions.
– Social: income level, the level and quality of life, level of social infrastructure, demographic factors, migration of labor.

In the economy of each country, region, region of the world there are two functionally heterogeneous group of fields: the field of industrial specialization and industry serving.

Industry specialization played a leading role in regional economic structure, determine their place in the territorial (interregional) division of labor. Because of this area of specialization is also called like profiling fields, the field of regional importance.

The fields of specialism are due the main role in the production and export of goods, and the impact on the distribution of productive forces (the fields’ function about formation of region), as these sectors perform in the role of the region’s core, which attracts support, serving the industry.

By way of the eduction the industrial specialization of Luhans region we avail of statistics data of Central Statistical Office in the Luhans region and data of the State Statistics Service of Ukraine concerning the volume of sold industrial products (works, services) for 2011 – 2012.

Calculate the coefficient of specialization in the Luhans region for each industrial sector separately. Therefore we avail of the following formula:

$$ K_c = \frac{Q_{ij}}{Q_j} $$

where $Q$ – the total volume of sold industrial production in the country; $Q_i$ – the total volume of sold products and the i-th field in the country; $Q_j$ – the total volume of sold industrial production in region j; $Q_{ij}$ – total volume of sold products the i-th sector in region j.

The results of the calculation of specialization for 2011 are shown in Table 1.

The fields of industrial specialization of the region are the fields which specialization’s coefficient greater than one. Thus Lugansk region has the following fields:

<table>
<thead>
<tr>
<th>Field of industry</th>
<th>Coefficient of specialization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining industry</td>
<td>1,246</td>
</tr>
<tr>
<td>Food, beverages and tobacco products</td>
<td>3,680</td>
</tr>
<tr>
<td>Light industry</td>
<td>0,539</td>
</tr>
<tr>
<td>Processing of timber and wood products, except furniture</td>
<td>0,083</td>
</tr>
<tr>
<td>Pulp and paper industry and publishing activities</td>
<td>0,767</td>
</tr>
<tr>
<td>Manufacture of coke and oil refining</td>
<td>3,496</td>
</tr>
<tr>
<td>Chemical and petrochemical industry</td>
<td>1,416</td>
</tr>
<tr>
<td>Manufacture of other non-metallic mineral products</td>
<td>0,439</td>
</tr>
<tr>
<td>Metallurgy and manufacture of fabricated metal products</td>
<td>1,388</td>
</tr>
<tr>
<td>Engineering</td>
<td>1,009</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>0,558</td>
</tr>
</tbody>
</table>
of specialization: mining industry (1,246), manufacture of food products, beverages and tobacco (3,680), manufacture of coke and oil refining (3,496), chemical and petrochemical industry (1,416), metallurgy and metal products (1,388), machinery (1,009). So, Lugansk region is poly specialized region as the number of specialized fields in it more than one.

For further analysis we shall calculate the actual sectoral shifts in the Luhansk region.

Actually sectoral shift is a shift that takes place within a particular of field in the industrial structure of the region, excluding changes in other areas. It shows the relative increase in the proportion of the field relative to the base period and it is calculated as follows:

$$K_Y = \frac{Y_2 - Y_1}{Y_1} \times 100\%$$

(2)

where $Y_1$ – volume of industrial output in the base year; $Y_2$ – volume of industrial production in the current year.

From Table. 2 it shows that major changes have occurred in the following areas: processing of timber and wood products except furniture, manufacture of other non metallic mineral products, metal production and metal products. Most of the industries has reduced the volume of sales. That is actually the biggest industry changes have occurred in areas that are not specialized in the Luhansk region, and they were in a negative direction, while minor changes in the areas of production specialization took place in a positive direction.

Thus, at this stage, the region is increased production specialization in intensive changes in the position of complementing areas. But in order to make more detailed conclusions, we need to analyze how intensively in the Luhansk region occurring cross-shift criterion and construct interval.

To enhance objectivity determine the intensity of industry structure change and neutralize possible variations introduced by manufacturing field, the latter exclude from the industry in assessing inter-change. We shall calculate the quadratic coefficient of relative structural changes to all areas of the region to complement we shall use the formula:

$$\delta_{y_2/n} = \sqrt{\sum_{i=1}^{n} \left(\frac{Y_2 - Y_1}{Y_1}\right)^2} \times 100\%$$

(3)

The calculation results are presented in Table. 3.

Thus the quadratic coefficient of relative structural changes is. This ratio shows that the average share of each industry change (upward or downward) of 1,6%. We get criterion interval [0; 1; 6]. Coefficient of specialization not all specialized fields included in the criteria range, which means that no significant changes occurred densities of complementary industries.

Table 2

<table>
<thead>
<tr>
<th>Branch</th>
<th>Volume of sold industrial production (works, services) on the main activities for 2011 ($Y_1$)</th>
<th>Volume of sold industrial production (works, services) on the main activities for 2012 ($Y_2$)</th>
<th>($Y_2 - Y_1$)</th>
<th>Actually sectoral shifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining industry</td>
<td>13379954,6</td>
<td>13646801,9</td>
<td>266847,3</td>
<td>1,99</td>
</tr>
<tr>
<td>Food, beverages and tobacco products</td>
<td>2682519,2</td>
<td>2720235,6</td>
<td>37716,4</td>
<td>1,41</td>
</tr>
<tr>
<td>Light industry</td>
<td>393554,6</td>
<td>399774,2</td>
<td>6219,6</td>
<td>1,58</td>
</tr>
<tr>
<td>Processing of timber and wood products, except furniture</td>
<td>52854,6</td>
<td>30166,3</td>
<td>-22688,3</td>
<td>-42,93</td>
</tr>
<tr>
<td>Pulp and paper industry and publishing activities</td>
<td>1588093,7</td>
<td>1426894,6</td>
<td>-161199,1</td>
<td>-10,15</td>
</tr>
<tr>
<td>Manufacture of coke, refined petroleum products</td>
<td>19298984,5</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Chemical and petrochemical industry</td>
<td>9161221,1</td>
<td>8636776,1</td>
<td>-524445</td>
<td>-5,72</td>
</tr>
<tr>
<td>Manufacture of other non-metallic mineral products</td>
<td>1130756,2</td>
<td>720634,5</td>
<td>-410121,7</td>
<td>-36,27</td>
</tr>
<tr>
<td>Metallurgy and manufacture of fabricated metal product</td>
<td>24464467,1</td>
<td>19172296,5</td>
<td>-5292170,6</td>
<td>-21,63</td>
</tr>
<tr>
<td>Engineering</td>
<td>11375358</td>
<td>10309648,2</td>
<td>-1065709,8</td>
<td>-9,37</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>12296440,8</td>
<td>12831865,4</td>
<td>535424,6</td>
<td>4,35</td>
</tr>
</tbody>
</table>
To eliminate the regional disparities, it is necessary to select criteria that will identify and assess regional disparities.

These criteria are:

1) the relation between the dynamics of the gross regional product and dynamics of indicators of utilization that characterize using of production’s factors in the region (fixed assets, number of employees);
2) the relation between the dynamics of investment (including foreign) in the region and the volume of gross regional product;
3) the relation between the dynamics of the gross regional product and income dynamics in the region;
4) the relation between the amount of taxes collected in the region, and level of income;
5) the relation between the dynamics of the gross regional product and the dynamics of the cost of social development (industry);
6) the relation between revenues and expenditures of the population in the region;
7) the relation between the level of wages and migration to other regions of the country or abroad;
8) the relation between the level of spending on measures to protect the environment and indicators of ecological conditions in the region;
9) the relation between the cost of medical progress and the level of morbidity;
10) the relation between the level of income and the amount of deposits in the banking system.

Conclusions. Regional disparities are discrepancy between the operation of the individual components of the economic system of the region and its level of social development, including the standard of living. The state should try to eliminate regional disparities, but to provide a fully balanced development of the region, it will fail because of limited resources and the need to select priority areas for development.

Calculation the coefficient of specialization for Luhansk region showed that the region has six areas of specialization. Lugansk region is poly specialized region. Moreover, the region is increased production specialization in intensive changes in the position of complementary industries.

For the evaluation of regional disparities used criteria for determining the proportionality of regional development, by which is meant the ratio of steel formed between two (or more) of interconnected indicators, which change causes adverse effects (distortions) in the socio-economic system of the region, it is impossible to proper functioning and self-healing, and to a significant deterioration in living standards.

References

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Спорняк С. О., Вольвак Ю. С. Анализ пропорциональности регионального развития

В этой статье раскрыта сущность понятий пропорциональности регионального развития и понятие региональной диспропорции. Определены области специализации Луганской области. Показаны основные факторы, вызывающие региональные диспропорции и критерии, по которым можно определить степень пропорциональности развития региона.

Ключевые слова: пропорциональность регионального развития, сбалансированность регионального развития, региональная диспропорция, специализация.

Spornyak S. O., Volvak Yu. S. Proportionality’s Analysis of Regional Development

This article reveals the concepts’ essence of regional development’s proportionality and the concept of regional disparities. Identified specialization’ fields of Lugansk region. There are shown the main factors that cause regional disparities and the criteria by which to determine the degree of the region’s proportionality.

Key words: proportionality regional development, balanced regional development, regional disparities, specialization.

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THE ESTIMATE OF UKRAINE’S POSITION ON THE INTERNATIONAL TOURIST MARKET

Definition of the problem. In today’s world tourism plays important role in the countries’ development and is a mass socio-economic phenomenon. In the GDP structure of many countries tourism is one of the important elements at the expense of which population employment and currency earnings are provided. For example, tourism accounts for GDP growth by 2.2% in Ukraine in 2012. As a result, the country ranked the 60th place in the world rating of tourism contribution to GDP [1]. We observe tourist flow growth in the country thanks to the expansion of economic, political, scientific and cultural relations between Ukraine and other countries. According to the World Bank rating, Ukraine occupies the 14th place in international tourist arrivals. The assessment of Ukraine’s position on the international tourist market is important for offering measures on the industry development which will improve the country’s position in the international tourist rating.

Analysis of the latest research and publications. Definition of tourism effect on the economy’s development can be found in the works of such Ukrainian scientists as S. N. Shkarlet, O. M. Kalchenko, L. Gontarzhevskaya and K. V. Sirenko. Recent research of the development of the state tourist sector is described in works of O. V. Bartoshuk, O. V. Litvinov, M. P. Bondarenko. Problems of tourist industry development are covered in the works of foreign scientists, such as John Holloway and W. Theobald.

Research findings. Over the last decade Ukraine shows a considerable increase in attracting foreign tourists. Thus, inbound tourist flow increased twofold from 2002 to 2012 and amounted to 23.01 million people. At the same time, outbound tourist flow increased in one and a half times from 14.73 million to 21.43 million people over the same period (Table 1).

The estimate of the tourist flows dynamics indicates positive trends of tourism development in Ukraine over the period of 2002 – 2012, namely, more rapid increase of inbound tourist flow against the slow growth of outbound flow was observed. This gradually led to the positive balance of tourist flows [2, p. 46].

During 2008 – 2012 the increase of tourist flow was observed with small decline in 2009 due to the economic crisis. The increase of inbound flow by 107.5% from 2011 to 2012 occurred thanks to the cultural and sport exchanges in connection with the Euro 2012. Though we observe the tendency to small decline in other kinds of trips (Fig. 1).

From 2008 to 2012 there occurred the following changes in the structure of outbound tourist flow: business trips and organized tours decreased by 39.2% and 35.8% respectively, but private trips increased by 159.8% (Fig. 2). This indicates that people do not wish to overpay for tourist operators services, as we can see declining tendency of real revenues of Ukraine population.

To analyze the geography of inbound tourist flow we chose five countries which lead in inbound tourism to Ukraine: Russian Federation, Moldova, Belarus, Poland and Romania whose total volume in the structure of foreign tourism accounted for 85.5% in 2012. The majority of visitors came from the Russian Federation (41.4%) (Fig. 3).

It is obvious, that the market of foreign tourism in Ukraine is formed by two main segments – east (citizens of the former Soviet Union) and west (tourists from other, mostly highly developed countries) [6, p. 86].

Five countries – Russia, Poland, Moldova, Hungary and Belarus – accounted for 80.8 % of the total volume of tourist flows in the geographical structure of foreign tourism in 2012. The countries, which are mostly visited by Ukrainians, are Russia (27.72%) and Poland (26.9%) (Fig. 4). The majority of Ukrainian citizens travel to the neighboring countries, which is explained by regular relations with these countries, convenient transport links, common cultural traditions, developed economic relations between the countries [6, p. 86].

According to the results of 2011 tourist revenues in Ukraine amounted to $5406 million dollars, which exceeds previous year indicators by 115.1%. During 2002 – 2011 increase of revenues from tourism was observed with a fall by 64.7% in 2009 due to the economic crisis (Fig. 5).

According to the World Bank, France continues to lead in the rating of the world largest tourist destination. China comes third after France and the United States leaving Spain behind. Other countries also changed their position in the rating: Turkey (6th place), Germany (8th place), Malaysia (10th place), Hong Kong (13th place) and Thailand (15th place). Such countries as the Netherlands and Czech Republic, worsened their position and left the rating. In 2011 Ukraine rose to the 14th place in attracting international tourist flow outstripping Thailand, Saudi Arabia and Greece (Table 2).
### Table 1

The estimate of tourist flows dynamics over 2002 – 2012 [3]

<table>
<thead>
<tr>
<th>Years</th>
<th>Outbound tourist flow</th>
<th>Inbound tourist flow</th>
<th>Balance of tourist flows</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>People, mln</td>
<td>Increase, mln</td>
<td>Rate of increase, %</td>
</tr>
<tr>
<td>2002</td>
<td>14,73</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>14,79</td>
<td>0.06</td>
<td>0.4%</td>
</tr>
<tr>
<td>2004</td>
<td>15,49</td>
<td>0.7</td>
<td>4.7%</td>
</tr>
<tr>
<td>2005</td>
<td>16,45</td>
<td>0.96</td>
<td>6.2%</td>
</tr>
<tr>
<td>2006</td>
<td>16,88</td>
<td>0.43</td>
<td>2.6%</td>
</tr>
<tr>
<td>2007</td>
<td>17,33</td>
<td>0.45</td>
<td>2.7%</td>
</tr>
<tr>
<td>2008</td>
<td>15,5</td>
<td>-1.83</td>
<td>-10.6%</td>
</tr>
<tr>
<td>2009</td>
<td>15,33</td>
<td>-0.17</td>
<td>-1.1%</td>
</tr>
<tr>
<td>2010</td>
<td>17,18</td>
<td>1.85</td>
<td>0.1%</td>
</tr>
<tr>
<td>2011</td>
<td>19,77</td>
<td>2.59</td>
<td>15.1%</td>
</tr>
<tr>
<td>2012</td>
<td>21,43</td>
<td>1.66</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

**Fig. 1. Dynamics of inbound tourist flow according to the purpose of visit (2007 – 2012) [4]**

**Fig. 2. Dynamics of outbound tourist flow according to the purpose of visit (2007 – 2012) [5]**
Fig. 3. Foreign tourists’ visits to Ukraine in 2012 (TOP15) [7]

Fig. 4. Ukrainian tourists’ visits to foreign countries in 2012 (TOP 15) [5]

Fig. 5. Revenues from tourism ($) [8]
However, such number of international arrivals does not allow Ukraine to receive the maximal economic benefits from tourism and become a leader in getting tourist revenues [9, p. 48]. This is explained by the fact that, firstly, the number of solvent tourists from rich Western Europe is very limited, because about 60% of foreign tourists are citizens of CIS countries (mainly from Russia, Moldova, Belarus), and the majority of European tourists come from neighboring Poland, Romania, Hungary. Currency earnings do not exceed 184$ per tourist for one trip in Ukraine; it is twofold less than in Russia and 4,5 times less than in Turkey, Croatia and Romania. Secondly, private trips (73%) dominate in the structure of Ukraine’s foreign flow, but tourist destination come only to 4,1% of the total foreign flow.

The US is the unchallenged leader in the rating of countries by revenues from tourism, as well as Spain and France. Germany (+2), China (+2), Switzerland (+2) Thailand (+6) and Hong Kong (+9) improved their position. Australia (8th place) and Turkey (11th place) remained on the previous positions. Japan, Greece, Mexico, Belgium and Portugal quit the rating. In comparison with 2003, Ukraine rose to the 19th positions in attracting revenues from international tourism, outrunning Luxembourg, Bulgaria and now takes the 46th place (Table 3).

Despite the positive trends in the development of domestic tourism, Ukraine does not take leading positions both in the industry and on the world arena.

Unfortunately, Ukraine does not receive economic benefits from tourism in spite of the favorable geographical location in the heart of Europe, varied landscape, climatic conditions, two seas – the Black Sea and the Azov Sea, unique historical monuments, natural attractions, nature reserves, national parks, etc. We think that it is necessary to develop measures to improve the tourist attractiveness of Ukraine. Let us consider some of them.

Firstly, the development of tourism infrastructure is at an extremely low level. Here we can mention the insufficient number of hotels of European level and overpriced accommodation. For example, if we compare rest in Ukraine and abroad, the rest in Yalta Intourist hotel (Crimea) costs $125 a day in standard room with breakfast, while in Antalia (Turkey), prices begin from $550 for 7 days in a five-star hotel all inclusive, air tickets and insurance.

Secondly, the quality of roads in Ukraine is extremely poor. For example, Ukraine hit the top ten countries with

<table>
<thead>
<tr>
<th>Country</th>
<th>2003</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. France</td>
<td>75,048</td>
<td>81,411</td>
</tr>
<tr>
<td>2. Spain</td>
<td>50,854</td>
<td>62,711</td>
</tr>
<tr>
<td>3. USA</td>
<td>41,218</td>
<td>57,581</td>
</tr>
<tr>
<td>4. Italy</td>
<td>39,604</td>
<td>56,694</td>
</tr>
<tr>
<td>5. China</td>
<td>32,977</td>
<td>46,190</td>
</tr>
<tr>
<td>6. United Kingdom</td>
<td>22,787</td>
<td>34,038</td>
</tr>
<tr>
<td>7. Russia</td>
<td>22,521</td>
<td>29,306</td>
</tr>
<tr>
<td>8. Austria</td>
<td>19,078</td>
<td>28,374</td>
</tr>
<tr>
<td>9. Mexico</td>
<td>18,665</td>
<td>24,932</td>
</tr>
<tr>
<td>10. Germany</td>
<td>18,399</td>
<td>24,714</td>
</tr>
<tr>
<td>11. Canada</td>
<td>17,534</td>
<td>23,403</td>
</tr>
<tr>
<td>12. Greece</td>
<td>13,969</td>
<td>23,012</td>
</tr>
<tr>
<td>13. Poland</td>
<td>13,722</td>
<td>22,316</td>
</tr>
<tr>
<td>14. Turkey</td>
<td>13,341</td>
<td>21,415</td>
</tr>
<tr>
<td>15. Ukraine</td>
<td>12,514</td>
<td>19,231</td>
</tr>
<tr>
<td>16. Malaysia</td>
<td>10,577</td>
<td>17,498</td>
</tr>
<tr>
<td>17. Thailand</td>
<td>10,082</td>
<td>16,427</td>
</tr>
<tr>
<td>18. Hong Kong</td>
<td>9,676</td>
<td>16,014</td>
</tr>
<tr>
<td>19. Netherlands</td>
<td>9,181</td>
<td>13,356</td>
</tr>
<tr>
<td>20. Czech Republic</td>
<td>7,641</td>
<td>12,925</td>
</tr>
</tbody>
</table>

Table 2

Ranking of the countries by international tourist arrivals in 2003 and 2011 [10]
the worst roads and ranked 137th place out of 144. The roads are worse than in Ukraine only in 7 countries – Gabon, East Timor, Guinea, Mongolia, Romania, Haiti and Moldova. Solution of this problem requires considerable investment. Thus, it is necessary to take such measures as expansion of the service industries, especially public security, traffic and crowd control, emergency, sanitary services and street cleaning.

Thirdly, Ukrainian visa is the main problem for foreign tourists. Thus, Europeans have to choose between traveling in EU without visa or spending a lot of time and money on getting Ukrainian visa. Therefore, the government should direct their attention to the visa system simplification. For example, in United Arab Emirates, Tunisia, Mexico and Sri Lanka tourists get visa upon arrival. You do not have to deal with the paperwork before leaving your country, which makes a visit to these countries easy and affordable. To go to Israel, Georgia, Montenegro and Malaysia tourist need only the international passport. These are countries with visa-free system, which gives an excellent opportunity to rest abroad and not waste time and money on getting visa.

Fourthly, the language barrier is another problem for foreigners. Many tourists are ready to give up a vacation in Ukraine because of misunderstanding with the staff. It is unacceptable for the country which seeks to become an international tourist destination. All employees in tourist industry must know not only Ukrainian and Russian languages, but have a basic command of English. It is advisable to organize free English courses for the staff of services sector and hospitals on private-public partnership terms.

Fifthly, the lack information about Ukraine is one of the main reasons of the tourism slow development. Ukraine should participate in international events and exhibitions, where countries present printed information and videos about the resorts and different souvenirs. Visitors of these events have opportunity to see the

<table>
<thead>
<tr>
<th>Table 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating of the countries by revenues from tourism in 2003 and 2011 [8]</td>
</tr>
<tr>
<td>Revenues from international tourism (billion dollars)</td>
</tr>
<tr>
<td>Country</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>USA</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Austria</td>
</tr>
<tr>
<td>Austria</td>
</tr>
<tr>
<td>Netherlands</td>
</tr>
<tr>
<td>Turkey</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Greece</td>
</tr>
<tr>
<td>Switzerland</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
<tr>
<td>Mexico</td>
</tr>
<tr>
<td>Hong Kong</td>
</tr>
<tr>
<td>Belgium</td>
</tr>
<tr>
<td>Portugal</td>
</tr>
<tr>
<td>Ukraine</td>
</tr>
<tr>
<td>Colombia</td>
</tr>
<tr>
<td>Peru</td>
</tr>
<tr>
<td>Mauritius</td>
</tr>
</tbody>
</table>

65. Ukraine | 1,204 | 46. Ukraine | 5,406 |
66. Colombia | 1,191 | 47. Luxembourg | 4,807 |
67. Peru | 1,023 | 48. Bulgaria | 4,554 |
68. Mauritius | 0,96 | 49. Qatar | 4,463 |
programs of tour operators in sports, health, environmental and other types of tourism. It is important to make an emphasis on the organization of various championships attracting foreign tourists. As recent experience shows, more than half of EU citizens have improved their opinion about Ukraine after Euro 2012 and would like to come back to us again. If we want to attract tourists, it is important to use the channels through which information is likely to reach potential tourists, for example, we can place the information in the media, on the sites of tour operators and regional administrations.

For example, the Austrian National Tourist Office, which has offices in 26 countries advertises the country’s tourist opportunities. Israel has the Ministry of Tourism whose budget in 2007 was 150 million dollars. These funds were used to finance various events, which aimed at presentation, information, exhibitions all over the world. Also, part of these funds was directed to various conferences, organization of consulting services, publication of promotional materials and brochures [11].

Conclusion. Thus, analyzing Ukraine’s position on the international tourist market we found that growth of tourist flow with a slight fall in 2009 due to the economic crisis was observed over the last five years. In the structure of outbound tourism fundamental changes took place in favor of private trips. Talking about the geography of tourism, the CIS and neighboring European countries account for the most trips. In 2011 compared with 2003 Ukraine rose to the 19th positions in the rating by tourist revenues, but it did not allow the country to get the maximum economic benefit and become a world leader in tourism. We suggested measures how improve the tourist attractiveness of Ukraine, such as the revision of the price policy by Ukrainian hotels with European standards, improving the quality of roads, simplifying visa system, language courses and branding tourist events. The realization of the proposed measures will allow Ukraine to increase its GDP and strengthen its position in the global tourist market.

References

Шабалина Л. В., Чумак Г. Е. Оцінка позицій України на міжнародному туристичному ринку

У статті проведена оцінка позицій України на міжнародному туристичному ринку на основі структури війських та в'язних туристичних потоків, а також прибутків від туризму. Запропоновано заходи, що сприяють поліпшенню позиції країни у міжнародних туристичних рейтингах.

Ключові слова: міжнародний туристичний ринок, війський турист, в'язний турист, прибутки від туризму, міжнародний туристичний рейтинги, оцінка, виза.

Шабалина Л. В., Чумак А. Е. Оцінка позицій України на міжнародному туристичному ринку

В статті проведена оцінка позицій України на міжнародному туристичному ринку на основі структури в'язних та в'язних туристичних потоків, а також доходів від туризму. Предложено заходи, що сприяють поліпшенню позицій країни в міжнародних туристичних рейтингах.

Ключові слова: міжнародний туристичний ринок, в'язний турист, в'язний турист, доходи від туризму, міжнародний туристичний рейтинг, оцінка, виза.

Shabalina L. V., Chumak A. E. The Estimate of Ukraine's Position on the International Tourist Market

The article gives the estimate of Ukraine's positions on the international tourist market on basis of the outbound and inbound tourist flows and revenues from tourism. We proposed measures which can improve the country's positions in the international tourist ratings.

Key words: international tourist market, outbound tourism, inbound tourism, tourist flows, tourist revenues, international tourist rating, estimate, visa.

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and final form in 00.00.2013
STAGES OF INDUSTRY FORMATION IN THE EASTERN REGIONS OF UKRAINE

Problem Statement. The evaluation of contemporary industrial capacity of the Eastern part of Ukraine and the creation of proposal on the improvement of regional economy are impossible without a profound historic and economic analysis of the establishment and development of industry in Donbas, mainly the industry of Luhansk region.

Analysis of Researches and Publications. The problem of industry establishment in Donbas was considered in the works of H. Bakuyev, B. Dontsov, O. Druzhinina, V. Zhglo, V. Podov, B. Rozen, I. Time, as well as a great number of historical archives, collections of statistical records etc.

The objective of the article is to investigate the economic and socio-political aspects of industry establishment in the eastern part of Ukraine.

Presentation of the Main Material. The discovery of hard-coal and iron ore deposits on the territory of Donbas in the year of 1721 gave momentum to the industrial development of the region.

On the edge of the XVIII and XIX centuries, due to the large reserves of natural resources, the birth of the coal, iron and steel industry took place in the economy of Donetsk region. At the beginning, the ore mining and smelting industrial complex was presented by two state-owned enterprises, including Luhansk foundry plant and the first colliery of the basin in Lisya Balkа (present-day region of Lysychansk in Luhansk region).

On November 14, 1795 Tsarina Yekaterina II signed the decree “On the Foundation of the Foundry in Donetsk District at the River Lugan and the Establishment of Coal Quarrying, Found in the Country”.

It should be noted that the Decree became an important landmark on the way of development of productive forces in Donbas; it heralded the emergence of coal and metallurgical complex of Donetsk basin [3]. In accordance with the considered Decree, Luhansk (Katerynoslav) plant, the first enterprise of the southern metallurgy, was built in the settlement of Kamianyi Brid near the river Lugan until the year of 1800.

As a natural result, the development of coal mining, coal iron and steel industry produced the urban growth and development. The settlement near the foundry, which later was named Luhansk plant, grew at a rapid rate.

In September 1882 the imperial decree approved the provisions for the foundation of Luhansk town, based on the settlement of Luhansk plant.

Luhansk foundry plant became the pioneer of development of coal iron and steel industry not only in Donbas but also in the whole south of the Russian Empire.

The plant became the first large metallurgical enterprise of Donbas, which was the pioneer in the development of iron smelting in mineral fuel blast furnaces, which played a notable role in the development of metallurgical enterprise both in the territory of Donbas and the whole Russian Empire, being the basis of integrated development for the natural resources of Donetsk basin. In the end of the XIX century Luhansk plant was closed due to the solved issues, which were the reason for its creation, as well as due to the exhaustion of its potential.

It should be noted the development and depression of manufacturing now and in the XIX century changed each other on the principle of the curve.

However, the advanced industrial experience, gained during the decades, appeared to be popular, though in absolutely new concept. In 70–80-th. of the XIX century new industrial factories and works were founded in Luhansk, the biggest of which were Luhansk armament factory (restructurised from the foundry) and Hartman locomotive works.

We would like to emphasise on as follows: all contemporary processes of the XXI century on the restructurisation of the industry as a result of changes in the market conditions, tend to be the direct analogy of processes, which were already experienced by the society in the XIX century. A case in point is the dependence of coal mining and metallurgical industries.

The XIX century became an important period in the development of coal mining industry of the region.

The economy rules undoubtedly dictate the terms of development of the economy. A classic of the genre is as follows: the increase in supply at the merchandise market results in the drop of prices for the merchandise without the increase in demand and, respectively, to the decrease of profitability and other financial indicators in the activity of the economic entity.
The specified axiom works, worked and will always work. The condition of the coal mining industry of Donbas of the XIX century is a demonstrative example of action of the analyzed law.

With the discovery of Grushevsk antracite deposit in the lower course of the Donets in the middle of 30-th of the XIX century, the structure and condition of the coal market changed completely.

Grushevsk antracite mines within the then competition at the coal market won the competitive struggle from other mines for the extent of production and sale, and became real monopolists for the supply of coal for sale into the sea ports and the Black Sea Fleet. As for clarification, according to the statistical data, the main consumer of coal was Luhansk foundry plant until the end of thirties of the XIX century, starting from the year of 1837 (when Chernomorsk ocean company was founded) Chernomorsk ocean company became the main consumer of coal. In the fiftieth the shipping company consumed 29% of coal, which was mined in the region, while Luhansk plant got only 8% [3].

It should be noted that until the end of the fiftieth of the XIX century the rate of Grushevsk mines was about seventy three per cent of the whole crop in Donbas. As a natural result, the centre of the coal mining industry of the basin moved into the lower course of the Donets, where the deposit of Grushevsk mines was located.

In the eightieth of the XIX century the industrial revolution took place in the Russian Empire. Railways developed rapidly, which caused the current increase in the demand for coal. In that connection, railways became not only a reliable vehicle for coal delivery, but also its largest end consumer. For example, the railway consumed about 36% of coal, produced in Donbas.

Another important consumer of coal was the metallurgy industry, which received 29 per cent of the produced coal. Besides, ocean and inland navigation companies, as well as other industrial enterprises, needed the coal fuel, including the mines; coal was also used for the accommodation heating.

For example, if during the five-year period, from 1860 to 1865, the production of coal in Donbas increased 1.5 times only, from 6 mln. to 9.8 mln. poods, with the emergence of railways the consumption of coal increased respectively. In the year of 1880 the extent of production reached 86.3 mln. poods, which exceeded the production level of the year of 1860 14 times [4].

The presence of considerable fuel reserves and the developed infrastructural network became the catalyst of the development of the coal mining industry itself as well as industrial enterprises, which use the transport networks and junctions.

The important thing was that metallurgical plants opened their own coal mines for the provision with fuel. This happened with Alchev’sk, Sulins’k, Mariupil, Kramatorsk, Druzhkivsk, Olkhovsk and other metallurgical plants, turning them into complex enterprises.

We can draw some logical conclusions based on the historic material.

First of all, the conducted historical and economic analysis proves that it was the private industry that gave a stimulus for the recovery of coal-mining industry of Donbas after its continuous standstill, caused by the absence of national orders for coal and metallurgical products because of the termination of military campaigns.

Second, state management of the coal-mining sphere showed considerable advantages over the private sector for hundreds of years, if not to say it hotter. A private owner, applying the principles of the entrepreneurial initiative, knowledge of the sale markets and other personal factors, shows more considerable, compared with the government, interest to timely reorient a lossmaking state (public) enterprise and to tailor its efficient functioning.

And the third is that the experience of the past centuries witnesses that nothing lasts forever. Donbas already underwent the stages of recovery and decline more than once. Besides, the development of coal-mining and metallurgy industry (and historic experience proves that) cannot exist and develop only at the expense of state subsidies, dotations and transfers. The process of overcoming the crisis for districts, regions and certain industrial enterprise should have an objective economic basis. Otherwise, if not to take into account the state influence, the economy will always be lossmaking and constantly swallow up the additional allocations without getting any economic benefits from it.

But let us come back to the subject of our scientific analysis. Until the end of the XIX century 209 coal pits already worked in Donbas, with 289 coal mines.

In particular, the development of industrial production made it possible to notably develop the coal mining field: For forty years, i.e. the period from 1860 to 1900 coal production in Donbas increased over 111 times [1].

It should be noted that the development of coal mining industry as well as other industry fields, was intermittent during the analysed period. This was expressed in the periodic changes of growth stages as
well as economic crisis stages. The first manifestation of a crisis took place in the seventies of the analyzed century. In particular, the production of coal in Slovyanskoerbsk district decreased from 157 thou. tons in the year of 1872 to 44 thou. tons in the year of 1874. Moreover, only eight mines remained active among the existing twenty [4].

After another boom in the sphere of coal-mining, which took place in the second half of the seventieth, the beginning of the eightieth, a new rapid decline of coal production took place in Donbas, as well as the decrease of price for fuel. As a result of the absence of sale (!) of coal in Donbas in the year of 1883 only ninety three coal pits were active, while one hundred and twenty four pits worked in 1882.

In fact, the then history is repeated with almost the same scenario now. Both then and now the temporary local coal production increase took place due to the increase of the number of employees. Thanks to the low workforce price neither local, nor foreign mine owners were interested in the mechanization of operations. The imported mining equipment, due to its high cost, was accessible only to the limited number of enterprises.

Both now and then, in the eightieth of the XIX century, the development of coal-mining industry in Donbas demanded huge capital investments. Moreover, the domestic entrepreneurs unwillingly invested their funds into the industry; they were more interested in the consumer goods industry, where the profit could be received much faster.

The countries of Western Europe accumulated some excessive capital at that time, and the industrialists of some West-European countries turned their views to Donbas, which had cheap workforce, and expected high (by European standards) returns. After the increase of excise duty for foreign coal and import of coal equipment by the royal government, it became more profitable for western industrialists to import their capital into Russia.

Development of coal mining industry was accompanied with the concentration of production. Thus, if in the sixtieth of the pre last century the largest coal mines produced not more than 200 – 300 thousand of poods per year/ In the end of the seventieth 18 largest enterprises exceeded the millionth barrier of the crop, and in 1900 seven most powerful enterprises produced over 20 mln poods each.

Until the end of the XIX century Donbas basin turned into the largest industrial centre of the country; coal production increased one hundred and twenty times over forty post-reform years. At the point of the new XX century Donbas produced 671.7 mln poods of iron, which made 91.5% of the all-Russian annual output (not to take into account Poland). For better understanding, only one Yuz Novorussian society produced 50 mln poods of coal annually [3].

Despite the impressive statistical figures, Donbas' metallurgy developed rather slowly if compared with the countries of Western Europe. From our point of view, which is based on the position of the outstanding history scientists and economists, one of the reasons of such underdevelopment was permanent mistaken policy of the royal government in the sphere of tariff and state duty for the import of cast iron, iron and machines from abroad. In the year of 1861 the government allowed the duty-free import of the indicated commodities for the machine-building plants, and in 1864 these benefits referred already to all mechanical plants with steam or water-power engines.

Such protecting policy towards foreign-manufactured production made the domestic industry dependent from the metal, machines and equipment, imported from abroad, and consequently delayed the development of native metallurgy.

However, the government realized the fault of the economic policy rather quickly and changed the situation for the better. Thus, in the year of 1866 the Russian Empire adopted the law, which stated that all orders, connected with the development of railway transportation, should be performed by native plants only.

Moreover, the government established bounties for the production of engines and carriages, as well as steel metals on the state enterprises.

These novations turned out to be in favor of the development of domestic metallurgy industry and machine manufacturing. Foreign investors always tended to invest into the production of ready industrial products on our territory in order to get additional preferences from the government. Particularly, John Yuz bought back the concession right in Duke Kochubey for twenty four thousand sterling in the year of 1866, which was provided by the Russian Government for the construction of the rail plant. Yuz concluded an agreement with the Committee of Ministers for the creation of Novorussian society of coal-mining, iron and rail production, as well as the society of railway branch from Kharkiv-Asov line [2].

And there are lots of examples of impressive construction of metallurgical giants. Private investor, thanks to previously considered strategy, so to say with present-day language of "state industrial policy" gave occasion to the boom in industrial production, putting the technically underdeveloped Russia at the level, which
is more or less close to the development of Western European countries.

**Conclusion.** The indicated data is not a mere formal presentation of historic information, but the analysis of laws of development and decline in the regions, districts, and certain industrial enterprises. Knowledge of basic principles for industry functioning, depending on political, social and other factors, makes it possible to predict the contemporary scenario, efficiently use the centuries-long empiric and social experience, as well as to avoid the unwanted negative effects of the present-day reality.

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**Кудріна О. Ю. Етапи формування промисловості в східних регіонах України**

У статті досліджено економічні і соціально-політичні аспекти становлення промисловості сходу України.

**Ключові слова:** розвиток, вугільна й металургійна промисловість, Донбас, соляна промисловість, хімічна і скляна промисловість.

**Kudrina O. Yu. Stages of Industry Formation in the Eastern Regions of Ukraine**

The article investigates the economic and socio-political aspects of industry establishment in the eastern part of Ukraine.

**Key words:** development, coal mining and metallurgical industry, Donbas, salt industry, chemical and glass industry.

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Introduction. Since Ukraine’s independence the question of the country’s accession to the EU has become a burning issue and won its supporters and opponents. Most political parties of Ukraine have made this issue the subject of political speculations to win the votes. The EU officials also hold controversial opinions on the issue and many are reluctant to see Ukraine among the EU members.

Whatever the opinions of the Ukrainian society about the accession to the EU are, Ukraine’s aspirations were legally declared on July 1, 2010 in the Law of Ukraine “On the Basis of the Domestic and Foreign Policy of Ukraine”. Article 11 says that this country aims at acquiring a full membership in the EU. While Ukraine spoke about obtaining the EU membership, the latter most of the time tried to avoid this possibility [1]. Let us see what attracts Ukraine to the EU.

In the experts’ opinion, the most attractive benefits for Ukraine are:
• People, goods, services and capital can freely move across borders within European Union.
• An Internal market creates pressures of competition which stimulates innovation.
• Membership in the EU allows make cross-border mergers and acquisitions possible to improve the business.

Being aware of these and other benefits, we applied macroeconomic analysis to trace how these benefits are experienced in chosen the EU Member States. Poland, Bulgaria, Romania, Latvia and Estonia were chosen for comparison because of their close geographical location and their common socialist past. The choice of indicators for the data analysis was determined by the approaches applied by the European Commission in its Annual Reports.

Data Analysis
Basing on data collected from the European Commission and EBRD databases and using comparative and dynamic data analysis we tried to describe the economic situation in the European Union Member States and Ukraine in the period of 2000 – 2009 by means of macroeconomic indicators aloof political speculations [2].

For the data analysis, it was chosen five macroeconomics indicators:
• Gross domestic product per capita
• External debt per capita
• Foreign direct investment per capita
• Unemployment rate
• Trade / GDP

The choice is due to fact that these indicators clearly characterize economic benefits and risks of European Union membership. In this article it is represented indicators which reflect changes in economy of chosen countries-members.

Data analysis is started from description of Growth Rates of Gross Domestic product which shows living standards in The European Union countries-members. Table 1 demonstrates Growth Rates of GDP per capita. As we see in the table, which represents only selected figures from the whole table of this indicator, Latvia achieved the maximum 1.5 growth rate for the period of 2001 – 2009. It gives grounds to infer that consumption and production volumes increased due to more competitive market opportunities created by Latvia's accession to the EU. In 2009, after the crisis of 2008, Latvia and other Member States lost 0.3 – 0.4 points, while Ukraine lost 0.7. This may serve as evidence that Latvia and other Member States proved to be more resistant to the crisis negative impact than Ukraine.

One of the reasons of such resistance to the unstable economic situation is Single Market of the European Union. The beneficial of single market was estimated on the first steps of its developing. The main problems, which were eliminated immediately, were goods delays on the frontiers because of checks, products conformity to different law in each Member State, non-competitiveness of services such as transport, telecommunications, banking and broadcasting, restrictions on residence and risk losing social security rights in another Member State for citizens, which were not employed [3].

Among different factors, which make influence on GDP growth, there is the factor of labor input growth, which is about a half of labor market component, where declining in the unemployment allows make value contribution in it [4].

Fig. 1 describes the situation with unemployment rates. This graph shows that after accession all the new European Union Member States witnessed the overall improvement of unemployment rates than before. For example, Poland in 2000 had 16.1 percent unemployment rate, at the moment of accession the rate rose up to...
19.0%, but in 2008 it declined to 7.1%. The same trend can be observed in Bulgaria, where the rate dropped from 16.4% in 2000, through 6.3% in the moment of accession to 3.6% in 2008.

Besides a number of other factors, such as demographic factors, the minimum wage, the differences in growth rates across sectors, unemployment insurance, influence of trade unions, the level of taxes, influencing the employment rate, the newly accessed EU countries obviously benefited from the free movement of labor, allowed by the single market.

The Single Market also has positive influence on the trade and foreign direct investment inflow. Due to non-barriers trade, trade volumes among Member States have increased significantly. The single market is more attractive for foreign investment flows and has not complete, but strong influence on the financial services sector.

After the European economy changes, there was rising number of mergers and acquisitions led to increase in competition on national markets, which caused greater convergence of prices for goods and services [3].

Fig. 2 demonstrates the growth of FDI per capita in all Member States after accession. The most representative figures are in Bulgaria, where FDI in 2000 accounted for 122.5 US dollars, but in 2007, the year of accession, it showed 10 time increase ($1697.8), and in Estonia, where in 2000 FDI comprised 235.9 US dollars per capita, in the moment of accession in 2004 it reached 516.5, but next year FDI rocketed to 1673.5. Romania also followed the same trend: in 2000 its FDI was as low as 52.0 US dollars per capita, while after accession in 2008 the figures went up to 435.8.

These impressive figures illustrate profound restructuring of the European economy that was characterized by an explosion in the number of cross-border mergers and acquisitions which promoted an important part of foreign direct investment flows and which themselves multiplied as the Single Market was implemented. It is also observed benefits such as boost of large firms’ activity volume without geographical changes in distribution of this activity, intensification of competition has reduced the increase in firms’ profit margins in the sectors where there were important trade barriers and convergence of prices across Member States for various goods and services due to opening-up of markets.

Such situation in the Single Market area gives opportunities for developing of financial services sector and for creation favorable conditions for leading business. In comparing with absence of the Single Market, it is observe reducing inflation rate, higher employment level, positive impact on convergence, boosting of investments, increasing incomes. To

<table>
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<tr>
<th>Country</th>
<th>2001</th>
<th>2007</th>
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<tbody>
<tr>
<td>Latvia</td>
<td>1.1</td>
<td>1.5</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1.2</td>
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<td>1.3</td>
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Fig. 1. Unemployment rates for 5 EU counties, %
conclude, undoubtedly, the macroeconomic impact of the Single Market is positive [5].

Below it is represented the macroeconomic indicators in Ukraine for the same period of time.

This table proves that economic situation in the country had a tendency to improvement in the pre-crisis years. While Growth Rates of GDP per capita showed slow improvement, the Unemployment rate declined from 10.9 to 6.4. The most impressive figures are FDI per capita, which rose from 15.94 to 216. Although in the days of crisis the indicators obviously worsened, the current sporadic figures of 2012 let us make optimistic prognosis for further improvement.

At the same time we must admit that there would be risks for Ukraine after accession to the EU. These risks comprise:

- Economic country modernization to accession might be more expensive than it expects.
- After accession, Ukraine’s economic sectors might adopt to the laws and rules of European Union, which can negatively reflected on the economy situation.
- The strong competition might displace Ukraine’s products from the European market.

Obviously, the main goal for Ukraine, in the process of development relationships with the EU, is meeting its criteria for improving economic situation. This fact is documented European Commission Strategy Recommendation where it is emphasized on the reform process through the relevance to the EU standards [6].

For example, in Romania, after the its accession into the EU, there was mass closure of mills and bakeries, because in the opinion of the National Sanitary Veterinary and Food Safety Authority more than 1000 bakeries were not relevant to the standards of hygiene and alimentary security established by the European Commission.
Subsequently, this situation initiated the development black market of the bread, which caused by tax evasion [7].

Of course, existence of these and other possible risks may cloud the country’s smooth accession to the EU. However, the benefits appear to give more opportunities for Ukraine as a future member of the union.

On the other hand, in the opinion of the Ukrainian specialists the European direction is beneficial for Ukraine. Ivan Kuras, which is Academician of NAS of Ukraine, says that preparing to Ukraine’s integration into the European Union is chance to improve investment climate, quality of products and economy of country. Volodymyr Pyekhota, which is MP, head of ‘European Choice’ faction, considers that ‘Ukraine’s European choice’ allows to build democratic and civil society due to intensive development of market economy and increase of living standards [8].

So, the data analysis shows that the European Union Member States such as Poland, Bulgaria, Romania, Latvia and Estonia apparently improved their macroeconomic indicators after accession. Taking these countries as an analogy it is possible to expect that the very aspiration of Ukraine to join the EU may have positive effect for the domestic economy.

Conclusion. Thus, relationships between Ukraine and the EU have continued since 1994 when the Partnership and Cooperation Agreement (PCA) was signed. Since that time Ukraine has headed to the European membership and its intentions are strong and proved by numerous negotiations such as Visa liberalization dialogue, Negotiations of an Association Agreement (signed on 30 March 2012), negotiations on a deep and comprehensive free trade agreement (signed 19 July 2012). But all documents signed demand the market economy, sustainable development and good governance. The European Union announced that it recognized Ukraine as a market economy on 1 December 2005. The process of pursuing the European Union membership and meeting the accession criteria is beneficial for Ukraine because these criteria spur motivation to modernize the country and improve economic situation. Taking in consideration benefits and risks, it is possible to conclude that Ukraine’s accession into the European Union is more beneficial than risky.

References

EXPEDIENCY OF APPLICATION OF THE REGIONAL AND MUNICIPAL (COMMUNAL) WEALTH INDICATORS AT THE GENERATION OF THE REGIONAL AND URBAN DEVELOPMENT STRATEGIES

In accord with the analysis of fulfillment of the active regional development strategies in regions of Ukraine the effectiveness of their realization is rather low. There is no correlation between the determined strategic purposes of the regional development. The diversity of targets, which are determined in the strategies, leads to the resource scattering and makes the adequate quality monitoring of these strategies fulfillment impossible. It is impossible to define whether the positive changes took place during the given period in the final conclusion. The analogical situation happens in the process of building the strategy of the local communities’ development.

Also, the absence of the evaluative composite indicator of the effective realization of the development strategies prevents from the interregional comparison of the social and economic development and the monitoring of the contribution of each region in the national social and economic development.

The presence of the evaluative composite indicator of the effective realization of the development strategies of any territorial entity allows to evaluate the changes in the development quickly and precisely. It allows to define the expediency of the social and economic transformations and to make the ways of correction.

In the function of this indicator it is rational to point out RW (regional wealth), MW (municipal wealth) on both levels: regional and municipal. The whole of the regional wealth forms the national wealth (NW), and the municipal wealth is included into the regional wealth body. For the consolidation of terms, such as: national, regional and municipal wealth it is reasonable to introduce the only category – spatial wealth (SW).

The role definition of each author of the regional and municipal wealth will help to increase the level of attraction of the local community and the regional business community to the progressive development of the relevant territorial subdivisions and the accumulation of the regional (municipal) wealth.

The spatial (regional and municipal) wealth is the evaluative composite indicator of the effective realization of the development strategies of any territory which displays all the aspects of the region development or the municipal subdivision.

The overwhelming majority of investigations concerning the structure and measuring the economical category of wealth refer to the national level. At the same time the attention is paid to the separate strands of wealth. This problem is being researched by the following national economists: V. P. Antonyuk, S. I. Doroguntsov, I. M. Bobuh, S. S. Shumska, L. V. Shynkaruk; also, this problem is paid attention to from the international organizations, such as The World Bank and Organisation for Economic Co-operation and Development (OECD).

Summing up the present scientific approaches to the definition of the concept “wealth” it is possible to point out such its strands as: human capital (the quality and quantity of the human resources), natural capital, physical capital (fixed capital, the cushion of the working capital, intangible assets including licences, patents, software etc.).

Regional (municipal) wealth structure scheme in fig. 1.

The defined strands of wealth are universal; in case of calculation they can be reconciled to the countervalue that provides the mutual additivity. That is why the general calculation formula of the spatial (regional and municipal) wealth is the following:

\[ SW (RW, MW) = HC + NC + PC \]

where

- SW (RW, MW) – spatial (regional and municipal) wealth;
- HC (human capital);
- NC (natural capital);
- PC (physical capital).

It is inexpedient to point out the financial capital in the form of financial assets as a different strand of the national wealth by some researchers because the financial capital is the monetary form of the defined kinds of capital only. Also, it is necessary to note that household loans for education decrease the cost of the human capital.

In accord with the given scheme of the regional (municipal) wealth the content of the regional development strategies and the development strategies of territorial communities has a potential concerning the concretization of designation of quantitative characters of each element...
weight of the regional (municipal) structure and the ways of increase and optimization of its volume in actual data and monetary forms during the defined term of the strategy functioning.

The quality of spatial (regional and municipal) development is being estimated as changes of the corresponding wealth volume during the estimation period. If the period of the strategy functioning – \( t \) years, starting from the year \( n \), then changes of spatial wealth will be
\[
\Delta SW = SW_{n+t} - SW_n
\]
where \( SW_n \) – regional wealth volume in the beginning of the strategy functioning, \( SW_{n+t} \) – regional wealth volume in the end of the strategy functioning.

In this case the strategic management of the regional (municipal) development concentrates to the maximization of the additional wealth \( \Delta SW (\Delta RW + \Delta MW) \). It allows to give a grounding in formation of the single system for taking decisions concerning strategic directions of the development of the certain territory and their estimation.

Human capital in the structure of spatial wealth plays a main role. In economically developed countries a part of human capital works out approximately 3/4 in national wealth and has a middle tendency to increase during the last century, at the same time in Ukraine it is 1/2 only. Id est it is human capital that contains a potential for the faster accumulation of spatial wealth on the basis of the simultaneous economic postindustrialization and neoindustrialization.

There are two main approaches to estimate human capital. The first one is based on consideration of cumulating expenditures connected with its formation, and the second one – with the evaluation of the total income which will be obtained by an individuum during the whole his life.

Cost method contains a number of disadvantages among which the usual consumption and multivalued allocation of charges between investments in the development of the personality (i.e. his ploughback) are. Also, cost method as a rule touches the previous expenditures.

Discounted cash flow method also is not perfect. The proper definition of the rate and the assessment of the future cash flows for the long-term outlook belong to its crucial problems. But this is the method that is directed to the future and allows to follow the single methodology of the calculation with other strands of spatial wealth. That is why this method is appropriate to evaluate the human capital.

The wide approbation of the calculation of the human capital with discounted cash flow method was applied at the realization of the relevant OECD project. Within the framework of this project only the market part of the human capital was taken into account in the age from 15 to 65 years old which were divided into 2 groups. The first group – people in the age from 15 to 40 years old, who are able not only to work but also to study. The second group – people in the age from 41 to 64 years old who can work only.

