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CONTENTS

| | |
|---|----|
| 1. Katherine Anokhina THE MANAGEMENT OF INTANGIBLE RESOURCES | 5 |
| 2. Ion P. Bitca, Lilia Sh. Shargu, Irina I. Bevziuc REFUSAL TO CONTRACT IN THE PRE-CONTRACTUAL STAGE | 10 |
| 3. Abudavud Basem SUMMARY OF ECONOMIC INTEGRATION AS A CATEGORY OF MODERN ECONOMICS | 16 |
| 4. Olena Bilous AN ALGORITHM FOR BUILDING REGIONAL INNOVATION STRATEGIES IN UKRAINE BASED ON THE SYSTEMS OF INNOVATION APPROACH | 21 |
| 5. Julia Chiosova TRANSFORMATION OF APPROACHES TO THE DEFINITION OF «TOURISM» IN THE CONTEXT OF SOCIO-ECONOMIC IMPORTANCE | 26 |
| 6. Olga Degtiareva, Niyaz Adnan Mohamed Ali CONTROLLING MECHANISM IN THE HEALTH CARE SECTOR: FEATURES AND IMPLEMENTATION IN UKRAINE AND IRAQI KURDISTAN | 32 |
| 7. Altayawe Fathi THE EFFICIENCY OF THE USE OF LOAN CAPITAL BY JORDANIAN BANKS | 39 |
| 8. M. Grzywińska-Rapca, M. Grzybowska-Brzezińska THE ECONOMIC SITUATION OF HOUSEHOLDS IN SELECTED EU COUNTRIES | 43 |
| 9. Yu. V. Irkhina, D. V. Zinkovska THE MAIN PROBLEMS OF MODERN UKRAINIAN ECONOMY | 48 |
| 10. V. Karpov, V. Shevchenko-Perepelkina ANALYSIS OF FUNDAMENTAL CONTRADICTIONS OF EFFICIENCY THE CASH FLOW OF PROJECTS | 53 |
| 11. O. V. Kereksha, S. A. Sheludko LANGUAGE BARRIERS IN ECONOMIC RESEARCHES AND TRANSLATIONS OF ECONOMIC CONCEPTS: ESSENCE, LEVELS OF OCCURRENCE, METHODS OF OVERCOMING | 62 |
| 12. Olha Komelina, Svetlana Scherbinina, Alina Chaikina ECONOMIC MOTIVATION MECHANISM OF CONSUMER'S ENERGY SAVING BEHAVIOUR | 67 |
| 13. Sergei Kovalenko TRANS-BORDER CLUSTERS SYSTEM DEVELOPMENT POTENTIAL AS A STRATEGIC PLANNING OBJECT | 73 |
| 14. W. Kozłowski, A. Rutkowska, A. Płocharczyk, A. Kowalkowski INTELLECTUAL CAPITAL IN THE KNOWLEDGE-BASED ECONOMY | 79 |

15. **Tetyana Kublikova, Eleonora Kurganskaya**
MANAGEMENT OF STATE BUDGET EXPENDITURES THROUGH THE 86
SYSTEM OF TREASURY
16. **M. Lewicki, M. Grzybowska-Brzezińska, M. Grzywińska-Rapca**
THE PROCESS OF BUYING AND THE DETERMINANTS OF 90
CONSUMER BEHAVIOUR IN E-COMMERCE
17. **Dmitriy Maslov**
NATIONAL DEBT BURDEN AND RICARDIAN EQUIVALENCE 96
18. **Zoriana Matsuk**
STOCK MARKET OF UKRAINE AT THE PRESENT STAGE: ANALYSIS 101
AND PROSPECTS OF DEVELOPMENT
19. **J. Michalak, Z. Warzocha, K. Fadrowska**
TERRITORIAL MARKETING AS A TOOL FOR BUILDING 108
COOPERATION OF LOCAL AUTHORITIES WITH INVESTORS
20. **Anna Myza, Ekaterina Lesnevskaya**
VIEWS OF CLASSICAL SCHOOL OF POLITICAL ECONOMY ON 113
THE INTERCONNECTION BETWEEN THE PROCESSES OF
ACCUMULATION AND CONSUMPTION
21. **Valeriy Nikiforenko, Vera Kravchenko**
ORGANIZATIONAL CULTURE AS A COMPONENT OF HUMAN 118
RESOURCE MANAGEMENT IN STRATEGIC MANAGEMENT SYSTEM
22. **L. V. Novoshynska**
THEORETICAL PREREQUISITES OF THE MARKETING USE IN THE 128
FINANCIAL MARKET SEGMENTS
23. **A. Rudzewicz**
BANKS IN POLAND – THE QUALITY OF SERVICES 134
24. **N. Vdovenko, Y. Sharylo**
THE REGULATORY POLICY OF THE STATE AND MECHANISMS OF 139
ITS REALIZATION IN AGRICULTURE
25. **Z. Warzocha, M. Grzybowska-Brzezińska, K. Fadrowska**
THE QUALITY LEVEL OF SERVICES PROVIDED IN LOCAL 146
GOVERNMENT ADMINISTRATION AND LOCAL BUSINESS
DEVELOPMENT OPPORTUNITIES

THE MANAGEMENT OF INTANGIBLE RESOURCES

Katherine Anokhina^{*}

1. Introduction

Problem analysis and efficient use of resources is one of the main issues of enterprise economics. Thanks to more efficient use of all resources, the company can achieve its objectives, including maximizing profits.

In the historical development of the productive forces, there were changes in their composition and structure. Leading positions among other resources occupied by raw material, logistical, financial and labor.

Recently, more and more important as a part of the resources acquired intangible components of the company. It is because of the latest technology, commercial designation, human capital, goodwill and other intangible components, companies are able to take advantage in the competition. In the leading economies of the world intangible resources of the companies in value have exceeded the material

Some domestic scholars believe that the lagging economy of Ukraine economically developed countries due to low level of intangible resources enterprises of Ukraine and ineffective use, which confirms the high relevance of research topic.

2. The main material research

The most common terms in the literature are often identified or replaced, are “intangible capital”, “intangible property”, “intangible assets” and “intangible resources”. These concepts all have significant differences despite the similarity that unites them as it is the absence material form. These concepts are endowed with different characteristics and are used in various fields, but assigning object to one of these categories does not preclude classifying them to the other one.

Turning to the past experience, namely analyze the dynamics of growth of interest in the study subjects, there will be no doubts about the relevance of the problem. Fig. 1 and Fig. 2 shows a graphic study of these categories using the service Google Ngram Viewer [1], which identifies the certain user phrase for the more than 5.2 million books from 1800 to 2009.

It should be noted that the Ukrainian request could not be done because it is not present in the database. The very same base consists of book resources registered by system Google Books. Undoubtedly, this data is hardly accurate because not all the books in the world are available on Google Books. But the graphics are more than revealing.

As expected, the dynamics of interest issues of intellectual capital and intangible asset among Russian specialists lower than in English. A significant increase in scientific publications is observed just at the beginning of the 90s of XX century. This period is the emergence of the formation of the modern concept of the intangibles.

J. Daum believes that the transformation of the global economy observed since the early 1980s, is the result of three unique forces which form the foundation of the “new economy”: knowledge-based products that are characterized by increasing returns; intensified business competition that is the result of globalization of trade and of the deregulation of key economic sectors (e.g.

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telecommunications, electricity, financial services and capital markets in general); and the development of information and communication technologies, most recently exemplified by the Internet, that enforce the effects of the two other forces [2, p.107].



Fig. 1. Diagram frequency of use of intellectual assets and intellectual capital in English literature in the period of 1800–2009 years
(Compiled by the author on materials [1])



Fig. 2. Diagram frequency of use of intellectual assets and intellectual capital in Russian literature in the period of 1800–2009 years
(Compiled by the author on materials [1])

B. Lev considers that two fundamental developments – one economic and political, the other technological – have dramatically changed the structure of corporations and have catapulted intangibles into the role of the major value driver of businesses in developed economies [3, p.9].

Thus, most scientists in the same opinion on the importance of intangible resources and factors that led to significant changes in the economy and provide impetus to the rapid growth of importance of intangible resources. However, unfortunately, there is no single view of the essence of the concept of intangible resources. Moreover, the nature of intangibles increasingly become more uncertain due to the rapid increase in the number of scientific works of authors who represent different sectors of the economy.

Management of intangible resources – a decision-making process aimed at efficient use of intangible resources by identifying them in the company, determining the value and useful life, increase their level of development and their introduction into commercial turnover given the state of the environment and compliance with the strategic objectives of the company. This definition of managing intangible resources used basic stages of their control [4, pp.409–410; 5, pp.505–507; 6, pp.86–87].

According to the analysis of modern approaches to the formation of company's intangible resources management, it was suggested author's mechanism of control intangible resources of enterprises which is represented in Fig. 3.

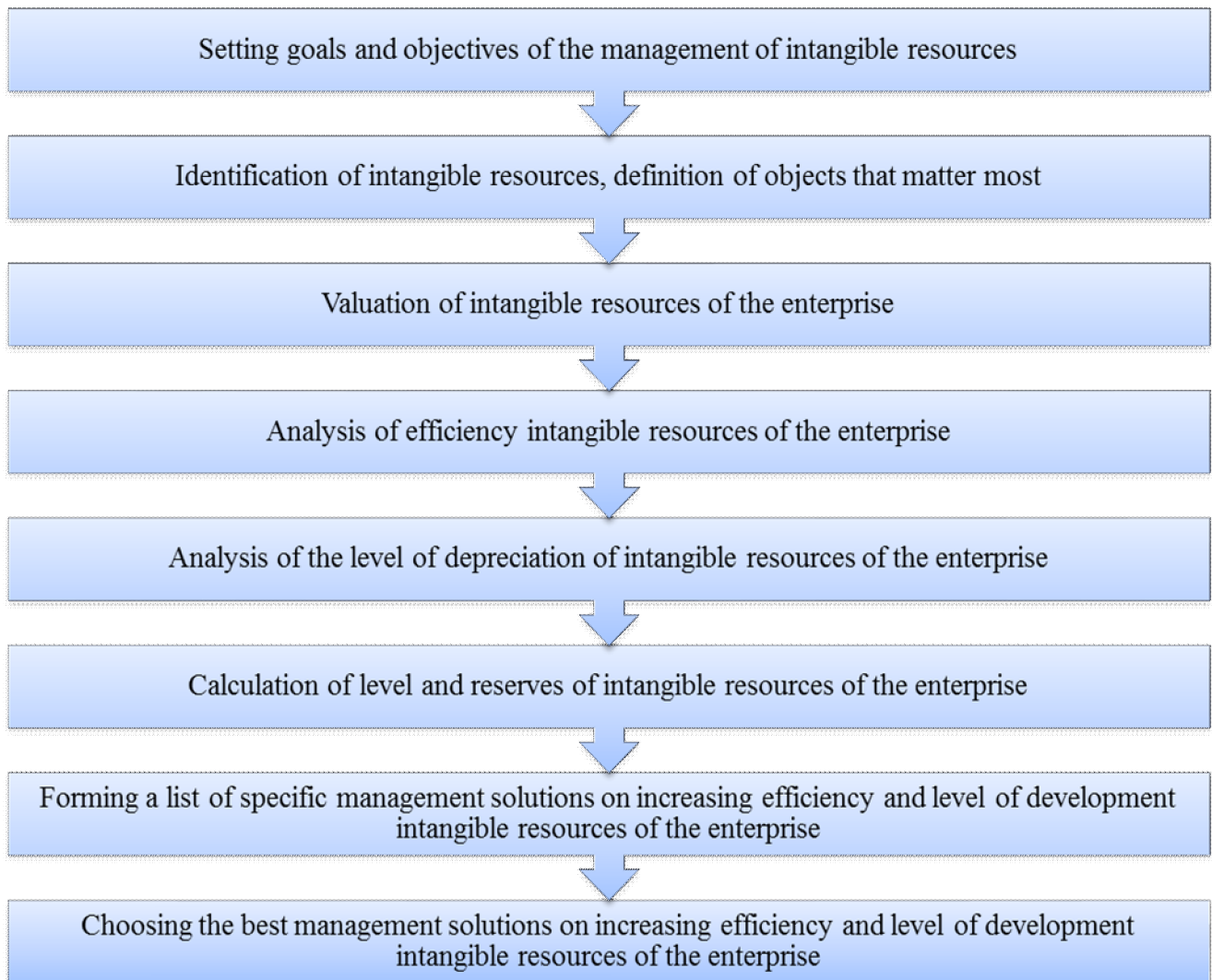


Fig. 3. The scheme implementation of management measures for the effective use of intangible resources (developed by the author)

The mechanism consists of eight stages. Consider in more details each of the proposed stages of managing intangible resources of the company.

1. Setting goals and objectives of the management of intangible resources.

A detailed and methodical work of presenting the goals that aim to achieve the company through control the process of intangibles is to be held in the first phase. As you know, the main subjective objective of the company is profit. But taking into account the strengths and weaknesses of the enterprise certain actions in relation to the intangible assets will be able greatly expand and help implement priority intentions. It seems unjustified to use intangibles and spend time and money and then not get the desired results due to the fact that the

goals and objectives of management does not meet the objectives of the enterprise in the long run.

2. Identification of intangible resources, definition of objects that matter most.

At this stage there is a need for an inventory and analysis of the composition and dynamics of intangible resources of the company. An accurate register of all existing intangible resources must be made; discovered and identifying all the hidden features of the company.

3. Valuation of intangible resources of the enterprise.

In order to determine the level of intangible resource efficiency it is necessary to evaluate their value. There are a variety number of methods to assess intangible resources of an enterprise.

4. Analysis of efficiency intangible resources of the enterprise.

It is logical that the use of intangibles should improve the position of the company. Based on the results of previous studies, it is suggested to isolate the effect of the use of intangible resources of the company to calculate the system performance indicators of intangible resources. The results of calculation efficiency of intangible resources that will be received by the specified method will allow the company to decide on the appropriateness the use or development of certain intangible resources.

5. Analysis of the level of depreciation of intangible resources of the enterprise.

At this stage the assessment of obsolescence of intangible resources is realized. Intangible resources obsolescence describing how an intangible object lose their consumer qualities under the influence of scientific and technological progress. Obsolescence involves reducing the socially necessary cost of reproduction of intangible resources, as well as the emergence of new, more useful objects. It is necessary to calculate the degree wear and tear and suitability intangible resources of the company.

6. Calculation of level and reserves of intangible resources of the enterprise.

At this stage the analysis of a level of development intangible resources of the company carried first. This analysis is disclosed using calculation system of aggregated and partial indicators and intangible resources level development indicators as well. These calculations are proposed to implement by the author methodological developments using the theory of fuzzy sets. After assessing a level of development intangible resources reserves of their increasing are estimated, which are the output information for drawing up a list of practical actions for improving the use of intangible resources of the company.

7. Forming a list of specific management solutions on increasing efficiency and level of development intangible resources of the enterprise.

The result of this phase is the development system of measures concerning efficiency improves of intangible resources of the company.

8. Choosing the best management solutions on increasing efficiency and level of development intangible resources of the enterprise.

At this stage, the selection optimal criteria measures to improve efficiency of use and the development of intangible resources are carried out. Based on the selected criteria those measures are taken which is the biggest degree satisfy him. Exactly these selected measures are the result of intangible resources management activities of the enterprise and should be implemented during the planning period.

The main difference between the proposed sequence of stages of the management of intangible resources is a complex intangible resources analysis before making appropriate management decisions that include evaluation, efficiency analysis and levels of depreciation and development.

Another difference in proposed scheme of making management decisions concerning the efficient use of intangible resources of enterprises is entering the stage of choosing optimal action from a wide range of potentially possible.

In summary the evolutionary process in modern economics has created the mass changes that caused global market change. To the similar changes must be referred the increasing role of immaterial resources being a part of economic entities. Now you can witness the creation of competitive advantages of company via immaterial resources and intellectual capital. Effective and efficient intangible assets management aimed to increase value of a company makes an essential problem to be solved.

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Summary

The article discusses the main aspects of intangible resources management of the enterprise. Relevance and necessity of intangible resources managing was highlighted.

Trends in the understanding of the topic as well as popularity of intangibles in different countries were presented. Author's control system, which consists of 8 stages was proposed.

Keywords: intangible resources; intangible assets; intellectual capital; managing system; new economy.

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REFUSAL TO CONTRACT IN THE PRE-CONTRACTUAL STAGE

Ion P. Bitca, Lilia Sh. Shargu, Irina I. Bevziuc*

1. Introduction

The specification of the content of refusal to contract and its effects requires the clarification of the concept of “pre-contractual period”.

The used term suggests a preliminary stage of a particular contract which the parties want to conclude. The contract is an agreement between two or more manifestations of accord intended to create, modify, transmit or extinguish a legal relationship. This agreement is done by bringing a declaration of intent issued for this purpose. Everything related to the preparation of this agreement until the time of its effective conclusion, is a pre-contractual stage [1, p.32; 2, p.697]. This stage was less regulated and studied by both provisions of the old Civil Code of Moldova (1964) and by the provisions of the current Civil Code, where specific institutions of those periods are found, treated in the fractionated way, in the content of the civil code [3, p.289–311]. The starting point of the legislature was the moment of contract formation. This orientation was and is justified in terms of the period in which respective codes and the properly socio-economic relations of that time were adopted. Viewed in terms of content, the liability and costs they provoked, pre contractual works were insignificant [1; p.5–17]: counterparties were by rules in the same area, even locality, contracts stipulated by the Civil Code were few in number, simple and without problems on their conclusion. Classical theory of immediately and simultaneously change of consents was fully satisfying.

The formalism decline, economic expansion, the rapid development of trade, transport, continuous growth of the importance of advertising in economic relations imposed both a spatial expansion of pre contractual relationships and as their qualitative transformation [4, p.7]. Thus, the notion of trade is discarded by attributes such as the “local” or “regional” becomes increasingly accompanied by attributes like “international” “multinational” “global”, etc. Also insignificant expenses which were recorded in the past within the pre relationships are becoming more significant, no longer matter for the parties to know who supports them and under what conditions. These problems have attracted attention of doctrine and jurisprudence and then, finally in sight between legislators.

2. The main material research

2.1. Refusal to contract

According to the principle of contractual freedom everyone has the possibility to conclude or refuse to conclude the contract. The positive expression of this principle states the possibility for anyone to sign any agreements. However, contractual freedom implies not only the ability to contract. It is manifested by their ability to deny its conclusion. If a person is free to sign a contract, that freedom implies the possibility of refusing and accepting its conclusion. The right to refuse may however be exercised in its sole discretion, it has certain limitations, restriction, observing certain conditions.

According to the Moldovan Civil Code these provisions are given in art. 667 paragraph 2 “Obligation to conclude a contract is prohibited, except where the obligation to contract is provided by this Code, by law or if it emerges from a voluntarily assumed obligation”.

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So the contract is an agreement between two or more manifestations of accord. This agreement is done by bringing declaration of intent issued for this purpose. Refusal of contracting occurs in general as their refusal to give consent to the formation of this agreement.

Refusing to contract can take several forms; it can also arise in times, belonging to different periods of pre-contractual works. As a consequence, refusal to contract can produce different legal effects.

Refusing to contract may be constituted by a negative thing – the absence of offer's consignee, a positive fact – bidder' refuses to proceed at signing the contract and as was already stated in the doctrine – refuses to contract can also be manifested as a third form, intermediate between abstention and a positive act [4, p.7].

Considering these specifications, the refusal to contract is defined in the doctrine as: The attitude of a person who does not want to contract [4, p.7].

2.2. The legal nature of the refusal to contract

What is the legal nature of such denial? It may be noted that neither civil code nor commercial code does contain any explicit regulations concerning the refusal to contract. But it is noted that the refusal to contract is opposite to contract acceptance and the principle of contractual freedom [5, p.8–22] is a principle that underlies most legal systems. Therefore to contract or not to contract represents a positive and negative expression and the same principle – principle of contractual freedom. Even if the law does not regulate this principle in its negative form, it inferred it, protecting the freedom to contract and from this perspective, for example by regulating the flaw [6, p.6–13] that may affect consent of parties in the framework of a contract. The vices of consent touch the freedom to contract understood in the negative side, refusal to contract. Law assures party whose consent was vitiated the possibility of abolition of the contractual relationship, precisely because of the disregard freedom to refuse signing the contract in such circumstances. So, to contract or not to contract, constitutes general [7, p.24–26] freedoms of any person. Therefore we can say that the refusal to contract is a right [8, p.29–32] belonging to anyone.

The problem will arise if this right is likely to be exercised by any person in a sovereign way [9, p.82–83] if it can cause certain limitations or restrictions. We regard as affirmative the answer to this question. Nothing could prevent the law to restrict the exercise of this right. Also this right can be restricted, limited or annihilated by contractual way. Finally, this right can be controlled by jurisprudence, which can take an active role in this regard.

2.3. Conditions of refusal to contract

A single condition but essential identified by doctrine to recognize the existence of the right to refuse consent to contracting is *the absence of a contrary right that should belong to another person*. If a person has obtained, by virtue of a unilateral engagement, either by contract [9, p.82–83] or under a legal provision, the right to contract with a person, it can no longer enjoy this freedom understood as refusal to contract. So when someone gets about under a contractual or legal provisions the right to contract with a person under certain conditions the last can no longer enjoy that freedom to contract, understood as a refusal to contract. In this context we support the obligation incumbent upon that person to negotiate or obligation to contract. These two obligations are different in the fact that one is the result (obligation to contract), and the other is the diligence (duty to negotiate). We believe that seen in the broad sense, it includes the obligation to contract and the one to negotiate, so we refer to the obligation to contract integrates and that to negotiate, following to specify where it will be appropriate, as we talk about the obligation to negotiate.

Further we will analyze the hypotheses where the refusal to contract may be invoked.

a) Absent a unilateral commitment

It is envisaged the situation when exercising their right to refuse the signing of contract is restricted to the very will of the holder of this right:

- Offer to contract

From the civil code the offer produces legal effect since it reached to offer its recipient, the offer being part of communicative acts. If the offer comes to the recipient it will no longer be revoked discretionally. The impossibility to revoke the offer represents the direct expression of his inability to refuse the signing of the contract if the person concerned (recipient) has expressed willingness in this regard. Thus, refusal to contract in this situation will not be applicable because, by declaring the offer, the bidder assumes the commitment to contract with the recipient. Failure to refuse the signing of the contract involves only an offer, not provided that a recipient has already accepted it.

b) The absence of a contractual consent

In the situation when the parties are in the presence of a contract already formed, refusing to contract cannot be manifested, it merely assumes the form of a refusal to perform the contract, but it looks later on stage of concluding the contract. The problem arises only if there is agreement between the parties which arises for the future obligation to contract or authenticate.

- Engagement to contract

Unilateral promise to sell. Unilateral promise of sale is a contract whereby a person called promisor is bound by another person, called beneficiary to sell a certain thing at a price determined if this person decides in a certain term (definite or indefinite) to buy. Ending such a contract, promissory definitive undertakes to sell, while beneficial, if they're within such option may buy or not, as desired. Through such a contract in favor of the beneficiary an option right – a potestative right arises. The existence of this potentiative right in favor of the beneficiary restricts the promisor's power to refuse the signing of the contract promised.

As an exception, the promisor may refuse signing the contract promised if the option was built by the substituted or transferee of beneficiary of promise and contract (promise of sale) was *intuitu personae*. Also, the right to refuse may be exercised by promisor if the beneficiary doesn't have full capacity [10, p.39] to buy. If the option term is a suspension one the promissory may refuse the signing of the contract if the beneficiary has risen the option before fulfilling term.

Unilateral promise to buy. Symmetrical, conversely promise to sell, unilateral promise to buy is a willing agreement by which a person, promisor – future buyer agrees to purchase a property from another person, the beneficiary – future seller if it decides to sell. And in this case, by completing a promise, in favor of the beneficiary a potestative right appears, which restricts the promisor's power to refuse the completing of the designed object.

Reciprocal promise of buying-selling. The particularity of this promise consists in the fact that it is preparing another contract: it is an act of forecasting future projection, the organization in advance of projected future sales. Feature of the reciprocal promise of buying-selling represents the mutual ownership of the promissory seller and buyer of a specific obligation to do that in the future the conclusion of a contract [11, p.55]. However, any obligation of either contracting party has its symmetrical counterpart in a correlative right in favor of the other party contracted [10, p.19]. So the obligation to conclude the contract corresponds to the right to require its conclusion. In this case neither party shall refuse to conclude the contract just because the other party has the corollary right to ask for its conclusion, as that promise is based upon reciprocal sale and purchase, from which results the contract.

According to another view [10, p.41–51] refusal to contract in this situation cannot promise we make because after completion in the presence of a later stage of conclusion where we can speak only of failure to perform the contract. It objected, asserting that the consent cannot be subject to obligations, simple “to do” because it is a structural element of the contract pertaining to the formation of, while, obligation “to do” presupposes a contract format and keeps its execution [10, p.7].

This effect is provided, indirectly in Moldovan law. Thus although the legislature declared valid legal act in disregard of promise ended, however, it is the party that has concluded such an act of bad faith or third party will be obliged to pay damages to disregard the pact, precisely in order that haven't the right to conclude such an agreement. To have the right to conclude a contract and damage effects promise to be the payment of compensation for his exercise is a non-sense. Thus art. 703 of the Civil Code states that "The signed contract with breach of promise to contract data of other person is enforceable against the recipient of promise without depriving him of the right to demand promissory and the third party of bad faith who contracted with the latter the repair damage suffered".

There are situations where you may refuse the promise without seeing it to be committed without any liability in this regard. Such situation represents an exception and is justified by the financial, material or legal situation of the promisor. The contract of donation art. 830 par. 2 in the first sentence states that: "the donor is entitled to refuse the fulfillment of the promise to deliver a good if it is impossible, taking into account its other obligations, to fulfill the promise without thereby endangering his own appropriate maintenance or enforcement of its legal obligations of maintenance of other persons".

- Preference Pact

By its conclusion, the agreement gives rise to a right of personal preference – as a receivable in favor of the beneficiary, and the task of promissory an obligation not to do – not to sell to another person and not to obstruct the exercise of the preference rights of the beneficiary [10, p.31]. If the promissory decides to alienate the property, he could not deny the contract signed with the beneficiary of this pact if it was the intention in this case of the promisor. It should be noted that, in this case, the impossibility to refuse the signing of the contract has a field fairly restricted. This is because on the one hand the promisor has the power to sell or not to sell, and no obligation to do so, and on the other hand he is obliged would prefer the beneficiary only in the event of alienation of property by certain contracts as for example purchase and sale, lease, loan, deposit, etc. keeping the freedom to alienate anything you want in other ways stipulated by law, such as for example the donation, social contribution, giving in payment, linked etc.

Thus, in case the beneficiary found out that the promissory seeks to overcome what was the object of preference pact, the latter will not be able to refuse signing the contract with the beneficiary. It also cannot deny signing the promissory contract with the client if the property was alienated to a third party and it is of bad faith. If the promissory claims that he alienated the good in other way than selling, location etc., and the court admitted simulated action the beneficiary found that in reality was a sale, location etc., we consider that the promissory will not be able to refuse the conclusion of a contract for the beneficiary of this promise [10, p.33].

In the case of the beneficiary, he may refuse to conclude the contract if the promissory decides to sell the good without being committed to any liability.

c) The absence of legal provisions

Refusing to contract may be exercised also if there is any legal provision that would ban its exercise. The legal provisions that restrict the exercise of the right to refuse are the following:

- Retractable dispute

Pursuant to art. 802 paragraph 1, 2 C. civ., "*Where a litigious right was sold, one in which the advertisement is released if the sale price the buyer pays the expenses of sale and the price and expense Interest selling price calculated from the date when the expenses were paid*".

As a result of the sale of such a right, the assigned debtor has the opportunity to free from the obligation to face the assignee if he meets the conditions stipulated by the law without the court to challenge the substance of the process itself [12, p.82]. The way in which the assigned debtor

executes its litigation obligation and the impossibility of the transferee to oppose to such executions is legal expression of interdiction of the transferee to refuse the conclusion of such a contract. The assignee could not refuse the conclusion to such a contract by retrocession of the conflicting right by the assignor by prior cancellation of the sales contract of litigious rights. However, there are situations when the transferee will refuse the conclusion of such a contract. Thus according to art. 802 par. 2 of the Civil Code. Retractable dispute cannot be exercise when:

- the transferee is heirs or co-lender [12, p.82] with the transferor;
- the transferor is transferee creditor and the assignment was made for the payment of his claim;
- both transferor and transferee are merchants;
- the transferee has the right of first refusal, in which case the assigned debtor may not invoke the dispute retracted; [12, p.82]
- there is a court decision confirming this right;
- this law was established and the dispute is prepared for trial.

Right of pre-emption

In Moldovan law pre-emption right is regulated by art.793–797 Civil Code. Thus art.793 paragraph 1 of the Civil Code states that “holder of the pre-emptive right can make use of it if the person liable concludes sales contract with a third party”. After receiving the offer for sale, the deadline for exercising the pre-emption right is a month when the sale of land and other property ten days if the contract if the parties have not provided such – art.795 paragraph 1 Civil Code. By exercising the right of option between the seller and the holder of the right of first refusal it arise a sales contract – art. 795 paragraph 3 Civil Code. Establishment by law or by agreement of the parties of the right of first refusal in favor of a person or persons make the liable person or the other not be able to sell the property to third parties until the refusal of the holder of the option right. The texts says of the Civil Code of the person liable being understood by this person who has assumed, whose task was established by law obliged to propose to offer for sale the persons benefiting from this right. In these conditions the person liable shall not refuse disclosure to the holder of the preemption intention of selling as refusing to offer is restricted either by law or by agreement by stipulating the right of first refusal fellowship.

The absence of the court decision

Validation of consignment the actual offer

The debtor is entitled subjective to pay if the lender refuses to receive it. This subjective right is materialized through the recognition by the law of the debtor a procedure by which it can be free of obligations as incumbent procedure comprising 3 phases (art. 645–650 Civil Code) [13, p.482]:

- offer real of payment by which the debtor summons the creditor through the bailiff to receive payment of any object keeps to the creditor;
- recording them in the creditor if he is not present or refuse further payment;
- if the creditor contesting its validation by the court by recording the final decision.

Pronouncing a final and irrevocable court decision is representing the way in which the creditor is forbidden by the opportunity to decline the offer [13, p.482] of execution of the obligations made by his debtor [13, p.482].

According to Moldovan law is possible if the creditor is placed in delay, when identity is not known or his home, by depositing money, jewelry, furniture or other documents at a bank or a notary – art. 645 paragraph 1 Civil Code. Thus recorded, the debtor’s obligation goes off – par. 3 of the same article. After recording the offer, the creditor may challenge its validity. The appeal is made by application to the court, which by court decision will decide regarding its lawfulness. If recording is recognized valid, the creditor will not be able to refuse to accept them and no debtor will be able to seek restitution of the property recorded – art. 648, paragraph 2, point c, Civil Code.

3. Conclusions

To recognize the existence of the right to refuse the consent to contracting, in the specialized doctrine, it was identified a single condition but essential, and namely the absence of a contrary right that would belong to another person. If a person has obtained either by virtue of a unilateral commitment, either by contract or by virtue of legal provision, the right to contract with a specific person, it can no longer enjoy by this freedom understood as a refusal to contract.

So when someone has obtained by contract or under a legal provision the right to contract with a person under certain conditions, the last can no longer enjoy by contract freedom, understood as a refusal to contract. In this context we can state that this person incubates an obligation to negotiate or obligation to contract. These two obligations are different by the fact that one is the result (obligation to contract) and the other is diligent (obligation to negotiate), but basically, regarded *lato sensu*, the obligation to contract encompasses and the negotiate one.

Regarding hypothesis in which a refusal to contract would be invoked, these are: the absence of a unilateral commitment (offer to contract); the absence of a contractual commitment (contract promise and preference pact); the absence of a legal commitment (litigious retract, pre-emption right); the absence of a judgment (validation of consignment of actual offer).

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Summary

The pre-contractual term suggests the idea of a precursory stage of a certain contact that the parties want to conclude. Under the principle of contractual freedom everyone has the opportunity to conclude or refuse to conclude the contract. Refusing to contract may be constituted by a negative fact – the abstention of the offer's recipient or a positive fact – the offeror's refusal to proceed at signing the contract. A single condition, but essential, identified by doctrine, to recognize the existence of the right to refuse the conclusion of contract is the absence of a contrary right that would belong to another person. This could have as origin: a unilateral commitment, – offer to contract; a contractual commitment – the promise of contract and preferably pact; a legal provision – litigious retract and pre-emptive right; a judicial decision – validation of recording of the real offer.

Keywords: contract; pre-contractual term; refusal to contract.

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SUMMARY OF ECONOMIC INTEGRATION AS A CATEGORY OF MODERN ECONOMICS

Abudavud Basem^{*}

1. Introduction

During economic and social evolution of the world economy the range of assumptions and factors responsible for the formation and development of integration expand. A complex system of their interaction has a multi-level and multi-canal nature of the impact on the dynamic of integration processes in the world. The development of global social, economic and legal relations today is inextricably linked with the global integration processes.

In modern conditions of increasing internationalization, openness of national economies and the international division of labor, scientific and technical progress, the dynamic changing of market conditions, the output of the production cycle, financial flows, movement of labor for a national framework, modern transport, communication and information systems and other factors contribute to the rapid development of integration processes and their transition to a new qualitative scale.

Despite the presence in the modern economic literature, a significant number of works are devoted to the integration processes (M. Maksimov, Yu. Shishkov, J. Tinbergen, R. Cooper, B. Balacca, V. Ovchinnikov, O. Chernega, Y. Bocharova and others). A significant contribution to the formation of methodological principles of integration theory were made by M. Allais, B. Balazs, Yu. Borko, J. Weiner, I. Haltuha, M. Halperin, F. Gerails, H. Kremer, M. Lindberg, G. Lipsey, M. Maximova, F. Mahlupa, K. Meyer, J. Mead, A. Müller-Armaka, P. Nayya, J. Pinder, A. Predolya, V. Ropke, J. Tin Bergen, V. Filippov, E. Haas, Yu. Shishkov, F. Shmittera, R. Schumann.

Many scientists explore integration in general and its elements, categories, interrelations and manifestations. Nowadays it is accumulated quite significant scientific and practical potential, which was formed as the result of many years of discussing integration problems. But among researchers of this problem there is no single opinion of the theoretical approach to the interpretation of its nature and content. In such circumstances, there is particularly urgent need for further studying of theoretical bases of integration processes, especially – economic integration as the basis for formation of a global world order.

The goal of the article is to deep the theoretical and methodological foundations of economic integration in the context of globalization and to define features of it development: to investigate the nature, level and flow features of international integration processes; to set basic socio-economic effects of integration in the context of globalization.

2. The main material research

The term “integration” was firstly used in the 30s of XX century by a number of German and Swedish researchers [1, p.7] (from the Latin “integration” means restoration, from integer – the union in the whole of any parts, components) [2, p.289]. To date, this term has a broad application in various fields of science and knowledge: biology, physics, chemistry, politics, information, social and cultural spheres, etc.

In this study, we are interested in the problems associated with economical aspect of the integration process studying.

The modern world is living in an era of global integration processes, affecting all spheres of life

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(politics, economics, education and other). International economic integration is one of the most important determinants of national economic development, manifested in the expansion and acceleration of international financial flows, which in turn contributes to a more efficient use of investment capital in all areas of the world economy and the international geographical division of labor, allows countries to significantly cut the costs of production and, consequently, to reduce the price of consumable goods [3, p.5]. The integration process involves a constant search for the states flexibility, and compelling long-term reason to the reorientation of neutral or good-neighborly relations in the highly partnership-like.

As it was said in ordinary language, the term “integration” means to bring parts of an object into a complete whole, while in economic terms it would imply, in its narrowest sense, the coordination of economic activities within a country for the purpose of enhancing the development of that particular country [4]. Mutharika further gives the term a wider meaning, and indicates that it implies the process of integration of various economies in a given area or region into a single unit for the purpose of regional economic development. In a more precise way, economic integration occurs when two or more nations undertake policies that result in greater mutual economic interdependence.

Economists have defined the term “economic integration” in several different ways over time. Economic integration is a process of eliminating restrictions on international trade, payments and factor mobility [5]. Economic integration thus results in the uniting of two or more national economies in regional trading agreements. T. Nikolayeva and V. Gayanov identified integration as holistic education, acting in the interests of all participants in order to achieve common strategic objectives, including the members of association and the connections between them, which are due to the strategic needs of the subjects themselves in enhancing the competitiveness and creating a relatively free from the external market competition [6].

From these definitions, it can be distinguished two different methodological approaches to the study of the process of economic integration. In the first, the so-called ‘static approach’ for economic integration is identified as the onset of favorable circumstances and prerequisites for integration, the formation of supranational Institute, which aims are the convergence of national economies and holding its members agreed interstate economic policies to achieve common strategic goals. This interpretation of the essence of international economic integration has long been a major, especially in the neo-liberal-leaning theorists. From the point of view of the other, “active” approach, it can be told about this concept as about the controlled and voluntary process of developing and strengthening ties with the sequential approach and structural merging economic entities, in order to obtain comparative advantages [7].

Thus, the term “economic integration” in the scientific literature does not have some diversity in the interpretation of the essence of the concept. The diversity of views on the specifics of the economical integration process can be reduced to a few items that are presented in the Tab. 1.

Tab. 1. Classification of approaches to describing essence of “economic integration”

| Approaches | Describing essence | Authors |
|------------|---|-----------------|
| Factorial | Economic integration is being concerned with efficiency in resource use. The necessary conditions include the freedom of movement of goods and factors of production and an absence of discrimination amongst members. | Robson (1987) |
| Systematic | Economic integration is both a process and a state of affairs. Integration is a process that involves the removal of trade discrimination between different states, while it is a state of affairs to the extent that it is the absence of different forms of discrimination. | Balassa (1962) |
| | Economic integration is a discriminatory removal of all trade impediments between participating nations and the establishment of certain elements of co-operation and co-ordination between them. | El-Agraa (1994) |

| | | |
|---------------|---|-------------------|
| Process | Economic integration serves to indicate the gradual elimination of economic frontiers between countries. In the first stage, trade among partners is liberalized. This is followed by the liberalization of movement of production factors. The objective of the third stage is the coordination of national policies with regard to economic sectors, possibly including exchange rates. | Molle (1990) |
| | Economic integration is the elimination of economic frontiers between two or more economies. An economic frontier is any demarcation over which actual and potential mobility of goods, services and production factors, as well as communication flows, are relatively low. | Pelkmans (2006) |
| | Economic integration is an objective, informed and guided process of rapprochement, mutual adaptation and merging of business systems with self-regulation and self-development capacity. | Rybalkina (2003) |
| Institutional | Economic interaction is the process leading to the convergence of economic mechanisms, taking the form of some agreements and concerted adjustment of some authorities. | Kireev (1997) |
| | Economic integration means internationalization of economic life of two or more states, characterized by interpenetration and intertwining of their national economic processes and conduct a coordinated economic policy in the relations between these states and third countries. | Sidorovich (1997) |

Summarizing the approaches to defining the essence of the concept of “economic integration”, it should be noted that a common feature of its interpretations within the factorial approach is to identify the necessary conditions for the fullest attainment of business entities, systematic approach emphasizes interrelationship between business entities, the process approach focuses on the establishment and operation of the cooperation between business entities and institutional approach describes economic integration from the point of correlation between different institutes during the process of convergence [8]. Separately, each approach only establishes the presence of certain elements or connections between them, without indicating the quality and purpose of the operation. Thus, there is a need for a broader concept which would consider all of the above approaches. So, economic integration is the gradual establishment of a numerous relationships network, based on common policies and common laws that will regulate and control the economic activities of the Member States, affecting the daily life of citizens and professional troops engaged states [9].