For people in the age from 15 to 40 the human capital calculation formula is:

\[
LIN_{age}^{edu} = EMR_{age}^{edu} \times AIN_{age}^{edu} + \left(1 - \sum_{t=0}^{\text{life}} ENR_{age-t}^{edu} \frac{\text{SUR}_{age-t}}{edue} \right) \times \sum_{t=0}^{\text{life}} \left[ \sum_{r=1}^{\text{life}} \text{SUR}_{age-t}^{edu} \times LIN_{age-t}^{edu} \times ((1+r)/(1+\delta))^r \right] \times \left(1 - \sum_{t=0}^{\text{life}} ENR_{age-t}^{edu} \frac{\text{SUR}_{age-t}}{edue} \right)
\]

(1),

\[
= \left(1 - \sum_{t=0}^{\text{life}} ENR_{age-t}^{edu} \frac{\text{SUR}_{age-t}}{edue} \right) \times \left(1 - \sum_{t=0}^{\text{life}} ENR_{age-t}^{edu} \frac{\text{SUR}_{age-t}}{edue} \right)
\]

Fig. 1. The Structure of the spatial (regional and municipal) wealth
Where

\( EMR_{\text{age}}^{\text{edu}} \) – the probability for people in the “age” with education “edu” to be busy;

\( AIN_{\text{age}}^{\text{edu}} \) – the current annual income in the “age” with “edu”;

\( ENR_{\text{age}}^{\text{edu}-\text{edu}} \) – the part of people in “age” with education “edu”, who obtain the education of the next level “edu”;

\( SUR_{\text{age}+1} \) – the probability for people in the “age” with education “edu” to live till the “age+1”;

\( LIN_{\text{age}+1}^{\text{edu}} \) – the discounted value of the lifelong income in the “age+1” with “edu”;

\( r \) – annual growth rate of the real salary;

\( \delta \) – rate of discounting;

\( t_{\text{edu}-\text{edu}} \) – the terms of education (the amount of years) of people with “edu” in the educational institutions with the higher level;

\( \pi \) – manufacture, \( q \) – rent, \( i \) – common production profitability at the moment of time \( t \);

\( V_i = \sum_{i=1}^{t+T} \pi_i q_i (1+r)^{t-i} \) (4), where

\( \pi_iq_i \) – common production profitability at the moment of time \( t \) (\( p_i \) – rent, \( q_i \) – manufacture),

\( r \) – social discounting rate;

\( t \) – the starting point of resource use;

\( T \) – the resource use duration.

The owner’s task is the standard problem of the choice of the income optimal division. The task solution specifies:

- demand for consumer goods \( C(t) \) in the goods market;
- demand for stock \( S(t) \) in the stock market;
- demand of the owner for money \( M(t) \) at any moment \( t \epsilon [0, T] \) in dependence on the forecast \( p(t) \), profitability \( r(t) \) and the stock price \( s(t) \) for the whole period \( [0, T] \).

Under the natural resource potential we understand a set of natural resources and natural conditions that are situated in certain geographic boundaries that ensure satisfaction of economic, environmental, social, cultural, recreational and aesthetic needs of the individual and society.

There is a number of approaches of the identification and assessment of natural resource capital. Some researchers identify up to 10 methods of the assessment.

This calculation formula of the present discounting value of the separate natural resource was offered by the specialists of the World Bank:

\[ V_i = \sum_{i=1}^{t+T} \pi_i q_i (1+r)^{t-i} \] (4), where

\( \pi_i q_i \) – common production profitability at the moment of time \( t \) (\( p_i \) – rent, \( q_i \) – manufacture),

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- demand of the owner for money \( M(t) \) at any moment \( t \epsilon [0, T] \) in dependence on the forecast \( p(t) \), profitability \( r(t) \) and the stock price \( s(t) \) for the whole period \( [0, T] \).

Under the natural resource potential we understand a set of natural resources and natural conditions that are situated in certain geographic boundaries that ensure satisfaction of economic, environmental, social, cultural, recreational and aesthetic needs of the individual and society.

There is a number of approaches of the identification and assessment of natural resource capital. Some researchers identify up to 10 methods of the assessment. However, discounted cash flow method and cost method can be considered as basic ones. Cost method includes cost estimates needed to restore the existing natural resources. The discounted cash flow method is actually considering the transformation of natural resources into capital through its economic capitalization.

This calculation formula of the present discounting value of the separate natural resource was offered by the specialists of the World Bank:

\[ V_i = \sum_{i=1}^{t+T} \pi_i q_i (1+r)^{t-i} \] (4), where

\( \pi_i q_i \) – common production profitability at the moment of time \( t \) (\( p_i \) – rent, \( q_i \) – manufacture),

\( r \) – social discounting rate;

\( t \) – the starting point of resource use;

\( T \) – the resource use duration.

The essential problem is to determine the social discounting rate that reflects the alternative possibility of using resources by society or between two time periods or between different investment options.

As a matter of fact, the physical capital is materialized...
labor of past generations, or its cash equivalent. Therefore, the physical capital includes not only tangible assets (fixed assets, equipment, machinery and equipment, transport infrastructure, personal property, etc.), but also the intangible assets in the form of licenses, patents, software, etc. as well as the accounts of enterprises and organizations.

Approaches to the assessment of each of the components of wealth are mixed.

First of all, there are contradictions in the apportionment of natural resource and physical capital. For example, mineral resources, which are on the balance of individual businesses, are the factors creating its value of its assets. I.e. they were capitalized at the level of enterprise and should be classified as physical capital. From the other hand, natural resources are the part of the natural capital. Similar arguments can be made about land or forest resources. Also, looking at the forest resources as a component of the natural resource capital, their evaluation can be done in two ways. First, the cost of wood, and secondly as a recreational area that can receive income due to recreational services.

Significant problems with evaluation of spatial wealth exist in accounting the financial resources in case of a debt creation at multinational companies in a particular area, and so on. For example, in Donetsk region there Mining and Metallurgical Company “Metinvest” debt exceeds 4 mldr. U.S. dollars. This debt was formed, on the one hand, on the security of fixed assets (bank loans), and on the other, in the form of bond issues i.e., guaranteed by business in general. The business generally includes the ownership and use of mineral resources (coal, iron ore, etc.). Thus, this debt load should correct the decrease of the cost of natural resources and physical capital.

Methodologically coordinated and scientifically substantiated evaluative composite indicator of the effective realization of the development strategies is a useful tool for the consolidation of forces to reach the separate strategic goals which form the spatial wealth and help the qualitative monitoring of these strategies fulfillment to take place.

Due to the evaluative composite indicator the effectiveness of realization of the management strategy of the regional and local development leads to capital portfolio management (human, natural and physical) with the aim of its accumulation and increase.

The coordination of economic and social processes which take place in a region with the further definition of the effectiveness indicators as for the socially responsible business environment and also for the united citizenhood is a perspective direction of the regional wealth accumulation.

Taking into account that the part of the human capital in Ukraine is well below than the same part in economically developed countries the structural changes of the spatial wealth should be realized in the increase of the human capital part. Also, considering the ambiguity and contradictoriness of the natural and physical capital calculation it is expedient to shift the accents up to the increase and estimation namely of the human capital.

National wealth is a strand and the most important part of the social and economic potential of the country and its regional resources. National wealth – as an important economic category and important indicator of the obtained level of the economic development – is being calculated in all the developed civilized countries of the world and is applied in the international comparisons. For example, national wealth is defined as resource pool of the country (economic assets), the necessary conditions of commodities production, service and protection of human life in Russian official statistics. It consists of economic objects which crucial criteria is a possibility to have an economic profit by their owner, i.e. acquisition of income from the property.

By international standards, the national wealth is a collection of accumulated wealth and intangible assets (financial and non-financial), created by the labor of all previous generations (national wealth) belonging to the country and its residents in the economic territory and abroad, and also explored and attached to economic circulation of natural resources. The volume of the national wealth depicts the results of the own capital accumulation: financial and non-financial assets from legal persons and individuals in sectors of industry of the country and its regions. The national wealth is the torque indicator, which distinguishes it from many other macroeconomic ones.

The important moment of the regional wealth definition is its element evaluation. The following forms of evaluation are in the national statistics: book value (historical) – in accord with the original price; the cost of change (replacement value) – in accord with the cost in the end of the period being analyzed; market value (according to the market price). Interesting attempts to evaluate the national wealth in Ukraine are given in [1; 2]. On the basis of evaluation of the strands of national wealth which are offered in the work by I. M. Bobuh [2, p. 150 – 151] we have made the calculative values of the regional wealth of the old-industrial economic regions of Ukraine: Donbass (Donetsk and Luhanska regions), Prydniprovyva (Dnipropetrovska, Zaporizka and Kirovograd regions), Slobozhanschina (Kharkivska, Sumkska, Poltavsk regions) which are shown in the table 1.

Such an approach can be used to develop scenarios of institutional and structural changes, and indicators of evaluation of the implementation of regional and urban strategies of socio-economic development.
Table 1

The assessment of regional wealth division within the borders of the old-industrial regions of the Eastern Ukraine 01.01.2011, thousands of US Dollars

<table>
<thead>
<tr>
<th>Regional wealth element</th>
<th>Prydniprovya</th>
<th>Slobzhanschina</th>
<th>Donbas</th>
<th>inquiry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For population on territory</td>
<td>For population on territory</td>
<td>For population on territory</td>
<td>For 1 person on 1 km²</td>
</tr>
<tr>
<td>Human potential</td>
<td>1739594288</td>
<td>1332759049</td>
<td>1320040428</td>
<td>1334958800</td>
</tr>
<tr>
<td>Natural potential, including</td>
<td>83032718</td>
<td>6813745854</td>
<td>733071564</td>
<td>8464322878</td>
</tr>
<tr>
<td>Land resources</td>
<td>61 1890534</td>
<td>646016688</td>
<td>53789932</td>
<td>6483312684</td>
</tr>
<tr>
<td>Basic resources</td>
<td>553020</td>
<td>849793</td>
<td>380560</td>
<td>980760</td>
</tr>
<tr>
<td>Water resources</td>
<td>5983306</td>
<td>8299262</td>
<td>5242200</td>
<td>632 180</td>
</tr>
<tr>
<td>Mineral and energy resources</td>
<td>206074256</td>
<td>2175684943</td>
<td>181155488</td>
<td>218347764</td>
</tr>
<tr>
<td>Recreational Resources</td>
<td>4998400</td>
<td>5189400</td>
<td>432550</td>
<td>520000</td>
</tr>
<tr>
<td>Ecological capacity of the environment fixed assets</td>
<td>53302</td>
<td>554931</td>
<td>48096</td>
<td>556921</td>
</tr>
<tr>
<td>Current assets in stocks of material assets</td>
<td>7192926</td>
<td>7572339</td>
<td>632148</td>
<td>7599410</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Objects of incomplete building</td>
<td>4057548</td>
<td>4310361</td>
<td>356904</td>
<td>432850</td>
</tr>
<tr>
<td>Elements of financial capital</td>
<td>-1168082</td>
<td>-68384</td>
<td>-1026835</td>
<td>-68883</td>
</tr>
<tr>
<td>Total</td>
<td>2604269553</td>
<td>2749555718</td>
<td>2289357884</td>
<td>275941760</td>
</tr>
<tr>
<td>Total by column</td>
<td>4 311 452 940</td>
<td>4 555 096 097</td>
<td>3 780 105 720</td>
<td>4 309 410 040</td>
</tr>
<tr>
<td>Population, thousands of persons</td>
<td>6 147 800</td>
<td>7 418 400</td>
<td>52 600 000</td>
<td>37000</td>
</tr>
<tr>
<td>Square, km²</td>
<td>$3700</td>
<td>84000</td>
<td>53 200</td>
<td></td>
</tr>
</tbody>
</table>
Ляшенко В. І., Жихарева Ю. І., Вишневський О. С. Целесообразность применения показателей регионального и муниципального (коммунального) богатства при разработке региональных и городских стратегий развития

В свідомості аналіз та виконання дійствуючих регіональних стратегій розвитку регіонів України, ефективність їх реалізації є в країні низькою. Між визначеними стратегічними цілями регіонального розвитку відсутні взаємозв’язки. Різноманіття цільових показників, визначених в стратегіях, призводять до розпилення ресурсів та унеможливлює проведення адекватного моніторингу якості виконання цих стратегій. У кінцевому підсумку неможливо визначити, чи мали місце позитивні зміни загалом протягом визначеного періоду. Аналогічні статистичні дані має відсутність під час стратегування розвитку міських громад. Відсутність комплексного показника ефективності реалізації регіональних стратегій розвитку перешкоджає міжрегіональному співвідношенню соціально-економічного розвитку та моніторингу внеску кожного регіону в національний соціально-економічний розвиток.

Ключові слова: богатство, регіони, стратегія, показник, місто, розвиток.

References

Ляшенко В. І., Жихарева Ю. І., Вишневський О. С. Доцільність застосування показників регіонального та комунального (муниципального) багатства під час розробки регіональних та міських стратегій розвитку

Як свідчить аналіз виконання наявних регіональних стратегій розвитку регіонів України, ефективність їх реалізації є в країні низькою. Між визначеними стратегічними цілями регіонального розвитку відсутні взаємозв’язки. Різноманіття цільових показників, визначених в стратегіях, призводять до розпилення ресурсів та унеможливлює проведення адекватного моніторингу якості виконання цих стратегій. У кінцевому підсумку неможливо визначити, чи мали місце позитивні зміни загалом протягом визначеного періоду. Аналогічні статистичні дані мають відсутність під час стратегування розвитку міських громад. Відсутність комплексного показника ефективності реалізації регіональних стратегій розвитку перешкоджає міжрегіональному співвідношенню соціально-економічного розвитку та моніторингу внеску кожного регіону в національний соціально-економічний розвиток.

Ключові слова: богатство, регіони, стратегія, показник, місто, розвиток.

Lyashenko V.I., Zhykhareva Yu. I., Vyshnevskyy O.S. Expediency of Application of the Regional and Municipal (Communal) Wealth Indicators at the Generation of the Regional and Urban Development Strategies

In accord with the analysis of fulfillment of the active regional development strategies in regions of Ukraine the effectiveness of their realization is rather low. There is no correlation between the determined strategic purposes of the regional development. The diversity of targets, which are determined in the strategies, leads to the resource scattering and makes the adequate quality monitoring of these strategies fulfillment impossible. It is impossible to define whether the positive changes took place during the given period in the final conclusion. The analogical situation happens in the process of building the strategy of the local communities’ development. Also, the absence of the evaluative composite indicator of the effective realization of the development strategies prevents from the interregional comparison of the social and economic development and the monitoring of the contribution of each region in the national social and economic development.

Key words: wealth, regions, strategy, index, city, development.

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Економічний вісник Донбасу № 4 (34), 2013
Introduction. This paper aimed to shed some light on the way the country risk premium should be introduced to the traditional CAMP model. In most emerging market valuations a risk adjustment takes place by adding a spread called the “country risk premium” to the rate determined by the CAPM of an equivalent investment in a developed market. Some experts modify CAMP model using this addition analyzing market stocks or investments which are reflected by country uncertainties.

Incorporating a country risk premium in the discount rate is inconsistent with the assumptions of the CAPM. And if country risk is going to have an impact on the discount rate a way must be found to modify the CAPM without altering its fundamentals.

Introduction a country risk means that it, firstly, must be evaluated somehow and then be included to the CAMP traditional formula.

As a result, we propose a modification of CAPM for stock evaluation in emerging countries taking into consideration market and stock exchange data and involving only the country’s systematic risk. This modification is an improvement over the existing model for conditions prevailing in emerging countries.

Historical Background. In 1959 Markowitz was the first to develop the modern portfolio theory, which was the base for CAPM research. He proved that investors should create their portfolio in order to offer themselves a maximum level of return for a given level of risk or, a minimum level of risk for a given level of return. [1] The modern portfolio theory has proposed models of asset pricing in fully efficient markets. Markowitz showed in his theory that stocks are related to each other and that the risk can be decreased through diversification.

Sharpe (1964) and Lintner (1965) continued the work of Markowitz and constructed the famous Capital Asset Pricing Model (CAPM). Basically, the model was developed to explain the differences in risk premium across assets. The CAPM shows clearly that these differences are generated by the differences in the assets’ riskiness, i.e. the higher the risk of an asset, the higher the risk premium demanded by investors.

The general equation of the model is:

\[ E(R_i) = R_f + \beta_i (E(R_m) - R_f) \]  \hspace{1cm} (1)

where:

- \( E(R_i) \) – expected return of stock i;
- \( \beta_i \) – relative risk of share i;
- \( E(R_m) \) – expected return of the market;
- \( R_f \) – risk-free interest rate such as interest arising from government bonds [2].

Coefficient \( \beta \) is the sensitivity of the expected excess asset returns to the expected excess market returns [3].

A very important consequence of this model is the separation theorem, which says that in the capital markets the risk has two components: diversifiable (or non-systematic) risk and non-diversifiable (systematic) risk. When pricing, the only significant risk is the systematic one, since investors can just get rid of the non-systematic risk through diversification. Sharpe and Lintner show that the true measure of risk is the well-known beta coefficient.

So, the CAPM is very important for investors and stock markets, because it helps to estimate the return of our portfolio (asset) and relationships between risk and income, to test efficient market hypothesis and helps to determine the selection of stocks in the portfolio.

Country risk. According to the CAPM, the only relevant risk is given by beta: a measure of the covariance between the project’s return and the return of the market portfolio. Hence, companies in different industries have different (relevant) risk. Nonetheless, this rationale does not account for geography. The companies in the same industry but in different countries could have the same risk but investors frequently demand different returns from the same business depending on its location. This particular risk associated with the geographical location of the investment is known as country risk.

The capital asset pricing model is rather good method of risk estimation. But it is fully applicable without any modification for developed countries. However, the CAPM is not relevant in the developing world for the following reasons:

1. Greater uncertainty causes investments in emerging countries to tend to be riskier than investments
in developed markets. Such kind of risk must be somehow quantified.

2. The main indicator for what could be considered to be the “market portfolio” in emerging markets is the stock price index. But this index is rarely a good proxy of the real local business environment.

3. Local businesses are subject to strong foreign impacts in much greater measure than their counterparts in developed countries.

4. To a far larger degree than in the developed world, the great majority of companies are controlled by family groups or a few shareholders. In general, such investors are not well diversified, since these businesses usually represent an important proportion of their proportions. The CAPM ignores the impact of the project on investors’ portfolios, but often this cannot be done in developing countries. [5], [6]

So, for an adequate estimation for developed countries we need some extensions and modifications.

Emerging markets allow investors to access high returns and unique investment opportunities. However, these opportunities carry high risks. Usually such kind of risks are included in definition of “country risk”.

Country risk an important, and often overlooked, component of the cost of capital. Factors like political instability, natural disasters, and economic turmoil all cause investors to demand a premium for putting their capital at risk. Country Risk Premium (CRP) is the additional risk associated with investing in an international company rather than the domestic market. Macroeconomic factors such as political instability, volatile exchange rates and economic turmoil causes investors to be wary of overseas investment opportunities and thus require a premium for investing. The country risk premium (CRP) is higher for developing markets than for developed nations. This premium increases the cost of capital at which an investment’s cash flows are discounted, negatively impacting the stock's valuation. [14].

Reputation is the key for assessing country risk. Reputation is built upon a country’s social peace and institutional behaviour through time. A high degree of social stability and extended periods of institutional consistency and continuity earn a nation trustworthiness and low levels of country risk. Observe that country risk does not have as much to do with the quality of economic policies as with their stability and consistency [6].

**The Country Risk Adjustment.** Most practitioners are convinced that developing countries are inherently riskier. Hence a higher return must be expected from investments in these nations to account for the additional “country risk”. In most valuations this risk adjustment is accomplished by adding a spread called the “country risk premium” to the discount rate of an equivalent investment in a developed market.

The majority of practical models are based on the CAPM (Capital Asset Pricing Model). The most popular one is probably the following adapted CAPM:

\[
E(R_i) = R_f + \beta_i (E(R_m) - R_f) + CR
\]

where:

- \(CR\) is a country risk premium [7].

It is worth reminding that one of the most important assumptions of the CAPM is that investors are fully diversified meaning that they are able to diversify at negligible cost all the intrinsic risks of their investments, so that only those risks that cannot be diversified away must be accounted for in the discount rate. These non-diversifiable risks are known as systematic since they are correlated with the market portfolio.

There are many other variants to this well-known approach. What they all have in common is that the discount rate is estimated using the CAPM as the base model and the resulting expected return is adjusted with a measure of country risk. Some common adjustments follow:

- An additional risk premium is added to or subtracted from the discount rate resulting from the model described above. The magnitude of this additional premium is often quite subjective and depends on the country where the project takes place, or
- The relative volatility of the stock market index of the emerging country is factored in, or
- The country risk premium is added to the market risk premium, or
- The country risk adjustment depends on the proportion of foreign revenues of the firm or project. [7], [8], [9].

**Methodology of country risk evaluating.** In practice, a number of methods for country risk evaluating could be introduced because of variety of approaches to them. But we introduce two of them, most obvious ones:

- Modified International CAPM (MICAPM)
- Systematic Country Risk Modulator (SCRM) [8]

**Modified International CAPM**

This approach is much the same as traditional CAPM but has one but very important distinction. To include CRP in our model we use weighted beta which is indicated as \(\beta_w\). So the whole formula will be the following.

\[
E(R_i) = R_f + \beta_w \left( E(R_m) - R_f \right) + CR
\]

\(\beta_w\) is computed as:

\[
\beta_w = \sum_{i=1}^n \alpha_i \beta_{BI}
\]

where,

- \(\beta_{BI}\) – stands for the beta of a similar investment in country i;
- \(\alpha_i\) – is the net weight in the firm’s overall operating cash flows of the portion of cash flows associated with country i.

\(\beta_{BI}\) is computed as:

\[
\beta_{BI} = \beta_{BM} \cdot \beta_{IM}
\]
\[ \beta_{BM} \] is the beta of a similar business in a developed country with respect to a market proxy (i.e., S&P 500); 
\[ \beta_{iM} \] is the beta of the relevant country stock market index with respect to the market proxy.

**Systematic Country Risk Modulator**

\[ E(R_i) = \beta_{iM} (E(R_m) - R_f) + \lambda CR \]

where,

- \( CR \) is a proxy for the country risk premium, say yield spread between government bonds;
- \( \lambda \) is the square of the sample correlation coefficient between the historical returns of the local stock market index and the market proxy index. This parameter can be interpreted as the proportion of total variability of the returns of the local stock market index that can be explained by the returns of the proxy market index.

\[ \lambda = \left( \beta_{iM} \right)^2 \frac{\sigma_M^2}{\sigma_i^2} \]

where,

- \( \beta_{iM} \) is the beta of the local market stock index with respect to the market proxy;
- \( \sigma_M \) is the standard deviation of the market proxy returns;
- \( \sigma_i \) is the standard deviation of the local index returns.

**Data and Sample Selection.** The present case is realized by using the data about companies traded in the Ukrainian Stock Exchange (UX). The data are obtained from UX Data Base. The source of data is an official web-site of the Ukrainian Exchange [12]. The study covers the period from 29.07.2009 to 05.08.2011.

The study uses daily stock returns of 14 companies traded in the market in the year 2009 – 2011. The selected sample consists of 14 stocks that are included in the formation of the UX and PFTS indices.

All securities included in the sample are traded on the UX on a continuous basis throughout the full Ukrainian stock exchange trading day.

The 1-year Ukrainian Government Bonds (UGB) are used as the proxy for the Ukrainian risk-free asset. The yields were obtained from the statistic data of the National Bank of Ukraine. Also, for calculating the country risk premium (CR in the formula) US Treasury Bond (USTB) were taken. The data were obtained from U.S. Department of the Treasury data base [13].

**Results and Analysis.** For testing method of Systematic Country Risk Modulator was used. Analyzing mentioned above formula it is logically to start from deciding what will be a market proxy. It is rather difficult question to answer and it could not be one definite opinion on this question. Finding a true proxy (or reflection) of the market as a whole may not be possible, because a proxy will only be a fragment of the entire market for all risky assets. As well, every proxy for the market would need to be unique, according to what is being traded or measured. In this particular study we use Public Joint Stock Company “Донбассенерогенерирующая компания “Центргенерго” (Ticker on UX: CEEN). It gives us a broad representation (see Figure 1) of the overall market and takes 20.48% of Index Basket. From this graph we can see that CEEN and UX are highly correlated \( (R^2 = 0.92) \).

The next step was to calculate standard deviation of the market proxy returns and the local index returns. Also for calculating \( \lambda \) we need to know the \( \beta_{iM} \), which was also calculated. The results are represented in table 1.

The next step was to calculate CR, which is the difference between Ukrainian Government Bonds and US Treasury Bond rates. Accordingly to the data, the average rates from 29.07.2009 to 05.08.2011 were 10.1% and 3.3% correspondingly.

After some calculations, the CAPM [12] for chosen companies having regard to country risk was determined. The results are represented in Table 2.

The results of these table clearly shows high value of country risk at the Ukrainian Stock Market. This should be taken to the account of the investors.

It is very important to be aware that there is no such thing as a unique value for a firm, and that this is even more definite in highly volatile emerging markets. The best an investor in emerging markets can do is to make a well-educated decision as to a reasonable price range. The higher the price, the higher the probability that the true value be lower.

**Conclusion.** In most emerging market valuations a risk adjustment is accomplished by adding a spread called the “country risk premium” to the discount rate for an equivalent investment in a developed market.

In the paper a modified CAPM is proposed. The model allows for income and expenses in different countries and uses a (representative) developed stock market as the proxy for the market portfolio and the basis for the computation of project beta. The correct incorporation of systematic risk remains a challenge for different reasons.

The first problem with the application of modified CAPM is connected with indirect estimation of beta. Publicly traded securities are the natural information source for those interested in estimating beta for a real investment. In developed countries it is straightforward process to select one or more publicly traded companies in the same or similar line of business as the company being analyzed. Then their corresponding betas are obtained from an information service. The project beta should be within the range of these company betas. However, generally this procedure is not as easily done in developing countries because of short history and high volatility of the stock markets, illiquidity of these markets, limited number of firms in many lines of businesses and low frequency at which each stock is traded with respect to the average.

Secondly, we have to consider impact of country
risk and its correct evaluation. There is no clear-cut solution to this problem, and we must accept a degree of ambiguity in systematic risk. The only way out is to add this imprecision to the other factors associated with the estimation of beta and experiment with different values of this parameter. This problem alternatively could be solved using another proxy for the developing economy. In this case the problem with searching for representative indicator begins. This indicator must be provided by frequent data and statistically estimated.

Third problem stems from the quality of information sources. Of course, this problem deals with level of experience and qualification of analysts. Every approach requires deep gradual analysis of particular developing market for more accurate evaluation of country risk and, consequently, more accurate CAMP evaluation. As a solution, one can use useful web pages with data and information on many countries (Transparency International, Reuters, Bloomberg etc.) information of main rating agencies.

Risk and flexibility is the final problem in the correct application of modified CAPM. Country risk is often manageable. The task for investors in developing countries is to structure investments in such a way that country risk is minimized (hence expected cash flows are maximized). A common country risk management strategy is to build in future project flexibility.

Finally, we must realize that no modified CAPM could be a panacea. Not all kind of risks could be obvious and manageable. In every particular market we could face with specific, peculiar only to this particular economy, risks, which need to be taken into consideration. However, in spite of these important limitations we believe it to be a more appropriate model for emerging countries than the traditional country risk premium approach.

References

### Systematic Country Risk Modulator estimations

<table>
<thead>
<tr>
<th>Equity</th>
<th>Beta</th>
<th>CAPM</th>
<th>SCRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALMK</td>
<td>1,45</td>
<td>17,23%</td>
<td>27,03%</td>
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</table>


### Table 2

#### Key words: ukrainian stock market, country risk, financial decisions in emerging markets, beta coefficient, investment.

**Хоменко Я. В., Молчанов О. І., Шейка Е. С. Практический подход для количественного измерения страновых рисков на украинском фондовом рынке**

В данной статье отображены теоретические основы расчетов странового риска для развивающихся рынков, а также результаты тестирования модифицированных с учетом странового риска CAMP для украинского фондового рынка. Исследование базируется на данных украинской фондовой биржи и индекса UX за 2009 – 2011.

**Ключевые слова: украинский рынок ценных бумаг, страновой риск, модель оценки финансовых активов, бета коэффициент, инвестиции.**

**Khomenko Ya. V., Molchanov O. I., Sheyka K. S. A Practical Approach for Quantifying Country Risk on the Ukrainian Stock Market**

This article represents the theoretical basis of country risk evaluating for emerging markets. It also contains the results of testing modified CAPM which include country risk premium for Ukrainian stock market. The study is based on data from the Ukrainian Stock Exchange and UX index for 2009 – 2011.

**Key words: ukrainian stock market, country risk, capital asset pricing model, beta coefficient, investment.**

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PENSION FUNDS: INVESTMENT RISK MANAGEMENT

Introduction. Pension provision has always been an important issue for every government as it contributes to the economic image of the country in general and impacts on the population’s trust to government. One of the most important tasks of social-oriented market economy development in Ukraine is pension system reform. Because of the new economic, social, political and demographical realities, our country has an objective need to implement a system of non-state pension provision, which is actually one of the foreground directions of social security system development. The current most serious concern is the extraordinarily large public pension expenditures (approximating to 16% of GDP), which is almost twice as large as the average public pension expenditures in EU countries. The process of population ageing and an increase of pension age citizen's share amplify the social and financial pressure on the working population of the country and becomes a reason for the heightened attention of society towards non-state pension funds system development.

Since independence, Ukraine has undertaken very minimal reforms of the social sector. The State Pension Fund was the fundamental of Ukrainian pension system. The main source of retirement income is provided by state solidarity pension insurance system financed on a pay-as-you go basis. Private (non-state) pension funds have been implemented and legislated since 2004, when the law “On Mandatory State Pension Insurance” was adopted, and have formed the third pillar of Ukrainian pension system. Nevertheless, they still have not gained the popularity in Ukraine, unlike in other European countries. Moreover, there is a slight reduction in their activity. At the end of the 2012 there are 94 non-state pension funds that are functioning in Ukraine, but none of them tends to be stable and developing. The situation is considerably different in other countries. The most of private pension funds have proved to be effective and secure despite all the risk that is undertaken.

The analysis of scientific researches. A variety of problems connected with state and non-state pension funds effectiveness is a topic for discussion for foreign scientists and series of researches are devoted to risks of pension system. For example, Dorothee Franzen examines investment risks in defined-benefit pension funds [1]; Sandy Halim, Terrie Miller, and David Dupont held a global survey on how pension funds manage investment risk [2] and so on.

The reforms of pension system and pension provision in general is the question which is becoming more and more topical in Ukraine, especially due to the pension reform recently implemented. For those reasons, the number of Ukrainian researches devoted to this topic is rapidly growing. So, A. Bakhmach in the research pays attention to the non-state pension provision system development in Ukraine [3]. T. Salnikova analyses the reliability of private pension [4]. P. Floreskul underlines the importance of non-state pension provision in social security of Ukrainian citizens [5]. A. Kazanchan examines and researches pension provision and its connection with pension insurance [6]. N. Telichko and G. Kuzmenko analyse the influence of non-state pension funds at social-economic development of the country [7]. V. Pavliv in his research describes the current state of non-state pension provision system and underlines difficulties and problems of its development [8]. Tolubyak V. proposes the new classification of risks which pension providing system undertakes [9]. However, the question of different kind of pension system’s risks which one can face is not well considered in Ukrainian scientific literature.

Pension system attracts big volumes of financial resources and contains numerous risks. That is why the government policy in this sphere has to be directed at using special approaches and methods of defining pension system’s risks and adequate reaction at their negative demonstration. Thereby the main goal of this paper is to make profound and complex research existing and potential risks of pension system in order to define the ways of overcoming their negative effects.

The research. In conditions of market economy, social insurance is the main institution of person’s security and pension provision is a basic and one of the most important social guarantee of stable development of the society, as it directly affects interests almost of all the people. During the recent decades, the current system of state pension provision, based on the redistribution principle, has faced the disability of providing their participants with the decent level of pensions, due to the demographical changes in the population structure which are connected with increase of the pensioners’ share and decrease of the number of employable population.
To improve the situation, there are certain measures to be taken. The current state of pension system requires the implementation of new types and models of pension provision in Ukraine, based on the experience of highly-developed countries.

First of all, the implementation of new pension plans is essential. In broad terms, and depending on how pension benefits are calculated and who bears the inherent risk, pension plans can either be defined benefit (DB) or defined contribution (DC) in nature. Defined benefit plans are plans where the employer guarantees to pay the employee at retirement a fixed monthly income for life. Defined contribution plans are plans in which the employer agrees to contribute a fixed amount to the employee's pension fund each year in which the employee is employed. The income that the employee receives during retirement depends upon how much money the plan accumulated and how much income that amount can generate. Under both types of plans, funding of the pension can be in the form of contributions made by the employer alone or by contributions from both the employer and employee.

The defined-contribution pension scheme is a private pension plan which is gaining popularity in a wide range of countries, in which private pension provision is a main source of retirement income for pensioners. The number of private funds which provide members with such type of scheme is rapidly growing, meanwhile in Ukraine, not only this type of scheme is not developed, but also the number of pension funds and private pension contracts has recently faced a dramatic fall. However, the main indicators of non-state pension funds activity are positive, which proves that this system has potential and can be developed and effective in the future.

Defined contribution pension plan has a fixed contribution usually based as a percentage of the employees’ salary (usually employer matched). The benefit is dependent on how the portfolio performs with no guarantees as to how much income you’ll receive during retirement. For the astute investor, a defined contribution plan has the benefit of total control over the money/portfolio. The investor can choose various funds and asset allocation within the plan.

Typically speaking, an employee doesn’t have a choice as to whether to enroll in a defined benefit plan or a defined contribution plan. It’s usually one or the other depending on the company. Defined contribution plans are becoming more popular as they are much less risk to the company and arguably the employee as well.

Ukrainian pension system should implement changes to adopt the social insurance principles of the Notional Defined Contribution (NDC) type PAYG schemes. The implementation of DC pension scheme can have a range of advantages both for the retirees and Ukrainian economy. Government rarely invests pension contributions, so basically people pay taxes to make pension contributions, but, this money are rarely invested. Instead government pays pension payments out of current expenditure. This means with an ageing population, they will struggle to pay the pension commitments. What is more, the most of private pensions around the world enable the government to lower taxes. Arguably lower income tax may increase incentives to work. Lower corporation tax may increase incentives for business investment, so this point can be implemented into Ukrainian system as well.

Moreover, the support ratio in Ukrainian as well as in all the other countries is declining. A real problem the government faces is that the percentage of people of retirement age is increasing. This means an increase in the dependency ratio. Basically, there will be more people receiving pension compared to the number of people working and paying income tax (Fig.1). This is going to leave a black hole in government finances, relying on private pensions would avoid this problem.

Besides the support ratio, we can see the unstable and insignificant and unstable growth of the replacement rate, which indicates the ratio of the pension itself to the pre-retirement salary (Fig.2). Replacement rate is one of the main indicators of pension system effectiveness, so according to the recent data, Ukrainian pension system is not as effective as it could be, that is also a reason for its reformation.

So, there are four desirable features of the DC:
1. The pension income entitlements are based on average ‘lifetime’ wages, rather than a subset of best or final years’ wages;
2. Benefits are adjusted for early or deferred retirement on the basis of actuarial fairness;
3. Benefits are adjusted as life expectancy increases,
4. The number of pension contracts, thousands unites
<table>
<thead>
<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>69.7</td>
<td>75.0</td>
<td>61.4</td>
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Pension benefits, mln uah
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<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>158.2</td>
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<td>251.9</td>
</tr>
</tbody>
</table>

Profit from assets investments, mln uah
<table>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>433.0</td>
<td>559.9</td>
<td>620.3</td>
</tr>
</tbody>
</table>
so as to reflect the longer duration for which benefits would be paid; and

4. The recognition of periods outside employment (such as unemployment, periods of maternity and parental leave) is achieved by crediting notional personal accounts with additional contributions paid from general public revenues on annual basis.

But at the same time it has the downside:

1. Retirement income is entirely dependent on how the portfolio/market performs over the vested period.
2. Even an employee who has no interested in finances needs to be involved with the portfolio.

As well as being advantageous, DC private pension system undertakes a range of risks. In DC plans, participants bear the brunt of risk, while in traditional DB plans sponsoring employers assume most of the risks. Employers in some countries have introduced hybrid and mixed DB plans, which come in different forms, but effectively involve some degree of risk sharing between employers and employees.

According to V. Tolubyak, non-state pension funds face the political, financial, demographical, market, systematic, investment risks and also the risk of distrust [9]. Among Western pension funds, the investment risk proves to be the most considerable and dangerous.

Risks undertaken by private pension system may also be classified as following:

• social and labour-market risks – different life events – such as persistent low earnings, long-term unemployment, caring for children or older relatives, family problems that affect professional sphere, illnesses and problems with health - can have a negative results on the retirement income of the worker. In other words, the employee may not be capable of making contributions because of the personal reasons. The cost of these risks could be borne by individuals, by governments or by the contributors to pension systems.

• policy risk – political situation in the country can change dramatically and different changes, such as new laws or legislative acts may in unanticipated changes in pension entitlements before or during retirement, perhaps leaving individuals with little or no time to respond by changing their labour-market or savings decisions;
• myopia risk - many workers don’t think much about their future and don’t pay enough attention to saving money for later, especially for retirement. They prefer to consume more right now. This would lead to low pensions and costs for taxpayers and contributors if these retirees were entitled to safety-net benefits [13];
• life-expectancy or longevity risk – despite the fact that recent increase in life expectancy may be celebrated as one of achievements of modern society, not all pension systems are able to ensure to ensure long-term affordability. Moreover, it is much less clear how the burden of such adjustments should be divided between today’s taxpayers, contributors and retirees and future retirees. Furthermore, the estimates of life-expectancy increases on which pension decisions have been based have, regrettably, often turned out to be wrong. The growth of life expectancy, especially at retirement age, has consistently been underestimated [14];
• investment risk – the risk that the return is not produced due to unexpected behavior of the investments. Both internal and external factors may cause assets to not behave as expected. So, generally, investment risk may be divided into two groups: external and internal influences.

Despite the fact that it is difficult to manage such risks as longevity or policy ones, pension funds successfully manage the investment risk, using the wide range of methods. The most popular are regulation of investments in pension funds, establishment of surplus funds, diversification and asset allocation reviews.

Regulation of investments in pension funds (establishment of limits on investments) is the method which is used in the most countries. It basically means that there are certain limits on investments in some particular sphere, which regulated by law or by pension fund itself.

Establishment of surplus funds is a key method to protect participants’ money. They are formed of the money left after all the liabilities, taxes and fixed payments. Surplus funds play a role of some kind of insurance for the case of emergency. In case when the pension fund faces the risk and can bear it, the benefits are paid to participants from surplus fund.

Diversification is also one of the most important methods. It’s a worldwide known risk management technique that mixes a wide variety of investments within a portfolio. In that case, pension funds are protecting themselves from big losses in one particular form of investments and therefore are reducing the risk in general. It is the method used the most widely around the world. Figure 3 shows the asset allocation of the largest pension system funds’.

Finally, it is essential to review asset allocation in order to monitor its effectiveness and to define whether the assets behave as expected.

**Conclusion.** Non-state pension funds play an important role in the system of pension provision. Defined-contribution pension scheme is the most popular and developed type of private pension provision and Ukraine has a great potential to implement this type of pension plan. The first steps have already been made as we can see a slight increase in the number of private pension funds and growing amount of pension benefits. Despite the fact, that private pension provision system is affected by various risks, we can see from the foreign countries’ experience that they are manageable, even though there are certain losses to be taken. The most successfully foreign pension funds manage investment risks, using such methods as diversification, surplus funds.

![Fig. 3. Pension funds’ asset allocation in 2011 (% of total investment) [15]](image-url)
establishment, regulation of investments and asset allocation review. The development of private pension funds as institutional investors, which can optimize the Ukrainian pension system functioning is the topic for further research.

References

Parfyonova L. G., Bikinina O. O. Pension Funds: Investment Risk Management

In the article the necessity of the pension system reform was proved. The basic types of pension plans non-governmental pension provision were described. The pension plan which is the most suitable for the modern condition of the Ukrainian pension system was defined. The risks associated with the functioning of the pension system were classified. The main methods of risk management were suggested.

Key words: pension system, non-state pension funds, investment risk, risk management.

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CREDIT MARKET LIBERALIZATION REFORM OUTCOMES

Introduction. Many economists (Kaminsky and Reinhart, 1999; Bhagwhati, 1998; Gupta et al., 2009; Quinn and Toyoda, 2009 and others) have long debated over the effects of financial liberalization on economic growth. Financial liberalization may have a positive impact on growth through its effect on efficiency of resources allocation in economy (quality effect), rather than through the quantity of mobilized capital (quantity effect). Financial liberalization is strongly associated with an increase in the role of market and a reduction in the role of government in credit allocation. Free access to international capital markets increases competition in domestic financial markets. Domestic financial institutions, facing competition from international players, become reluctant to extend credit to inefficient producers. Mobile capital forces the government to maintain macroeconomic prudence, further reducing the government’s ability to intervene in the domestic credit market [1]. Thus, the result of the liberalization of the financial sector and the main feature of world economy globalization is the international movement of capital that is implemented in the international credit market. This market, being the most dynamic sector of the international market of loan capital, is very susceptible to changes in the global economic space. All this makes it important to analyse credit market liberalisation in order to understand better the reasons for current economic situation in the world.

Results and analysis. The process of credit market liberalization was affected by number of factors such as timing of the reform, initial reform conditions and others, which led to cross-country differences in credit market. Building a sound and effective financial system cannot be achieved overnight, but rather requires a complex of short-term policy measures, medium-term reform processes and long-term institution building. Abolishing interest rate ceilings and floors, eliminating directed credit programs and imposing transparency requirements are policy reforms that can be legislated speedily, regulated and implemented, as the experience in many developed and developing countries has shown. Other processes can take longer, such as privatizing government-owned banks and establishing a system of credit information sharing. Reforming legal systems and building regulatory and supervisory capacity are long-term institution building processes [2].

International credit markets were highly integrated in the 1890s but were disrupted by two World Wars and the Great Depression. International investment, relative to output, reached the lowest level during the 1950s and 1960s.

After the first oil shock of 1973, the developed economies experienced a dramatic decline in their economic growth and labor productivity growth. Since the mid-1970s the productivity decline triggered a wide range of policy responses, including credit market liberalization (CML) across a wide range of countries. The CML reforms were initiated in the US, followed by the UK and other developed economies in the early 1980s and were imitated by the new democracies and many developing countries with an extensive set of labor-, capital- and product-market reforms in 1990s.

Using the strategy proposed by Estevadeordal and Taylor [10] it is possible to identify 4 distinct categories of countries:

1. Reformers in the first period – the early reformers (1975 – 1990): New Zealand etc.
2. Reformers in the second period – the late reformers (1990 – 2005): Turkey, Australia, South Africa etc.
3. Reformers in both periods – the “marathon” reformers (1975 – 2005): USA, United Kingdom, Germany, Canada etc.
4. Non-reformers in both periods: Singapore, Jordan, Jamaica

Developed and developing countries around the world liberalized their financial systems, allowing markets to set interest rates, eliminating control so that capital could flow freely across borders, and open their doors to foreign financial firms. However, there were significant differences in the pace and scale of reform. The given graph observes the difference of the GDP growth in various regions of the world.

The financial repression that prevailed in developing and transition countries in the 1970s and 1980s reflected a mix of state-led development, nationalism, populism, politics, and corruption. The financial system was treated as an instrument of the treasury: governments allocated credit at below market interest rates, used monetary policy instruments and state-guaranteed external borrowings to ensure credit supplies and public sector firms, and directed part of the resources that had been left to sectors they favored.

In 1974 – 1975 in the U.S. there was a drop in production, unemployment, chronic underutilization of
production facilities with a chronic increase in prices. This phenomenon is called stagflation. At that time the model of state regulation reduced its strength. According to the monetary concept, which replaced the neo-Keynesianism, the government of the US began to focus on the monetary authorities and use the monetary policy to achieve sustainable economic growth.

Financial regulations generally fall into two broad categories [3]:
1. “rate/quantity” regulations on bank deposits and loans, including ceilings on bank deposit rates and quantitative measures that have similar effects (credit ceilings, capital controls, etc.);
2. “powers” regulations governing the extensiveness of activities of individual financial institutions, which are authorized to carry out various borrowing and lending functions, can participate in the payments system, or in securities underwriting, equities, insurance, etc.

The credit market liberalization reforms were followed by other developed economies in the early 1980s. The US, the UK and Canada rapidly removed rate/quantity and powers regulations. While some powers regulations are still applying, their financial systems may be described as highly competitive. Japan in 1980s removed capital control at the beginning of the decade and gradually introduced market alternatives to regulated bank deposits throughout the decade. Developments proceeded more cautiously in France and Italy, with capital controls being removed only gradually throughout the 1980s and rate/quantity and powers regulations were still applied fairly extensively in 1990s. While Germany was one of the first countries to remove rate/quantity regulations in the 1960s and 1970s, it was relatively slow to implement “powers” deregulation. As a result, competition between German banks remained muted, and short-term financial instruments paying market returns were readily available as alternatives to bank deposits throughout the 1970s and 1980s.

Australia, New Zealand and most of the Scandinavian countries were prominent amongst the smaller economies that had moved more quickly in the direction of financial liberalisation in the mid-1980s and 1990s. Others such as Greece, Portugal and Spain retained better regulated financial systems.

Before the financial market liberalizations of the late 1980s and early 1990s the peaks and troughs of some emerging countries (Argentina, Brazil, Mexico, Chile, Korea, Thailand) were not aligned at all. Furthermore, they were not aligned with those identified for the US. In fact, all six countries seemed to follow widely different patterns before 1990. After 1990, a time when these countries either initiated, or were about to launch their reforms, individual cycles began to exhibit evident co-

movement. This finding suggests that in the post-reform period, the emerging markets were becoming significantly more integrated with each other [4].

1990 marks an important change in economic history with the start of many market-oriented reforms across a wide range of economies. The credit market liberalization that took place in the developing countries in the 1990s was a part of the general move toward giving markets a greater role in development. It was also a reaction to several factors specific to finance: the costs, corruption, and state-led development. The earliest policy changes focused generally on interest rates. In many instances governments raised interest rates to mobilize more resources needed to finance budget deficits and to enable the private sector to play a greater role in development. The countries began to admit foreign currency deposits to attract offshore funds and foreign currency holdings into the financial system as well as allow residents legal access to foreign currency assets.

Countries with better developed financial systems, i.e. financial markets and institutions that more effectively directed society’s savings to their most productive use, experienced faster economic growth. Countries with higher credit levels to the private sector in relation to GDP were experiencing higher average annual real GDP per capita growth rates over the period from 1980 to 2003.

There are a number of channels through which financial liberalization may affect growth. Foreign investors, being interested in improved benefits of diversification, will increase local equity prices permanently by reducing the capital and increasing investment cost. If this additional investment is efficient, then economic growth should increase [5].

Nowadays it is observable that the largest national credit markets are in the USA, China, Japan, Germany, France and the United Kingdom.

The following table shows such indexes as: Gross domestic product (GDP), GDP per capita, Gross national income (GNI), real GDP growth and the household disposable income. They identify the level of development of the economy (Fig. 1 – 3).

Financial liberalization leads to a one percent increase in annual real per capita GDP growth over a five year period, and finds this increase statistically significant. This result is robust to a wide variety of experiments including: an alternative set of liberalization dates, different groupings of countries, regional indicator variables, different weighting matrices for standard errors calculation and four different time-horizons for measuring economic growth [6]. In many cases the countries that lagged behind with their liberalization reforms prior to 1990 but accelerated their reforms after 1990 had lower per capita
### Table 1

<table>
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<th>Year</th>
<th>ARG</th>
<th>BRA</th>
<th>CHI</th>
<th>KOR</th>
<th>MEX</th>
<th>THAI</th>
<th>US</th>
</tr>
</thead>
</table>

*Log income per worker (PWT) relative to 1975–89 trend in liberalizers and nonliberalizers*

**Fig. 1. The Great Liberalization and Growth Accelerations**
Fig. 2. The Central Banks’ Assets on the Largest Credit Markets

Table 1

<table>
<thead>
<tr>
<th>Countries</th>
<th>Gross domestic product (GDP) (Bln USD current PPPs)</th>
<th>GDP per capita (USD current PPPs)</th>
<th>Gross national income (GNI) per capita (USD current PPPs)</th>
<th>Real GDP growth (annual growth %)</th>
<th>Household disposable income (annual growth %)</th>
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</tr>
<tr>
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<tr>
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<td>8.9</td>
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</tbody>
</table>

Sources: World Economic Outlook, ECB, Federal Reserve.

Fig. 3. The Most Developed Economies (based on the GDP per capita index in the 2010)
GDP levels than the early reformers and the “marathon” reformers.

Conclusion. CML reforms played a significant role in credit markets developing as well as the whole economies. They gave countries an access to larger amounts of international financial flows, in order to attract a part of the substantially increased flows of financial capital to the so-called “emerging markets” since the late-1970s. International capital flows have increased substantially over the past years, especially portfolio flows and foreign direct investment. More and more emerging markets have decided to open their economies for inward and outward equity and debt investment. Cross-country comparisons have shown that countries experience higher capital inflows, lower capital cost for enterprises raising funds through stock exchanges, higher investment growth, improved capital allocation and ultimately higher GDP per capita growth rates after making their economies accessible to equity inflows (Bekaert and Harvey, 2003).

Among countries with functioning financial markets, financial liberalization leads to faster average long-run growth. That is why proponents of liberalization point out that financial development and credit market liberalization are strongly associated with economic growth.

References
Introduction. Two economical giants exist in the world influencing monetary policy creation. They have powers and established system on regulation of the multiregional economic conditions. Comparing these two systems we can find out and analyze the necessity, benefits or drawbacks of their work. Sometimes we even cannot imagine how global and stable they can be. With the help of systematic comparison of Eurosystem and the US Federal Reserve System we can explore the importance of their existence as a major source of financial resources. The legal status and several of their tasks differ; there are fewer differences in their institutional structures, monetary policy frameworks, as well as the use of policy instruments.

The Federal Reserve System and ECB. These systems are unusual mixture of both public and private elements. It can influence on how fast or how slow the economy will grow or contract. Let’s consider the structure of the ECB and The Federal Reserve.

On June 1, 1998, the Executive Board of the ECB held its first meeting at its headquarters in Frankfurt, Germany [4]. Six months later the ECB assumed responsibility for monetary policy in the euro area, bringing to fruition a plan for monetary union first outlined nearly two decades earlier. The euro area is unique among common currency areas. 12 sovereign nations have not only adopted a common currency, the euro, but have also created a supranational organization, the ECB; this institution, along with input from the head of each member country’s national central bank, sets monetary policy for the euro area. 90 years ago, the Federal Reserve Act created a central bank for the United States consisting of 12 regional (District) Federal Reserve Banks and a seven-member Federal Reserve Board in Washington, D. C. In 1935 the Federal Reserve Board was renamed the Board of Governors of the Federal Reserve System. The European System of Central Banks consists of 15 national central banks and a six-member Executive Board in Frankfurt, Germany. The 15 central banks correspond to the 15 member countries of the European Union. The three central banks whose countries are not members of the euro area participate in few of the activities of the European System of Central Banks. The Eurosystem is the term used to refer to the ECB and the 12 national central banks of the member countries [5]. The 12 Districts of the Federal Reserve System, in contrast to the national central banks of the Eurosystem, do not correspond to political entities. These 12 Districts are divided along county lines, encompassing not only multiple states, but portions of states. Indeed, in the early years of the Federal Reserve System, some border counties petitioned and were allowed to switch Districts. In the table below we can see the main differences between Federal Reserve and ECB systems.

Based on this table we’ll consider strategy of both systems in more detail because it is one of the fundamental differences.

Monetary Policy. The main function of both the Federal Reserve and the ECB is to conduct monetary policy to achieve the goals assigned by their respective charters [11]. In the short run, monetary policy influences inflation and the economy-wide demand for goods and services and, therefore, the demand for the employees who produce those goods and services. It occurs primarily through its influence on the financial conditions facing households and firms. The inflationary consequences of rising commodity prices represent an important challenge for monetary policy. Rising commodity prices result in an increase in inflation, but at the same time have negative consequences on economic activity. Their implications for monetary policy are less straightforward than those of demand shocks. For example, a positive demand shock, that increases inflation and output, calls for monetary tightening in order to stabilize both. However, the implications of commodity price shocks are less clear cut. During normal times, the Federal Reserve has primarily influenced overall financial conditions by adjusting the federal funds rate – the rate that banks charge each other for short-term loans [11]. Movements in the federal funds rate are passed on to other short-term interest rates that influence borrowing costs for firms and households. Movements in short-term interest rates also influence long-term interest rates (such as corporate bond rates and residential mortgage rates) because those rates reflect, among other factors, the current and expected future values of short-term rates. In addition, shifts in long-term interest rates affect other asset prices, most notably equity prices and the dollar’s exchange rate.