Economic integration can contribute to addressing the region’s development challenges by strengthening incentives and opportunities for growth, economic diversification, and employment. While it is not a panacea or a substitute for domestic reform, economic integration can help attract investment needed to generate more and better jobs by removing barriers to trade and investment and by improving the enabling environment for both domestic and foreign investment [10].

The concept of economic integration implies that nations come together in some type of partnership to foster trade and development. Economic integration can be manifested as a free trade area, a customs union, a common market, an economic union, or in its most extreme form, as a political union (Tab. 2).

So, economic integration is an agreement among countries in a geographic region to reduce and ultimately remove, tariff and non tariff barriers to the free flow of goods or services and factors of production among each other; any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies are referred to as economic integration. Generally, agreements may be entered into force to ensure to each contracting party a favoured treatment as

compared to others. Such an agreement is usually referred to as the most-favoured nation agreement.

Tab. 2. Concept of economic integration

| Name of stage | The content of stage |
|-----------------|---|
| Free Trade Area | There are two distinguishing characteristics of a free trade area. The first characteristic is the liberalization of trade regulation for members. Second, the removal of trade barriers placed against members. This includes the removal of tariffs, quotas, and various non-tariff barriers, or a pledge to remove such trade barriers by a date certain in the future. |
| Customs Union | A customs union adds a third characteristic to the two characteristics of a free trade area, namely the imposition of a common tariff on nonmember countries. This means that the member countries of a customs union pledge to liberalize trade regulations, remove trade barriers placed against members, in addition to agreeing to impose a common tariff against nonmember countries. |
| Common Market | A common market encompasses all characteristic of a free trade area and of a customs union, while adding mobility of factors of production as a fourth distinguishing characteristic. Included is mobility of capital, labor, and technology. Mobility of labor requires that the member countries develop a common visa policy and a common position on residency [11]. Additionally, the member countries will develop common policies to harmonize standards, have mutual recognition or acceptance of each others standards, or agree on minimum standards. |
| Economic Union | An economic union brings a fifth distinguishing characteristic to the four characteristic discussed in the previous paragraphs. That characteristic is to seek economic integration through harmonizing fiscal and monetary policies, creating a common currency, and establishing a super-national governing authority. |
| Political Union | A political union brings full economic and political unification to members of a economic union. The question whether or not there will be a United States of Europe sometime in the tomorrow's beyond |

Economic integration could help policy makers address these critical development challenges. In a narrow sense, economic integration is understood as the elimination of tariff and nontariff barriers to the flow of goods, services, and factors of production among a group of cooperating countries [12]. The latter include economy-wide policies such as exchange rate policy, competition policy and other aspects of the overall investment climate, and sector-specific policies affecting trade in services and the efficient provision of key backbone services such as finance, transport, telecommunications, energy, and water.

3. Conclusions

World globalization, in the form of globalization of production and globalization of marketing has presented new opportunities for cooperation between nations. The ability to exchange good and services globally, to export products to distant lands, the opportunity to shift production to other countries (often to least-cost locations), the advances in communication and computing technologies, all of these things define the arena of global trade. In that arena, global and regional economic integration organizations establish the rules of the game. These organizations impact the global trade arena with increasing frequency and with profound implications for global business. Analysis of the theoretical approaches to defining the essence of economic integration has allowed to prove that economic integration is a complex multi-layered process with a variety of mechanisms and means of implementation.

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Summary

The article presents approaches to the definition of economic integration. It is proved that economic cooperation and integration could help address the political, social and economic problem of the region by boosting growth, fostering diversification, and stimulating employment. Further developed systematization of approaches to the definition of "economic integration" is presented. It was proved that the concept of economic integration implies that nations come together in some type of partnership to foster trade and development.

Keywords: economic integration; globalization; world economy; cooperation; integration theory; economic growth.

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AN ALGORITHM FOR BUILDING REGIONAL INNOVATION STRATEGIES IN UKRAINE BASED ON THE SYSTEMS OF INNOVATION APPROACH

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1. Introduction

The strategic goal of Ukraine's transition to an innovative model of development can be achieved only with the reorientation of state innovation policy to the regional level. Recently it became clear that it is the regional level that plays an important role in the generation of new knowledge and its use. Regional innovation systems began to be seen as an important tool for economic and innovation policy, as they emphasize the critical importance of spatial proximity and availability of favorable institutional structures at the regional level for innovation. The advantages of regional innovation processes [1, p.23]:

- joint presence of a large number of manufacturers of various kinds that offer specialized services promptly and flexibly in response to the request;
- effects of training caused by attraction of regional producers in transnational networks;
- emergence of local funds of labor with the concentration of specific skills and forms of learning;
- cultural and institutional infrastructure that constantly arises in and around industrial clusters and is often very important to the efficient operation of a single local socio-economic system;
- development of networks of trust among regional economic actors.

Today the advanced countries give increased attention to building Regional Innovation Strategies (RIS), which allow to use local benefits to a greater extent. Such strategies are based on developing business environment, broad involvement of business in building and implementing regional innovation policies tailored to enterprises technological possibilities and needs and innovative capacity of scientific organizations, the benefits of innovation process participants networking.

Ukrainian regions have elaborated and implemented a number of strategic documents, concerning regional innovative development [2, p.146–166]. However, their effectiveness remains very low. In most cases such documents have been elaborated based on a methodology of linear model of innovation process, according to which, measures within these programs were limited to creating conditions for the commercialization of research results – a “technology push model”, which does not meet modern requirements for the innovation policy.

The aim of the article is to develop an algorithm for building RIS in Ukraine, based on systems of innovation (SI) approach, that will more fully utilize the scientific and educational, innovative and entrepreneurial potential of the region, establish long-term partnerships between key regional institutions, working in the field of innovation, and the private sector, strengthen the role of scientific and educational institutions in regional innovation processes. Building such strategies will be a tool that allow accelerate the development of a modern knowledge-based economy in Ukraine.

2. Theoretical background

A significant increase in the role of regions in the implementation of innovations led to the growth in the number of studies on the creation and dissemination of innovation at the regional level and on the formation of regional innovation systems. Most of these works are based on the Systems of Innovation (SI) approach, elaborated by K. Frimen, B.-A. Lundvall, Nelson and C. Edquist.

C. Freeman in work [3] criticized what has become known as the Washington consensus for its

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neglect of dynamic processes related to innovation when analyzing economic growth and economic development, and stressed the necessity to develop an alternative analytical framework. In [4] B.-A. Lundvall, underlying the systemic nature of innovation processes, considered that “the ‘system’ dimension has moved the attention in policy making from linear to interactive thinking of innovation. This can be referred to as a movement from Science and Technology toward Innovation Policy”. According to C. Edquist [5], the SI approach in contrast to the New Growth Theory is about the determinants of innovations, not about their effects (in terms of growth, employment etc). This has made SI approach central for the modern way of understanding innovations. Initially the main emphasis within the SI approach was on national systems of innovations, later emerged its sectoral and regional variants [5]. The main components of SI are organizations (formal structures created with an explicit purpose – companies, universities, venture capital organizations, public innovation agencies) and institutions (sets of common habits, routines, established practices that regulate the interactions and relations between individuals, groups and organizations). The relations between main components of SI are considered to be crucial for innovation processes [5].

3. Results

Regional Innovation Strategy aims at assisting regional and local authorities and regional development organizations in implementing an effective system to support innovation in the region. For this purpose strategy should define innovation policies and ways to improve regional innovation support infrastructure, especially in the context of its compliance to the needs of small and medium enterprises (SMEs). The basis for the emergence of RIS in the early 90-ies was the conviction that there were significant differences in the level of development among the various regions of the European Union, due to existing barriers and restrictions in these areas. Barriers that limited the ability of regions to accumulate innovation potential were [1, p.28]:

- a weak system and institutional framework in the region;
- weak or deformed demand of firms for research and development R&D;
- the lack of cooperation between the public and private sectors;
- obsolete approach to solutions that were too rooted in the traditions of the regions, combined with ignoring national and international contexts in which these regions operate;
- excessive focus on basic research in the public research sector, the lack of attention to technology transfer and market dissemination projects;
- administrative “top-down” approach, instead of the market “bottom-up” approach, which takes into account research and local businesses problems.

Based on the experience of implementation of RIS in OECD countries following their types can be defined: Regional Technology Plans (RTP); Regional Innovation and Technology Transfer Strategies (RITTS); and Regional Innovation Strategies (RIS) themselves.

RTP projects historically were the first type of RIS, which have been formulated and implemented in European Union regions since 1994. RTP encouraged regions to develop innovative strategies, which should have been manifested in strengthening the ability of regions to create policies that took into account the real needs of the production sector and, at the same time, the strengths and weaknesses of R&D base. RTP became the first manifestation of a strategic approach to innovation, as well as the regional approach to development based on innovation. Based on RTP projects, a new tool was defined – technology transfer as an essential element of increasing regions innovation activity. It has also been paid an accent on the need to create Regional Innovation and Technology Transfer Strategies. In parallel with the implementation of RITTS measures, part of the regions, using the same methodology, started to create RIS. Both initiatives RITTS and RIS were aimed at supporting regional governments and development organizations in undertaking an assessment of the regional innovation system including management, financial, commercial, training and organizational and technological issues. The resulting strategy provided a framework for optimizing regional innovation policy and infrastructures, especially with regard to their relevance to SMEs needs. It was designed to promote co-operation between the private and R&D sector, and public

administration [6, p.12]. The difference between these strategies was that the emphasis on technology transfer, which was a characteristic of RITTS, in the case with RIS, was limited. As a result, RIS were focused on the *systemic approach*, where the leading role in the development of innovatively advanced region was assigned to a wide range of regional organizations.

Today's RIS are worked out based on the algorithm [1, p.32–46; 6, p.27–58] which is the result of long process of mechanisms formation and results analysis. The algorithm describes a set of measures by which it is possible to process the regional concept of innovation support. All mechanisms are closely interrelated and create a regional system of relationships between key institutions and individuals working in the field of innovation. Implementing RIS typically involves following steps (phases):

First Phase – *Phase 0*, concentrates on activities that aim to create a favorable environment and climate for development RIS, and to establish long-term relationships between regional leaders. The main aim is to achieve *regional consensus* that is manifested in including key organizations and individuals, which operate on the regional innovative field, in the process of working out the strategy. Regional consensus concerns building the objectives of RIS and expected results, long-term view on the realization of regional process initiated by the strategy, information that should be collected and taken into consideration, ways of disseminating and organizing information available. Therefore, this consensus should emerge through awareness of the problem by all the actors of regional scene and reflect their vision of building and implementing strategies to life. Element of regional consensus, both in terms of instrument of strategy building and results achieved, is the governance structure, managing the process of building RIS. It is necessary to include in its administrative body the representatives of businesses, entrepreneurs, business associations. In this phase carrying out advertising and information activities addressed to all groups is made, which aim is to increase public awareness in the region about innovation, their role for socio-economic development and obtaining public support for the development of innovation policy.

By creating favorable conditions for the building RIS through involvement of a wide range of participants, *Phase 0* helps to create a favorable atmosphere for business, emphasizes its role in raising the level of innovativeness in the region, promotes the inclusion of companies in the process of creating strategies, plans research work that will be conducted in the following phases.

The development of an integrated approach is *Phase 1*, in which analytical research in the region in terms of its innovation potential, barriers to endogenous process of regional development based on innovation, is conducted. Regional analyzes focus on:

- main technological and industrial trends affecting the region; innovative potential and areas of key sectors development (like industry and services);
- potential of regional SMEs, namely their technological capabilities and management capacity;
- potential of research organizations;
- level of development and use of innovation support infrastructure in the region.

A RIS project must take into account that the decisions taken by regional firms in their innovation activities are heavily influenced by similar decisions being taken around the world. Therefore, policy choices must take account of the global environment, in particular the trends in industry sectors and technological advances. An analysis of these trends may be carried out from the perspective of industrial or service sectors and technological disciplines. A choice has to be made as to which perspective is of greatest relevance to the region, keeping in mind that the project is not only concerned with “new technologies”. Attention should be given traditional or generic technologies or skills which are to be of continuing strategic importance to the regional economic growth prospects.

SMEs are a key element that determines enhance in the level of regional economy innovativeness. Companies are the part of the demand for innovation, which is manifested in their interest in new technologies – both in the manufacturing process and in management. The best tool of research of SMEs' innovative aspects is *technology audits*, through which it is possible to learn about the natu-

re of innovation needs and barriers, the nature of activities, product structure, scope of innovation, financial investment funds, demand for technology, financial and human resources. The result of the research is to determine the companies' strengths and weaknesses. This definition takes place at sectoral, local, regional levels and enables to create a database of the most important innovation needs and comparing them with opportunities to meet these needs by regional organizations.

When assessing the environment in which businesses operate, *the potential of research organizations* is examined first, as they are the main source of knowledge and technology in the region. The study should identify the strengths and weaknesses of these organizations, as well as the possibility of using knowledge by regional enterprises. As a result, the authors of the strategy are informed of the implemented research, scientific personnel, technological orientation and quality, costs and major revenue sources of such organizations. This creates the possibility to compare the technological needs with the proposal, to assess whether regional innovation potential is used (and how much), or whether it is impossible to use it, what are the prerequisites forming this potential.

Another object of the analysis is *organizations functioning directly in business environment*. It is the financial institutions, regional development agencies, chambers of commerce, associations, advocacy groups, professional consulting firms and others. Interest with these organizations arises from the fact that they are the primary source of information for the companies operating in their environment. The aim is to assess whether services, provided by these organizations, lead to the increased levels of innovation, whether they meet key requirements of the latter, whether provided assistance and support instruments where addressed to create innovations by enterprises or not.

The final stage of all tests carried out in the region, is working out SWOT-analysis – that is determination on the basis of the results received the potential and needs of the strengths and weaknesses of the region in terms of innovation, the chances and threats of innovation.

Based on consensus and identified strengths and weaknesses of the innovation development of the region, in *Phase 2* main activities are concentrated on:

- formulation of the document of the strategy;
- definition, implementation and testing of activities envisaged by the strategy;
- establishment of a monitoring system with the aim to evaluate the implemented measures.

Compiled resulting document is a derivative of all measures taken in the framework of strategy processing. Since its role is to be the framework of innovation in the region, the strategy value depends on what consensus has been reached during its processing. Such consensus should be the derivative of local actors' awareness and requires their positive perception, otherwise it will inevitably meet with resistance of people and institutions that did not participate in the process and the implementation of this strategy will be virtually impossible. That is why RIS should be discussed in environments, which it concerns, and which have been included in the process of its creation.

Practical implementation of the strategy is fulfilled through a set of actions specially elaborated within the framework plan. The plan sets goals, performers and sources of funding for the group of pilot projects. These pilot projects are the first instrument of RIS performance, and their number stems from the action plan elaborated. Pilot projects are considered primarily as: flagship projects, implementation of which aims to demonstrate the effectiveness of RIS and support for innovation atmosphere; “rabbits” for large projects or programs specified in working plan; tools that can in the long run maintain regional political potential, while in the initial phase perform a pilot function.

The prime objective of a RIS development is that beneficial results in terms of the improvement in the region's innovation performance will be achieved. That's why it is necessary to develop a basis for the measurement of the efficiency and appropriateness of the actions and the benefits gained. Indicators for measuring results can be described as either “linear” or “interactive”. *Linear indicators* concentrate on the “hard” outputs – e.g. patents, R&D expenditure, new products developed, etc. *Interactive* seek to measure the various actions and activities which signify that

R&D is taking place regardless of the “hard” outputs which are obtained e.g. “links” between universities and SMEs, the number of projects dealt etc. Interactive indicators therefore measure the health of the R&D system, which is not being identified by the linear indicators.

Strategy worked out together with the mechanisms for measuring, monitoring, funding and broad support, which are the result of consensus achieved – all this become a tool by which regional innovation capacity can confidently develop.

4. Conclusions

Scientific and methodological support for development and implementation of RIS in Ukraine must be made not from the standpoint of traditional for national science linear approach to understanding innovation, whereby innovation process is seen as comprising the consecutive steps from the scientific research, experimental development to production of innovative products, but in terms of systems of innovations approach, where innovations are considered as interactions between all the complex economic, social, political, organizational and other factors, that determine the creation of innovation including linkages between firms, manufacturers, consumers, labor market, government regulation and others. According to this approach, investments in R&D and human capital are considered only as a necessary condition for growth; as a sufficient one – the process of circulation of knowledge between academic institutions and companies.

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Summary

The article deals with the methodological issues and algorithm for building regional innovation strategies. A Systems of innovation approach to strategic planning of region innovative development was considered. An algorithm for building regional innovation strategies was presented, which consist of such steps as building regional consensus, analysis of main technological and industrial trends affecting the region, analysis of strengths and weaknesses of regional firms, assessment of regional innovation support infrastructure and potential of research organizations, definition of strategic framework, design and implementation of a monitoring and evaluation system.

Keywords: systems of innovation approach; regional innovation system; regional innovation strategy; algorithm for building regional innovation strategy.

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TRANSFORMATION OF APPROACHES TO THE DEFINITION OF «TOURISM» IN THE CONTEXT OF SOCIO-ECONOMIC IMPORTANCE

Julia Chiosova*

1. Introduction

Tourism is one of the important social and economic fields of our time, which is subjected to objective laws of social development. This is the most dynamic sector of services. Services have been the fastest growing economic sector of industrialized countries over the past several years. Need to rest is stimulated by urbanization, scientific and technological revolution, improving living standards.

In some countries, tourism has become a significant source of income belonging to the state and a promising sector of the national economy. It is a priority direction of formation gross domestic product, employment, source of foreign exchange, enhances trade balance and generally it has impact on businesses and society changes. It helps activate and stimulate the network of national economy: building industry, trade and agriculture, increase the production of goods, transport and communications industries, formation of modern human resources policy.

Tourism is a multifaceted phenomenon of social life. On the one hand, it is the powerful and dynamic industry in the international economics, and, on the other hand, it is the extensive social system, which provides the ability to create new job opportunities. Using the positive sides of tourism, the socio-economic goals can be achieved with the high extent. There are many articles and books written by scientists, but in spite of them, it requires a scientific reflection. The technological revolution has contributed to the rapid accumulation of funds that could be spent on entertainment. That is why, tourism becomes increasingly significant for people and holds an important position in the national economy.

2. Changes in the approach to the definition of tourism

Emergence of tourism as a socio-economic area, was studied by Ukrainian scientists V. K. Fedorchenko, I. M. Minic, V. G. Gerasimenko, A. V. Zinchenko, V. A. Lugovoi, S. I. Griбанова and others. The issue of international tourism was explored by A. P. Puzakova, I. V. Chernin, G. F. Shapoval and others. Conceptual and theoretical development of tourism was highlighted by such foreign scientists as W. F. Theobald, N. Plange, Buck Roy C., R. W. McIntosh, A. J. Burkart, S. Medlik.

Etymologically, the word tour is derived from the Latin, “tornare” and the Greek, “tornos”, meaning “a lathe or circle; the movement around a central point or axis”. This meaning changed in modern English to represent “one’s turn”. The suffix -ism is defined as “an action or process; typical behavior or quality”, while the suffix, -ist denotes “one that performs a given action”. When the word tour and the suffixes -ism and -ist are combined, they suggest the action of movement around a circle [1].

The Law of Ukraine “On Tourism” states that tourism is a temporary departure (trip) of persons with permanent residence with cognitive, recreational, professional, business, sports, religious and other purposes from 24 hour to 24 one year in a row, without salary activities in the place of temporary residence [2].

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Another definition is given by M. Malska, who remarks that tourism as a type of recreation is associated with moving beyond the residence, vacation, combined with wellness, education, sports, cultural and entertainment purposes [3].

World Tourism Organization in 1991 recommended to define tourism, as the activities of a person travelling to a place outside his or her usual environment for less than a specified period of time and whose main purpose of travel is other than the exercise of an activity remunerated from within the place visited [4].

In today's world, tourism stands as a complex, multifaceted social phenomenon, because it cannot be fully and comprehensively described by any existing science as an object of own research and none of the existing social and economic institutions are able to solve its complex problems [5].

P. G. Oldak distinguished "traditional, straight, narrow" importance of tourism (vacation, which was spent in travel) and "modern, scientific, collective" (all vital, isn't associated with the relocation and work) [6]. Close to this definition, V. I. Azar [7] wrote that tourism is a form of migration, characterized by temporal displacement from one area of the country or from one country to another, if it isn't associated with a change of residence or work, in other words, voluntary trip to rest, treatment, participate in academic, business and cultural meetings.

N. S. Mironenko and I. T. Tverdohlebov defined that tourism is a complex of relationships and effects, arising during the travels and the staying of people outside their residence, if it isn't transformed into a long stay or a temporary activity for wage [8].

All these definitions of the one term give us the full and complete understanding what tourism is, and what processes are involved in it. In this article, tourism will be described from the social and economic sides.

3. Socio-economic background of the term "tourism"

Tourism is distinctly a twentieth century phenomenon. Historians suggest that the advent of mass tourism began in England during the industrial revolution with the rise of the middle class and relatively inexpensive transportation. The creation of the commercial airline industry following the Second World War and the subsequent development of the jet aircraft in the 1950s signaled the rapid growth and expansion of international travel. This growth led to the development of a major new industry, tourism. In turn, international tourism became the concern of a number of world governments since it not only provided new employment opportunities, but it also produced a means of earning foreign currency.

Tourism today has grown significantly in both economic and social importance. Authors such as Nii Plange [9] have argued that although tourism plays a significant role in the economic sector of many developing countries, it also creates a form of dependency and insecurity. Roy Buck has remarked, "tourism scholarship to date is organized in two relatively isolated camps. There is the business enterprise and economic development camp, largely devoted to charting growth and business profits. And there is the impact and externalities camp, whose work more often than not documents the spillover consequences of tourism enterprises in host nations or communities" [10].

Accordingly to all definitions given in the article, tourism can be viewed from three positions: economic, technical and holistic.

To determine tourism from the economic position, as was noted by Australian Department of Tourism in 1975, we must establish its economic and business consequences as nationally important industry. This area involves a wide cross section of component activities including the provision of transportation, accommodation, recreation, food, and related services [11]. McIntosh wrote in 1977, that tourism can be defined as the science, art and business of attracting and transporting visitors, accommodating them and graciously catering to their needs and wants [12].

The human factor is the basis of tourism. That is why it cannot be consider from only economic side. In the fig.1 there are the main indicators that have influence on tourism.

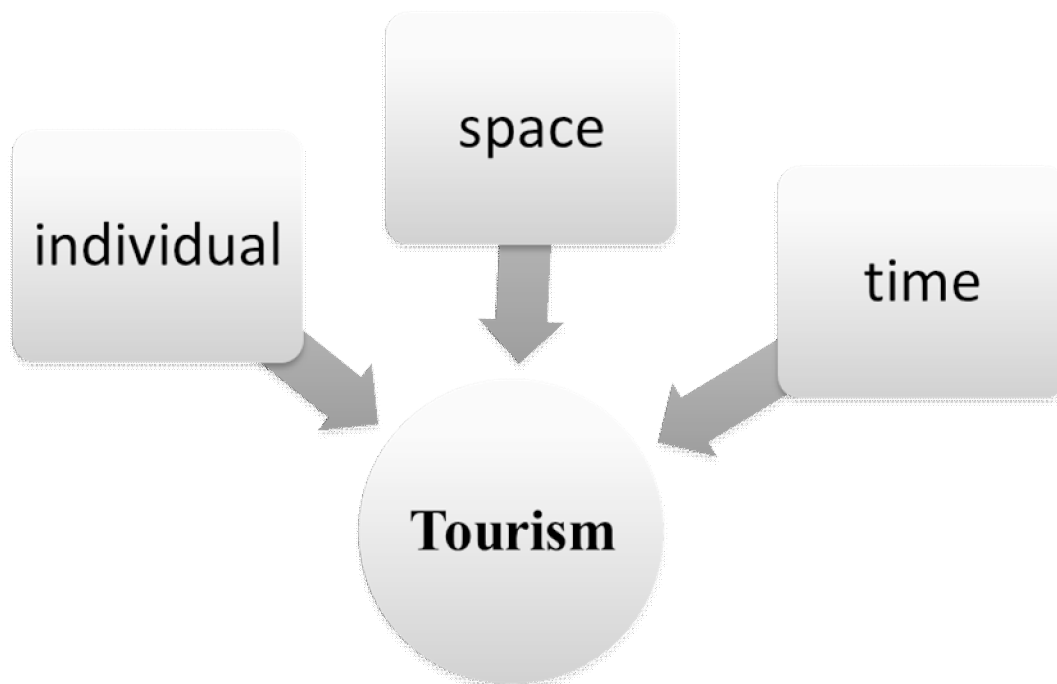


Fig. 1. Economic indicators, which influence on tourism

Source: author's elaboration

Individual is an effective subject of tourism, who makes a decision about trip. Another component is space; there is a physical place, where a tourist will be. The last element is travel time, which acts as a temporary item and is consumed during the trip and staying.

The technical definition is necessary in order to control the number of tourist arrivals for the compilation of statistical reporting. This requires to distinguish a tourist from other travelers. If we compile all the definitions that exist, we can see that the basis of any of them has three elements: the purpose of travel, distance and duration. The purpose of tourist travel can be attributed to one of the following options:

- Free time (vacation, holiday, health, research, religion and sport);
- Business travel, family, transmissions, meetings, tours.

British scientists Burkart and Medlik have noted the confusion, which arises from this: “In endeavoring to define tourism it is useful to distinguish between the concept and the technical definitions. The concept provides a notional, theoretical framework, which identifies the essential characteristics, and which distinguishes tourism from similar, often related, but different phenomena. Technical definitions provide instruments for particular statistical, legislative, and industrial purposes” [13]. Various technical definitions provide a general concept that is applied at the international and domestic settings.

Another direction to define tourism is holistic approach. In accordance of this concept it requires to be defined as a whole view, which will cover the entire essence of the subject of tourism. Two Swiss scientists, Hunziker and Kraph, defined tourism as “the sum of the phenomena and relationships arising from the travel and stay of non-residents, in so far as they do not lead to permanent residence and are not connected to any earning activity” [13]. This definition has been recognized by international organizations, but the proposed approach is vague, because it points to

the relationship with other disciplines. Fig. 2 shows areas that centered on tourism and have connection with it.



Fig. 2. The relationship of tourism with other disciplines

Source: author's elaboration

Tourism is inconceivable without anthropology factor-man, which is the principal element of it. Another nearest science is psychology. Questions about visitors' needs and wants are very popular, because tourism includes travel agencies, hotels, transportation and promotion. Sociologists and cultural anthropologists study the travel behaviour of individuals and groups of people, and focus on the customs, habits, traditions and life-styles of both hosts and guests. Mix of politics, ideologies and economic principles are the main in tourism development as a legitimate and economically important industry. Touristic activity has in common with such sciences as geology, history, biology, ecology, which also participate in setting up tourist potential of a given region. Finally, natural factors like: topography, climate, hydrography, lithological, biogeographical elements participate in establishing of the tourism fund, respectively of recreational resources, that affect the activity of tourism phenomenon. Geographers are concerned with such aspects of tourism, as study travel flows and locations, development dispersion, land use and changes in the physical environment.

Gunn summarized all definition and presented a model: "the designer has an opportunity for a closed system of tourism environment made up of the five components: people ...in a market area with desire and ability to participate; attractions ...offer activities for user participation; services and facilities ...for users/support the activities; transportation ...moves people to and from the attraction destinations; and information and direction ...assists users in knowing, finding, enjoying" [14]. All sciences, when define this term concern influences on economy or society. But sense for this meaning is in complex regarding all effects, which are represented in fig. 3.

In addition, tourism has been variously defined (or refined) by governments and academics to relate to such fields as economics, sociology, cultural anthropology and geography. Economists are concerned with tourism's contributions to the economy and economic development of a destination area, and focus on supply/demand, foreign exchange and balance of payments, employment and other monetary factors. Mathieson and Wall conclude that "Tourism is the temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during their stay in those destinations, and the facilities created to cater to their needs" [15].



Fig. 3. Socio-economic impacts of developing tourism infrastructure

Source: author's elaboration

Positive impacts from tourism on society increase national consciousness, exchanging of ideas, contribute interfacing, solidarity, community wellness, understanding other cultures, raising the demand for historical monuments. Tourism is one of the types of social activity that has economic impact. The growth of tourism infrastructure represents improvement in a wide range of spheres such as transportation (traffic), food and drinking industries, airline companies, shipping companies, new travel agencies, travel insurance, recreational, cultural and sporting services, amusement, entertainment and souvenirs. There are set up new businesses which provide new services, where additional workers are required. All these changes raise the income from taxation and reduce the unemployment. The destruction of these consequences contributes the growth of the economy.

4. Conclusions

All definitions of the term “tourism” include not only individual, particular person, who wants to travel, but a specific process, in which more and more people are involved. Covering the whole range of disciplines, tourism requires new updated research. In the article are defined three approaches to the term of tourism: economic, technical and holistic. From holistic side they define this industry as a whole view, which will look into the entire essence of the subject of tourism. Considerable attention is given to the economic impacts that influence the sustainable national economy. The development of the tourism industry positively is reflected in the balance of payments. With the growth of employment in this sector, incomes to the government budget are increased. Tourism contributes to economic diversification, creating new industries that it serves. The sum of all definitions shows, that tourism in its definition includes people, attractions, services and facilities, transportation, information and direction. Tourism is a complex endeavor. It not only provides huge amounts of money to protect the natural environment, restore cultural monuments, and preserve native cultures. We start to understand people with very different backgrounds. Tourism provides a break from the stress of an everyday routine and fulfills the dreams of leisure travellers. This industry includes gross output, added value, capital investment, employment, and tax contribution that help to achieve the growth of economy.

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Summary

In the article the author reviewed the various definitions of «tourism», identified their advantages and disadvantages, and divided the approaches into three subcategories: economic, technical and holistic. Considerable attention is given to the review of opportunities for further development of the tourism industry, considered its contribution to the sustainability of the national economy. In the article it is argued that development depends on both external and internal factors, among which the most important are political and economic stability, mechanisms of state and regional governance. Based on various, already existing approaches the transformation of approaches to the definition of «tourism» in the socio-economic context are explained.

Keywords: tourism definition; socio-economy importance; holistic approach.

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CONTROLLING MECHANISM IN THE HEALTH CARE SECTOR: FEATURES AND IMPLEMENTATION IN UKRAINE AND IRAQI KURDISTAN

Olga Degtiareva, Niyaz Adnan Mohamed Ali*

1. Introduction

The need for a reform in the health care sector started to be understandable both in Ukraine and in Iraqi Kurdistan on all decision-making levels. The main common feature of medical services in these countries is the predominance of the state ownership and state regulation. In such conditions hospitals face the lack of financing and ineffective managing. But in Kurdistan Regional Government's (KRG) condition the financing problem is more complicated than what can be seen in Ukraine because of overall state budget shortage, which mainly depends on oil revenue from two resources: first, about 17% from federal budget and, second, from the oil export directly by KRG ministry of natural resources. This situation leads to instability of the budget revenue in the region [1–4]. This revenue is not guaranteed due to many reasons (e.g. fluctuation of oil prices in the international market, political and security instability, high ratio of government current expenditure comparing to the investment outlay etc.) and that leads to striking the capability of government to finance the introducing of new technology in this sector which is too essential for KRG to develop medical services and increase both efficiency and productivity which can be obtained through changing the model of the sector from labor intensive to capital intensive one. That can be done only if the region adopts adequate strategic plan for the sector and solves the problem of lack of qualified personnel which significantly depends upon importing from abroad.

The above mentioned strategy needs the reform of management style and organization inherited from long ago time and is not suitable for modern challenges in this sector.

The other specific feature of the health sector in KRG is a very strong competitiveness. In order to be able to play its appropriate role in such market it needs to assure the reason for higher productivity, business efficiency and other market requirements. The features of competitiveness in the region have two dimensions (private and public), that are not equal: comparing to the private health services, the public ones are weaker because of the following reasons:

- miss organization and management;
- lack of incentives;
- low level of cure quality and revenues from medical services provided;
- two times lower the number of skilled health manpower especially doctors and the intermediate personnel;
- the policy of the government is directed to the benefit of private sectors development.

Concerning private hospitals, they have no problems with financing because of their high profitability, and that is obvious when following the increase of private hospitals, which number is about 20, and the investors in hospitals constructing – 25 new one. The second competitive advantage arises from the high quality of medical services in neighbor countries especially from neighbors who conquer both domestic public and private sectors.

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The Ukrainian former minister of Healthcare Alexander Kvitashvili announced new policy in financing of hospitals by the state that already started in 2015:

- state support only for quantity and quality of medical services, not beds which brings competitiveness among medical organizations and doctors;
- implementation of international DRG-system (Diagnostic Related Groups) for calculation of medical service costs that will secure similar price-building in all Ukrainian hospitals (this issue is also very important for KRG in order to guarantee the quality of services provided by private sector as well as to the service prices for each kind which until now is uncontrolled and the medical services do not fulfill their social object correctly);
- private entrepreneurship of basic medicine services in agricultural regions; this issue must be focused on by decision-makers in health sector because of high disproportion of diffusing the medical services between not only the urban and rural areas but also the big cities comparing with the smaller ones;
- legalization of commercial medical services;
- introduction of insurance medicine in the nearest perspective. This issue is also regarded as the main factor for equalizing the right of inhabitant to benefits from the efficient medical services.

The controlling concept offers solutions for optimization of utilizing all scarce resources, informational support for better managerial decisions. That can help hospitals sustainably develop and create new conditions. It is to mention that private entrepreneurs (SME) can rarely benefit from the full controlling implementation. But they can use certain controlling tools for enhancement of their efficiency and profitability.

The structure of the paper is as follows: We introduce the controlling concept with basic definitions and its implementation as medicine controlling in Section II. In Section III we demonstrate core elements of medicine controlling system and medicine controlling mechanism. Then we study the multi-dimensional mechanism in the Ukrainian and Kurdistan health care sector. We conclude with the suitable conclusion and required suggestions in Section IV.

2. Medicine controlling in theory and practice

Before arguing the controlling concept in the health care sector, let us principally define the term “controlling”. In contrast to the terminological roots in the English language and the Anglo-American “controller” tradition, the notion of “controlling” specifies a unique approach to management and beyond it [5]. The controlling concept means therefore good harmony among profitability, growth and risk-taking factors in business. It embraces the fields of management, planning, costs-benefit analysis, control, coordination and organization. Both these statements show that controlling is philosophy and a way of thinking, which can be extended to the decentralized management area also through information management.

Countries looking for reforming in the health care sector seek through new approaches and best-practice transfer to the sector. Implementation of the controlling concept can be big step forward lead to effective and transparent medicine services. Business success of the controlling implementation in other sectors of national economy as well as in health sector for other countries is regarded as the best source of knowledge and transformation of experience to the countries health sector. In our research we investigated hospitals and other health service organizations in Germany, Ukraine, and Kurdistan. The medicine controlling has already found its place in German hospitals and is absolutely unknown in Kurdistan and Ukrainian ones. In our opinion here is the reason for best-practice transfer in this domain, but with multidimensional theoretical research and adaptation to economic, social, and political conditions in our countries.

Despite its implementation in Western Europe, the medicine controlling is still a new form of hospital management and still is developing its theoretical and practical aspects. Hence the

medicine controlling concept is pretty new; we have met several different practical approaches regarding medicine controlling, depending on region. Thus, Western-European medicine controlling concept – including hospitals in Germany – see the task of medical controlling in successful integration of medical know-how in the controlling function [6]. Certainly it means there can be differences between the techniques used by medical organizations to put it into practice. In Russian Federation they see the medicine controlling as an integrated managerial accounting system for internal control and management. Its main calling is to provide the quality of medical services by monitoring in hospitals following important components: Quality Management System, Quality Standards, Resources, Technologies, Competence, and Security [7]. It is therefore more logical to speak of the TQM (Total Quality Management). Australian approach covers implementation of the DRG-system as a catalogue of 661 services with standard costs and values.

Comparing to industry the starting situation in health care sector is pretty tough for building an effective and profitable controlling. It needs large work for preparing data bank for decision-makers, especially those required for costs and services revenue (benefit) calculations. As far as the state regulates not only external reports, but also the managerial accounting, health care organizations are not so flexible in building own accounting. That is why the DRG-system started to be so popular in different countries where the government was looking for a balance between the state regulation and business independence of the health care organizations.

The medicine controlling as a system of planning, management and control in medicine services requires a managerial accounting of costs and results for accomplishment of the following objectives:

- transparency of certain activities and processes with registration of provided services to single patient (from admission till discharge from the hospital);
- following calculation of total costs of given medical services, efficiency control comparing to value of corresponding position in the DRG-catalogue;
- information for guaranteeing the nominal quality level of treatment with the lowest usage of resources, e.g. influence on personnel behavior.

That is why the process-oriented costs accounting method is the best solution for cost management in the health care sector. An example of process-oriented calculation is presented in Tab. 1. It allows to provide the transparency of processes, results and costs in every department of hospital. This transparency is obligatory for implementation of the medicine controlling.

Tab. 1. Costs and Services Report in Dayk private hospital in Erbil, Iraqi Kurdistan

| Items | Operation cost price, US\$ | Service, US\$ | Total, US\$ |
|------------------------|----------------------------|---------------|-------------|
| Dilation and cartage | 232 | 81 | 313 |
| Cesarean section | 488 | 162 | 650 |
| Abdominal hysterectomy | 650 | 162 | 812 |
| Myomectomy | 400 | 162 | 562 |
| AP repair | 488 | 162 | 650 |
| Normal delivery | 400 | – | 400 |

Another important purpose of the medicine controlling is the analysis of market and competitors, information on personnel, diagnosis and scheduled treatment. This information is to be used for the further development of the medicine organization. Besides controller is a nexus of medicine personnel and management of organization in the field of plan indexes, budgeting, deviation analysis etc.

3. Controlling system and controlling mechanism in the health care sector

Authors writing about controlling mechanism issues often do not make big difference between controlling system and controlling mechanism [8; 9]. Their confidence is based on the fact that as controlling system, so controlling mechanism generally aims to economize on the resources required to operate organizations; to support informatively the decisions-makers; to improve the controllability and efficiency of organization. But are they really identical?

The German academic school [10–13 and many others] unconditionally defines that controlling system is based on controlling core functions – planning, analysis with control, informational support, and regulation. Leonid Hurwicz and Stanley Reither, the winners Nobel Memorial Prize in Economics, see the economic mechanism as a “... mathematical structure that models institutions through which economic activity is guided and coordinated” [14]. Thus, the controlling mechanism is not only a combination of its functions, but a complicated structure that integrates business goals, controlling functions and instruments. And, obviously, the controlling mechanism is impossible without the working and efficient controlling system.

Fig. 1 illustrates general scheme of controlling system in a hospital that is based on controlling theory and hospitals’ business processes. As it was abovementioned, the classical approach to controlling-theory and praxis [15; 10–13 and many others] defines four main functional activities of controlling: information supply for managerial decisions, planning as an essential element of any business activity, result-oriented control with analysis of deviations from plan, and coordination for higher controllability of business-processes in organization. The combination of these four is a core approach to any controlling system with no dependence on sector of economic, size of business etc.

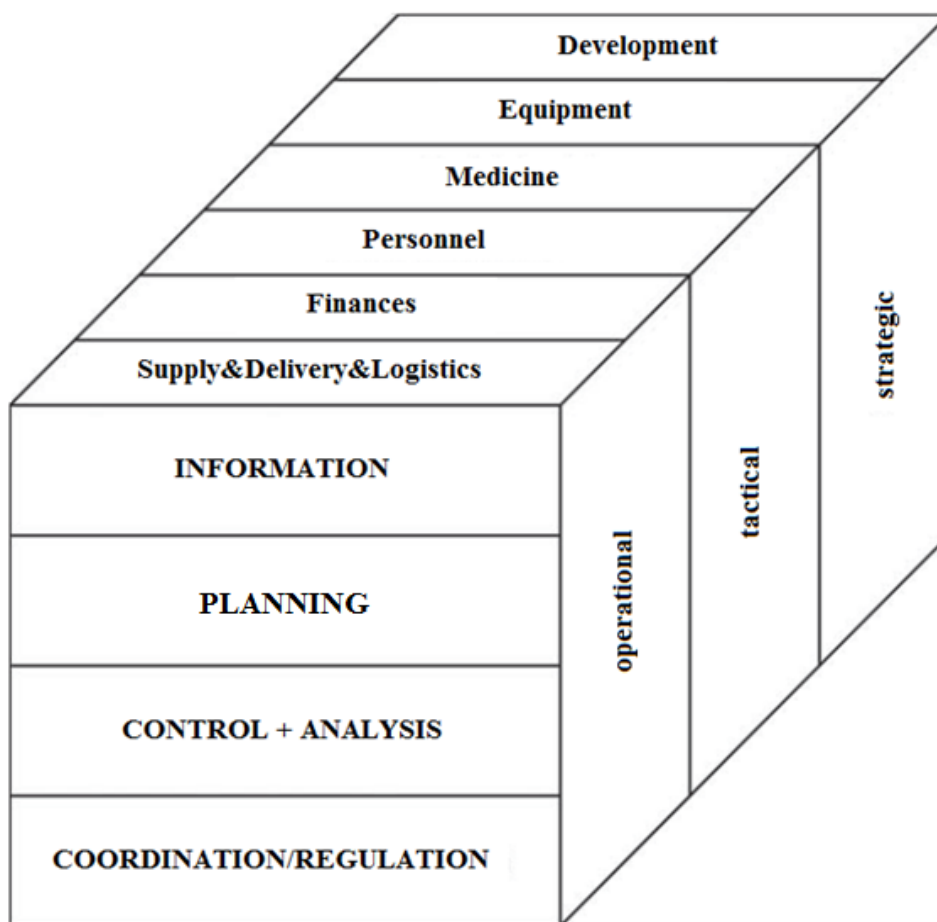


Fig. 1. General scheme of controlling system in hospital

Controlling covers all business processes in organization; otherwise there is no system approach and no controlling system. Therefore another dimension of controlling system in hospital is the

level of decision-making combined with certain group of business-processes. Thus, controlling carries out informational support of managerial decision concerning hospitals' finances, supply, delivery and logistics on operational level. Controllers also plan cash-flow and expenditures, make budgets as generally for entire organization and separately for certain departments (ex. logistics, marketing etc.). Then they control results and analyze deviations from plan in order to find causes and avoid such deviations in future. In order to provide controllability, business transparency, and higher efficiency the controlling system coordinates activities of mentioned dimensions.

Tactical decisions in controlling system cover personnel and medicine issues. Thus, any job in the health care sector requires certain knowledge in the medicine area (control of diagnose codes and provided services, design of treatment programs or deviation analysis), the medicine controlling calls for joint actions of personnel both with medical and with economical background. That means that one department is not able to cover objectives and tasks of medicine controlling, its success depends on cooperation of many employees in different departments.

The last tendency in controlling concept development is using of controlling to make strategic decisions. The first steps here are decisions on real investments and analysis of hospitals strategic development.

The modern economics is obviously the environment that gives opportunity for business companies to combine harmonically the information system and strategic approach. New IT-solutions have already become a part of business-processes, thus many companies made a big jump in their efficiency. That is why integration of information technology and information systems into infrastructure of health care organization is an essential requirement for a high level of its adapting potential.

In conditions of nonlinear economics the classical management methods are not able to provide an adequate result because of the need to operate with a huge amount of empirical data and to handle information with sizeable timetable. Thus, the efficiency of health system and a particular hospital can be achieved through controlling mechanism, which in nonlinear business environment defines trajectory of hospital development and react in time to incipient deviations.

The controlling mechanism is a set of controlling methods, approaches, forms, instruments, and other influence leverages on processes in business organization. Such medicine controlling influences organizational, economic, medical, and informational spots in hospital for the general effect (Fig. 2).

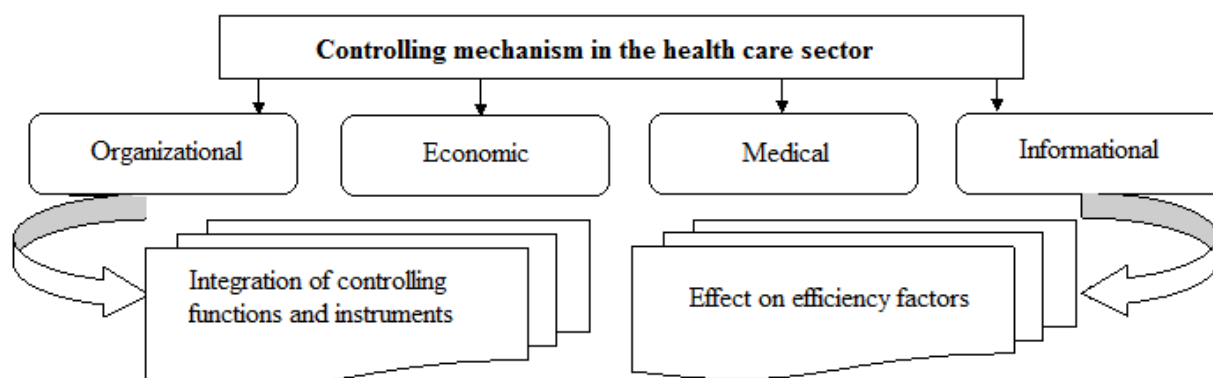


Fig. 2. Core basics of the controlling mechanism in the health care sector

As it is clear from the previous illustration the controlling mechanism system has many advantages on the benefit of development and increasing the efficacy and quality of services in the sector. In spite of it there is no implementation of this system because of:

- Highly centralized management.
- Lack of transparency.

- Bad organization of information system.
- Bad venue and building conditions in private hospitals.
- Unclear regulations.
- Unqualified managerial cadres, in which all this task is carried out by the owner directly.

4. Conclusions

Controlling covers different business sectors and different business directions. Thus, there are industrial controlling, bank controlling, finance controlling, energy controlling etc. It is time to discover the medicine controlling. The medicine controlling is able to become a management information/finance center in hospital, economizing the utilization of human and material resources in order to guarantee the best results embodied in high quality medicine, and rationally using different kind of medicine services inputs in order to obtain optimal efficiency, productivity and goals of plan.

Controlling mechanism is not the same as the controlling system. Controlling system is a more comprehensive system comparing with the first one because the controlling system actually is devoted to one or two objects for example controlling the quality of product or the funding of costs etc., but controlling mechanism is a more complicated system dealing with all the activities related to the management activities.

Ukrainian and Kurdistan medicine environments have common features, that is why the similar controlling mechanism can be implemented in both counties. (Please discover the idea) ex.

The implementation of controlling mechanism in health sector in KRG depends upon many preconditions regarded as the preparation for appropriate environment for that aim, such as:

- Reorganizing management of the sector in modern style.
- Fulfilling the big shortage of the data information and statistics.
- Preparing human skills capable to implement and caring out the issue of controlling mechanism in KRG health sector.
- Focusing on mobilizing and best using of the finance resources and the way of its development.

The adequate implementation of the controlling mechanism is impossible if it is not integrated in the modern planning system taking this into consideration as the wide meaning of planning. Thus, it is also efficient to put the medicine controlling concept into practice in many hospitals in other countries regardless if it is in public or private sector.

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Summary

The health care sector faces many different challenges both in Ukraine and in Kurdistan nowadays. Some these challenges are similar, other reflect the unique path of medical services development in the country. But obviously many environmental changes have led to a much stronger competitive pressure on hospitals both in the field of medical standards, cure conditions infrastructure, state regulation etc. and in the field of managerial efficiency, financial and business transparency of every single hospital. This paper presents theoretical assumptions and practical guidance for creation a controlling mechanism that achieves specified performance, and economizes on the resources required to operate organizations in the health care sector, i.e., informational efficient mechanisms. Our systematic approach is a formation of controlling instruments joined in one efficient mechanism that can help to ensure own survival of hospitals by improving their efficiency and competitiveness.

Keywords: controlling; controlling mechanism; controlling system; medical services; Ukraine; Iraqi Kurdistan.

JEL classification: I100

UD classification: 614(477+556)

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THE EFFICIENCY OF THE USE OF LOAN CAPITAL BY JORDANIAN BANKS

Altayawe Fathi*

1. Introduction

In the current domestic and foreign economic literature an understanding of economic efficiency is often treated as a performance activity. Accordingly of most economic and financial dictionaries they treat efficiency as a relative effect or effectiveness (as individual aspects of the subject of activity and all of its activities), providing positive feedback of the expenditure incurred by itself [1]. The effectiveness of the use of loan capital is one of the most urgent topical problems of every modern bank, as depending on the volume, timing and cost of attracting deposits it largely depends on the performance of all credit operations of the bank (deposits and lending), and even the reliability of its own.

2. Analysis of studies and publications in recent years

Studies of efficiency concepts are devoted by foreign and domestic scientists, among which should be mentioned first of all, works of such foreign economists as I. A. Blank, V. Bogatin, A. D. Vyvarets, L. V. Distergeft, R. Dornbusch, E. G. Zudov, B. C. Ivanitsky, V. V. Kovalev, H. Liebenstein, N. M. Ratner, O. A. Romanova, A. Ross, M. Savina, T. S. Khachaturov, Paul Heine, K. Phipps, S. Fischer, V. A. Shvandar, S. M. Shefrin, R. Schmalensee, D. A. Endovitsky, and others. Among domestic economists, the works of such scientists as a G. I. Bashnyanin, M. A. Bolyuh, V. I. Osipov, S. F. Pokropivny, L. I. Schwab and others deserve the attention. It should be noted that most of the listed authors consider efficiency as the effectiveness of the measure in quantitative aspect. At the same time domestic economists, rightly considering that the concept of “efficiency” comes from the word “effect” (“result” from the Latin) consider the effectiveness as the final positive result obtained from the subject’s activity, or the result of the use of its resources, allowing increasing its income.

3. Tasks setting

The article deals with the efficiency of loan capital of Jordanian banks as the ratio of the effect obtained from using it to its expenses (bank interest received for its attractions), which caused its formation. The effectiveness of the use of loan capital characterizes the effectiveness of its use. Accordingly, the efficiency of using the loan capital is the effectiveness of the credit process (deposits and lending operations) of the bank, determining the ratio it received of interest margin (because of the use of loan capital in the credit activities of the bank) to expenditures that provide its revenues. (Expenditures obtained by percentage). The purpose of the article is to study the nature of the loan capital and the efficiency of its use by Jordanian banks.

4. Expositions of research material basics

The activities of banks as credit institutions are based on credit (economic relations relative to the revenues flow) which help the banks to form the loan capital, interest bearing, and give out the loans.

Loan capital represents money of the capital concentrated and is based on a credit-based bank ability to generate profits. The money-capital, attracted by banks in the form of the various contributions received its name “Loan” because, that it is intended to provide loans to banks. Not casually several economists characterizing banking activity believe that the banks – is “... a

* © Altayawe Fathi, Postgraduate student of Banking Department; Odessa National Economic University.

special kind of business, associated with the movement of loan capital, mobilization and distribution” [2, p.6; italics E. Zh. stressed A. F.; 3, p.70].

Considering the specific nature of capital, interest bearing (the loan capital), K. Marx wrote: “... The owner of money who wants to use the money as capital, interest-bearing, alienates it to a third person, throws it into circulation, makes it goods as *capital*, – as capital, not only for itself, but also for others. It is the capital not only for the person who alienates the money, but also to a third person, they are already start transferred as the equity, as the cost, which contain a use-value, it creates surplus value, profit; as the cost which is in the motion, is retained and after its operation is returned initially expended to its face, in this case, the owner of the money; therefore, only for the time it is removed from the hands and from its owner only temporarily passed into the possession of a functioning capitalist, the payment is not received and is not sold, but only given as a loan, only under the condition of alienated, that after a certain deadline it firstly returns to its starting point, and secondly, will return as realized capital and realizes its use value, its ability to produce surplus value” [4, p.377]. The motion of loan capital (interest-bearing capital) unlike the industrial and commercial capital has only one form of value – money, meaning thereby, that the loan capital is in monetary form only value ($M - M'$). Diagrammatically motion of loan capital is represented in Fig. 1.

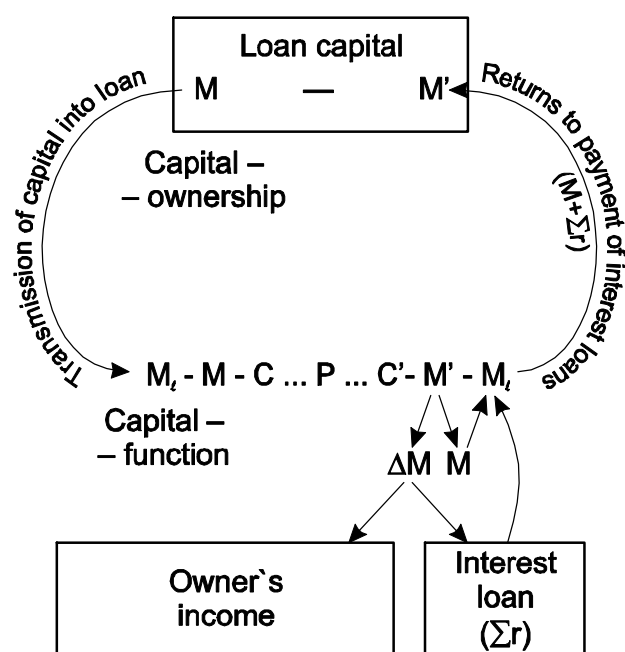


Fig. 1. Scheme of movement of loan capital [5, p.374]

As it is seen in Fig. 1, the loan capital is a specific form alienation – of the loan form. Not casually, K. Marx notes that “... Giving money loan for a certain time, and getting it back with interest (Surplus value) – that is the whole form of motion inherent in the capital, interest bearing, as to that” [4, p.383]. Under such condition, the loan, as a specific form of alienation of loan capital, has the character of a return motion. However, bank established monetary capital at the expense of attracted deposits by it and intended for the grant of loans, accordingly, received its name – loan capital as monetary capital, dedicated for the issuance of loans. Fig. 1 also shows that the alienation of loan capital in the form of loans, it (the capital) it splits into capital-ownership & capital-function, which on the one hand, as the circuit operates in the borrower ($M - C ... P ... T' - D'$), and on the other hand, the same amount for the creditor is as a capital-ownership. It belongs to the owner of capital borrowed. It follows from that the loan capital – is a capital-ownership.

Loan capital has the form of goods, that capital as the goods, which the owners of loan capital “sell” as goods. However, the use value of loan capital as a goods, is different from the use-values of

ordinary goods and it lies in the ability of this particular specific goods – capital loan (disposed in the form of loans) to make a profit (“...append and add value” [4, p.386].

Fig. 1 also shows that obligatory attribute of loan capital is interest loan, exacted by the owner of the loan capital as a reward for the temporary provision of capital in the form of employer-borrower loan. Interest on loans is an integral part of the loan capital – monetary capital, interest bearing.

It is pertinent to note that the loan capital grows faster than real capital, firstly, because when commercial banks' lending to their customers can multiplicatively expand monetary weight, and in addition to make loans in excess of their available resources; secondly, because a growing number of banks and their branches increased volume of attracted funds by banks [7].

It merits attention that the larger loans is issued by banks with loan capital, so consequently the greater weight and interest is received as well as is the interest margin, and net income and efficiency of assets used [6]. On the other hand, if the volume of loans issued by banks exceeds the volume of their attracted deposits (created by banks loan capital), there is a potential violation of the bank liquidity. In this case, if the loans/deposits ratio is greater than 1, then it usually reduces the liquidity of banks, as it creates a risk of the untimely return of deposits (or else requires the costs of raising the additional amount of cash), in connection with which the need for maintaining its liquidity by banks is increasing.

Investigation of the effectiveness of capital loan use, formed by Ukrainian banks showed that the ratio of loan capital to assets of banks is from 71.8% to 76.1%, and a tendency to grow, while the volume of loans provided by Jordanian banks in the economy of Jordan does not exceed 50% of their assets, that can be concluded as low effective use of capital loan created by the banks, which is clearly seen in Fig. 2.

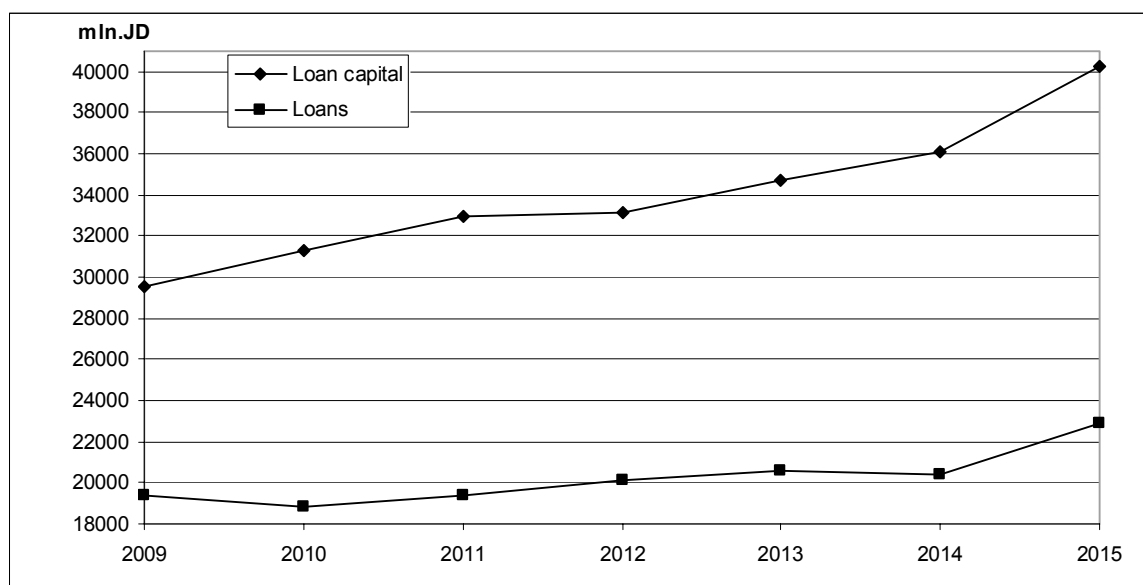


Fig. 2. Dynamics of capital loan and loans granted Jordanian banks in 2009–2015

As can be seen in Fig. 2, loan capital of Jordanian banks issued almost twice as much of their loans and shows a tendency to grow. This means that the costs of Jordanian banks for the payment of interest on deposits are growing and significantly reduce the possibility of increasing interest margins of banks, thus reducing the efficiency of the use of capital loan.

5. Conclusions

The study of efficiency of use of capital loan in Jordanian banks leads to the conclusion that it was of insufficient efficiency use during almost all the years of the studied period. At the same time, the expansion of the volume of Jordanian banks' lending operations are advisable to carry out due to an increase in lending in the real economy and, above all in agriculture and industry. Analysis showed

that within the period of 2009–2015 the largest volume of loans was granted by Jordanian banks to the private sector (residents – economic entities), while the volume of loans issued in the sphere of material production did not exceed 39% of total bank lending in the studied period. In this case, the largest (21%) share of loans was directed to the construction, less than 15% – to industry, and ten times as little (that less than 1.5%) – to agriculture. In addition, if the specific weight of loans provided by banks in the Jordanian industry and construction had a tendency to grow, then relative weight of loans provided to agriculture had a tendency to decrease. Expansion of lending Jordanian banks in the material sphere of production and, above all, agriculture, enabling them to increase the volume of interest received (with the same amount of interest paid) interest margin, and as a consequence, enlarges a net profit of banks and, consequently, the effectiveness of the use of their assets and capital.

Under these conditions, an increase in the use of loan capital in Jordanian banks will not only increase the efficiency of its use, but will also contribute to the development of the national economy.

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Summary

The article is devoted to the efficiency of the use of loan capital by the Jordanian banks. The article shows the character of the movement and a form of the monetary value of the loan capital. It shows the relationship and differences of the loan capital from loan and credit. It shows that loan interest is an integral part of the loan capital – monetary capital, bringing the loan interest and exacted by the owner of capital from the borrower as a reward for providing it in a form of a loan for a period. The article also shows that the share of loan capital of Jordanian banks in some years exceeded 3/4 of their liabilities and, accordingly, the value of assets. During the studied period (2009–2015 years) the share of loan capital increased from 71.8% to 76.1% and nearly twice as many loans were issued by them, which allows the make conclusion about underutilization of the Jordanian banks of the loan capital created by them. However, the increase in the volume of granted loans allows the Jordanian banks to increase the total amount of interest received (with the same amount of interest paid), interest margin, and, accordingly, increase the return and the efficiency of the use of loan capital. Under such conditions it should be noted that today there is the prospect of more efficient use of loan capital by the Jordanian banks.

Keywords: efficient use; loan capital; loan interest; loan; credit; interest margin.

JEL classification: G210

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THE ECONOMIC SITUATION OF HOUSEHOLDS IN SELECTED EU COUNTRIES

M. Grzywińska-Rapca, M. Grzybowska-Brzezińska*

1. Introduction. The economic situation of households

In the classifications of consumption factors there are different types of criteria underlying extract [1]. In shaping the structure of consumption the main determinant is played by economic factors. They are instrumental in shaping consumption models [2], but should not be treated as the only factor to change consumer behavior. There are close relationships between income, consumption and savings in households [3]. In principle, consumption and savings are financed by income. And so the primary goal in the household is not only to meet current consumption needs, but also to meet the needs in the long term. Often, directing part of the proceeds toward the cost savings is associated with partial negligence of current consumption. The question about how those needs are to be implemented and to what extent determines usability assessment by members of the household [4]. An important task of the household is, therefore, to take a decision and to establish a hierarchy of needs and order of their meeting, depending on the multiple determinants that affect both the need and the level, and structure of consumption [5].

The economic situation of the household not always allows you to create savings. Their financial resources are mainly based on consumption, and subsequently allocated to savings and investments. The level of disposable income of households is a factor in determining the level of savings, the net assets and loans, and commitments. No matter what strategy the allocation of financial resources the household will take (branching, dual, parallel or sequential), earnings are a good starting point. You can treat disposable income as a determinant of inequalities that are unavoidable and even necessary to a certain extent – are in fact part of the incentive mechanisms in consumer behavior. The income situation of households directly determines the structure and the level of financial resources allocation [6].

2. Objective and research methods

The aim of the presented study is the assessment of the spatial variation of the financial resources of households in selected EU countries in 2012. Included in this study features are: revenue at the disposal of the gross savings, loans and liabilities and net financial assets of households.

Secondary data were used for the analysis of collected and published in the Eurostat database. These studies were designed to obtain an answer to the question what the level of household characteristics was analyzed in selected EU countries (in 2012) and the determination of the distance between Member States as regards the level of savings and debt. Statistical analysis of diversification has been carried out and variables have been tested in terms of one-and multidimensional.

Deterministic imputation methods based on measurement of similarity can be used as far as the similarities described by Euclidean distance or Mahalanobis distance [6] at work have been used in an attempt to observe the Mahalanobis dipping measure [2; 4].

A measure of the dipping Mahalanobis ($Mzan_p$) we call a function

$$Mzan_p(\theta; P_n^p) = [1 + Q(\theta, P_n^p)]^{-1} \quad (1)$$

$$\text{where } Q(\theta, P_n^p) = (\theta - \bar{x})^T S^{-1} (\theta - \bar{x})$$

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Mahalanobis distance is a vector θ from the vector average \bar{x} , with the $\theta = \begin{bmatrix} \theta_1 \\ \theta_2 \\ \dots \\ \theta_p \end{bmatrix}$, $\bar{x} = \begin{bmatrix} \bar{x}_1 \\ \bar{x}_2 \\ \dots \\ \bar{x}_p \end{bmatrix}$,

$\bar{x} = \frac{1}{n} \sum_{j=1}^n x_j$, S is the matrix of covariances between contemplated p vectors, while the S^{-1} is the matrix inverse.

In a measure of the Mahalanobis was designated co-pilots for each point of a data set to be analyzed. Its coordinates are the values of the variables tested in 2012. Measure values dipping belongs to the interval from 0 to 1. Member States, which correspond to the higher value of this measure are located more centrally in the data set. It can be assumed that the analyzed features take in these countries typical values. A measure of the dipping of observation in the sample allows you to designate similar States due to numerical values of variables. The State, which corresponds to the highest measurement value dipping is the most central in the data set.

Used later in the analysis of value characteristics (level of gross disposable income, savings, loans and liabilities and net financial assets) in the households of the individual Member States of the EU are presented in tab. 1.

All of the characteristics analyzed are characterized by high volatility. A variable indicating the greatest differentiation is disposable income of households, for which the standard deviation of almost 2.5 times exceeds the value of the average. Positive values of skewness indicates a strong asymmetry of the positive. In order to obtain an answer, in which Member States analyzed the typical values characteristics take calculated measures dipping Mahalanobis (Tab. 3) with the model 1.

Tab. 1. Values in millions of euros (gross saving, gross disposable income, the amount of loans and liabilities and financial assets) of households in 2012

| The State | Gross savings* | Gross disposable income** | Loans and liabilities*** | Net financial assets**** |
|----------------|----------------|---------------------------|--------------------------|--------------------------|
| Belgium | 35768,20 | 234666,20 | 209898,81 | 816389,66 |
| Czech Republic | 230346,0 | 2174514,00 | 1245943,00 | 2646609,00 |
| Denmark | 63378,00 | 959017,00 | 2545066,00 | 2229143,00 |
| Germany | 301800,0 | 1835670,00 | 1551712,00 | 3372819,00 |
| Estonia | 422,96 | 9336,60 | 7512,60 | 6321,50 |
| Ireland | 8846,74 | 87144,19 | 172331,00 | 139914,00 |
| Spain | 70666,00 | 681074,00 | | 877844,87 |
| France | 210086,1 | 1382363,00 | 837196,09 | 2832774,00 |
| Italy | 125317,0 | 1078992,62 | 1151948,00 | 2786692,00 |
| Cyprus | 1772,00 | 12959,40 | 710318,00 | 19790,37 |
| Lithuania | 641,68 | 72364,18 | 27249,70 | 54073,86 |
| Luxembourg | 3360,50 | 17046,70 | 24359,31 | 31702,09 |
| Hungary | 1233797, | 16606167,00 | 8965786,00 | 18922067,00 |

* part of disposable income is not intended for consumption. If the savings are positive – unspent income is used to purchase assets to repay liabilities. If savings are negative-some assets are liquidated or certain obligations are growing.

** the income available to the household sector, gross is obtained as a result of correcting gross primary income by: taxes on income and property, contributions to compulsory social security, social insurance benefits, social assistance benefits and transfers.

*** arose from the past events of the obligation to forward in the future to another entity in the form of goods, services, money or other economic benefits.

**** the total value of the financial assets of the household less the value of its total debt.

Cont. of tab. 1

| | | | | |
|----------------|-----------|------------|------------|------------|
| Netherlands | 32891,00 | 306185,00 | 766506,00 | 1150632,00 |
| Austria | 24419,80 | 193439,50 | 167204,31 | 360919,40 |
| Poland | 49080,00 | 1029442,00 | 554673,00 | 806977,00 |
| Portugal | 14825,93 | 123318,80 | 150946,46 | 223233,94 |
| Slovenia | 2720,85 | 22823,92 | 10740,05 | 25346,97 |
| Finland | 10415,00 | 118961,00 | 125887,00 | 100173,00 |
| Sweden | 297781,0 | 2016029,00 | 2967962,00 | 5228013,00 |
| United Kingdom | 80168,00 | 1112873,00 | 1467970,00 | 3004054,00 |
| Norway | 183102,00 | 1359683,00 | 2451956,00 | 424571,00 |

Source: own calculations

Measure for Member States Norway and Sweden dipping reached the lowest values. Austria, Portugal and Ireland reported the highest level of all the features in the year 2012, while the lowest level occurred in the case of Hungary.

In order to analyze the spatial variation in classic statistical measure used variables were tested (Tab. 2).

Tab. 2. Numeric characteristics of variables

| Variable | Gross savings | Gross disposable income | Loans and liabilities | Net financial assets |
|--------------------------|---------------|-------------------------|-----------------------|----------------------|
| The Average | 135528 | 1428821 | 1186967 | 2093639 |
| The Median | 42424,1 | 493629,5 | 632495,5 | 811683,3 |
| Minimum | 422,964 | 9336,601 | 101 | 6321,5 |
| Maximum | 1233797 | 16606167 | 8965786 | 18922067 |
| The standard deviation | 264177 | 3463063 | 1956340 | 4029150 |
| Coefficient of variation | 194% | 242% | 164% | 192% |
| Skewness | 3,728516 | 4,377047 | 3,267425 | 3,777899 |

Source: own calculations

These countries can be considered lagging due to the lowest and highest values of variables. Mahalanobis distance low values for the variables of gross savings gross disposable income have been observed for Spain and Italy. The highest measurement value dipping in 2012 respectively correspond to the countries: Sweden and Germany.

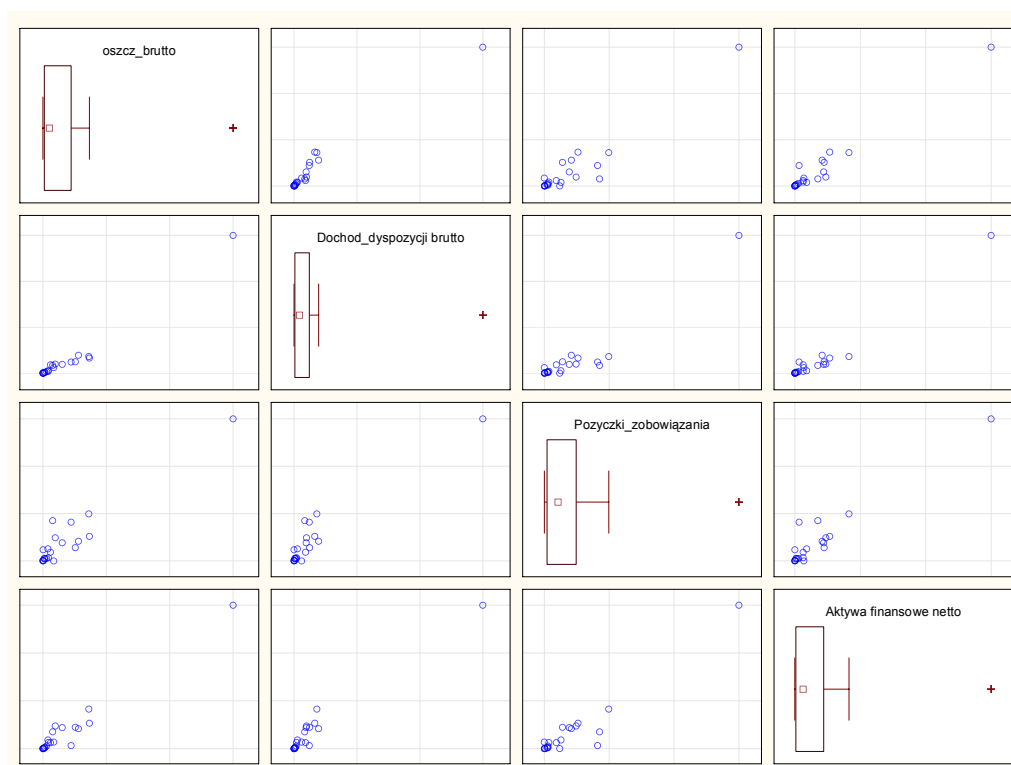
Measure dipping posted in table 4 has helped to make the classification of selected European countries due to the corresponding value of the measurement. For the purposes of analysis three measurement value class members have been defined and dipping into particular classes has been summarized (Tab. 4). The matrix chart (Fig. 1) indicates a positive relationship between the analyzed variables. It is statistically significant for a significance level of 0.05. The lowest value of the Pearson product moment correlation coefficient occurred in 2012 between the income and gross loans and commitments ($r = 0.94$) and financial assets and loans and commitments ($r = 0.95$). The value of the other coefficients of correlation were above 0.97. This indicates a very strong linear correlation between the characteristics of the examinees.

Countries belonging to the same class can be considered similar because of the numerical values of the analyzed variables. Most countries belong to class C. The calculated values of the measurements have allowed the EU selected order dipping due to the level of the analyzed features. This made it possible to extract groups of Member States, with a similar economic situation of households in 2012. European countries are characterized by a wide variety in terms of the economic situation of households. These differences may result from the level of economic development (e.g. the level of GDP, the public debt) and with different economic structures.

Tab. 3. Measure for the Mahalanobis dipping characteristics

| The State | Mahalanobis distance for the variables | | |
|----------------|--|---------------------------------------|--|
| | for all variables | gross savings gross disposable income | net financial assets loans and liabilities |
| Belgium | 0,734653 | 0,398895 | 0,713368 |
| Czech Republic | 1,296497 | 0,779299 | 0,351678 |
| Denmark | 3,015958 | 0,722740 | 2,137248 |
| Germany | 2,736541 | 2,607927 | 0,489380 |
| Estonia | 0,850042 | 0,690127 | 0,628611 |
| Ireland | 0,724244 | 0,636695 | 0,519316 |
| Spain | 1,246012 | 0,275741 | 1,075134 |
| France | 1,950768 | 1,496580 | 1,154444 |
| Italy | 1,333607 | 0,322155 | 0,610250 |
| Cyprus | 1,085625 | 0,672968 | 0,945365 |
| Lithuania | 0,891566 | 0,751555 | 0,621078 |
| Luxembourg | 0,819756 | 0,652860 | 0,618637 |
| Hungary | 4,443389 | 4,438934 | 4,176703 |
| Netherlands | 0,844638 | 0,483171 | 0,235329 |
| Austria | 0,681007 | 0,506131 | 0,562549 |
| Poland | 1,189792 | 1,091216 | 0,325532 |
| Portugal | 0,708119 | 0,581283 | 0,544531 |
| Slovenia | 0,842431 | 0,668021 | 0,629993 |
| Finland | 0,791882 | 0,643666 | 0,546565 |
| Sweden | 3,120299 | 2,275857 | 0,953279 |
| United Kingdom | 2,158619 | 0,615355 | 0,322243 |
| Norway | 3,949050 | 1,011741 | 3,382996 |

Source: own calculations

**Fig. 1: Graphs matrix for the studied traits**

Source: own calculations

Tab. 4. The classification of Member States because of the measure values dipping

| Class | Dipping measure value | The State |
|-------|-----------------------|--|
| (A) | < \$ 0.00; 0.22) | Hungary, Norway |
| (B) | < 0.22; 0.44) | Sweden, Denmark, Germany, United Kingdom, France, Italy, Czech Republic |
| (C) | < 0,44; 0.66 > | Spain, Poland, Cyprus, Lithuania, Estonia, Netherlands, Slovenia, Luxembourg, Finland, Belgium, Ireland, Portugal, Austria |

Source: own calculations

3. Conclusions

In conclusion, it can be stressed that in terms of the level of financial resources are the States in which the policy should tend towards aligning their chances to better meet the needs of the residents. The phenomenon of such delamination is typical for developed countries economically, but you should hope that in the future this should be reduced.

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Summary

The aim of this study is to analyze the financial situation of households in spatial terms (selected EU countries) in the light of the most important categories of economic well-being of a financial nature, i.e.: gross disposable income, gross savings, the amount of loans and liabilities and assets financial households in 2012 the material in this study were secondary data collected and published in the Eurostat database.

Keywords: households; disposable income; savings; loans and liabilities.

JEL classification: D100

UD classification: 64:338 (061.1)

Date of acceptance: 17.11.2015.

THE MAIN PROBLEMS OF MODERN UKRAINIAN ECONOMY

Yu. V. Irkhina, D. V. Zinkovska*

1. Introduction

The modern economy is characterized by processes of globalization, integration, socialization and informatization, accompanied with increasing of the competition in national and international markets. Moreover, Ukrainian economy is characterized with the reduction of productive and consumer activity connecting with the internal political and economical situation in the country. It leads to the fact that domestic enterprises should adapt its activities to external conditions. This is the only way to maintain their competitive position in the domestic and foreign markets.

However, Ukrainian business has to accurately identify the main trends of the economy in which they operate. It could help to make a program to counter the adverse conditions of the situation and use the most favourable ones.

Analysis of researches and publications of the development of Ukraine economy are discovered not just individual writers but also specialized government institutions. For example, the National Institute for Strategic Studies annually publishes analytical transactions "About the development of the economy" [1]. Also, Ukrainian authors analyze the trends of specific industries, light and agricultural industries, banking, education, etc.

2. The main problems of Ukrainian economy

It should be noted that the study of contemporary problems of economy of Ukraine, occupies an important place in the works of Ukrainian scientists. But not only individual sectors of the Ukrainian economy analyzed but their problems and how to solve them.

It is important to examine trends in Ukraine's economy comprehensively, identify problems and their impacts on the competitiveness of domestic enterprises, and to consider the possible ways to overcome them.

The main aim of this article is the analysis of major trends of Ukraine's economy and key economic indicators (investment, exports and imports) and their influences on Ukrainian institutions and the ways of their adaptation.

Tasks. To analyze the influences on Ukrainian institutions of major trends of Ukraine's economy:

- economic instability;
- high level of inflation;
- change of the directions of foreign economic relations;
- irregular distribution of foreign investments in regions and economic branches.

Each of the selected trends are considered in details.