Monetary policy also has an important influence on inflation. When the federal funds rate is reduced, the resulting stronger demand for goods and services tends to push wages and other costs higher, reflecting the greater demand for workers and materials that are necessary for
production [2], [8]. In addition, policy actions can influence expectations about how the economy will perform in the future (Figure 1), including expectations for prices and wages, and those expectations can themselves directly influence current inflation. Monetary policy has an important additional effect on inflation through expectations – the self-fulfilling component of inflation [3]. Many wage and price contracts are agreed to in advance, based on projections of inflation. If policymakers hike interest rates and communicate that further hikes are coming, this may convince the public that policymakers are serious about keeping inflation under control [6]. Long-term contracts will then build in more modest wage and price increases over time, which in turn will keep actual inflation low.

Monetary policymakers and central banks universally recognize that, in the long run, inflation is strictly determined by monetary policy [7]. However, they disagree sharply about the role of monetary aggregates in the conduct of monetary policy.

Monetary aggregates. Given that many different financial assets are close substitutes, and that the nature and characteristics of financial assets, transactions and means of payment are changing over time, it is not always clear how money should be defined and which financial assets belong to which definition of money. Central banks usually define and monitor several monetary aggregates. The ECB’s definitions of euro area monetary aggregates are based on harmonized definitions of the money-issuing sector and the money-holding sector as well as of categories of monetary financial institution (MFI) liabilities. The money-issuing sector comprises MFIs resident in the euro area. The money-holding sector includes all non-MFIs resident in the euro area excluding the central government sector [9]. Based on conceptual considerations and empirical studies, and in line with international practice, the Eurosystem has defined a narrow (M1), an “intermediate” (M2) and a broad monetary aggregate (M3). These aggregates differ with regard to the degree of liquidity of the assets and include:

- M1 includes currency, i.e. banknotes and coins, as well as balances that can immediately be converted into currency or used for cashless payments, such as overnight deposits.
- M2 comprises M1 and, in addition, deposits with an agreed maturity of up to two years or redeemable at a period of notice of up to three months. These deposits can be converted into components of narrow money, but some restrictions may apply, such as the need for advance notification, penalties and fees.
- M3 comprises M2 and certain marketable instruments issued by the resident MFI sector [5]. These marketable instruments are repurchase agreements, money market fund shares/units and debt securities with a maturity of up to two years (including money market paper). A high degree of liquidity and price certainty make these instruments close substitutes for deposits. As a result of their inclusion, broad money is less affected by substitution between various liquid asset categories than narrower definitions of money, and is more stable.

### Comparative analysis

<table>
<thead>
<tr>
<th>ECB</th>
<th>Fed</th>
</tr>
</thead>
<tbody>
<tr>
<td>structure</td>
<td>Majority of the NCB</td>
</tr>
<tr>
<td>objectives</td>
<td>Price stability</td>
</tr>
<tr>
<td>strategy</td>
<td>Two-pillar approach</td>
</tr>
<tr>
<td>doctrine</td>
<td>Rule-based monetary policy</td>
</tr>
<tr>
<td>independence of each</td>
<td>High level of independence</td>
</tr>
<tr>
<td></td>
<td>European institutions have no authority over ECB</td>
</tr>
<tr>
<td></td>
<td>Lack of transparency</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rule based</th>
<th>Discretionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>= one response to every economic situation</td>
<td>= come to a decision case-by-case</td>
</tr>
<tr>
<td>+consistency</td>
<td>+flexible</td>
</tr>
<tr>
<td>+plausibility</td>
<td>+best reaction</td>
</tr>
<tr>
<td>+predictable</td>
<td></td>
</tr>
<tr>
<td>+quick decisions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ECB &amp; €</th>
<th>Fed &amp; $</th>
</tr>
</thead>
<tbody>
<tr>
<td>- a new central bank and currency</td>
<td>- an established central bank and currency</td>
</tr>
<tr>
<td>- a heterogeneous area</td>
<td>- a homogeneous area</td>
</tr>
</tbody>
</table>

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97
Holdings by euro area residents of liquid assets denominated in foreign currencies can be close substitutes for euro-denominated assets.

**Effect of Monetary Policy.** Unanticipated changes in monetary policy will produce both price (substitution) and income effects [8]. The sequence of events to occur with regard to the price effect is as follows:

- Real interest rates will be reduced.
- As real interest rates are reduced, domestic financial and capital assets become less attractive as a result of their lower real rates of return. Foreigners will reduce their positions in domestic bonds, real estate, stocks and other assets. The financial account (or balance on capital account) will deteriorate as a result of foreigners holding fewer domestic assets. Domestic investors will be more likely to invest overseas in the pursuit of higher rates of return [3].
- The reduction in domestic investment by foreigners and the country's citizens will decrease the demand for the nation's currency and increase the demand for the currency of foreign countries. The exchange rate of the nation's currency will tend to decline.
- With no government intervention, the financial account and the current account must sum to zero. As the financial account declines, the current account will be expected to improve by an equal amount. In other words, the balance of trade should improve. The country's export will have become relatively cheaper and imports will be relatively more expensive.

The effect of an expansionary monetary policy is to lower the exchange rate, weaken the financial account and strengthen the current account. A restrictive monetary policy would be expected to result in the opposite: a higher exchange rate, a stronger financial account and a weaker current account (a more negative, or a less positive balance of trade) [1]. With a program of expansionary (easy) monetary policy, the following sequence of events would be expected to occur with regard to the income effect:

- The domestic GDP will rise.
- The rise in domestic GDP will tend to increase the demand for imports. The increase in imports will cause the current account to deteriorate.
- The increase in imports purchased will increase the need to convert domestic to foreign currency. As a result, the exchange rate of the domestic currency will decrease.
- With no government intervention, the financial account must now move toward a surplus as the financial and current account must sum to zero. Due to the increase in imports, foreigners will now have a surplus of the nation’s currency. If foreigners do not use that currency to purchase the country’s exports (which would improve the current account balance), they will ultimately need to invest that currency in the assets of the domestic country. This explains why countries such as China and Japan invest large sums in assets such as U.S. Treasuries. The holders of the U.S. $ must put it to work somewhere! Foreign investors are often getting better rates of return than what might be readily apparent because the value of the domestic currency is falling relative to their own currency. In summary, the income effect of expansionary monetary policy tends to lower the domestic currency exchange rate, weaken the current account and work to improve the financial account. A restrictive monetary policy tends to cause the opposite due to the income effect. The domestic currency exchange rate increases, the current account improves and the financial account weakens.

**Conclusion.** The Federal Reserve and the ECB view the role of monetary aggregates in the conduct of policy very differently. For the Fed, the aggregates are just one set of many economic indicators that are monitored for insight into the outlook for economic activity and inflation [10]. For the ECB, the aggregates – M3 in particular –
represent one of two pillars of monetary policy [5]. As such, developments with the money supply carry more weight in policy decisions at the ECB than developments with other indicators of the outlook for economic activity or inflation. This difference in the role assigned to money in monetary policy stems from two related sources. First, as a new central bank, the ECB needed a monetary strategy in place that would give it the inflation fighting credibility of the national central banks it was replacing. In particular, the ECB wanted to inherit the credibility of the German Bundesbank [4]. Although the ECB chose not to target money growth in the way the Bundesbank did, “the ECB strategy preserved a special role for money. Second, as an empirical matter, money growth is more highly correlated with inflation in the medium to long run and a better predictor of inflation in the Euro area than in the United States. Going forward, the role of money in monetary policy is likely to be continually examined within both the Federal Reserve and the ECB. At the Fed, Chairman Bernanke has said, “...the Federal Reserve will continue to monitor and analyze the behavior of money. Although a heavy reliance on monetary aggregates as a guide to policy would seem to be unwise in the U.S. context, money growth may still contain important information about future economic developments”. Attention to money growth is thus sensible as part of the eclectic modeling and forecasting framework used by the U.S. central bank [10].

At the ECB, policymakers will need to evaluate recent rapid money growth in the context of future inflation developments. A key question is whether the recent acceleration in the decline in M3 velocity is permanent or temporary. If permanent, ECB policymakers may need to reevaluate, and possibly raise, the reference value they assign to M3. If temporary, policymakers will need to determine whether velocity will continue to be affected by temporary fluctuations in M3 that are unpredictable. The emergence of an unstable and unpredictable velocity trend in the Euro area could mean that the ECB would need to move closer to the Federal Reserve in its approach to monetary analysis.

References

O. V. Malysheko, K. A. German

Малишко О. В., Герман К. А. Головні фінансові регулятори: порівняльний аналіз Федеральної Резервної системи та Євросистеми

Ця стаття містить систематичне порівняння Євросистеми та Федеральної Резервної Системи США як основних економічних регуляторів. Було виконано порівнянний аналіз цих двох систем. Було описано сутність монетарної політики, її ефекти, а також грошові агрегати.

Ключові слова: структура монетарної політики, евросистема, федеральна резервна система, інфляція, центральні банки, грошові агрегати.

Малишко О. В., Герман Е. А. Головні фінансові регулятори: порівняльний аналіз Федеральної Резервної системи та Євросистеми

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Malysheko O. V., German K. A. Main Financial Regulators: Comparative Analysis of Federal Reserve and Euro System

This article contains a systematic comparison of the Eurosystem and the US Federal Reserve System as the major economic regulators. Comparative analysis of these two systems was performed. Monetary policy essence and its effects were described as well as monetary aggregates.

Keywords: monetary policy frameworks, eurosystem, federal reserve system, inflation, central banks, monetary aggregates.

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THE IMPACT OF TAX POLICY ON INVESTMENT CLIMATE IN UKRAINE

Introduction. Attraction of foreign investors is one of the main challenges for many countries, because investments are recognized to have beneficial effects on local firms and the economy at large. Investment climate is the overall environment for investments. A favorable investment climate encourages businesses to improve efficiency and productivity in order to increase revenues and capital available for investment. Investment climate is affected by many factors, including: workforce, national security, political situation, property rights, government regulations and tax policy. One of the key factors which have a strong impact on investors’ confidence is a well-built taxation system that creates favorable conditions for foreign investments. So, in a world where an increasing number of governments compete in order to attract multinational companies, fiscal incentives have become a global phenomenon.

Ensuring of favorable investment climate in Ukraine remains to be a task of strategic importance, implementation of which can have an impact on social and economic dynamics, effectiveness of involvement into international division of labor and possibility of modernization of national economics on this basis.

In general, Ukraine possesses a strong potential for attracting essential amounts of foreign investments due to its advantageous geographical location, large market with numerous free ‘niches’, cheap and well-educated labor force. Nevertheless, Ukraine is also notorious for a high level of corruption, bureaucracy and significant tax pressure.

So, the aim of this article is to scrutinize investment climate of Ukraine in connection with the new tax code which was introduced in 2011 and its amendments in 2012 and 2013.

Results and analysis. For a start, we should scrutinize the volume of Foreign Direct Investment(FDI) in the last few years.

As we see from Table 1 the amount of FDI into Ukraine is slightly but constantly increasing. This fact is an evidence of a stabilizing situation in our country. However, the amounts of foreign investment in Ukraine are inadequate to facilitate the country’s vigorous economic development. One of the reasons is Ukrainian tax policy, which does not attract, but, rather deters foreign investors from coming to the Ukrainian market.

The taxes in Ukraine are high and the taxation system is overloaded with a great number of different taxes, more and more being introduced with an astonishing frequency. Although our country is well-known for one of the most unprecedented tax burden on business, government takes measures to improve this situation.

In December 2010, the Ukrainian parliament approved the country’s first unified tax code. The new tax rules, most of which took effect on 1 January 2011, aim to simplify tax administration, raise tax revenues and attract more foreign investors to Ukraine. The Ukrainian Government presented the new Tax Code as a very progressive document that, among other measures, reduces the rates of major taxes and simplifies the VAT recovery procedures. Here is a list of some of the most important changes:

<table>
<thead>
<tr>
<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced CPT rate</td>
<td>from 23% to 16% by 2014</td>
</tr>
<tr>
<td>Reduced VAT</td>
<td>from 20% to 17% by 2014</td>
</tr>
<tr>
<td>Tax holidays</td>
<td>for 10 years for following industries: consumer goods, shipbuilding, aircraft, agriculture, hospitality, alternative energy</td>
</tr>
<tr>
<td>Automatic VAT refund</td>
<td>which is crucially important innovation for foreign investors</td>
</tr>
</tbody>
</table>

The main amendment to the Tax Code in 2012 was the fact that you can from then on (freely) voluntarily register as a payer of value added tax. Also as an amendment was improved system of electronic tax payment.

But, unfortunately, the effect of New Tax Code was not seen immediately. It consisted of a lot of inaccuracies. Foreign investors still tended not to trust the taxation system in our country. Although there have been some improvements, the overall investment climate remained poor. While Ukraine has enacted many positive reforms, the low level of implementation significantly undermines the reform process, so businesses do not benefit from the changes in legislation. From the table below we can see that according to World Bank and International Finance Corporation’s project “Doing Business” Ukraine was ranked 152nd place out of 183 countries studied. But, the impact of the new Tax Code did not reflect in this study. So in “paying taxes” indicator our country still took 181 place out of 183 possible.

One more index shows that changes in Ukrainian taxation system and adoption of the New Tax Code do
not really affect foreign investors’ trust and confidence. The objective of the EBA Investment Attractiveness Index is to measure Ukraine’s investment climate and indicate its attractiveness for both new investors entering the Ukrainian market and those already operating here. As we see from the figure below in the last few years it has been constantly declining.

Talking about the main reasons of such a distrust of foreign investors to our country I can name two main defects of Ukrainian tax policy which deter foreign investors mostly.

- Firstly it is the issue with VAT refund. Operations of the country’s tax authorities have recently been focused on gathering as much money as possible as budget revenues are critical. Some companies are experiencing delays with VAT refunds dating back to year 2009.
- VAT registration is also among the challenges that the businesses in Ukraine have been facing recently. Although the amendment to the New Tax Code in 2012 implemented an automatic VAT refund, it can actually be used only by the large industrial groups, as the criteria for enterprises are very strict.
- Prohibiting the transfer of losses from previous years. The right to carry tax losses forward is especially important for investors that have just entered the local market since their budgets take into account the first years of their businesses activities. The inability to carry the initial tax losses forward would mean that businesses are simply losing their certain rights, which are critically important for sustaining their operations and staying in the country's market. In fact, the argumentation of the STA suggests that the business should renounce from these amounts to the benefit of the state, since in case the tax losses from the previous periods are carried forwards into 2012 and further periods, the state budget would lose UAH 7.0 billion.

Fortunately, the end of 2012 and the beginning of 2013 have brought significant changes into Ukrainian tax policy and finally into investment climate. According to the World Bank and International Finance Corporation’s project “Doing Business” in 2013 Ukraine was ranked 137th place out of 183 countries in comparison with 152nd place in 2012. Moreover, in “paying taxes” indicator our country now takes 165th place out of 183 possible, it shows a huge rise in 18 points in comparison with 181st place in 2012.

This improvement can be explained by both: the introduction of electronic declaration, and, above all, by the New Tax Code, which unified the tax laws, and

### Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign direct investment (at the beginning of the year; mln.USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>16890.0</td>
</tr>
<tr>
<td>2007</td>
<td>21607.3</td>
</tr>
<tr>
<td>2008</td>
<td>29542.7</td>
</tr>
<tr>
<td>2009</td>
<td>35616.4</td>
</tr>
<tr>
<td>2010</td>
<td>40053.0</td>
</tr>
<tr>
<td>2011</td>
<td>44806.0</td>
</tr>
<tr>
<td>2012</td>
<td>50333.9</td>
</tr>
<tr>
<td>2013</td>
<td>54462.4</td>
</tr>
</tbody>
</table>

### Table 2

<table>
<thead>
<tr>
<th>Indicator</th>
<th>DB2012</th>
<th>DB2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>112</td>
<td>118</td>
</tr>
<tr>
<td>Registering property</td>
<td>166</td>
<td>165</td>
</tr>
<tr>
<td>Getting credit</td>
<td>24</td>
<td>21</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>111</td>
<td>108</td>
</tr>
<tr>
<td>Paying taxes</td>
<td><strong>181</strong></td>
<td><strong>181</strong></td>
</tr>
<tr>
<td>Trading across boarders</td>
<td>140</td>
<td>136</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>44</td>
<td>44</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>156</td>
<td>158</td>
</tr>
</tbody>
</table>
reduced the number of taxes. This indicates an increase in confidence and improving the environment for doing business in Ukraine. It will also help to improve business investment activity in the country in the next years. The effect of the new Tax Code and its amendments came into force only after a long period of time because of instability of Ukrainian government and political situation.

Now we finally see a positive impact of the New Tax Code on investment climate in Ukraine. Nevertheless our government does not want to stop on such achieved changes. The Verkhovna Rada is about to adopt a law on “On stimulation of investment activity in priority sectors of economy” in order to create new jobs, as well as the corresponding changes to the Customs and Tax Codes.

The amendments to the Tax Code regarding investors, who implement investment projects in priority sectors of economy, provide that the revenue earned from the sale of investment projects is taxed at:

- in 2013 – 2017 years – 0%  
- in 2018 – 2022 years – 8%  
- from 2023 – 16%.

In addition, Ukraine reaches compromise on carry-forward of tax losses; however certain limitations have been imposed. The amount of pre-2012 tax losses within the allowed 25% limit not utilized during the calendar year may be carried forward and utilized in the following tax periods up to 2016 (Fig. 1).

Conclusion. In conclusion, I would like to say that tax policy plays a great role in forming of the investment climate. In order to improve the investment attractiveness of any country, first of all it is necessary to improve its tax system. Although the New Tax Code was adopted in 2011, some real positive changes we can see only after two years. Reduction of amount of taxes and fees, reduction of basic rates of major tax payments, as well as the introduction of a number of benefits have already produced significant results in terms of attracting investment. Moreover, due to automatic VAT refund foreign economic activity has been increased markedly. Unfortunately, in Ukraine still remain a lot of taxation difficulties. According to Anna Derevyanko, the EBA's Executive director:

“What we see is a vicious circle setting the tone of investor discontent – corruption, a biased court system, an overregulated market, and fiscal pressure. Disarray in the ranks of political parties contesting the 2012 elections and the election campaign only added fuel to the fire”, says Anna Derevyanko. “At the same time, we see the quality of customs procedures moving in the right direction”. So, we see that there is a wide range of measures to be taken in order to improve Ukrainian investment climate. While improving taxation system, our government should not forget about dealing with the instability of the governmental fiscal policy, political situation, bureaucracy and corruption. Only coping with a problem as a complex of elements can really positively affect Ukrainian investment climate.

References

О. А. Zhamoida, A. A. Arnoldova

Жамойда О. А., Арнольдова А. А. Вплив податкової політики на інвестиційний клімат України

У статті було розглянуто вплив податкової політики на інвестиційний клімат України за останні роки.

Також було проаналізовано позитивні наслідки прийняття Податкового кодексу й поправок до нього у 2011 – 2013 роках, і відповідно зміни в інвестиційній привабливості України.

Ключові слова: інвестиційний клімат, податкова політика, пряме іноземні інвестиції, податковий кодекс, індекс інвестиційної привабливості, фіскальна політика.

Жамойда О. А., Арнольдова А. А. Вплив податкової політики на інвестиційний клімат України

В статті було розглянуто вплив податкової політики на інвестиційний клімат України за останні роки. Також було проаналізовано позитивні наслідки прийняття Податкового кодексу й поправок до нього у 2011 – 2013 роках, і відповідно зміни в інвестиційній привабливості України.

Ключові слова: інвестиційний клімат, податкова політика, пряме іноземні інвестиції, податковий кодекс, індекс інвестиційної привабливості, фіскальна політика.

Zhamoida O. A., Arnoldova A. A. The Impact of Tax Policy on Investment Climate in Ukraine

This article examines the impact of tax policy on the investment climate of Ukraine in recent years. Also it analyzes the positive effects of the adoption of the Tax Code and its amendments in 2011 – 2013, and therefore, changes in the investment attractiveness of Ukraine.

Key words: investment climate, tax policy, foreign direct investment, the Tax Code, Investment Attractiveness Index, fiscal policy.

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PLACE OF UKRAINE ON THE WORLD STEEL MARKET

Introduction. Effective export is one of the key strategic factors of economic development of a country during the globalisation process. The creation of a stable export mechanism is one of the most important tasks on the way of integration of Ukraine into the world economy. This depends on the local enterprises’ ability to produce and sell goods that suit the demands of the world market in terms of quality, price and service. Creating and strengthening exporting potential adequate to the demand of the national economy is becoming a key form of stimulating intraregional development of various industries.

Since the steel-casting industry of Ukraine provides over 30% of goods export and over 20% of foreign exchange earnings, it can be considered the export-forming sector of the economy and mostly determines its export potential; thus the problem of improving the export activity of its enterprises is an urgent one.

The goal of this article is to study the current market conditions on the world rolled steel market, defining Ukraine’s place in it, and suggesting ways of improving the export activity of the steel-rolling complex. In order to do that, we explore its trade and industrial segmentation; analyse world data and study the geographical structure of world steel trade; follow the price dynamics of the product; outline the characteristics of the steel-casting industry of Ukraine and suggest recommendations on improving the foreign economic activity of smelting businesses on the national level. The object of the research is the process of Ukraine’s integration into the world economy through the steel market.

World Steel Market. Speaking about the raw iron ore deposits in general, those are located around the world on all main continents and have about 80 billion tonnes of pure iron in total. Ukraine, whose deposits consist of about 30 billion tonnes of iron ore with 9 billion tonnes of pure iron, is currently number one in this category, having almost 18% of world's total (see Fig. 1).

An important index for production purposes is the percentage of pure iron in iron ore, which defines the actual potential of steel production in a given country. Ore is considered rich if it has at least 57% of iron; and for poor ores, the minimum value is 26%. Richest ores are located in Russia, next in this list come Brazil, Australia and Ukraine.

The largest producer, importer and consumer of raw iron ore is China. In terms of production, it is followed by Australia, Brazil and India (see Fig. 2).

Three largest iron ore companies are the Brazilian Vale and Anglo-Australian Rio Tinto and BHP Billiton, who together are in charge of a quarter of all iron ore mining and over 60% of its sea shipping.

Fig. 3 shows the division of export and import of iron ore in the world.

In Ukraine, in 2010, 72 million tonnes (3% of worldwide total) iron ore was produced. In 2011 and 2012 it was 81 million tonnes. With that, Ukraine is world's sixth iron ore producer, contrasting with it being fourth by the total volume (accounting for pure iron content). Ukraine’s production levels are significantly below its initial potential.

Every year the world produces over two billion tonnes of iron ore, from which 61% is turned into steel (while the other 39% into cast iron). Aside from the drop in 2009 due to the world financial crisis, the production of steel has been steadily increasing over the past years by up to 5% per year [2], reaching the all-time high of 1,548 megatonnes of crude steel output in 2012 [3].

During all this time, Asia has been the unchallenged leader in volume of production (Fig. 4).

The countries with the largest volume of steel production have been relatively unchanged over the recent years. China is firmly in the first place, outpacing second-place Japan by six times their production volume, and has the highest rate of increase in this respect (15.7% in 2011; second-place Turkey has 10.5%). See Fig. 5 for the comparison of world’s twenty top steel-producing economies.

In line with the increase in the volume of production, the production capacities are increasing as well, as is their level of utilisation, which is a good safeguard against an excessive capacity crisis that occurred on the world steel market in 2009. In 2010, this level increased from 84.4% to 86.5%; and to 88.1% in 2011. The production capacities have grown by 5.5% from 2009 to 2010 and by additional 1.1% the following year [4, p. 3].
It is worth looking in greater detail at some of the key world economies in the steel production. For example, in Germany, according to the German Steel Federation, for the past two decades the production of cast iron has held at about 30 million tonnes per years and steel at about 45 million tonnes per year. In the United States, during the world crisis 29 steel companies with a total capacity of 67 million tonnes went bankrupt, most large
integrated firms. Consequently, the volume of steel production has fallen by 47% in 2009 compared to the previous year. Currently it is on the rise again, but still has not reached the pre-crisis levels [5].

Speaking of Japan, it is important to note its special geographic situation, specifically, the island location and the almost complete lack of energy sources and raw iron ore. Despite that, due to the traditionally high level of technological provision of all levels of metallurgy and constant orientation towards industrial development and maintaining national interests, it currently holds the second place in world steel production. Japanese steel industry, same as most of the Japanese economy, is characterised by deflation process.

India often faces the problem of attracting foreign investment; it receives only about 2% of the world amount of direct foreign investment into developing countries. There are also problems with actual implementation of the investment projects, often due to impossibility of purchasing land for construction, as locals often protest selling Indian lands to foreigners, as they perceive it. Due to this, many “greenfield” projects of building new plants from scratch, such as 2007 projects announced by Arcelor Mittal and Posco, have failed. Instead, a safer bet now
are the “brownfield” projects, which essentially mean either upgrading and improving current steel factories, or rebuilding and repurposing older establishments. For instance, the largest Indian steel producer, Steel Authority of India Limited, has been using this strategy for some time, getting permits to use closed and unused plants and factories for their needs [6]. A huge advantage and significant potential for Indian steel industry lies with its vast iron ore resources, relatively cheap electric energy, cheap and reasonably qualified workforce and often easy access to sea ports.

In Latin America, Brazil is the leader in many indicators, including steel production, where it comprises about 70% of the region. Like India, it faces somewhat similar difficulties, especially in attracting foreign investment [4, p. 3]. South Korea is another important player in the steel production, but it is specific in that its territory has rather poor iron ore deposits. Most of raw ore for the production is bought from South African countries. Korea also is doing geological surveys and developing deposits in Australia, Vietnam, Mongolia and Ethiopia [7].

In Russia, steel production takes about 10% of its industry and consists of over 1,500 firms, 70% of which are urban development enterprises. The total production volume is about 70 million tonnes, over 80% of which comes from seven large companies [8, p. 55]. Russia has the largest confirmed iron ore deposits, mostly in the European part of the country. The single largest deposit is the Kursk Magnet Anomaly.

China with its 45% share of the world steel market is worth a mention, too. In this country, over 60% of metallurgy are held by the state. Its inclusion in the WTO pushed the government to great spending on development of industry and infrastructure, which served as a base for China’s intensive economic development. One of the main reasons of China’s joining the WTO was its desire to increase the influence of APEC countries on the world economy [4, pp. 38 – 39]. Increase in own production has gradually forced China to begin importing raw ore. Having significant deposits of their own, China are currently the largest importer of iron ore in the world.

The Geography of World Steel Trade and Price Analysis. First of all, it is important to note that trade of primary forms of steel is insignificant; in 2010 it was just over one million tonnes. Main buyers of such steel are Jordan (19%), Dominican Republic (13%), Denmark (9%), and Macedonia (7%) [8, p. 26]. The main segment of trade are iron and non-alloy steel.

At the end of 2011, world supply of steel was 1,515 million tonnes while demand was 1,036 million tonnes. Actual and projected supply and demand data can be seen in Fig. 6. Most trading is done in the USA (21%), South Africa (14%), Bulgaria (11%) [8, p. 27]. Most consumption of steel production is observed in Asia, where, of course, is the world’s single largest consumer China. Also high level of steel consumption, as well as high rate of increase in it, are present in Japan, India and South Korea.

The price dynamics for steel reflected overall trends, falling lower than 350 US$/tonne in early 2009. Since then, steel price has been increasing up to the maximum of 595 US$/tonne in April 2010, but fell within a few months to 400 US$/tonne reflecting the threat of defaults and budget problems in several European countries. After that, there has been a steady growth again, up to a maximum of 812 US$/tonne in February 2012. Currently, as of February 2013, the composite world steel price is at 736 US$/tonne [9].

The total volume of world rolled steel trade has decreased by 36% to 269 million tonnes in 2009, which caused a worldwide crisis. The price tendencies on various rolled goods have been following the general
pattern of ferrous metals prices, albeit with some lag. In 2011, consumption of rolled steel goods increased, mostly due to activity of distribution companies in Europe and USA that were replenishing their stocks depleted during the depression of the previous couple of years, caused by the financial crisis, the crisis of building industry in Europe, etc. In the Near East, however, the demand for those goods was still low, mostly due to political instability in a number of countries, including Tunisia, Egypt, Algeria, Jordan and Libya. These, and other, countries sustained direct losses to their industrial complex because of military and guerrilla warfare; and it repelled many potential foreign investments. Although many industrial companies keep their production programs running, they tend to keep their stocks low and rarely place large orders.

Metallurgical industry of Egypt, one of the largest rolled steel consumers of Near East, is currently on the verge of collapse because of political instability. Local companies find it almost impossible to export their production and are thus unable to fulfil their promises to their partners. CIS countries, being main importers to the region, are stopping their shipments, afraid of losses [10].

On the other hand, Turkey is now offering some of the highest prices for the rolled steel produce, even despite a small price drop compared to 2011. Also import prices are increasing in China (mostly due to high demand in the car industry) USA, Japan and India. In Europe, imports of rolled steel have been falling due to an increase in price from both local and Russian producers. This instigated a noticeable move towards Ukrainian exporters who keep price at previous lower levels.

In general, currently the number and relative position of countries importing and exporting rolled steel remains unchanged. China is the leading importer, followed by Germany, South Korea and Italy, all of whom (except China) significantly reduced imports during 2011. As for export, the largest exporter of rolled steel is currently Japan (10%), followed by USA (9%), Russia (6%) and Ukraine (5%) [8, p. 54].

Metallurgical Industry of Ukraine. Mining and metallurgical complex of Ukraine is the second largest among the CIS countries for the production of ferrous metals. In 2010, it produced 37% of CIS’s iron, 34% of steel and 27% of rolled steel goods [11, p. 14]. In recent years up to 80% of goods produced by Ukrainian steel companies has been exported: semi-finished goods, finished rolled goods including flat hot-rolled and cold-rolled coils and sheets, rails, rebar and wire rod, rolled sections and products for further redistribution – steel pipes, wire products, coated steel, etc. That the country has a number of major steel plants allows it to occupy a significant position among global steel producers. At the end of 2011, Ukraine ranked 8th in the world in steel production.

Steel production has always been a leading industry of Ukraine. Volumes of production provide more than 20% of GDP. In the export structure, steel and its products have always occupied an important place. With the rising price of steel and steel products in the world market in 2011, due to increase in volume of sales to the EU steel brought over 32% of all foreign exchange income in the country.

Increased activity in international markets allowed Ukrainian steel companies to significantly increase their exports in 2010 – 2011 by 6.1%, up to 21.9 million tonnes. The increase in exports of steel products was for several reasons, one of which was the growth of the supply of long rolled products (rails) in the regions of the Caucasus and Central Asia, where there is an increased demand for these products. At the same time, there has been a significant decrease in exports of long products to Russia. In the flat production sector, however, there is currently an increase in activity on the markets that are key consumers of Ukrainian produce. This led to an increase in prices. In its turn, there is expected an increase in demand from Russia due to their preparations for the football World Cup in 2018. It is expected that steel consumption will increase by 1 – 2%, or 3 – 5 million tonnes. At the same time, trade limitations on supplying this region with Ukrainian produce can become a problem. It is worth noting that 75% of all metal produce exported to the CIS from Ukraine is for Russia. In addition, Qatar, which hosts the 2022 World Cup, is another possible market for our metallurgy. Its government are planning to renovate three existing stadiums and build nine new ones. They are also planning an underground train line with the length of 320 km.

The effect of “the Chinese factor” led to the Chinese metal produce market closing for Ukraine. While in 2004 Ukraine exported over 2.1 million tonnes of metal to China, in 2008 it was only 10 thousand tonnes, and since 2009 China completely stopped importing Ukrainian steel.

One of the few markets that remain (mostly) stable consumers of Ukrainian metal during and after the crisis are the countries of the Near East, to which goes 18.5% of total export, making it the second, after the EU, market in this respect. That market is also expanding fast and is currently on the rise, allowing new perspective for cooperation with Ukraine in the area of metallurgy. It is expected that the recovery processes in Lebanon, Iraq, Gaza Strip and the building boom in Algeria will increase imports of Ukrainian produce, specifically, long rolled products for construction purposes.

The largest companies of the Arabian Iron and Steel Union (AISU, thirteen countries that together hold over
Increasing competition on the world market requires timely reaction to technical, economic and informational changes that are taking place, by making decisions and implementing solutions on both corporate and government levels. For successful functioning, Ukrainian steel firms must account for world tendencies in metallurgy development, such as [14]:

- Increase in competition during steady fall in the rate of increase of metal consumption;
- Increase in requirements to metal production quality.
- Prioritised development of steel-making technologies in order to create flexible and highly effective technological complexes and modules.

Main gap in Ukraine’s steel industry is the equipment that is commonly used. It is often borderline decrepit, and very outdated. Additionally, raw material is often of low quality and is not supplied reliably. Consumption on domestic markets is rather low, Ukrainian financial system is ineffective and energy sources are not readily available. In recent years, China started encroaching on traditionally Ukrainian markets by increasing their production and reducing prices. By doing so, Chinese companies will be able to completely push Ukraine out of Asian markets.

To retain its place in the world’s top eight steel producers, Ukraine needs to take urgent action and lower prices in order to maintain a competitive edge. For that, a complex analysis of cost prices has to be done in order to find roads to lower prices. Innovative changes in technology and production and constant increase in quality and assortment of production are also required. By analysing world steel product markets and defining demand patterns producers are able to determine the qualities that give competitors’ products advantage over Ukrainian exports.

There is a number of ways of developing export activities of steel companies [15]:

- Increasing the capacities of companies located near seacoast. Such companies have easier access to imported raw materials and energy sources, as well as cheaper option of delivering export goods. Such convenient location is always a good booster to steel mills and primary production plants, as evidence by a strong tendency towards locating such enterprises at sea and lake coasts in the United States and seacoasts in Western Europe. Heavy development of ferrous metallurgy in Japan and South Korea has also strongly influenced by developing higher production capacities in regions close to large industrial ports [16].
- Development of new markets and expansion of existing ones, attracting new consumers of steel production by, as already mentioned, increasing its quality, proper certification, active marketing, creating shared international trading firms.
Outsourcing steel production to developing countries using transnational corporations, which can give significant financial advantage. This is one of the key reasons why countries like Brazil, Mexico, Argentina, South Korea, Taiwan and Turkey are among the leaders in cast iron production [16].

Creating small and medium sized plants, as there is a clear tendency for decrease in demand for large volumes of homogeneous metal mostly due to technological advances.

Building vertical inter-sectorial complexes incorporating both domestic and foreign firms using private and state capital with orientation towards highly technological production.

To increase sales effectiveness it might be a good move to go from centralised sales management to custom manufacturing, integrating the production cycle with end consumer. This means changing the production process making “addressed consumption” on the market a higher priority than industrial product output.

Ukrainian industrial development strategy for the period until 2017 notes that in order to create the basis for moving on towards post-industrial economics the rate of production development in the steel complex will be slowly decreasing compared with the sped-up development of high-tech production. Priority has to be given to technological improvement and technical retooling of the main steelmaking processes using resource-saving and ecologically clean technologies, specifically: [17]

- Modernisation of enriching sinter productions and higher quality of raw materials preparation;
- Improvement of secondary treatment plants and continuous steel dispensing machines;
- Using new kinds of energy carriers in blast furnaces.

It is important to create fitting conditions for speeding up the process of diversification of production and optimisation of its structure by increasing output volumes for new production types. There is also a strong need, especially from ecological point of view, for improving schemes for development of natural mineral reserves.

Thus, in order to solve the export problems on the state level, it is important to determine main directions of development of steel industry, implement corrections to the industrial innovation policies, create effective state export strategies and export promotion programmes.

Conclusions. World financial crisis of 2008 influenced main tendencies on the world steel markets, causing noticeable fall in steel production in almost all countries. Only Asian and some Near East countries showed growth in that respect. Starting from the end of 2009, however, there has been positive dynamic in steel production and growth in volumes of sales. Turkey, South Korea and Italy showed largest growths in terms of steel production.

Ukraine, along with other top steel producing countries, kept its positions, though it was also hit hard by the crisis that caused significant reduction of production. Although Ukraine is holding steadily in its eighth place by production, its higher production costs (10 – 15% higher than in Russia and 24 – 27% higher than in China) creates obvious difficulties on the competitive market. Along with that, competitive pressure is constantly growing and the problem of outdated production equipment is becoming more and more noticeable.

Thus, it is apparent that managing production costs and optimal financial management are key questions in managing foreign economic activity of a steel company. Currently there are often separate money flows in domestic and foreign currency in most companies, which is creating additional difficulties.

Following areas of solutions to problems of export activities of Ukrainian metallurgical enterprises were identified:

- Reducing product prices;
- Organising the development of new markets and expanding existing ones;
- Improving the organisation of export management;
- Non-centralised structure of sales management;
- Transition to custom production.

The analysis of the state of the steel complex suggests that the rate of production will gradually slow down compared to the rapid development of high-tech industries. Therefore, Ukraine needs to implement modern production technologies in order to export high-quality end product. This, however, requires significant financial inputs. Thus financing of the whole steelmaking industry is currently one of the key problems.

In the long-term strategic direction of development of the steel industry of Ukraine there should be systemic restructuring of the industry with a focus on the situation on both domestic and international markets. The building of metallurgical complex and infrastructural objects capable of increasing export potential of the industry must continue. Prospects of development of Ukrainian metallurgy are closely associated with increased competitiveness by reducing energy and materials consumption and labour costs, introducing of scientific and technical progress. The interest of steel mills in Ukraine in the implementation of all this hard work must be stimulated with appropriate income taxes, comprehensive support from the government aimed at development of production, implementation of advances in scientific and technical process, use of innovations.
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Place of Ukraine on the World Steel Market

This study covers the description of the world and Ukrainian products related to the steel market. The study examines the main characteristics of steel and rolled metal markets, including the production volume, consumption and development forecast. The paper contains a description of rolled metal market during the global financial crisis, as well as basic information about developments in the global steel industry.

Key words: steel, rolled metal, iron ore, production capacity, exporter, importer, raw materials base.

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Cluster conception keeps growing more and more popular in nowadays economics. Governments of many leading countries such as the USA, Japan, EU states pay much attention to this theory and organize its scientific investigation and development. Cluster policy has become an obligatory issue in economic programs of all developed countries [1]. International organizations and funds dealing with cluster policy have been founded for cooperation and active work on clusters in developing countries.

Ukraine appears to be involved in the international process of introducing and enhancing cluster policy. In particular the corresponding economic program was accepted by Ministry of Economy of Ukraine in 2008 [1]. Different non-governmental organizations such as Foundation for Effective Governance actively cooperate with international groups and funds on creating clusters and popularizing cluster policy in Ukraine. Now several clusters are declared to be created and functioning in Ukraine. Yet the effectiveness of cluster policy in Ukraine may be questioned. The matter of scientific interest is to assess the efficiency of cluster policy in Ukraine using available information and statistic data.

The problem cannot be investigated thoroughly due to lack of statistic information. The purpose of the study is analyzing cluster activity in Ukraine using data provided by the existing clusters and defining industrial regions of Ukraine which have cluster structure or can be converted into clusters.

Cluster conception was first offered by American economist Michael Eugene Porter in The Competitive Advantage of Nations (1990) [2]. In general this theory says that companies can benefit from a number of advantages if they are located in a small area with their rivals, suppliers and related institutions such as universities, high schools, government institutions, trade unions, technical support companies [3; 1]. The theory proves itself in such examples like Silicon Valley of the USA or Cambridge IT-cluster which both have a structure of a classic Porterian cluster. These areas include the most profitable companies of the country and usually take a significant part of GDP of the entire state. For example, Silicon Valley includes about 1000 enterprises working in IT-sphere and creates almost 226 000 working places [4]. People, living and working in the region have higher wages and standards of living than in other parts of the USA [5]. That’s why the idea of creating strong economic blocks is becoming more and more attractive in nowadays economics. Many European governments show strong initiatives in clustering and cluster policy as well as the USA, Russian government is now developing a project of a big scientific cluster in Domodedovo, not far from Moscow, the possibility of clustering Ukrainian economy is discussed now by leading economists and scientists.

In general the idea of cluster supposes that the geographical proximity of related enterprises, suppliers and scientific institutions can boost up the productivity of such a cluster due to close cooperation inside it. According to Michael Porter economic clusters can exist in any field and productive sphere [3, p. 1]. He shows the example of Californian wine cluster which connects independent grape-growers, wine-manufacturers and specialized equipment suppliers [3; 2]. This shows that clusters can exist in any type of economy and clustering of any productive sphere is efficient. This remark is important for Ukrainian economy with low proportion of high-tech industries and rich agricultural basis [6]. At the same time Porter notices that the cluster effects become especially strong in advanced economy and in IT-spheres where the exchange of tacit knowledge is important [3; 2]. This exchange which is called ‘spillovers’ means accidental leakages of important technological information and personal know-how of the companies. This statement is proved by the history of difficult relationships between the Apple and Microsoft companies.

Yet the real effect of spillovers is questioned by Huber F. in his investigation of Cambridge IT-cluster which includes leading world university and software-developing companies [7]. Huber surveyed the workers and managers of the companies and made a conclusion that spillovers don’t really matter for increasing cluster effectiveness. He says that live interaction between the workers inside the cluster is miserable and they don’t benefit from a geographical proximity. Accessing important information and knowledge is possible due to Internet and other mass access services. Huber claims that knowledge spillovers become more significant between managers of different enterprises dealing with managing strategies.
Michael Porter does take globalization processes into account. Despite the fact that modern transport and multimedia services seem to nullify the advantages of being in cluster, geographical proximity still matters as it means easy accessing resources. And this is especially important for Ukraine with low quality of road infrastructure which hinders the operating of companies. Geographical proximity is profitable for both manufacturers and suppliers as they get a ready clientele and sales market. Besides close cooperation and information exchange creates a field for development and progress.

For a successful cluster the existence of think tanks is crucial [3, p. 9]. The most effective and profitable clusters in the world include big, world-famous universities with a high educational level [8]. The geographical proximity of universities and companies has several positive effects. Firstly, students have a strong incentive for studying as they see the opportunity to get a well-paid job in a big and successful company right after graduating. It’s also an incentive for enrollees to apply to the university which gives such opportunities. Companies benefit from being close to universities because they have a big source of qualified personnel and young talented employees. Such companies like Google, Yahoo, Cisco and Sun Microsystems are created by the graduates of Stanford University. Besides universities play a role of think tanks at the territory of the cluster as students conduct researches, the results of which can by used by companies-employers. So, mutual knowledge of the needs of both universities and companies creates a fertile ground for development and growth.

Analyzing clustering processes in Ukraine.

Nowadays assessing the effectiveness of cluster policy of a particular state meets many obstacles. Firstly, assessment criteria are unknown: it can be difficult to define boundaries of the cluster. The very existence of the cluster structure doesn’t make it profitable [3, p. 10]. Inner cooperation inside cluster should be supported by government. Clusters can be weak connecting several small companies or they can be too much controlled by government which makes them inefficient. Thus assessing clustering in Ukrainian economy is not an easy task. Michael Porter claims that sometimes clusters can stay unrecognized for a very long time when they are covered by “overlapping” and more evident clusters [3; 13]. To define the exact existence of a cluster we may need precise, versatile and available statistic information not only about companies and institutions of the region but also about the character of cooperation between them. Lack of such kind of statistic information in Ukraine makes it difficult to speak about existence and effectiveness of the clusters. Michael Porter considers qualitative and available statistics to be an important tool of popularizing clusters. Due to it entrepreneurs could see the real benefits of being in cluster and an incentive to join it. Thus spreading information about existing clusters in Ukraine could stimulate investment-flows to them.

It is remarkable that Ukraine tries to follow modern economic tendencies concerning clustering and significant work in creating clusters is conducted. Here the cooperation of Monitor Group and Foundation for Effective Governance can be mentioned [9]. They lead common work to enhance economic development of separate regions and entire country. One of the arrangements is creating clusters at the territory of the regions taking into account their special features and characteristics. It was planned to create clusters in Lvov, Donetsk and Dnepropetrovsk regions. Two clusters which are now completely finished and functioning are located in Lvov. These are woodworking and IT clusters. The woodworking cluster is presented by three companies and a university. One of the companies is relatively big and takes a significant part of Ukrainian wood export. IT cluster is presented by six software-developing companies, two universities and two government institutions. Although the clusters are the initiative of Monitor Group they are not classic Porterian clusters. The economic blocks are formed as associations of company-members and other related institutions and have governance and membership system. To enter the cluster and become its official member a company must satisfy a number of parameters and in case of woodworking cluster pay special dues which in general equate about 20 thousand grivnyas per year. Such elements are not typical for a classic Porterian cluster which assumes free entrance, no membership system and administration. According to information provided by one of the members of the woodworking cluster dues are not in fact paid by companies and cannot be taken into account. At the same time cluster is ready to cooperate with any enterprise even if it's not an official member of the cluster. According to the same source the clusters don't aim to follow Porter's concept having their roots in early forms of merchant guilds [10]. So the cluster really means to be an organization-union of several companies which lead common work for increasing economic performance of the entire block and every separate enterprise. Companies inside the two clusters cooperate to improve their rights protection, introduce technological changes and influence the educational process in partnering universities to help graduates satisfy modern market requirements. In particular Lvov IT cluster created several new courses (in particular English language course for IT experts) and introduced them to educational programs of partnering universities.
Cluster conducts independent educational courses and training programs for the employees as well [10].

It is impossible to assess benefits and advantages of being in the clusters for member-companies due to lack of statistic information. It stays clear that the companies have their own benefits and conveniences of being in the organization but such a form of cooperation doesn’t go beyond the scope of its own. It is still not a national form of manufacturing organization or a common trend.

Two more clusters are planned to be created in Dnepropetrovsk region which is considered by Monitor Group to be one of the most perspective and developing regions in Ukraine [9]. Besides, the experience of Dnepropetrovsk can be used in other parts of Ukraine. Using the provided statistic information about Ukrainian clusters as specific organizations the following ones can be named: two clusters in Lvov region which are mentioned above, automobile cluster in Zakarpattia, First Agrarian Cluster in Chernovtsy, several clusters in Lutsk, woodworking cluster in Rovno, light industry cluster in Lugansk, Melitopol agrarian clusters, Kherson touristic cluster, Odessa clusters, Donetsk automobile and metallurgical clusters, Dnepropetrovsk building and automobile clusters. It’s remarkable that clusters in Donetsk are not registered and created officially although the structure of the region’s economy is very close to Porterian model. Donetsk region has many metallurgical companies, coal-mines, mining equipment producing companies, universities supplying labor to these companies. All these companies are deeply connected creating one of the most rich and productive regions in Ukraine.

It’s worth mentioning that only registered structures and organizations are considered to be clusters in Ukraine. Periodical literature mentions a number of small clusters skipping the biggest industrial regions in Ukraine [11 – 13]. Yet Michael Porter claims that cluster doesn’t have to be organized and found, it can already exist in a region and must be only recognized. He mentions a big medical cluster in Massachusetts which was ‘buried in several larger and overlapping industry categories’ [3; 13]. Thus Ukrainian approach isn’t right because it admits existence of a cluster only when it’s officially recognized.

The problem of clustering was considered at the governmental level as well. Thus Ministry of Economy of Ukraine worked out conception of creating clusters in Ukraine in 2008 [1]. In this paper production, innovative, touristic and transport types of clusters were named. Ministry declared the policy of supporting these regions due to nullifying administrative barriers.

Analyzing the situation one can see that there is a strong tendency for creating new pseudo-clusters while the situation with already existing clusters remains unclear. There’s a place for attempt to define regions which are close to classic Porterian clusters in their structure. Defining such regions is an important task because it can help to take special changes for improving these regions. Donetsk region can be a good example of a big industrial cluster.

Donetsk region is the most productive industrial force of Ukraine. And if its structure is discovered it can be seen that it is a very big and powerful cluster in its classic model. As in the case of other world-renown clusters Donetsk as a city appeared around upcoming coal mining industry. Such big coal deposits determined the life of the city for a century ahead. Of course numerous mines couldn’t do without supporting manufacturers which would produce specialized equipment in large amount. Besides, great amounts of coal made Donetsk a perfect place for creating metallurgical industry. Tens of new enterprises created many working places and qualified staff was needed. This required institutes and universities which would provide companies with qualified labor. Now Donetsk is a home for four big metallurgical companies using coal including Donetsk Metallurgical Plant, more than 20 companies producing equipment and machinery for mines, chemical plants and manufactures processing coal, about 40 coal mines, five coal preparation plants [14]. Besides, Donetsk has big universities which are a source of qualified labor and scientific research. Thus it is a model of Porterian cluster: cooperating enterprises, suppliers and institutions concentrated at a relatively small area. There’s one more trait which is typical for cluster: clusters often are the strongest economic regions of a country, which is true for Donetsk region.

It’s worth saying that connections typical for a cluster are rather weak in Donetsk industrial cluster due to various factors. The first factor is poor state of many Donetsk mines, significant equipment wear and high risks connected with the work in mines [15]. Some economists believe that the reason is that the mines belong to government. Privatization would make mines modern and well-equipped and the work in them safe. The analyst Sergey Gayda claims that the ownership of the mine can be easily defined by its state: poor mines belong to government, better ones are private [16]. Besides, privatization could stimulate personal interest of the holders and consequently using modern developments provided by Donetsk universities. Thus we come back to one of the main Porter principles: cluster is always characterized by free market relationships and private ownership. Despite serious problems Donetsk region remains one of the most valuable economic forces of Ukraine.

Thus it can be seen that many “hidden” clusters need recognizing and improving. As high technologies
It’s worth mentioning that the cluster policy program in Ukraine introduced by Monitor Group involved creating two clusters in Donetsk region (metallurgical and engineering ones). However the program didn’t get recognition in Donbas and this is taken as the criterion of failure. At the same time Donbas remains much more economically powerful cluster than any officially recognized ones. Defining existing clusters will help to concentrate on enhancing their efficiency. At the same time significant efforts should be paid to stimulating growth of new clusters. This shouldn’t be done by administrative measures as cluster can’t be an artificial structure. Attention should be paid rather to solving definite problems of industrial regions than to registering them as clusters.

Policy on stimulating growth of new clusters must involve creating proper climate for small and medium business, creating friendly conditions for creating new clusters. Especially important is achieving development and growth in high-technology industries. The obligatory conditions for growing IT-clusters are higher education of perfect quality and significant investments in IT sector.

Defining potential clusters is an important issue as well. It’s crucial to define economically perspective regions and territories with concentrated manufacturing which lack single elements to become powerful economic clusters.

The quick analysis in this study showed that the Ukrainian idea of cluster and classic Porterian model differ a lot. This questions the efficiency of current cluster policy in Ukraine. In this paper it was tried to define a cluster structure in Ukraine and it was proved that Donetsk had all needed features to be treated as a classic Porterian cluster.

Further studies and developments should concentrate on thorough analysis of industrial map of Ukraine with purpose to define all potential and existing clusters of Ukraine. The experience of foreign countries should be analyzed to understand how we can improve our existing clusters and stimulate growing new ones. Possible cluster policy models for Ukraine must be proposed.

References

Павлиш Е. В., Поклонский С. К. Кластери та кластерна політика в Україні

У статті було розглянуто сучасну концепцію кластерів М. Портера, її критику деякими дослідниками та науковцями. Особливе увагу було приділено процесам кластеризації в Україні. Було проаналізовано існуючі кластери та діяльність із створення кластерів взагалі. Було зроблено спробу виявити існуючі економічні кластери на основі аналізу індустріальної мапи України та доступної статистичної інформації.