Economic instability. The modern economy of Ukraine is characterized with the political instability and as a result of social and economic crisis. The falling of real GDP since the second half of 2012, which following the results of the first quarter 2015 has already reached -17.2% in measure of a year, reflection the systemic and structural nature of the crisis, in which the national economy exist

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now (Fig. 1). The highest rates of real GDP in the first quarter 2015 is recorded in the construction (-35,3%), mining industry (-29.4%), processing industry (-25.6%), wholesale and retail trade (-24.8%) [1].

Dangerous trend is caused the problem the reduced consumption in the second quarter 2014. The real final consumption expenditure in the first quarter of 2015 is decreased with 15.4% compared to the same period in 2014. In 2012–2013 even in the fall of GDP were kept slight increasing in the final consumption expenditure. The traditional factor of negative dynamics of lowering of GDP is exports [2].

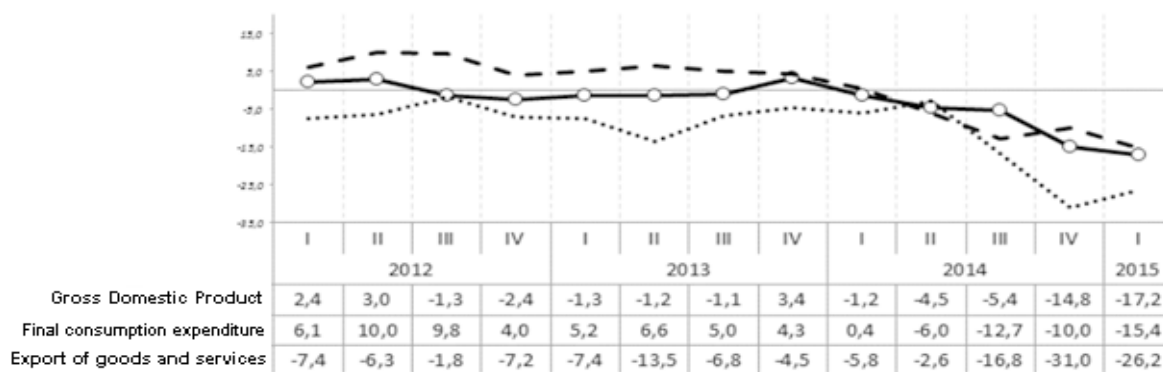


Fig. 1. Dynamics of real GDP in Ukraine in 2012–2015, % to the previous period [2]

High level of inflation. The whole economy is going through difficult times, the UAH lost about 70% against the dollar for the last two years, the inflation is very high [3].

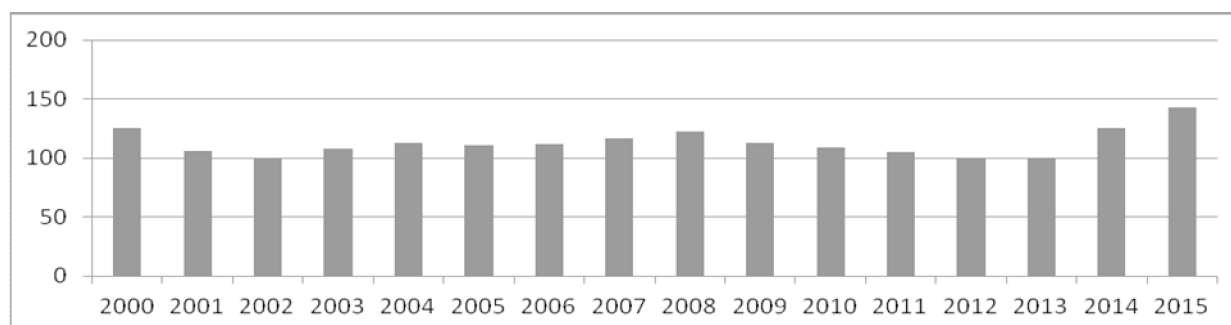


Fig. 2. Dynamic of inflation in Ukraine in 2000–2015, %*

* Compiled by the authors on materials [4]

As we can see in Fig. 2, for the period 2013–2015 a significant increase in inflation was observed the maximum value in 2015. This is related to the political and macroeconomic instability in the country. The processes of inflation are negatively affected both the activities of the company (especially those who work with foreign raw materials) and the consumption in the country.

Change of the directions of foreign economic relations. Ukraine's economy is characterized by continuous improvement of production processes and the desire of companies to reach EU standards. This is due to the change of the priorities of economic cooperation and reorientation of the vector of trade relations with the CIS countries to the EU market. This is showed by the indicators on exports and imports. So during the period from 1996 to 2014, the export of goods to CIS countries decreased from 50.2% to 27.6%, and the import decreased from 28.5% to 18.9% at the same time. The export of goods to the European Union increased from 23.1% to 31.5%, while the import increased from 21.6% to 49.4% (Fig. 3 and Fig. 4).

These trends require manufacturers to improve product quality to European standards and high demands of consumer markets. It is necessary to develop comprehensively all sectors of the economy, but it is necessary reasonable selection of leading, strategic industry, changes which facilitate the development and related areas.

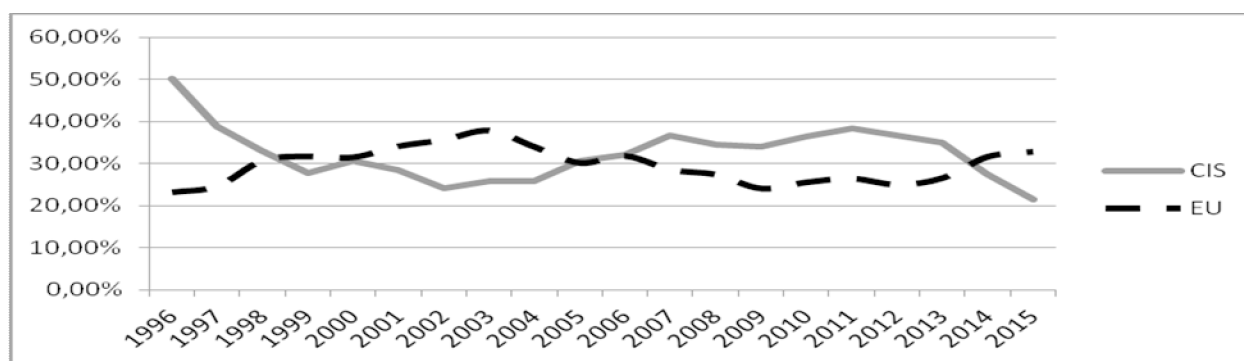


Fig. 3. Dynamic of exports in Ukraine in 1996–2015, %*

* Compiled by the authors on materials [5]

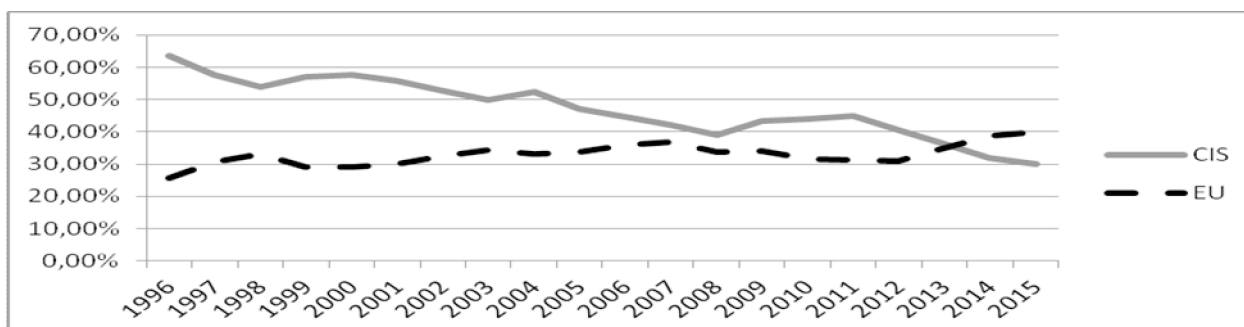


Fig. 4. Dynamic of imports in Ukraine in 1996–2015, %*

* Compiled by the authors on materials [5]

The irregular distribution of foreign investments in regions and sectors.

According to the State Statistics Service in 2015 it was invested 3763,7 million USD and removed 891.3 million USD direct investment (equity) from Ukraine's economy by foreign investors. The reduction of capital due to revaluation, losses and reclassifications, according to the State Statistics Service, during this period of 5245,8 million USD is showed in Fig. 5. As we can see at Fig. 5, the volume of direct foreign investments for the period from 2008 to 2015 had reached the maximum amount in 2013 year. There is a downward trend in FDI after 2013 year. From 2013 to 2015 this indicator decreased to from 57,1 to 43,4 billion USD (-13,7 billions of dollars for period).

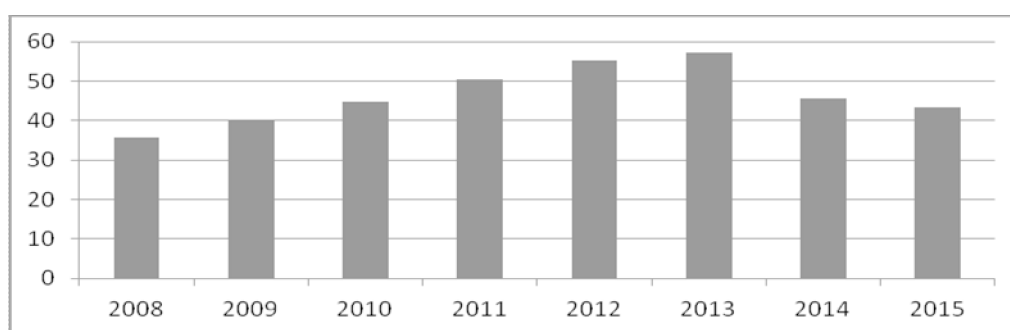


Fig. 5. Dynamic of foreign direct investment in Ukraine in 2008–2015, billion USD*

* Compiled by the authors on materials [6]

The volume of attracted investments from the start of direct foreign investment to Ukraine in 2015 is amounted to 43371,4 million USD. Investments directed to already developed areas of economic activity.

Industrial enterprises are concentrated 30.6% of total direct investment in Ukraine, financial institutions and insurance 27.3%.

The top ten investor countries, accounting for 83.0% of total direct investment, are: Cyprus – 11744,9 mln, Netherlands – 5610,7 million, Germany -5414,3 USD, Russian Federation – 3392,1 million, Austria – 2402,4 mln, United Kingdom – 1852,5 million, Virgin Islands (UK) – 1798,9 USD, France – 1528,1 million, Switzerland –1364,2 million USD and Italy – 972,4 million USD.

The main ten regions of foreign investments: Dnipropetrovsk, Donetsk, Kharkiv, Kyiv, Luhansk, Lviv, Odessa, Zaporozhye, Poltava, Ivano-Frankivsk region and city Kyiv received the most total foreign investments – 93.9 per cent of all foreign direct investment. The leader in attracting investment is Kyiv, and among regions is Dnipropetrovsk (Fig. 6).

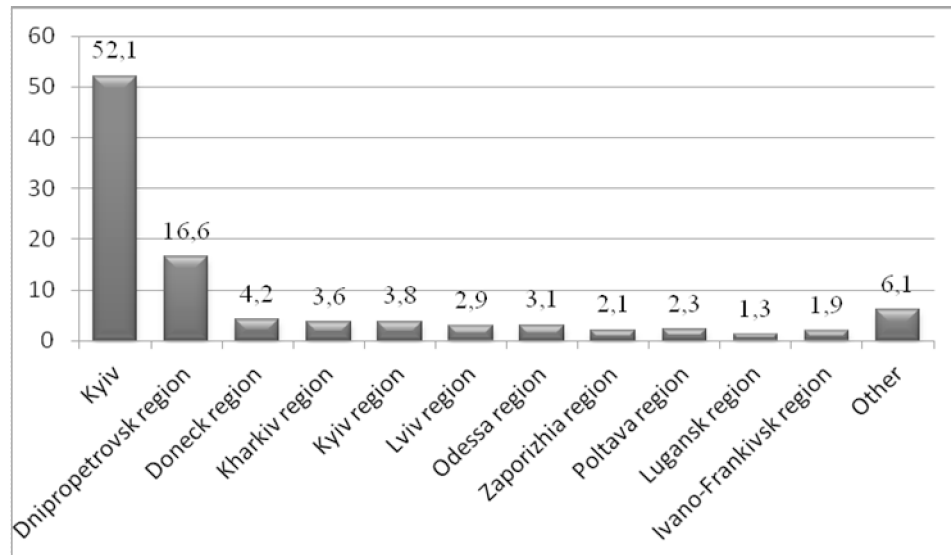


Fig. 6. Regional structure of distribution of foreign direct investment in Ukraine in 2015, %*

* Compiled by the authors on materials [6]

This direction of foreign direct investment and capital investment in the regional context is not conducive to equitable social and economic development of regions and further increase the gap in their development.

3. The main directions of the actions to overcome economic problems

As we can see, identified trends have more negative consequences for the functioning of the Ukrainian enterprises. To reduce the negative impact of these trends are necessary the steps of the enterprises and the state. We considered the main directions of the actions for achieving this goal.

Tab. 1. Areas of action of the State and enterprises to overcome the negative effects of economic problems in Ukraine

| Economic problems | The direction of acts of the state | The direction of acts of the enterprise |
|-------------------------------------|--|---|
| Economic instability | <ul style="list-style-type: none"> – overcoming political instability; – economic reforms; – development of measures to stabilize the economy; | <ul style="list-style-type: none"> – analysis of environmental factors; – development of measures to minimize the negative impact of the external environment of enterprises; |
| High inflation | <ul style="list-style-type: none"> – prevention of additional emission; – implementation of measures to strengthen the national currency | <ul style="list-style-type: none"> – forecasting of inflation; – transition to local raw materials or pay in national currency |
| Changing foreign economic relations | <ul style="list-style-type: none"> – development of measures implementing EU standards; – adaptation of legislation to EU standards; – encouraging businesses to transition to new quality standards; | <ul style="list-style-type: none"> – development of measures harmonizing quality of products to EU standards; – implementation of quality management systems (ISO); |

Continued the Tab. 1

| | | |
|---|---|---|
| The irregular distribution of foreign investments by region and industry sector | <ul style="list-style-type: none"> – development of measures to attract investments to the country; – creating a favorable investment climate; – formation of investment attractiveness of the regions that have the least amount of foreign investment; | <ul style="list-style-type: none"> – searching for foreign investors; – improvement of the company was to bring it to a level that would ensure investor interest |
|---|---|---|

Thus, as a result of joint actions and state it is possible to overcome the negative effects of major trends characteristic for Ukraine's economy.

4. Conclusions

The modern economy of Ukraine combines both: global trends such as the impact of globalization and integration processes, and its own peculiarities due to political and social factors. The specific features of Ukrainian economy include economic instability (caused by the political and social crisis), high inflation, changing foreign economic relations (shift vector from the CIS countries to the EU), the irregular distribution of foreign investments by regions and industry sector (in combination with reduced total investments in the country).

However, all these problems of the present stage of development of Ukraine can be solved with the active participation of government and enterprise management, as well as their active cooperation.

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Summary

In this article the dynamics of the economy indicators such as gross domestic product, exports and imports, foreign direct investment and inflation were analyzed. The negative trends in the economy of Ukraine were highlighted on the base of this analysis. Also, it was suggested directions for resolution of outstanding issues for state and enterprises.

Keywords: problems of Ukrainian economy; economic instability; foreign investments; inflation; foreign direct investment.

JEL classification: A100

UD classification: 330.3

Date of acceptance: 10.07.2015.

ANALYSIS OF FUNDAMENTAL CONTRADICTIONS OF EFFICIENCY THE CASH FLOW OF PROJECTS

V. Karpov, V. Shevchenko-Perepelkina*

1. Introduction

It is generally accepted that there is such an estimation rule of an effective project [1–11]:

if $NPV > 0$, $PI > 1$, $IRR > i$ (the project is effective),

if $NPV < 0$, $PI < 1$, $IRR < i$ (the project is not effective),

if $NPV = 0$, $PI = 1$, $IRR = i$ (zero effectiveness),

where NPV is a net present value, PI – stands for profitability index, IRR – means internal rate of return and i is a discount rate.

In the article published in 2014 [1] we demonstrated that discount indices of project effectiveness traditionally used by the majority of theoreticians and analysts did not always represent the actual profitability (unprofitableness) of the project. This article is an attempt to analyze the new similar project variants in theory and practice and offers the way out of such situations.

2. The main material of research

More generally, the economic efficiency of the project can be defined by the following expression [2, p.103]:

$$E = f(t, k, R_1 \dots R_n, A),$$

where E stands for a complex conversion rate; t is a time factor; k means inflation; $R_1 \dots R_n$ means risk factors; A is the project alternativeness.

The function cited above is of little use for practical application because of its multidimensionality. Most of the authors [2; 4–6; 9–10] and analysts use a set of efficiency criteria that describe the feasibility of the project from different angles. They use the index of net present value (NPV) as the main indicator of the project profitability which can be updated taking into account the time factor. The given quantity characterizes the general absolute outcome of the investment activity, its final effect. NPV stands for the difference between the discounted for a moment incomes measures $B(t)$ and expenditures for the realization of the project $C(t)$. In this case t is the number of the year of the project life-cycle. If receipts and expenditures are represented as the intake flow, NPV equals the updated variable of the flow. As the majority of authors point out, the variable NPV is the basis for defining other indicators of efficiency [2; 4–6; 9–10].

If receipts and expenditures are represented as the intake flow, NPV equals the updated variable of the flow. The variable NPV is the basis for defining other indicators of efficiency. In case the intake flow is characterized by the values $R_t = B(t) - C(t)$, which can be both positive and negative, the comparison rate equals i , and we get [3]:

$$NPV = \sum_{t=1}^n \frac{B(t) - C(t)}{(1+i)^t} = \sum_{t=1}^n \frac{R(t)}{(1+i)^t}. \quad (1)$$

When the initial expenses A are singled out during the so-called zero period, Formula 1 is changed in

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the following way:

$$NPV = \sum_{t=1}^n \frac{R(t)}{(1+i)^t} - A. \quad (2)$$

Formulas 1, 2, on the one hand, represent the function of the project efficiency, on the other hand, the numerical series of the cash flow calculation. As the effectiveness function, these formulas offer a complex modification of hyperbola or the power function, the form of which depends on the dynamics of the cash flow, while the numerical series is a modification of the geometric progression, the form of which is also dependent on the dynamics of the cash flow. In many ways these conclusions simplify the analysis approach to the project effectiveness in practice.

Let us consider some peculiarities of calculating NPV for the definite kinds of cash flows.

1. If the cash flows of the project are uniformly distributed in time, Rt is a constant $= R$ (constant ordinary annuity). The uniformity of cash flow distribution can be achieved by extending the intervals of planning.

In that case NPV will represent the following numerical series [4]:

$$NPV = -A - R + \left[R + R \frac{1}{1+i} + R \frac{1}{(1+i)^2} + \dots + R \frac{1}{(1+i)^{n-1}} \right] + R \frac{1}{(1+i)^n}. \quad (3)$$

We used square brackets to mark out a classical geometric progression with the general term $q = \frac{1}{1+i} \leq 1$ (series coincide) [4]. After Formula 3 translation we get the following expression:

$$NPV = -A - R + \frac{R}{1-q} - \frac{R}{1-q} q^n + R q^n = R \frac{(1+i)^n - 1}{i(1+i)^n} - A. \quad (4)$$

If Formula 4 is viewed as the efficiency function where $n \rightarrow \infty$ (perpetual annuity), equation 4 is rearranged in the form:

$$NPV = \frac{R}{i} - A. \quad (5)$$

Let us analyze a similar simple variant. In this case the project efficiency depends on the comparison rate i and combination of R and A . If $A=0$, we have a classical hyperbola (fig.1, the negative values of discount rates are given de benne esse). In this case the stability of the project is absolute, while $IRR \rightarrow \infty$. Can we have such cases in practice?

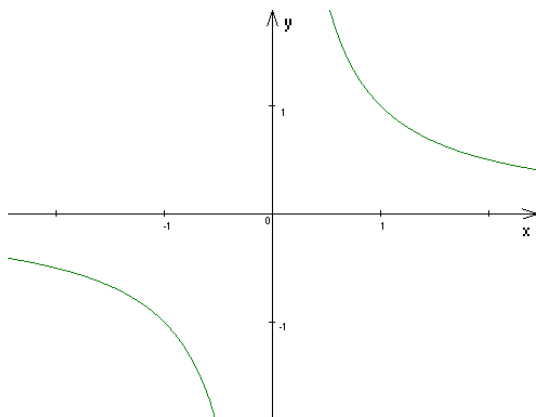


Fig. 1. Classical hyperbola

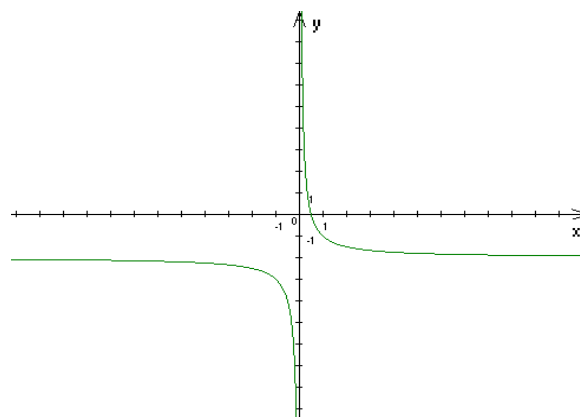


Fig. 2. Hyperbola shift depending on the combination of R and A

Yes, we can, if the initial investments are diffused in the years of life-cycle or are completely lacking (sponsorship, investments out of proceeds of credit, etc).

If the initial investments are used in the zero period the shape of the function of effectiveness depends on the combination of R and A (Fig.2). IRR can be defined with the help of the expression – $NPV = \frac{R}{i} - A = 0 \rightarrow i = \frac{R}{A}$. That is why the forecasting models, based on the cash flow uniformity can have high IRR.

3. Formulation of the problem

Let us analyze the general approach to the effectiveness function using Formula 1. We may have variants in this case as well. The most interesting are: [5]:

- decrease of the cash flow by the end of the life cycle of the project;
- increase of the cash flow by the end of the life cycle of the project;
- fluctuation of the cash flow during the life cycle of the project;
- at last one more variant is possible when $NPV = \sum R(t)$ (net present value is more than total net profit).

Let us study the first case – decrease of the cash flow by the end of the life cycle of the project (Fig. 3).

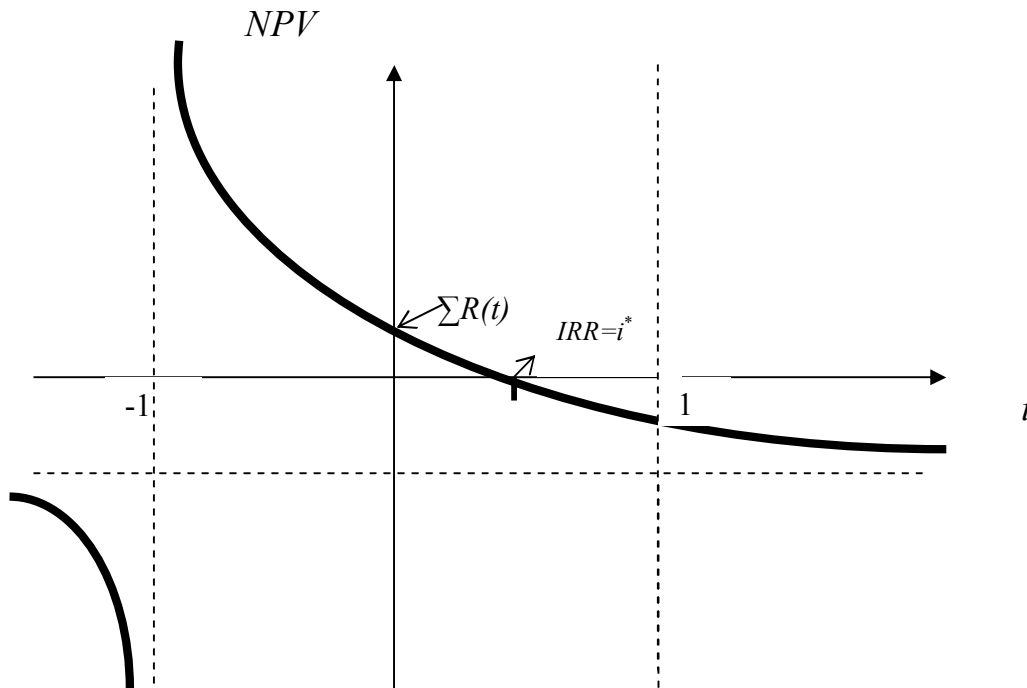


Fig. 3. Reduced cash flow by the end of the project life cycle

The effectiveness curve starts at point $\sum R(t)$ when $i=0$ (we do not take into consideration the negative values of comparison rates in our article) and drops dramatically to the critical value IRR when $NPV=0$. When i goes on rising, $NPV \leq 0$.

The second option is an increase of the cash flow by the end of the life cycle of the project (Fig. 4).

This variant repeats the previous one in its shape but has a much higher point of total cash flow – $\sum R(t)$ and larger IRR (other conditions being equal). Software products for automatic calculations of project efficiency mostly use two models of cash flow growth [1]. In the first model the cash flow growth takes place before the project capacity saturation (Fig. 5) reaching some point (M), then the level of cash flow flattens till the end of the project life cycle. The second model is closely

associated with the life cycle of the project. It means a gradual growth of the cash flows (Fig. 6) to demand saturation (point P), followed by stabilization on this level while maintaining the given value of service, next followed by a decrease to the extent of recession in demand for goods.

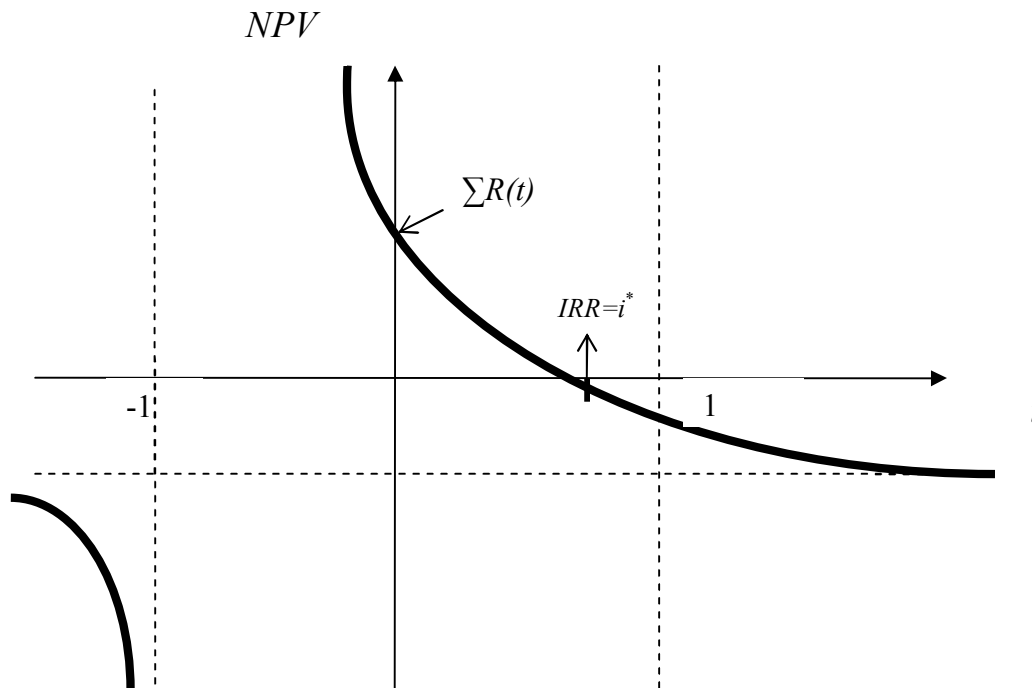


Fig. 4. Increased cash flow by the end of the project life cycle

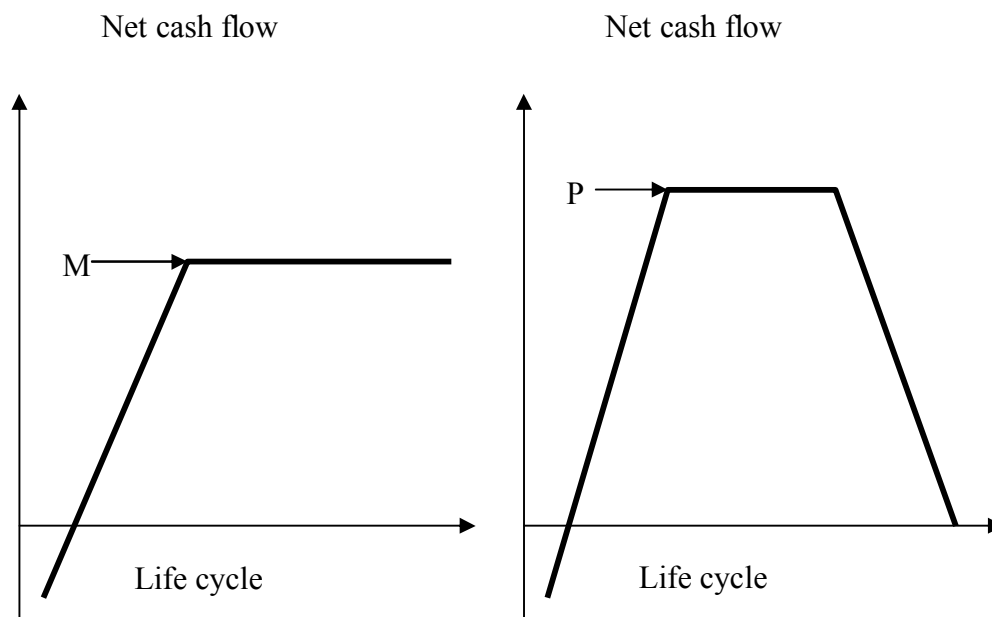


Fig. 5. The saturation of project power Fig. 6. Growth, saturation and falling of cash flows

The first model has an effectiveness curve that is closer to the graphic chart of Fig. 4, the second one is closer to the graphic chart of Fig. 3.

In the third case of the practically investigated cash flows the relation will not be so facile and “correct” as in Fig. 3 and Fig. 4. The picture of the examined relation changes if the members of the flow reverse signs more than once [5], for example, as a result of the fact that some years later after the beginning of the return, modernization of production may be provided, which requires considerable expenses. In this case the graphic chart showing relation between NPV and i will differ

significantly from the graph in Fig. 3 and Fig. 4. Thus, Fig. 7 demonstrates the condition when the variable NPV reverses its sign three times.

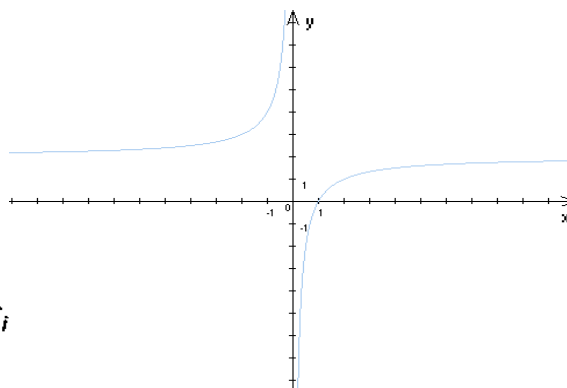
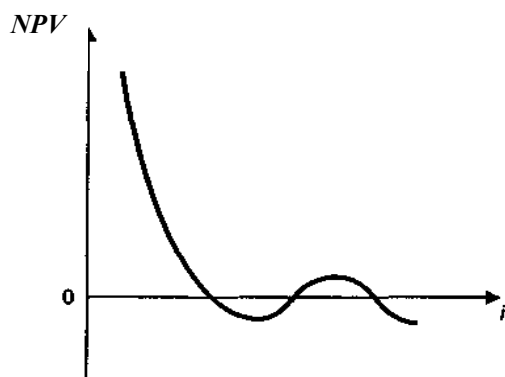


Fig. 7. NPV changes sign three times Fig. 8. Cash flow changes sign from minus to plus

However, in all three cases that we have examined the sign of the cash flow is reversed from the negative to the positive one, in the latter case from minus to plus, then to minus again and so on.

Theoretically the reversed situation is possible when the cash flow reverses a sign from plus to minus (not in the zero period). In such a case we can get the effectiveness curve like the one in Fig. 8.

At the same time there might be situations with calculating NPV, when $NPV \geq \sum R$ (total net cash flow). Such a situation may seem impossible based on expressions 1 and 2. Let us study the situation of illustrative example 1 (Tab. 1).

Tab. 1. Illustrative example of cash flow calculation of project 1

| Initial expenses | 10 | Activities | Periods | | | | | Total |
|---------------------------|---------------|------------------|---------|---|----|----|----|-------|
| Discount rate | 0,15 | | 1 | 2 | 3 | 4 | 5 | |
| Units of cash flow | Standard unit | Current expenses | 0 | 0 | 0 | 0 | 50 | 50 |
| Life cycle of the project | 5 | Revenue | 0 | 0 | 40 | 10 | 10 | 60 |

When the discount rate is on the level of 0,15 (15%), the initial expenses in the zero period are 10 standard units, and the cash flow distribution is as shown in table 1, we have a zero net cash return

$$(\sum R = -10 - 50 + 40 + 10 + 10 = 0), \text{ however } NPV = -10 + \frac{40}{(1+0.15)^3} + \frac{10}{(1+0.15)^4} + \frac{10-50}{(1+0.15)^5} = 2.13.$$

It seems to contradict the fundamental postulate of project efficiency – if $NPV > 0$, the project is effective. However, for crisis project variants the problem situation $\sum R = 0$ remains, which makes the project effective. Let us calculate the effectiveness curve for our example 1 (Tab. 2).

Tab. 2. Calculation of the effectiveness curve of illustrative example 1

| i | 0.00009 | 0.001 | 0.1 | 0.15 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 |
|-------|---------|-------|------|------|------|------|-------|-------|------|------|------|------|------|
| NPV | 0.0035 | 0.003 | 2.04 | 2.13 | 1.89 | 0.93 | -0.25 | -1.44 | -2.5 | -3.5 | -4.3 | -5.0 | -5.6 |

As we see from the table information and the effectiveness curve based on it (Fig. 9), NPV maximizes from 0 at point $i = 0.15$, $NPV = 2.13$, then it drops to point $IRR = 0.38$ and below 0.

However, as our experience has shown, such a situation is quite possible in practice for quite successful projects. If the project has moderate volumes of current expenses, which, for example, are realized against credit or some other ways of borrowing with a considerable delay of credit payment, we may have non-recurring incomes from the project at one of the initial stages. These non-recurrent

incomes can significantly exceed current costs. Credit repayments take place at the end of the project life cycle. In this case it is possible to have the situation $NPV > \sum R > 0$.

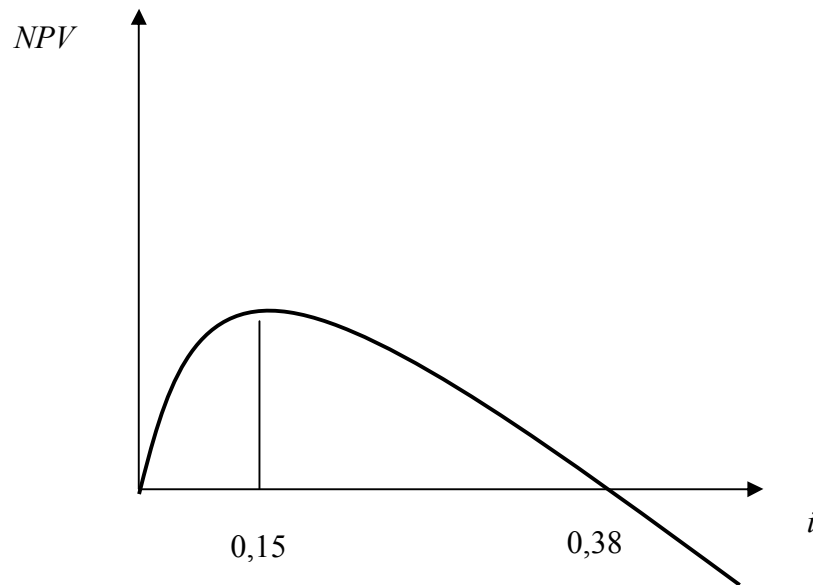


Fig. 9. Efficiency curve of conventional example (Tab. 1)

Let us examine the situation. A credit for capital costs was given for project 2. The credit is at the amount of 30 standard units at annual interest 16.7% for 5 years on condition of paying off at the end of the period. The results of realizing the project with the life cycle of 5 years and the annual comparison rate of 15% are represented in Tab. 3.

Tab. 3. Illustrative example of cash flow calculation of project 2

| Initial expenses | 30 | Activities | Periods | | | | | Total |
|---------------------------|----------------|------------------|---------|----|----|---|----|-------|
| Discount rate | 0,15 | | 1 | 2 | 3 | 4 | 5 | |
| Units of cash flow | Standard units | Current expenses | 0 | 0 | 0 | 0 | 65 | 65 |
| Life cycle of the project | 5 | Revenue | 50 | 20 | 10 | 0 | 0 | 80 |

According to the credit conditions the amount of payment will be 65 standard units at the end of the fifth year.

In terms of the results of the project we have $\sum R = -30 + 50 + 20 + 10 - 65 = -15$ standard units,

$$\text{and } NPV = -30 + \frac{50}{(1+0.15)^1} + \frac{20}{(1+0.15)^2} + \frac{10}{(1+0.15)^3} - \frac{65}{(1+0.15)^5} = 2.86 \text{ st.monet.unit}$$

In this case we have $NPV > 0 > \sum R < 0$. It is a positive NPV in the inefficient project.

Let us calculate the effectiveness curve for our example 2 (Tab. 4).