**Ключові слова:** кластер, кластеризація, Портер, спілловер.

Павлыш Э. В., Поклонский С. К. Кластеры и кластерная политика в Украине

В статье была рассмотрена современная концепция кластеров М. Портера, её критика некоторыми исследователями и учёными. Особенное внимание было уделено процессам кластеризации в Украине. Были проанализированы существующие кластеры и деятельность по созданию кластеров в целом. Была осуществлена попытка выявить существующие экономические кластеры на основе анализа промышленной карты Украины и доступной статистической информации.

**Ключевые слова:** кластер, кластеризация, Портер, спилловер.

**Pavlysh E. V., Poklonskyy S. K. Clusters and Cluster Policy in Ukraine**

The article deals with the cluster conception by M. Porter, its criticism by definite researchers and scientists. Special attention was paid to clustering processes in Ukraine. The existing clusters and clustering activity were analyzed. It was attempted to define existing economic clusters basing on industrial map of Ukraine analysis and available statistic data.

**Key words:** cluster, clustering, Porter, spillover.

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* Information was provided by the representative of Lvov IT-cluster. Personal contacts can be found at the official site of the cluster: [http://www.domv.lviv.ua/contacts](http://www.domv.lviv.ua/contacts).
THE "KNOWLEDGE MARKETING": A NEW TREND IN A MANAGEMENT SCIENCE WORLD (through the application of the Smell Web by the City of Grasse)

Introduction.

Marketing, as it was theorised beginning in the 1950s, and summarised in 1960s, entered turbulent times beginning in the late 1970s. Its universality and very relevance were challenged by the emergence of a multitude of different marketing movements and innovations which Cova and al. (2006) organise around various perspectives either upstream (the environment) or downstream (the customer, the customer relation) of markets: environment, niche, customer loyalty, customer’s life experiences and customer’s competence. The Delphi prospective study on the ‘future of relational marketing by 2015’ has shown the relevance of marketing based on ‘customer competence’.

First, we will review the literature on the evolution of the links between marketing and the concepts of information, knowledge, and competence. Knowledge Marketing seems to be a fruitful outcome bringing together a series of creation processes for customer competence and that of members of the company. From an academic point of view, this raises the question of which conditions are necessary to switch to ‘customer/company competences and customer/company intelligence’ perspectives, which appear to be the common denominators of new emerging theoretical approaches. Creating and studying a “Scented Web” project will help us understand how these perspectives are structured around Knowledge Marketing.

Links between marketing and the concepts of information, knowledge, competence.

First, we will identify the links between marketing and the concepts of information, knowledge, competence. Each of these links is part of the evolution of marketing research: from “market information use” to “marketing knowledge management”. In the new approaches based on the co-creation of value in marketing, the concept of collective competence (customer competences and company competences) overrides the concepts of information and knowledge specific to the company. This leads us to introduce a new perspective, that of customer/company intelligence, as yet little explored in the value co-creation process.

– Marketing based on information

Until the early 1980s, marketing research used only the concept of “information” serving the activities of the company and its actions on the market. Beginning in the 1980s, research that dealt with the use of market information, as well as the dominant movements of marketing management and of market orientation, paid great theoretical attention to this concept. This research helped to establish a bridge between marketing and information: they take into consideration the principle of collecting information on the market and analytically processing it in order to satisfy the needs of consumers and to improve company performance. The market, consumer, company, and its various departments are in closed worlds. Marketing’s job is to transfer information between these distinct entities. However, this dominant informational approach does not work for marketing services characterised by the relational aspect of interactions between the market and the company, and the co-production of services.

– Marketing based on knowledge

The marketing practices of departments and of dyadic and relational models have provoked changes in how information generated through co-production and interactions between players is interpreted. It is interpreted in different ways by customers involved in co-producing services and by the individuals who are involved in intra-organisational processes and the various company functions. These information interpretation processes translate information into knowledge held by those individuals in the intra- and extra-organisational levels. The new current dominant logic of services is characterised by “the application of specialized competences (knowledge and skills), through deeds, process, and performances for the benefit of another entity or the entity itself” (Lusch and Vargo, 2006, p.283). In this logic, the company should learn from the market, in interaction with its players. Achrol and Kotler (1999) propose “know-how marketing” that is, using knowledge about customers (their preferences in terms of products, distribution channels, etc.) in order to create new products. In order to deal with the market in an increasingly complex environment, the company should thus focus its strategy on better managing the organisation’s explicit knowledge (Day, 1994; Morgan, 2004). But we find ourselves once again faced with the problem of the separation between the customer and the company: knowledge is produced only by the company.
The appearance of information and communication technologies can broaden the scope of relations between the company and the customer. The CRM approach, Customer Relationship Management, automates the collection and interpretation of data, and their transformation in customer knowledge, serving the company’s relational strategy.

Much of the literature focuses on sources of research and access to external knowledge. Still, studies in Knowledge Management let us discover other sources of knowledge creation on two levels: epistemological (tacit or explicit) and ontological (individual or collective). More attention is paid to tacit knowledge, which is contextual and non-formalised by speech, and which is also difficult to separate from its context of production experiences. Thus, contributions to marketing in the 1990s were marked more by modes creating new knowledge at the group/network organisational level and by studies on organisational learning which consider the internal marketing department as being cross-disciplinary. Initial works in marketing knowledge management is oriented more toward creating internal knowledge and especially toward the multiple ways of interpreting, creating and assigning meaning to the knowledge which is generated. Nevertheless, these models are not interested in how customers learn or in collective learning based on the knowledge from customers.

- **Marketing based on competence**

  The acceptance of a multiple meaning assigned to the generated organisational knowledge as well as the influence of the post-modern interpretive movement of marketing, contributed to fragmenting marketing. Cova and al. (2006) identify 15 marketing innovations (stakeholder marketing, ethical marketing, geomarketing, CRM, experiential marketing, sensory marketing, authentic marketing, tribal marketing, etc.) which involve different ways of creating knowledge in the company and from customers. In the tradition of the work of Prahalad (2004), we learn FROM customers, based on THEIR knowledge and competences, and THEIR expertise. In the European Journal of Marketing, (vol. 40 number 9 / 10), the authors designated ‘Customer Empowerment’ as being a marketing approach which can give power to customers in their relationship with the company in terms of controlling marketing variables and consumption experiences. However, according to the Foucauldian interpretation of Customer Empowerment: “Knowledge is Power”. Organisational processes aiming to integrate the customer in the organisational process of knowledge creation have created “Knowledge Marketing” which is defined as the set of processes creating the competences of the customer and of members of the company (Curbatov, 2001, 2003); company competences are created simultaneously with those of customers, and become collective knowledge.

  The concept of Knowledge Marketing encompasses various value co-creation processes: co-creation, co-production, co-promotion and co-innovation. The co-creation of products/services and of knowledge/competences flexibly combines different situations in which the customers and the companies find themselves in order to reach an innovative solution. The first vision of Knowledge Marketing is based on the “customer/company competence” perspective, by physically involving the customer in the company’s activities or through specific tools, such as the semantic web.

  **The “Knowledge Marketing” as service logic on co-creation**

  The Service Dominant Logic (S-D Logic) introduced by Vargo and Lusch (Vargo and Lusch, 2004; Lusch and Vargo, 2006; Vargo and Lusch, 2008), by contrast with a product dominant logic (G-D Logic) centred on the maximization of the profit and the efficiency of the functions of production and marketing, offers a theoretical anchoring to current phenomena like co-conception, co-production, co-determination or co-innovation of services.

  Indeed, for these authors, the consumer is always a co-creator of value (Vargo and Lusch, 2008a). Their opinions stand in contrast to views of conventional marketing, which targets and captures consumers. More exactly, the dominant logic of service suggests that the value creation is the result of a combined effect of “operant resources”, defined as a set of knowledge, skills, expertise, activated both by the company and the consumer (Vargo and Lusch, 2008b) in Knowledge Marketing process (Curbatov, 2003, 2009). However, for Brown (2007), S-D Logic suffers from the absence of empirical evidence which would permit to enrich the knowledge on the way the consumers engage themselves in a co-creation process.

  Hilton and Hughes (2008) suggest that value co-creation is the output of a series of tasks realized partially by the consumer. Thus, an intermediate stage has to be considered by companies which try to manage better the process of value co-creation: the consumer task performance. The analysis of this preliminary stage is all the more crucial, in a context where the coproduction of service, component of value co-creation (Vargo and Lusch, 2006a) widespread via self-service technologies (eg. Forbes, Lukas, 2008; Cunningham et al., 2008; Reinders et al., 2008; Curran and Meuter, 2007). Indeed, consumers are playing such an increasingly active part in the production and delivery of goods and services that they sometimes, at least partly, stand in for distributors, booking and printing their plane tickets on Internet, choosing and creating fragrances on the web, etc, all
those activities requiring some “operant resources”. These new elements involve for companies the necessity to build frameworks to understand which knowledge, know-how or abilities their consumers require and how these latter acquire them in order to build associated learning curves (Hilton and Hughes, 2008). However, the concept of “operant resources” does not seem relevant enough to report completely the dynamics of realization of these tasks from the point of view of the consumer. Indeed, it consists of some number of heterogeneous elements (skills, knowledge, know-how, expertise) among which the structure, the contents, the links which they maintain remain relatively vague. The notion of competency seems to be more relevant to re-articulate the diverse elements composing the concept of “operant resources”.

What does mean the fact that consumers bring into play competencies in general way and, more specifically, in the context of sensorial marketing? In this framework, how can one understand a consumer experience or the activity that consists in choosing and consuming a product or service? This paper aims at clarifying the idea of consumer competencies and enhancing current theories on the topic.

First, the focus will be on marketing research integrating the idea of competencies and research in the management and education sciences in order to propose a lens through which the consumers’ competencies use can be read. Then, we propose to illustrate the analysis through the use of “Exhalia smell Web” which requires special competencies.

**Consumer competencies: a poor conceptualisation in marketing research**

Eight theoretical currents (lead users, meet of service, resistance of the consumer, experience of consumption, consumers’ communities, consumer empowerment, consumer agency, working consumers) shaped the face of the consumer co-worker (Cova and Dalli, 2009). If these currents - and each of these currents - take a different epistemological otherwise ontological point of view and are distinguished themselves by the aspects of the consumer's activity (generation of ideas, coproduction of the service, immaterial work, production of narrative, etc.), they form, however, a rather complete and composite reading framework. Furthermore, beyond the heterogeneousness of these theories, the notion of competency seems to be the tacit common denominator.

The consumer empowerment movement (Denegri-Knott, Zwick and Schroeder, 2006) advocates rebalancing power in the relationship and urging consumers to take responsibility. In this scenario they have more control over their choices and the relationship by taking part in defining its terms. In the consumer agency current (Arnould and Thomson, 2005), consumers restructure the narrative of the theatre performance in which they participate. That performance requires them to create meaning for their consumption activity and for its movement in a given market world based on narrative resources they explain. The working consumer current (Zwick, Bonsu and Darmody, 2008) met underscores the deviant form of co-creation viewed as a two-pronged approach enticing consumers to implement their ability to re-appropriate the capital and means of production traditionally held by the company. The idea of the company and customers orchestrating competencies and resources lies at the core of those theories, but no sound conceptualisation of them exists yet (MacDonald and Uncles, 2007). After developing conceptual thoughts about competencies brought into play in consumption activities by consumers, we will describe which competencies are required when firms implement sensorial marketing tools.

**A proposed conceptual framework of consumption activities through the lens of competencies consumers bring into play**

- **A dynamic view of competencies or the “process-competencies”**

In the framework of consumption, we propose viewing process-competencies as a set of known facts, know-how, practices and behaviours mobilized in a given situation that involves two sets of equipment (Le Boterf, 1994) consumers draw upon in order to collaborate. First comes the equipment incorporated in their person, defined in marketing mainly as their cultural, physiological or individual resources (Arnould, Price and Malshe, 2006; Baron and Harris, 2008), but also social resources defined as family relationships, consumer communities, commercial relationships (Mac Donald and Uncles, 2007). Works in the education sciences focusing in particular on technology training (Courtois, Thomas, 2003; Mottet, 2007) enable us to add notional and communicational resources to this classification. It underscores the idea of “notions” – ideas or thought patterns – helping to open up questioning, to orientate observation or understanding, to direct analysis, to organize space and time or to guide action choices.

The communicational resources incorporated into consumer competencies might include the ability to speak the same language as the supplier, seller or after-sales service department, make appropriate complaints, warn about dangerous products or consumer situations, give opinions, and vote or communicate on the product by relying on various media. Communicational resources can take the form of collaborative resources involving bilateral, interactive communication on, for example, the creation of personalised products. Finally, we can add, the financial & material resources (money and loans available for consumption).
Consumers also draw upon their environment, including family relationships, friendships and consumer communities (Arnould et al., 2006), in addition to the commercial resources (like communication channels, physical and technical materials, product and service offers), which they integrate into their own resources in order to co-create their experience.

– **A static vision or the “end competencies”**

Competency lies in consumers’ ability to tap different resources, taking the form of various competent behaviours relating in particular to the consumption situation they are faced with, whether they are interacting with the company or not.

Those competent behaviours or “end competencies” include:

– **Cognitive competencies** involving, in marketing, the ability to decode companies’ messages and advertisements (Macdonald and Uncles, 2007) as well as the cognitive efforts made (Alba and Hutchinson, 1987; Passebois and Aurier, 2004) in the act of purchasing (search for information, creation of meaning, knowledge of rights and responsibilities). This type of competency can be found in the education sciences under the term cognitive or informational competencies1, which are defined as the ability to identify the possible nature, scope and sources of information required; find the information effectively and efficiently; read, understand and memorize it; assess its usefulness, relevance and quality; effectively and efficiently organise it; and monitor it. The customer’s cognitive competencies are the ability to read, interpret, memorise and organise product information.

– **Competencies** that could be termed instrumental. It involves the consumer’s ability to handle “physical” products before, during and after consumption; tools belonging to consumers (computers, peripherals, cables) available in their environment (Tricot, 2006); online computer tools; company-provided social media such as YouTube, Facebook or Twitter; interactive terminals; websites; tools letting people create their own personal products; and representation tools (labels, invoices, estimates, schedules of specifications, instructions, electronic meters, etc.). This definition is proposed by some marketing researchers who prefer taking a broader approach. To them, consumers’ instrumental competencies echo the coordinated, masterful use of a technique, technology or know-how to perform another task, such as verbalising expectations understandable by the company (Lüthje, 2004). Bringing instrumental skills into play might also involve relying on a certain number of social resources, such as friendships, professional relationships or online networks (Macdonald and Uncles, 2007) in order to reach a given goal: the use of the terms relational competencies seems appropriate here.

– **Competencies more directly connected to the use** of a product, service or media (Internet), which helps to open up access to a legitimate message about the product, service or media in question or even to propose other uses and functions. Von Hippel (1978, 1986, 1999, 2005; Béji-Bécheur and Gollety, 2007) and, more recently, Berthon et al. (2007), in particular, have done marketing research on those competencies. They are similar to the idea of metacognitive competencies (Mottet, 2006), which involves implementing creative abilities: creating new representations, fresh knowledge and heuristic solutions to practical issues dealing with consumption and shifting meanings or creating new ones.

We have sought to classify customers’ competencies for a better understanding of consumer activities generated by purchasing, subscribing, using and experiencing a product or service, but they are not implemented in isolation from one another. They are interdependent. For example, instrumental competencies or skills depend on prior knowledge of the technical tools’ functions (notional resources) and the ability to mobilise them (in other words accumulated cognitive competencies) depending on the market situations consumers live.

– **A conceptual framework**

The resources mobilized must be identified in order to distinguish those competencies. They consist of knowledge, know-how, practices and behaviour patterns used in a given situation, whereas competencies lie in individuals’ ability to tap various resources in each of those areas. With regard to the dynamic and static visions of the competence and as we try to describe it in Fig. 1, consumption-related activities can be understood as bringing into play a certain number of instrumental, relational, cognitive, use or metacognitive “end competencies” stemming from the consumer’s own notional, cultural, communicational, collaborative and physiological resources available in his or her environment whether it is commercial (communication channels, technical tools for interacting with the company) or not (social resources, including online) and from which individuals draw in order to consume.

**One illustration of our conceptual framework : a Smell Web project**

We present in this paper the illustration associated with the resources integrated and the competencies

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1 By information we mean any form of explicit and tacit knowledge (oral, written, visual, sound, video, smell, etc.) from any source (human or media) transmitted by any means (print, electronic, local, networks, etc.).
activated by the customer in the framework of the Exhalia project implementation.

- **Research method for Smell Web project**

We choose to elaborate the illustration in order to show the multiple integrated resources mobilized by the consumer and competent behaviours he could activate in some situations of consumption and in particularly to create value-in use around sensorial marketing tools.

The illustration was built from the project “Exhalia” launched by France Telecom Research and Development in 2003 in which we participated, which is re-analysed through our conceptual framework of the consumer competence. Thus, we proceeded to a secondary analysis of qualitative materials (Dargentas et al. 2009). Indeed, this type of analysis presents some interest to improve the qualitative research by allowing the accumulation of knowledge thanks to a new questioning of the set of data.

The Exhalia “Smell Web” project was elaborated with the researcher as both the designer of this project and producer of marketing knowledge. In this way, the researcher contributes to the emergence of new scientific representations and knowledge which are procedural and non-substantive, and which aim to provide a guide to “organisational engineers” and which can subsequently be used by other companies to solve complex problems. Thus, our experience in designing marketing and R&D projects, allows us to propose methodological reference in the framework of projects co-built with a firm (Curbatov, 2009). More precisely, two types of study were conducted:

- qualitative tests for the of uses and perceptions, people’s behaviour towards this innovation at the french telecom company R&D department;
- an empirical study, conducted in Paris 13 University to validate the conceptual aspects of Knowledge Marketing.

This research was carried out thanks to the scientific partnership between the City of Grasse and that R&D department, based on research work.

### Using the “Exhalia Smell Web”: project Exhalia

The Exhalia concept aims:

- To diffuse fragrances in synch with data, images and/or sound, transmitted by a telecommunications network;
- To perfume the content of television, web, DVD in real time, but more generally, all telecommunication and multimedia forms.

The [www.exhalia.com](http://www.exhalia.com) portal, created and managed by France Telecom R&D in 2003 and transferred to Exhalia Corporate in 2004, federates olfactory sites and multimedia forms. Several professionals from different worlds, such as city of Grasse wish to try it out on their respective sites by including a “scented” dimension. In order to promote the image of the world capital of perfume and its touristic “services”, the city of Grasse perfumed six web pages of [www.ville-grasse.fr](http://www.ville-grasse.fr) with the specific city fragrances (rose, jasmine, lavender, thyme-rosemary, etc.) associated to places of interest (fields of roses and lavenders, culinary recipes) or to the main events (the Jasminade Party or the “Exporose” trade shows). Instrumental competencies are required on behalf of the consumer to use relevantly the equipment which diffuses fragrances and to be able to navigate through scented websites. The use of the site also implies the involvement of cognitive competencies (to read, to memorize information, to recognize perfumes, to create a knowledge on “usages” of the city) which beforehand require the mobilization of notional and social resources (main notions about perfumes, knowledge about the main tourist places and about the actors of the tourism in Grasse) and commercial ones (images, texts presented on the perfumed web site). The creation, the “composition” of his personal touristic road trip from the city of Grasse’s smell website means finally the activation of metacognitive or use competencies (see table 1).

### Theoretical and managerial implication

The implications for skills and resources prompt companies to read the consumer’s collaboration on three levels.

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**Fig. 1.**
Being attentive to the consumer’s integration of resources

The first reading involves identifying the skills consumers activate by integrating the resources the company offers in their consumption experience.

To be attentive the company can revise its explicit or implicit analysis based on customer profiles and not just on organisation diagrams: the customer possesses cognitive, instrumental, metacognitive or usage skills in many areas that the organisation does not necessarily take into account.

Being attentive to the skills required

If the company modifies its sometimes-partial consumer representations, the idea of skills and resources

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<th>Smell Web</th>
<th>Integrated resources</th>
<th>Competencies brought into play</th>
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<tr>
<td>City of Grasse</td>
<td><em>Notional resources</em>: notions about perfumes and about specific associated touristic web sites (about areas, food, festivities…)<em>Social resources</em>: knowledge about the main tourist places and about the main actors of the tourism in Grasse.<em>Cultural resources</em>: specific knowledge about the city of Grasse’s perfumes.<em>Physiological, sensorial resources</em>: physical conditions linked with fragrances perception and sensorial emotions.<em>Commercial resources (channels of communication)</em>: website and tourism offices, events created by the city.<em>Financial and material resources</em>: equipment to diffuse perfumes, driver, computer, Internet connection.</td>
<td><em>Instrumental competencies</em>: Capacity to navigate through the website of the city (6 smell websites) using the required equipment.<em>Relational competencies</em>: Capacity to contact tourism offices or the website administrator.<em>Cognitive competencies</em>: - <em>Informational competencies</em>: Capacity to process information provided by the website simultaneously with fragrances diffusion. - <em>Use competencies or skills</em>: Capacity to download from the city website and from perfumed pages documents and to use them. Capacity to create its own road trip in Grasse. - <em>Metacognitive competencies</em>: Capacity to make the link between fragrances and websites to be able to create its own road trip.</td>
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Table 1

Examples of resources and competencies brought into play by the Exhalia consumer

O. Yu. Curbatov
can lead marketers to ask themselves questions about the skilled behaviour required (ex.: digital skills) in their activity’s framework, consequently excluding customers who do not possess them. The various forms of co-production are based on messages emphasizing consumers as “king”, “player” or “partner”, but in actual practice asking customers to collaborate sometimes requires them to use skills they do not possess, excluding a considerable number of individuals.

- **Conditions for activating the customer’s skills**

This analysis examines the mainsprings activating the consumer’s skills. The illustrations are based on the premise that the customer skills benchmark the company defines matches the actual skills customers activate, but a basic question remains that must be the focus of future research: what are the conditions in which consumers bring their skills into play in order to collaborate with the company, producing a gratifying solution or experience (Caruànd Cova, 2007). Customer and company skills refer to a dynamic reality, a process. Studying skill dynamics (Lachance and Legault, 2007) and formation processes offers some clues. Identifying resources, areas of economic, social or cultural knowledge and learning “curves” (membership groups, family, media, socio-professional category, gender, etc.) helping customers acquire incorporated resources in activated skills are key steps. More generally, activating skills raises questions on how the company can emphasize them and in what conditions.

That approach requires gathering accounts about their interactions with the brand in order to clearly identify the type of incorporated resources. More specifically, on a methodological level, several kinds of data must be collected in order to analyse the skills consumers implement and to identify those that can benefit the company, those the consumer does not possess due to a lack of resources or those that are in a latent state, including general information about the company, consumers and the relationships between them; information on the internal and external resources tapped in all the relational episodes; and the meaning consumers give the mobilisation of those resources.

**Conclusion**

Following Vargo and Lush (2004), we argue that value resides in consumer actions, interactions, projects (Schau et al., 2009) that acquired resources and brought into play competencies make possible or support. However, these resources and competencies have not been clearly linked and overall classified to highlight the different forms of value created. A theoretical model of consumption activities, based on the concept of competency and the typology of resources and competencies which it implies, enables to enrich the current marketing works in Knowledge Marketing. Thus, the main contribution of this conceptual analysis lies in proposing a detailed and dynamic model of consumer competencies going beyond the cognitive expertise concept. This conceptual framework shows that competency is a dynamic process rather than a static state. It stems from the mobilization of consumers’ own various resources (notional, physiological, sensorial, individual or social, communicational, cultural, and financial) and of those the company provides and their mobilization results in three main types of competencies: instrumental, cognitive, and use or metacognitive.

The specific case of using the smell web shows that consumers have to mobilize more than in other consumption situations, intangible resources (physiological and sensorial ones) in order to be able to use it advisedly. It highlights the importance for marketers to involve consumers very early in the process of smell web conception and to develop new methodologies to benefit from this customer tacit knowledge. Thus, in our opinion, this conception of competency enable to understand more what the consumer “makes” in the activities bound to the consumption of a product or a service. This conceptual and operational framework of analysis could help organizations to combine better consumers’ resources with their own resources to design multisensory applications like smell web or more generally, products, services, self-services technologies, etc.

**References**


Курбатов О. Ю. “Маркетинг знання”: нова тенденція в світі науки управління

Цю статтю присвячено прогресу в дослідженнях основ концептуального аналізу споживчої компетентності, визначення маркетингового дослідження знання. Вона має на меті пропозицію нової моделі компетентності для кращого розуміння значення, створеної споживачем і фірмою. Концептуальну структуру ілюструє використання Павутини Запаху (Проект Exhalia). Ця ілюстрація детально розглянута в другій частині дослідження. Ця стаття бере до уваги множинність поняття компетентності та спирає збагачення теоретичних і управлінських робіт із створенням вартості.

Ключові слова: компетентність, споживач, маркетинг, управління, запах павутини.

Курбатов О. Ю. “Маркетинг знання”: нова тенденція в світі науки управління

Ця стаття посвячена прогресу в дослідженнях основ концептуального аналізу потребительської компетентності, определяє маркетингового исследования знания и имеет целью предложение новой модели компетентности для лучшего понимания значения, созданного потребителем и фирмой. Концептуальную структуру иллюстрирует использование Паутины Запаха (Проект Exhalia). Эта иллюстрация детально рассмотрена во второй части исследования. Эта статья принимает во внимание множественность понятия компетентности и содействует обогащению теоретических и управленческих работ по созданию стоимости.

Ключевые слова: компетентность, потребитель, маркетинг, управление, запах паутины.

Curbatov O. Yu. The “Knowledge Marketing”: a New Trend in a Management Science World

This communication reports on the progress of a research based on a conceptual analysis of consumer’s competencies, as defined in Knowledge Marketing research and aims at proposing a new model of competencies for a better understanding of the value created by the consumer and the firm. The conceptual framework is illustrated by the use of the Smell Web (Exhalia Project). This illustration is elaborated from a secondary exploitation of a qualitative research. This communication takes into account the polysemy of the notion of competency and tries to contribute to the enrichment of current theoretical and managerial works on value co-creation.

Key words: Competency, consumer, marketing, management, smell web.

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CONSUMER DECISION MAKING ON THE WEB

Introduction

Recent empirical data on online shopping considers consumers that have the opportunity of making better quality decisions while shopping on the web. But if such potential is realized by most of the consumers is still an unauthorized question. Thus, the objective of this research is the understanding of how [1] certain features of electronic environments have a positive effect on the abilities of consumers to make better decisions, and [2] identifying information-processing strategies that would allow consumers to make better quality decisions while shopping on the web. A cross-disciplinary theoretical analysis based on constructs taken from economics (e.g., time costs), psychology (e.g., decision strategies) and computing (e.g., recommendation agents) is led to detect factors that potentially affect decision quality in electronic environments. This study is significant from a theoretical point of view as it explores an important aspect of online consumer decision making, namely, the influence of the electronic environment on the abilities of consumers. It is important from both a managerial and public policy viewpoint as the ability of shoppers to make better quality decisions while shopping online is directly connected to developing market efficiency and increasing consumer prosperity in electronic markets [1].

The core

According to Kotler and Armstrong (1999), companies must be focused on consumer. To succeed with purchasers companies must bring more to the customer relationship than just their standard product or service. They must create value with each and every customer interaction. In order to do this, they must understand the behavior of their customers. A company’s success depends not only on how well each department performs its work, but also on how well the activities of various departments are co-ordinated [2]. This is a guiding principle of the value chain and can be achieved by placing more emphasis on a company’s core business processes [3]. A company can gain a substantial competitive edge by mastering core business processes. Based on this new view, according to Kotler and Armstrong (2001), marketing is not only responsible for formulating the marketing mix, but also for designing and managing a superior value delivery system to reach target customer segments. Managing their own value chain and the entire value delivery system in a customer oriented way enables companies to create customer satisfaction [4].

The conventional wisdom is that online shopping has been a boon to consumers. The Internet has certainly made it easier for consumers to search for the best price when that is most important due to the profusion of merchants on the web. Likewise, the large product assortments offered by these merchants has also made it easier to find the best product fit (i.e., the match between consumer needs and product attributes) when that is most important. Recommendation agents offered by sellers and third-party shop bots enable consumers to quickly navigate through huge product assortments to find that elusive bargain or “dream” product (i.e., one they were not sure even existed). The ability to electronically screen (and rescreen) product choices enables consumers to focus on the primary benefit they seek while shopping online, be it paying a lower price or finding a product that best matches needs.

In a seminal article on the expected impact of the Internet on consumer information search behavior, Peterson and Merino (2003) cautioned that there was no assurance that the Internet would lead to better consumer decision making. In a recent comprehensive review of empirical research on consumer decision making in online environments, Darley, Blankson, and Luethge (2010) conclude that there is a paucity of research on the impact of online environments on decision making. According to a 2008 report on “Online Shopping” from Pew Internet and American Life Project (a leading nonprofit authority on Internet usage trends), almost 80% of shoppers say that the Internet is the best place to buy items that are hard to find. Yet, at the same time, almost 60% of shoppers also say that they get frustrated, confused, or overwhelmed while searching for product information. Based on the studies by Peterson and Merino (2003), Darley, Blankson, and Luethge (2010), and the 2008 Pew Internet report it appears that online choice settings certainly offer consumers the potential to make better quality decisions, but whether this potential is being realized is still an unresolved matter. Hence, the purpose of this research is to understand how [1] certain features of electronic environments have a favorable effect on the abilities of consumers to make better decisions, and [2] identify information-processing strategies that would enable consumers to make better quality decisions while shopping online [5]. A better quality decision may be defined along two dimensions, one relating to price and the other to product fit (i.e., the match between consumer
needs and product attributes). Consumers may seek the best price for a product, or the best product fit, or more commonly a price-product fit combination that represents how they trade-off price with product fit. The potential for making better quality decisions while shopping online can then be related to the ability of the consumer to select an optimal price-product combination more readily than when shopping in a traditional retail environment [3].

Previous research on decision making in online settings has found that consumers are able to make better decisions with less search effort in online settings. The ability to control the flow of information via an interactive information display has also been found to be related to decision quality [6]. Worldwide e-commerce sales surpassed the $1 trillion mark for the first time in 2012, according to a New EMarketer estimate out today. The research firm estimates that B2C online sales grew 21.1% last year to $1.097 trillion. Leading the way was the US e-commerce industry, which grew 13.9% to an estimated sales total of $364.66 billion. EMarketer expects that to grow in 2013 to just above $409 billion. Despite that growth, the Asia-Pacific region is expected to grow even faster and take over the top spot in online sales in 2013 – with an estimated 33.4% of all e-commerce activity [7].

The rapid growth in Asia-Pacific sales is a result of several factors. Three Asia-Pacific markets-China, India and Indonesia will see faster B2C ecommerce sales growth than all other markets worldwide this year, while Japan will continue to take a large share of global sales.

According to eMarketer, B2C e-commerce sales in the US will grow 12% to $384.80 billion in 2013-after growing 13.8% to $343.43 billion last year-as average B2C ecommerce sales per user reach $2,466 this year among those who buy goods online in the US [7].

The US will remain the single country with the largest share of worldwide B2C ecommerce spending, at 29.6% in 2013-down from 31.5% in 2012 despite relatively strong growth. This will continue throughout the forecast period, though China is closing the gap fast. In 2016, China will have 22.6% of the worldwide market, vs. 26.5% in the US (Fig. 1).

China also boasts the highest number of people who buy goods online in the world-nearly 220 million in 2012, according to eMarketer-a result of increasing internet penetration; a burgeoning middle class with growing trust in online shopping; government-driven campaigns to promote consumerism; as well as improved infrastructure, product selection and services offered by online sellers and retailers.

A cross-disciplinary theoretical analysis based on constructs drawn from economics (e.g., time costs), computing (e.g., recommendation agents), and psychology (e.g., decision strategies) is conducted to identify factors that potentially influence decision quality in electronic environments. The research is important from a theoretical standpoint because it examines an important aspect of online consumer decision making, namely, the impact of the electronic environment on the capabilities of consumers. It is important from both a managerial and public policy standpoint because the ability of shoppers to make better quality decisions while shopping online is directly related to improving market efficiency and enhancing consumer welfare in electronic markets (Table 1).

### Time Costs

Time costs influence information search depending upon the opportunity cost of time. Higher time costs decrease search, while lower time costs lead to increased search. When time costs become too low, consumers engage in more exploratory search, potentially having an unfavorable effect on decision quality. Previous research has found that the influence of time costs on search in off-line settings is dominated by the physical search effort required in these settings [8]. In other words, time costs are not adequately considered by consumers in traditional retail settings. The physical
### Table 1

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effort required to conduct search is significantly lower in the electronic environment. Moreover, the typical online consumer is “time starved” and shops online to save time. Online consumers also exhibit search and evaluation patterns that are consistent with time constraints [9]. Hence, there is more importance placed on time costs in online settings. Further, the use of electronic sources of information can increase search effectiveness by decreasing the time needed to search and evaluate information. Time-related investments during search and evaluation can reduce future time costs due to the acquisition of skill capital [10].

Cognitive Costs
Cognitive costs relate to the cognitive effort expended during decision making. The cognitive cost model proposes that consumers maintain a focus on accuracy but also consider the cognitive costs associated with the attainment of that goal. Previous research findings show consumers limit processing in off-line settings, because of a greater emphasis on effort reduction than on accuracy improvement [11]. Cognitive costs are lower in electronic environments, because cognitive effort can be shifted to the recommendation agents that are typically available in these environments. Hence, the extent to which consumers focus on accuracy improvement in an on-line setting can potentially have a favorable influence on decision quality. The cognitive costs of search include the cost of acquiring information and the cost of processing information [12]. While the cost of processing information remains unchanged between off-line and online settings, the cost of acquiring information is reduced in online settings due to the availability of electronic decision aids. Electronic decision aids are helpful for performing routine processing tasks, such as sorting information on the alternatives.

Perceived Risk
Perceived risk influences search and evaluation due to the uncertainty associated with the choice alternatives. Previous research has found that search is determined by both absolute and relative levels of uncertainty associated with the choice alternatives, but with a greater emphasis on the latter [13]. The separation of product information from the physical product increases perceived risk in online settings. Further, consumers tend to focus more on absolute, rather than relative, levels of risk associated with the product alternatives in an electronic environment. Thus, consumers will need stronger signals (e.g., brand names, retailer reputation) to reduce risk. However, risk assessments may be counterbalanced by the convenience of purchasing online. Risk-taking consumers may reduce search as they trade off the convenience of purchasing online with the risk of so doing, while risk-averse consumers may increase search [14]. Further, consumers seek and accept online recommendations as a way to manage risk during online search and evaluation.

Product Knowledge
Consumers often rely on prior knowledge during search and evaluation due to information processing limitations. The stimulus-rich nature of online settings will cause memory-based influences on search and evaluation to diminish while enhancing the role of externally available information. Consumers use prior knowledge to initiate search with information on uncertain beliefs being acquired earlier [15]. The iterative nature of online search and evaluation may result in information on previously preferred alternatives being disconfirmed. Preference reconstruction can then be expected to be based on exposure to new alternatives and selection criteria. Consumers who are skillful at using the Internet to research products rely on it as an important source of information [16]. However, some consumers have a difficult time learning the search terminology (i.e., keywords) necessary for seeking out the product that best matches needs in an electronic environment. Thus, consumers need both “web expertise” (i.e., device knowledge) and product knowledge (i.e., domain knowledge) to make better decisions in an online setting. It is possible for web expertise to compensate for the lack of product knowledge, provided consumers use the former to develop the latter [17]. If consumers do not have the necessary level of product knowledge, they may focus on easy to use, but unimportant product attributes, which will adversely affect decision quality.

Screening Strategies
The more information consumers consider the more likely are they to make a better purchase decision [18]. Online merchants offer wide and deep product assortments so that consumers can find a product that best matches needs. But navigating through all the product choices available online can be time consuming. The desire to consider a wide variety of product options and be able to do so quickly has been labeled the “tyranny of choice” [19]. Hence, the typical online store has a recommendation agent (i.e., an electronic decision aid) available for screening product alternatives. The ability of the consumer to calibrate a recommendation agent affects decision quality in online settings. It is easy to over-calibrate a recommendation agent by including even less important attributes during alternative evaluation (resulting in the “no matches found” message).

The manner in which a recommendation agent is used also influences decision quality in online settings. Recommendation agents can be used for information filtration (i.e., sorting alternatives on an attribute) or information integration (i.e., combining information on the alternatives using multiple attributes). The heuristics consumers in online settings are better suited for sorting alternatives rather than combining information on the alternatives. While information filtration screening strategies can help rapidly narrow the set of available alternatives, they are relatively rigid (i.e., inflexible) in
their application [20]. Alternatives that are otherwise attractive may be eliminated if they are dominated on the attributes used for screening. Hence, the use of recommendation agents for information filtration, relative to information integration, can potentially have an unfavorable influence on decision quality.

**Trust**

Trust and privacy concerns influence search and evaluation in online settings, because of the potential for misuse of personal information [21]. Consumers seem to be willing to trust the product recommendations offered by an electronic decision aid, but only when it sorts information on product alternatives. Electronic environments decision aids are less trustworthy when advice (e.g., expert opinions) is needed and the privacy of information is a concern. Privacy concerns lead some consumers to limit the use of electronic environments for seeking product information. Likewise, a lack of trust can cause some consumers to limit contact to only reputable Internet retailers [22].

**Conclusions**

The preceding theoretical analysis identifies effects that may be combined into a conceptual model of decision quality in online settings (see Fig. 2). The potential for consumers to make better quality decisions while shopping on the web can be realized by encouraging consumers to benefit from the favorable influences on decision quality in web-based choice environments, while countering the unfavorable influences, as articulated through the propositions. The main prediction of the model is that decision quality is likely to improve when consumers focus both on cost reduction and benefit improvement, as compared to when the focus is only on cost reduction or benefit improvement. Why would consumers not focus on both cost reduction and benefit improvement all the time? It is because of the limited cognitive abilities of consumers. Consumers have to allocate available cognitive resources between these two options. They are more likely to direct these resources to cost reduction in off-line settings because the results of so doing are immediate, certain, and tangible as substantiated in numerous studies of off-line information search and product evaluation. In online settings, many of the resources that were previously directed to cost reduction now become available for benefit improvement, because of the availability of electronic decision aids such as shopbots and recommendation agents. Hence, there is a shift in the cost-benefit trade off from cost reduction toward benefit improvement. The contingency perspective adopted in the manuscript enables us to predict the effect of various factors on decision quality in online settings.

**Fig. 2. A model of decision quality for an online information environment**
References

Kucheruk T. G., Arkhypov M. V., Burlachenko G. O. Прийняття споживчих рішень в Інтернеті
У статті досліджено ключовій аспект прийняття рішень споживача онлайн, а саме вплив електронного середовища на здатність покупців. Основним завданням дослідження є розуміння того, як діють функції електронних середовищ на здатність споживачів приймати більш обґрунтовані рішення, а також визначення стратегій обробки інформації, які дозволяють споживачам приймати більш зважені рішення при здійсненні покупок в Інтернеті.

Ключові слова: споживачі, прийняття рішень, інтернет, електронна комерція.

Kucheruk T. G., Arkhypov M. V., Burlachenko G. O. Принятие потребительских решений в Интернете
В данной статье исследуется ключевой аспект принятия решений потребителя онлайн, а именно влияние электронной среды на способности покупателей. Основной задачей данного исследования является понимание того, как некоторые функции электронных сред оказывают положительное влияние на способность потребителей принимать более обоснованные решения, а также определение стратегий обработки информации, которые позволяют потребителям принимать более взвешенные решения при совершении покупок в Интернете.

Ключевые слова: потребители, принятие решений, интернет, электронная комерція.

Kucheruk T. G., Arkhypov M. V., Burlachenko G. O. Consumer Decision Making on the Web
This article investigates a key aspect of online consumer decision making – the impact of the electronic environment on the abilities of buyers. The main task of this research is to understand how certain features of electronic environments have a positive effect on the abilities of consumers to make better decisions, and identify information-processing strategies that would allow consumers to make better quality decisions while shopping on the web.

Key words: consumers, decision making, internet, ecommerce.

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Т. Г. Кучерук, М. В. Аркhypov, Г. О. Булченко
BRANDING IN GLOBAL MARKETING MANAGEMENT

Introduction. The role of branding decisions rose internationally after many companies realized the importance of the marketing value of global brands [15]. A consumer buys a brand not once, but repeatedly and a company builds a long-term franchise having in assets a worthy brand [9]. However, there are good reasons for a branding not only for a seller, but also for a consumer. Brands are useful for consumer whenever he wants to find an appropriate good or a service. Sellers appreciate brands due to recognition and a promotion. Moreover, a price comparison between products with the use of brands is reduced [6].

The purpose of this article is to introduce the reader the concept of branding, explain what the brand equity is and why it is so important for the company, show the perspectives of a local and a global branding, and provide with the latest information about a development of the most popular brands.

This article consists of three main parts. The first part defines the term of a brand and explains the nature and importance of brands. In addition, in the first part is presented information about trademarks and examples of extraordinary registrations of them.

Afterwards, the reader will be familiarized with the definition of brand equity and with factors that influence the brand equity. This part also asks the question: “How does the brand equity depend on the profit of the company?”

The last part provides with a comparative description of local versus global branding decision. In the beginning of this part reader will acquaint with cases when regional brands exist. Also in the last part a detailed description of local brands and global brands with instances is given. In the end, a description of a brand extension and brand dilution is provided to the reader.

Defining the Brand. According to Keegan and Green, brand is a set of information that customer learns by experiencing different products. A company’s goals for a certain product are represented in advertisements; the customer memorizes its promise and defines the quality through later experience of the product. In addition, brands help the customer to organize the variety of products that companies provide and, in case of need, find a particular product with ease [10].

The American Marketing Association defines a brand as “Name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” [2]. The same definition use Kotler and Keller and, summarizing this statement, they characterize a brand as a product or service (with set of differences from other products or services) that the customer can identify and distinguish from others [11].

Referring to the United States Patent and Trademark Office, the definition of trademark is nothing but a brand name [14]. Etzel, Walker and Stanton say that trademark is a brand that has a legal protection [6]. However, Onkvisit and Shaw stress that trademark can be not only a name or logo. Unlike Harley Davidson’s failure in registering their motorcycles’ sound as a trademark, the H. J. Heinz Company have registered Heinz Baked Beans’ turquoise color of the tin in the United Kingdom as being an essential part of British culture. As a consequence, firms spend a great deal of money on designing and advancing their trademarks in order that the consumer can associate it with quality and confidence [13].

Brand equity. David A. Aaker defines the term brand equity as “A set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers”. In addition, Aaker classifies these assets and liabilities into five categories:

1. Brand loyalty. A brand appeals to the customer to buy it and tries to make her apathetic to competitors’ brands.
2. Name awareness. Customer would prefer to buy an accustomed brand as it creates an impression of quality and reliability.
3. Perceived quality. The customer’s purchase decision is based on the quality of the product.
4. Brand associations. The characteristics and values are expressed in a brand’s name so that hearing it, the customer should make the “proper” association.
5. Other proprietary brand assets. Represented as trademarks, patents and channel relationships; necessary to use in case the customer’s relationships with the brand are under the threat of competitors [1].

Brand equity is a possibility for a company to achieve a greater profit. The customer would pay more for a branded product or service than for an unbranded product or service, even though they are identical in characteristics [7]. In addition, Chen and Cui have proved that if a brand sets up the uniform price on its products in the retailing...
industry, it increases the demand for the product and, therefore, leads to higher profits [4].

**Branding Decision: Local vs. Global Brands.** One of the four levels of branding decisions, according to Onkvisit and Shaw, is local brand versus worldwide brand [13]. Mühlbacher, Leis, and Dahringer point out the same distinction, but they add regional brand as the complementary criteria of local and worldwide brands. Referring to them, the regional brand exists when across markets or countries the customer uses the same media or language, the brand is similar across different cultures and when the volume of cross-border trade is high enough [12].

Keegan and Green mention that the local brand is the one that is successful on a single national market [10]. Similarly, Mühlbacher, Leis, and Dahringer claim that the local brand subsists in a single country or in a limited geographical area. It is a well-known fact that a company can create a local brand in order to increase its market share on unique country markets as did Coca-Cola, the most valuable brand in 2012 with an 8% increase (compared to 2011) and $77,839 million in value [8, p. 12]. In Japan, with 12 bottling partners, Coca-Cola produces drinks which are available only within the country, such as blended tea Sokenbicha [5, 10].

Onkvisit and Shaw explain the reasons for existence of local brands. A manufacturer's inability to accommodate customers with the equal quality of a product in different countries is one of the reasons. Interestingly, even the pronunciation of brand names plays a role in creating a local brand; though in some countries a given brand name can be embarrassing for usage and a consumer does not want to buy it [13].

Svend Hollensen gives a clear statement of a global brand, saying that if a product is known for its quality or just has a good reputation and all its products bear a name of the brand, then it is nothing but a global brand [7]. A perfect example of a global brand is Apple, with a stunning 129% increase in 2012 compared to 2011 [8]. In this connection, Keegan and Green define a global brand as the one that has the similar name and sometimes the same image in all countries. For instance, Nestlé affirms that it “Makes the very best” and everyone all over the world can understand the promise [10].

All worldwide companies want their brands to be appreciated in the main markets, such as China and USA [10]. According to this, Wang and Yang assert that brand credibility positively influences on car purchases in China. It is more likely that a brand purchase intention in emerging markets would be higher if the brand has a strong and unique image [16].

Keegan and Green claim that some global companies strengthen their brands by creating brand extensions [10]. Regarding this, Anwar et al. studied a behavior of 200 women and drew a conclusion that the consumer attitude towards the brand extension mainly depends on the brand loyalty [3]. Kotler and Keller highlight Dunkin’ Donuts coffee, Progresso Light soups and Hormel Compleats microwave meals as the most advantageous new product brand extensions in supermarkets in 2008. Kotler and Keller say that ability to win with ease new-product recognition, which leads to reduction of launch costs, and to receive positive feedback for the parent brand or company are main advantages of a brand extension. They also stress brand dilution as the main disadvantage of a brand extension. A brand dilution happens when consumer stops associating a brand with a bundle of resembling products and therefore does not consider brand a special [11]. As consequence, managers should decide themselves, what kind of the geographic extension should they choose: whether a global brand or a local brand [12].

**Conclusion.** The purpose of this article is to provide the reader with the information about branding, as it is a significant part of a modern marketing management. A rising significance of a brand’s marketing value led to the high concern from the companies to build strong brands. A perspective to reduce launch costs of some good or a service attracted many companies to create brand extensions. Researchers have found out that the stronger and more unique image of a brand is, the more possibility a company has to gain more profit. Therefore, nowadays a lot of companies spend a great deal of money on development of their logos.

This article is divided on three main parts. We can draw a conclusion from the first part that the brand is a good or a service that the consumer can identify and differ from others, and a trademark is a legally protected brand. Moreover, the consumer is ready to pay for a branded product more than for an unbranded product, thus companies spend a great deal of money on the advancement of their brands.

From the second part we can conclude that the brand loyalty, name awareness, perceived quality, brand associations and other proprietary brand assets are five factors that influence the brand equity. In addition, we can say if a brand sets up the uniform price on its products in retail industry, then it can expect for higher profits.

In the final chapter we found out that the local brand can be successful even without going worldwide, and that some global brands prefer to have their local subsidiaries, to be more customer oriented. It is also not a secret that all global brands want to be appreciated in emerging markets such as China and USA. Finally, we found out that a brand extension can lead to a brand dilution.

The topic of the branding has a significant impact in determining the development of companies. Therefore,
a branding influence on the consumer behavior is a forever evolving subject for managers.

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Доценко Г. В., Цисарук С. С. Брендинг в глобальном маркетинговом менеджменте
У статті описано сутність брендингу: пояснюється, що визначає гідність марки і чому дейкі компанії воліють мати бренд на місцевому рівні, ніж на глобальному рівні. Автор пояснює необхідність розширення і розведення бренду, а також показує приклади з найбільш розвинених бренду. Метою цієї статті є інформувати читача про бренди та визначати фактори, які впливають на успішний його розвиток.

Ключові слова: брендинг, гідність марки, стратегія брендингу, бренди місцевого рівня, бренди глобального рівня.

Доценко Г. В., Цисарук С. С. Брендинг в глобальному маркетинговому менеджменте
В статье описывается суть брендинга; объясняется, что определяет достоинство марки и почему некоторые компании предпочитают иметь бренд на местном уровне, чем на глобальном уровне. Автор поясняет суть расширения и разведения бренда, а также показывает примеры из наиболее развитых брендов. Целью этой статьи является информирование читателя о брендах и определить факторы, которые влияют на успешное его развитие.

Ключевые слова: брендинг, достоинство марки, стратегия брендинга, бренды местного уровня, бренды глобального уровня.

Dotsenko G. V., Tsyrusak S. S. Branding in Global Marketing Management
This article describes the essence of branding; it explains what identifies the brand equity and why do some companies prefer to have a locally based brand to a globally based brand. This work clarifies the meaning of a brand extension and brand dilution, and highlights the examples of the most developed brands. The purpose of this paper is to provide the reader with the information about the brands and to identify factors that affect the success of the brand development.

Key words: branding, brand equity, branding decision, local brands, global brands.

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COMPETITIVE INTELLIGENCE AND COUNTER-INTELLIGENCE: THE ADJACENT PLANE OF SECURITY OF THE ENTERPRISE

Statement and relevance of the problem. Intelligence activities are being conducted by most domestic enterprises. Undoubtedly, a need to obtain reliable information about the competitive environment is as relevant and important as is the issue of protecting their secrets. The question of effective and well-functioning of counter-intelligence becomes especially important. Security and sustainable development of enterprise depends on obtaining reliable information in a timely manner. Equally important if protection of confidential commercial information.

Analysis of the research problem. From ancient times to the present there are clearly formed principles of intelligence, which are as important and worthy of attention today as they were many years ago. Namely, there is a direct proportional relationship between the gathering of intelligence about competitors, partners, suppliers, and protection of its own data, which contains commercial secrets.

The subject of economic security of enterprise, credit and banking system, economic and competitive intelligence, protection of trade secrets and proprietary information has been researched by a number of Ukrainian and foreign scientists: B. V. Gubskiy [6], N. V. Vashenko [9], A. Derevytsky [7, p. 8], L. I. Donets [9], Z. B. Zhyvko [10–11], V. I. Muntiyan [15], V. K. Senchahov [17], A. I. Sukhorukov [16], V. I. Yarochkin [18].

However, a comprehensive study of counter-intelligence issues in today’s information society is not investigated adequately because counter-intelligence issues are closely intertwined with information security, information technology, and competitive intelligence.

The purpose of the article. To investigate the interaction of intelligence and counter-intelligence of enterprise and their role in the protection of an enterprise.

The main material. According to a a definition by Ivchenko, “counter-intelligence is protection of confidential information from espionage” [12]. Economic counter-intelligence got its legitimate status only after the development of market relations. This market makes entrepreneurs not only study business relations with partners, peculiarities of signed agreements, intentions and contacts competitors, but also conceal their own plans, development programs, and support staff.

We agree with the author that preventing the disclosure of information sources (even if they are public information) is a priority in traditional counter-intelligence, as well as methods of gathering information for competitive counter-intelligence [12].

This system is especially well-developed in the US, where American specialists of this profile have developed a number of techniques to protect commercially important intelligence from leakage and theft by competitors. At the initial stages of building security systems, domestic businessmen typically borrowed experience of Western experts on competitive intelligence and readily attracted to former employees of the Ministry of Interior Affairs, Prosecutor’s Office and the Security Service.

In general terms, the process of competitive intelligence and counter-intelligence in the system of economic security consists of three stages: (1) internal monitoring, (2) external monitoring and (3) analytical work.

Internal monitoring suggests that security staff aim to protect a company against the penetration by “spies”, as well as to monitor compliance of company employees with internal policies regarding disclosure of confidential information [5]. General information and communication systems and special information systems are extensively used for these purposes. One of the most common is IPC (Information Protection and Control), which protects information by encrypting information, as well as full control of possible media channels through which, from a technical point of view, sensitive information may be leaking. Such a system becomes particularly valuable given the fact that up to 75% of confidential corporate information is disclosed unintentionally, by mistake, or negligence of staff [5].

External monitoring in accordance with the above-described objectives is a competitive intelligence in the most general sense. It involves collecting the full amount of information about competitors: technology, management, sales volumes, factors of competitive advantage, strategic plans for the future strategy of market penetration, possible threats to a company, process optimization techniques, innovation and so on.

Analytical work involves conducting comparative performance, identifying strengths and weaknesses, develop specific recommendations for management in order to prevent damages, loss of market share, etc. [5].

In order for information that belongs to an enterprise to gain grounds for legal protection, it should be presented

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as information that contain trade secrets and confidential information which are property of the subject of commercial activities. This aspect facilitates the work of counter-intelligence but also makes it more difficult because it demands a particular procedure to identify information as trade secrets.

According to the rights established in Part 5. Article 30 of the Law of Ukraine “On Information”, a firm defines in its regulations the procedure for obtaining, using, distributing, and storing trade secrets [1]. It is important to note that the process of design and implementation of restricted access to trade secrets must be economically and legally justified and carried out in several stages, which logically follow from one another [11, p. 202].

First of all, it should be noted that according to Article 36 of the Commercial Code of Ukraine [2], data of an economic entity that is related to production, technology, management, financial and other activities and disclosure of which may harm the interests of an entity can be considered as its trade secrets. According to Article 505 of the Civil Code of Ukraine [3], trade secret is information that is secret in a sense that it is generally or in a particular form and set its components is unknown and not readily accessible to persons that normally deal with the kind of information to which it belongs to, and therefore has commercial value and has been the subject of adequate circumstances existing measures to preserve its secrecy taken by a person lawfully controlling information. The composition and amount of information constituting commercial secret, as well as methods of its protection, are determined by an economic entity according to the law [11, p. 203].

According to the current legislation, information is a trade secret if it meets the following characteristics: 1) it has actual or potential commercial value due to not being utilized by the third parties; 2) there is no free legal access to it; 3) an owner or his authorized representative take specific measures to preserve its confidentiality. Information that is a trade secret must be fixed on a physical medium (paper, magnetic or optical media, photo negatives or other material objects) and be provided with details that allow its identification. In some circumstances, information constituting commercial secret may be embodied in objects – clothes, blocks, units, devices and substances. However, in this case to establish information embodied in objects, trade secret requires that information has been previously documented in due course.

In addition to the concept of “trade secret”, “banking secrecy” has a separate definition and governed by separate laws. Banking secrecy is information on the activities and financial condition of a client, which became known to the bank in the customer service and relationship with him or a third person in the provision of banking services and the disclosure of which might cause material or moral harm to a client. Banking secrecy includes: 1) information about bank accounts of clients, including banks correspondent accounts with the National Bank of Ukraine; 2) operations that were carried out for or on behalf of a client, or agreed by a client; 3) financial and economic conditions of customers; 4) health of a bank and its customer; 5) information about the organizational structure of the legal entity – clients, its directors, and activities; 6) information regarding business clients or trade secrets, projects, inventions, designs and production of other commercial information; 7) information reported by individual banks except that which shall be publicly disclosed; 8) code used for bank protection; 9) Information on banks or customers, collected during the banking supervision [11, p. 204], [7].

There are three common methods of criminal attacks on information of commercial or banking secrets: 1) illegal collection of information constituting commercial or bank secrets; 2) the illegal use of such information; 3) the intentional disclosure of such information [11, p. 207].

Illegal collection of information can take place via: 1) stealing of relevant information or objects that it contains from the premises where they are stored. Such theft can be both open and concealed when items actually sought (documents, products that contain trade secrets) are being stolen along with others thus creating a false impression about the real objectives of criminals; 2) secret criminal penetration of the premises and copying information on paper or electronically. To record and transmit information, perpetrators can use mobile phones with integrated cameras and MMS service; 3) bribing employee of a company that had or has legal access to information. Employee can copy and send information in exchange for certain material or other benefits. If a person has resigned or currently does not have a legal access, but information available to this person earlier has not lost its commercial value, he/she simply reports such information; 4) bribery of intermediaries in the negotiations which have certain information; 5) illegally obtaining information from law enforcement or regulatory authorities, which collected such information while performing their direct duties; 6) threats of physical violence against a person or his close relatives to whom information has been authorized as a work responsibilities; 7) blackmail an employee who is on the “hook” because of certain circumstances; 8) installing a spy as a member of staff of an enterprise; 9) recruiting an active employee or using an incentive to disclose information by a laid off person on the grounds of ethnic, racial, religious affinity, to avenge manager for illegal dismissal, transfer to another job, dismissal; 10) using various technical devices that record and transmit information. Using special technology, rooms are being monitored and information is being collected from transmitting channels. For this purpose are often used microphones of directed impact, laser devices for reading information from windows, scanners...
detecting and decoding the electromagnetic radiation from office equipment, miniature cameras and camcorders. Such devices can be installed or used a specially trained person or a recruited employees of the company; 11) penetrating the computer networks. To do this, criminals use special computer programs that allow them to seek out relevant data and copy it.

Illegal use of commercial or banking secrets means implementation into manufacturing or taking into account when planning and carrying out business activities certain information without the permission of the owner or authorized person. In particular, the illegal use can have the following forms: 1) presentation of the property or other requirements to an owner of the business or bank secrecy for refund or non-disclosure of relevant information. Such requirements may apply to work, appointment to a higher position, firing another employee, providing services, etc.; 2) sale of information to third parties (electronic databases of telephone operators, traffic police, real estate regulators and others); 3) exchange of information that has commercial or banking value for other tangible assets; 4) adjusting its actions when entering into contracts with owners of such secrets.

Illegal use of information constituting commercial or banking secret, it is possible in other forms, such as intentional disclosure of information [13]. Disclosure can be done orally, in writing, using the means of communication and media, computer networks, and so on. Such disclosure is committed by a person to whom such information became known due to professional or official duties. It can be done by employees of enterprise, institution, organization, or law enforcement or regulatory agencies that have received this information, using their official positions. The objective of counter-intelligence is to deal with above-described crimes of illegal acquisition and use of information. We believe that crime prevention is by far much more effective way to address this matter than dealing with the consequences. The above is justified because of internal monitoring to determine the set of bottlenecks in advance will lead to elimination of a large number of threats.

A. A. Mitrofanov made a significant contribution to the formation of structural units of enterprise security [14]. The organizational structure of competitive intelligence of American corporation Motorola can be used as an example. Motorola was the first organization to use such a structure. The hybrid structure consists of a central intelligence department and one or two other employees who are assigned to maintain communication with the department of intelligence. Taken together, the corporation Motorola competitive intelligence department employs up to 30 people. Properly constructed interaction between departments provides significant savings.

We offer a model of counter-intelligence of an enterprise (Fig. 1).

The model does not take into account the specifics of a particular company, but is consistent with the essential positions of the prevailing concept of economic security and advanced tasks that relate to the economic security of domestic business entities.

Conclusions. Summing up the results of this study, it is necessary to take into account the scientific contributions of W. Mack Mack, a renowned specialist in firm security, who not only included intelligence department into organizational, managerial, and legal aspects of organization chart of enterprise, but also added to a general description of activities specific provisions about intelligence unit developed by him intelligence. is very important Enterprise competitive intelligence activities, external and internal monitoring of team morale, identifying risk factors, timely receipt and processing of information, cooperation with law enforcement and security agencies are very important for counterintelligence division of the enterprise. Only a systematic and comprehensive approach to enterprise security will lead to developing a common approach and mechanism of protecting business.

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Fig. 1. Structural model of counter-intelligence of the enterprise (authoring)

Пушак Я. Я., Живко З. Б. Конкурентна розвідка та контррозвідка: суміжна площа економічної безпеки підприємства

У статті розглянута площа перетину функції конкурентної розвідки та контррозвідки підприємства як складових системи економічної безпеки підприємства. Доведено, що документальнє забезпечення правового статусу комерційної та компанійної безпеки на підприємстві сприятиме надійному її захисту як у випадку розголошення відповідних дій від односторонніх місць цих надійна і незалежна. Розроблено методологічну модель конфліктів компаній, компаній у вимогах, контррозвідки підприємства.

Ключові слова: економічна безпека, конкурентна розвідка, контррозвідка, система економічної безпеки підприємства, конфліктна інформація, комерційна таємниця.

—the article discusses the intersection of competitive intelligence and counter-intelligence of enterprise as components of economic security. It proves that the documentation of the legal status of trade secrets and confidential information reinforces its protection. The article describes three common methods of criminal attacks on information of commercial or banking secrets and discusses ways of their localization. The article also develops structural model enterprise counter-intelligence.

Keywords: economic security, competitive intelligence, counter-intelligence, the system of economic security of enterprise, confidential information, trade secrets.

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The problem of the marketing programs improvement and sales stimulation at the enterprise is very serious, especially in unpredictable Ukrainian economy. Most industry players do not see clear prospects for their activities, and certainly do not work on sales promotion, maybe not because they do not want to, but because they do not have the knowledge and skills of the creation of incentive programs.

The efficiency of sales, overall development of the enterprise, and initially its success are determined by the correct management and marketing approaches to sales stimulation.

The structure of sales promotion approaches must be aimed at realization of company’s strategies, such as gaining more customers, achieving new parts of market etc.

The marketing programs improvement is important for every organization. In conditions of market economy and growing competitiveness the issue of sales stimulation measures is greatly important.

In conditions of market economy enterprises and organizations must promptly react to the changes of the external environment and adapt their sales stimulation measures for these changes. Therefore this topic is developed in detail in special literature [1 – 9], where the general description of sales stimulation, its types is provided; much attention is paid to the new forms of sales stimulation and their possible future implementation.

The aim of the research is to analyze management approaches to sales stimulation at the enterprise and trace the internal development of the organization in order to improve its sales stimulation.

The introduction of improvement methods should be carried after deciding two issues: necessary time and amount of budget incentives. Binding to time will help to control the process of implementing measures of sales promotion improvement in the company and to check whether these improvements are done according to plan.

Talking about ways of sales promotion improvement at Enterprise, it is necessary to note that the fundamental techniques that can be offered should be:

• Firstly, adapted to the plastics processing industry. That is, offering to introduce sales promotion measures which are rather effective, for example, in the food industry, would be wrong.

• Secondly, the issue of incentives should be considered by the fact that the financial resources of the enterprise, which can be spent on these activities, are rather limited, as it is small business.

• And, thirdly, it is necessary to offer a flexible and long-term program that would be linked to the strategic management of the company.

First of all, the head and management personnel of Enterprise should accept the clear and unambiguous necessity of sales promotion as a general phenomenon, and most importantly – its importance for Enterprise activities.

These measures should contribute to the overall understanding of problems in Enterprise on this issue and contribute to the theoretical understanding of sales promotion issues. Moreover, problems submission about enterprise stimulation this way can be quite correct, without making the head of the company think that his subordinates have questioned his deeds.

Introduction of staff is important for formulating correct attitude towards the use of sales promotion, i.e. prevention of wrong perception of leadership. However, the lectures should be held under certain conditions: making lectures for managing personnel is possible perhaps not more often than once in four months, and also with the consent of the head. For general staff lectures should be conducted only on a voluntary basis and at least once every six months; because, otherwise, instead of the desired positive effect, rejection and denial of management personnel to implement programs of stimulation can be obtained.

After the lectures, when the head in general understands the subject and the problem of Enterprise more thoroughly it is necessary to move on to the next, more practical activities and develop a concrete program of action.

The introduction of improvement methods should be carried after deciding two issues: necessary time and amount of budget incentives.

Binding to time will help to control the process of implementing measures of sales promotion improvement in the company and to check whether these improvements are done according to plan.
The tough question for the head of Enterprise is budget management, i.e. how much money should be allocated for the organization of sales stimulation activities.

In situation where it is impossible to say with confidence which budget should be spent on activities to incentives it is rather logical to use the following scheme: in the first phase certain average number is allocated, for example, seven or eight thousand UAH. This amount is the so-called “seed money” for sales improvement measures. In the second stage, after assessing the impact of improved sales promotion, it is possible to use a certain interest rate.

For example 2 – 3% of revenue from each sold product is allocated for sales promotion events.

This calculation method has several advantages: increase of sold products results in an increase in the budget for incentives, which in turn induces the manager to the new activity. In addition, the cost of incentives can be, to some extent, predicted and controlled in growth, reduced or compensated.

After the introduction of incentives it would be more appropriate to use budget methods of expenses calculation – when in the beginning of the promotion campaign, its goals, objectives and methods are discussed, and later the required amount of funds for the proposed program of sales promotion is set.

After deliberations on time and budget, it is advisable to create an internal document (order), which would clearly and unambiguously state basic principles of sales stimulation programs improvement.

Estimated document structure should consist of a statement whether sales promotion is needed or not – increase in sales and profits, and the general manager's activities in these issues.

Based on this document manager should write a plan that includes existing and used measures and ways of their improvement. Approximate plan of using the incentives is designed in the Table 1.

For Enterprise, which already has some system of incentives, destroying it and creating something new would not be quite correct. This system works and global changes would require considerable efforts and funds which is not very effective in current conditions.

Therefore, it would be logical to pursue improvement of sales promotion activities in two stages:

1. To optimize and improve existing incentive measures and evaluate their impact after optimization,
2. To introduce new measures of stimulation and evaluate the overall impact of all incentive improvements on the activities of Enterprise.

Let’s consider the improvements that can be implemented for existing incentive measures.

Discounts proposition is rather balanced so it is particularly inappropriate to change them. Perhaps it would be useful to introduce a more developed loyalty program for existing customers, which will be based on gradual accumulative decrease of price by a certain percentage. For example, if the client has a good reputation and cooperates with Enterprise more than three years, then for each subsequent year, he may receive an additional discount of 1% but not more than 3% overall. Limit to 3% is introduced in order to avoid very large discounts that can reduce the profitability of production. These discounts are classified as so-called loyalty programs to customers, purpose of which is encouraging the client to ongoing cooperation with the Enterprise.

Commodity loan can be modified if it is possible to reduce the number of days in it, but to introduce it to all consumers using the rule of “matrix sales promotion”; in other words to offer trade credit in a very rare occasion, or to reduce the period of the loan by offering greater percentage of discounts.

Further modifications of such incentive as test samples may be: the creation of electronic and paper presentations, promotional materials. Very effective measure “virtual” test samples would be opening a permanent Internet portal of the organization where it would be comfortable to post pictures or images of products that could be seen 24 hours a day from any point of the globe. Creating a Web portal would considerably speed up the products review by interested consumers and would facilitate the discussion process of orders, because both consumer and manager would have an opportunity to look at the object of discussion.

Free shipping for customer means additional spending for Enterprise because if the client is in Luhansk and region or in neighboring regions (Donetsk, Kharkiv), then a small amount of products would be more profitable to deliver by own transport. In addition, it would accelerate the delivery time. Therefore, purchasing transport for the company usage may be called a development of such incentive as free shipping.

Good evidence of Enterprise working on sales improvement is decision to purchase small class passenger van to transport small amounts of goods. This measure may improve satisfaction of existing local customers. This event was the first step in a program of sales promotion improvement measures.

The program of replacing defected products does not need any adjustments, but at the overall level of the industry it is necessary to continue monitoring the quality of products.

According to schedule these activities of sales promotion improvement should be done in five or six months.

Along with the improvement and upgrading of the existing system of sales promotion, the company is also
recommended to introduce some more means of stimulation to strengthen competitive advantage.

First of all, after the improvement of existing incentives, company should pay attention on stimulating its own personnel.

This question is very important because, no matter how effective the overall stimulation of the entire distribution network is, without effective incentive of own personnel company will never work in full force.

It is desirable to start personnel stimulation by improving the reward system for commercial director and sales manager. At the time of percentage payment, management personnel, who are responsible for sales, will be more interested to work with 100% efforts because their wage will depend on the way they work. Another way of sales promotion encouragement is paying extra money, which will include bonuses for increase in sales and additional bonuses for generating interesting incentive ideas or rapid preparation of documents, and so on. However, bonuses which may receive sales manager should not be too high, as this may result in a very active and aggressive business manner which the

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**Table 1**

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<td>Commodity loan</td>
<td>- Implementation to all consumers</td>
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<td>Samples</td>
<td>- Creating electronic presentations and the Internet site of the company</td>
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<td>Attracting new customers</td>
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<td>Free shipping</td>
<td>- Purchase of own vehicles</td>
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<td>Existing customers</td>
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<td>Defect replacement</td>
<td>- Further improvement of the quality control of products</td>
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<td>- Implement of internal motivation system</td>
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<td>- Commissions from sales of products</td>
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<td>- Participation in exhibitions</td>
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<td>- Extension of types and channels of promotion</td>
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client may not really like. Optimal bonus is 2 – 3% from the additional sales.

But no matter how effective manager and commercial director work, contribution to the increase in sales will be small without encouragement of all staff. Therefore, it is also advised to establish a general system of incentives for sales personnel by the areas of work:

- Additional bonuses for good quality of products, lead to decrease of percentage of defected products, and strengthen Enterprise relationships with consumers who will be satisfied with the quality of products;
- Presents in the end of year, which cost will depend on results of sales promotion activities. For example, if the production staff and management have increased profits by additional measures, compared with the same period of last year by 10 thousands UAH, it is possible to introduce a gift for all employees by 10% of the additional revenue that is 1000 UAH,
- Creation of personal incentive scheme for each individual worker, which would be based on the individual qualities of an employee. This system can be linked with gift incentives, so each employee will get a gift of similar cost based on his individual achievements.

All these measures should be aimed at making the personnel believe that the quality of work of each individual separately, firstly, leads to an increase in total welfare of the enterprise, and secondly, some of well-being of the company will be shared with him in the form of prize or gift.

Also for boosting sales of industrial goods it would be very helpful to take part in exhibitions and presentations of goods. These measures are aimed primarily at attracting new customers and improvement of awareness about the company, the opportunity to establish new business relationships and expand or strengthen old ones. In addition, exhibitions and seminars are a good reason for free samples and other promotional materials distribution to customers.

Also important issue for the improvement of sales promotion is an optimization and improvement of promotion process.

At the moment Enterprise consumer may make an order in several ways:

- In person – in other words, client comes to the office and discusses issues of lot size and delivery methods.
- The same questions can be discussed through the use of communications (phone).
- By fax – in other words, customer makes a written request, which is transmitted by facsimile. After receiving a request, manager communicates with the client and specifies all the details.

These methods are highly effective, but in order to implement a coherent and comprehensive system, it is recommended to supplement them by two more:

- Order by e-mail – in other words, client places an order using email at any convenient time.
- Order through the Internet site, which is recommended to create. This way of ordering is very convenient for the customer because it can be done in minutes without leaving the office. It is advisable to open the website of the online store or shop. This type of communication is most convenient for the customer because he can directly review the photos and technical descriptions of products, order test samples and delivery of chosen products in few minutes.

Implementation of all incentive programs with a right start and in correct sequence is important for the creation and improvement of sales promotion in the company.

It is necessary to keep track of time and content of all shares of sales promotion, especially when it comes to short stocks. They must be used in a strict sequence – one after another, because if the company has several shares, the consumer may have misunderstanding of terms and conditions for each, so the overall effect of simultaneous use of all actions will be decreased.

Implementation and improvement of incentives should be conducted thoroughly and consistently, since inconsistent activities can cause reduction of consumer reaction to the product which is stimulated.

Thus, we can say that the introduction of additional measures for stimulation will create a closed system of marketing of the company (Fig. 1).

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**Fig. 1. Closed system of incentives at Enterprise**
The picture indicated measures that are already being used; white labeled measures are recommended to use for creation of integrated system.

As we can see, after building such system of incentives, all categories of consumers can be encouraged to purchase products at by least two kinds of incentives for each. For example, new customers can be attracted by presentations on the company Web-site and by taking part in exhibitions.

An important advantage is also the integrity of the system:

• Firstly, apart from the existing measures of mainly short-term action, which are modified, long-term incentives and loyalty programs that will keep customers should be introduced;
• Secondly, this stimulation system involves all, from management to production units, in incentive measures.

For calculating the effectiveness of incentive measures there are few methodic and all of them are quite not perfect.

Typically, the effectiveness of implementation of sales promotion improvement is measured in monetary form and by terms of increasing profits.

Implementation of sales promotion improvement should double this number at least twice since the program provides a comprehensive approach. That is why predicted income growth rates from implementing sale promotion measures will reach to 120 – 150 thousand UAH per year.

If the implementation starts in 2013 then this year the cost of all the activities the company would wipe 25 – 26 thousand UAH. But since 2014, when the system will work at its full “power”, company may get up to 170 thousand UAH of additional revenue per year, not including the cost of the system. It should be noted that the cost of sales promotion functioning will be approximately 13 – 15 thousand UAH per year. So it is possible to say that the implementation of the system of sales promotion will bring company about 155 thousand net income per year.

Before starting implementation of sales promotion measures it is required to note necessity of following certain requirements:

• Improvement of the following sales promotion measures should be started in September 2013 and implemented during 2014. The delay in time or delay of implementation may modify the external environment that will bring all the efforts to minimal effect or it will not change anything at all;
• A program of sales promotion improvement, if its implementation will be started, should operate until 2018 – that is four years. After this period it is necessary to adjust the program according to the market situation and general sales promotion situation for that period, taking into consideration the factual data about expenses and additional income from implementation of sales promotion improvement program;
• It is important to have integrated approach during implementation of incentive measures and control all stages of implementation.

General improvements in incentive programs should bring extra profits and attract new customers. These improvements were designed taking into consideration company’s specifics and its financial capabilities.

Implementation of such program will certainly increase the competitiveness of the enterprise and improve its profit.

However, if to try to create a coherent program of incentives and sales promotion it becomes necessary to introduce additional business process that can create a closed set of incentives and sales promotion. The point is to create a new unit that would be involved in the processing of plastics waste not only for their own use, but also for sale to external customers. Having examined ways of incentives improvement for Enterprise, it should be noted that the above measures are the so-called "minimum program", and in practice company should adapt all the measures of improving sales activity with the realities of the market environment; because in case of straightforward implementation of these measures the effect may even be negative. Therefore, measures of sales promotion improvement should be implemented in such a way that they will not damage the current activity and reputation of the enterprise.

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Прищепа Н. П., Путинцев А. В. Удосконалення маркетингових програм і стимулювання збуту на підприємстві

Стаття присвячена одній з найбільш актуальних проблем управлінської практики – проблемі удосконалення маркетингових програм і стимулювання збуту на підприємстві. Особливу увагу приділено вирішенню теоретичних і практичних питань стимулювання збуту на підприємстві. Визначені управлінські підходи до стимулювання збуту на підприємстві. Розглядаються організаційні структури стимулювання збуту та методи стимулювання збуту, що використовуються на підприємстві. Надаються рекомендації, що стосуються управлінських підходів до стимулювання збуту на підприємстві.

Ключові слова: підприємство, бізнес, управлінські рішення, маркетингові програми, методи стимулювання збуту, стимулювання продажів.

Прищепа Н. П., Путинцев А. В. Совершенствование маркетинговых программ и стимулирование сбыта на предприятии

Статья посвящена одной из самых актуальных проблем практики управления – проблеме усовершенствования маркетинговых программ и стимулирования сбыта на предприятии. Особенное внимание уделено решению теоретических и практических проблем стимулирования сбыта на предприятии. Определены управленческие подходы к стимулированию сбыта на предприятии. Рассмотрены организационные структуры стимулирования сбыта и методы стимулирования сбыта, использующиеся на предприятии. Даны рекомендации по управленческим подходам к стимулированию сбыта на предприятии.

Ключевые слова: предприятие, бизнес, управленческие решения, маркетинговые программы, методы стимулирования сбыта, стимулирование продаж.

Prischepa N. P., Putintsev A. V. Marketing Programs Improvement and Sales Stimulation at the Enterprise

The article deals with one of the most actual problem of management practice – the problem of marketing programs improvement and sales stimulation at the enterprise. The article is devoted to solving theoretical and practical issues of sales promotion at the enterprise. The management approaches to stimulate sales at the enterprise are determined. The organizational structures of sales promotion and sales stimulation methods used at the enterprise are considered. Recommendations concerning management approaches to stimulate sales at the enterprise are provided.

Key words: enterprise, business, management decisions, marketing programs, sales stimulation methods, sales promotion.

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 Outsourcing (transfer of business processes for performance party customers) was recently accepted as a highly effective form of business organization, enables companies to reduce costs and to focus on the most profitable activities for it. As an example, you can specify a widespread rejection of clothing suppliers from developed countries in favor of placing orders for the production of finished products from specialized companies located in countries with low labor costs. In fact, the clothing suppliers of its producers have become the owners of trade mark and design technologies that do not lead productive activities.

Abroad, and later – in Ukraine, a large amount of literature on outsourcing – as a science that examines its management and organizational aspects as well as a mathematical model for the interaction of the customer and the operator, and practical advice to business managers and the use of Outsourcing in the daily activities of the enterprise [2; 3; 5]. However, the author has a great number of questions. The most important of these issues are:

– What is the difference between outsourcing and the other forms of cooperation between enterprises (purchasing goods and services for industrial needs, tolling production contract). This question is of both theoretical and practical significance, since the answer depends distribution of rights and obligations between the parties and, in the result, there is a need for special measures of legal regulation (as in the case of leasing);
– Nature of outsourcing as an economic phenomenon. As previously mentioned, the focus of the existing literature is given to organizational and managerial aspects, however its economic essence is not adequately disclosed;
– In what form may be an interaction between companies in outsourcing;
– How can choose to pay the operator’s services.

This article attempts to answer these questions.

Outsourcing is a method of optimization of activity of the enterprises of customer of service, due to passing to the external specialized organizations to Performers (to the external providers of services – the operators of outsourcing) of non-core functions, ancillary, supporting or concomitant production of processes, necessary for work of the enterprise, partly or fully, that allows to concentrate the efforts of the enterprise on the basic article of activity, to increase the business efficiency [1].

An operator of outsourcing is the specialized organization Performer (an external provider of services is an operator of outsourcing), rendering the necessary services to the enterprises in the area of its specialization; having or hiring a skilled staff, applying the advanced effective forms and methods of work, technical means and technologies, providing the high quality of the given services, the supplied products, the executable works and the separate functions, partly or fully [2].

Advantages:
1. The decline of the cost of the realization of business process, namely:
– the reduction and control of costs (as a rule, cheaper, than the salary to a staff unit);
– the economy for the tax savings to a staff unit;
– the release of the internal resources of the company for other aims (a synergetic effect is possible).
2. The increase of the quality of the got products or services:
– focusing of the company on basic activity (both the firm-customer and the performer – a synergetic effect is also possible here);
– the use of the specialized equipment, knowledge, technologies;
– the decline of risks, related with the realization of business process;
– the use of competition at the market of performer;
– the reduction of the influence of uncontrollable factors (shortage of stuff);
– the division and partial passing the risks to other company;
– the additional access to finances (at the fund market) is the increase of the investment attractiveness of the enterprise.

The main source of the cost saving with the help of outsourcing is the increase of the efficiency of the enterprise generally and the appearance of possibility to free the proper organizational, financial and still human
resources to develop the new directions or to concentrate efforts to the existing, requiring enhanceable attention.

Basic types of outsourcing [3].

1. Outsourcing of business process. In industry of the outsourcing the term of “outsourcing of business process” is characterized by the complex of second-rate technological processes, the composition of which changes constantly. Usually the finances and bookkeeping, the labour resources, the supply, the extra charge and the account of settlings, the internal audit, the calculation of taxation, the centers of maintenance of users and the row of specific processes characterized for this industry are included in this complex.

2. IT-Outsourcing. Presently under the term of “IT-Outsourcing” is implied the transmission of execution of some IT-PROCESSES to the external companies. To IT-PROCESSES take the processes of planning, development, introduction, accompaniment and development of IT-infrastructure of company.

3. Outsourcing of production and economic. Outsourcing of production and economic is one of the most widespread types of outsourcing for which all of the anxieties of exploitation of the objects of the real estate, cleaning up of the apartments, working feed, the management of a transport park of the enterprise, taking of inventory of commodity and other attendant work etc. are the duties of outsourcing companies.

4. The industrial (or production) outsourcing. There is an industrial (or manufacturing) outsourcing, when the company is more profitable to attract outsourcer than to conduct the production process on their own. The electronics manufacturers and telecommunications companies do so often in such a way.

A release from the row of labour intensive and non-core operations enables to concentrate for the development of the new products or services, and if it is necessary to reconstruct a production process quickly and painlessly. Basic advantages of industrial (production) outsourcing are a decline of prime cost of production process, upgrading of quality and reliability of the passed functions, the access to the new resources. It is achieved through the implementation of the company – of outsourcer of more or less similar processes for itself and for plenty of clients, using the modern technologies.

5. Accounting outsourcing. Accounting outsourcing is one of the variants of providing the record-keeping at the enterprise for which the head of the enterprise carries the complete responsibility, in accordance with the legislation of Ukraine. In this embodiment, in order to ensure the accounting for its business and provide the necessary accounting and budgetary funds are used by a specialized company. The forms of collaboration can be very various, beginning from forming of a “zero accounting” and up to the regular collaboration on a daily basis.

Theoretically and practically, the accounting company can fully perform all functions of accounting company up to the execution of bank payments and primary documents counterparts. However, this does not exclude the possibility of construction a fairly complex and flexible business processes using the external companies and their employees to achieve the maximum efficiency.

6. Outsourcing of office printing. Outsourcing of office printing is the use of technique of the specialized company for an office printing. The transition to pay for a printed page. Due to the use of the more productive equipment, the outsourcing company may reduce the current operating costs of the expense materials, services. It assumes risks and expenses, related to the exploitation of the printing equipment up to the replacement if it be impossible of operative repair.

For a small firm, with the unstable volume of the published works, such approach can substantially reduce a requirement in an original circulating capital. It allows a company not to make the large valid for one occasion of the expenses of the acquisition of technique.

7. Outsourcing as hiring a staff – (outstaffing). Different companies enough often have a necessity to hire the skilled personnel without legal registration.

8. Outsourcing of marketing. Outsourcing of marketing is the transmission of functions of marketing of company, specializing in this field. In that case the companies refer to the outsourcing of marketing when the companies is more profitable to solve marketing tasks using the services of the strange specialized company. The choice of marketing activities for a transmission for outsourcing is unique for every company. It depends upon the specific of activity of company, the presence in the state of the enterprise of enough number of own marketing specialists and the level of their qualification. The advantages of outsourcing of the marketing:

   – Economy of the cost savings for maintenance and management by the marketing department;

   – The narrow specialization of specialist of marketing allows the company Customer not only to get a result and also to solve the specific tasks;

   – The probability of receipt of the poor-quality solution of task goes down;

   – Outsourcing of marketing gives the company the additional competitive advantages.

9. The services of outsourcing for the public and local self-government authorities.

10. Outsourcing of call-center. Every year the number of call-centers (contact centers) increases. Wishing to take the advantage of services of call-center,
the leaders of the companies have a choice – what is more profitable, more correct, more reasonable: the organization of call-center in the company or take advantage of outsourcing call-center? For many executives the use of outsourcing business in business and including in regard to a call-center is unusual. But distrust of outsourced call-center disappears as soon as the responsible persons meet closer with the high technological level of equipment centers and understand that the creation of such technical base for itself is impossible and unjustified economically.

The forms of outsourcing [4].

1. Full (maximum) outsourcing. The term is used for denotation of the agreement according to it the state of employees and possibly the assets, related to the basic activity of the enterprise (in fact up to 90% of such activity), such as the information technologies or finance are passed to the provider of services for the time of the action of contract.

2. Partial (selective) outsourcing. This form of outsourcing may be shown only at making of different expensive products (for example, domestic technique).

3. Joint outsourcing. The term “joint outsourcing”, introduced by the British company EDS, describes one of the options for outsourcing, in which the parties to the agreement are partners. Recently, however, some experts use the term to describe subcontracts which involve some service providers.

4. The intermediate outsourcing. This type of outsourcing takes a place when the organization transfers the management of their systems and platforms to a third party, supposing that its own specialists of IT are able to develop the new systems. The organization, planning to carry out intermediate outsourcing, as a rule, demonstrates the high level of trust to the capabilities of the specialists of IT.

5. Transformational outsourcing. Unlike intermediate outsourcing, the organization invites the provider of services which will reorganize the work of subdivision fully, developing the new systems and creating the reliable base of knowledge and skills, which passes to the client then. Transformation outsourcing differs from full one only that the transition of staff and assets is not final up to the end of the project a client finds the complete control and takes the duties again. For many people it sounds as the ordinary services of consultant. The only difference is that the transformational outsourcing the supplier usually operates sufficiently regardless of the personnel of the client. Therefore it is not surprising, that there are only small number of the real examples of transformation outsourcing.

6. Outsourcing of joint ventures. Outsourcing of joint venture involves the creation of the new company for the use for the future business opportunities. The staff and assets of client will be transferred to this joint venture but not to the provider of services. The purpose will be not only to improve the quality of work of the translated subdivision but that is more important, the development of commodities and services which can be sold to the third party. Then the customer and the provider of services will share the income earned by the new company. Thus, the provider of services will be able fully to utilize the possibilities for the creation of the systems and a client will share the charges with him for the development of the new software. A joint venture gets advantages of using the specialized knowledge of the client about the market. Some goods and services of joint venture will be developed using the opportunities which have arisen due to agreements for the complete outsourcing.

Proposed in this paper include the classification of outsourcing allowed to outsource certain activities that previously were not included in outsourcing, and considered as a separate, and to identify specific, has not been studied, the type of outsourcing – the mutual (two-way). The author’s point of view, is that it’s makes it possible, on one hand, to has proper understanding of the economic essence of the phenomenon of outsourcing, and the mechanisms of interaction between enterprises within the outsourcing, and on the other – has allowed to consider a number of today’s popular forms of business (including franchising) as a special case more general phenomenon of resource use outside companies (outsourcing).

The author hopes that the results obtained in this study will be of great interest both to researchers studying outsourcing and, more broadly, principles of interaction between enterprises and managers to practitioners who use outsourcing business activities run by their respective companies.

References


Ковальов А. В. **Теоретичні основи аутсорсингу**

У статті розглянуті існуючі класифікації видів аутсорсингу, доведено, що вони досліджують лише управленську та організаційну складову аутсорсингу. Виявлено відмінності аутсорсингу від покупки товарів і послуг. Запропоновано підхід до аутсорсингу як до економічного феномену, побудовано класифікацію видів аутсорсингу за економічним змістом і за способом організації взаємодії між підприємствами. Описано механізми взаємодії підприємств при аутсорсингу.

**Ключові слова:** аутсорсинг, види аутсорсингу, види взаємодії підприємств.

Ковалев А. В. **Теоретические основы аутсорсинга**

В статье рассмотрены существующие классификации видов аутсорсинга, доказано, что они исследуют только управленческую и организационную составляющие аутсорсинга. Выведены отличия аутсорсинга от покупки товаров и услуг. Предложен подход к аутсорсингу как к экономическому феномену, построенному на классификациях видов аутсорсинга по экономическому содержанию и по способу организации взаимодействия между предприятиями. Описаны механизмы взаимодействия предприятий при аутсорсинге.

**Ключевые слова:** аутсорсинг, виды аутсорсинга, виды взаимодействия предприятий.

Kovalyov A. V. **Theoretical Basis of Outsourcing**

The present paper contains the analysis of the existing classifications of types of outsourcing. It demonstrates that these classifications are based on managerial and organizational criteria without taking into account the economical nature of outsourcing. Differences between outsourcing and purchase of products and services are described. A new approach to outsourcing is proposed that is based on economical aspects of this phenomenon. New classifications of types of outsourcing based on its economical nature and the types of interaction between companies are given. A list of methods of payment for outsourcing services is applied.

**Key words:** outsourcing, types of outsourcing, types of interaction between companies.

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SHADOW ECONOMY: STATE OF THE ART

Introduction. Each year there are enormous numbers of cash transactions in the market without the government’s observance and regulations. This phenomenon was known as the “underground economy” and “shadow economy” [1]. As shadow economic activities are a fact of life around the world, most societies attempt to control these activities through various measures like punishment, prosecution, economic growth or education. Gathering statistics about who is engaged in shadow economy activities, the frequencies with which these activities are occurring and the magnitude of them, is crucial for making effective and efficient decisions regarding the allocations of a country’s resources in this area. Unfortunately, it is very difficult to get accurate information about these shadow economy activities on the goods and labor market, because all individuals engaged in these activities wish not to be identified. Hence, the estimation of the shadow economy activities can be considered as a scientific passion for knowing the unknown [2].

“System D.” The fact that the shadow economy is on the rise in the middle of a global financial crisis should be no surprise to economists. A recent post on Steven Levitt and Stephen Dubner’s Freakonomics blog discussed the growth of the shadow economy across the world. Freakonomics: “In 2009, the OECD concluded that half the world’s workers (almost 1.8 billion people) were employed in the shadow economy. By 2020, the OECD predicts the shadow economy will employ two-thirds of the world’s workers. This new economy even has a name: ‘System D’.”

In a recent article for Foreign Policy magazine, Robert Neuwirth argues that “the $10 trillion global black market is the world’s fastest growing economy – and its future”. Neuwirth discusses that the phrase “System D” comes from a slang phrase used in French-speaking Africa and the Caribbean. The “D” stands for the French word “débrouillard”. Neuwirth: “To say a man is a débrouillard is to tell people how resourceful and ingenious he is”. Thus, self-starting entrepreneurs who go out on their own for business purposes without being regulated by bureaucracy and / or without paying taxes are part of “l’economie de la débrouillardise”, or “Systeme D” on the street. Neuwirth writes that System D is a global phenomenon, transporting products across the planet ranging from machinery to computers to mobile phones. Neuwirth explains that based on estimates, the total value of System D globally is close to $10 trillion. In comparison, the US has a GDP of $14 trillion. Thus, were System D a sovereign nation, it would be an economic superpower – the second largest economy in the world.

Aside from the legal aspects of the black market, the shadow economy has negative implications in terms of tax revenue. In a July 2010 article from Bloomberg Businessweek, Chris Prentice discussed how the rise of the shadow economy affects tax revenue for nations. Based on estimates, Prentice quotes Austrian economist Friedrich Schneider, “Taxation and regulation increased in most countries over the past 10 years… reducing the tax burden is the best policy measure to reduce the shadow economy, followed by a lessening of fiscal and business regulations” [3].

Model-based methods to estimate shadow economy. Model-based methods use statistical tools to estimate the shadow economy as an “unobserved” variable. Three such methods are most widely used in the literature: i) the currency demand method (Feld and Schneider, 2010; Schneider and Enste, 2000); ii) the electricity consumption method (e.g. Kaufmann and Kaliberda, 1996; Johnson et al., 1997); and iii) the multiple indicators and multiple causes (MIMIC) model (e.g. Schneider, 2007; Vuletin, 2008): i. The currency demand method assumes that cash transactions account for the bulk of informal transactions (e.g. Schneider, 1997 and Johnson et al., 1998). The crucial assumption underlying this method is that a change in the size of the shadow economy (or the amount of money demand) is caused by changes in taxation and government regulations. As a first step, a money demand equation - where the dependent variable is typically the ratio of cash holdings to current and deposit accounts - is estimated as a function of the most known determinants of money demand (e.g. real income, interest rates, payment habits etc.), as well as the tax burden and government regulation. In turn, an estimate of the size and development of the shadow economy can be calculated by comparing the development of cash when taxes and government regulations are at their lowest values among the countries included in the analysis, with the development of cash at the higher levels of taxation and regulations.

ii. The electricity consumption method relies on the fact that economic activity and energy consumption have been observed to be highly correlated. Assuming that electricity consumption can be used as a proxy for total (i.e. formal and informal) economic activity, the difference in the growth of official GDP and GDP predicted on the basis of electricity consumption can, therefore, yield an estimate of the shadow economy (e.g. Kaufmann and Kaliberda, 1996; Lackó, 1998; Schneider and Enste, 2000). 5 This approach has been employed widely to measure the shadow economy, particularly for
countries whose data collection lags behind the rest of the world and hampers more data-intensive methods to measure shadow economy.

iii. The Multiple Indicators Multiple Causes (MIMIC) method hypothesises that the size of the shadow economy can be modelled as a latent variable. Even though this variable is unobservable, its causes (e.g. an increase in the tax and regulatory burden) and effects (e.g. an increase in demand for cash or electricity) can be observed (Feld and Schneider, 2010; Dell’Anno and Schneider, 2008). In practice, the basis of the MIMIC model is a system of simultaneous equations. While one set of equations models the effects as a function of the latent (shadow economy) variable, the other set of equations models the shadow economy as a function of the causal variables. After estimating the system, a measure of the size of the shadow economy is obtained from the fitted values of the latent variable [4].

The dynamics. Many obstacles must be overcome to measure the size of the shadow economy and to analyze its consequences on the official economy, although some progress has been made. This article it is shown that although it is difficult to estimate the size of the shadow economy, it is not impossible. We have demonstrated that with the various methods – the currency demand method, the electricity consumption method, the Multiple Indicators Multiple Causes (MIMIC) method some insights can be provided into the size and development of the shadow economy of countries. Each approach has its specific strengths and weaknesses and can provide specific insights and results. The general impression from the results of these estimates is that, for all countries investigated, the shadow economy has reached a remarkably large size. Although the different methods provide a rather wide range of estimates, there is a common finding that the shadow economies of most transition and all investigated OECD countries have been growing over the past decade. The same can be said for the labor market in the shadow economy, which is attracting growing attention due to high unemployment in European OECD countries [5].

In a recent study Schneider calculated the size of the shadow economy in 31 European countries including Malta. In 2011, according to Schneider, the average size of the shadow economy in these countries was 19.3% of official GDP. Malta’s black economy’s size is calculated at 25.8% of GDP – significantly higher than the average for these countries. The smallest shadow economy is to be found in Switzerland with 7.9% of official GDP, while the highest is in Bulgaria with 32.3%.

Conclusion. Based on the Schneider study, shadow economy has been decreasing since the highest level of 23.2% in 2003. This decrease would seem to be due to the fact of the recovery from the world wide economic and financial crises. The only exception is Greece, where the recession of the official economy is so strong, that it even reduced the demand of the shadow economy activities due to the severe income losses (Fig. 1).

The size of the shadow economy can be reduced by:

- Reducing the financial attractiveness of undeclared work through better design of tax and benefit systems, and stricter controls in the social protection system with regard to the performing of undeclared work:
  - ensuring adequate levels of income support, recognition of the link between rights and contributions, by controls on welfare beneficiaries and adequate financial sanctions for tax and social security fraud;
  - areas to watch include (i) the taxation of overtime, (ii) the respect of minimum wages or wages set by collective agreements and their possible role as levels of reference for envelope wages, (iii) tax distortions between the status of employee and self-employed, and (iv) the
reduction of fiscal burden on low skilled jobs.
- Administrative reform and simplification, with a view to reducing the cost of compliance with regulations;
- further improvement of labour law and administrative systems to better cope with short-term needs and shortages in the labour market;
- sector-specific approaches to transform undeclared work into regular work (especially in hotels and restaurants, agriculture, home services);
- enforcement of the Community acquis on the free movement of workers;
- further exploiting the possibilities of e-government, online registration and exchange of information between administrative databases;
- Strengthening the surveillance and sanction mechanisms, with the involvement of labour inspectorates, tax offices and social partners;
- exemptions from the practice of written labour contracts should be limited to the minimum;
- sector-specific solutions to control and regularise undeclared work with the involvement of the social partners;
- cooperation between the various bodies in charge of tax, labour, and immigration, as well as on the enforcement of legislation and sanctions.
- Trans-national cooperation between Member States, and Awareness raising activities:
- increasing awareness among the public on the risks and costs to society linked to undeclared work, particularly as far as sanctions are concerned; social partners have a key role to play in this respect;
- informing citizens about the positive effects of full payment of taxes and about the insurance nature of social security contributions [6].

Most studies of the shadow economy focus on the influence on the allocation of resources and the loss of revenue for the state. But the impact on official institutions, norms, and rules is even more important. The shadow economy can be seen as an indicator of a deficit of legitimacy of the present social order and the existing rules of official economic activities [5]. The informal economy is complex as it involves a number of different activities, making measurement a challenge. With few exceptions, existing empirical research into the impact of policies on informality tends to be conducted at the national level, and can be criticised for relying on unreliable proxy variables – such as self employment – or model based estimates that already take into account the impact of tax and regulatory settings [4].

References

Родиа О. Г., Батула В. Ф. Тіньова економіка: сучасний стан
У статті відображено сучасний стан проблеми тіньової економіки в світі, узагалі зазначено останні досягнення провідних вчених у цій сфері. Запропоновано декілька методів визначення об’єму тіньової економіки, визначення її сучасну динаміку, наведено методи для зменшення долі тіньової економіки, що запропонована Європейською комісією.
Ключові слова: тіньова економіка, тіньовий ринок, економічна активність, система "Д".

Родиа О. Г., Батула В. Ф. Теневая экономика: современное положение
В статье отражено современное положение проблемы теневой экономики в мире, проведен обзор последних исследований ученых в этой сфере. Предложено несколько методов определения объема теневой экономики, выявлена ее современная динамика, приведены методы для уменьшения доли теневой экономики, предлагаемые Европейской комиссией.
Ключевые слова: теневая экономика, теневой рынок, экономическая активность, система "Д".

Rodinia O. G., Batula V. F. Shadow Economy: State of the Art
This article represents the current state of the shadow economy in the world. It also contains scientists’ researches. Offers several advanced methods to estimate the amount of the shadow economy. The article also represents modern dynamics methods for reducing the share of the shadow economy, proposed by European Commission.
Key words: shadow economy, shadow market, economic activity, system “D”.

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INTERNATIONAL MANAGEMENT: MANAGEMENT WITHOUT BORDERS

Introduction. Work of managers as people who supervise and control other people’s performance is an integral part of any business and organizational process. Nowadays the world economy is becoming global; thus, managers face the need to work in the multinational company and interact with employees from different countries, with international interests, purposes and goals. According to Phatak, Bhagat and Kashlak, if a firm runs its business internationally, it usually needs an international management tools to be implemented [5]. Achieving and setting goals in the trans-border way lead a firm to have managers in its home country as well as in others where their offices are located. These managers have to know how to work with people of different cultures and how to make them do their job. An experience gained by managers worldwide helps them to see clearer how to work internationally. There are a lot of various styles and sub-styles of management that make it easier to achieve purposes in doing business internationally.

As it has been mentioned above, management is also influenced by the culture. There is a very big difference in managing English, Japanese, Ukrainian, Indian, Egyptian, Canadian people because of the culture of their countries. Cross-cultural management is a very useful field of study for managers all over the world.

Basic theory of management and international management. According to Schermerhorn, working together in order to achieve some common purpose group of people is an organization [7]. Those purposes can be producing goods, services, etc. Every organization has its own measurements such as productivity and efficiency.

Any organization needs a leader, a person to manage their work and to set their goals. This man or woman is a manager. Schermerhorn says that a manager is a head of a small or a big group of people who is responsible for their work and achieving their purposes [7]. Every employee who holds an executive position is a manager: football team coach, supervisor, dean, school headmaster, minister, captain in the army, chief-cook etc. But there are two main types of managers. Top managers, for example, the CEO mainly fixes the objectives of the company and makes strategic decisions. A President, for example, is a representative of this type. Middle managers are people who are subordinate to top managers. Their main job is to perform the plans of the company in life, gathering data and reporting to higher levels. They stay in charge of either small groups or large organizations.

According to Schermerhorn, team leaders or supervisors are the most common kinds of managers [7]. Their main job aimed at of performing higher level planning and managing employees who are not managers. Outputs, their organization, cooperation between levels etc. are run by line managers. Staff managers are classical representatives of the human resource management science. They know how to work with employees and can give them any kind of help or service they need during the working process. Schermerhorn claims that there are four main functions of management: planning, organizing, leading and controlling.

All this knowledge is basic theory for managers all over the world. It is useful for both local and international management. According to Phatak, Bhagat and Kashlak, international management a science about ruling actions of the firm on an international area, but they say that the key to define this conception is to understand words “management” and “international” separately [5]. Gathering that knowledge these authors define international management as an effective using of all kinds of firms resources in order to achieve its goals and purposes on an international area, and they say that it is gaining firms purposes and “survival” with the help of adapting to changing global world environment.

The management is not only about allocating resources and setting strategic purposes. A big part of this science on local and international levels is about managing people. Phatak, Bhagat and Kashlak say that there is a big difference between an international and an intranational human resource management [5]. Hiring criterions and preparing a stuff methods are two points which that difference is mostly consists of. The culture of a worker, for example, plays a major role in that issue. On an internationally competitive market the quality of the human recourse management can be a great advantage of any firm. Correct use of employees from different countries and cultures on a high level and in different countries with the same culture can become one more useful point helping firm to survive in the changing global environment.

Every manager is a sort of leader on both global and domestic levels. Moran, Harris and Moran say that a determination of the global leader is to some extent
psychological [4]. This is a person who cares about the team and a good head of the group which works in the global environment. The art of management is deeply connected with the culture of employees, so the culture of a person can be a useful thing to manage him or her in the way that the manager needs. A global market is one of the best examples of a multicultural management. According to Moran, Harris and Moran, there are two types of culture that the manager is interested in: work culture and global culture. The work culture is also divided in two parts by a sense. People of one country level of life is a way of defining it in a macro sense and in a micro sense it is about groups and institutions that the person is part of. Peoples’ culture is very personal definition that is why authors talk about the global culture. The world-wide media is a border between people and their real culture. Managers try to use that knowledge to avoid using something from global world-wide culture in creating strategies for, for example, the marketing in a multinational way.

**International human resource management: modern approach.** Leadership plays very important role in the modern human resource management. According to Mayson, every leader needs to have an ability to adapt in terms of the global environment. This is due to the fact that the modern world changes and the manager has to have flexible abilities of survival in any business situation. Mayson claims, that managing companies to an aggressive behavior on their markets and the good understanding of the global market situation can become a pledge of successful business in the future. Some conservative managers of the higher level just think that they can get through the situation without adapting to it and these actions lead to new threats for company.

Mayson invokes managers to be up-to-date, but not conservative leaders. He says, that they should upload their managing model in time and always see the modern market situation. Every leader should has his or her own ideas and opinions without doing the same as colleagues from other companies do in different situations [2].

With changing of the global situation the management also improves itself. Reilly says that in the world-wide status managers in order to improve a performance usually take a lot of risk. Some people think that their companies should practice one universal behavior in all parts of organization but others say that everyone should adopt it to every part.

According to Reilly, different mistakes in the global human resource management can lead to bad consequences like even not knowing what is acceptable in their kind of environment [6]. The knowledge of local features in the global size can be very useful for managers of the high level, during setting strategic purposes. What is specific about the Chinese labor market? Is the development level in Brazil developed enough to set our goals there? Answering such kind of questions is the key to a successful international management in the future.

What was international or local organization a century ago? What was it ten years ago? Development of technologies always makes our life, personal or business, easier. According to Coulson-Thomas, introduction of modern technologies leads to easier managing of a company [1]. Simplification of cooperation with clients, colleagues government departments all over the world with help of organizations technological development is a good way to new successes in production, selling, etc.

Coulson-Thomas says that new technologies make easier performance of complicated task, connections, production and else. This issue has many advantages like decreasing of time spent on cooperation, costs and teaching and requirement new employees. Also this development can help managers to simplify an access to needed information. Coulson-Thomas claims that easy getting information is really important in modern global environment to do successful business.

World never waits and it is very important for the modern manager to go with the times. These can be the central to the good strategic planning and companies’ survival and adopting for many years in future.

**Culturally-oriented styles of management.** Local and international management experience is the worldwide issue. According to Mohiuddin, there are three main culturally defined traditional styles of management: Japanese, American and Chinese [3].