Tab. 4. Calculation of effectiveness curve of illustrative example 2

| i | 0,00009 | 0,001 | 0,1 | 0,15 | 0,2 | 0,3 | 0,4 | 0,5 | 0,6 | 0,7 | 0,8 | 0,9 | 1 |
|-------|---------|--------|-------|------|-----|-----|------|------|-----|------|-----|------|-------|
| NPV | -14,99 | -14,79 | -0,86 | 2,86 | 5,2 | 7,3 | 7,47 | 6,62 | 5,3 | 3,79 | 2,2 | 0,69 | -0,78 |

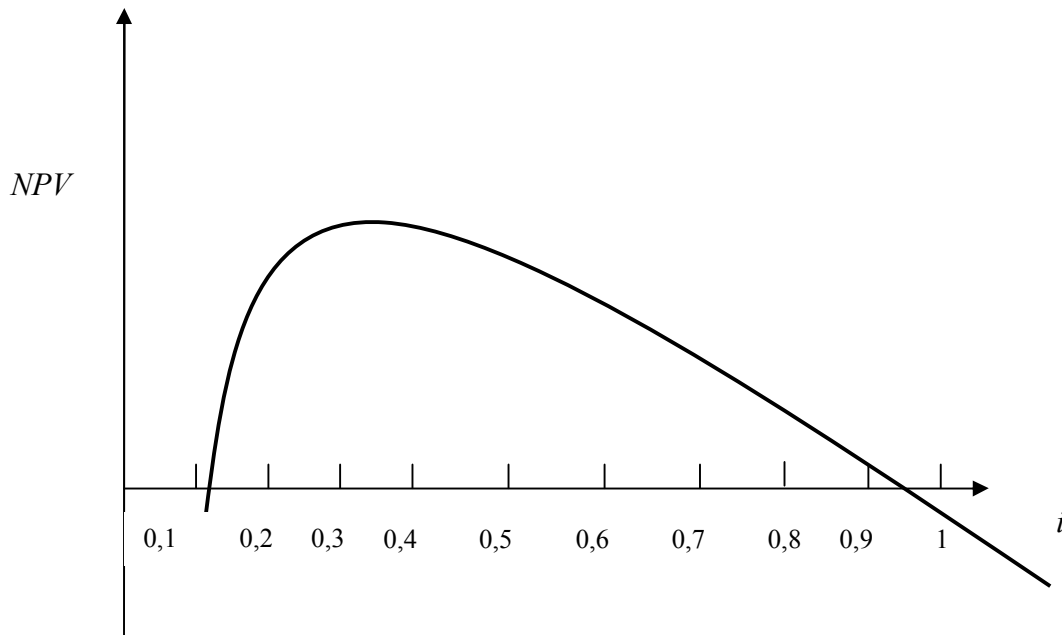


Fig. 10. Efficiency curve of conventional example 2 (Tab. 4)

As we see from the information in the table and the effectiveness curve based on it (Fig. 10), NPV at two points equals 0 (if $i = 0,11$ and $0,946$), the maximum is between the points $i = 0,3$ and $0,4$, $NPV = 7,47$, there may be equality between NPV and $\sum R$ at point $i = 3$.

As the calculations given above show, the measures of project efficiency, based on calculating NPV do not always render the actual effectiveness of the project (variant in Tab. 3).

In our opinion, such a situation can arise as a result of including expenses into the calculation of measures of effectiveness, which discount at the same time with the revenue, thereby they computationally increase the discount level of project profitability (as a result of discounting the negative value of expenses the total rate of return increases. Though, if one accepts the premise of the theory of time value of money [10, p.353], these are the expenses that influence the present value – PV . That is in every period of time t costs $C(t)$ give rise to future earnings $B(t)$. In its semantic loading $C(t)$ is the initial value P for a future earnings-flow during t period. That is why we think it is not advisable to include the costs into the discount part of the measure of project effectiveness.

In order to evaluate the general effectiveness of the project it is possible to offer the index of total discount revenue deducting the total project expenditure during the whole life cycle of the project ($PVNC$):

$$PVNC = \sum_{t=1}^n \frac{R(t)}{(1+i)^n} - \sum_{t=0}^n C(t). \quad (6)$$

Let us analyze the use of formula 5 to evaluate the above mentioned examples of projects.

The zero value of the index $PVNC$ is obtained for the projects in which the total discount revenue equals the total expenditure:

$$\sum_{t=1}^n \frac{R(t)}{(1+i)^n} - \sum_{t=0}^n C(t) = 0 \Rightarrow \sum_{t=1}^n \frac{R(t)}{(1+i)^n} = \sum_{t=0}^n C(t)$$

The calculations showed that for project 1 $\sum R=0$, $NPV= 2.13$, $PVNC = -23.16 < 0$.

For project 2 $\sum R=-15$, $NPV= 2.86$, $PVNC = -29,8 < 0$.

Thus, according to the index $PVNC$, both projects are ineffective because total discount revenues do not cover the total project expenditure.

Tab. 5. Illustrative example of calculating NPV and PVNC of project 3

| Initial expenses | 80 | Activities | Periods | | | | | Total |
|---------------------------|----------------|-----------------------|---------|-----|-----|-----|------|-------|
| Discount rate | 0.15 | | 1 | 2 | 3 | 4 | 5 | |
| Units of cash flow | Standard units | Current expenses, | 0 | 0 | 0 | 0 | 1000 | 1000 |
| | | General project costs | – | – | – | – | – | 1080 |
| Life cycle of the project | 5 | Revenue | 390 | 350 | 360 | 210 | 240 | 1550 |
| $\sum R$ | | | 470 | | | | | |
| NPV | | | 502.7 | | | | | |
| PVNC | | | –0.123 | | | | | |

In practice it is often possible to come across projects which have the growing current cost, connected with its liquidation, at the end of economic life. The numerical illustration of such project 3 is presented in Tab. 5.

As we see from table 5, $NPV=502.7 > \sum R=470$, which completely distorts the fundamental postulates of the theory of time value of money. In fact, the total discount revenues do not cover the total costs of the project $\sum_{t=1}^n \frac{R(t)}{(1+i)^t} = 1079.9 < \sum_{t=0}^n C(t) = 1080$, they are about equal, the index $PVNC = -0,123$ is approximate to zero. Taking into consideration the value PVNC, project 3 from the point of view of the theory of time value of money has zero efficiency.

4. Conclusions

1. The rule $NPV > 0$, $PI > 1$, $IRR > i$ is not always true. In some variants of project realization (sponsorship, credit with deferral of payments, other forms of investment at the cost of borrowed funds, as well as projects, which have growing current cost at the end of economic life, the cost exceeds the project revenue, which stops the whole project). This rule does not always represent the real profitability (unprofitableness) of the project. For such projects we suggest counting the index of the total discount revenue with the deduction of total project expenditure during the whole project life cycle – *PVNC*, if its value is below zero. Such a project should be turned down, as total discount revenue does not cover the total project expenditure.
2. The calculation of conversion rate is to be accompanied by the economic analysis of the project cash flow.

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Summary

The article makes an attempt to give a meaning to theoretical and practical calculation problems of cash flow of projects. There are examples given of calculating net discount profit for different in character variants of cash flows of projects.

Keywords: cash flow; comparison rate; effective project; effectiveness curve; net present value.

JEL classification: G00

UD classification: 336.74

LANGUAGE BARRIERS IN ECONOMIC RESEARCHES AND TRANSLATIONS OF ECONOMIC CONCEPTS: ESSENCE, LEVELS OF OCCURRENCE, METHODS OF OVERCOMING

O.V. Kerekesha, S.A. Sheludko^{*}

1. Introduction

During the study of the essence of the foreign exchange regulation, we carried out a critical review of the views of foreign authors on this problem. We have faced with a specific problem that affects both the economic and linguistic sphere, viz. – with a lack of consensus about the translation of the adjective “валютний” from Ukrainian and Russian into English. The lack of clear compliance with the lexical meaning of the terms in these languages distorts not only the meaning of this word, but also the validity of the results of economic researches of the problems of the foreign exchange policy, foreign exchange regulation and foreign exchange control in the views of foreign scientists.

The review and analysis of the specialized literature, dictionaries and thesauruses showed that this problem has not yet received an academic decision, in spite of all its relevance. We found that every single author translates the adjective “валютний” into English as he or she sees it appropriate.

All this leads to misunderstandings, to a violation of the logic of research and to a substitution of concepts when citing the English sources in the Ukrainian and Russian translation. We believe that the identified problem must be solved immediately.

Based on this, the main objective of our research is to study the essence and levels of occurrence of the language barriers in economic researches, and to find a way to solve the problem of the translation of such widely used in banking, international economics and macroeconomics concepts as “foreign exchange policy”, “foreign exchange regulation”, “foreign exchange control”.

2. The main section

Ukraine’s integration into the European and global economic, cultural and political space actively affects all aspects of the society. It was not exception for a scientific sphere. Domestic scientists have received an access to the developments of their colleagues from Western Europe and the USA, and at the same time have become able to share their experiences and discoveries. However, existing cultural and linguistic differences do not allow scientific thought to fully integrate.

The most urgent problem is an existence of language barriers. These barriers are a kind of communication barriers and can distort the perception of the same concepts by the representatives of different language environments. Therefore a very important task for today is to overcome language barriers, including a use of the refinement of the rational translation of certain terms.

A need to overcome language barriers is also due to the active use of new types of verbal communication: distant dialogues and polilogues on the languages of international communication, strengthening of interaction of verbal and written forms of the speech in the native and foreign languages, accelerating of the development of science and technology microlanguages. These effects are typical attributes of the restructuring of a communicative mechanism of professional scientific and technical activities [1, p.84].

In the specialized literature on philology and psychology, there is no single interpretation of the term of “language barrier”. It can refer to completely different concepts. Each researcher has his/her

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own understanding of the place of the barrier and its significance. There are those who say that such a barrier does not exist. Therefore, in order to understand this phenomenon, it is necessary to bring its definition, to find reasons and ways to eliminate its misunderstanding.

Studies of modern scientists have shown that the essence of the language barrier can be seen in several aspects. For example, it can be considered as the inability to communicate owing to the lack of knowledge of a foreign language. However, ignorance of the language itself, in our opinion, cannot be any barrier itself or its source.

Other authors [1, p.84] define the language barrier as difficult communication situations arising as a consequence of ignorance of the basic rules and norms of interpersonal communication; ignorance of the characteristics of the culture of studying language' country; inability of unprepared monologue in a foreign language; unpreparedness for the very existence of intercultural communication difficulties.

There is also an opinion, that the language barrier is a misunderstanding due to incorrect coding, or misinterpretation of the transmitted messages. According to foreign researchers, the language barrier is a lack of a possibility to understand and respond to the spontaneous speech of the collocutor of foreign language learners and talkers, even if they master an arsenal of necessary language instruments.

In our opinion, the language barrier is a violation of the true perception or interpretation of the foreign speech as a result of numerous cultural, motivational, practical and pedagogical reasons.

Let us consider the levels of occurrence of language barriers. First, differences in the cultures of a speaker and a listener may be the cause of wrong perception of information in a foreign language environment. The process of cross-cultural communications doesn't take place smoothly and often is characterized by noises, arising in the process of communication between representatives of different cultures. Such interference is called the communication barriers, the essence of which has two aspects: linguistic and psychological.

Another reason of it may be the lack of true motivation of a listener or a speaker. Often, this is due to the low level of development of the individual. Sometimes the problem of "what to say" is more important than "how to say".

The next level of the occurrence of the language barrier is the lack of a language communication culture. Such culture is a certain way of messaging within a group or organization [2, p.12]. For example, the more formal a group of interlocutors is, the more official must be a conversation. It depends on vocabulary, jargon, a style of statements and, especially, terminology.

Another source of language barriers is the lack of a speech practice. In order to a reason that a person could put into practice all that he or she has studied at foreign language lessons, it is need to automate both language and speech skills. Therefore it is necessary to create situations as close to reality as possible. Also linked to this level is a problem of the pedagogical nature. Often, an inconsistency or an irrelevant, for demand of time, studied material leads to the fact that a person has difficulties in real communications, even if he or she was a conscientious student at foreign language lectures.

An important aspect of this problem is how to resolve language barriers. These activities can be carried out both at the stage of learning a foreign language, and with the help of philological analysis of the problem of translated concepts and categories. The results of this analysis can reveal the most accurate linguistic and semantic consistency between pairs of terms. However, this analysis requires from a researcher not only high language skills, but also a professional training in the sphere of science, which includes the analyzed concept.

Speaking about language barriers arising in the study of foreign exchange policy and foreign exchange regulation, we note that among the Ukrainian authors only O. Chugaev said that "due to the common practice, an English word "monetary" is usually translated as "валютний"... but the use of the term "монетарний" is also possible" [3, p.10]. We cannot agree with this opinion

without a review of this “common practice”, to which Mr. Chugaev, unfortunately, does not give the references.

By studying the reference books, dictionaries and thesauri, we are faced with several translations of the adjective “валютний” in the context of the concepts of “policy”, “regulation”, “control”, “rate”, “fund” etc. (Tab. 1).

Tab. 1. Variants of the translation of the adjective “валютний” into English in the references

| English | Ukrainian | Source |
|--|---|-------------------|
| exchange [control] | валютний [контроль], валютне [регулювання] | (Favorov, 1973) |
| foreign exchange [control] | валютне [регулювання] | (Sipols, 2011) |
| monetary; money; currency; foreign exchange | валютний | (Terekhova, 2012) |
| monetary [policy] | валютна [політика] | |
| exchange [control] | валютне [регулювання] | |
| exchange [control] | валютне [регулювання] | (Svetlanin, 2013) |
| exchange [control] | валютний [контроль], валютне [регулювання] | (Levitan, 2013) |
| currency | валютний | (Airlie, 2010) |
| exchange [control] | валютний [контроль] | |
| [rate of] exchange | валютний [курс] | |
| currency [reserves] | валютний [фонд] | |

Source: [4, p.29; 5, p.158; 6, p.123; 7, p.245; 8, p.305; 9, p.33].

As it can be seen from the Tab. 1, there are at least 3 variants of the translation of the adjective “валютний”: “(foreign) exchange”, “currency” and “monetary”. It should be noted that the variant “(foreign) exchange” is used advantageously mostly in combination with the words “control” and “rate”, while “monetary” – in combination with “policy”, and “currency” – with “reserves”. We believe that the use of the adjective “monetary” in the sense of “валютний” is not acceptable, since this way is translates also the adjective “грошово-кредитний”. Based on the fact that monetary policy includes foreign exchange policy (i.e. broader in relation to it), such a translation results in a distortion of the meaning of these two concepts: the foreign exchange regulation is an activity of the entitled authorities for administrating the foreign exchange relations through using the complex of instruments and methods to achieve the objectives of the foreign exchange policy [10, p.189].

However, the official names of such important international organizations as the International Monetary Fund (hereinafter – IMF), European Monetary Agreement, European Monetary Institute, Economic and Monetary Union consistently use the adjective “monetary”. We can explain such lie of the land as incorrect translation, since the word “валютний” does not reflect the essence of the tasks assigned to these organizations.

The collected data also show the problem with the translation of the word “регулювання”, which in all sources is translated as “control”. It is worth to be noted, that such translation is more or less settled, but the foreign science in recent decades has become equating “foreign exchange regulation” and “foreign exchange control”. In our opinion, this is due to the fact that in developed countries are rarely used foreign exchange restrictions [11, p.30], which constitute a part of the action of either the foreign exchange regulation (in terms of their settings), and foreign exchange control (in terms of a monitoring). Nevertheless, it is still irrelevant for the majority of Eastern European countries (including Ukraine), Asia and Africa. Thus, for the transmission of differences between the foreign exchange regulation and control, we suggest to use two separate terms “regulation” and “control”.

In order to solve the problem of choosing between “monetary” and “(foreign) exchange”, let us refer to the official recommendations of the IMF (Tab. 2).

As it is seen from the Tab. 2, the adjective “monetary” is used primarily for “грошово-кредитний” or “монетарний” (but not for “валютний”!). At the same time, for the translation of such key terms as “валютний контроль”, “валютні обмеження”, “валютна політика” and “валютний курс” IMF proposes to use the adjective “foreign exchange”.

Tab. 2: Extracts from the official IMF Glossary

| English | Examples of use | Ukrainian |
|--------------------|---|---------------------------------------|
| monetary | monetary base | грошова база |
| | monetary aggregate | грошово-кредитний агрегат |
| | monetary asset | грошовий актив |
| | monetary authorities | органи грошово-кредитного регулювання |
| | monetary control | грошово-кредитний контроль |
| | monetary management | грошово-кредитне регулювання |
| | monetary policy | грошово-кредитна політика |
| (foreign) exchange | exchange rate regime | режим обмінного курсу |
| | exchange control | валютний контроль |
| | exchange restriction | валютне обмеження |
| | exchange rate management | регулювання обмінного курсу |
| | foreign exchange policy | валютна політика |
| | rate of exchange | валютний курс |
| | foreign exchange reserves | валютні резерви |
| | exchange, foreign currency, foreign exchange, forex | (іноземна) валюта |
| | foreign exchange market | валютний ринок |
| currency | reserve currency | резервна валюта |
| | monocurrency loan | одновалютна позика |
| | unilateral currency union | односторонній валютний союз |
| | currency issuing agency | банк-емітент |
| | currency zone | валютна зона |
| | currency basket | валютна корзина |

Source: [12].

Unfortunately, we have not found an official translation of the concept of “валютне регулювання” in the IMF Glossary. Following the examples of related concepts we can come to the conclusion that it should be translated as the “foreign exchange management”. At the same time, we propose to use the noun “regulation” instead of “management”, since the last one in a non-English language environment is perceived to be accepted as a synonym for “управління” or literally “менеджмент”. And the regulation itself is a function of management, i.e. a part of it.

3. Conclusions

From the foregoing the following conclusions can be done. Language barrier is a violation of the true perception or interpretation of the foreign speech as a result of numerous cultural, motivational, practical and pedagogical reasons. Such barriers may occur at the levels of cultural differences, speech motivation, language communication culture, speech and pedagogical practices. Overcoming the language barriers in the field of science is possible through the analysis and clarification of the translation of certain terms.

The linguistic analysis, which was carried out by us, showed that a widespread translation of the adjective “валютний” as “monetary” distorts the essence of the scientific categories and causes communication barriers between the scientists. We came to the conclusion that the term “валютна політика”, “валютне регулювання” and “валютний контроль” must be translated into English as

the terms of “foreign exchange policy”, “foreign exchange regulation” and “foreign exchange control”. Such translation will help to overcome language barriers and misunderstandings as well.

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Summary

The article is devoted to the problem of the language barriers in economic researches. Authors touch upon the essence, levels of occurrence and methods of those barriers overcoming. On the example of English-Ukrainian and English-Russian translations of the notions of “foreign exchange policy”, “foreign exchange regulation”, “foreign exchange control” it is shown, that there are multiple opinions about the way for the correct translation of these terms. The authors come to the conclusion that these terms must be translated into English with the adjective “foreign exchange”.

Keywords: economic concepts; foreign exchange control; foreign exchange policy; foreign exchange regulation; language barriers; translation of terms.

JEL classification: E520, E580

UD classification: 330; 030.111

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ECONOMIC MOTIVATION MECHANISM OF CONSUMER'S ENERGY SAVING BEHAVIOUR

Olha Komelina, Svetlana Scherbinina, Alina Chaikina*

1. Introduction

Today energy efficiency in housing and communal services (HCS) in Ukraine are among the top priorities of the state economic and energy policy. HCS is a complex set of industries that provide maintenance and operation of housing, providing services to the population and other consumers of water, gas, heat and electricity. HCS consume more than a third of the total energy that is used in the country. Only in residential buildings it is consumed more than half of total consumption of thermal energy. So reducing consumption of energy resources considering the implementation mechanism of economic motivation is the urgent task of effective functioning of HCS in Ukraine.

2. Theoretical background

Questions about energy conservation and efficiency were examined by such scientists as O. Suhodolia, O. Ruban-Maksymets, S. Shulzhenko, M. Bilenko, T. Nechayev, V. Zhovtyansky, A. Prakhovnik, A. Segal, B. Chirkin, M. Gniduy. Problems of sustainable development and ways of reforming housing and communal services were discussed in the works of J. Jalila, A. Voronina, E. Grinevich, E. Strokan, O. Tishchenko. For example, G. Djana examines the socio-economic aspects of energy conservation in the context of state energy saving policy. Such scientists as Y. Kostin, L. Taranyuk, K. Mitsobuchi, K. Martinez identified a number of factors that have an impact on the implementation of energy efficiency measures. D. Bikulov formulated financing mechanism of energy saving projects in utilities. O. Holovatenko, E. Cherevykov substantiated the basic principles of public-private partnership in the HCS.

3. Set of the Problem

The aforementioned research and development are important, but the problem of energy efficiency in housing and communal services requires further study, particularly from the perspective of the consumer. The main factors influencing consumer's energy saving behaviour, including current tariffs for housing and communal services will be considered and the mechanism of the economic motivation as a factor for improving energy efficiency in the HCS in Ukraine will be justified.

4. The basic material and results

The hierarchy system of power management utilities in Ukraine consists of four levels (bodies): national, regional, sectoral (utilities) and territorial (consumer). Economic priorities of territorial and sectoral structures of HCS have different utilities, for example, the industry's interests include maximizing income from the activities and the territorial structures are interested in improving the quality of public services while decreasing consumption of energy resources. Approval of interests is possible only with economic motivated utilities for the implementation of energy efficiency measures, such as internal or external prompting producers and consumers of utility services to work on initiating and promoting energy efficiency on the basis of public and private partnerships.

The economic mechanism of energy efficient conservation should be considered as part of the eco-

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economic management mechanism of sector as a whole and integral mechanism for implementing energy conservation in the region, based on the principles of legislative and regulatory support, public investment and financial support for energy efficiency, pricing that reflects the true cost of production, energy transportation and consumers solvency, energy efficiency based on involving national and international experience [1].

In 2015 there was a significant raising of tariffs for housing and communal services in Ukraine, within the framework of the memorandum with the key creditor of country – the International Monetary Fund, namely the minimum fare for households was increased by 3.3 times up to 3600 UAH per thousand cubic meters of fuel consumption below 200 cubic c. m. of gas; heat tariffs for the population by 72%, to UAH 537.2 UAH per Cal; electricity tariffs for households rose twice within the year: first to 19%, then from 24.6% to 0,456 UAH per kW/h [2].

The Government's arguments concerning the necessity of raising the tariffs to the European level should be considered together, particularly with reference to the level of salaries and pensions.

The average salary in Ukraine in February 2014 amounted to 3209 UAH (371\$), and in February 2015 – to 3633 USD (148\$), in dollar terms the average wage decreased by 2.7 times. For comparison, the average wage in Latvia is 823\$, that in 5.6 times as high as in Ukraine, in Poland – 980\$, 6.6 times as high, in Germany 4100 \$, – 27.7 times as high as in our country, in the USA – 4400\$, – 29.7 times as high times. The average pension in Ukraine in February 2014 amounted to 1528 UAH (176\$), and in February 2015 – 1,587 USD (65\$), also decreased in 2.7 times. Comparing the average pension in Latvia which is 330\$, it is 5.1 times as high as in Ukraine, in Poland – 482\$, i.e. 7.4 times as high as in Ukraine, in Germany – 860\$ (13.2 times as high), in the USA – 1163\$ that is 17.9 times as high as in the country. Thus, the estimated share of expenditure on housing in Ukraine (the average salary) is 48%, compared to 16% in Poland, 12% in Germany and 10% in the USA [3].

Note that Ukrainian gas production in 2015 was planned at average of 19.5 billion m³. At the same time for everyday consumers' needs for "Teplokomenerho" and budget institutions need over 21.5 billion m³, this means that over 2 billion m³ will be missed. The price of Russian gas is 248\$, the price of gas that was embedded in HCS tariffs is 295\$ and the price of domestic gas is 23.5\$ (12.5 times as low as the previous price) as of 01.04.2015 [3].

Tab. 1. Cost of Ukrainian gas production per thousand m³ without transportation and VAT*

| | | |
|--|----------|--------|
| Pure price | 510 UAH | 23,5\$ |
| The price for Ukrainian gas with investment allowance without rent | 610 UAH | 28,1\$ |
| The price for Ukrainian gas with the rent (70%) and investment allowance | 1037 UAH | 47,7\$ |

* Source: developed by the author based on [3]

Tab. 2. Market tariff for gas (calculation)*

| | Scope, billion m ³ | Price for thousand m ³ , UAH |
|---|-------------------------------|---|
| Ukrainian gas with VAT | 19,5 | 1111,9 |
| Russian gas (by 248\$) | 2,0 | 6457,9 |
| Tariff for transportation to the consumer | | 746,5 |
| Gas-mix price | | 1609,2 |
| The market rate with transportation | | 2355,7 |

* Source: developed by the author based on [3]

Thus the current tariff for gas 7188 compared with an estimated 2,355.7 is 3.1 times as high.

The growth of debt for natural gas as for 01.11.2015 was 10.3 billion UAH, but with the debts of previous years totaled sum was 36.0 billion UAH, in particular the share of that of the population is 46.4% of the total debt. The growth of debt for electricity for 01.10.2015 was 2.2 billion UAH, but with the debts of previous years it has increased to 21.3 billion UAH, HCS share is 30.3%, population growth has reduced debt by 12,7% [4].

Thus, given the existing tariffs for HCS, and a tendency to their increase in the near future, comparing the rates of wages and pensions of ordinary citizens, realizing that the revision of existing tariffs and the use of Ukrainian gas production for the needs of population is an issue more political than economic and its solving requires knowledge of changes in the energy policy of the country, therefore, the improvement is now possible only on the basis of economic motivation of energy saving consumer behaviour and improving energy efficiency in HCS in Ukraine.

Motivation for energy saving consumption of thermal energy could be realized with the provision of opportunities for residents of multi-storey buildings to manage their energy consumption. In terms of district heating mainly vertical and breeding coolant-pipe heating systems, heat consumption by apartment management is very complicated due to technical reasons or high cost of accounting, through mass installation of devices in every apartment of the heat meters almost unreal.

Significant reduction of heat losses at the stage of consumption can be achieved in the case where the consumer will be able to influence on the consumed quantity of thermal energy and pay for the actual energy consumption, as it is done in the private sector. For the main energy consumer – a resident of a multistory building, this opens the possibility for the introduction (gradually, especially in new buildings, reconstruction and overhaul of housing) of supplies in every apartment [5].

Some residents of apartment buildings alone try to increase the energy efficiency of their homes, investing heavily in thermo modernization of their apartments that has absolutely no effect on reducing energy consumption and in most cases, on the contrary, it only causes its multiplying.

The experience of many countries shows that only an integrated thermo modernization of existing housing stock is able to dramatically impact the reduction of energy consumption. The complex upgrading of the building, according to experts, may ultimately provide about 50% energy savings. International Energy Agency (IEA) claims that every dollar invested in energy efficiency, will result in 4\$ of economy, and such project will be paid off completely in about four years [6].

Therefore, to maximize economic and social impact from thermo modernization in existing housing stock involvement of investing the energy efficiency of residential buildings in the public-private partnership: business building complex, joint owners of apartment houses (JOAH) and local authorities is needed.

Unfortunately, the process of creating JOAH by regions of Ukraine is very slow. Thus, in 2014 in areas under the regional program it was planned to create 14,249 JOAH and as to 01.01.2015 only 562 JOAH were formed, representing 3.9% of the planned number (tab. 3).

Tab. 3. Rating for the creation of JOAH in 2014*

| Region | Planned indicator (units) | Actually created (units) | % implementation of planned indicator |
|---------------------|------------------------------|-----------------------------|--|
| Vinnitsya Region | 170 | 50 | 29,4 |
| Chernivtsi Region | 32 | 6 | 18,8 |
| Khmelnysky Region | 280 | 50 | 17,9 |
| Kherson Region | 148 | 20 | 13,5 |
| Volyn Region | 198 | 25 | 12,6 |
| Rivne Region | 253 | 31 | 12,3 |
| Lviv Region | 668 | 80 | 12,0 |
| Ternopil Region | 281 | 29 | 10,3 |
| Zaporizhzhya Region | 283 | 23 | 8,1 |
| Kyiv Region | 50 | 4 | 8,0 |
| Kharkiv Region | 830 | 50 | 6,0 |
| Kirovograd Region | 289 | 17 | 5,9 |
| Zakarpattia Region | 417 | 21 | 5,0 |

| | | | |
|-------------------------|--------------|------------|------------|
| Mykolayiv Region | 827 | 34 | 4,1 |
| Cherkasy Region | 950 | 31 | 3,3 |
| Chernihiv Region | 406 | 9 | 2,2 |
| Sumy Region | 531 | 10 | 1,9 |
| Zhytomyr Region | 396 | 7 | 1,8 |
| Ivano-Frankivs'k Region | 233 | 4 | 1,7 |
| Poltava Region | 1785 | 25 | 1,4 |
| Kyiv | 2000 | 15 | 0,8 |
| Dnipropetrovs'k Region | 3039 | 20 | 0,7 |
| Odesa Region | 183 | 1 | 0,5 |
| Total | 14249 | 562 | 3,9 |

* Source: developed by the author based on [3]

During this period the highest indicator in Ukraine on the number of JOAH creation was in Vinnytsia (29.4%); Chernivtsi (18.8%); Khmelnytsky (17.9%); Kherson (13.5%) and Volyn (12.6%) regions. The lowest indicator of creating JOAH was in Odessa (0.5%), Dnipropetrovsk (0.7%), Kyiv (0.8%), Poltava (1.4%) and Ivano-Frankivsk (1.7%) regions.

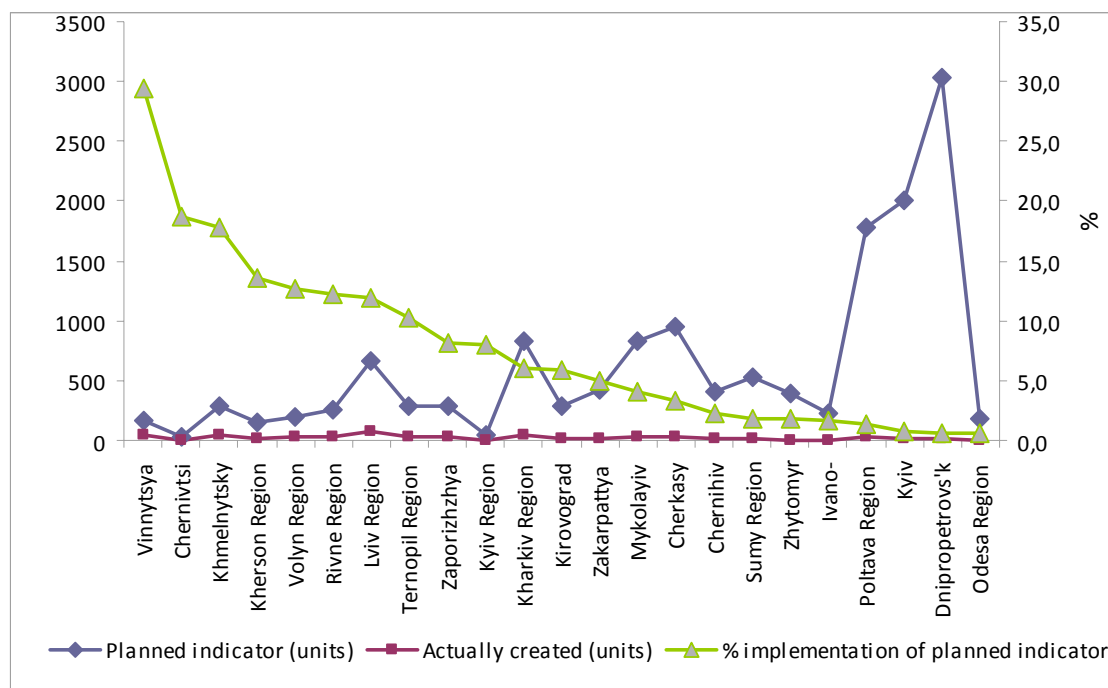


Fig. 1. Rating of creation JOAH in the Ukraine regions in 2014

* Source: developed by the author based on [3]

JOAH will not be effective until the mortgage works across the state with the number of loans of not hundreds, but thousands per year, otherwise the factor of uncertainty of citizens, fear of losing property and fear of absence of the possibility to recover the lost property will work in the future. Therefore, without the introduction of real working mortgage the investment in the housing sector would be ineffective because of the lack of effective mechanisms of refunding and insurance risks.

The situation is complicated by the fact that not all the apartments in Ukraine today are privately owned, and JOAH are created mainly in new buildings where there are no problems in terms of energy efficiency. Citizens with low annual aggregate income usually live in older homes built by outdated building codes, with worn communications, where it is necessary to carry out energy efficiency measures, which are impossible for such citizens to fund. In addition, there are significant problems with regulatory support operation of JOAH in Ukraine, which is virtually absent [7–10].

A reasonable attitude towards energy efficiency, its awareness and interest in economical use of energy resources is the main condition for increasing the energy efficiency in existing housing stock in Ukraine. Motives for energy efficient consumer behaviour are shown in Fig. 2.

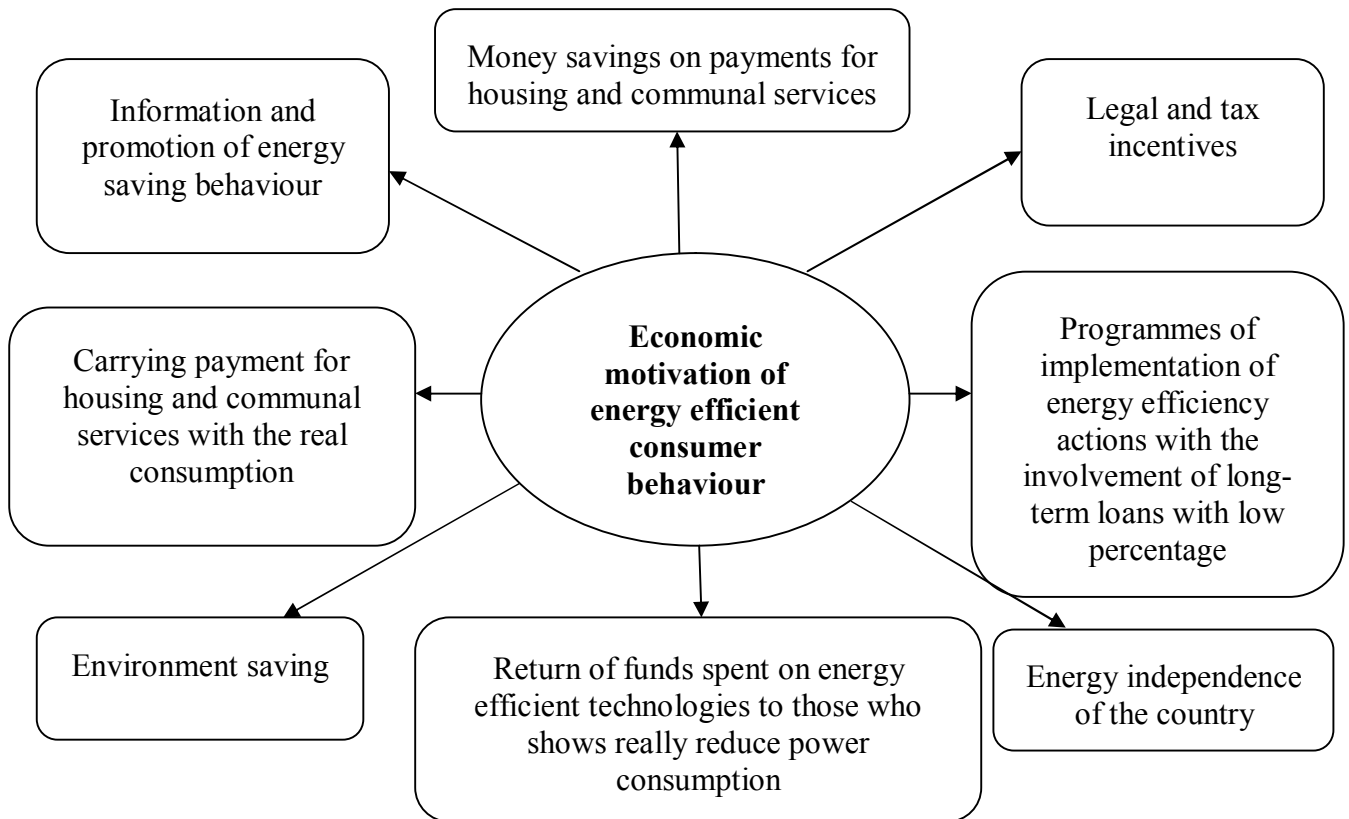


Fig. 2. The motives of improving energy efficiency

Raising utility rates (current and expected) is one of the most pressing problems for the population at the moment. Therefore, the main motive population's energy efficient behaviour is saving money for the payment. Energy services tariffs and prices must meet the real economically reasonable cost.

Absence in residential buildings of consumption accounting devices leads to significant differences between the established consumption rates and actual consumption. The established norms are 30–40% higher than actual consumption. Implementation of government programs of gradual equipping with housing facilities for accounting and regulation of water and heat consumption would save over 25% of energy. The complex effects of metering and regulation will be about 65% [11].

5. Conclusions

Thus, the formation of energy saving consciousness in the society and the influence on the behaviour of consumers must be continuous. An important part of the information campaign should be to clarify national goals in the field of energy efficiency and the importance of citizens' efforts to achieve them. Obtaining optimal result from energy efficiency measures in existing housing is possible only in the public-private partnership: construction companies, JOAH and local authorities. The main motive of energy efficient behaviour of the population will be saving money due to payments for energy, but the main barrier to the implementation of energy efficiency measures in the household is the need for capital expenditures.

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Summary

The question of raising tariffs for housing and communal services was studied in the article. It was also studied the income levels in Ukraine in the context of raising tariffs to the European level. Analyzed present gas prices are compared with the calculated rate that takes into account the use of Ukrainian gas production for the needs of the population. The rating of creating joint owners of apartment houses (JOAH) in 2014 in Ukraine regions was determined. The mechanism of economic motivation of energy efficient consumer behavior was investigated. Motives of improving energy efficiency from the perspective of the consumer were generalized.

Keywords: housing and communal services (HCS); tariffs for housing and utilities; joint owners of apartment houses; economic mechanism of motivation; motives of improving energy efficiency.

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UD classification: 332.83

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TRANS-BORDER CLUSTERS SYSTEM DEVELOPMENT POTENTIAL AS A STRATEGIC PLANNING OBJECT

Sergei Kovalenko*

1. Introduction

Worldwide experience of developed States shows both efficiency and inevitable generation of the Trans-border Clusters Systems becoming centers of innovative progress of European regional economy and, consequently, “safety zones” in conditions of globalization. Nowadays, the development of uniform mechanisms of their creation and their further development are very actual matters. Therefore, a new strategy development is required to implement the regional economy modernization on the basis of trans-border clustering. Such strategy should include detailed mechanism of formation and governmental support of cluster corporations at both sides of the border relative to prevailing conditions in Ukraine. Implementation of new advanced marketing tools enabling to improve competitiveness of individual regions in the European market in developing new technological order is possible on the basis of feasible forms of trans-border cooperation, coordination and integration of joint efforts of business entities in European regions. The problem of improving competitiveness at the global market is certainly the most insistent for Ukraine [1, p.17].

Importance of European regional aspect of strategic planning; integration of the most actual problems of trans-border regions development with actions of authorities in peripheral economic area to solve such problems as: evaluation of consequences of their existence and reproduction; insistent demand for methodology of strategic planning at European regional level that requires, as a priority, to consider specific features of European regional Target Implementation Systems (TIS).

Process of social and economic development in peripheral regions often experiences situations with changes in external and internal conditions increase beyond subjective adaptive capabilities, i.e. lack of levers to eliminate a problem that occurs with governing bodies.

In this work a trans-border cluster system (TCS) is considered as a problem-solving system being a result of external addition to problematic TIC by parties being competent to control factors contributing to the problems’ reproduction. In this view, analysis of negative factors and consequences of existing problem construes a basis for developing a system operation which could provide control of such factors and their implementation and enable to mitigate individual consequences. Potential development strategy in a trans-border region in general will represent a complex of techniques to solve identified problems with European regional development by means of generating certain problem-solving systems, a trans-border net cluster being one of them.