Mohiuddin claims that features and traditions of Japanese people are deeply rooted in their management style. Their purposes and labor are closer connected to their organizations then their western colleagues. They give each other more support during the working process then, for example, Americans. Japanese strategically goals setting is more long term oriented, a decision making process is both side distributed depends on decision situation, employment is more loyal and purposes are more oriented on increasing quality and efficiency. Moran, Harris and Moran also admit such feature of Japanese companies as product quality achieving. According to them, Japanese managers closely focus on the decision from different sides. Mohiuddin says that Japanese workers usually work for one company for many years and even for all life. A Quality stability of the working is very important for promotion. Japanese managers as a rule are also moral and social leaders [3].

According to Mohiuddin, American managers are real individualists in their work, so they usually take a lot of risk in their decisions. They do not try to find a
compromise like their Japanese colleagues [3]. Mohiuddin says American management style means setting short term goals. Japanese one – life one company is not about Americans, their job is not such secured. Individualism is one of the most features also of employees.

According to Mohiuddin, The Chinese management style consists partly from both American and Japanese. Decisions can be made by either groups or individuals, long and short term strategic planning by managers, a job is like in Japan secured, but a promotion process is more like in the American version. Chinese managers do not try to achieve really high quality of their products. According to Moran, Harris and Moran, deeply rooted in the Chinese cultural hierarchy can be an obstacle for using American management style means setting short term goals, environment, modern approach.

Conclusion. The managers’ work nowadays considerably differs from the work of their predecessors. Developing of new technologies made it easier, but, with that, in terms of international business additional duties and responsibilities arose. Considering different styles of management and cultural features will globally help to build a new unique style of management. Using up-to-date theories and technologies is becoming today a key for good managing. The American management style is still the leading style in the world, as the Japanese style started to leave its positions. International management is truly important tool for surviving of any organization and its ability to do business both in the long- and the short-term perspective.

References
THE CORPORATE GOVERNANCE SYSTEMS TRANSFORMATION DURING THE FINANCIAL CRISIS

Beyond doubt the institutionalization of interests of different strata and groups of participants has an impact on the corporate governance system development, as well as business and social partnerships that develop between the state and corporations. Therefore, in a certain way companies implement public authority in the pursuit of maximizing shareholders’ interest.

They emerge as representative structures to protect their economic, political, social and ideological interests. Businesses, community organizations, and government agencies cooperate to achieve common goals such as stable profits, sustainable social and political climate, and maintaining their own positive image. Though there are some organizations that have a particular focus on profit maximization, others on charity, and still others on property rights and individual freedoms, as well as environmental protection, health and sports, according to basic corporatism principles they all share the ideals of cooperation and solidarity.

Having analyzed the history of corporate governance we outline the main stages of theoretical and practical aspects of corporate governance development (Table 1).

Therefore, we broadly view corporate governance as a system of directing and controlling company’s activities. Corporate governance systems define tasks and responsibilities of shareholders to control managers’ actions as well managers’ accountability to shareholders for company’s performance. Proper corporate governance should always enhance share capital growth.

Global financial crisis of 2008 – 2009 revealed the major flaws of business institution forms that have been dominating the scene in recent decades. Corporate governance systems have also proven inadequate in current economic environment. First of all, this inadequacy was made obvious through flawed incentive systems including the interests of all key stakeholders, not limited to traditional players such as shareholders and managers. Specifically, there has been an exacerbation of the principal-agent problem – a traditional conflict between the mostly short-term interests of hired managers and long-term interests of shareholders. Intensification of this problem was demonstrated through a relative drop in efficiency and accumulation of risks in large multinational corporations. Moreover, this loss of efficiency and risk accumulation was not obvious to outside investors, thus creating an illusion of stability and overall risk reduction in the economic development process. There were different mechanisms of exacerbation of this conflict of interests: management incentive systems, methods for calculating capital adequacy and/or debt burden ratios, risk management systems, board of directors’ organization, execution of shareholders’ rights, and, probably, derivatives accounting.

According to common opinion, the major reason lay in management incentive systems developed in recent years, which focused exclusively on short-term interests and excluded other benchmarks apart from short-term (mainly one-year) goals of maximizing firm capitalization.

There were objective reasons for a shift in the corporate governance towards the above mentioned mechanisms of distorted incentives. In our view, this shift was driven by the Asian crisis of 1997, when it became obvious that financing of the corporate sector predominantly through banks was ineffective. As a result of having close interactions and personal connections with large borrowers banks turned out incapable of objectively assessing their financial conditions, leading to bad debts accumulation which was one of the causes of the crisis in South Korea and some other countries. In response to this market failure in corporate governance the emphasis was shifted to an alternative model, historically pertaining to the UK and the U.S. and based on assessing company’s value through stock market mechanisms. The theoretical foundation for this shift was laid out in numerous works on stock market describing it as an objective mechanism, independent of insiders’ manipulation and thus capable of better protecting the rights and interests of external investors (outsiders).

Recent string of corporate scandals and bankruptcies in the developed markets have clearly demonstrated that full exit from the financial crisis is impossible without solving the identified problems in corporate governance. To achieve this it is necessary to solve two key issues in a global context of corporate governance:

– the shift from short-term incentives and goal setting to long-term ones, comparable to the business cycle length;

– extending the scope of corporate relations to include the interests of all key stakeholders, not limited to traditional players such as shareholders and managers.

International community recognizes the “failure” of the corporate governance tools which are currently in
### Plan of sales promotion improvement in Enterprise

<table>
<thead>
<tr>
<th>Period</th>
<th>Fundamentals</th>
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<tbody>
<tr>
<td>End XIX – beg.XX century, “dominance” in shareholder management decisions</td>
<td>The emergence of large corporations. Domination of scientific management school, which focuses primarily on the principles and methods of work organization. The start of separation process between stock ownership rights and stock management. A. Marshall systematically described the problem of different interests pursued by managers and company owners. T. Veblen proposed the transfer of control from owners to managers-engineers.</td>
</tr>
<tr>
<td>Beg. 30s – 50s XX century, “Management control over decision-making process”</td>
<td>Beg. 30s – 50s XX century, “management control over decision-making process” Corporations expand the field of their activities. Transfer of the executive, control, and then strategic management functions to hired managers. Emergence of conflicts of interest. Requirements on disclosures about the functioning of corporations and circulation of securities are introduced through government regulations. Role enhancement of Securities and Stock Market Commission. American economists A. Berle and G. Means in “The Modern Corporation and Private Property” (1931) raised the question of agency relationship, and the collective and social nature of corporations. R. Coase’s theory of transaction costs (“Nature of the Firm”).</td>
</tr>
<tr>
<td>50s – end of the 80s of XX century, “introduction of general rules and principles of corporate governance”</td>
<td>Increase in investments. Export of capital in the form of portfolio investments (stocks). Substantial increase in the proportion of institutional (pension funds, insurance companies) and collective (mutual and new investment funds) investors in equity. EEC issues a directive that unifies corporate governance in public companies. J. K. Galbraith in his work “The New Industrial State” (1961) came to a conclusion that the real power in the corporations is held up within technocratic structure rather than being exercised by its owners. Development of theories: information asymmetry (M. Spence, G. Akerlof) risk (J. Stiglitz) of new institutional economics (O. Williamson) in capital structure (F. Modigliani, and M. Miller). The works of M. Jensen and W. Meckling have special influence on the development of corporate governance by justifying contractual relationship between shareholders and other stakeholders in corporate governance system.</td>
</tr>
</tbody>
</table>

Compiled by the authors
practice. Thus, the OECD report “Corporate Governance and The Financial Crisis: Reform and Exit Strategies” outlines concrete approaches to solving problems in a number of critical areas, such as compensation systems, risk management, and shareholders rights execution. [2]

In its turn “Principles of sound compensation practices. Standards implementation” prepared by Pittsburgh G20 Summit on Financial Stability, provide an example of the practical implementation of these approaches” [3].

However, for the moment the following position dominates in assessing failures in corporate governance: the principles of corporate governance formed and codified by the OECD in the past decades do not need to be changed, as they already contain the approaches to solving the identified problems. The main issue remains the proper implementation of corporate governance principles.

Thus, the above mentioned OECD report on the impact of financial crisis on corporate governance and the analysis of the causes of inefficiencies in the leading corporate governance subsystems (specifically, compensation and risk management) and their role in the financial crisis, published in June 2009, states: “There is no need to revise the OECD principles (of corporate governance). These principles provide a good foundation ... to achieve the objectives (of corporate governance). The most urgent challenge is to support the effective implementation of the already agreed upon standards” [2, p. 7].

In other words, the problem lies not in theoretical concepts of corporate governance, but in the practical implementation of the recommendations of best practices in corporate governance.

Although some international experts support the adjustment of some of these standards, in general the currently established “ideal model” of corporate governance and its theoretical foundations are considered to be correct [4]. According to this logic in terms of fundamental corporate relations “principal-agent problem” overall thrust of measures to improve corporate governance is now focused on the regulation and the tighter control of managers (“agents”) by regulators acting in the interests of shareholders (“principals”). It should be emphasized that such measures are not new – the response to the crisis triggered by Enron’s bankruptcy in 2001 at the political level was formulated and implemented in the same vein.

Given the background of global trends Ukrainian companies stand out with certain unique characteristics. On the one hand, in most cases, they have preserved the concentrated structure of ownership and control. And their current controlling shareholders “have something to share” with the management when it comes to incentives and stimuli for initiative, etc.

However, compared to their global competitors Ukrainian companies exist in a qualitatively different institutional setting. Ukraine’s poor investment climate dramatically reduces the time horizon in which an owner can make informed decisions, and thus shuns away long-term direct and portfolio investors. Moreover, contrary to established notions, problem lies in the instability of institutions rather than the poor quality of Ukrainian laws as such. No Ukrainian company can guarantee the feasibility of its long-term goals because of the state constantly changing the “rules of the game”.

Constant instability of the “rules of the game” in Ukraine is demonstrated in two dimensions. At the political level, we increasingly observe that some things are claimed (“We want innovation and modernization”, “We create the rule of law”), but different things are actually implemented (social support is granted to important, but inefficient authorities-friendly companies; the law is applied selectively and does not affect the representatives of the state). At the bureaucratic level, abundant new changes of law are constantly implemented which are justified by good intentions, but in fact lead to a permanent change in rules. As a result of these two trends companies cannot build a long-term strategy and a suitable system of long-term incentives, unless a specific corporation is able to create a favorable regime for itself (taking individual or collective action). Problem of unstable “rules of the game” cannot be solved solely by the business. This is a problem of interest groups operating on the side of the state that should finally understand the difference between their short-term opportunistic and political objectives and the long-term goals (priorities) of the country, and put themselves in the framework of law.

In the absence of such changes the only way for Ukrainian companies to ensure stable “rules of the game” is to develop further approaches to formal and informal integration with the state on behalf of its individual members. Moreover, since Ukraine is already a part of the global markets, Ukrainian companies along with their foreign competitors will participate in the search of new forms of organization of large business.

But given the current uncertainty of “rules of the game” the movement at the level of individual companies will be slower in Ukraine than in other countries, and as a result we will continue to lag behind our competitors.

The crisis of 2008 – 2009 showed that the model of corporate governance, codified by the OECD standards and considered in the 2000s as a target benchmark for companies and regulators from countries with developing and transition economies, is not ideal. Serious distortions in the incentive system, which predetermined orientation
of large firms – public companies – to achieve short-term results without the risks arising in the long run, have become one of the inner causes of the global financial crisis. Therefore, the search for new and more effective forms of organization appears inevitable. This search will be based on already existing non-standard practices, go through experimentation combining elements of different models, and with a high probability will lead to more complex mechanisms of corporate governance. From the point of view of companies that process will require greater flexibility and willingness to test new tools and mechanisms of corporate governance.

References


Bayura D. O., Romanyuk V. M. The Corporate Governance Systems Transformation During the Financial Crisis

This paper analyzes the stages of corporate governance development. It studies the issues and new challenges in the period of reform, transformation and convergence of modern corporate governance systems (models) that emerged in the context of the global economic crisis of 2008 – 2009. It demonstrates the causes of gradual accumulation of inefficiencies in large corporations operating in the global markets. The paper raises the need to find new forms of management for large businesses. In this context, we describe the strengths and weaknesses of corporate management in Ukrainian companies.

Key words: corporate governance systems, global financial crisis, multinational corporations, distorted incentives of management and shareholders.

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FACTORS OF FORMATION OF ECONOMIC STABILITY OF AGRICULTURAL ENTERPRISES

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Introduction
Economic sustainability serves as a framework of stable state of the enterprise and the conditions of its continued operation. Accounting for the formation of economic stability will balance the economic system of agricultural enterprises and to ensure their sustainability.

Such scholars as O. Arefeva, E. Popkova, P. Sabluk, Z. Shershnova and others have paid attention to the studies of the formation of economic stability. In their works they consider the problem of the formation of the economic stability of the enterprises and the possibility of evaluation of this economic category. However, it is necessary to classify the factors shaping the formation of economic stability of agricultural enterprises.

Aim. Classify the external and internal factors of the economic sustainability of agricultural enterprises, arrange them on the grounds of: the impact of the method, place of origin, the nature of the action, the degree of conditionality and justify the need for the formulation of economic sustainability of agricultural enterprises taking into account of whole complex the factors.

Results. Agro-industrial complex (AIC), as a part of the economy that combines the production of agricultural products, its processing and logistical support of the village, belongs to one of the main areas, that provide 16% of the gross domestic product of Ukraine. Agricultural enterprises are the basis of AIC, so the question of formation of economic sustainability of agricultural enterprises is actually. Economic sustainability is the ability to maintain a certain (predetermined) level of achievement of the objectives under conditions of dynamic transformations in the business environment, it is one of the main factors of its functioning in the present conditions, innovation management contributes to its formation, i.e. the effective management of the enterprise.

Management of agricultural enterprises is the process of the direct influence with the aim of increasing the efficiency of industrial, economic and financial activities.

Management functions are interrelated and interdependent, forming a repeating cycle of management.

The key to the success of the agricultural enterprise and the basis of its development in a competitive environment is the stability (economic stability). Different factors affect it:

- strong business position in the market: the production of goods and services that are in demand;
- the high material and technical support and application of advanced technologies;
- established economic ties with partners;
- rhythm of the circulation means;
- the effectiveness of economic and financial operations;
- a slight degree of risk in the implementation of operational and financial performance, and the like.

Let’s classify the factors of economic sustainability of agricultural enterprises on the grounds: by the method of influence, by the place of origin, by the nature of the action and by the degree of conditionality.

In the formation of the economic sustainability of agricultural enterprises it is necessary to take into account all of its factors, in particular, internal and external [1]. The internal stability of the enterprise reflects a condition of its production potential, logistical and cost (value) of the structures of production and its dynamics such that upholds consistently high natural material and financial results of operation of the business. Timely and flexible management of internal and external factors is the basis of achieving the internal stability of the enterprise.

External sustainability of the enterprise should be based on the stability of the economic environment in which it operates. It is achieved by appropriate macroeconomic management of the market economy. The overall stability of the enterprise can be ensured only if the stable sales and an income sufficient in volume meet its obligations to the budget, pay suppliers, creditors, employees and the like. It is this situation that expresses the content of economic stability, which is a major component of the overall sustainability of the agricultural enterprise (Fig. 1 – 3).

Economic stability is the result of sustained excess of revenue over expenses, its provides maneuvering of enterprise funds and their effective use contributes to the smooth process of production and sales. Solvency of the company is the ability of the agricultural enterprise to meet its payment obligations arising from trade, investment and other payments transactions character.

That is, the economic sustainability of agricultural enterprise is its ability to evolve in the face of internal and external environment. To do this, the company must have a flexible structure of resources and be able to borrow funds, if necessary, i.e. be creditworthy. The
Enterprise is creditworthy if it has the prerequisites to obtain credit and the ability to timely return the loan taken to the payment of interest due to account of profit or other financial resources.

Determining factors in the management of internal economic stability are:
- sectoral affiliation of the business entity;
- structure of the products or services that are available now, its share in the total effective demand;
- size of paid-up share capital;
- size and cost structure, their dynamics compared to cash income;
- the composition of assets and financial resources, including reserves and provisions, their composition and structure.

Among the set of internal and external factors it is necessary to highlight those that create conditions for the formation of economic stability farms.

Let us systematize the components of internal and external factors shaping the economic sustainability of agricultural enterprises (Table 1–3).

Availability of economically reasonable strategy of development of agricultural enterprises is one of the priorities for the formation of economic stability. Production sustainability, financial stability, sustainability of business activity and social sustainability are components of the economic sustainability of agricultural enterprises.

As the production stability, financial stability, the stability of economic activity and social stability are the components of the economic sustainability of agricultural enterprises, so in order to identify weaknesses in the enterprise it is necessary to assess the components of the categories of economic stability by using a set of indicators that characterize these categories, therefore:

### Table 1

<table>
<thead>
<tr>
<th>№</th>
<th>The grounds</th>
<th>Factors</th>
</tr>
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</table>
| 1 | by the method of influence          | • stabilizing (positively influence the level of economic stability);  
                                  | • destabilizing (negatively affecting the level of economic stability). |
| 2 | by the place of origin              | • internal;                                  |
                                  | • external.                                |
| 3 | by the nature of the action         | • direct;                                    |
                                  | • indirect.                                |
| 4 | by the degree of conditionality    | • objective (due to processes developed to objectively);  
                                  | • subjective (deliberately created by separate groups of people). |
Table 2

Internal and external factors of formation of economic stability of agricultural enterprises

<table>
<thead>
<tr>
<th>№</th>
<th>External factors</th>
<th>Internal factors</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Public legal factors</td>
<td>Production potential</td>
</tr>
<tr>
<td>2.</td>
<td>Macroeconomic factors</td>
<td>Organizational and management capabilities</td>
</tr>
<tr>
<td>3.</td>
<td>Market factors</td>
<td>Financial potential</td>
</tr>
<tr>
<td>4.</td>
<td>Social factors</td>
<td>Development Strategy</td>
</tr>
</tbody>
</table>

Table 3

Internal variable factors

<table>
<thead>
<tr>
<th>Factors</th>
<th>Constituents</th>
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<tbody>
<tr>
<td>Production potential</td>
<td>• land (natural resources);</td>
</tr>
<tr>
<td></td>
<td>• capital and its structure;</td>
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<td></td>
<td>• production capacities;</td>
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<td></td>
<td>• technological methods of production;</td>
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<tr>
<td></td>
<td>• availability of workers.</td>
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<tr>
<td>Organizational and management</td>
<td>• objectives;</td>
</tr>
<tr>
<td>capabilities</td>
<td>• tasks;</td>
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<td></td>
<td>• structure;</td>
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<td></td>
<td>• management methods;</td>
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<td></td>
<td>• management principles.</td>
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<tr>
<td>Financial potential</td>
<td>Sources of funding:</td>
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<tr>
<td></td>
<td>• own;</td>
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<td></td>
<td>• borrowings;</td>
</tr>
<tr>
<td></td>
<td>• resource (funds).</td>
</tr>
<tr>
<td>Development Strategy</td>
<td>• availability and economic validity.</td>
</tr>
</tbody>
</table>

EXTERNAL VARIABLE FACTORS

| Public legal factors                 | • political stability;                                                      |
|                                      | • demographics;                                                            |
|                                      | • legal framework;                                                         |
|                                      | • state administrative resources.                                           |
| Macroeconomic, scientific and        | • state and economic resources;                                             |
| technological factors                | • foreign economic relations;                                               |
|                                      | • the status of the development of science;                                |
|                                      | • the availability of modern technology.                                    |
| Market factors                       | • suppliers;                                                               |
|                                      | • distributors;                                                            |
|                                      | • consumers;                                                               |
|                                      | • competitors.                                                             |
| Social factors                       | • social system of society.                                                |
production sustainability is a factor of life and renewal of fixed assets, depreciation of fixed assets ratio.
- social stability is the replacement ratio of staff.
- sustainability of business activities is a breadth of markets, the volume of sales of products (works, services), total capital turnover ratio, return on assets, etc.
- financial stability is the current ratio, the ratio of financial stability, the coverage ratio, etc. [2, p. 56].

In turn, factors of impact of external environment on the economic sustainability of agricultural enterprises are divided into factors of direct and indirect action.

Phase of the economic cycle of the economy of state has a significant impact on the economic sustainability of agricultural enterprises. Rate of sales behind of the production, in times of crisis is always the case, as observed in recent years in Ukraine. The profits of the business entities are falling down. All this leads to a decrease in the liquidity of enterprises, their solvency and increased competition. It is a significant external factor of economic sustainability of agricultural enterprises in turn.

Thus, the economic sustainability of agricultural enterprises is determined by a variety of socio-economic factors.

The overall stability of the agricultural enterprise involves its ability to manage internal factors and adaptation to the external factors of making optimum support of effective management. Because availability of finance is an important condition of the formation of economic sustainability of agricultural enterprises. After all, the ability of enterprises to dynamically expanded reproduction process on the scientific and technical basis is dependent on the availability of finance and its effective use.

**Conclusions.** In order to form an economic stability of agricultural enterprises it is necessary:
- to create conditions for expanding the scope and scales of demand, supply and distribution of scientific and technical knowledge to become an integral part of the national innovation policy [3, p. 30];
- to have flexibility and responsiveness to changing market conditions, competitiveness of production, the high investment activity, liquidity and financial stability;
• to generate economic sustainability of agricultural enterprises implemented taking into account all factors that contribute to its stability.

After all, the practice of management based on market principles requires that the agricultural enterprises improve production efficiency by taking into account all the factors in the formation of economic stability, the use of the latest achievements of scientific and technical progress and effective forms of organization of production and labor, enhancing business activities in the context of institutional changes that have taken place in Ukraine.

References

Dyachenko V. S. Factors of Formation of Economic Stability of Agricultural Enterprises

The practice of management based on market principles requires the formation of economic stability of the agricultural enterprises, taking into account all the factors, it will balance the economic system, will ensure efficient operation and forms the basis of the high potential of development in the future.

Key words: economic sustainability, economic sustainability factors, agricultural enterprise, social and economic development.

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DETERMINING CONTROLLING FUNCTIONS
IN THE ENTERPRISE MANAGEMENT ACTIVITY

Problem Statement. Current market relations in Ukraine require qualitatively new approaches to the management of economic entities. It is mainly connected with the dynamic changes of external business environment, economic instability and technological progress. The specified factors turn current enterprises into complex systems, the efficient management of which requires the analysis of significant amount of data, selection of the best options, fast decision making, controlling, coordination and timely correction of possible deviations as an innovative approach to the management of industrial enterprises. Therefore, the issue of determining controlling functions as a concept of provision of efficient management by processes of economic entity is really important.

Analysis of Researches and Publications. The problem of strategic controlling in the management of business innovation activity was studied in the works of such economists as S. H. Illyashenko [1], O. M. Kamins'ky [2], O. B. Kovaleva [3], N. I. Olen'ev [2], O. V. Pestov's'ka [2], O. H. Prymak [2], M. M. Romanova [4], S. H. Fal'ko [5], V. V. Yakovenko [6] etc.

The objective of the article is the consideration and localization of controlling in business management as a central subsystem; besides, functions, tasks, the spheres of application and objects of controlling are determined.

Presentation of the Main Material. Current controlling development takes place by means of transformation and combination of conventional methods, planning, formation, accounting, analysis and controlling, which is developed dynamically into a single system of generalization and information processing for the adoption of managerial decisions on its basis. This information is focused on the achievement of current and strategic objectives of the enterprise. The current objectives in this context include the receipt of profit. As for the strategic purposes, they include the efficient operation of an enterprise and social factors (environmental neutrality and preservation of jobs). Controlling creates a system, where the systemic integrated solution of problems prevails over the orthodox thinking of managerial personnel at the enterprise.

Functions and tasks of controlling are constantly complemented and vary implicitly. The importance of certain tasks is being changed. The functions of controlling distinguish the corresponding directions of management behaviour according to the objectives set for the enterprise, which include as follows: approval of the planning process, control of compliance with a plan, evaluation of economic processes, revelation of deviations, creation of recommendations on the elimination of reasons, which cause these deviations and their presentation for the company personnel.

Business management system clearly affects the controlled object. Nevertheless, it is necessary to note that particular phases and functions of management may sometimes be missing, or the consequence of their application may be changed. The achievement of these objectives facilitates the controlling service, the main focus of which is to prevent the emergence of crisis situations in the near and distant future. Controlling in various spheres of activity implement the following functions:

– the sphere of planning: provides information support at the development of sales plan, production output, material support, investments; development and proposal of various interpretation for the whole system of planning; fixing the time for individual projects of the planning process; implementation of information traffic, combination of separate plan characteristics in time space and by implication; check of the formed plans for their meeting the baseline conditions of the enterprise; integration of plans into one single enterprise plan according to the separate budgets;

– the sphere of controlling and adjustment it provides as follows: assessment of characteristics, controlled in dynamics and according to the structural content; comparison of planned and real values; assessment of permissible deviation limits of real value from the desirable ones, assessment of deviation reasons, as well as the provision of recommendations for the deviation offset;

– the sphere of research and information analysis: elaboration of fundamental directions in the information system; standardization of information carriers and channels; gathering and systematization of relevant data for the decision making; selection of instruments for the planning process, arrangement of control and substantiation of the adopted decisions; elaboration of options for the correction and provision of advisory services therewith; provision of optimal informative system functioning;

– the sphere of special controlling functions provides as follows: preparation and data analysis on the status of financial market and the capital, various government programs; condition of the sphere, comparison with business rivals; substantiation of calculation for special orders and efficiency of the investment projects [2].

The controlling function includes the provision of systemic management information, which includes its processing, verification of situation for adequacy, i.e. the adaptation of the current accounting at the enterprise to the needs of managerial personnel, adopting decisions. Controlling facilitates the coordination of planning tasks according to the objectives set for the enterprise.
processes, controlling, adaptation, and focus on the support of decision-making procedures.

Different authors give their own definitions of controlling functions. Accounting function consists in the content of fixation of the initial information on business transactions and grouping of this information in chronological order. The function of accounting makes it possible to obtain information on the available resources, because it secures the preservation of values and always precedes the control function, which creates an opportunity of monitoring the financial and economic activities at the enterprise. For the adoption of tactical (operating) and strategic decisions it is necessary to get information with the use of analytical data of arising deviations, the amount of cover and general financial results of business activity, which secure the implementation of managerial function of controlling. The function of internal control is limited to controlling of the efficient performance of the whole enterprise as well as its structural subdivisions. Contrary to inspection, controlling is focused on the current and future activity outcomes, and is not connected with the examination of documents on the executed business transactions.

Managerial functions determine basic directions for the realization of actions on the employee interaction during production, based on the use of efficiently allocated functions, dependent upon the time and space, methods and organizational structure of management, characterizing division and specialization of work in management. The enumerated functions, when used together and interconnected, form the management cycle and reflect the production management content. The main (general) functions of production management are as follows: arrangement, rationing, planning, coordination, motivation, controlling and adjustment. It is necessary to point out that functions of arrangement, rationing and motivation, specified for certain working environment, are more tolerant to the effect of internal and external environment, and, therefore, do not change for a long time. Characteristics of managerial functions showed that each of them has a definite place and significance in the course of management; all of them are interrelated and complement each other at the development of managerial decisions.

The subject matter of coordination in management includes approval and regulation of the actions of executives, taking part in production and economic activity. The main directions at the development of managerial system include: formation of organizational structures of management, allocation of structural subdivisions and management levels, functions of separate constituents of management structures, determination of relations between all directions and the nature of subordination.

The primary purpose of controlling function consists in purposeful action on the controlled object in order to reveal deviations of actual values from the target figures and regulatory values, as well as from the estimated figures. Controlling stipulates constant comparison of the projected values with de facto parameters, allowing to adjust not only real deviations, but also to prevent the anticipated ones.

Managerial function is performed using the statistics of deviation analysis, coverage rates, strategy revaluation, correction of ways of objective implementation and change of general activity results of the company for the adoption of managerial decisions. One of important controlling tasks is constant coordination of goals on all levels of business management, realization of all possible methods and techniques with a view to ensuring the achievement of final business objective to the fullest extent.

Service function is an information controlling service, directed at the achievement of the objective, the end result of the company activity, which is secured with the help of the systems of standardization, planning, accounting and controlling. Information, which is used at the realization of this function, should contain the specific projected characteristics (plans and standards) as well as real ones, including the deviation data, revealed during the accounting.

Economic, social, environmental, scientific and technical, managerial and production and other factors render direct influence on the adoption and implementation of business management decisions. Some of them are not controlled by the enterprise, but significantly affect its production and economic activity. These are external factors, the main of which are connected with the market activity. Thus, customer demands and requirements to the manufactured products, as well as the possibility of business rivals to produce the similar products, conditions of raw material suppliers, materials, component parts, possibilities and requirements of investors determine the economic status of the enterprise. Socially it is necessary to take into account the factors, connected with the labor market and trade union policy. As for the environment, there are certain legal and regulatory environmental requirements.

Management strategy of productive-economic activity of the enterprise, developed on the basis of the action of external factors, determines the volume and growth rate (decrease) of manufactured goods and the volume of investments for the production development, development of product innovation, increase of the output and quality improvement of quantity produced merchandise. The end results of production activity of the enterprise are influenced by internal factors. They describe the internal status and operation of an enterprise, every production subdivision, and are directly controlled by them. The internal factors affect the production progress in the course of implementation of development strategy and business management.

Timely provision of necessary information to the management personnel of the enterprise for the adoption of decisions on strategy adjustment refers to main service function. Changes of strategy, conditioned by the market situation, indicate the necessity of changing the intraproductive processes and structures.

One of the main controlling directions may be the provision of regulation function, i.e. controlling service
complements and specifies the area of business due to the changes of the external factors, and serves as a communication tool (communication vehicle and medium) at the enterprise. The following directions of this function can be implemented: systems of early detection of significant changes; elaboration of appropriate actions, directed at the gain of confidence in individuals, important for the efficient activity of the enterprises. To accomplish this, it is necessary to reconsider the tasks, organization and functions of controlling, facing the enterprise, and, if necessary, to expose them to changes (according to the principles of customer orientation, processes and future).

The dynamics of external factor changes can markedly affect business economics, but the enterprise cannot affect it on its own. Therefore, they are ill-defined on the side of the enterprise. However, the chief executive officers must track such changes and adjust their activity.

Management, based on the use of traditional control, combines with standards, norms and rates, taking into account the past experience. Control actions at such management are directed at the use of information, which has already taken place; therefore, they retard the active use of the enterprise potential. Controlling service develops and constantly emphasizes on the decisions, set in front of the enterprise personnel: achievement of strategic objective, efficiency substantiation of the chosen alternative decision, perspectives of project financing, anticipation of the situation at the emergence of uncontrolled factors on the way of strategic objective achievement.

The main tasks of controlling in the management of business activity from the organizational point of view are information and analytical supporting planning and controlling over the innovative activities of the enterprise, which is essential at the development of general strategy, strategic objectives and events on the choice of directions of innovative business activities, as well as the provision of necessary information for the adoption of strategic decisions. We agree with the thought of some authors, especially S.H. Fal’ko that strategic controlling is destined to help the executive directors to determine and evaluate new potentials of successful activity. Corresponding organizational tasks come out of every controlling subsystem. The tasks of strategic controlling are as follows: strategic planning, information support; control over the implementation of plans, analysis and detection of deviations, management (strategy correction) [5].

Functioning results for the use of controlling in business activity management are conditioned that controlling should secure the performance of certain function in order to achieve the set goals. Particularly, O. B. Kovaleva determines the following functions of strategic controlling: servicing – provision of management decision making with analytical information; controlling – realization of monitoring, analyses and control over the plan’s performance; deviation control and coordination of management activity on the achievement of all business goals; methodological – development of decision-making methodology and its coordination [3]. Another variant for determining controlling functions is provided by O. A. Yakimenko [6] (Table. 1).

The proposed classification determines the role of monitoring in business activity, which is as follows: controlling service does not replace the executives during planning, does not keep records of expenditure instead of other subdivisions, does not store controlling and analytical information for own requirements, but it conducts methodological, organizational, coordination and consultative support of planning, accounting, control and analysis in order to secure the executives with necessary information for the efficient management of the enterprise and his structural subdivisions.

Controlling is mainly focused on the support of decision making processes. It should secure the adaptation of traditional accounting at the enterprise to the informational needs of executives, who adopt the decision, i.e. controlling function includes creation, processing, check and presentation of systemic management information. Controlling also supports and coordinates planning, provision of information, control and adaptation. Thus, for example, O. M. Karminsky determined methodological organizational coordination and consultative aspects within the functions and tasks of controlling [2].

Practical mechanism for the implementation of strategic controlling in management of innovative company activity facilitates the effectiveness of management, because the strategic controlling is practically realized via a certain mechanism in relation to the existing conditions of certain management practice. This mechanism should be market motivated, adjusted to corporate interests. Thus, such mechanism is practically an applied model of strategic controlling with its peculiar functional configurations on the accounting of sectoral, personnel, financial, fiscal and other peculiarities of business conduct. It is necessary to point out that theory and practice strategic controlling is in the embryo state both in Ukraine and abroad. The main reason of this is the absence of methods and tools for the measurement of strategic potential (prospective resources of the enterprise) and future resources. Besides, the techniques of strategic management are not well developed today.

**Conclusion.** Thus, the content of controlling regulation function prevents the emergence of deviations from the objective set. The adopted decision should be based on the erroneous conditions. Mistakes in the evaluation of the future environmental conditions, as well as mistakes and problems, which arise while analyzing the situation inside the enterprise, create the situation, connected with a big risk for the adopted managerial decisions, unless they have not been timely corrected. This function of controlling is directed at the identification of problems and adjustment of the enterprise activity before the problems begin to obstruct the desired results. The balance is achieved by means of implementation of opposite measures for the achievement of necessary or desirable conditions, if there are certain deviations of real values from the desired ones at the comparison via the specified intervals.
Table 1

<table>
<thead>
<tr>
<th>Nature of controlling functions</th>
<th>Basic managerial functions</th>
<th>Control and analysis</th>
<th>Adjustment</th>
</tr>
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<tbody>
<tr>
<td><strong>Organizational</strong></td>
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<tr>
<td>Allocation of responsibility centers and responsible persons.</td>
<td>Development of techniques on the accounting of expenditures and results according to responsibility centers, materials, projects and measures in corresponding subdivisions.</td>
<td>Organization and conduction of measures of control on detection of deviations, organization of analytical work in subdivisions within the established time limit.</td>
<td>Organization of regulating procedures and measures, adopted by the executives.</td>
</tr>
<tr>
<td>Developments and improvements in the order of planning and budgeting.</td>
<td>Bringing of the order and planning techniques to the attention of the responsible persons.</td>
<td>Development and improvements of the managerial reporting order.</td>
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<tr>
<td><strong>Coordinating</strong></td>
<td></td>
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<tr>
<td>Conduct of target value coordination, as well as plans and budgets of various management levels.</td>
<td>Coordination of activity on the accounting of expenditures and earnings in subdivisions.</td>
<td>Coordination of control measures, which are conducted by the service of controlling, with the general schedule of enterprise activity.</td>
<td>Coordination of regulating procedures and measures, adopted by executives of various management level.</td>
</tr>
<tr>
<td><strong>Consulting</strong></td>
<td></td>
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<tr>
<td>Provision of advisory to the executives at the determination of target values and budgeting.</td>
<td>Provision of consultative help on the accounting in subdivisions. Gathering of information on the internal and external environment of the enterprise.</td>
<td>Control over the characteristics of internal and external environment. Variance analysis and interpretation of analysis results. Calculation of the efficiency of products, processes, subdivisions and projects. Development of proposals on the deviation offset.</td>
<td>Provision of analysis results for the internal and external environment of the enterprise by the executives of all levels. Provision of advisory to the executives at the choice and elaboration of regulatory actions.</td>
</tr>
<tr>
<td>Provision of information on the condition of internal and external environment to the executives.</td>
<td>Development of index system.</td>
<td></td>
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<tr>
<td><strong>Methodological</strong></td>
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</table>
Management of the enterprise is impossible without its accurate organization, which forms the basis for the management behaviour, and neither programs nor plans work without it.

Thus, the managerial process of the enterprise is impossible without its accurate organization, which forms the basis for the management behaviour, and neither programs nor plans work without it. Basic characteristics and subject matter of the performed controlling functions are as follows [4]:

- monitoring of economic condition (exploration of business processes of the enterprise, connected with systematic control and measurement of quality of these processes, based on the corresponding figures for the achievement of the objective set, as well as the fixation of the received signals);
- service function (controlling service with the use of planned, regulatory, actual data; data on the changes of influence of economic, social, environmental, and other factors with the use of systems of planning, standardization, accounting and controlling);
- managerial function (time and space relation of the object under control and management system, based on the efficient combination of techniques and methods; planning of object behaviour in the course of implementation of objectives set; coordination of actions of executives, who take part in common business);
- control and analysis (the use of the initial information on business transactions; revelation, generalization, analysis of production activity results; the analysis of revealed deviations and their elimination);
- regulation (assessment of indicators in the early warning and detection system; gaining confidence in individuals, strategic for the successful activity; focus on the future);
- methodology (elaboration of methodology for the decision making, its coordination, as well as the control over the cognition of this methodology by the administration; methodological planning for target values; recommendations on their use and elaboration of control methods).

References


Firsova S. N. Determining Controlling Functions in the Enterprise Management Activity

The article considers and determines the localization of controlling in the system of business management as a central subsystem. Functions, tasks, spheres of application and objects of controlling are specified. The presented classification determines the role of controlling in the company activity. Based on the scientific analysis, basic functions of controlling are systematized as a classifier of basic managerial functions.

Key words: controlling, business management, managerial.

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and final form 04.12.2013
Problem setting. The development of the coal industry is one of the main priorities in the economic policy of Ukraine. As stated in the Annual Message of the President of Ukraine to the Supreme Council of Ukraine “On the Internal and External Situation in Ukraine in 2013”, “an effective instrument of economic reforms and mechanism that will provide post-crisis recovery on a qualitative basis is the modernization of the industrial sector as the basis for the economic growth in the long run” [1, p. 41]. Among the priority tasks of modernization of the national innovation system is the “creation of favorable institutional and economic conditions for accelerated development of innovations and modern high-tech production...” [1, p. 173]. Modernization of the coal industry will promote its intensified development, allow achieving a positive effect, provide creation of new jobs and conditions for a sustainable economic growth.

Thus, the effective functioning of the domestic mining industry is impossible without innovation. The increase in the innovation potential in production of fuel and energy resources will contribute to its effective innovation-based development, production of high-tech products competitive on the domestic and foreign markets and provide an accelerated modernization of the coal industry enterprises.


The leading researchers note that “innovations do not have yet a sufficient impact on the economy, and the macroeconomic environment and institutional environment, in turn, hinder the innovative activity of enterprises” [3, p. 24; 4, p. 16].

The problems that hinder the effective innovation-based development include the “loss of markets for domestic high-tech products; poor attraction of funds to restore the clusters of high-tech industries; high cost of credit resources of banks and the inability to attract external funds to implement long-term innovation and technology projects in the industry; lack of financial resources and ineffective capital flow system; systematic failure to comply with financial terms for the implementation of the government target programs of the economic development; imperfect mechanisms for providing the economic stimulation of innovation and technological modernization of production; low purchasing demand for the national scientific achievements on the domestic market, as well the loss of its influence on the technological development of Ukraine’s production” [4, p. 16].

The Program of economic reforms in Ukraine for 2010 – 2014 “Prosperous Society, Competitive Economy,
Effective State” states that “... scientific-technological and innovation sectors do not perform properly the role of sources of the economic growth”. It is explained by the fact that “the pace of development and the structure of the scientific-technological and innovation sectors do not meet the demand for advanced technologies of the economy” and “proposed world-level scientific results are not used in the economy because of the low receptiveness of business sector to innovation”. Among the reasons for the above problems is the “lack of economic incentives to carry out modernization through the introduction of new scientific and technological developments by business entities” [5, p. 49].

“There are still too many problems in the innovation sector... It is the increase in the innovation component that will make the economic development sustainable and the economy competitive…” [6, p. 24].

At the current stage of development, the activation of innovation processes in the economy, full use of the potential of science in the process of technological modernization of the domestic coal production are very urgent.

The analysis of innovation in the field of fuel and energy resources production in Ukraine showed that in 2011 the number of innovative enterprises in the branch increased by 33.3% as compared to 2005, the enterprises that implemented innovative products decreased by 80%; the enterprises that introduced innovations almost did not change (Table 1).

In 2005, the share of realized innovative products accounted for 1.5% of total volume of products realized in the sector of production of fuel and energy resources. Thus, since 2010 there hasn’t been any realization of new innovative products both on the domestic marker and outside Ukraine.

The analysis of the structure of the expenditures on innovative activities in the given sector says that it remains insufficient (Table 2).

In 2005 – 2011, most of the expenditures was allocated to acquire the machinery, equipment and software (the share of which ranged from 74.6% in 2005 to 89.9% in 2011 in the total volume of expenditures on innovative activities). The expenditures on research and developments were significantly less: from 24.1% in 2005 to 6.7% in 2011. To acquire new technologies, patents and licenses (other external knowledge), no more than 0.1% of the total spending on innovation was allocated.
In 2005 – 2011, the main source of funding for innovation in the production of fuel and energy resources were enterprises’ own funds, whose share was more than 84 – 97% in the total financing of innovative activity (Fig. 1). In 2000 – 2011, the share of funds from domestic investors decreased by 6.5% of the total financing of innovation in this industry. The volumes of budget financing of innovation in the production of fuel and energy resources were insufficient. In 2005 – 2010, their share increased by 4.7% and in 2011 dropped by 7.9% of total funding for innovation [7, p. 200, 202, 204].

In 2011, the activity of mining enterprises aimed at creating high technologies, using intellectual property and rationalization proposals, which are important components of innovation-based development, was not sufficient enough.

The total number of high technologies created in 2011 decreased by 30.8% against 2010 and amounted only to 9. As for the level of high technologies, only one of them was really new. In 2011, 10 titles of protection for high technology was received (in 2010 – 23), including 2 patents for inventions, 8 – for utility models. Only one of these titles of protection had non-infringement in other countries (in 2010 – 11) [7, p. 286; 4, p. 266]. The number of inventions used in 2011 was 22, utility models – 66, industrial samples – 6. In 2011, the mining enterprises used 338 rationalization proposals that by 12.7% less than in 2010 [7, p. 293, 295; 4, p. 273].

According to the State Statistics Service of Ukraine in 2008 – 2010, the share of mining enterprises having technological innovations in the most important areas of innovation related to the development and implementation of innovative products or processes is expressed as following: improvement of goods and services quality – 38.7% of all enterprises with technological innovations; replacement of obsolete products and processes – 29.5%; increase in capacity to produce goods – 24.1%; entering new markets or increase of market share – 24%; expanding the range of goods and services – 23.6%; decrease in cost of materials and energy per unit – 20.3% [7, p. 273].

Based on the above analysis, the conclusion can be made that the fuel and energy complex has many problems that hinder its innovation-based development, in particular a high degree of depreciation of fixed assets (e.g., in the mining industry this figure was 47.8% in 2010) [8, p. 93]; the dependence of financial results on market situation, a large resource- and energy-intensity of the domestic industry, inefficient use of energy resources resulted in significant consumption of natural gas; a weak relationship between the national science and production; a low level of cooperation in the fuel and energy complex which prevents to establish rational channels for supplying companies with resources and full technological cycles for production of innovative products, etc.

Thus, in the current economic conditions the scale of innovation-based development in the sphere of production of fuel and energy resources in Ukraine is reducing. However, there are some reserves to increase its efficiency. According to the scientists of the Institute of Industrial Economics of NAS of Ukraine, “one of the main objectives of the present stage of economic development in Ukraine is to develop a competitive industrial complex of innovative type” [9, p. 3].

Scientists of the Institute of Economics and Forecasting of NAS of Ukraine stress that “the technological modernization of industry is impossible without a substantial intensification of innovative activity of its actors. Its intensity and effectiveness depend heavily on favorable institutional and macroeconomic conditions.”

Fig. 1. The share of funding for innovation in the field of fuel and energy resources production in Ukraine
environment and market conditions, which, in turn, creates the appropriate motivation of the subjects to R&D; increase their resource-ability to implement the results of R&D, acquire new technologies and equipment...” [10, p. 36]. In their opinion, the priority measures should be the following: support of a sustainable economic growth on the basis of endogenous factors and development of production for domestic needs; the formation of a complete integrated national innovation system, some elements of which currently exist though in isolation from each other; the development and state support to the activity of subjects of innovation infrastructure (technoparks, technopolises, business incubators, science cities, science and technology centers, venture capital funds) [10, p. 36 – 37].

The specialists of the National Institute for Strategic Studies propose to improve the financial incentive mechanisms and institutional-legal support for innovation in Ukraine. To do it, the appropriate set of tools of government support to innovation should be developed which includes the establishment of institutions supporting innovative enterprises which acquire the assets up to 50% of the project’s cost through the open competition; structuring the system of public management of the innovation sphere using a functional principle and fixing its organizational structure on the legislative level; creation of the advisory body under the President of Ukraine to promote shaping and implementation of a unified government innovation policy in Ukraine; securing medium-term priorities of innovative activity on the national level within established long-term strategic priorities in order to concentrate scarce investment resources of the state on key priorities of development, eliminate the differences between the defined goals of the government innovation policy and actual measures to implement them [11].

The researchers of the Institute of Industrial Economics of NAS of Ukraine have identified the measures for financing the development and implementation of innovative projects based on the practical activity of leading industrial enterprises and results of expert survey. They include “ensuring an integrated systems approach to the development of innovative projects related to technical re-equipment of production, acquisition and introduction of a new high-tech equipment; the development and implementation of projects aimed at introducing new technological processes; development of investment projects to create new high-performance equipment by the enterprise’s specialists and exclusively new business processes; development of investment projects for industrial automation; financing of innovative projects to improve the quality, competitiveness and intellectual component of products that are produced by the enterprise” [12, p. 271].

Using practitioners and scientists survey, the priorities of innovation-based development of the coal industry have been defined taking into account limited funding. They include technical re-equipment to increase the production and production capacity (51%), technical re-equipment of active production facilities to increase the production within a projected production capacity of the mine (26%) or orientation to the capital reconstruction or construction of new mines (23%) [13, p. 133 – 142].

According to the scientists of the Institute of Industrial Economics of NAS of Ukraine, “To provide the role of the domestic coal industry as a certain guarantor of energy security, the government policy should be aimed at addressing two global problems: technical and technological modernization of industry; reform of the industry according to market conditions. Concerning modernization of the material and technical base of the coal industry, it should go about the anticipatory strategy of innovation-based development, i.e., the mines should be re-equipped with modern highly productive and reliable equipment, and principally new, innovative products and mining technologies should be created which may eventually be required in the world market” [14, p. 26].

In the opinion of some researchers and practitioners, “To create a well-functioning domestic coal industry, a restricted restructuring and deep modernization of the mining fund on the basis of private-public partnership is needed”. “...Modernization should be carried out in the direction of integration of mines on the basis of centralization of lifts, improvement of technologies of works, and application of innovative means of mechanization” [15, p. 60].

In the framework of the research project of IEE of NAS of Ukraine “Developing the institutional environment for the industrial development in Ukraine with consideration of the branch features”, the proposals have been worked out to form the institutional environment for innovation-based development of the coal industry. They are:

clarifying the content of the institutional environment for innovation-based development of the coal industry as a set of standards and rules in the sphere of innovative activities of mining enterprises which are regulated by the legislative, departmental and branch regulations and documents, as well as of the economic relations which are regulated by innovative structures and infrastructure institutions in order to reduce transaction costs for technologies transfer and make advanced solutions in the sphere of innovative activities;

disclosing the main components of institutional support to innovation-based development of the coal industry which include the legislative and regulatory base; institutes regulating the economic relations in the sphere of innovative activities of mining enterprises; national and regional authorities in the field of innovative activities;

identifying the ways of improving the institutional support to innovation-based development of the coal industry which include the issues concerning the formation
of institutions that regulate the innovative model of modernization and development of the coal industry, the increase of the industry’s competitiveness, liberalization of the coal market, attraction of private investment resources, determination of the fair rent for the use of mineral resources, privatization, environmental security, prestige of miners’ work, improvement of management efficiency, etc.

The priority directions of the scientific-technical and innovative activities of enterprises of the coal industry, which are based on the “Concept of the draft national target program for the development of Ukraine’s industry till 2017”, are the following (Fig. 2).

Now, let's characterize each of the above directions:

1. Stimulation of technical re-equipment, determination of the economic effect from technical re-equipment.
2. Financing of new technologies introduction, determination of the economic effect from the introduction of new technologies.
3. Encouragement of measures aimed at the coal enrichment, certification of products, introduction of the international quality system ISO 9000 at enterprises, control and monitoring of coal products quality.
4. Financing of new technologies and equipment development, regulatory and information support to innovation-based development of the coal industry.
5. Financing of the program on creation of domestic competitive mining equipment, assessment of competitiveness of domestic mining equipment.
6. Stimulation of scientific support to technological processes.
7. Improvement of laws and regulatory acts related to scientific-technical and innovative activities, social protection of researchers, intellectual property and government target programs, providing funding for development of science and techniques having priorities for innovation-based development of the coal industry, organization of competitions of scientific developments under the auspices of the Ministry of Energy and Coal Industry with allocation of money for further research and development.
8. Making amendments in the national legislation on transfer of costs for the restoration of the material and technical base of the branch science from the taxable income, increase of places in post-graduate and doctoral courses in technical specialties ordered by the state.

Conclusions. To solve the problem of finding financial sources for innovative activities, it is necessary to simplify the relevant laws, grant privileges, create private capital, and provide advanced training of scientific personnel through the improvement of remuneration system for scientists. The problems of providing innovative activity of coal enterprises due to the improvement of methodical recommendations on preferential taxation, insurance of investment projects, which should be applied at enterprises, and the use of international experience in supporting innovation processes are of great urgency.

According to calculations of experts, the implementation
of proposals on the improvement of institutional support to innovation-based development of industrial production will allow increasing the share of innovation active industrial enterprises by 14.3% and the level of science-intensity of GDP by 0.6% due to all sources of financing.

The above ways of improving the institutional support to innovation-based development of the coal industry enterprises will contribute to the formation of innovation infrastructure, increase of the economic and financial incentives and government financing of priority innovative activities, creation of the information environment, strengthening of scientific and regulatory support to innovations of the mining industry.

References


Драчук Ю. З., Трушкіна Н. В. Формування інституційного середовища інноваційного розвитку вугільних підприємств

У статті проаналізовано основні показники інноваційної діяльності вітчизняних підприємств у сфері видобування паливо-енергетичних копалин. Розроблено пропозиції щодо формування інституційного середовища інноваційного розвитку вугільних підприємств.

Ключові слова: інституційне середовище, інноваційний розвиток, вугільне підприємство.

Драчук Ю. З., Трушкіна Н. В. Формування інституційної середовища інноваційного розвитку угольних підприємств

В статті проаналізовано основні показники інноваційної діяльності угольних підприємств в сфері добычи топливо-энергетических полезных ископаемых. Разработаны предложения по формированию институциональной среды инновационного развития угольных предприятий.

Ключевые слова: институциональная среда, инновационное развитие, угольное предприятие.

Drachuk Yu. Z., Trushkina N. V. Forming the Institutional Environment for Innovation-based Development of Coal Enterprises

The study analyzes basic indicators of innovation-based development of domestic enterprises in the field of fuel and energy resources production. The proposals have been worked out to form the institutional environment for the development of coal enterprises.

Keywords: the institutional environment, innovation-based development, coal enterprise.

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ENERGY CONSUMPTION IN UKRAINE

Problem statement. The solution of the problem of industry and public energy supply is becoming very important for many countries. This is due to the increasing economies of scale, improved level of living standards in residential areas, etc. Energy is one of the basic types of primary resources in the sphere of material production, which ensures uninterrupted operations in industry, transport, construction, agriculture and other sectors of economy and functioning of the population. The continuous growth of the energy needs of enterprises, new household appliances and electronics, rising level of automobile availability and the need for transporting goods and people causes the necessity to analyze the total energy consumption within the national economy, because increasing total capacity of power units exceeds the capacity of industries producing required energies.