2. Analysis of latest researches and publications

Cluster approach to economy structure formation, strategic development of regional industrial policy and economic systems competitiveness improvement is a common concept with advanced States [2, p.10]. M. Porter is a founder of modern clusters concept who investigated their influence upon competitive advantages. Well-known economists J. Schumpeter, F. Perrou, W. Price and I. Ansoff made significant contribution into solving the problems of regional competitiveness and clusters operation within certain branches of economy. Clusters concept and development of organizational and economic aspects of their formation in Ukraine were explored by Ukrainian economists V. M. Heyets [1–3], B. V. Burkinskiy, M. P. Voinarenko, V. I. Zakharchenko, V. M. Osipov, N. A. Mikula [4], S. I. Sokolenko, and others. Scientific works by these scientists identified theoretical and methodological aspects of competitive cluster development [4, p.130; 5, p.22].

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3. Problem Description

Aim of the proposed work consists in exploring approaches to structuring a development potential of trans-border cluster systems – poles of competitiveness – as an object of strategy planning in conditions of demand to develop a strategy for European regional development on the basis of innovative forms potential evaluation for industrial integration of peripheral economic area entities.

4. The Essential Research Material

Essence interpretation of a “potential” may be narrowed to a formulation, as follows: capacities of an object named “X” will transform from hypothetical into reality provided only the event titled “Y” occurs. Possibility of occurrence of the said event “Y” is what is named “a potential”. Studying the potential from the point of view of stochastic analysis disables scientific research of this category and prevents development of practical recommendations which could display reality and existing conjuncture. Therefore the potential concept should be mostly considered, from my point of view, as certain probable obvious and implicit resources, aids, advantages which may be implemented or mastered within close and remote future.

Approaches to the TCS development potential structure formation may be outlined, as follows: universal, functional, productive, marketing, institutional. In this view the TCS development potential consists in integrated display (evaluation) of existing and prospective possibilities of European regional system to transform available resources (on the basis of self-organization, cooperation and competition) by means of business capabilities inherent to personnel into economic benefits thus meeting corporative and social interests of parties at both sides of the State border to the best of efforts, which becomes not a dividing barrier, but a factor facilitating consolidation of ideas, knowledge and technologies.

It should be noted that the result of the potential implementation should not be narrowed only to deriving extra monetary revenue (profit). The achieved effect may bear reputational, marketing, social, informative orientation, but it goes without saying that the value of delivered advantages should exceed the costs spent to detect and implement possibilities.

Potential of forms which network unitization of business entities may take within a European region should be defined as integrated complex of economic, quasi-economic and non-economic opportunities capable to bring a certain effects in both monetary and non-monetary forms within a certain time period, provided that management of such entities should be competent enough to implement such factors / opportunities.

The TCS are proposed for consideration as objects of strategic planning. These are territorially localized in social and economic systems created by a group of independent business entities residing at both sides of a border, involving organizations representing executive authorities of States and civil society who work in close cooperation with each other by means of data exchange, services exchange, personnel exchange and finances exchange thus reaching higher efficiency in comparison with other objects which do not possess the feature of systematic organization. The TCS may become centers of regional development in attracting investments, spreading innovations, forming human resources of newer quality, business culture, and development of adequate institutions aimed to solve problems of economy modernization for entire relevant State [4].

Economic potential of the TCS is represented by a total complex of regional resources (labor, material, financial, natural, etc.) available at a disposal of horizontally integrated business entities as well as capability and competence of their employees and managers to use such resources according to aims of activities and to derive maximum income possible under existing conditions.

The TCS potential structure should take into account a wide scope of probable components forming such integrated indication. They include, *inter alia*, manufacturing component, taking into account both pure values characterizing production and possibility of innovations and optimizing management system, financial and marketing components oriented both to consumers and to suppliers as well, as civil society in general, and labor component taking into account both employees potential and that of managers and owners of the relevant business entity.

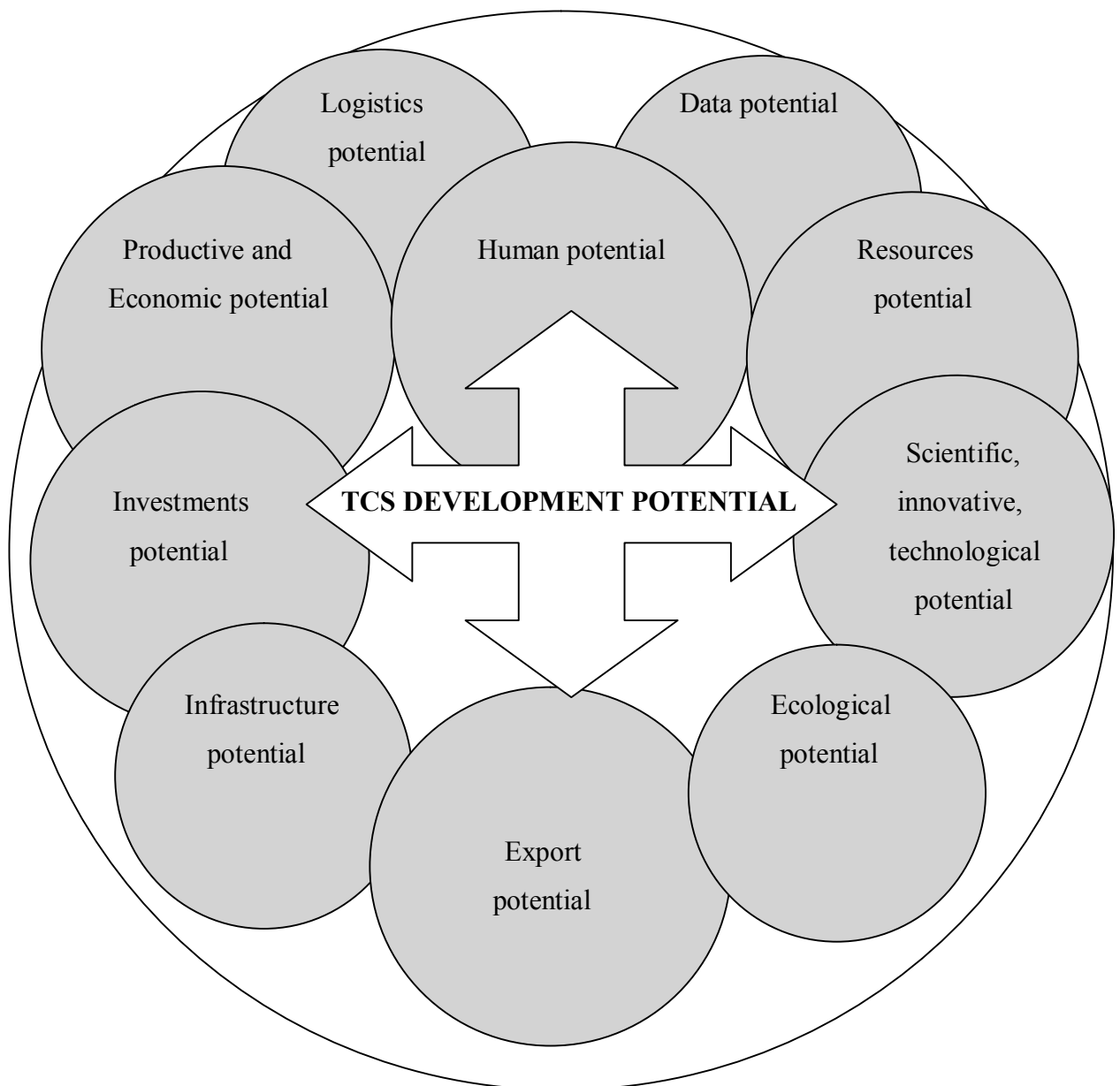


Fig. 1. Areas of functional subsystems of the TCS development potential

The trans-borders clusters encompass territories adjacent to state borders of neighboring states and include institutions and corporations located at both sides of the border. Therefore such trans-borders clusters may be defined as groups of independent companies and associated institutions which being geographically concentrated within a trans-borders area cooperate and compete specializing in various branches of economy, operate using common technologies and techniques and mutually add each other, which, finally, enables to obtain synergic and network effects and diffusion of knowledge and skills [5].

Certain functional subsystems within the TCS framework formed by various elements of existing self-regulated organizations assembled on the basis of their orientation towards particular functions may be identified. Structure of productions generating the TCS may vary and depends on existence cycle stage, maturity, localization area and activities forming the core of the TCS [6, p.27]. First of all, it is the core of the cluster system formed by a group of business entities, providing services and manufacturing production competitive at external or internal market; suppliers of raw materials and semi-fabricates for corporations forming the core and associated manufacturers; corporations producing equipment for both above branches; institutions and organizations dealing with personnel training according to aggregated demands of all parties forming the cluster system; educational institutions, scientific and experimental construction institutions, whose activities are focused to

maintain scientific and technological potential of the entire massive of enterprises forming the cluster system and meeting their requirements, core at the first turn, in development of newer products and technologies and improving their efficiency in broad sense; organization of financial sector providing the financial activity of the TCS and normal running of investments processes throughout the development of all the subsystems within the TCS; system of information support and management; organizations involved in environment protection activities working in the sphere of environment protection and wastes utilization.

Education system should take into consideration not only secondary special and higher education institutions meeting the needs of the TCS members in qualified labor resources, but the total system in general. It may be explained with the fact that education development influences not only the labor resources quality but the entire social environment within the area where the cluster system resides. Finally, an important part is played by infrastructure elements subsystem, transport and logistics, power supplying, information and communications, marketing and social elements.

The “second level” of functional subsystems or elements, oriented towards certain functions are identifiable within the framework of the above mentioned subsystems of the TCS. In general, the following functional “second level” subsystems should be considered:

- manufacturing and technological dealing with productions and service providing;
- personnel (labor potential) reproduction;
- personnel dealing with economic activity of the system in total;
- innovative, whose activity is oriented to development of new products and services to be produced by the individual subsystem and adaptation of such subsystem to new technologies generated beyond the scope of the system and arriving either from outside, as a new equipment, or as a result of own scientific and technological research or inventions;
- investments, monitoring the investments projects and procedures implemented within the subsystem;
- financial, dealing with finance activities of each subsystem;
- supplying current resources required for manufacturing;
- management system (adopting decisions in planning and administration);
- environment protecting oriented towards rational usage of natural resources, environment protection, wastes utilization.

This work proposes to operate a category of “functional section” to analyze the TCS potential. It means a group of similar functions and functional parameters servicing it within the structure of enterprises and institutions forming the TCS. Strategic parameters of each of such group of elements determine characteristics and features of elements forming the potential of the TCS.

Depending on the TCS specialization, emergence of crisis events or problems or, on the contrary, favorable opportunities, various versions of formation strategy may be realized. They may be characterized by the prevailing growth of a particular component of development potential – raw materials scope and quantity, technological potential, human potential, infrastructural potential, financial potential, etc. the potential represents a category addressing future prospects and provides meeting forthcoming needs. Once the potential determines future possibilities, the essential criterion for its analysis is its increasing component or increasing efficiency. Increase in social and economic system potential or its element supposes not only increase of quantitative value, but also increase in capability to achieve aims of its development, mitigate affect of external and internal negative factors and tendencies and to use new coming opportunities. Since the potential defines the forthcoming opportunities, they may not be implemented with 100% probability. The achievement and realization requires favorable coincidence of external and internal factors and/or elimination of factors, preventing successful realization of such opportunities.

A separate place in analysis and evaluation of a potential of each branch and potential of their merging into cluster is occupied by analysis of prospective development potential, which provided maintenance and development of positive tendencies and guarantees that all the functions of system

formation within the TCS will be implemented. The development potential may be defined as a particular section of all the components forming the potential. In particular, it is quite correct to discuss a development potential for innovative or investments potential. In particular, one of the indicators for the prospective development may be an investments rating of an individual region (especially nice if it is split into branches of regional economy), tender for entering an educational establishment, extent to which structure of the students' contingent and offered level of education meets the demands in highly qualified personnel, presence of innovative and technological prospects in scientific research organizations, environment protection activity, etc. the potential analysis and constructive conclusions derived from its result are aimed to tendencies analysis and working out procedures for their correction, as and when required or practicable. Applicable analytical and target indicators should enable to analyze existing tendencies in formation of various elements of prospective development potential, evaluate their mutual balance in processes of reproduction and modernization. The development potential may be expressed in expected increase in gross regional product, taxation base, financial assets increase, creation of new high-tech employment (increase in wage payments fund), population income increase and life quality, development of education, etc.

Thus, various components of the potential create the TCS development "areas". These elements of the potential should be considered in association with various branches of manufacturing and other activities located within the trans-borders region within the TCS framework.

Grouping into innovative cluster on the basis of vertical integration does not form spontaneous concentration of various technological inventions. It forms a clearly aimed system of spreading new knowledge, technologies and innovations. Here formation of a network of stable contacts among all the participants in cluster is the most essential precondition for efficient transforming inventions into innovations and innovations into competitive advantages. [7, p.21]. Innovative clusters create a new manufacturing product or service using efforts applied by a group of enterprises or scientific institutions enabling to speed up their spreading through the network of business partnerships. The cluster's innovative structure facilitates to save total costs of research and development of advanced or totally new production with its further commercialization due to highly efficient manufacturing and technological structure within the cluster and thus enables the participants in cluster to maintain a stable innovative activity over longer time [8, p.310].

Thus, the TCS economic potential may be characterized by some important features. Firstly, it is determined by its actual capabilities, not only implemented but latent, too. Secondly, the potential is characterized by a certain quantity of resources and reserved stores, both involved into economic activity and being probably available. Thirdly, the TCS potential is determined not only by opportunities and resources, but also by capability of management to use them efficiently, i.e. implement innovations to achieve strategic aims in specific institutional situations [9, p.13].

5. Conclusions and recommendations for further development

1. Potential or latent TCS localized within donated adjacent to State borders regions are of priority interest from the point of view of solving problems inherent to peripheral economic areas. It is a consequence of a fact that TCS creation within peripheral regions is very important for reducing their dependence on external financing and smoothening the extent of their inter-regional differentiation and bringing modern industrial technologies, giving a new impulse for development.
2. Development and implementation of trans-borders strategy applying European experience of trans-regional strategic concept is very urgent aimed to stable economic development of European regional system aggregating human, natural and manufacturing potentials and institutional environment. As Ukraine proceeds towards EU, it should summarize the experience of trans-borders cooperation as an initial and additional stage of integration in regional scale.
3. Theoretical and methodological ground should be elaborated for quasi-integration of business entities within the European regional frameworks and research new forms and aids of its implementation within the concept of network cluster systems to form a clear efficient policy of development for trans-borders cooperation with active part of Ukrainian peripheral regions.

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Summary

Essence and internal relations of development potential of trans-borders cluster system as a factor increasing the competitiveness of a European region under conditions of increasing integration processes and demand to improve the part of peripheral territories in economy are explored in the proposed work. Theoretical provisions and methodological approaches are systematized in view of structuring a potential of trans-borders clusters basing on the system approach. Strategic priorities are identified and innovation potential of cluster forms for trans-borders industrial integration is analyzed in view of prospects of Ukrainian entering EU.

The mechanism of transplantation of network economics institutions is studied as the necessary growth factor of competitive capacity of the European regions in terms of European integration. By means of institutional approach it is justified that postindustrial economics evolved into the system of interlocking institutions, forming a new economic area of postmodernity in cross-border dimension, in which such virtual resources of development are necessary as: information, innovations, ways of communication, knowledge and other institutions of postindustrial society.

Keywords: trans-border cluster system; European region; strategy; integration; innovations; competitiveness.

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INTELLECTUAL CAPITAL IN THE KNOWLEDGE-BASED ECONOMY

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1. Introduction

In the era of the knowledge-based economy created by the private and public sectors, in which a fundamental basis for economic development is the production, distribution and implementation of information [1, p.82], knowledge has a pivotal role to play. It is regarded as a key endogenous factor that shapes the production structure and social and economic progress. The ability to create knowledge, and in particular, its transformation into new products, services and technologies, contributes to the market success of an organisation and to the functioning of the whole economy. Knowledge, therefore, becomes a key determinant of the pace and level of economic growth [2, p.16]. The development of the knowledge-based economy manifests itself, in particular, in the creation and dynamic development of intellectual capital. This is triggered by an ever growing interest on the part of both theorists and practitioners of the management of intangible assets in the potential use of intellectual capital as a new tool for creating value and competitive advantage in business, and also in an improved functioning of public administration. There can be no doubt that intellectual capital is the wealth and source of development of an organisation and the engine for the economy of the future [3, p.319]. Therefore, such capital is unquestionably linked to the prosperity of nations, whose generation and growth in the knowledge-based economy cannot come from entities that do not possess adequate intellectual capital [4, pp.14–15]. For this reason, the objective of the considerations provided herein may be expressed as follows: *What are the areas, in which differences emerge, in relation to intellectual capital, between business and public entities?*

2. Intellectual capital in the private sector

A concept of intellectual capital was initially defined in the context of the private sector. In terms of management, it is associated with a strategy, assuming that the activities carried out by a business entity should be orientated towards the creation of value leading to the competitive advantage. In this context, it emerges that these are precisely the intangible resources that play a more significant role in the development of a company than its tangible assets, as they are a key source of competitive advantage and the investment in intellectual capital is long-term and also the derivation of value from intellectual capital is more complex and risky than from physical capital [5, p.106]. The literature on this subject abounds in variety of definitions of intellectual capital, which demonstrates that there is no consensus as to the unambiguous meaning of this term and, therefore, as to the determination of its components. Intellectual capital is understood as:

- the economic value of intangible resources of a company [6, p.158];
- the broader knowledge, information, intellectual properties and experience that may be applied when creating value of a business company [7, p.xi];
- the difference between intangible values and intangible liabilities of a company [8];
- the intellectual matter used for creating valuable assets [9, p.65];
- the knowledge, practical experience, technologies, good relationships with clients and any other skills allowing a company to achieve the competitive advantage [10, p.91];

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- the total of islands of knowledge that function in an organisation and its relationship-based environment [11, p.148];
- the difference between the market value and the book value of a company [12, p.4];
- the total of all intangible and knowledge-based resources that an organisation can use in its production processes, attempting to create value [13, p.364];
- the total of hidden assets of a business entity, which are not recognised in its balance sheet, including both what is in the employees' heads and what is left after they are gone [14, p.13].

When analysing the aforementioned definitions of intellectual capital, one may conclude that the basis for creating and developing intellectual capital is not only knowledge but also any intangible resource that may contribute to the achievement of the competitive advantage for a business entity and to the creation of value for its stakeholders. This is why when searching for the answer to the question of what intellectual capital is, it is reasonable to determine its subcategories. In view of the numerous and ambiguous definitions of intellectual capital, it is generally accepted that it consists of human capital, structural capital and relationship-based capital [15, p.73]. The subcategories of intellectual capital are the combination of various intangible assets. It should be emphasised that neither theorists nor practitioners addressing the issues related to intellectual capital can reply unanimously to the question: *What does intellectual capital related to the employees of a business entity, its internal structure and external environment, consist of?* The two approaches described in Table 1 below demonstrate that the absence of an unambiguous answer to the aforementioned question makes the understanding of a nature of intellectual capital even more difficult.

Tab. 1. Components of Intellectual Capital

| Subcategories of intellectual capital | Author (year) | |
|---------------------------------------|---|---|
| | Baum (2000) | Vuolle, Lönnqvist, Meer (2009) |
| Human capital | – relationships with employees | – differentiation of skills – experience and education – creativity and innovative behaviour |
| Structural capital | – innovations – quality – technology | – ideas, systems and tools supporting R&D – managerial support, engagement and practices – culture and organisational structure – personal relationships, functional correlation of teams, internal cooperation and projects |
| Relationship-based capital | – alliances – relationships with clients – brand value – environment and society | – engagement of clients – relationships of clients – direct relationships – R&D cooperation – projects with companies and institutions |

Source: Own study on the basis of [16, p.69]

Given the role of intellectual capital in the knowledge-based economy, its valuation becomes increasingly important. However, the valuation of intellectual capital poses a number of methodological difficulties, making the measurement and evaluation of intangible resources a still imperfect process. In the face of many potential indicators of intellectual capital valuation, which relate to the business sector, their classification proposed by K. E. Sveiby becomes handy [17, pp.2–3]. Assuming the criterion of the level of analysis and the intellectual capital valuation method, he recognised 4 method groups, namely the market capitalisation method, asset return method, capital direct valuation method and scoring card method. The first three methods allow for the value of intellectual capital to be expressed in monetary units and the last method provides a qualitative account thereof. Intellectual capital can be measured and evaluated using, in particular, the following indicators [9, p.65; 18, p.49; 19, p.35; 20, p.55]:

- MV/BV (*Market-to-Book Value*) – the ratio of the market value to the book value of a business entity;
- TQ (q-Tobin Index) – the ratio estimated on the basis of analysis of the market value of a business entity and the replacement costs of tangible assets;
- CIV (*Calculated Intangible Value*) – the method based on a seven-stage procedure, whose result reflects the intellectual “bonus”;
- KCE (*Knowledge Capital Earnings*) – the method based on economic variables that include tangible and financial assets, including the coefficient of intangible assets;
- VAIC (*Value Added Intellectual Coefficient*) – the value added intellectual coefficient allowing for the effectiveness of creating the added value from tangible and intangible assets to be estimated;
- EVA (*Economic Value Added*) – the economic added value that is the difference between the operating profit after tax and the cost of capital (both equity and debt);
- TB (*Technology Broker*) – the three-stage measurement method that includes the diagnosis and quality audit related to intellectual capital and the estimation of its monetary value;
- SICN (*Scandia Intellectual Capita Navigator*) – the Skandia Navigator is an enterprise value-based model that consists of the book value of financial capital and the value of intellectual capital, and is based on the appropriate ratios applicable to both measurable and non-measurable elements of intellectual capital;
- BC (*Balance Scorecard*) – the balance scorecard is a system of interrelated ratios, which in relation to intellectual capital measures the ability of human, information and organisational capital to generate goodwill.

3. Intellectual capital in the public sector

There can be no doubt that nowadays intellectual capital becomes increasingly significant in the public sector satisfying social needs through the creation of common good. This stems firstly from the new way, in which public administration functions, which is based on the process management, in which knowledge of the essence and stages of the implemented processes along with the existing limitations in resources (human, asset and financial resources) conditions the effective and efficient management of such resources, and secondly from the principles of new management philosophy, namely the New Public Management. This is associated with the phenomenon of marketization understood as the transfer and development of the following market solutions in the public sector: [21, p.296]

- the implementation of managerial management in public entities,
- the focus on the measurement of performance, which requires that the objectives of public entities and the scores and criteria for their achievement be defined,
- the implementation of competitive mechanisms to the functioning of public sector entities, both in the area of procurement and service creation.

The transposition of the intellectual capital concept from the business sector manifests itself, in particular, in the observed evolution of the public sector oriented towards converting the bureaucratic public administration officer to a pro-consumer one and the bureaucratic public administration authority to an intelligent one. The first case concerns the attempt to create an ideal public administration officer. Regarding civil servants, they should be professional, apolitical, reliable, honest and impartial, as well as disinterested (not corrupted), friendly and helpful to citizens and also open and fair [22]. The second form of evolution refers to a modern administration authority, i.e. to an administration authority operating in accordance with the uniform and coherent procedures, making sure that the regulations are interpreted in the same way by all of its entities and employing public administration officers that comply with the mission of civil service [23, p. 14]. This will be possible, if a public administration authority is managed in keeping with the *New Public Management*, taking full advantage of the potential of intellectual capital, and if it comes up to the digital revolution and becomes an intelligent and digital public administration authority.

The differences existing between the private and public sectors, in the area of the objectives of their operations, offered goods, intensity of using resources, innovative level of implemented solutions, freedom of making decisions and social and environmental responsibility, will diversify, up to a significant degree, the approach to the interpretation and use of intellectual capital in the public sector [24, pp.4–7]. Without going into details, it should be emphasised that the functioning of the private sector is often different from that of the public sector, which stems from the different goals of entities that operate in a given sector. The activities of business entities on the openly competitive market are oriented, in particular, towards maximising economic effects (profit, market share, sales or value for shareholders). This is similar to the adoption of a productive performance approach in business activities oriented towards selling tangible products. On the other hand, public sector entities are oriented towards minimising the expenditure incurred, by way of providing public services (goods), as a rule in an intangible form, based on the economical approach. The differences in the goals and offered goods make it, therefore, impossible for intellectual capital to be considered in the public sector in relation with such concepts as profit, value for stakeholders or competitive advantage, as it should be considered in association with the type and quality of services provided to citizens.

In the public sector, the concept of intellectual capital is not so well structured or identified as in the private sector, in relation to which the scientific contribution regarding the measurement of intangible assets and the management of and reporting on intellectual capital is already significant. Due to the critical role of human resources in creating the public good, the definitions of intellectual capital that are certainly of value are those that highlight the importance of knowledge. This is how intellectual capital is perceived, for example, by G. Urbanek [25, p.38], according to whom "... this is both the knowledge itself and the effect of its transposition to intangible assets". In addition, the categories of intellectual capital components provided in Fig. 1 demonstrate that the approach to this concept in the public sector is different and emphasise that the operations in this sector are transparent and characterised by social and environment responsibility towards citizens. These factors are paid no attention to in the intellectual capital models addressed to business entities.

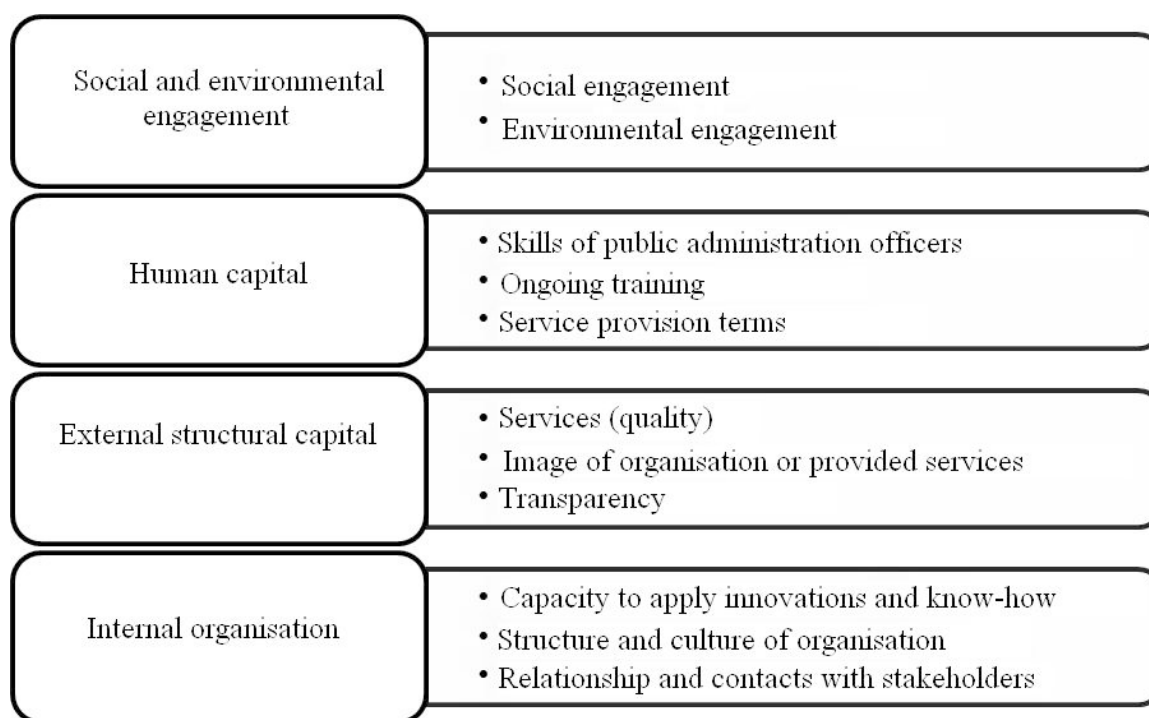


Fig. 1. Components and elements of intellectual capital in the public sector

Source: Own study on the basis of [24, p.9]

The fact that the sectors differ is also demonstrated by the application of an appropriate method for measuring intellectual capital, adapted to the philosophy and specific nature of public entities. The uncritical transposition of commercial solutions applied in the private sector to the public sector becomes therefore pointless or even counterproductive. Therefore, the public sector uses the intellectual capital valuation methods based on scorecards, and in particular the Intangible Assets Monitoring (IAM), Skandia Navigator (SICN) and the Balance Scorecard (BC) models, as well as any completely new models that take account of a specific nature of public administration [26, pp.253–260]. Attention should be paid to three models. The first one is the Intellectual Capital Disclosure Index. It reflects the scope and quality of the reporting on intellectual capital, by a reference to nearly 30 elements of intellectual capital that comprise human capital, external capital and internal capital [27, pp.245–486].

The next model was developed by A. Bossi Queiroz, Y. Fuertes Callén and C. Serrano Cinca [24, p.9]. In keeping with this model, intellectual capital is evaluated in four areas provided in the aforementioned figure. For example, in the area of internal organisation, it may be the percentage of people who prefer teamwork or the number of projects, in which a given public administration entity takes part, and in the area of human capital, it is the percentage of people with tertiary education or the training satisfaction index [28, p.13, p.15]. The last model for measuring intellectual capital in the public sector is the ICGM (Intellectual Capital General Model) developed by E. Bueno, C. Morino and M. P. Salmador. It is highly valued, because it allows for such intangible resources to be measured as affect the created value and the effectiveness and efficiency of the provision of public services. The model consists of 3 components (public human capital, public relationship-based capital and public structural capital), a dozen or so of elements (for example, culture, foundations and values or intellectual property rights) and a several dozen of variables (for example, cultural homogeneity, creativity, patents), which are subject to the measurement with the use of appropriate indicators [26, p.253].

4. Conclusions

Taking into account the fact that interest in implementing commercial solutions, which are transferred from the activities of private business entities to the functioning of the public sector, has been growing in recent years, special consideration should be given to the usefulness of the concept of intellectual capital in the area of public administration, and more widely, of the public sector. The differences in the functioning of the two sectors, reflected in their goals, make it, however, impossible to uncritically transfer the solutions regarding intellectual capital and, therefore, to simply impose such modifications to its meaning and also adjustments to the methods and techniques of its measurement as would be adequate to the specific nature of the public sector, which is reflected in the attempts made to develop the new valuation approaches and models.

Ongoing changes in social and economic reality have also contributed to a change in the philosophy of providing services to citizens, who have ceased to be petitioners and are promoted to the rank of clients. In the face of such challenges and trends, the system of public administration should be efficient, effective and inexpensive, applying information and communication technologies and guaranteeing full access to information to citizens. The changes have also influenced modifications in the existing public administration officer model, which in the light of a new image of authorities seen through the prism of an intelligent organisation that meets the expectations of both individual and institutional clients should depart from a pejoratively understood bureaucracy in the direction of a genuine civil service provided for the common good and interest. In the context of the considerations provided herein, one may conclude that intellectual capital and the potential related thereto may contribute, through adequate management, to improvements in the quality and increases in the effectiveness of the functioning not only of private sector entities but also those in the public sector, and in particular, of public administration authorities. The monitoring, measurement and stimulation of intellectual capital growth in the knowledge-based economy may therefore contribute to an improvement in the quality of the services provided both to citizens and

business entities, which in a wider perspective will help to bring about an increase in social well-being and the competitiveness of the whole economy.

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Summary

The considerations provided herein focus on intellectual capital as a concept that is gaining increasing significance in the functioning of business and public entities in the era of the knowledge-based economy. This paper aims to identify differences in the meaning and measurement of intellectual capital in the private and public sectors. In the light of the growing interest, triggered by marketisation, in the implementation of business solutions in the public sector, this paper provides the characteristics and comparative analysis, including differences in the use, of intellectual capital in both sectors. Regarding the public sector, the paper also points out potential advantages that reveal themselves, in particular, in relation to a change in the existing public administration officer and authority models that is based on the practice of business orientation towards the needs of a client in the process of providing public services.

Keywords: intellectual capital; private sector; public sector.

JEL classification: O340

UD classification: 339.166.5:37

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MANAGEMENT OF STATE BUDGET EXPENDITURES THROUGH THE SYSTEM OF TREASURY

Tetyana Kublikova, Eleonora Kurganskaya*

1. Introduction

Today, the State Treasury is the only body charged with the maintenance budget execution – of income and expenditure [1].

However, there are a number of unresolved issues. They are associated with the implementation of the mechanism of interaction of all participants in the budget process; clear division of financial and information flows between the Treasury and other participants in the budget process; improving methods of treasury services budget; creation of a dynamic monitoring system; account of the intended use of funds; spending increase on public administration and so on.

2. The basic material of research

In determining the direction of economic policy it is necessary to improve the prospects of establishing control over the treasury account earmarked funds.

However, the question of developing effective management mechanisms preliminary and current control department of the State Treasury is not developed enough [2].

Therefore, further development of the Treasury, in our opinion, may be associated with the monitoring, search and creation of new instruments or their further improvement towards: concentrating financial resources in a unified structure for the successful implementation of fiscal policy.

Because of the state budget the government organizes the redistribution of financial resources between productive and non-productive areas of activity between administrative and territorial units branches etc., strengthens the oversight functions of the state for the timely and complete inflow of the budget financial resources and their effective use. The result of this process is the development of management functions.

However, forecasting and replenishment revenue expenditure of the state budget for the use of temporarily free funds is almost inextricably linked with the introduction of treasury passport.

Entering into force of this document will provide the necessary information in a concentrated form on cash flow.

Today the paradoxical situation has developed – there is a need for further development of the Treasury, but there is no legal basis [3–5]. Legislative and regulations of the State Treasury are outdated and do not meet the current needs of the management of budget funds [6–8].

Throughout its existence, the Treasury was forced to quickly solve problematic issues (which are detected in the monitoring of financial resources).

The new direction of the Treasury led to implementation of new features – operator settlements and payments for all customers served by the system.

This approach significantly distinguished bodies of the State Treasury Service from other ministries and departments, firstly, by systemic approach to automation.

In our opinion, one of the urgent issues is to align with the actual functionality of the State Treasury Service of legislative regulations.

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This will provide an opportunity to consolidate the specifics of the State Treasury, to emphasize its differences from other government authorities and also provide a basis for further development.

That was the chain connecting information and computer system of Ukraine Treasury.

Temporarily free funds of public funds and of other clients, local budgets should become these additional sources, which can be served in the Treasury system. Access to them must become operationally and technically possible.

Fig. 1 points to the growth of the treasury account balance.

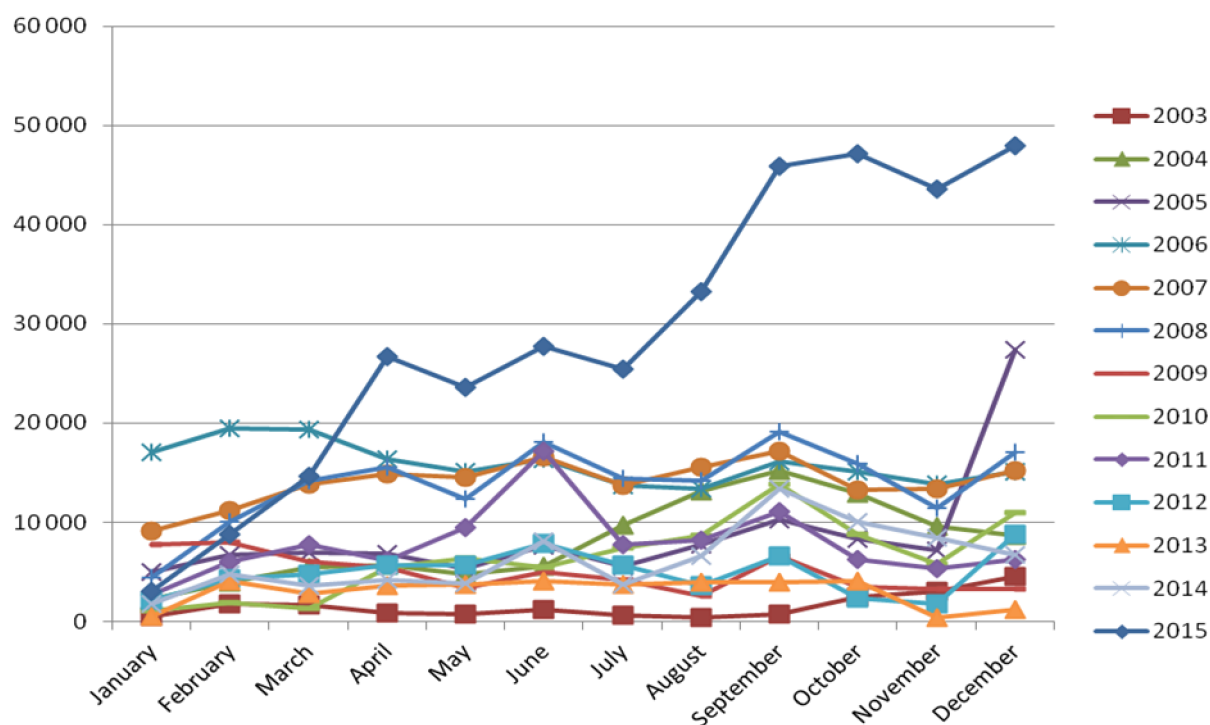


Fig. 1. Dynamics of average incoming balance TSA in Ukraine in 2003–2015, (at the beginning of the month) [3]

In our opinion, the management of budget funds should be addressed by effective combining of the interests of fiscal and monetary policy. The centralized model calculations require the development of new relationships between levels of the State Treasury, which should be resulted in the changes of the legal and normative acts of general issues of creation and existence of the State Treasury. Actions on the creation of a centralized model are justified by the fact that the existing schemes of the state budget payments are rather cumbersome and need simplification. There is an urgent need to speed up their use by the general revenue resources by backing regional level.

Achievement of this goal will be done by establishing a central authority, which will limit the use of Treasury funds. This will provide an opportunity to accelerate the flow of resources spending and will help to reduce the tension. According to this, budget beneficiaries' accounts must be enforced by real resources when there is a need to actually hold cash expenditures. Thus, when the State Treasury receives from institutions vouchers for debiting its account with the payment obligations and with the introduction of the payments scheme, the information flows direction changes. Currently, a central office acts as responsible for timely and targeted information and proof of funds to subordinate bodies of the State Treasury.

According to the perspective scheme the main task of the central office will be the budget operational flow management through: establishing authorization for its use; establishing rules on payments in case of budget revenues failure. Based on the information, State Treasury budget execution analysis and revenue forecasts the decision on setting limits on the regional level and divert part of the funds to "support" other areas could be taken. The introduction of the proposed scheme and the passage of the budget funds will enable:

- access to the central apparatus of Treasury resources (they now accounted for 27 correspondent accounts of the State Treasury regional departments);
- reallocation of resources, taking into account the actual need for them (in the relevant territory within the Single Treasury Account);
- avoid colliding cash flows between government revenues (which are accumulated in the respective territory) and the cost of procuring funds;
- focus on the expenditures of the state budget of all available resources (which are recorded on correspondent accounts departments of the State Treasury);
- operation of expenditure spending units (based on the account of their obligations in the State Treasury).

All listed advantages are creating conditions for the effective management and the targeted use of budgetary funds. It should be taken into account the Swedish positive experience, where all departments activities and their work results are analyzed once every three years. A further budget allocations approval depends on the results of the analysis of a particular program and the cost of achieving it. However, at present there are no recommendations for the specific mechanisms, the system of assessments, standards that could be used by institutions and organizations, regulatory authorities to analyze the efficiency of budget funds.

3. The main results of the research

Operational management assumes presence of monitoring of funds. It should also foresee an appropriate system of interrelated stages, namely:

- determination of the funds volume required for the implementation of this objective;
- the distribution of the resources needed for the implementation of goals;
- ensuring the implementation of specific procedures.

For quality monitoring State Treasury Service of Ukraine needs to have information on:

- revenue forecast of daily adjustments according to the actual status of the revenue part of the budget;
- projections of funds on:
 - the expenditure on the basis of financial obligations;
 - the repayment of external and internal debts including interest;
 - the return or compensation of income.

Such information should be consistent and matched for different periods and provide an opportunity to make decisions in a given period of time.

In our opinion, better results in this field can be achieved by providing the near future to take the following measures:

1. Further centralization of resources in accounts of the Single Treasury Account.
2. Getting a better forecast of the necessary financial resources for a specific period of time based on the managers and recipients of budget funds accounting obligations and cash plans of other participants in the system.
3. Strengthening and expanding methods of monitoring expenditure of budget funds.
4. Completion of the introduction of a single full-featured software and information and accounting system creation as a whole.

4. Conclusions

Given the importance of the issues studied real economy deems it necessary to reveal the essence of the proposed measures.

In terms of destabilization of the financial state of the economy, state revenues reduction is forcing the government to seek and raise funds for timely cost from other sources. In our opinion, the review process can be started from the budget indicators assessment, i.e. analysis planning neediness and implementation of the relevant expenditure exploring possible ways to achieve the goal of smaller volumes appropriations and comparison of specific measures and price indices.

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Summary

In the article the management of budget funds in the Treasury system is researched. Tendencies of balances fluctuations on a single treasury account are indicated. The attention to the peculiarities and shortcomings in the functioning of the cash budget execution is paid. The management of budget funds should be addressed by effective combining of the interests of fiscal and monetary policy.

Operations in the financial markets on the placement of temporarily free budget funds on deposit at the National Bank of Ukraine and commercial banks will provide an additional source of income. This will enable reduction of the burden on state spending.

Keywords: treasury; the treasury system; the cash execution of the budget; a single treasury account; the budget; treasury; costs.

JEL classification: H610

UD classification: 336.14:354.22

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THE PROCESS OF BUYING AND THE DETERMINANTS OF CONSUMER BEHAVIOUR IN E-COMMERCE

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1. Introduction

E-commerce is one of the fastest growing forms of retail. This situation has not changed since the beginning of XXI century making consumer behaviour in Internet the main subject of academic research. One of the most basic concepts in consumer behaviour is the process of buying goods. In this article, the main aim is to discuss the influence of Internet on the typical five stages of buying process. That includes defining the basic factors that could determine the whole process (both, internal and external ones) and determining their influence on each phase. According to various concepts in the process of purchasing we can distinguish between four to six phases. The difference in the number of phases is most often the result of combining or separation, rather than identification of a completely new stages (for example purchase and post-purchase evaluation is presented by some authors as a single step) [1, p.62]. In accordance with prevailing concept, it is assumed that the process comprises five stages, i. e.: need recognition / problem recognition, information search, information evaluation, purchase decision, post-purchase behavior [2, p.26].

It is emphasized that the customer does not have to overcome all the distinguished steps – some of them may be omitted, to the other the customer can return to [3, p.247]. Moreover, in practice, all phases are present mostly in non-routine (new) decisions, i. e. when the customer cannot rely on previously gained experience [4, p.45]. Characteristics of the steps is shown in Tab. 1.

Tab. 1. Characteristics of the phases in the process of purchasing

| Phase | Description |
|--|---|
| Need recognition / Problem recognition | Identification of the problem is clear from realizing the existence of unmet consumer needs and initiates any decision problem. The recognition of a need by a consumer can be caused in different ways, including marketing activities. |
| Information search | Searching for information is to find ways (opportunities) to meet the needs. There are many ways of searching for information, depending on the type of product, past experience of the client, and the perceived risk of purchase |
| Information evaluation | At this stage, the client processes the information on the different product variants. For different consumers, different product features are important and there are different sources of achieving satisfaction. Additionally, evaluation of alternatives require that the consumer created criteria for their evaluation. |
| Purchase decision | Purchase can be understood as a function of intent to purchase and the situation in which the customer is located. It is the climax stage in the decision-making process of purchase |
| Post-purchase behavior | The last step in the process. The feelings after purchasing are result of the comparison between expectations related to the purchase and fulfillment of these expectations. |

Source: Own work based on: [5, p.8–61; 6, p.109]

2. The process of buying in e-commerce

Significant in this article is the question – whether the purchase process is the same for e-commerce?

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The answer is – “yes”. In e-commerce, usually without any major problems, each of the previously identified five stages can be distinguished. Therefore, any attempt to present of this cycle in a completely new form is not required and it does not bring much to the scientific achievements. Nevertheless, it is worth to note that the use of Internet in e-commerce, raises very specific implications for almost every phase (Tab. 2).

Tab. 2. The process of purchase by consumers and e-consumers – similarities and differences

| Consumer | E-Consumer |
|---|--|
| Need recognition | |
| no differences | |
| Information search | |
| Traditional sources: – Family – Friends – Seller – Ads | Traditional and Internet sources: – Company websites – Internet forums, blogs, price comparison sites – Retail and Internet Auctions |
| Evaluation of alternatives | |
| – Limited, harder and more time-consuming access to information – Limited evaluation criteria: – Product availability – Price – Delivery conditions | – Easier and faster access to information – More choices of evaluation criteria: – Product availability – Price – Delivery conditions – Opinions about the seller – Opinions about the product |
| Purchase decision | |
| – Buying in traditional stores – Payment by cash, credit card | – Buying from online stores – Buying from online auctions – Payment: online bank transfer, cash, card |
| Post-purchase behavior | |
| – Low risk associated with buying the product contrary to expectation – Opinions expressed after purchase: more often negative (a small range of influence on the decisions of others) – The way, opinions are expressed: books of complaints, verbal, complaints | – High risk associated with obtaining product inconsistent with expectations – Opinions expressed after purchase: negative and positive (a wide range of influence on the decisions of others) – The way, opinions are expressed: Internet forums, blogs |

Source: [7, p.16]

While recognition of the need phase is virtually identical for both spheres of trading, the phase of searching for information, provides much wider spectrum of possibilities to obtain the necessary information by e-customer. In addition to traditional sources of information such as the environment (culture, social groups, economy, etc.), the marketing mix (product, price, distribution, promotion) and customer own experience, e-customers have access to essentially unlimited Internet information resources [8, p.63].

Although, the contemporary customer is able to access the content relevant to him in the context of purchase decision very quickly (thanks to powerful Internet search engines or price comparison sites), it is extremely important to understand and know the ways e-customers search for information, including the recognition of the basic information stimuli that lead to purchase.

It may be assumed that these ways will differ, e. g. for the buyers of household items, detailed information on the product may have relatively greater importance, for the buyers of books, review of the item may be crucial etc. As a result, it is absolutely essential for e-shop, to adequately address these needs by customizing web page content.

Nevertheless, it should be kept in mind that the most valuable source of information for the customer often is not connected to the place the purchase was made [9, p.168–169]. In sum, there is no doubt that the situation of a client with the access to the Internet, clearly broadens the range of possible consumer behaviour in the purchase process (Fig. 1). It should be emphasized that, in the case of e-commerce (the same as is in the case with traditional commerce), the range of information searched by customers will depend on their initial knowledge (experience) associated with the product (Fig. 2).

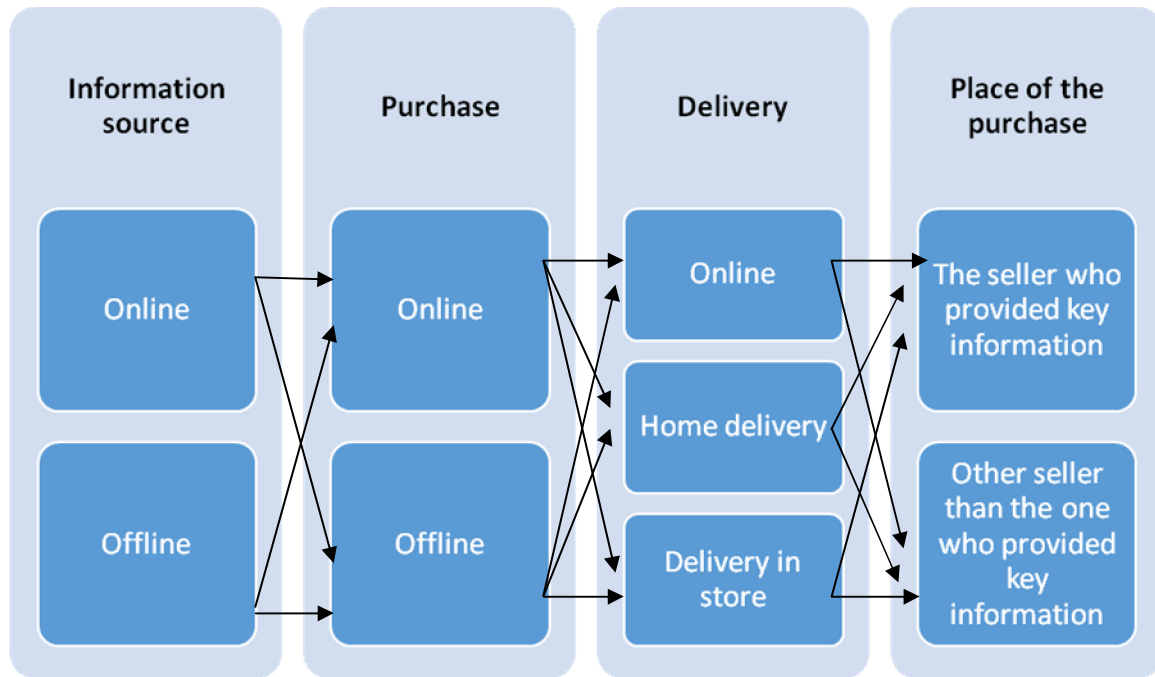


Fig. 1. E-customer buying behavior matrix

Source: Own work based on [4, p.170]

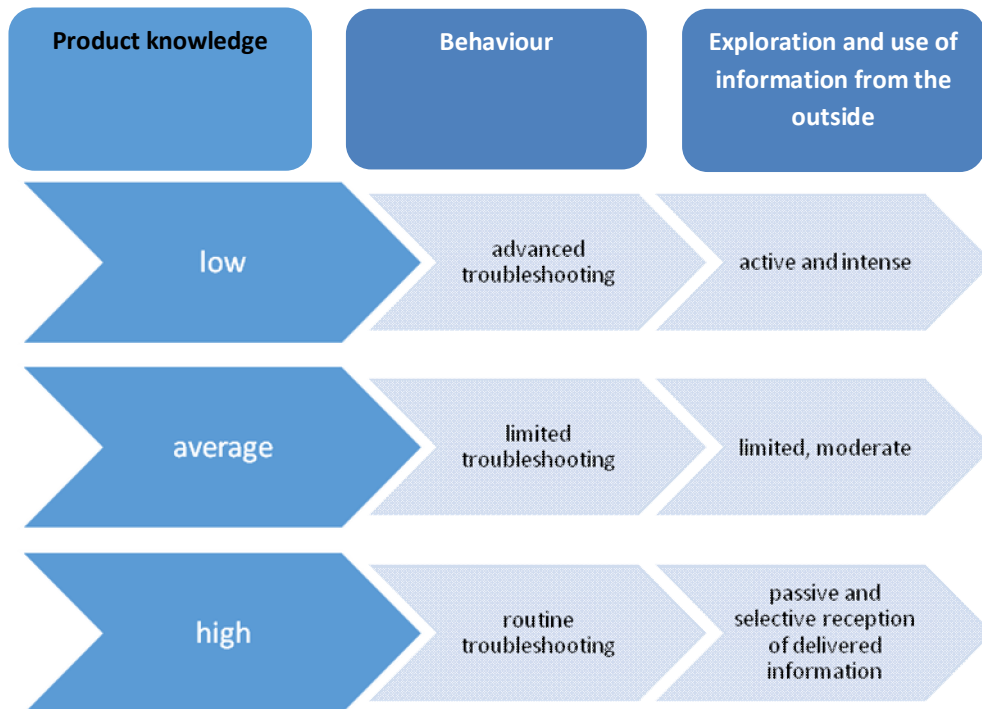


Fig. 2. Exploration and use of information from the outside depending on the client product knowledge

Source: Own work based on [10, p.55]

As part of the next phase of the purchase decision, i. e. the assessment of information, consumer is making a selection, evaluating each of the available options in terms of specific criteria – the most common, features of the products which are the subject of choice. The number and scope of the criteria taken into account when assessing is influenced by certain factors (Tab. 3). It happens that the consumer is not able or cannot assess the characteristics of the product (for obvious reasons, this is especially the case with the purchase of some goods via the Internet), as a result, he uses then a simplified way of evaluating, using criteria such as: price, brand or country of origin. In addition, it should be noted that there is no single product assessment scheme, which would be used by all consumers or even just by one consumer in all situations [11, p.49].

The Internet undoubtedly facilitates any action taken by e-customers in the framework of this stage. Nevertheless it should be noted that back in year 2000, L. Garbarski did notice some Internet defects (most of them are already past) e. g. the amount of information in the Internet was too large and it was hard to look through it [8, p.64].

Tab. 3. The main factors affecting the number and scope of the criteria for the selection of the product by the consumer

| Factor | The impact on the number and range of evaluation criteria |
|---|--|
| Product | <ul style="list-style-type: none"> – Complex product – increase in the number and scope of the assessment criteria – Simple product – decrease in the number and scope of the assessment criteria |
| Individual characteristics of the purchaser | <ul style="list-style-type: none"> – Consumers are fond of shopping – increase in the number and scope of the assessment criteria – Consumers are not fond of shopping – decrease in the number and scope of the assessment criteria |
| The purchase situation | <ul style="list-style-type: none"> – Urgent need – the number and scope of the assessment criteria is limited to minimum – Need not urgent – increase in the number and scope of the assessment criteria |

Source: Own work based on [4, p.49].

Nowadays, e-customers are able to compare different e-shop offers quick and with ease using a number of tools available on the network. Most importantly – the comparison can be done on several different levels, from a global comparison of prices for the product on the Internet market, by a comparison of stores offering a category of products, ending on a detailed comparison of individual product variants as part of a e-shop website.

The possibilities of the e-shop offers comparison have certain implications for e-shop owners – on the one hand, it is much more difficult to hide the e-shop weaknesses in relation to competitors, on the other hand, exposing the e-shop advantages is relatively easier.

The fourth phase in the buying process – the purchase decision is a step in which the final decision to buy in a particular store is made. In reference to the traditional trade e-clients capabilities are much greater especially in two areas:

- execution of the contract – e-customers can fulfill their orders using only electronic channel – the case of digital products ((such as e-books, music and video files etc.) or using mixed channel with the physical delivery of the goods or personal reception at stationary shop (fixed place));
- payment methods – where e-customers get the opportunity to take advantage of many additional forms of payment that are absent in stationary shops.

The consequence of the purchase decision is the final stage of the whole process – the client's behaviour after the purchase. In the case of e-commerce, it is associated primarily with a relatively high risk of receiving product inconsistent with customer expectations. E-customers usually have no possibility to physically read the product until the time of its supply. Therefore, especially with the products such as clothing, food or cosmetics, for which a reliable evaluation is necessary to use

(other than a sight sense), the likelihood of non-compliance with the expectations is particularly high. From the point of e-seller, it is important to note that e-client is given the opportunity to express their opinion on that product and store after purchase via a variety of online tools like forums, blogs and social networking sites, where, these opinions, can influence substantially an unlimited number of potential customers.

3. Determinants of consumer behaviour in e-commerce

The behaviour of buyers is always under impact of specific conditions. Starting from the pre-purchase behaviour through behaviour during the purchase and ending with the after-purchase behaviour. Consumers are subject to the influence of numerous internal and external factors, where the intensity and duration of their impact is different. Concerning internal conditions of consumer behavior some significant differences in relation to purchases of stationary outlets can be indicated. First of all, on pre-purchase phase, the relatively greater importance should be attributed to lifestyle (increasingly common phenomenon of lack of time and inclination to save it through routine activities like shopping, promotes the use of e-shopping and motives of doing online shopping in comparison to stationary sale). During purchase the relatively greater importance may have emotions and risk, especially in regard to new (unexperienced) e-consumers (it should be noted though, that their importance will naturally decrease with increasing experience of each online purchase). Moreover, the importance of having money in cash should be decreased since e-clients have other payment options which do not require it. In the case of the persons accompanying the buyer in purchase process (factor "Companionship"), the nature of e-commerce, makes the number of people affecting the purchase significantly bigger (to some extent, those who post their opinions about the product on portals within the e-shop site or forum, may be considered such companions).

After purchase stage, in relation to the stationary trade, it will be marked by a relatively higher probability of dissonance (e-clients are not able to get familiar with the product to such extent as clients buying products offline). In addition, particular importance should be attributed to the learning factor. Its influence should continue to increase with each successive e-purchase, clearly affecting the re-shopping. Also, it can be indicated that the complaints factor, especially for unexperienced customers, may be more important (e-customer would feel more safe when knew how to make a complaint in the Internet).

In relation to all the other factors, their impact and place on time axis should be similar to shopping in stationary outlets [4, p.110–112]. As part of the external conditions, at the beginning of the purchase process, relatively greater importance can be attributed to subculture and social class (particularly in the light of the generation Z consumers). In addition, opinion leaders should be much more visible in the context of e-shopping, their opinions, naturally, would affect wider, Internet audience. On the other hand, it should be emphasized that some of the highlighted factors almost completely lose their influence in e-commerce i. e. weather or location.

In the stage of purchase, far greater significance can be attributed to the price (comparison between the offer on the Internet is in fact very easy) and available assortment. It should be also noted that in relation to the product, acquisition of knowledge concerning given product will be much more difficult, so as the very perception of the product should change, for example, the functionality of the site may be seen as some part of product in the Internet. Similarly to the pre-purchase stage, some of the factors completely lose their significance i. e. parking and crowd presence in e-shop.

4. Conclusions

No doubt, available online opinions, both on products and stores should grow in importance. A factor associated with the image of the e-shop should gain in importance as well – to verify the image of the shop is by far easier through online sources. In Internet environment some of the factors did naturally grow in importance (e. g. price or risk factor), the other did decrease in their impact (e. g. weather or having money in cash factor). Given the fact how fast the e-commerce is

changing through the first twenty years of its existence, the main conclusion of the article is the constant need for further research in the area.

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Summary

The process of buying in e-commerce is similar to general concept where five main phases can be distinguished: need recognition, information search, information evaluation, purchase decision, post-purchase behaviour. The use of Internet in e-commerce, raises very specific implications for almost every phase. One of the main differences between consumers that are buying offline and online, concerns the ways of information acquisition, where Internet customers have access to many online tools that can stimulate the buying process, price comparison websites or blogs. Moreover, it is possible to name the factors that determine the whole purchase process and to present their possible impact on customer decision to buy given product.

Keywords: the process of buying; consumers; e-consumers.

JEL classification: F170, C890

UD classification: 655.28.022.36:339.133.2

Date of acceptance: 17.11.2015.

NATIONAL DEBT BURDEN AND RICARDIAN EQUIVALENCE

Dmitriy Maslov*

1. Introduction. The main material research

The problem of national debt has caused disputes in scientific circles for decades. The views of scientists on the impact of debt on the economy are the most controversial. Representatives of classical political economy believed that the debt carries only negative consequences; the Keynesians believed government loans can be used to stimulate aggregate demand, modern economic schools and individual academic economists hold very different views on this issue. But searching for the right answers has led many to the classical point of view. Classical political economy shaped mostly negative attitude for public debt issue as the reason for national investment reduction and accumulation of capital shorting. All classics agreed in general that the national debt is a burden for the state, and it is better to seek other funds to cover government spending so as not to drive the population into the bondage of debt. It was thought that accumulation of public debt leads to an increasing in tax burden that loans are taken today will lead to future tax increasing. Debt burden is expressed in terms of tax burden. David Ricardo was one of those who held such viewpoint.

Classical view on public debt issue was formed by A. Smith, D. Ricardo, T. Malthus, J.-B. Say and others. They considered government spending as an unproductive spending leading to the destruction of capital, due to the fact that these expenditures were to conduct wars. Only internal debt was in elaboration, the main creditors of government were merchants as it was considered. Keynesian point of view on this issue was expressed by J. M. Keynes, A. Lerner, S. Harris, A. Hansen. Keynesians considered both internal and external debt, they agreed the internal debt and interest shall be paid off by future generations by taxes, but at the same time they pointed out that this does not lead to capital losses, because internal debt payments are only transfers within the national economy (Ricardo held this idea as well). The criticism of Keynesian ideas and a return to the classical theory of debt are given in works of R. Barro, R. Musgrave, J. M. Buchanan. In Ukrainian economic science the issue of national debt was studied by N. V. Zrazhevskaya, V. V. Kozyuk, V. V. Lisovenko, T. G. Bondaruk, Y. V. Onishchuk, T. P. Vakhnenko and others.

Ricardo along with other representatives of classical economics held the view that excessive taxing is the inevitable result of large national debt accumulation [1, p.201]. This view requires a critical examination and verification of its applicability to modern economic reality.

In modern conditions, when all developed countries have huge public debt, the problem is particularly actual. The purpose of this study is an analysis of Ricardian views on the public debt issue and demonstration based on statistical data that a significant debt accumulation does not necessarily increase a tax burden.

The hypothesis of the necessary tax burden increasing due to increasing public debt is based on the assumption that there is no growth in the economy [2, p.286]. Ricardo said that the public debt growth will inevitably lead to an increase in a tax burden, but at the same time does not account for tax revenue increasing because of GDP increasing, even at a constant level of tax burden. Thus, under the condition of economic growth the tax burden may even decrease.

As for tax burden increasing, it is enough to analyze the dynamics of tax burden for developed countries to see the stability in it (Fig. 1).

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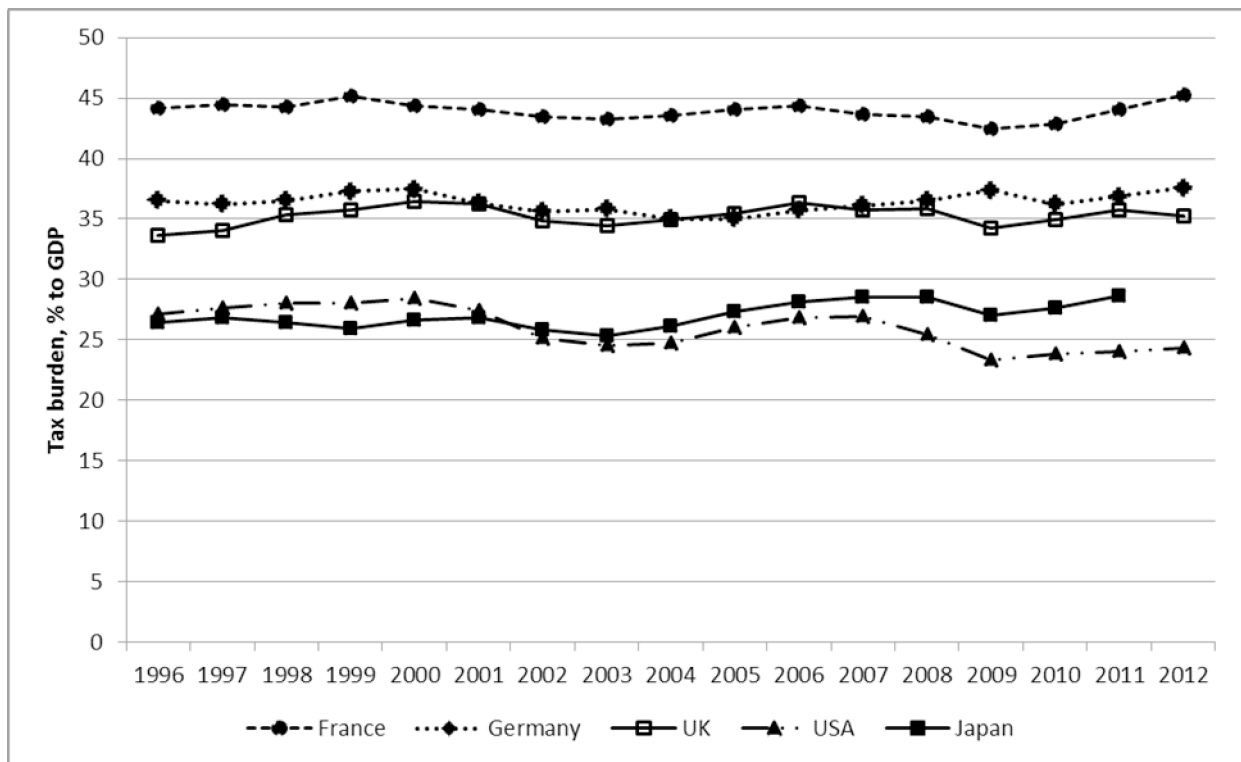


Fig. 1. Dynamics of tax burden in some developed countries from 1996 to 2012 [3]

The graph shows the level of tax burden in each country varies slightly. At the same time the amount of tax revenue is growing with the growth of the GDP. This allows to pay a larger interest on the debt that accumulates. The following graph (Fig. 2) allows you to compare the rates of public debt growth to tax burden change in France and the United States. For convenience and clarity, growth rate of public debt was calculated since 1995.

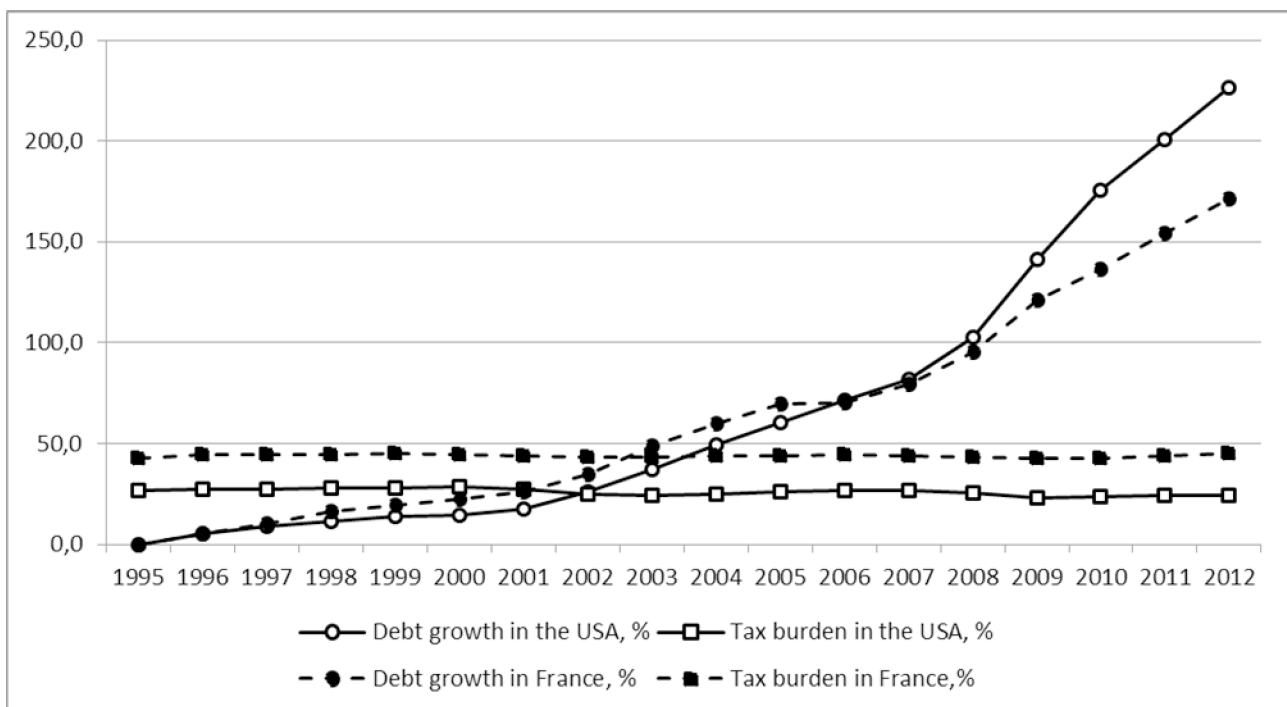


Fig. 2. The rates of public debt growth and tax burden change in France and the United States from 1995 to 2012 [3; 4; 5]

The following graph (Fig. 3) shows a similar analysis for Japan and the UK.

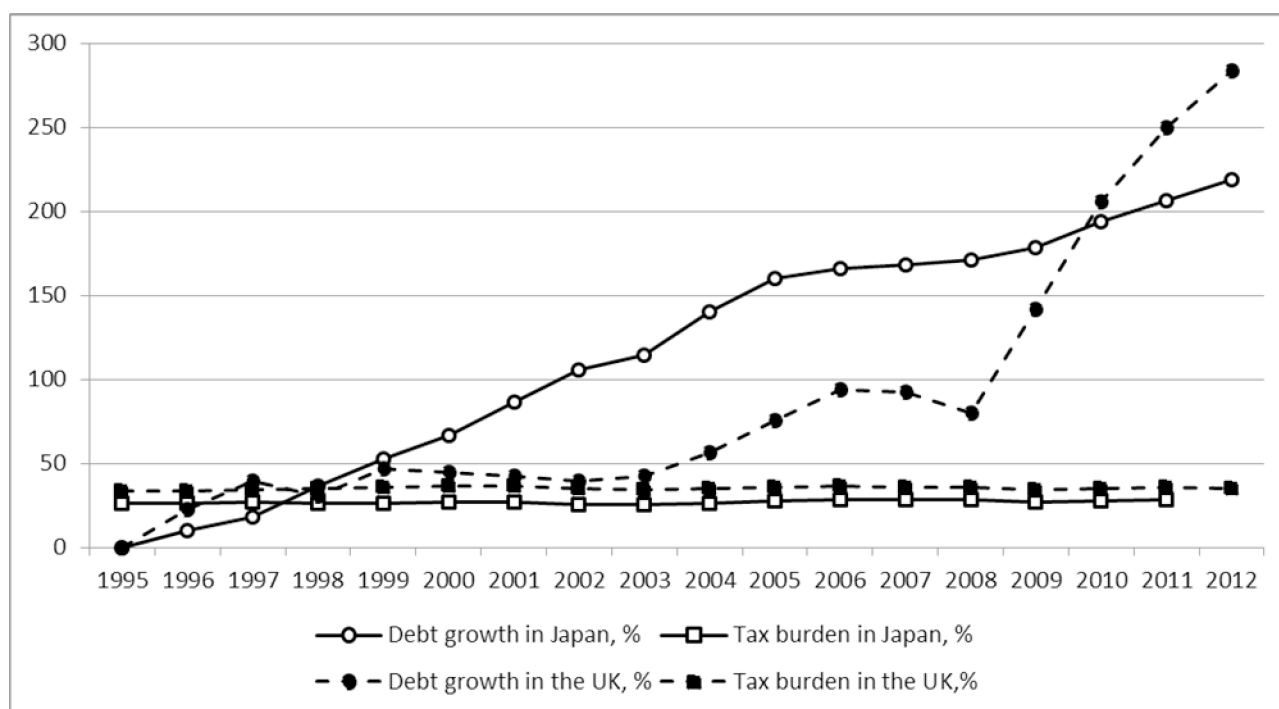


Fig. 3. The rates of public debt growth and tax burden change in Japan and the United Kingdom from 1995 to 2012 [3; 4; 5]

Provided statistical data show tax burden remains approximately at the same level, and its fluctuations is in no way comparable with the change in the growth of public debt.

In some sources you can find theorem, which states that “national debt does not affect savings and capital accumulation, because consumer future taxes are equivalent to the current taxes” [6, p.41]. This theorem is called “Ricardian equivalence theorem”. However, it should be noted that Ricardo himself had not formulated this theorem; it was written by the American economist Robert Barro. Barro suggested that public debt does not cause change in the welfare of the society. This “equivalence theorem” is contrasted with the traditional understanding of the effects caused by national debt. According to the traditional point of view national debt covers public expenditure that is usually covered via taxes. Tax cuts lead to an increasing in consumer spending, to an increasing in demand for goods and services, which would entail a rise in prices, the growth of production and employment. Another consequence of the tax cuts is a reduction in national savings and capital accumulation. As a result a large load of public debt lies on the shoulders of future generations.

R. Barro considers economic agents are rational and they will not spend the money from tax cuts, because they know that in the future state loan will lead to an increasing in taxes, so they will save money reducing current spending and increasing future spending accordingly. Thus personal consumer’s savings are increasing, and the amount of personal and government – national savings – remain unchanged.

It should be said Ricardo describes the problem in the context of war and war-taxes. He says that there are three options for covering war expenses. Firstly, it is possible to levy an annual war-tax till war ends. Secondly, the money might be annually borrowed and funded, in which case, a perpetual charge of taxes would be incurred for the first year’s expense, from which there would be no relief during peace, or in any future war. The third mode of providing for the expenses of the war would be to borrow annually, but to provide by taxes a fund, in addition to the interest, which, accumulating at compound interest should finally be equal to the debt [2, p.285–286].

Ricardo prefers the first method. It is especially important that we are talking about war time, and it was out of Barro’s attention. War leads to big additional government spending and this may provoke a person to save a significant amount of income, but not just presence of the public debt. “Of these three modes we are decidedly of opinion that the preference should be given to the first.

The burdens of the war are undoubtedly great during its continuance, but at its termination they cease altogether. When the pressure of the war is felt at once, without mitigation, we shall be less disposed wantonly to engage in an expensive contest, and if engaged in it, we shall be sooner disposed to get out of it, unless it be a contest for some great national interest" [2, p.286]. Here Ricardo says if the war-tax sharply falls upon the people they would be forced to think twice before engaging in war. Though war is not usually started by those on whom main burden of taxes lies, but by the government. At the same time it is important that population feel as little economic oppression as possible, as it may affect the power of active political leaders. That is why a government is inclined to choose the mode to provide its expenditure that is the least harsh and painful for the consumer wallet. Such mode is government borrowing, because burden of debt is considerably less painful for the public than the burden of sharply increased taxes.

Talking about mode of providing extraordinary expenditures Ricardo does not consider it as an economic law, as it does Barro, but only offers it as a possible solution to the problem. According to him, man will not necessarily prefer to pay the full amount of taxes now: "It would be difficult to convince a man that a perpetual payment of 50*l.* per annum was equally burdensome with a single tax of 1000*l.* He would have some vague notion that the 50*l.* per annum would be paid by posterity, and would not be paid by him" [2, p.286]. But government can oblige him to pay the whole amount at once, and he knows that the country is in a state of war, and will not oppose. Consumers will seek to save money for the future taxes only in case of war. But even in this case, it is unlikely that everyone can find the means to pay significantly bigger tax.

In times of Ricardo war-tax would not affect a class of workers, because their wages were only the minimum of means of subsistence, but today's reality is different, and it cannot be ignored. There is far less wealth in worker's possession than in the possession of landowner or industrial capitalist, and such a tax may seriously undermine worker's well-being if not throw him out on the street.

What Ricardo did say, is that the existence of the internal public debt does not cause change in the total national income. Interest paid on the public debt, it is payment "from the right hand to the left", and there is no difference whether it is paid or it is not paid. Will this interest be paid or not, the country will not become any richer or poorer [1, p.203].

Either way, debt and interest remain a burden for the part of society, which should make these payments. It seems clear that in case of large debt accumulation, the minority, those individuals who lend money to the state, possess a considerable amount of money. On the contrary, the majority from which government collects taxes to pay off debt possess much less amount of money (per each person). As a result, the debt burden is for the bigger part of public with fewer resources, and it is valid to say that it is a burden for the country. What is a country if not its people? Ricardo is abstracted from the class structure of the society in his analysis, but this factor is very significant on a more concrete level of analysis.

2. Conclusions

Study leads to the conclusion that the existence and growth of public debt does not necessarily cause a tax burden increasing, as it was considered in classical economics. On the contrary, the provided statistic data show that tax burden remains approximately at the same level, while national debt grows continuously for many developed countries. Economic growth is not taken into account at this point. In fact, tax revenues may increase even when tax burden as percentage to GDP is stable. Confirmation to this is the current economic situation in Ukraine. Despite a very significant increasing of public debt in recent years, the tax burden varies around the same level at 41–43% of GDP.

"Equivalence theorem" formulated by American economist Robert Barro and stating that future taxes for the consumer are equal to the current taxes is a simplification of the provisions made by David Ricardo and does not reflect the real economic laws.

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Summary

The paper deals with the views of Ricardo on the national debt issue. Ricardo, as well as other representatives of classical economics held the view that exorbitant taxation is the inevitable result of a large accumulation of national debt. Although an increase in the value of the annual produce leads to increased tax revenue received by the state, even at a constant level of the tax burden (the ratio of tax revenue to GDP). Provided statistical data on taxation and national debt growth show that tax burden remains around the same level, and fluctuations of that level by no means commensurate with the changes in the growth of public debt. Considerable attention to the problem of so-called "Ricardian equivalence theorem" is paid. According to "equivalence theorem", formulated by American economist Robert Barro, future taxes for consumer are equal to the current taxes. But this does not reflect the real economic laws and is a simplification of the provisions made by Ricardo.

Keywords: public debt; taxes; internal debt; war-tax; economic growth; the equivalence theorem.

JEL classification: B120, H630

UDK classification: 330.8:336.2

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STOCK MARKET OF UKRAINE AT THE PRESENT STAGE: ANALYSIS AND PROSPECTS OF DEVELOPMENT

Zoriana Matsuk*

1. Introduction

The process of market transformation of economy, globalization and integration of economic relations contribute to the development of the stock market as a precondition for sustainable development of economic and financial system of Ukraine. Continuous development and productive activities of financial institutions in the stock market is an important driver of economic growth that ensures the country's national economic security. Efficient asset management of investment funds, pension funds, broker companies and generally of the whole stock market improves activity of business entities, eliminates problems of financial resources shortage, expands opportunities for investment in various sectors of the economy, and positively affects the level of real economy and welfare of the population. Strengthening of stock market requires the research of its modern state, detection of problems, because the efficiency of the economy as a whole depends on the timely determination of the main directions of market development.

2. Recent research and publications analysis

The theoretical basis of formation and development of the stock market in the globalization environment were revealed in the works of the following foreign scientists: G. Bekaert [1], U. Bhattacharya [2], Levine Ros. [3] etc. The studies of domestic scientists, economists and practitioners: S. Biryuk [4], M. Burmaka [5], D. Leonov [6], Z. Lutsyschyn [7], Yu. Makogon [8], O. Mosgovyi [9], M. Gaponyuk [10], V. Radievska [11], were dedicated to conceptual issues of establishment and functioning of the stock market of Ukraine. However, most of domestic and foreign authors considered mainly the common conceptual basis for the development of the stock market, its infrastructure, components and laws of formation. But a number of problems related to the functioning of an integrated system of stock market in specific economic conditions are left behind. Given the fact that the assessments of the current state of the domestic stock market with its influence on the economic environment are important, they need further thorough investigation.