Analysis of recent research and publications. Energy efficiency is the investment in energy reduction to meet growing energy demand. Thus, this concept is focused on reducing energy losses. Historically, politicians considered energy efficiency as a strategy of minimum losses helping to ensure the use of smaller amounts of energy to provide the required level of consumption, especially in residential areas. Besides, energy efficiency reduces greenhouse gas emissions by decreasing consumption and peak loads, thereby slowing the capacity growth.

V. V. Markin [1], M. A. Ponomaryov [2], A. H. Zakharova [3], D. Y. Drozhzhinov [4] also observed the definition of energy efficiency as a means of achieving the following goals or energy efficiency management outcomes, including those of national and international politics, business, etc.:

- change in energy efficiency by a certain amount;
- minimizing energy resource cost while obtaining a beneficial effect;
- effective investment of resources in the energy development;
- energy efficiency policy at all governmental levels;
- introduction of managerial and technological innovations in the energy sector;
- optimization of fuel and energy balance and supply management based on the development of state and regional strategies;
- reduction of carbon emissions (climate change prevention);
- increasing the security of energy supply (due to more sustainable production), etc.

The study of energy consumption in Ukraine covers the period of 2002 – 2011. During this period the issue of energy efficiency and energy saving in Ukraine started to gain attention from both government authorities and businesses. This trend can be explained not only by changing the volume and structure of production due to the collapse of the economic system of the former USSR, but conscious actions to improve the energy efficiency of the national economy in Ukraine.

The aim of the research is to analyze the total energy consumption within the national economy.

General content. In order to conduct the study a detailed analysis of total primary energy supply (TPES) rate should be considered. This rate characterizes the amount of energy received by national economy from all sources, including domestic production, imports, exports, stock exchanges and international marine and aviation bunkering. The production of primary energy includes data on the quantity of extracted or produced fuel after processes of removing inert substances or impurities. Imports and exports of energy take into account data on the amount of fuel that has come from other countries or has been delivered to other countries, that is, fuel transported through the state border without transit.

The dynamics of TPES structure in Ukraine based on types of energy resources is shown in Fig. 1.

The analysis of the data presented in Fig. 1 indicates that according to the absolute value of TPES in oil equivalent the period of 2002 – 2011 can be divided into several stages on the basis of main trends of growth or decline. Thus, in 2002 – 2005 TPES in Ukraine tended to increase. During four years the figure rose by 11 mln t.o.e. or by 8% due to the influence of incentive policies in metallurgy and favorable conditions in the global market for domestic goods. However, during the years 2006 – 2009 in comparison with 2005 TPES in Ukraine fell sharply by 29 mln t.o.e. (20%). In the period of 2010 – 2011 the parameter under study increased again by 15 mln t.o.e. (11%). Figure 1 shows that the changing trends in TPES are associated with changes in the supply of the two main types of energy resources to Ukraine – natural gas (its share is from 36% to 47% in different years) and coal and peat (their share ranges from 26% to 33%). Thus, during the growth of TPES in 2002 – 2005 there are negligible fluctuations of coal and natural gas shares in its structure, i.e. the value of the overall rate was not influenced by the structure based on the types of energy sources. At the same time, during the TPES
recession period in the years 2006 – 2009 there are the following changes in the structure: natural gas share decreased, respectively, the percentage of other types of energy resources, on the contrary, increased. On the whole, Fig. 2 indicates that changes in TPES largely determine the dynamics of natural gas supply.

Fig. 1. The dynamics of TPES structure based on types of energy resources in Ukraine in 2002 – 2011 *
* Compiled by the author according to the sources [5 – 12]

Fig. 2. Dynamics of TPES volumes, natural gas and other energy sources supply in Ukraine in 2002-2011, mln t.o.e. *
* Compiled by the author according to the sources [5 – 12]
Table 1 shows that in 2002 – 2011 about 41% of needs for fuel and energy resources in Ukraine is satisfied by imports. Thus, during the period under consideration TPES structure tended to lowering import FER from 47% in 2002 to 40% in 2011. Obviously, natural gas share is prevailing in the structure of imported energy carrier. Thus, according to Table 1 imported gas share made about 70% of total energy imports and about 35% of TPES in Ukraine annually during the period under study.

For a long time until 2006 the largest supplier of natural gas to Ukraine was Turkmenistan, which accounted for about 67% of imports. Russian Federation mainly transferred gas as payment for gas transit services to Europe through Ukraine. In addition, all imported gas was transported to Ukraine by the gas transport system of the Russian Federation. In 2006 the agreements with Turkmenistan were cancelled and Ukraine became dependent on a single supplier – Russia. As a result in recent years virtually all imports volume is formed by the deliveries from Russia.

Ukraine also imports crude oil, which accounts for about 19% of average energy imports and of 8% in TPES (see Table 1). In Ukraine, annually about 3 – 4 million tons of oil are extracted, which can provide only about 20% of domestic needs, the rest of the volumes come from imported resources. As a result of lack of oil production in the country, the domestic oil and oil products are sensitive to price fluctuations in foreign markets simultaneously depending on the economic and political situation in the country. It should be noted that imports of oil and its processed products is mainly from Russia. During the 2002 – 2011 minor amounts of these goods were also imported from Belarus, Poland, the USA, Lithuania, Kazakhstan, Azerbaijan and Turkmenistan.

The analysis of the dynamics of primary energy supply structure based on supply sources (see Table 1) indicates that coal and nuclear power are the strategic

<table>
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<th>Years</th>
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* Compiled by the author according to the sources [5 – 12]
** Prod. – production of primary energy for the needs of Ukraine , i.e. total production minus exports.
Imp. – the supply of primary energy in Ukraine from abroad, i.e. imports.
types of energy sources for Ukraine. Primary energy share derived from these sources is about 42% and 30% respectively in average for the years 2002 – 2011.

It is known that Ukraine has substantial coal stocks, which makes it one of the main domestic sources of energy in Ukraine. However, today the coal is taken in old mines under difficult geological conditions: almost 96% of mines have been working without any reconstruction, more than 50% of machinery and equipment for mining is completely worn out. The high cost of domestic coal leads to the need for subsidies from the state budget sector. In addition to the problems mentioned above, high level of accidents in the industry, the negative environmental impacts of production and consumption of coal should be stated [13, p. 14 – 22].

Atomic (nuclear) energy in Ukraine is recognized as one of the priority areas of energy sector [14]. Nuclear industry is considered as science-driven. Other advantages of using atomic energy are the absence of actual emissions of greenhouse gases, relative independence from fuel due to the necessity to use a small amount of fuel at a relatively low price for the energy produced on this source. On the other hand the positive features of nuclear energy as a strategic resource in Ukraine meet a number of challenges, including the lack of funds for the construction of generating facilities, power plants and high-voltage transmission lines to free up capacity and deliver power to consumers. In addition, there are the following factors which neutralize the price attractiveness of nuclear power: complex accident-prevention systems in modern plants, the necessity of their liquidation after resources depletion, the problem of disposal of nuclear fuel, and the fact that now fuel for nuclear power plants is imported to Ukraine from Russia and the U.S. [15].

However, the strategic importance of coal and nuclear energy for the Ukrainian economy, which is declared in the Energy Strategy of Ukraine till 2030 [14], should not be diminished but more attention to justify the ways of solving these problems is required.

Conclusions. The analysis of primary energy supply, according to its directions indicates that despite the current Energy Strategy of Ukraine till 2030, Ukraine is still dependent on imported energy carriers, especially on foreign supplies of natural gas. The trend to reduce TPES volumes and energy carriers imports could be considered positive providing steady production output in the country, which could indicate the increasing energy efficiency of the national economy of Ukraine. However, this trend is related to the following causes: production reducing and corresponding decrease in energy demand due to the global financial crisis in 2008, high depreciation and low productivity in the mining industry. Ultimately, we can say that the extraction of domestic resources is conducted in complex geological conditions, which makes production unprofitable at the current technology level. Therefore, it can be assumed that in the near future, the economy of Ukraine will remain energy inefficient which causes the need for imported fuel.

References


Окаряченко А. П. Енергопотребление в Україні

У статті було виявлено необхідність аналізу загального енергоспоживання в межах національної економіки; досліджено енергоспоживання в економіці України за 2002 – 2011 рр.; наведено динаміку обсягів ЗППЕ, постачання природного газу та інших джерел енергії в Україні у 2002 – 2011 рр.; проаналізовано структуру первинного постачання енергії за джерелами постачання ПЕР: було розглянуто енергетичну ефективність як капіталовкладення у скорочення енергоспоживання для задоволення зростаючого попиту на енергію.

Ключові слова: енергоспоживання, показник загального первинного постачання енергії (ЗППЕ), динаміка постачання, імпорт, первинні енергоресурси.

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SOCIAL RISKS OF THE COAL INDUSTRY RESTRUCTURING IN UKRAINE

Formulation of the problem in general and its relationship with important scientific and practical tasks. Ukraine is one of the twelve countries in the world which has the largest volume of coal mining. But the level and the dynamics of techno-economic performances of coal mining are not satisfied. At present coal industry in Ukraine is experiencing very difficult times. The main reason is a significant technology gap and exacerbating problems associated with the necessity of introducing radical institutional reforms. Economic crisis in the regions are caused by the insufficient resources – population saves stabilization strategies only in case of the preservation of its basic needs, in other words, quality of life remains at an acceptable level. Fall of living standards results in human potential reduction and the social risks growth.

The coal industry reform program was adopted in 2010, as a component of the general Program of economic reforms [1]. Unlike the previous sectoral programs and concepts-declarations, it has a precise goal – to overcome losses and involve the use of drastic measures.

Restructuring processes that accompany the development of most sectors of the domestic economy may lead to some imbalance of economic performances of individual areas, especially monoprofile for which this or that sector is vital. Socio-economic problems of the residents of some communities, the development of which is completely dependent on one or two industries located in their territories, today are acute enough, and therefore they require special attention of public institutions, scholars and experts.

The aim of the paper is the identification and analysis of major social risks of the coal industry restructuring.

Analysis of recent research and publications. Scientists who research the problem of risks follow dichotomy. According to it they distinguish two types of risk – technological and sociogenic. The latter is understood as the result of the emergence of uncertainty in the society due to the loss of public control over social and societal changes. They include social conflicts, types of deviation (especially delinkventsiya), some forms of the social tension. The ways of looking at the nature, specificity and types of the social risk also have many differences [2, p. 23].

Theoretical and practical problems of the social risks of coal industry functioning have been thoroughly discussed in the works of leading scientists of the Institute of Industrial Economics of the National Academy of Sciences of Ukraine and the previous academic thematic hearings. Thus, the authors of the monograph “Sustainable industrial development of the region: social aspects” claim that the risks of sustainable development of industrial regions of Ukraine are formed primarily in three major subsystems – social, economic and environmental. The social subsystem in the risk assessment includes performances related to the loss of opportunities of the social development. The first is the risk of health loss and life expectancy which result in living potential decrease [3, p. 63].

Scientific interest of researchers to the theme of risk is shown in their attempts to develop an integrative sociological theory of risk, and establishment of quantitative and qualitative methods of its assessment [4, p.12].

Causes and risk factors often have social nature: the risk of unemployment, loss of efficiency due to the accident, illness, lower social status, etc. They are caused by the social environment and do not depend or depend a little on the will and capabilities of large populations. Social risk – is an event in human life recognized by the community, which leads, on the one hand, to the loss of ability to work or limitation for the labor demand, lower living standards, total or partial loss of earnings, and on the other hand – to the loss of its social component: social disorientation, reduced self-rating, self-awareness of their own social failure, reduced adaptation to the social environment.

The theoretical basis and a wide range of issues about the problem of the social risk are shown in the works of local and foreign scientists in ryzykolohiya, social policy, social security, social protection of population, employment potential etc. They are: A. Amosha, D. Bogynia, V. Vitinskii, O. Vlasyuk, V. Heyts, E. Libanova, O. Martyakova, A. Novikova, O. Pankova, S. Pyrozhkov, Y. Saienko, M. Faschevskiy, M. Chumachenko.

Based on the analysis of the scientific researches we can say that the social risk can be presented in the following coordinates: quality of life, demographic risks, professional risks, social security, unemployment risks, environmental risks, deviant behavior.

The main material.

The success of the restructuring according to the developments of the International Energy Agency which researches the coal industry depends on several conditions:

– the creation of long-term strategic restructuring program, the development and adoption of which, firstly,
involves all stakeholders – state leaders, trade unions, local communities, employers, management structure which is responsible for coordination of the restructuring and also includes representatives of all stakeholders; 
- the restructuring program meets mobilized (present and involved) resources to implement restructuring; 
- strict state’s control over the use of resources for restructuring. If this condition is not fulfilled, the manager Finance is changed (Belgian experience). Special agencies can be created to involve investment resources (United Kingdom); 
- restructuring involves some necessary measures of economic recovery of mining regions, providing employment.

Coal branches around the world have a wide variety of scales, environmental conditions, organizational structures, farming. But there are some general tendencies: the development of profitable and unprofitable coal collapse, denationalization (corporatization, privatization) of coal mines, the concentration of capital, the internationalization of coal production and formation foreign sectors, integration of producers and consumers of coal.

The situation concerning the prospects of mining in different countries is ambiguous, and there is not any general doctrine on transformation processes in the mining industry – each country produces its own “coal policy”. It depends on many factors: geological reserves, conditions, profitability development of coal deposits, place and role of coal in the fuel and energy balance, environmental limitations, the degree of integration of the economy into regional and global structures, etc. [5, p. 6].

The program “Ukrainian Coal” was adopted in 2001 [6]. Its fulfilment was expected for the period 2001 – 2010. The main measures include: denationalization of the coal industry, acceleration of the incorporation of mines, identifying attractive investment objects and their privatization. However, the program included measures for the completion of mine closure. The criteria for selecting mines to close, have been changed according to the experience of restructuring. It was expected to close both the mines, which did not have any industrial coal reserves and uncompetitive ones since 2001. Parameters according to which they selected the mines to close were the following: the lack of industrial coal reserves or their limitation (no more than 3 – 4 years); high cost of coal; low technical and economic parameters; complicated mining and geological conditions of production.

The state budget of Ukraine for 2013 includes expenses of the Ministry of Energy and Coal Industry in the amount of 9 billion 911 million 299.1 thousand hryvnias. From this amount of money 9 billion 728 million 474 thousand hryvnias were planned to invest into the coal industry. This money will support the coal mines and it will also be oriented at partial coverage for the cost of finished marketable coal production – 7 billion 801 million 847.8 thousand hryvnias; restructuring of coal and peat industries – 1 billion 50 million 980.1 thousand hryvnias; for state support of building coal mining enterprises, technical re-equipment of these enterprises – 364 million 293.8 thousand hryvnias. Intention of the government to “support on the surface” all applicable state mines results in dispersion and inefficient use of public funds. The management of some mines deliberately overstates the expected planned results and buys unnecessary expensive equipment in order to get public funds. As a result, the loss performances are increasing. It needs some improvement grants, in other words providing budgetary financing generates the need to increase budgetary subsidies. The current system of state financial support for coal mines, the amount of which is determined annually, blocks incentives for improvements in the public sector, provokes dependency attitudes among the managers and workers of the enterprises of the sector.

Despite the very significant budgetary expenses, most enterprises are nearly unable to maintain and develop the social infrastructure. The widespread failure of legal rules of social legislation and sectoral agreements is not accompanied by the need of responsibility, and therefore illegal behavior becomes the norm for managers and workers of the mining industry. According to the collective agreement in the coal industry for nearly 40% of workers, the minimum wage at a level below the legally established government guarantee was established. None of the coal enterprise of Ukraine carries out the provisions of the General and sectoral agreements about the timely introduction of wage rates and salaries, calculated in accordance with legally established minimum wage [7, p. 24, 61].

The restructuring process has significantly influenced the nature of production and social relationships both in business and in the regions. The analysis of the dynamics of demographics performances, particularly coal mining regions, suggests that changes in the social environment during market reforms have significantly affected the entire system of social relations, structure, human resources and resulted in a general deterioration of their quality indicators. So-called “coal settlements”, because of their specific location, are usually monoprole, and as you know, for such systems social risks are most acute and pressing [2, p. 47].

There is no legal definition of social risks in Ukraine, but according to the Law of Ukraine “On Social Services” social risks are difficult life circumstances, which objectively violate the normal functioning of a person, the consequences of which can not be overcome by the person. Thus, generally, social risks have social nature. In most cases it is impossible to defend against them individually, since they practically do not depend on the actions of the individual. Any manufacturing process is impossible without the human factor. In the coal mining industry the human factor plays a role of a productive resource because social and economic components of the production sector in relation to each other – are ways to achieve goals, but not goals. This is what causes the mutual desire to minimize costs.
In this context, the study of the social risks, in our opinion, should include, at first, the study of the nature of the interaction between man and society. New social problems which are result of the coal industry restructuring in many respects arise as a result of insufficiently considered actions of state institutions. For example, we can accept the measures which are envisaged by the Resolution of Cabinet of Ministers of Ukraine in September 19 2012. № 728-p “On Approving the plan corporatization of state coal mines by 2014”. They are:
- corporatisation of public sector coal mines (2013 – 2014);
- introduction of a new system of government support (2014);
- coal market liberalization (2014 – 2015);
- completion of restructuring (2025);
- completion of privatization, the transfer of state coal mines to the concession and lease (2025);
- stopping of subsidies to mining enterprises (state support for partial coverage of coal costs – 2028);
- stopping of all forms of subsidization of operating coal mines (2030).

At the same time, there are many issues in connection with the proposed rate reduction of subsidies mine operating costs (by 80% by 2014 and complete stopping by 2016). Even in case of full Programme financing (it is difficult to implement in case of the budget deficit), the factor of individual social risks growth, which means that acceleration of social development results in loss of the stabilizing role of the stereotypes of thinking, is not taken into consideration. Therefore, in case when a person can not adequately evaluate the situation with the help of existing stereotypes of thinking, it must find some innovative answers to this challenge but not rely on the social experience. The results of the search are not always in the legal field or meet the moral foundations of the social structure (a significant increase in crime, youth drug addiction eloquently shows the following trends).

Coal industry reforming significantly exacerbates the social risks which are associated with the threats of unemployment – reaching breakeven performance of the industry requires not only decommissioning of unprofitable mines, but also a substantial increase of labor productivity, and hence a significant reduction of staff at the operational mines. Thus, from 2005 to 2012, 65.3 thousand of industrial personnel of coal mining industry were reduced. Updating the risk of unemployment leads to poverty, which today is perhaps the greatest threat to human development [8; 9].

In its turn, poverty generates a low self-identity of a man in a society. F. Fukuyama defines human nature as a factor that gives us a sense of morality, providing social skills necessary for life in society and serves as a basis for sophisticated philosophical discussions about the law, justice and morality. We want to protect our entire collection of complex, advanced natures against attempts of self-modification and do not want to violate the integrity of human nature. The author says that the warranty of human preservation is preservation of self-esteem. It is the base of the political institutions that will be able to prevent the degradation of the individual. [10, p. 217]. J. Habermas developed this thesis in his report “The concept of human dignity and the realistic utopia of human rights”. He said that the concept of human dignity becomes particularly important today because it is a source of moral ethics of equality, human rights and identity [11, p. 32].

The problem of poverty has been thoroughly investigated in the writings of leading domestic and foreign scholars. So, according to the purpose of this paper it is necessary to focus on the less explored aspect of this problem – cultural anthropology of individual risks. The existence of man is nothing but a biological and social processes to adapt to a certain environment in which his/her consciousness and behavior are determined by the basic social values and norms. If the resource base, according to which some behavioral strategies were produced, is beginning to change, the human cultural system does not undergo much change for a long time, it keeps influencing his/her behavior [12]. That is, after the loss of a job for a person a loss of social status is more important than amount and duration of compensation payments.

Integration of of poverty and monoprofile factors of coal settlements causes updating of one of the most dangerous social risks – the risk of transmission of social problems from one generation to another. Thus, the possibility of poor families to provide competitive education to children is limited. As a result, the next generation will not have the necessary level of knowledge and skills that will allow it to fully compete in the labor market. So children will have the same status of poverty as their parents. Such risks inheritance from generation to generation can significantly enhance social problems not only of separate groups of people, but also regions, turning them into depression.

Effective state regulation must become the warrantor of risk prevention for sustainable development of the regions of Ukraine. The main purpose of government intervention is the introduction of measures to control and stimulate business industry with national interests in the social sphere, to minimize social risks.

Conclusions and recommendations for further research.

Ukraine has significant coal reserves and has the advanced technology of its production, but the problem is that there is the lack of investment resources for deep modernization of coal mines.

To solve the problem of the coal industry restructuring and consider some issues of organizational and economic nature it is necessary to produce flexible mechanisms and tools to minimize the social risks. As the analysis shows, the implementation of strategic priorities for restructuring is often solved closing unprofitable mines without regard to economic activity in the mining region and the social needs of their residents. Therefore, at the
stage of the reform of the coal industry, the most relevant task is labor market optimization in coal mining regions, in particular the need to preserve and create jobs, during the diversification of the industry.

Introduction of the restructuring mechanisms of social and economic development of the territory are very important to solve the problem of the monoprofile settlements. It should be done not only through economic diversification, development of new areas and sectors, including high-tech knowledge-intensive industries, creation of technological parks, but also by introducing mechanisms of mental reorientation of the population at the need to change occupation.

Analysis of individual risks in the system of social risks is one of the stages of the risk management process, which aims to study the subject area, that is the study of the structure and properties of the object and his / her inherent risks. During the analysis of the social risks, different socio-economic, demographic, ethnic and other characteristics of the groups which were chosen for investigation, should be taken into account. The development of key factors and performances that will cover multiple social issues which significantly affect the actualization of the social risks can offered as a promising area of research.

Social problems do not arise themselves. They are mainly caused by abnormalities in the functioning of various systems and institutions of the state. If we consider the social risks as a probable loss characteristics of important social values, their determination should be based on the features of dysfunction of social institutions, slowing down process of social reproduction, the production processes and the transformation of the social norms, values and preconditions for the formation of the social tension.

References
ECONOMICAL SAFETY ISSUE RESEARCH

Introduction: Economical safety of a legal entity is to be studied as a harmonization tool included State’s, Market’s & Enterprise’s interests; as a way of growth trend provision both of manufacturing processes & economic activity results; as achievement of goals responding to the interest of the Enterprise’s owners and Society members. It cannot come corner cutting with design and implementation of the unique strategic plant of legal entity and with effective safety system provision.

Today academic people and those of business are cavalier to the units of legal entity’s safety. This situation threatens the one’s economic stability. If one meets extreme profitability, it can serve as an object to unfriendly merge. Fast one’s growth calls the legal entity’s dependence on outer financial sources. Due to all these facts you can lose free choice of taking your own business decisions and we must admit that economic safety of all market participants is vital matter to survive in fairy marketing environment. The world finance crisis inflected the range of our domestic industries and the majority of the domestic legal entities. They met the lack of credits, investment backflow and as a result they came to the manufacture volume reduction and demand/commodity offer coming down. Therefore legal entity is challenging the current situating simultaneously are looking forward to creating effective safety system able to build a barrier to threatens they face.


Thesis idea: study of economic safety issues of legal entity.

Thesis core: Today we can find the economic safety plays the important role of the enterprise’s management. Economic safety stands for steady economic growth of society in order to produce necessary assets to satisfy individual and commune demands.

The Constitution of Ukraine stipulates the term as a basic feature of the State. The same time microenvironments admits that the core benefits of the economic safety comes in possibilities to work in universally accepted business environment, to gain a stable growing trends and to prevent the leakage of information [1, p. 655].

You can achieve the goals due to coming over the range of acts. Look through the most important ones:
- Revealing of real and prospective threatens and dangers.
- Finding the solution how to prevent them, to loosen or eliminate their consequences.
- Finding the ways which are necessary to provide economic safety of the enterprise.
- Cooperation arrangement with authorities in order to discourage delinquencies leading to legal entity’s interest infringement.
- Arrangement of the own finance service meeting the safety issues.

The last one intends to carry out the following features:
- Predicting, localizing, preventing, loosening of threatens and dangers.
- Securing enterprise’s activities, staff and property.
- Creating of competitive environment.
- Elimination of inflicted by damage consequences [2, p. 20 – 21].

In order to achieve a higher level of economic safety enterprise has to implement safe operational environment for its vital issues.

Every of the operating economic safety issues obtains its own sense, criteria and ways of implementation.

The core reason proves that economical safety implementation is necessary. It says that the main goal is to achieve stable enterprise’s surviving in current business environment, to find prospect of growing and developing in accordance with enterprise’s business philosophy.

They consider a finance issue of economic safety as a core compound element and name it as enterprise-in’s functional issue of the economic safety. They came to the above conclusion due to the accepted opinion that finance is an engine of current marketing environment [3, p. 22].

Mrs. N. Reverchuk admits, that the financial safety of enterprise pretends to be a protection one against possible financial loses and a bankruptcy prevention one, a way to achieve the most effective solution of available resources using. She confirms it is a ground basis of any economic system development and evolution [4].

Finance-economic enterprise’s state is characterized
with its indexes (of profitability/revenue), its sources (of financial stability, structure, dynamics), its capability to meet its obligations.

Management board, owners, the enterprise’s investors, partners, creditors and state bodies are of high interest of the right estimate of business activity’ financial results under current economic surroundings. The finance-economic enterprise’s state is the matter of interest of its competitors as well. But they come from the other party – to know the weak points or the appropriate solutions how to make the weak/weaker [3, p. 22].

Such issues of economic safety as HR and intellectual propriety needs defense:
  – HR defense is in charge of staff operating, the first thing to increase the workability and work efficiency
  – Intellectual propriety is in charge of its saving, developing, evolution and storing. Staff experience and increasing of knowledge base are the matters of the issue.

Developing the process of intellectual propriety safety you have to estimate the possible threats to the issue. The worth ones are not sufficient level of department competencies, staff's unfriendly attitude to the Enterprise’s policy, incapability in producing maximum benefits for the Enterprise.

HR management if it’s aiming the economic safety has to cover such issues as hiring and training systems, labour motivation of important employees with its financial and nonfinancial incentives (as well it should consider if the current occupation is prestigious, the employees are satisfied with their feedback etc.) [5, p. 280 – 281].

Technical and technological issues of economical safety are in charge of the worldwide monitoring of corresponding tech-analogues which are cost effective the same time. Arranging the process be aware with:
  - Actions leading to the tech-strength disruption.
  - Disruption of maintenance procedures.
  - Obsolescence of obtained technologies.

The procedure of technical and technological issue of economic safety includes executing of one-be-one steps:
1. Analyses of technology market place concern the ways of manufacturing in the cut of the Enterprise’s sphere of business.
2. Analyses of technology procedures and the simultaneous monitoring of inner resource how to improve implemented technologies.
3. Analyses of specialized commodity markets (including its substitutes) perspective analyses (including its trends and competitive ability).
4. Development of technological strategy of Enterprise’s development.
5. Implementation of Enterprise’s developing projects during their carrying out of their economic activities.

Another economic safety issue is political and legal one. We can determine this issue as protection against extreme tax pressure, the Regulations instability, ineffective performance of legal department of the Enterprise. This issue studies the Enterprise’s surroundings and set the ‘game rules’ how to act and behave in the surroundings.

Acting under this issue you have to estimate economic safety threats at first. These threaten are usually of political and legal spheres and are very close to:
  - Internal acts (ineffective financial planning and management of assets, ineffective marketing strategy, erroneous price-building and HR-building policies).
  - External acts (speculative trading on the security market, lobbying governmental decisions by the rivals).
  - Force-major circumstances (natural disasters, strikes, military conflicts) and circumstances close to force-major ones (unacceptable Regulations’ one, embargoes, blockages, changes in currency rates etc.) [3, p. 24 – 25].

Legal issue is responsible for the total legal accompanying of the Enterprise’s activities, making all the Enterprise’ actions under the current Regulations.

The general process of political and legal issue provision for the purpose of economic safety occurs under the typical scheme:
1. Threaten analyses of the negative effects.
2. Estimate of the current level of resources availability.
3. The planning how to increase the efficiency of the issue operating.
4. The resource planning execution.
5. The suitable department operational planning.
6. In-time arranging of the approved set of actions providing the optimal safety level [3, p. 54 – 55].

Enterprise’s departments execute the set of functions leading to the information safety issue of the economical safety. The list of such activities includes:
  - Collecting of all kind of the information, referring to the sphere of Enterprise’s activities.
  - Analyses of the received information.
  - Trend prospects of the process development (scientific, technological, economic, political ones).
  - Other kinds of activities devoted to informational issue development.

Enterprise’s sources of informational flows have the common trends of their creation:
  - Formal information from public sources.
Employees of the other Enterprise [5, p. 282 – 283].

Today’s the extreme importance is in ecological issue of economic safety of industrial Enterprise.

Enterprise’s ecological safety means protection against disruptive influence of natural, anthropogenic disasters; evidence of the economic activities of industrial Enterprise. Floods, earthquakes, tornadoes, snow/mud avalanches can inflict severe damage to Enterprise’s property, employees’ health and safety. It is almost impossible to predict weather disasters, but what is possible; it’s to execute all possible preventive measure arrangement to decrease the volume of all possible loses of the Enterprise. On the other hand anthropogenic catastrophes are caused by the application of worn fixed assets, unscheduled switching of the power or by under qualified and/or irresponsible employees.

Therefore it is vital not only to protect own activities against nature factors but to perform arrangements to protect surrounding environment. We would like to admit that the ecological loses can inflict financial state of Enterprise. For instance: such types of events as court claims due to the violation of the Ecological Regulations, accident/catastrophe with ecological inflicts can cause monetary costs (finance-ecological type of costs). The eco-loses of employees’ health damage inflict not extremely and precisely visible damage but they can be a reason for extra productive volume/sales reductions. Such loses (persons’ suffering) have no monetary form. The compensation is determined only in a subjunctive way. Ecological damage could be either not refunded or just refunded partially. So this is a essential source of prospective danger.

As a result of its economic activity, the Enterprise itself can serve as a source of danger for the environmental surrounding. We can define internal factors causing eco-worsening such as mistakes at design/implementation stages of a new object (fixed assets, new technologies), which could possibly be harmful to people; fines for the environment pollution, illegal dumps etc. Ecological issue performs basically in meeting the current Eco-Regulation; reduction the environmental pollution, reduction for loses caused by pollution [3, p. 67 – 68].

The scheme of the power issue of economic safety is to come the next order:

- Threaten analyses of negative impacts concerning power issue and the reason they have been caused
- Analyses of the power issue level concerning kind of activities, resources, executives, cooperation and cost effectiveness.
- Budget planning in order to carry out the range of advised set of acts and calculation its expected effect.
- Planning of respond staff hiring and training.
- Tactic planning how to implement the set of facts.
- Routine work how to arrange the effective operation of power issue.

Enterprise’s Power Safe is to protect the individual from threats to life, health and financial well-being and protection of the Enterprise from criminal attacks. The power issue is to ensure the physical safety of the employees (especially managers) and maintaining its property. The main negative impacts on this issue include physical and mental effects on specific individuals (especially on management and leading specialists) in order to cause harm to their health and reputation, threatening the normal activities of the company.

Negative effects causing damage to Enterprise’s property threaten to reduce its assets costs and losses of economic independence (misinformation, destruction of information).

The reasons for these negative effects are:

- Rival-Enterprise’s inability to achieve the benefits of market-correct methods, i.e. by improving the quality of their products, reducing the current costs of production (activities), improving market research, etc.;
- criminal motives obtaining criminal law (natural) persons income through blackmail, fraud or theft;
- non- for profit motives of attacks for life and health of Enterprise’s managers and workers and property

How to reflect these negative impacts is the task for the security service. Its duties are to ensure the physical protection of the Enterprise’s management, arranging admission procedure to make health facilities, communication lines and equipment.

In practice, security service is responsible for Enterprise’s safety, which provides physical security of enterprise management, arranges admission procedure protects buildings, premises, communication lines and equipment, protects information from unauthorized access, ensure secrecy of documents and materials [3, p. 71 – 72].

Thus, the main objective of economic safety of business entities is to ensure their sustainable functioning currently and high development potential in the future.

Actions to strengthen the economic security businesses should be:

- Increase their financial stability and independence;
- Strengthening the competitiveness of technological capabilities;
- Rationalization of financial management;
- Improving the skills of staff and full use of his intellectual capacity;
- High level of environmental performance, minimizing the damaging effects of performance on the environment;

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– Improve the legal protection of all aspects of the business;
– Protection for the information environment of the subject, its trade secrets and achieve a high level of information support of all its services;
– Ensuring the safety of personnel, capital, property and commercial interests [4].

Conclusions. To achieve an appropriate level of economic safety Enterprise has to work to ensure maximum safety of major functional issues of the work, the most important of which is the financial issue. Stability and Invincibility information, financial, technological and other subsystems of the Enterprise is the key to secure its protection. Most threats to economic security can be prevented or eliminated if a sufficient number of existing corporate resources will be aimed at ensuring the protection of business.

References

Пожуєва Т. А. Дослідження складових економічної безпеки
У статті акцентовано увагу не тільки на ролі економічної безпеки суб'єкта господарювання, яка посідає вагоме місце у системі управління, але й розглянуто її складові. Також визначено основні чинники негативних впливів на економічну безпеку та можливі шляхи їх подолання.

Ключові слова: економічна безпека, загрози безпеці, безпека підприємства, служба безпеки, система безпеки підприємства, захищеність.

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MODEL OF COUNTRY’S GEO-ECONOMIC POSITION IDENTIFICATION IN TERMS OF INTERNATIONAL INTEGRATION

Statement of the problem. Integration occurs on quite certain conditions: a high level of monopoly capitalism and its internationalization, imminence of participating countries’ economic interests, absence of serious political differences between them, subjective willingness of political elites to a lose certain share of national sovereignty for the benefit of resolving the long-term economic and political integration tasks and their readiness to form these tasks [1, p. 335]. Modern states prefer regional integration as a result of failure to address issues such as trade policy within international institutions. Trade policy gradually becomes really transparent in the form of regional integration since it relies on a parity basis on the assumption of countries’ economic interests. Regional integration can enhance the dynamic effects due to specialization and increase the degree of industry localization.

This trend has caused concern among the supporters of the GATT / WTO. On February 6, 1996 General Council of WTO established a Committee on Regional Trade Agreements (RTA). The purpose of the committee is to study the regional arrangements and assess their compliance with the WTO requirements. This committee also studies the possible impact of regional agreements on the multilateral trading system and relationship between regional and multilateral agreements.

Analysis of recent research. The theoretical basis, characteristics, causes and analysis of international integration is currently being developed by foreign scientists, namely M. Shiff, A. Winters [2], I. Hurova [3], A. Liman, L. Zevin [4], I. Tochytskaya [5], and Ukrainian scientists: O. Bilorus, D. Lukyanenko [6], A. Shnypko [7] and others.

O. Bilorus and D. Lukyanenko define the concept of international economic integration as an objective conscious and purposeful process of rapprochement, mutual adjustment and merger of national economic systems. According to them it has the potential of self-regulation and development and is based on independent economic players’ economic interest and the international division of labor [6, p. 224].

Rationale for the integration associations’ development according to A. Liman and L. Zevin provides six benefits. Firstly, a larger region has more opportunities for specialization and thereafter for the division of labor grounded on comparative advantage, which is the basis for effectiveness increase. Secondly, a large region has significant opportunities to use economies of scale due to the larger number of prospective customers. Thirdly, a large area can provide high competitive pressure on businesses and thereby reduce X-inefficiency. Fourthly, markets’ openness is a positive factor in changing the industrial structure in terms of firms “remaining on the market”. Finally, larger regions usually are less deficient in management personnel of high quality while diversity may become a source of creativity and growth [4, p. 69 – 70].

The World Bank experts emphasizes that regional trade agreements (including bilateral free trade agreements between the North and the South, and trade preferences agreements between the countries of the South) can create favorable conditions for rapid poverty reduction. However it is possible only if developing countries integrate these agreements into the strategy of trade liberalization in three directions – unilaterally, in multilateral and regional relations [8].

The positive role of regional integration is manifested in the desire of countries to establish relationships, finding common general historical events, share experiences and knowledge and cultural heritage. In this perspective regional integration is the form of influence on state institutions through the proclamation of supranational goals, ideas and safety standards. Regional integration will expand the boundaries of economic control across national boundaries, building new benchmarks of socio-economic development and incremental transition to a global society. The rapid growth of regional arrangements in the early 21st century calls for research and determination of regional integration effectiveness.

Body text. Exploring various aspects of economic integration M. Schiff and A. Winters recommend states to follow certain rules governing successful integration, which were developed through international experience. Among these rules are the following: integration with wealthier and stronger states is beneficial; cost-effective integration associations are politically rational; integration serves as the impetus for reform; integration strengthens the security of the state; integration increases investment;
integration encourages competition; integration optimizes the tax system; the World Trade Organization does not protect against integration faults [2, p. 93]. So while determining their geo-economic position in the global coordinate system countries should clearly rate their regional priorities.

To replace the Washington Consensus alternative the Beijing Consensus doctrine was proposed.

In 2004 the London Centre for International Policy published a report entitled “Beijing Consensus” where this doctrine’s specifics were disclosed. Fundamental postulate of “Beijing Consensus” doctrine is to increase the share of GDP that is redistributed by the state, and to increase state control over private capital (not excepting although public-private partnership). “Beijing Consensus” is perceived as economic regionalization doctrine, which results in the creation of several interacting and competing regional arrangements that form the foundation of modern multipolar management of the world economy. Strengthening the role of the state and international organizations is a defining feature of “Beijing Consensus” doctrine. At the same time the role of many international financial organizations (WTO, IMF, World Bank, etc.) is secondary [9, p. 12 – 13].

The basic premise of integration is trade liberalization. That is why in our view it is advisable to monitor the integration process through the implementation of trade policy.

States’ union in regional integration arrangements framework requires relevant approaches to their collaboration assessment. Such interaction is based on strengthening the static and dynamic effects arising from spatial localization expansion in the framework of regional integration arrangements and positive impact on macroeconomic performance.

According to the United Nations method trade policy is assessed within the following indicators’ groups:
- Indicators of commercial activity;
- Indicators assessing the direction of trade;
- Indicators of the sectoral trade structure;
- Indicators of tariff protection.

In a context of global trade flows the degree of countries‘ integration into the world economy is measured by means of foreign trade. Current practices in regional integration evaluation and measurement are based on indicators of bilateral trade flows (exports and imports) and GDP. Indicators of trade integration are measured within the integration arrangement (intra-trade) as well as outside it (extra-trade).

For measurement of intra-regional and extra-regional trade the following parameters are applied within OECD method [7, p. 60 – 73]:
1) index of intra-regional trade volume;
2) the indices of extra-regional trade arrangements;
3) index reflecting the degree of member countries‘ integration in regional trading communications.

Extra-regional trade reflects the nature of trade expansion outside the integration arrangement. Extra-regional trade commodity composition describes arrangements’ role and place in the international division of labor. Trends in intra- and extra-CIS trade are shown in Figure 1.

![Fig. 1. Trends in intra- and extra-CIS trade, biln. USD](http://www.cisstat.com/pagetop.htm)
Study of mutual exports dynamics among regional integration arrangements and increase of its share in total exports of integration unit represent clear evidence of international economic integration development. Formation of a strong domestic market for regional arrangement gives it the opportunity to significantly reduce the risks from fluctuations on world markets.

Regional market share of the country is proposed to be calculated by UNESCAP method. Regional market share shows the relative importance for member countries to trade on intra-regional level within trade bloc. The larger is the value of the share, the more trade block export dominates in the economy of a member-country [10, p. 42 – 43].

Competitiveness at any level is realized through domestic and foreign trade. However it is undoubted that the basis of competitive advantage is created at all levels of society largely due to progressive structure of the real economy and its well-timed restructuring [7, p. 197]. Thus trade policy should reflect the industrial policy of regional blocs. The division of labor within the regional bloc will improve the economy structure of each country individually.

Under the formation and strengthening of integration associations’ role with a lapse of time trade flows are being reoriented to priority markets. The main flows of goods move among member-countries ensuring the domestic demand and supply saturation. It will result in retention of internal regional trade predominance over foreign trade. There is a low proportion of intra-regional trade in SIC. That is why integration arrangement potential has significant prospects for future cooperation.

Manufactured products foreign trade is divided into intra- and inter-branch. The level of intra-industry trade is determined by the “quality” of economic integration in the world market, because the more developed a country is technically and economically, the higher the share of intra-industry trade in its turnover. The development of intra-industry trade stimulates the exchange of new technologies and promotes economic growth [5, p. 15].

Investigation of quantitative indicators of trade relations between regional integration arrangements would be incomplete without defining qualitative characteristics of exports and imports by product groups according to the standards of international trade classification (SITC).

When planning to join the free trade country should realize which of its sectors are effective (i.e. characterized by better export potential). Relatively ineffective sectors should intensify imports. Concluding the agreement on free trade zone countries are interested in increase of trade complementarity and competitiveness. When countries trade similar products their joining the free trade area (FTA) can yield a loss instead of trade expansion.

To determine the position of product groups by UNESCAP method [10, p. 76 – 84] and the Asian Development Bank methodology [11, p. 32 – 40] offered to trade within a regional trade agreement the following indices are calculated:

- Revealed Comparative Advantage index (RCA);
- Revealed Symmetric Comparative Advantage index (RSCA);
- Regional Orientation index (RO);
- Intra-Industry Trade index (GI);
- Trade Complementarity index (CI);
- Competitiveness index (R);
- Index of Main Export Categories (IMEC).

Methodology used in WITS database calculates the index of export specialization (ES). It is a modified RCA index where the denominator is usually measured by specific markets or partners. It provides information about products as a result of specialization in the export sector of the country. $ES$ is calculated as the ratio between share of food in total exports for country $i$ and share of imported products in specific markets or partners rather than its share in world exports. $ES$ index is similar to RCA that values of less than unity indicates a comparative disadvantage and values greater than one reflects specialization on this market [12].

A methodology underlying developed by the author model of determining the geo-economic position at the conclusion of regional trade agreements (RTA) is reflected in Fig. 2. Suggested in Fig. 2 logical model is based on the definition of the integration core, i.e. the detection of the countries’ position in mutual trade. According to the mass attraction law the presence of the core formed by powerful countries will attract less developed countries to cooperate. This model relates to ex-ante (or pre-analysis) methods, and simplifies the decision making concerning determining the relationship between regional arrangements’ trade partners.

On October, 18, 2011 eight CIS countries (Russian Federation, Ukraine, Belarus, Kazakhstan, Armenia, Kirghizstan, Moldova and Tajikistan) signed Free Trade Agreement (CISFTA) [13]. In early September 2012 only 3 of the 8 countries, which concluded CIS Free Trade Agreement, have ratified it on the national level. Ukraine is among them. On September 23, 2012 CISFTA began to work for Russian Federation, Ukraine and Belarus as other countries have not determined conclusively. Basing on the proposed logical model we determined position of Ukraine and Russian Federation in the CIS Free Trade Agreement (as reflected in Fig. 3).

According to Fig. 3 the cumulative share of regional block’s internal trade in world exports and imports is negligible and was only 0.78% in 2012. The average share of internal trade in the region decreased over 11 years from 11.7% in 2000 to 11.1% in 2010.
Comparison of these two indicators permits to estimate the homogeneity degree of regional integration arrangements. Excess of second indicator over the first one reflects the trading block heterogeneity, which is connected with the presence of a large trading partner dominating the association (namely Russian Federation). Russian Federation’s export share was 57.5% in 2010 and 54.8% in 2012, Ukraine’s – 18.1% and 17.8% respectively, Belarus’ – 13.1% and 16.6% respectively, Kazakhstan’s – 7.7% and 8% respectively; other countries’ shares were less than 2%. Although integration core is formed by Russian Federation, Ukraine can join with the lapse of time. So the delay time and political dispute between two countries in full scale hinder the CIS reintegration.

Indicator of intra-regional trade for Ukraine within the CIS increased from 4.46% in 2000 to 18.7% in 2010 that is 4 times as much. Thus the value of trading partners for Ukraine was constantly growing.

Index demonstrating the degree of regional arrangement members’ integration into regional trade ties also reflects the rapid growth from 54% in 2000 to 87% in 2010.

Trade inversion symmetry index for the CIS countries is taken from the regional arrangements database of the United Nations University (RIKS). The database contains indices to 2010 inclusive. Index value was much more than one and accounted for 16.9% in 2010. This indicates the relative importance of internal regional trade for the CIS countries as against trade with the rest of the world.

At the final stage we estimated the position of 86th commodity group for Ukraine and Russian Federation in 2011 as powerful partners of this regional bloc. As it is demonstrated in Fig. 3 Ukraine has the best position in this product group as revealed comparative advantage index (RCAiij) amounts 20,998, and revealed symmetric comparative advantage index (RSCA) is positive and accounts for 0.909. In comparison with Ukraine Russian Federation has no tangible competitive advantage in this commodity group. Other indices for Ukraine also meet the conditions set forth in the model. For example the commodity group. Other indices for Ukraine also meet the conditions set forth in the model. For example the commodity group mentioned above is considerable for countries’ export as represents engineering products.

The results reflect the importance of Ukrainian exports to the CIS by 86th commodity group.

According to Ukrinform Russian Federation has suspended imports of Ukrainian wagons produced on “Kriukov car building works”, “Dнeprovagonmash” and “Azovovschema” by the decision of the Federal Budgetary Organization “Register of Certification on the Federal Railway Transport” for technical reasons [14]. In this connection adopted restrictions will have adverse effect on this commodity group’s export in 2013.

**Conclusions and suggestions for further research.**

The proposed logical model simplifies the decision-making process regarding participation in integration arrangements by major indices. Indices can be calculated for 2-, 4- and 6-digit level codes of the Harmonized System nomenclature (HS). Thus each enterprise can determine its product’s position in any geographic direction at the micro level. Pre-analysis conducted by the author shows the significance for Ukraine to participate in the CIS Free Trade Agreement. Operation of the regional arrangement in full format to determine its effectiveness in future requires conducting the post factum analysis.

**References**

Fig. 2. Logical model of determining the geo-economic position at the conclusion of Regional Trade Agreements (RTA)
Calculations are conducted by the author on the basis of: RIKS, State Statistics Service of Ukraine and official web-site of the CIS Statistical Committee: www.cisstat.com

Fig. 3. Model of Ukraine’s and Russian Federation’s geo-economic position identification at the conclusion of FTA with the CIS countries

CIS members: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan

Integration core presence
Russian Federation and Ukraine

Gradual increase of $X^b_{intra}$ and $T^b_{ij}$

$D_{ij}=17.1$ (2000); 18.1% (2010)

Yes

$I_T^H=16.3$ (2000); 16.9 (2010)

$I_T^H>1$?

Yes

Identification of 86th commodity group’s positions by means of UNESCAP and WITS methodology

<table>
<thead>
<tr>
<th>RCA$_i&gt;1$</th>
<th>RSCA&gt;0</th>
<th>RO$_j&gt;1$</th>
<th>GL$_ij→1$</th>
<th>C$_j→100$</th>
<th>R$_c→100$</th>
<th>I$_{disc→100}$</th>
<th>ES&gt;1</th>
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<td>Russian Federation</td>
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<tr>
<td>RCA$_i=0.462$</td>
<td>RSCA=-0.368</td>
<td>GL$_ij=0.17$</td>
<td>C$_j=89.1$ (Russian Federation -Ukraine)</td>
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<td>Ukraine</td>
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<tr>
<td>RCA$_i=20.998$</td>
<td>RSCA=0.909</td>
<td>GL$_ij=0.19$</td>
<td>C$_j=80.7$ (Ukraine-Russian Federation)</td>
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<td>ES=3.58</td>
<td>R$_c=16.24$</td>
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Conditions are met

Yes

Conclusion of FTA with partner-countries and national ratification
Kostenko N. V. Model of Country’s Geo-economic Position Identification in Terms of International Integration

Article gives technique of country’s geo-economic position identification adjusted for an integration vector. This technique is based on United Nations University research (RIKS, UNESCAP, Asian Development Bank). Nature of international integration was grounded according to “Beijing Consensus” doctrine, which replaced the “Washington Consensus” doctrine. “Beijing Consensus” is perceived as economic regionalization doctrine resulting in formation of interactive and competitive regional arrangements, which create foundation for modern multipolar management of the world economy. Author gave evidence in favour of positive effect that regional integration has on member-countries’ development. Logical model for identification of country’s geo-economic position at the conclusion of regional trade agreements (RTA) was developed in the article. Pre-analysis method (ex ante) was assumed as a basis for the model. Author also defined geo-economic position of Ukraine in regional integration with the CIS countries. Export indices of Ukrainian products at the CIS market were calculated on the basis of 86th commodity group.

Key words: geo-economic position, competitiveness, regional integration, “Beijing Consensus”, CIS.

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Kostenko N. V. Model of Country’s Geo-economic Position Identification in Terms of International Integration

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Problem statement. The prospects of economic growth renewal in Luhansk region are determined by the current realia such as the economic policy state, its legislative environment, political environment stability, social standard of living etc.

The urgency of recent research and publications. Issues of strategic planning regions and strategic development discussed in many works of both Ukrainian and foreign scientists regionalist. Among the diversity of work can be identified L. V. Shinkaruk [1], M. I. Dolishniy, L. T. Shevchuk, Ya. V. Shevchuk [2], M. M. Podorovskaya [3], A. I. Akmayev, B. T. Kliyanenko, O. P. Osyka, Ye. M. Akhromkin, I. F. Fesenko [4] and other researchers.

The main research purpose is the to substantiate the strategic planning directions for improvement of socio-economic development.

The main material: Contemporary domestic economy is characterized by the long economic crisis of primary origin, consolidating not only typical signs of a crisis, including loss of the sale market, mainly in the manufacturing sector, resulting in the drop of production volume, reduction of produce market, and the degradation of economic pattern, but also by the signs of a crisis of derivative nature, including as follows: growth of the government debt (both internal and external), reduction of a taxation base, financial instability and weak investment activity [1, p. 61 – 70].

The existing imbalance in the development of Luhansk region in terms of gross domestic product, investment activity, welfare protection, and employment rate, describe the current situation in the region as facilitating the destruction of the territorial economy.

Such strategic direction, focused on the creation of powerful economic framework of the territory via the implementation of market model of regional policy in Luhansk region, may have a positive effect on the economic recovery of the region.

This model is based on the social theory of regional development and acts as an individual political and economic category, which is at the same time one of the main elements of the national strategy of social and economic development in Luhansk region. When forming the model of regional development in Luhansk region, it is necessary to take into account the Post-Keynesian Theory of regional development (its main principles) as well as the life cycle theory.

Based on the described theories of regional development in various parts of Luhansk region, it is necessary to form basic manufactures for the whole national complex, which could determine the structure and become one of the main sources, enhancing the economic growth of a single region as well as the whole state.

In order to implement the above mentioned strategic objective at the present stage, it is necessary to meet two mandatory conditions. The first condition is to preserve the territorial integrity of the economic complex in Luhansk region; the second one is based on the Concept of constant development, the main objective of which is to meet the principle of balance in economic and energetic development of the region.

The subject matter of the balance principle is that the level of possibilities of the region is determined by its resource potential and its generating capacity. It is also necessary to consider that while implementing the measures, directed at the achievement of manufacture stabilization in the region, it is necessary to implement them in social and environmental sphere with minimum negative effects [2, p. 3 – 14].

Human capital is one of the most essential elements, which should be used to full extent in the market model of regional policy in Luhansk region. In conditions of the economic activity drop of the population, resulting in the drop in the living standards, this constituent, determining the starting potential of the region, is severely affected. This fact can be easily proved by the fact that the market of public needs is always limited; when the income of the population is decreased, there will always be such categories of people, who need social help; health deterioration is also detected etc.

It is worthy of note that the specific character of demographic, professional and qualification processes of the parts of Luhansk region is one of auxiliary landmarks, when the industrial specialization of the region has been determined as well as the structural territorial transformation of the economic complex.

Accounting of ethnical and historical peculiarities not only affects the regulation of the occupational level, but also plays an important role at the determination of certain measures, focused on the enhancement of the economic activity of population, as well as resolves the problem of placement and the efficient use of labour forces, when the correction of the economic specialization of the region takes place.

In order to overcome the destructive effects in the development of Luhansk region and efficiently implement the market model of the regional policy, it is necessary to apply general and specific approaches for its realization,
which would take all individual characteristics of the
region into account according to its peculiarities.

Particularly it includes the concessional taxation and
crediting of crisis territories, implementation of regional
investment programs together with the reorganization of
the operating enterprises and the creation of new ones;
mobilization of internal financial resources for the priority
of mortgage relationship development; granting privileges
to foreign investors; promotion of private industry
development; turning the social policy into the aim of all
economic converstions, implementation of long-term
regional social and economic programs with administrative
support; modernization of the system of informative and
statistical validity of objectives, and the levers of the
regional policy; decision making on the allocation of
national resources among the enterprises and the regions.

The preferred directions for the scheduling strategy
development of the economic regional growth determine
the model role for the development of the country as a whole.

Elaboration of the strategy with regard to internal
development of the region should be characterized by
new standards in the economic activity and the life quality.
This direction stipulates full reevaluation of the role of
natural recourses, making the potential of the region
(natural resources are considered not only as a means of
production but also as a living base); as well as implements
the settlement of infrastructure within the territory.

The next step is finding the spheres, where the main
strategic vectors of development include the implementation
of advanced technologies, innovative investigations, as
well as the use of new more qualitative and energy-intensive
power sources [2, p. 107 – 110].

The third preferred direction includes the development
of institutional infrastructure of the innovation-driven
economy. Such infrastructure should provide support for
the development of innovation system, which concerns both
the system of management of the regional economic and
social systems, and the economic entities and their relations.

The fourth direction consists in the provision of the
economic security of the region, based on the initiated
management strategy of current and projected needs of the
regional economic and social systems in the key resources.

The sphere specialization should single out the base
complex of the regional economy, which can provide
main employment and the most part of the income in the
regional budget.

The next direction is the implementation of regional
leadership policy, based on the totality of the key regional
competence, its political and economic ability to influence the
definite area and the ability of the regional leader to conduct a
constructive dialog, interacting with the macroregions.

Taking into account all the above mentioned, the
advanced institutional structure for the management of
the development process and implementation of the

![Diagram of Institutional Management Structure](image)

**Fig. 1. Institutional management structure for the development and implementation of strategy complex of the economic regional growth**
complex economic growth strategy of the region will look as follows (Fig. 1).

Strategically the directions of economic interest are reflected due to the main objectives, measures, social and economic strategies, their subsequent implementation, the totality of which makes the organizational, restricted and specific parts of the strategic plan.

T – thematic committee of the direction of complex economic growth of the region; W – work group on the direction of activity implementation within the strategy of complex economic development of the region

A demonstrative example for the implementation of tasks of complex economic growth within a region, determined by the Development Strategy of Luhansk region until the year of 2015, is the elaboration of the Program for the economic and social development of Luhansk region for the year of 2013, approved at the Session on December 29, 2012, No 16/13, dated January 2, 2013. The main objective of the Program is to secure the stable growth in the real sector of economy, and improve the life standard on its basis.

It is impossible to solve the problem for one year, but having completed certain tasks of the Program for the economic and social development of Luhansk region for the year of 2013, we can give grounds for the settlement of both crisis and systemic problems, accumulated for the past years. Luhansk region and all Ukraine should raise their competitiveness and make the firm grounds so that the economy could consistently grow, and a negative impact of financial economic crisis would me minimized, which is currently projected.

Conclusion. Thus, we may conclude that topical problems, connected with the organization of strategy planning for the social and economic development of the region have a demand for the restoration of systemic mechanisms, the main task of which is the elaboration and implementation of the strategy at the regional level, which should be based on the enhancement of coordination process efficiency, as well as systemically attract active regional groups into the planning process, and detection of the role and place of the regional level in the institutional mechanism of development.

References

O. O. Sayenko

Саєнко О. О. Модернізація інституційної структури управління процесом розробки стратегії комплексного соціально-економічного розвитку регіону та її реалізації

Обґрунтовано напрями удосконалення управління процесом розробки стратегії комплексного соціально-економічного розвитку регіону. Запропоновано сформувати базові виробництва для всього національного комплексу, які б мали структурно-визначальний характер та стали б одним із головних джерел, що підвищують рівень економічного розвитку як окремого регіону, так і держави в цілому.

Ключові слова: регіон, стратегія розвитку, соціально-економічний розвиток регіону.

Саєнко О. А. Модернізація інституційної структури управління процесом розробки стратегії комплексного соціально-економічного розвитку регіону та її реалізації

Обосновано напрями совершенствования управления процессом разработки стратегии комплексного социально-экономического развития региона. Предложено сформировать базовые производства для всего национального комплекса, которые должны иметь структурно-определяющий характер и стали бы одним из главных источников, повышающих уровень экономического развития как отдельного региона, так и государства в целом.

Ключевые слова: регион, стратегия развития, социально-экономическое развитие региона.


The ways of improvement of process control strategy development of complex socio-economic development. A basic form of production for the entire national complex that would structurally defining the nature and would become one of the main sources that increase the level of economic development of a region and the state as a whole.

Key words: region, strategy development, socio-economic development of the region.

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“HUMAN POTENTIAL” AND “HUMAN CAPITAL”: SIMILARITIES AND DIFFERENCES

Problem definition. Nowadays along with concepts “human resources”, “human development”, “labour potential” there are also widely used concepts “human potential” and “human capital” both in scientific literature and media as indicators reflecting economic and social development of the country.

Despite numerous research works on human potential and human capital, in the scientific literature one clear definition is absent about what is human potential, what is the differences in concepts “human potential” and “human capital”. Moreover, it is often possible to find the works in which concepts “human potential” and “human capital” are considered as synonyms. Indeed, these concepts are not identical and have a bit different semantic meaning. The most often they are identified in the attempt to measure human potential of the country (world) in general, to calculate costs on forming and producing human capital as well as calculate economic efficiency of the particular items of expenses (usually on education and training of qualified specialists) [1; 2].

Differentiation between “human potential” and “human capital” is necessary for defining their dialectics, for correct comparison of value estimations carried out by global organizations and researchers for building mathematical models of economic growth (among them it is essential to mark out, for example, the models by R. Lukas, P. Romer, G. Mankiv-D. Romer-D. Whale, D. Romer), in which they use statistic data about particular economic indicators included in these concepts [3]. Lack of mentioned information causes the necessity to simplify the model involving only limited number of indicators about which data is available.

Analysis of the latest research and publications. The basics of analysis and science about a person’s productive ability were laid by the classics of political economy such as W. Petti, A. Smith, D. Ricardo, A. Marshall, F. List, K. Marx. Research of theoretic approaches to estimation of human abilities as one of the kinds of capital could also be found in the works by J. M. Keynes, J. Schumpeter, T. Veblen, J.-B. Say, J. H. von Thünen, L. Walras, J. M. Clark, I. Fisher, M. Friedman and others. The most significant contribution into the theory of human capital was made by T. Schultz [4] and G. Becker [5]. Newer research on the given topic are represented in the works [1 – 3; 6 – 23].

Aims of the article. We try to analyze the problem of semantic meanings of the concepts “human potential” and “human capital”, their similar and different features, relying on scientific investigations.


The theory of human capital takes people as one of the factors of production and pays major attention to forming qualities necessary in the sphere of social production.

T. Schultz, talking about the concepts “human potential” and “human capital”, noted that “all the human resources and capabilities are either inherited or acquired. Every person is born with an individual complex of genes which define his/her inherited human potential. Acquired human assets strengthened with correspondent investment we call “human capital” [4]. G. Becker thought that human capital is ability of the person to produce goods and services. [5].

As V. I. Martsinkevich says, putting human factor into the system of economical concepts means radical change of logic, structure and content of all its components. Human factor he sees as not only the source of economical opportunities, but also strict examiner of economic and social abilities of the economy [7].

However, it should be said that despite the numerous research and scientific works researchers didn’t have a single approach to the definition of the concept of human capital. But all of them agree in one: human capital becomes capital (as well as physical resources) only after particular investments in it and being capital it takes ability to give correspondent output in time.
In the end of 1990s the conception of steady growth and its key concept “human potential” were formed. In forming the theory of “human potential” decisive significance belonged to the research by K. Griffin, T. McKinley, M. Ul-Haq, R. Jolley, A. Kornea, A. Sen. The theory of “human potential” comes from the special role of a person in the modern society. Significance of a person is not limited only to the necessity of investments into his/her development, and development of a society doesn’t go only to increase of volume of material values and services, rise of material or economic welfare. It is also needed to give every citizen, every person the conditions and opportunities necessary for earning respectable income, realization of the creative potential, mastering required knowledge, non-stop education, development of capabilities and getting qualifications, long and healthy life. Human potential in its meaning is much wider concept than human capital [8]. Conception of development of human potential means the analysis of all the important questions of social development from the position of personal interests and broadening opportunities.

The opinion of A. Sen, the Nobel prize winner in Economic Sciences in 1998, the value of human potential cannot be expressed in only cost or quality indicators. Understanding human potential means estimation of social life quality, of economic conditions for formation and realization of a person’s potential in labour or other socially recognized activity and if these conditions are created, human potential can be realized as human capital becoming a source of income for its bearer and source of economic growth and social progress for the society [9].

Conceptual research by A.Sen were continued in annual reports about human development by the international organization United Nations Development Programme (UNDP), the first of which was made in 1990 with estimation of economic and social progress of the countries of the world and there the concept of “human development” was formulated. This edifice is oriented on increasing quality of human life, broadening and improving their opportunities in all the spheres. Main strategic instrument of the conception of human development was Human Development Index (HDI), worked out in 1990 by Pakistani economist Mahmub ul Haque [10]. Human Development Index in countries and regions of the world is calculated by the experts of UNDP along with the group of independent experts who use both analytical research and statistic data of national institutions and international organization for this work. For its calculation they consider three types of indices: expected lifetime; level of literacy of population on the country and expected time of education; standards of living which is estimated through GDP per capita on PPP in US dollars. The method of calculation of Human Development Index is as following: on every mentioned index they define the level of country’s relative achievements and proceeding from it they deduce simple average quantity of the Index. It is used in the issues of special series of the reports but UNDP about human development. According to this study social development should be estimated not only by national income, but also by the achievements in the sphere of health and education which can be measured in most countries. Calculation of Human Development Index, which is done in almost all countries of the world, enables to identify the countries and regions with high, medium and low level of human development, highlight the problems appearing in the process of accumulation and usage of this human potential resource. In 2010 in Human Development Report the definition of the concept “human development” was significantly supplemented. In the opinion of the authors of this project, definition of human development as broadening opportunities of human choice is major but not sufficient. Human development means preserving positive results during the long period and resistance to the processes, which cause human oppression and strengthen structural injustice. That is why such principles as social justice, steadiness and respect for the individual have become the key ones.

Modern Ukrainian “Economic encyclopedia. In three volumes” [11] such a definition of human potential: “Human potential is the level of present personal capabilities, talent, level of education, qualification and their ability to give income”. World Bank also includes state of health and quality of food in this definition, UNO includes education, professional experience, physical state, ability to survive, and other features that provide human productivity and self-sufficiency. With development of human progress, workforce stops being only a factor of production. Investment into the workforce – in education, health protection, culture, qualification – create the new quality that is a new form of human wealth. Nobel Prize winner of 1976 M. Friedman includes “human capital” in the list of main forms of wealth (money, bonds, shares, material values). Usage of this category by many researchers can also be explained with the fact that “human capital” as well as any other capital is the result of investment and generates the flow of income during a particular period, that means it is created when people invests in themselves, getting education and qualification, and investments into “human capital” are bought as high-qualified and productive labour, high salary and psychic income from work”.

Therefore, the concept “human capital” is included into the concept “human potential” as in both cases they consider a person with some education, qualification, upbringing, motivational advantages etc. However, the concept of human potential relates more with economic
activity while the concept of human potential is wider due to its social and psychological component. Capital is realized potential. The level of realization depends on many reasons, including social and psychological, major of which is quality of state and social management.


Further we will examine in more detailed way some works of the authors, who distinguished the concepts of “human potential” and “human capital”, put under question the dialectics of these concepts, explored their semantic meanings, specifics, similarities and differences, investigated development of human potential and problems of its transformation into human capital, so-called capitalization of human potential in different aspects.

M. I. Khromov [12] thinks, that economic categories “labour potential” and “labour capital” form human capital, under which he sees social-economic category characterizing the system of social relations on suitable, conscious and professional usage in the process of production and creation of new value in particular sphere of economic activity gained in natural way, formed and developed through investments, health, knowledge, skills, experience, motives, personal qualities and other productive abilities which are realized and accumulated in the person and belong to him/her on the rights of ownership, that favours increasing productivity of labour as well as income of the subjects of the process of using human capital and the person himself/herself and also it favours achieving the final aim of social development which is rising human welfare, social-economic development of the society and general human development.

O. A. Grishnova supposes that human capital is one of the elements of human potential which is realized in market economy [13].

As for O. V. Stefanyshyn and V. Pyts [14], O. A. Chorna [15], J. V. Derii [16], M. V. Nikolaichuk [17], T. A. Nepokupna and T. V. Brovyko [18] and others, main criterion of distinguishing “human potential” and “human capital” is obtaining (or non-obtaining) income of any kind, that means that human potential is transformed into human capital only in case if its used for getting income. Realized (capitalized) human potential (or its element) is human capital. According to T. V. Davidyuk, human capital is a realized part of labour potential (which in its turn in certain circumstances – material and non-material contributions – is the derivative from human capital), as it expresse those personal qualities which in certain circumstances (time, motivation, work) either give income and realize in form of human capital or not [19].

A. B. Doktorovich distinguished aims of human potential development (long healthy and active life, non-stop education, gaining resources necessary for high level and quality of life) and human capital (increasing GDP and GRP, obtaining income, increasing labour efficiency) [20].

Under human potential, T. I. Zaslavs’ka sees the system of citizens’ physical and spiritual strength, which can be used for achieving individual and social aims, both instrumental and existential including broadening potential of the person and opportunities for self-realization [20].

M. M. Abdusalamova thinks that human potential should be considered as human capital (in its real evaluation) plus social-economic conditions of its formation, development and usage. In other words, in the estimation of human potential it is necessary to consider economical aspect of investments into a person as well as the characteristics of social environment forming this person’s personality, their value and preferences system, structure of interests, level of activity etc., along with quality of population life determined with such indicators as level of health protection, education, level of employment, welfare level, ecological situation, personal safety and rights [21].

O. V. Zakharova classified indicators of social-economic efficiency of investment into human capital [22]. She emphasizes on the necessity to create methodological basis of estimation of social-economic efficiency of investment into human capital to provide complex analysis of usage of human potential.

V. T. Smirnov, I. V. Soshnikov, F. B. Vlasov, I. V. Skoblyakova [6] mark out that necessary conditions of transforming human capabilities into capital, in other words, transforming human potential into human capital are: entering the business, productive usage; legal and factual regulation of relations between employer and employee (agreement, salary, social support and privileges); objective estimation (qualification, experience, rating, different systems of bonuses); non-stop obtaining knowledge, professional development and re-training of personnel; investments into human capital during all the life period.

Therefore, to conclude above mentioned, above common features of categories “human potential” and “human capital” it is possible to define:

1) Human potential and human capital both belong to a person and are inseparable of them,

2) Human capital is the part of human potential which is realized in market economy (capitalizes, brings
income) in the presence of motivation, time, labour (employment in economy), favourable social-economic situation etc.

3) Human potential and human capital can develop, stay at the same level or wear out that determines the extent of transformation of human potential into human capital.

Among the differences we can define the following:

1) Human potential is all the present human abilities, while human capital are the abilities realized by a person to get economic benefits;

2) Aim of development of human potential is good and quality life as well as social justice, while aim of development of human capital is getting material, moral, social and status effects, effects of social-economic, institutional development and support of functioning national economy;

3) Human capital is more analyzable in terms of value estimation that human potential, because human capital is a part of human potential realized with the aim of getting profit, so, to estimate human capital and its return it’s possible to use present statistical information about certain economic indicators, while human potential as well as any other human abilities are impossible to estimate.

Conclusions and prospective of further research. On the modern stage the most wide-spread concept of labor economics is the concept “human capital” [23]. Human capital is an essential form of manifestation of human potential in the system of market relations. It is connected to getting income due to the efficiency of investment into human development, first of all professional qualities of their owner.

Human development is necessary for innovative development of the country, which in its turn provides conditions for comprehensive human development, activation of educational, research, physical, spiritual, psychological, creative potential, its realization and transformation into human capital.

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Вакарчук Т. С. “Человеческий потенциал” и “человеческий капитал”: некоторые общие черты и отличия

В статье проанализированы понятия “человеческий капитал” и “человеческий потенциал”, историческое развитие и истоки возникновения указанных понятий. Исследовано проблему содержательного значения понятий “человеческий потенциал” и “человеческий капитал”, основываясь на научных достижениях ученых. Определены общие черты и отличия понятий “человеческий потенциал” и “человеческий капитал”.

Ключевые слова: человеческий капитал, человеческий потенциал, общие черты и отличия.

Vakarchuk T. S. “Human Potential” and “Human Capital”: Similarities and Differences

The concepts “human potential” and “human capital” are analyzed as well as their historic development and sources of appearance of these concepts. The problem of semantic meaning of the concepts “human potential” and “human capital” is explored on the basis of researchers’ scientific achievements. Similarities and differences of the concepts “human potential” and “human capital” are defined.

Key words: human potential, human capital, similarities and differences.

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METHOD OF FORECASTING THE FORMATION OF CORPORATE SOCIAL RESPONSIBILITY AT ENGINEERING ENTERPRISES

Definition of the problem. The significance of staff for a successful business enterprise is difficult to overestimate. The sphere of engineering, which is one of the labor-intensive and knowledge-intensive activities, depends greatly on the professionalism of the workforce. This determines the necessity of correspondence of profession and qualification requirements of staff to job descriptions. This allows an employee to realize their professional qualifications and meet the needs of the employer. This also complies with the process of achieving the social partnership in labour relations. Therefore, the problems of improving the structure of personnel, its modernizing, formation, and preservation of human resources are of a particular importance. The formation of personnel depends on the decisions taken by the employee and the employer. This presupposes some particular responsibility in the actions of both sides of labor relations, which is beyond the formal agreements, arrangements, and legislative sphere and comes from ethical and labour behavior. Such is the corporate social responsibility (CSR) which is presented by the managerial staff and the employees and assumes social and labour partnerships in the labour market of the company. At the same time, the actions of the sides in labour relations affect the state of the socio-economic environment. Dynamics and character of its changes are partially predictable, and it is impossible to take into account the changes and measure the impact of the activities that form the environment. Under these conditions, the model of socially responsible behavior of enterprises should be considered from the standpoint of possible directions of the external environment and their current trends. Therefore, the method of determining the state of CSR at engineering firms which can justify the directions for its regulations is required.

Analysis of recent research and publications. The works on issues of forecasting, assessment and formation of CSR describe three approaches to studying them. Thus, Y. Hong, M. Anderson, S. Valentine, G. Fleishmen, T. Shevchenko [1; 2; 3] provide the methodology for evaluating the level of CSR. The supporters of the second approach (M. Kelehsayeva, L. Hrytsyna, V. Malghin [4; 5; 6]) offer general advice on the formation of the CSR. A. Polyanska, A. Monits, D. Aaker [7; 8; 9] support the third approach; they study the tools of forecasting the aspects of business operations and labour relationships of employees and employers.

The analysis of publications shows that authors do not consider the problem of professional qualification compliance according to the context of CSR. Besides, the issue of forecasting the CSR formation has not been studied.

The purpose of the article is to reveal the essence of the scenario forecast method of CSR forming at engineering enterprises through the allocation of internal and external factors affecting the level of professional qualification compliance of the employee's qualities to the employer’s requirements.

Findings. The tool which allows taking into account the impact of external factors is the scenario method or scenario forecast, which is part of the strategic planning process. This method is based on the establishment of coherent external events to determine the hypothetical state of professional qualification structure of the enterprise job market in the long term [7, p. 165; 8, p. 211 – 212; 9, p. 92]. Scenario forecast presupposes three states of events: optimistic, pessimistic and the most probable scenario (basic, realistic) [8, p. 213; 7, p. 166].

The basis for the scenario forecast is the problem of the employee’s qualities correspondence to their position in the company and the question of forming the employer behavior model. The major external factors of compliance are selected on the basis of their direct or indirect relationship with the company activities in the industry. Experts’ availability at the labor market and the popularity of economic activity are among them. They are determined by the results of the economic activity of the industry, by the conditions and the level of payment, and by the structure of specialists’ remuneration in higher education.

The economic results reflect the dynamics and trends of the industry. The increase of products sales is accompanied by a growing demand for labor force. Along with the productivity increase the number of employees will decrease, but increasing knowledge intensity and technology of labor determines the growth of employers' requirements to the professional qualities and skills of employees. Thus, quantitative or qualitative specialists are required. Under these conditions, professional HR institutions become very important, and, consequently, the attractiveness of jobs for future specialists is determined by the image of the activity, which is reflected in the level of payment and working conditions. On the other hand, the process of stagnation or recession is accompanied by fall in demand for labour and reduction in the number of employees with a concomitant decrease in the level of payment and the popularity of professions in the industry.
Thus, the trend of activity development directly affects the HR demand and supply structure and indirectly - the structure of professional qualification compliance (PQC).

The working conditions are directly dependent on the structure and level of technological development of the industry. Enterprises with outdated technology and high depreciation do not provide decent working conditions, which adversely affects the productivity [10, p. 126, 11, p. 246] and leads to the increase in staff turnover. If the industry doesn’t develop, possibilities for equipment upgrading and innovation are extremely low. Since the depreciation of fixed assets is associated with the time factor, the working conditions deteriorate, thereby, reducing the level of social responsibility of the employer. An employee searching for jobs will be more inclined to choosing the proper conditions for the realization of their professional interests, respectively, the demand for jobs will fall and the employer will be in shortage of professional workforce which will lead to recruiting workers not fully corresponding to the requirements of the positions. Under these circumstances, a negative image of economic activity is formed, which affects the career choices of young professionals, and, therefore, the demand in education sphere [11, p. 247]. In case of improving the quality of working conditions the situation will be reversed. This is connected, on the one hand, with the mandatory development of the industry, on the other hand, with the increase in the employer’s interest in attracting, retaining and improving the professional staff. Thus, the conditions forming the image of the industry affect the career choice of labour force and the structure of the PQC personnel.

Likewise working conditions, payment increase is associated with the results of economic activities of an enterprise and its payment policy. The increase in production, sales and output, is usually accompanied by rising incomes of staff. In a situation of stagnation or decrease in production it is difficult to provide decent wages. Payroll is one of the key features that affect employee’s motivation, productivity and quality of work and stability [12; 13], and it has a dual character. Decent remuneration for work motivates an employee in maintaining office or place of employment. From this position, the employer’s benefit is obvious: costs for staff training or retraining caused by a decreasing staff turnover is reduced, productivity growth has a direct impact on the outcome of its economic activity, employees are interested in manufactured products, etc. On the other hand, payment is an indicator of the attractiveness of the industry and particular companies for employees. It affects the preferences of young people in the choice of profession and place of employment for professionals. So, decent payment provides the conditions to attract skilled professionals by meeting the requirements of the employer, it has an impact on the structure of the labor market, i.e. indirectly affects the personnel professional qualification structure.

Reproduction of professional workforce is one of the most significant factors affecting the structure of the labor market. It is not directly connected with the activities of the company, but depends on the image of the industry and an established system of cooperation with employers. Since the results of economic activity, working conditions and payment form the level of attractiveness of economic activity, they affect the demand and the type of training areas in educational establishments. For example, the decline in industry popularity among labor force leads to a higher demand for knowledge and skills acquisition in another field.

The interaction between businesses and education is important for providing the conditions for the practical skills of future professionals. If factors characterizing the industry indirectly affect the number of specialists, the interaction involves improving the quality of labor force training and acquiring skills that meet the requirements of employers. Unique impact on the reproductive system of personnel professional qualification structure in industry comes from its close relationship with the activities. Labor and economic characteristics of industries affect the structure of production, and, therefore, the number of future professionals who can be involved in work. On the other hand, without interaction the gap between the requirements of the employer and knowledge will increase which, respectively, determines the number of specialists to meet the needs of the employer, and has an indirect effect on PQC.

The internal factors include personnel policy of a company. It directly affects the social responsibilities of staff, as it depends on management decisions, and, therefore, this is a factor that is most controlled. Implementing socially responsible human resources policy can improve the job satisfaction [2, p. 161], leads to growth of the company image in the community [1, p. 463 – 464], the adequacy of the current conditions of HR [4, p. 71 – 72] and interaction with society [6, p. 42 – 44].

Based on these factors, the possible direction of professional qualification compliance development in a company represents one of the three scenarios, the most likely of which comes from the properties of the optimistic and pessimistic scenarios. Table 1 shows the variants of factors development common to the two scenarios.

According to the table, the optimistic scenario is characterized by the positive development of all factors. The growth of the economic performance inevitably leads to improving the quality of working conditions and payment on the basis of adequate HR policies pursued in a company and will be accompanied by the growth of the industry's image and increase in demand for professions. This will lead to the improvement of PQC in industries. On the other hand, the pessimistic scenario reflects the deterioration of all the factors that may be caused by unfavorable market environment, and socially irresponsible personnel policies. Accordingly, the most
likely scenario is derived from consideration of the current state and trends inherent in the structure of enterprise PQC and external factors.

Under such conditions when the real factors do not allow establishing the type of scenario, the method of specifying the influence of each factor on the PQC should be defined. To indicate the PQC the two quality characteristics of an employee are marked by "E" and qualification which they must meet. Qualitative job position (role) has requirements for the profession and qualification. According to the job descriptions, a job position (role) has requirements for the profession and qualification. The state and trends inherent in the structure of enterprise likely scenario is derived from consideration of the current description has the following states:

Compliance of the employee’s qualification to the job description; \( E_\varphi > P_\varphi \) – employee’s qualification is lower than the job description; \( E_\varphi < P_\varphi \) – employee’s qualification is higher than the job description. According to the principle of combinatorial multiplication [14, p. 317] the pairs of profession and qualification compliance form nine combinations (hereinafter – the situations), which are assigned with symbols “A” (\( E_\varphi = P_\varphi \) and \( E_\varphi = P_\varphi \)), “B” (\( E_\varphi = P_\varphi \) and \( E_\varphi > P_\varphi \)), “C” (\( E_\varphi = P_\varphi \) and \( E_\varphi < P_\varphi \)), “D” (\( E_\varphi \approx P_\varphi \) and \( E_\varphi < P_\varphi \)), “E” (\( E_\varphi \approx P_\varphi \) and \( E_\varphi > P_\varphi \)), “F” (\( E_\varphi = P_\varphi \) and \( E_\varphi < P_\varphi \)), “G” (\( E_\varphi \approx P_\varphi \) and \( E_\varphi = P_\varphi \)), “H” (\( E_\varphi \neq P_\varphi \) and \( E_\varphi > P_\varphi \)) and “I” (\( E_\varphi \neq P_\varphi \) and \( E_\varphi < P_\varphi \)). The group of situations are marked with \( \alpha_i \), where \( i \) – index of the situation, \( \alpha_i \in \{ A, B, C, D, E, F, G, H, I \} \).

Factors influencing PQC, marked by \( F_j \), where \( t \) – index of factor, \( F_j \) – the economic results, \( F_j \) – working conditions, \( F_j \) – salaries, \( F_j \) – stuff reproduction system, \( F_j \) – personnel policies. To assess the relationship between variables, which are the factors \( F_j \) and PQC situation, it is advisable to use contingency tables where relationships between variables are numerically estimated [15, p. 167 – 168]. However, the use of these tables is allowed for variables whose relationship is difficult to quantify [16, p. 38; 17, p. 65]. Since it is not possible to determine the influence of factors in numerical terms, the vectors of their influence on PQC development are used. Table 2 shows the method for determining the most likely scenario of PQC in the enterprise.

Vectors are marked with \( f_i \), they have five states:

### Table 1

<table>
<thead>
<tr>
<th>Factor</th>
<th>Scenario</th>
<th>optimistic</th>
<th>pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR policy</td>
<td>Aimed at achieving social partnership and ensuring a balance between professional continuity and staff renovation</td>
<td>Does not meet the conditions of socially responsible behavior, staff selection and placement conducted according to the interests of the employer</td>
<td></td>
</tr>
<tr>
<td><strong>External</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The results of economic activity</td>
<td>Production volumes are growing, fixed assets are renewed, innovation is active, productivity is increasing, demand for unskilled labor force is reducing, qualified specialists are in demand</td>
<td>Production is declining or is at a standstill, productivity is stagnant or declining, deterioration prevails, innovative activity is minimized</td>
<td></td>
</tr>
<tr>
<td>Working conditions</td>
<td>Improving or consistently high</td>
<td>Deteriorating or consistently low</td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td>The steady growth corresponds to the complexity and working conditions, pay levels is comparable to or greater than this value in other industries</td>
<td>Payment is significantly lower than in other industries, it has minimal growth rate</td>
<td></td>
</tr>
<tr>
<td>Staff reproduction</td>
<td>Demand for engineering jobs is growing, interaction between higher educational establishments and enterprises is established</td>
<td>Demand for engineering professions is falling, links between universities and enterprises are collapsing or missing</td>
<td></td>
</tr>
</tbody>
</table>
“↑” – increase of values or increase of factor impact that is directly dependent on the development of PQC; “↓” – reduction of values, weakening of the influence; “→” – increase in value or enhance in characteristics factor, which indirectly affects the change; “←” – reduction of values, weakening of the influence; “→” – stable factor state. That is, \( f \in \{ “↑”, “↓”, “→”, “←”, “→” \} \), where \( i \) – state index.

For each situation the state of the factors that lead to optimistic and pessimistic scenarios are defined. The actual factors state (type \( f \) for \( F \)) is compared with PQC state development (type \( f \) for \( \alpha \)). The result of comparison is marked with \( \beta \), which takes the values 0 and 1, where 1 is for the coincidence of states. The value of \( \beta \) is multiplied by the factor value (marked by \( nF \)) and -1 for the pessimistic scenario. The factor value is selected taking into account the degree of influence on PCR and priorities for their regulation.

The situations in the table are divided into three groups: best (“A”), conditionally valid (“B”, “C”), invalid (“D”, “E”, “F”, “G”, “H”, “I”). Group factor \( (K) \) is calculated by multiplying the proportion of situations in group by 1/9 (the proportion of the total number of situations). The final grade is obtained by multiplying the total points by the group factor. The estimate of the situations in which there are several options that lead to optimistic and pessimistic scenarios is calculated by averaging the total points according to these options. The positive value of the total estimate reflects optimistic PQC development, negative one, on the contrary, as far as the pessimistic character of development is inherent in the actual state of the factors. Thus, the total estimate of the impact of factors of external and internal environment quantitatively determines the extent of the current PQC situation compliance to one of the PQC scenarios.

**Conclusions.** Thus, solving the task of choosing a method of forecasting the CSR formation allows achieving the following results. Firstly, the choice of scenario forecast as the most effective method of professional qualification evaluation in the enterprise labor market enterprises under conditions of partial uncertainty of external socio-economic environment is grounded.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Scenario</th>
<th>Total point</th>
<th>Group factor</th>
<th>Final estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>optimistic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>pessimistic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>( \alpha_1 )</td>
<td>( F_1 )</td>
<td>( F_2 )</td>
<td>( F_3 )</td>
<td>( F_4 )</td>
</tr>
<tr>
<td></td>
<td>( \alpha_2 )</td>
<td>( F_1 )</td>
<td>( F_2 )</td>
<td>( F_3 )</td>
</tr>
</tbody>
</table>

| Total estimate | \( \sum (\pm nF_i \cdot \beta) \cdot K \) | \( \sum (\pm nF_i \cdot \beta) \cdot K \) | \( \sum (\pm nF_i \cdot \beta) \cdot K \) |

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Кляус Д. П. Метод прогностування формування соціальної відповідальності персоналу машинобудівних підприємств

У статті з’ясовано зміст сценарного методу прогностування формування соціальної відповідальності персоналу машинобудівних підприємств. Визначено зовнішні та внутрішні чинники, що впливають на рівень професійно-кваліфікаційної відповідальності. Наведено методику визначення вектору розвитку соціальної відповідальності персоналу.

Ключові слова: соціальна відповідальність бізнесу, професійно-кваліфікаційна відповідність, машинобудування, сценарний прогноз, таблиці спрощеності.

Кляус Д. П. Метод прогностування формування соціальної відповідності персоналу машинобудівних підприємств

В статті висвітлено зміст сценарного методу прогностування формування соціальної відповідності персоналу машинобудівних підприємств. Опреділені внутрішні та зовнішні фактори, які впливають на рівень соціальної відповідності персоналу.

Ключові слова: соціальна, відповідальність, бізнеса, професійно-кваліфікаційне, соціальна, відповідність, машинобудування, сценарний прогноз, таблиці спрощеності.

Klyaus D. P. Method of Prognostication of Forming of Social Responsibility of Personnel of machine-building enterprises

Maintenance of scenario method of prognostication of formation of social responsibility of personnel of machine-building enterprises is found out. External and internal factors which influence on the level of professionally-qualifying accordance are certain. The method of determination of vector of social responsibility of personnel development is presented.

Key words: social responsibility of business, professionally-qualifying accordance, engineer, scenario prognosis, tables of attended.

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The world practice shows that one of the key criteria for providing stability of the social and labour relations in society is the balance between the interests of different social groups that can be achieved through mechanisms of social partnership. The subject of social partnership is the collective relations between the social partners which arise from the participation of labour collectives in solving various production and social problems.

In Ukraine, in the pre-reform period there were certain forms of social partnership, such as collective agreements at enterprises, councils of labour collective, works councils. During the years of economic reforms in the country and the transition to market economic conditions some experience in the use of new mechanisms of social partnership has been accumulated, the appropriate legal framework for regulating social and labour relations is in progress now and it is gradually adapted to the international standards. However, the existing positive developments do not make the problems less urgent, and the situation with unresolved problems does not allow the national system of social partnership to develop effectively, which determines the need for further research in this direction.

The problem of harmonizing and reconciling the interests of employers and employees through social partnership has been highlighted in the researches of the Ukrainian scientists and practitioners from different views. Among them are L. Bezuzanko [1], L. Barannik [2], V. Berelitova [3], E. Grishnova [4], O. Gerasylov [5], I. Hnybidenko [6], V. Gorbach [7], M. Deych [8], V. Ignatenko [9], A. Kolot [10], O. Kazachenko [11], G. Osovyy [12], S. Skalko [13] and many others. The works of above authors pay great attention to the problems of the development of social partnership as the instrument of achieving the harmonization of interests of the state, employers and employees. They analyze the objective preconditions and subjective factors of social partnership development, investigate the issues of development and implementation of socio-economic policy and regulation of labour relations at the production and regional level of management, as well as the different aspects of collective bargaining and social responsibility of business. However, despite the significant results obtained in this area, many urgent issues related to the development and increase of the efficiency of social partnership remain poorly studied, and objectively they require further research.

THE ROLE OF SOCIAL PARTNERSHIP IN THE REGULATION OF SOCIAL AND LABOUR RELATIONS IN UKRAINE

To create an effective system of partnerships in Ukraine the appropriate conditions should be provided which include, first of all, a stable economic development, active social policy pursued by the government, the use of the parliamentary form of democracy, strengthening the credibility of workers’ organizations in the society [9, 25]. It’s no doubt that the legal framework for collective bargaining relations must become an unconditional component in the development of social partnership mechanism, as well as changing the mindset of employees and employers, allowing to perceive the social dialogue as the most efficient means of establishing peace and reconciliation between the conflicting parties. However, the practice shows that such conditions have not been yet provided in Ukraine in full measure, and the present mechanism of social partnership requires some improvements.

The aim of the study is to analyze the current state of social partnership in Ukraine and justify some ways of increasing the effectiveness of social dialogue in the context of management of labour disputes.

The importance of social partnership as the primary method of reaching a compromise in resolving social tensions increases especially under the transition of Ukraine to new market conditions and because of many negative phenomena in the system of labour relations accompanying this process, which cause the appearance of protest moods in the working collectives often developing into labour conflicts [13; 14].

In Ukraine, the process of social dialogue is regulated by the provisions of the Labour Code of Ukraine, the Economic Code of Ukraine, the Law of Ukraine “On Collective Contracts and Agreements”, the Law of Ukraine “On Trade Unions, Their Rights and Guarantees”, the Law of Ukraine “On the Organization of Employers, Their Associations, Rights and Guarantees”, the Law of Ukraine “On the Procedure for Settling Collective Labour Disputes (Conflicts)” and other legal acts. In 1998, the Presidential Decree established the National Mediation and Conciliation Service (NMCS) and its regional offices in the regions. Taking into account the practice of the European Union, a tripartite body of social partnership – the National Tripartite Social and Economic Council has been created which performs advisory, consultative and conciliatory functions through the development of a common position and elaboration of recommendations and proposals to the parties of social dialogue on the formulation and
implementation of the government economic and social policy, regulation of labour, economic, and social relations; preparation of draft laws and other legal acts related to the social and economic policy and labour relations, government programs of the economic and social development, and other state target programs, state social standards, wages, etc. [15, p. 11].

In December 2010, a special law of Ukraine “On Social Dialogue in Ukraine” [16] was adopted that fixed legally the social dialogue in the system of management of the economy and social and labour sector of the country. According to this law the social dialogue in Ukraine is carried out on the national, branch, territorial and local (enterprise, institution, organization) levels on a trilateral or bilateral basis. The steps are taken to adapt the national legislation in the field of the social dialogue and collective agreement regulation of the social and labour relations to the international standards. Ukraine ratified several ILO Conventions and Recommendations concerning the social partnership, in particular “Freedom of Association and Protection of the Right to Organise” No. 87, 1948; “Right to Organise and Collective Bargaining” No. 98, 1949; “Tripartite Consultation (International Labour Standards) No. 144, 1976; “Promotion of Collective Bargaining” No. 154, 1981, and others. In 2006, Ukraine ratified the European Social Charter having joined its 27 articles and 74 points. Thus, we can say that currently in Ukraine a certain legal framework has been created to reconcile the interests of employees and employers, to conduct negotiations and conclude collective agreements. However, in the opinion of many experts and based on the practice, it should be said that the need for further improvements of the system of social partnership is still urgent now.

First of all, it goes about the poor state of the regulation by means of a collective agreement on the production level of management. The collective agreement is a particular form of social partnership between employers and employees, its provisions obtain regulatory and legal significance [17, p. 46]. In Ukraine, according to the legislation the conclusion of the collective agreement is compulsory for the enterprises, regardless of their form of ownership and management provided that they use hired labour and have the right of a legal entity. As of 31.12.2012, the total number of concluded and registered collective agreements amounted to 101712. The number of workers covered by collective agreements was 8730.0 thousand people, or 81.4% of the account number of the staff. For the corresponding period in 2010 this figure amounted to 8,967.6 thousand, or 81.6%, for the same period in 2011 – 8766.5 thousand people, or 81.6%. At the same time, the coverage by collective agreements in such economic activities as trade, repair of motor vehicles, household appliances and personal items (41.7%), financial services (64.1%), construction (65.9%) remains rather low [18, p. 37].

It should be noted that if during the period from 1995 to 2004, Ukraine saw an upward trend in the level of coverage by collective agreement regulation of employees of enterprises, organizations and institutions (from 60.7% in 1995 to 83.1% in 2004), in recent years, this trend has not been preserved. Since 2008, there has been a downward trend in both the number of employees covered by collective agreements and the proportion of their coverage in the general account number of the staff [15; 14].

The analysis of current practices reveals much formalism manifested in the preparation and formulation of the collective agreement. There are also many violations of the terms of collective agreements and industrial agreements, including delay of wages payment, the presence of wage arrears, delaying the transition to a new level of tariff wages and salaries, “shadowing” of wages, violations in hiring and firing, the application of penalties not provided by the law, the introduction of working conditions that violate the provisions of labour law, the absence of the collective agreement at the enterprise, and others. According to the World Bank’s information nearly 5 million Ukrainians capable to work are employed without any formalization of labour relations that ranks Ukraine as the country occupying one of the first places in the world by volumes of the “shadow economy” [5, p. 15; 10, p. 16].

Insufficient attention of enterprises’ heads to pressing problems in the field of labour relations, ensuring good working conditions, compliance with labour regulations, a sharp decline of trust in the trade union bodies and their leaders as defenders of the interests of employees’ interests as evidenced by the reduction of the number of trade unions’ members during the years of reforms from 25.0 million to 15.0 million [6, p. 56] – all this provokes the emergence of tensions in the labour collectives, labour disputes and conflicts.

The development of social partnership is also complicated by increasing social inequality in society. Thus, according to the Institute of Sociology of NAS of Ukraine, while in the early 90s the ratio of income of the richest 10% and the poorest 10% in the Ukrainian society was 12/1, in 2002 – it increased to 30/1, and in 2010 it amounted already to 40/1. In such circumstances, the potential for conflicts increases substantially [19, p. 101].

Vividly, this information is presented by The National Mediation and Reconciliation Service in 2008, the number of enterprises whose workers took part in collective labour disputes (conflicts) was 5937, and they put forth 475 requirements; in 2009 the number of such enterprises...
amounted to 5606, and the number of requirements was 490; in 2010 – 5550 and 459, respectively; in 2011, these figures were 5597 and 491; and in 2012, the number of enterprises was 5582, and the number of requirements put by the workers of these enterprises was 473. 44% of total number of requirements put forth by the workers in 1999 – 2012 were the requirements concerning the non-compliance of the provisions of the labour legislation; 40.5% of total requirements concerned the implementation of the collective agreement; 11.9% of total requirements were those which concerned the establishment of new or changes in the existing working conditions and industrial life [18, p. 39; 20, p. 38].

The analysis shows that in 2013 there were no any positive changes concerning the reduction of social tensions. Thus, in the first half of the year the National Mediation and Reconciliation Service of Ukraine has registered 488 cases of destabilization of social and labour relations. 1.6 million employees from 7395 domestic enterprises have taken part in collective labour disputes. Most of the requirements of employees concerned non-fulfillment of collective agreements, branch agreements or some of their provisions by employers (51.4%), redemption of wage arrears (47.6%), non-compliance with labour regulations (42.6%). The largest number of such requirements has been registered in the enterprises of Luhansk region (86.7% of the total number of requirements registered in the region), Kharkiv region (66.7%), Kherson region (50%) [21, p. 42 – 43, 51].

The attention should be paid to the fact that the developed market economies demonstrate the social and labour relations of a new type which are actively formed on the basis of real participation of employees in management, ownership and distribution of profits. Such rights of employees are fixed legally, and in this respect the international community has a great positive experience. The decisions made by the European Commission in 1991 and by the Council of the EU in 1992 recommended to encourage the plans of the participation of employees in management and distribution of enterprise results in the countries-members of the community [22, p. 86].

In Ukraine, as rightly noted L. Barannik, both the legislation itself and its application so far “consider the institute of labour collective as a formal tribute to the democratic trends”. Its rights are curtailed, the Law “On the Labour Collectives” is not adopted for a long time [2, 41]. The interest in the problem of the participation of labour collectives in production management has been practically lost. For example, in Donetsk region, one of the most industrial regions of Ukraine, in 1987 there were 650 councils of labour collectives in the production collectives, in 1988 – 2527, and in 1990 – 1991 their number grew to 3300. Now, such forms of social partnership as production councils, councils of labour collectives are not used by domestic trade unions and employers. At the same time, it should be emphasized that the existing labour regulations (Article 245 of the Labour Code of Ukraine) and the Commercial Code of Ukraine (paragraphs 7 – 9, Article 65) create real conditions for this. However, to ensure the practical realization of the legitimate rights of workers to take part in production management these provisions should be reflected in collective agreements, branch and regional agreements in accordance with the legislation. Thereby, the conditions will be created to reduce social tensions in the labour collectives, to prevent possible occurrence of collective labour disputes and conflicts through the active involvement of employees in settlement of actual industrial and social problems.

The establishment of an effective system of social partnership involves objectively the formation of an effective mechanism of social responsibility of business. As evidenced by the foreign experience, in 90s in Europe there appeared many companies that adhere to the principles of social responsibility of business and which are characterized by “corporate social responsibility”. As for Ukraine, this practice is not yet widely used. Along with it, the results of inspections conducted by the state labour inspectors show that today almost 92% of employers violate the labour regulations [3, p. 25]. In this regard, the proposals of some scholars and practitioners should be supported who say about the necessity of adopting the Law of Ukraine “On Social Responsibility of Business” [2, p. 43]. Especially, as Ukraine in 2007 joined the development of ISO 26000 “Guidance on Social Responsibility” initiated by the International Organization for Standardization in January 2005 [8, p. 30]. The growing conflict of interests of business and employees in matters of employment, wages, distribution of profits, use of resources for the development and modernization of production, compliance with labour regulations create the situation in Ukraine when the business should take into account the consequences entailed by its activities and search for compromise ways to prevent and settle labour disputes (conflicts) using social partnership mechanism as the most effective tool for achieving a mutual agreement of social obligations and social responsibility. Social orientation of domestic business should become the most important principle of corporate governance.

The effective development of social partnership is impossible without appropriate staffing. So, it is necessity to make training of specialists in this field more active in order to increase the legal culture of the participants of collective labour disputes (conflicts), the level of skills of specialists in social partnership, and to teach them conflict-free communication in the negotiation, as
well as the methods of settling the contradictions by establishing a constructive social dialogue between the parties.

In Ukraine, the specialists in social partnership are prepared in two educational establishments Kharkiv Social and Economic Institute and the Academy of Labour and Social Relations under the Federation of Trade Unions of Ukraine. Training of specialists in settlement of conflicts is carried out only on the basis of the NMCS or within certain mediation centers, which is not enough under modern realities and social tension in the society. The need to provide an ongoing teaching the heads of enterprises and organizations, HR – professionals, managers, trade unionists and other categories the basic knowledge of conflict, social dialogue, mediation followed by the introduction of the specialty “conflictologist (conflict manager)” and creation of the department of conflictology at the higher educational establishments is quite obvious. The learning process can involve leading experts who are engaged in conflict settlement in the course of the professional activity. It may be specialists of regional offices of the National Mediation and Reconciliation Service of Ukraine, as well as the research workers, teachers, professional managers.

In this regard, the experience of St. Petersburg Humanitarian University of Trade Unions is particularly noteworthy where the first in Russia the department of conflictology was created in 2010. The adoption of the Federal Law “On Alternative Procedure for Resolving Disputes with the Participation of a Mediator (Mediation Procedure)” in 2011 is also of great importance.

The first steps in this direction have been taken at the Donetsk National University, on the basis of its economic department the educational and practical expert centre ArtDialog was created with the participation of the author that is aimed at teaching students and professionals the basics of conflict-free communication through different forms of training.

Conclusions. Social partnership realized in the form of social dialogue, collective bargaining, consultation, conclusion of collective agreements, branch, regional, and General agreements is an essential tool for regulating and achieving stability of the social and labour relations in the society, reducing social tensions in the labour collectives, preventing and resolving labour disputes (conflicts).

In this direction, Ukraine is doing a great job. However, as the practice shows, many problems are not solved completely which reduces the efficiency of social partnership.

Analysis of the practice of collective agreement regulation of the social and labour relations clearly confirmed the need to strengthen on the legislative level the responsibility of all stakeholders for the formulation of the content of collective agreements, the establishment of specific mutual obligations on the regulation of production, labour, social and economic relations, the fulfillment of commitments, as well as for the resistance of employers to conclude collective agreements, and violation of labour regulations. It is very important to include the provisions on promotion of industrial democracy, involvement of employees in the management of production into collective agreements, branch and regional agreements. This will help to reduce the level of conflicts and detect quickly the reasons causing protest moods and social tensions in the labour collectives, as well as to prevent them. To achieve stability at the production level and in the society, it is also necessary to increase the social responsibility of business. To provide a practical solution of the problem of creating an effective mechanism of social partnership with business, it is necessary to accelerate the development and adoption of a special Law of Ukraine “On Social Responsibility of Business”.

The given research and analysis of current policies convince that under current economic conditions and social tensions in the labour collectives the system of training skilled personnel in the area of settlement of labour disputes (conflicts) should become a key component of social partnership interactions. To solve this task, it is necessary to elaborate by the Ministry of Education and Science of Ukraine a relevant state comprehensive program that will provide the organization of teaching heads of enterprises, managers, trade unionists, professionals of business structures the ability to conflict-free communication, the art of constructive dialogue, the use of alternative methods of settling labour disputes (mediation), advanced foreign techniques of resolving contradictions that arise in the labour collectives. It should be done on the basis of higher educational institutions, training institutions, courses, business schools, mediation centers. The adoption of the Law of Ukraine “On Mediation” by the Supreme Council of Ukraine, the draft of which is a long time under consideration by the relevant committees of the Supreme Council. Promotion of the introduction of alternative methods and methods of settlement of social and labour conflicts in the management of labour conflicts, in particular mediation, improvement of forms, methods, ways and procedures of social and labour conflicts settlement with consideration of the best foreign experience, the legal definition of the scope of application are the important perspective directions of the researches aimed at the development of specific methodical principles and recommendations useful for the practice.
References


Бунтовська Л. Л. Роль соціально-партнерської взаємодії в регулюванні соціально-трудових відносин в Україні

У статті досліджено проблему забезпечення стабільності соціально-трудових відносин в Україні шляхом використання механізмів соціального партнерства та соціального діалогу. Надано пропозиції щодо підвищення ефективності соціально-партнерської взаємодії між суб’єктами господарювання. Обґрунтовано необхідність організації на постійній основі системи підготовки кваліфікованих спеціалістів у сфері врегулювання трудових спорів (конфліктів).

Ключові слова: підприємство, соціально-трудові відносини, соціальне партнерство, трудові спори, конфліктологічне навчання.

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Buntovskaya L. L. The Role of Social Partnership in the Regulation of Social and Labor Relations in Ukraine

With the transition to market economic conditions the problem of enhancing the role of social partnership as a main method of achieving the compromise in conflict-free regulation of social and labor relations has become especially actual.

The paper focuses on such main forms of realization of social partnership as social dialogue, collective bargaining, branch, regional agreements and General agreement. It is marked that Ukraine has done a lot in this area. The law of Ukraine “On Social Dialogue” was adopted, the steps are taken to adapt the national legislation on social partnership to the international standards, some ILO Conventions and Recommendations that relate to collective bargaining were ratified. However, there are many problems which are not solved yet.

According to the purpose of this study, the present situation with social partnership relations in Ukraine has been analyzed, and the drawbacks have been revealed which significantly increase the potential for conflicts at the production level, in particular numerous violations of the collective agreements’ terms by employers, the low coverage of employees by collective agreements, the formalism in their preparation or failure to enter into them, etc. The grounds are given why it is necessary to increase the responsibility of stakeholders for elaboration and implementation of collective agreements on the legislative level, as well as for the resistance of employers to conclude them. The arguments are advanced to pay attention to the importance of inclusion of provisions on promotion of production democracy into collective agreements, branch and regional agreements. It will help to eliminate the causes of protest moods in working collectives. The importance of creating the effective mechanism of social partnership with business is stressed, and the conclusion is made that to solve this task it is necessary to accelerate the elaboration and adoption of the Law of Ukraine “On Social Responsibility of Business”.

It is emphasized that the organization of the system of teaching conflict resolution on the permanent basis is of great importance, as well as the training of qualified specialists in the field of settlement of labor disputes (conflicts).

Key words: enterprise, social and labor relations, social partnership, labor disputes, teaching conflict resolution.

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