The article aims to identify the characteristics of the stock market of Ukraine and study the ways of its development considering priorities of the national economic development strategy and trend of financial globalization.

3. The analysis of Ukraine's stock market

Stock market takes extremely important and special place in the structure of the modern market economy, due to unique properties of securities in the context of the objectives and priorities of economic development and motivates objective tendency of securitization of economic relations. Its structure in functional and instrumental terms is constantly evolving within fundamental segments: primary and secondary; organized and unorganized; stock shares, bonds, derivatives securities. It is constantly evolving especially in terms of enhanced internationalization and globalization [12, p.10].

From the standpoint of modern economic theory the stock market is the most amplitudinous and dynamic segment of the financial market. The stock market is a structured organizational and legal system within which placement, circulation and accounting of securities and their derivatives with the direct participation of professional participants are carried out. Through the mechanisms of the

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stock market the supply and demand for investment funds are formed, their institutionalized accumulation and redistribution with the goal of the economic growth occurs.

At present stage of development the current macroeconomic figures indicate a continuing high level of exclusiveness of the stock market. In particular, according to SSMNC, the total trading volume on the stock market of Ukraine in 2013 totalled \$1.68 trillion against \$2.53 trillion in 2012, while the structure has undergone significant changes in transactions with financial instruments, including transactions with bills, whose volume decreased from 412.1 billion to 3.4 billion [13]. This trend is explained by the introduction of tax (excise duty) on disposal of securities outside the organized trade. Bills that have been used mainly for implementation of financing schemes is a specific tool and cannot be traded on the stock exchange, so the deals with them in such conditions have become too expensive, which significantly reduced possibilities of companies to attract working capital in conditions of acute shortage of credit and investment resources.

As a way out of the current situation the market has found an alternative to the bills in the form of investment certificates, operations with which are not burdened by taxes and is used by industrial and financial groups to adjust the parameters of the financial statements of commercial banks, in particular, in 2013 the volume of transactions with securities ISI increased from UAH 1377 bln. to UAH 496.5 billion, and their share in total transactions increased from 5,44% to 29,61% (Tab. 1).

Tab. 1. The structure of securities transactions in the stock market in Ukraine (2005–2013)

| Years | The total volume of transactions (in billions UAH) | | Volume of transactions made by organizers of trade (in billions UAH) | | Years | |
|-------|--|--------|--|--------|-------|--------|
| | | Rgr. % | | Rgr. % | | Rgr. % |
| 2005 | 404 | | 16 | | 4,07 | |
| 2006 | 754 | 52,9% | 35 | 20,7% | 4,66 | -21,0% |
| 2007 | 883 | 17,1% | 38 | 8,6% | 4,27 | -8,4% |
| 2008 | 1067 | 20,8% | 36 | -5,3% | 3,37 | -21,1% |
| 2009 | 1538 | 44,1% | 131 | 263,9% | 8,52 | 152,8% |
| 2010 | 2148 | 39,7% | 235 | 79,4% | 10,84 | 27,2% |
| 2011 | 2531 | 17,8% | 264 | 12,3% | 10,42 | -3,9% |
| 2012 | 1677 | -33,7% | 475 | 79,9% | 28,3 | 171,6% |
| 2013 | 754 | 52,9% | 35 | 20,7% | 4,66 | -21,0% |

Source: calculated by author based on [14]

Reducing the number of professional market participants in 2014 by 106 units can be explained primarily by the introduction of amendments to the depository system, due to the reduction in the number of licenses for depository activities of depository institutions that registrars and custodians had to get to continue their activities. Besides, it should be noted that completed during 2012 and planned for the current term increased requirements for listed securities kept the relatively small share of listed securities in the stock registers auction.

Nowadays, not a lot of companies are interested in raising funds through public offering of the securities that is why spending money on listing with making efforts to improve transparency and corporate standards generally is ineffective in such circumstances. Despite this, in Ukraine, the ratio of capitalization of listed companies in terms of GDP is growing, and the number of securities included in the stock register of trading at the end of 2014 amounted to 864 units, despite the fact that the proportion of unlisted securities that are not meeting the exchange requirements for the instruments of level I and II listing decreased to 75.15% during 2014 [14]. We believe that this dynamics is associated with extensive expansion due to exchange lists of minimum liquidity requirements for listed shares and is not conducive to the extension of attractive range of investment

instruments. Issuers undergo listing mainly to reduce the tax burden – tax rate for OTC securities that are listed at least at one stock exchange, is 0,1% instead of 1,5% (Fig. 1).

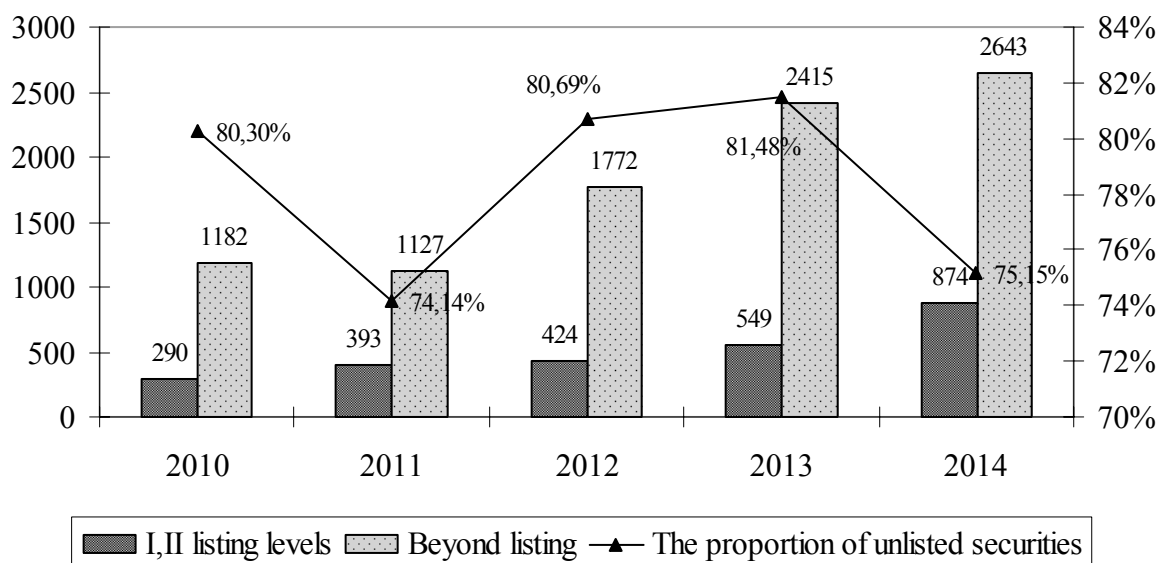


Fig. 1. Number of securities included in the exchange lists of organizers

Source: Author's Computational work based on [14; 15]

Past observations and calculations show that despite unfavourable economic situation, the national stock market in recent years demonstrates positive dynamics, in particular, trading volume on the stock exchanges in 2014 increased by 32,61% (Fig. 2).

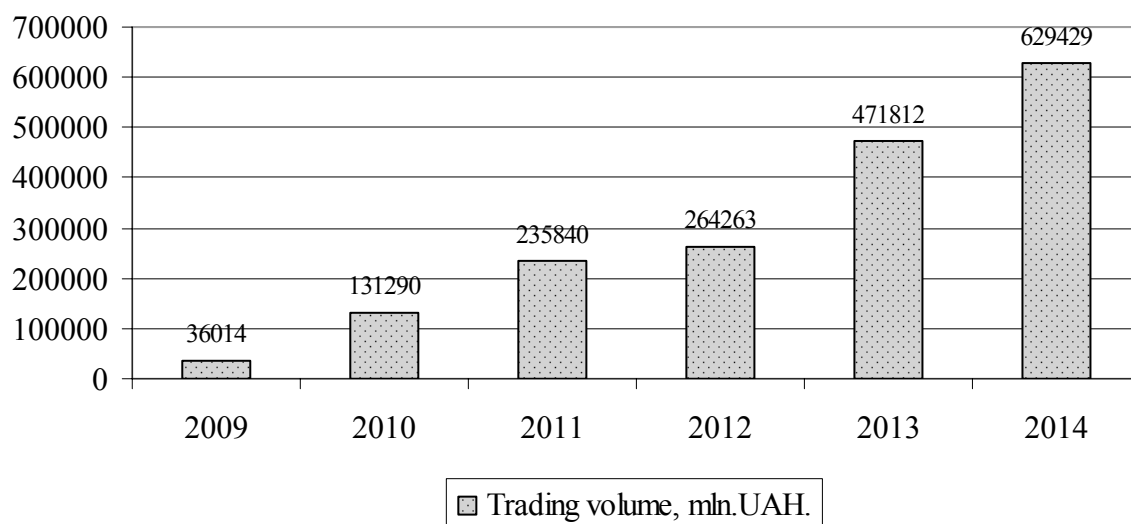


Fig. 2. Volumes of exchange contracts on securities, mln. UAH

Source: Author's Computational work based on [14; 15]

Despite the fact that in recent years at the national stock market expanded instruments the structure of securities trading indicates a growing segment of the debt and reduction the market share of equity instruments. Of course, this has a negative impact on the economy, reducing the volume of industrial production, devaluing the national currency and increasing risks. However, only a small number of companies interested in raising funds through the issue of shares as a form of public offering since it is quite expensive and under unfavourable business climate is not always justified, and the key shareholders are unwilling to allow investors to take part in company management as

the proportion of shares in free circulation is negligible. So in the market of financial instruments the interest in the shares of public companies disappears because of low liquidity, high volatility, low levels of protection of the rights of minority shareholders, and the relatively long term investment in Ukraine in the absence of stable long-term resources [14]. As a result of the analysis the question arises: why has the volume of exchange trading increased if the general situation in Ukraine is not stable and investors have taken the “waiting” position? The answer to this question can be found by analyzing the 2014 volume of transactions in the context of securities as illustrated by Fig. 3. This growth is explained by increased activity in the government bond market, the share of transactions for which was 88% in 2014.

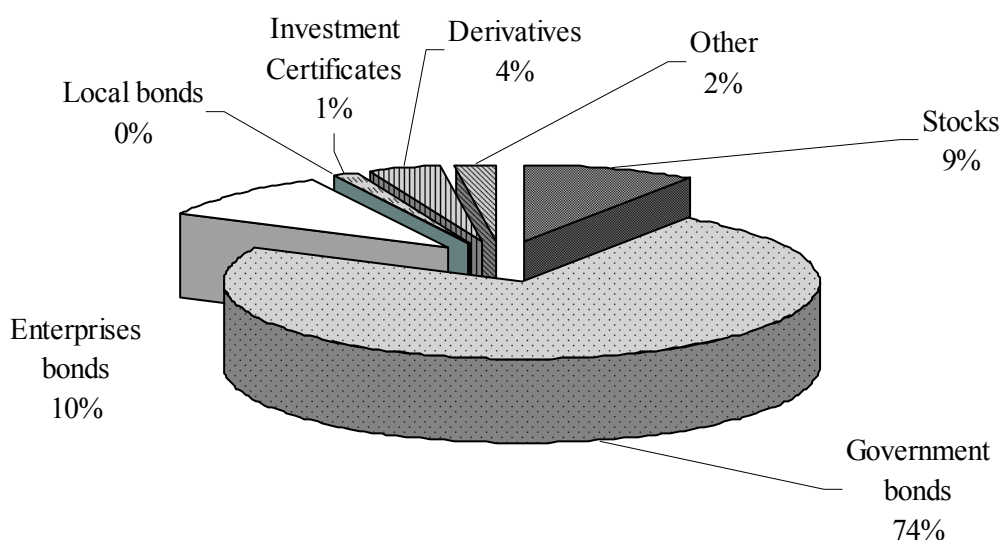


Fig. 3. The structure of securities transactions on exchange in 2014 (%)

Source: Author's Computational work based on [14; 15]

Overall in 2014 the stock market in Ukraine was working in conditions of devaluation, reduction of basic indicators of the real economy, which has undergone significant cost escalation due to political and military conflict in eastern Ukraine. Despite the unstable political and economic situation, current market participants are characterized by the introduction of new technologies in management techniques and forms of service of corporate and individual clients. At the same time the new types of financial services based on the new technologies are formed. Currently, the services in the stock market have become quite complex, with the appearance of a significant number of derivatives. The main reason for innovation was the rapid development of information technology that reduced the cost of computing resources and communication resources. At the same time there appeared the securitization process and the formation of the market of derivatives, the structure of the underlying assets of which is based not just on securities and currency, but also on commodities and indexes, verbal data etc.

4. Problems of stock market development in Ukraine

Analytical review shows contradictory dynamics of the stock market. On the one hand, one could see an increase in the total volume of securities trading and increase of the types of financial instruments, on the other hand, the State developed emission activity and issued T-bills, contradictory to a significant reduction of the volume of shares of corporate bonds and investment certificates of mutual funds. Exchange segment of the stock market plays a secondary role in the economy of Ukraine, as evidenced by poor performance and the lack of correlation between the dynamics of the stock market exchange and processes and trends of the national economic complex functioning and development.

The main problems that hinder the development of the stock market, and limit their participation in socio-economic development are the following:

- low level of institutional support;
- absence of effective pricing of underlying assets because of the low level exchange trading in the total transactions in the stock market;
- lack of information provision and the inability to effectively assess the financial condition of domestic business investment for foreign investors;
- lack of confidence in financial institutions, which negatively affects the accumulation of financial resources in the non-banking sector;
- high risk of financial transactions, insufficient volume and a variety of non-banking services;
- the absence of competition in some segments of the stock market, that would encourage institutions to improve their professional activity;
- constant change in statutory tax rules and investment regime in Ukraine;
- high administrative burden and unfounded judicial decisions.

Thus, the development of the stock market of Ukraine during 2009–2014 was complicated by the lack of effective legislation, systems of regulation and prudential supervision that led to a significant number of captive financial institutions and “financial pyramids”, hampered the development of the financial services market and led to a deepening of the crisis of mistrust to the financial sector as a whole. Internal shocks, mainly military conflict in the East of Ukraine, have adversely affected the economy, reduced consumer confidence in the non-banking financial services sector and unbalanced stock market. The reduction in economic activity, trade imbalances and depreciation caused inflation to accelerate to 30% per annum. This development has led to a deterioration in the quality of portfolios of financial institutions. The situation with troubled balances of investment institutions is complicated by the lack of effective protection of consumer rights, especially property rights and impartial justice. Financial stock market that provides effective accumulation and optimal redistribution of financial resources, their further transformation into investment capital are the basis of a balanced flow of the economy in any country. The depth and systemic nature of the crisis processes that unfolded in the global financial markets have shown the inadequacy of current approaches and the system of state regulation of the stock market. The emergence of “bubbles” and a wave of bankruptcies actualized the task of radical revision of approaches to market regulation.

5. Prospects of development for the stock market in Ukraine

Nowdays it would be wrong to remain pessimistic, especially as the developed in 2014 trend still gives hope for positive expectations of the investors for some market growth in the future in terms of its liquidity and capitalization. First of all, the consolidation of efforts of all participants of the stock market and the state regulator, particularly in the improvement of the legal framework, the revitalization of the professional participants, upgrade of infrastructure, reform of state influence and introduction of European standards of regulated markets organization taking into account latest technology should contribute to such development. The strategic goal of economic system reform on a market basis is to ensure conditions for its stabilization, consolidation and development trends of non-inflationary economic growth through more efficient use of resources. The latter is largely determined by the efficacy of financial mechanisms that can enhance the mobilization and ensure optimal redistribution of financial resources of the economy. Therefore, the development of the stock market as an integral part of the financial market and an important element of the national economy becomes of paramount importance.

6. Conclusions

Ukraine has sufficient economic potential to enable development of the national stock market, which growth contributes to positive dynamics of gross domestic product growth. The stock market should function as an integral element of the regulated financial system, synchronized with the banking sector and state finances. That is why its varied and unsystematic development is impossible. In order to streamline this process there must be prepared a clear program that should determine the main directions of further significant reform and modernization at all levels – legal, institutional and technological. The development of the Ukraine's stock market should correlate with the process of the final stage of the Association Agreement with the European Union and its ratification, which involves close cooperation between relevant regulatory and supervisory authorities, including the exchange of information and expertise on the financial markets through the exchange of personnel and joint training.

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Summary

Based on the key quantitative and qualitative indicators calculated by the author, the article offered the analysis of the stock market of Ukraine, and revealed the specifics of its development. The author researched the question of trading volume change on the stock exchanges in recent years. The main problems that hinder the effective functioning of the stock market development were uncovered, particularly the lack of effective legislation, systems of regulation and prudential supervision, the military conflict in the East of Ukraine, and a low level of consumer confidence in the non-banking financial services sector. To solve problems and to stimulate further development of the stock market the consolidation of efforts of all participants of the stock market and the state regulator are needed, particularly in the improvement of the legal framework, the revitalization of the professional participants, upgrade of infrastructure, reform of state influence and introduction of European standards of regulated markets organization, taking into account the latest technology. It was proved that the efficiency of the national stock market can be achieved only with clearly defined strategy of development.

Keywords: the stock market; financial instruments; stocks; bonds; stock exchange.

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UD classification: 336.761

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TERRITORIAL MARKETING AS A TOOL FOR BUILDING COOPERATION OF LOCAL AUTHORITIES WITH INVESTORS

J. Michalak, Z. Warzocha, K. Fadrowska*

1. Introduction

Marketing has become increasingly popular in achieving mission and strategic goals of local governments [1, p.210]. This evolution has resulted in development of territorial marketing, which is divided by many authors into internal and external parts. While the former (internal) is aimed at governing relations between local government, residents and various regional organizations [2, p.216; 3, p.346; 5, p.19], the latter (external) deals with promotion of entire community, directed to attracting investors, tourists or students [4, p.293].

The necessity of marketing as a tool of achieving their mission and goals gradually penetrates into local authorities. The success of territorial marketing is crucially dependent upon relations of local governments with their external environment including business. Properly formed relationships, based on trust and partnership, contribute to build a positive image of a community as friendly and open to changes [2, p.217].

The level and dynamics of development of an area such as a municipality or city is assessed against other administrative units (other municipalities or a voivodship) and then compared to the national rates. The benchmark, especially for particular communities, for developmental changes in the technical, technological, cultural, economic and social spheres is the level achieved by the developed countries.

The process of globalization and the development of knowledge and services as well as the advance in innovation are usually more noticeable in agglomerations and thus make the reference points for development evaluation less attainable for local environments. This growing gap in the pace of development between different areas makes it necessary for the local communities to be up to date with the information about global changes in order to be able to define their own goals and ways to achieve them. A local government unit has to act in such a way that the behavior of the local residents is in agreement with its best interest. This is why it is becoming more and more popular for local government units to implement the rules of territorial marketing.

While using the rules and tools of territorial marketing, it is important for relations between local governments and economic entities to be based on partnership and trust. Proper relationships contribute to creating a positive image of a city which is investor-friendly and open to environmental changes. Besides, it would be ideal if the individual goals were not in contradiction with the goals of local communities. The aim of the study is to identify, analyze and evaluate the attitude of entrepreneurs towards cooperation and relations with the local government authorities. The study attempts to assess the instruments of territorial marketing in use and their impact on the investment. The principal aim of our study was to evaluate the relations between entrepreneurs and local authorities and to identify the common ground for joint enterprises and expectations arising from them. The study was carried out in Poland in a north-eastern town with a population of 20 thousand. The method used in the study was the online poll based on a questionnaire. The questionnaire was sent to 50 businesses, 46 of them were returned, each fully and correctly filled in. It consisted of questions about identifying features of the respondents, the significance of relations between businesses and local authorities and its evaluation. We also asked who initiated the bilateral relations and what the businesses expected from the local authorities.

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2. The cooperation between entrepreneurs and local government as a condition for good relations conducive to development

The significant element of our study was to find reasons for bad relations between entrepreneurs and local authorities. The respondents were given a number of possibilities, but the collected data did not indicate one essential reason for bad relations (Fig. 1)

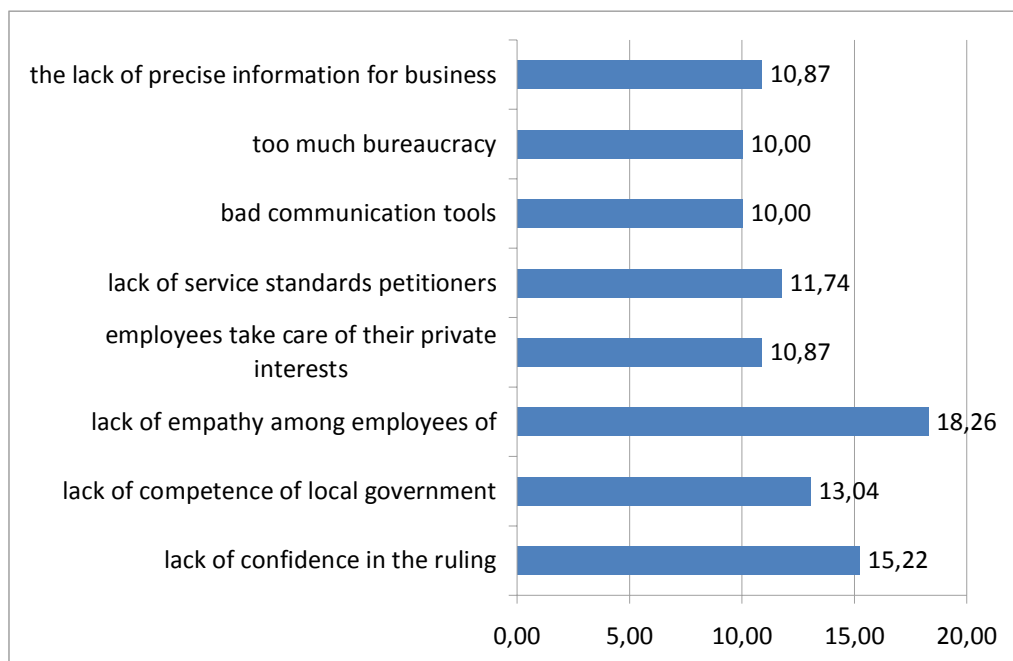


Fig. 1. Reasons of bad relations with local authorities

Source: own analysis based on research

Data in Fig. 1 indicate that nearly 30% of the respondents were convinced that the local authorities needed them only at the time of elections. 21.74% of the respondents believed that the lack of clear standards and regulations may have been a problem when it came to office workers' behavior. Other reasons were a lack of trust in local authorities (15.22%), incompetence of the officials (13.04%) or prioritizing friends over regular customers (10.87%). A little over 10% of the respondents believed that the officials only cared about their own business. However, none of the respondents was in a situation where some important information for their line of business was intentionally concealed.

From the social point of view, each form of relations between entrepreneurs and local authorities is of significant importance. The respondents also indicated the most essential reasons for cooperation.

As Picture 2 shows, 30.43% of the entrepreneurs believed that their business required cooperation with local authorities. 23.92% of the respondents indicated that there were mutual advantages resulting from the contacts with the Municipality. Also, 26.08% of the business owners remained in contact with the local government because they believed that its decisions may have influenced their business. 8.69% of the respondents simply believed that the contact with local authorities was necessary and 4.35% believed it was important for the good of the city.

The entrepreneurs taking part in the study were also asked to name the factors or people who initiated their relations with the local authorities and factors hindering those relations (Fig. 3). More than a half of the respondents (51.61%) claimed that they initiated the contact. More than one fifth of the respondents indicated that some other economic entities encouraged them to initiate their relations with local authorities. Among the initiators the respondents also listed their acquaintances employed in the Municipality (13.95%), members of the local government (6.98%) and members of the municipal board (4.67%). A little over 2% of the respondents participated in creating a development strategy for the city.

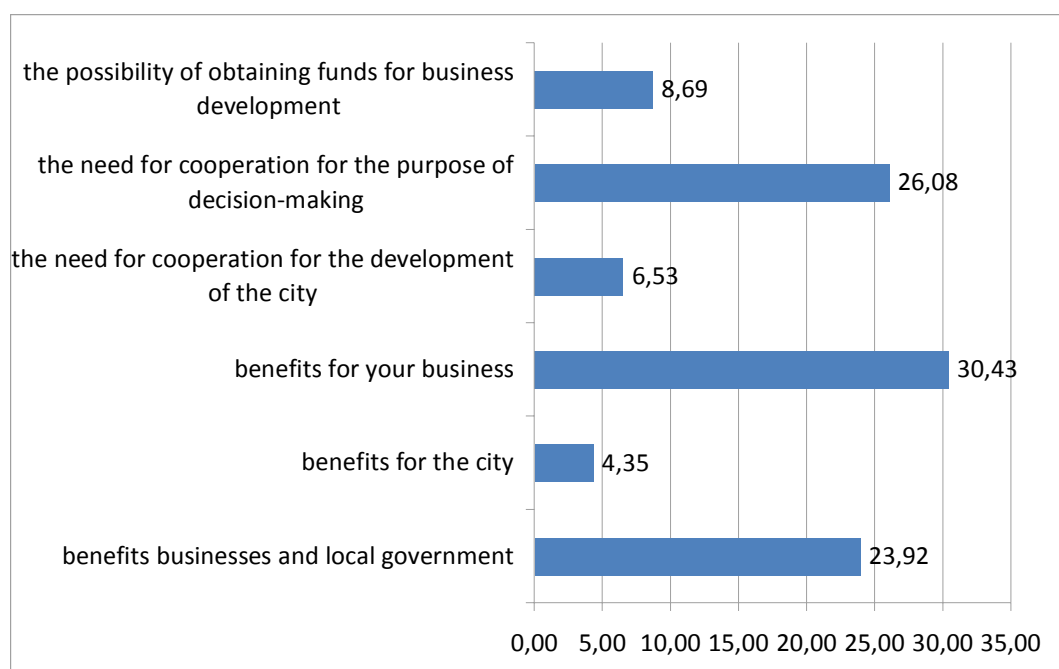


Fig. 2. Reasons for building relations with local authorities

Source: own analysis based on research



Fig. 3. Factors conducive to creating good relations between the entrepreneurs and local authorities

Source: own analysis based on research

Entrepreneurs who saw the need to cooperate with local government units indicated many areas where such cooperation would be possible. More than a half of them believed that one of the most important enterprises would be the promotion of the city. Other important relations were the mutual support and realizing joint enterprises (47.83%), strictly business relations (43.48%), mutual participation in the city events (36.96%) and formal relations (32.61%). Among less important forms of relations were personal contacts (65.22%) and sponsorship (47.83%). Realizing common projects (41.30%) or occasional meetings (34.78%) were unnecessary according to the respondents.

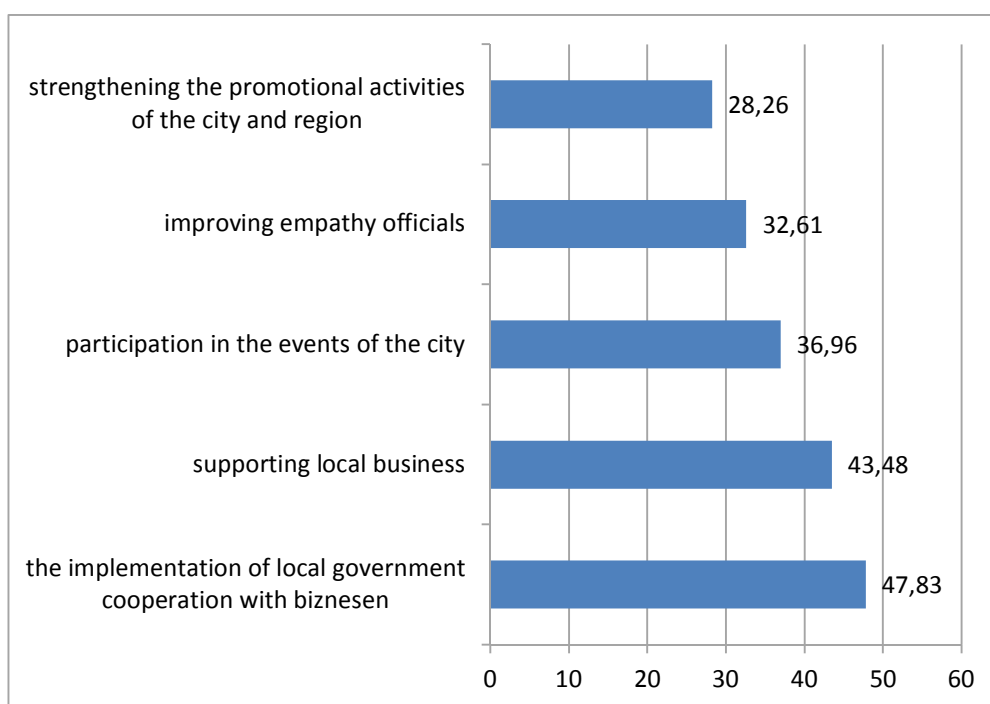


Fig. 4. The entrepreneurs' expectations towards local authorities

Source: own analysis based on research

The data presented in Fig. 4 shows that the expectations of the entrepreneurs towards the local authorities should be an important signal for local officials to improve customer service and map the direction of the development of the whole territorial unit. The entrepreneurs expect the local authorities to become more involved in organizing trainings for their employees, finding specialists and supporting some business sectors or improving infrastructure. The respondents also see the necessity to constantly improve their business skills and to promote initiative. Business possibilities may also be improved by promoting the city (28,26%). Unfortunately, more than 6% of the respondents claimed that judging from the previous experiences with the local authorities, they no longer had any expectations towards them.

3. Conclusions

The respondents in our study presented a negative evaluation of the local government. Many believed that the main reason was the lack of procedure standards and reliable information, as well as the unfavorable dispositions of the office workers. The contacts with the local government were usually initiated by the entrepreneurs. The majority of the respondents claimed that they were striving to build relations with the city officials for the good of their businesses, the city and the local residents. Although their evaluation of the relations was negative, the entrepreneurs still saw the necessity to improve them not only for the benefit of their own businesses but also for the local government and community. The study shows that entrepreneurs have mostly negative assessment of local authorities. Among marketing tools, only promotion and advertising activities have been noted in use in surveyed municipalities. Local authorities rest passive when communicating to business – initiative always belongs to entrepreneurs.

Despite such an unfavorable assessment of relations with local authorities, business recognizes the need of continuous efforts aimed at improving the relations that are to become not only mutually beneficial, but also contribute to prosperity of community. Joint ventures and initiatives, training and incentives for entrepreneurship are considered among top expectations of business from local government. They talked about joint enterprises, supporting them in improving their business skills through training, promoting initiative and realizing common projects. They expected honesty and

help from the office workers. Based on the collected data, we have come up with the following conclusions:

- The respondents see the necessity to co-create with local authorities the image of the city that is friendly towards its own residents, visitors and, particularly, potential investors.
- The relations between the local authorities and entrepreneurs should be improved for the common good of the city and all its residents.
- The positive atmosphere of cooperation may be achieved through active help of the office workers in setting up and running new businesses.
- It is necessary to train the local government workers so that they can offer professional aid in all kind of situations.
- The further development of good relations and business possibilities may be facilitated by joint participation in city events and building development strategy of the city where the economic activity will be prioritized.

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Summary

The aim of the study was to identify, analyze and evaluate the attitude of entrepreneurs towards cooperation and relations with the local government authorities. The study attempted to assess the instruments of territorial marketing in use and their impact on the investment.

The study showed that entrepreneurs have mostly negative assessment of local authorities. Among marketing tools, only promotion and advertising activities have been noted in use in surveyed municipalities. Local authorities rest passive when communicating to business – initiative always belongs to entrepreneurs.

Keywords: local authorities; cooperation; territorial marketing.

JEL classification: M310, L740

UD classification: 339.138:69:330.322

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VIEWS OF CLASSICAL SCHOOL OF POLITICAL ECONOMY ON THE INTERCONNECTION BETWEEN THE PROCESSES OF ACCUMULATION AND CONSUMPTION

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1. Introduction

Nowadays the industrial structure has outdated in Ukraine, which causes the uncompetitiveness of our economy. According to the experts, the share of the third technological mode in the structure of Ukrainian economy is 58%, more than 90% of Ukrainian output hasn't got modern technological equipment, which affects the competitiveness of domestic products and reduces consumer demand [1]. The process of capital accumulation characterizes the proportion and development of expanded reproduction, promotes the renewal of capital goods, which improves the structure of domestic production and provides enhancement in product competitiveness. In the current circumstances it is necessary to reform Ukraine's economy by seeking the best forms of capital accumulation, which match the changes taking place in the modern economy. Studying and researching the formation and following evolution of the theory of capital accumulation will allow to understand the meaning of scientific problems and find its optimal solution which will end up with carrying out a deep economic analysis of economic reality.

2. Literature review

The theory of capital accumulation and the interconnection between the processes of accumulation and consumption were studied in the works of such representatives of classical economic direction as Adam Smith, David Ricardo, Karl Marx, John. Mill. Among Ukrainian scientists who study the questions of accumulation and consumption, we can notice V. Aleksandrovu, O. Bolhovitinovu, A. Halchynskoho, V. Heytsya, A. Hrytsenka, P. Eshchenka, B. Kvasnyuka, S. Kireyeva, I. Kryuchkovu, V. Mandeburu, M. Melamed, W. Muntiyana, I. Malogo, A. Revenka, L. Fedulovu, L. Shablystu.

3. The main aim of the submitted research

The purpose of this article is to examine the interaction between the processes of the capital accumulation and consumption in the works of economists who represent the classical school of political economy, and to define the role of their achievements in historical retrospect.

4. The main results of the study

Classical political economy made a significant contribution to the theory of accumulation, in contrast to their predecessors – mercantilists and physiocrats – moving the focus of their research from the sphere of circulation into the sphere of production. Adam Smith and David Ricardo were the distinguished representatives of the classical school.

Adam Smith believed that accumulation of annual share of the product (i.e. added value) causes the expanding production and further growth of wealth.

According to Adam Smith, the proportion between the quantity of the consumed products and the quantity of population in the country determines the level of material wealth, which becomes higher, if the proportion becomes bigger. This proportion depends primarily on labor productivity

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and proportional division of the society into productive and non-productive class. Labor productivity determines the division of labor and the rate of capital accumulation. As a result, the progress of the society, the growth of wealth depends ultimately on the rate of accumulation and the ways of possible using of the capital. The higher the level of division of labor and accumulation, the more products can be produced. Adam Smith pointed out that the “invisible hand” of the market regulates itself the accumulation of the capital in the right amounts and directions.

The accumulation of capital, in the opinion of Adam Smith, is positioned as the result of the capitalist thrift, due to which the owner of capital goods directs profits to the needs of expanding production, not to the “eating way”. Adam Smith concludes that “the direct cause of the increase in the capital is savings, not labor. It is true that labor supplies items for saving by thrift, but, however, without their saving as a result of trifling the capital would never have increased” [2].

In the frames of the theory of capital accumulation, Adam Smith thought that the price of goods normally is determined by income. The value of the social product consists only of $v + m$. The scientist recognized that every entrepreneur transforms the part of his capital into capital goods, but he believed that the price of each product embodies ultimately in wages, profit and rent. So that the transferred value shouldn't be included either in the value of particular good or in the cost of national product. This approach was called “Smith's dogma” and was wrongly used by a number of representatives of classical economics. Reducing the value of the social product to the sum of income – wages, profits and rents – Smith didn't considered the transferred value of capital goods. Therefore, according to this statement, the process of the accumulation is reduced entirely to the increase in variable capital, which leads to the fact that the growth in the labor consumption takes place only in the scale of the capital growth. The contradiction between consumption and production is absent. Consumption does not limit production; expanded accumulation can be done without any conflict.

Such approach of A. Smith's research is explained by the absence of time limits, which are normally used for the calculation of national product and national income per year. Transferred value of production appears as the past years labour product. Therefore, the sum of incomes that is equivalent to the cost of the re-established value of the current year is always less than the value of the annual social product, which also takes into account the cost of previous years, transferred from the capital goods.

A. Smith points out that “although the entire annual product of land and labour of every country undoubtedly is ultimately intended to satisfy the consumption of the population and to supply their income, however, after having been received from the ground or from the production workers, it is divided into two parts. One of these parts – and often the biggest one is directed primarily to the reimbursement of the capital or to restore consumption goods, materials and finished products, which were deduced from the capital, the other part is used for owner's income creation as profit from its capital or from capital of any other person, as his land rent” [2].

Thus, Smith acknowledges that annual product of society includes the part, which is used for recovering the used capital, namely consumed in the production, and does not act as income for personal consumption purposes. This scientific fact acknowledged the presence in the value of the product not only income but also the transferred value of capital goods. However, A. Smith touched this statement only in the indirect way.

Adam Smith did not consider the fixed capital formation, which was a significant disadvantage of his theory.

Ricardo continued the tradition of classical political economy. His work “On the Principles of Political Economy and Taxation”, published in 1817, was the top book of the progressive ideology of industrial bourgeoisie of the industrial revolution period.

A positive feature of Ricardo's research is his assertion that capital – is the part of the country's wealth which is used by production and is composed of food, clothes, tools, raw materials,

machinery, etc., necessary for labour's work movement. He believed that capital is represented by capital goods, and by capitalist's costs on employees' wages. In contrast to Adam Smith, Ricardo linked the concept of the "capital" not only with the stock of material wealth but also with the turnover of value, and divided the capital into fixed and working.

Ricardo, as well as Adam Smith made the same mistake reducing the accumulation of capital exclusively to the accumulation of variable capital. He insisted on that thesis according to which the accumulation is the result of savings or increasing growth of income with its unchangeable spending. He supported the idea of capital accumulation, by which he meant the joining of income to the capital and its consumption by production workers. Ricardo divided capital into fixed and working, and the degree of durability of these components was used as basis of such division.

In contrast to Adam Smith, Ricardo claimed that the rate of profit is continuously declining due to wages growth and growing population need for consumer goods supply. "Profit has a natural tendency to decrease, because with the progressive movement of wealth and the society the necessary increase of food is obtained by exploring the bigger quantity of labour. Overvaluation of essential items and wages has its borders, so that when the wage becomes equal to the total revenue, capital accumulation ceases, because in such circumstances capital cannot give any profit, the need in labour increase will be absent, and the population will reach its highest point. In fact, far long before this era the low level of profit stops every capital accumulation, and almost all the product of the country, except workers' wages becomes the property of the landowners and collectors of tax and acres" [3].

That is, due to the decline of the labour productivity in agriculture the growth in the food prices will lead to the increase of the minimum wage, which will absorb an increasing share of the value of production, and as a result will cause the reduce of the profit rate. D. Ricardo made an emphasis on increasing in wages as the only possible cause of low profits. He feared that lower profit rate in the end will reduce the accumulation of capital, and he pointed out that government policy must encourage the pursuit of accumulation. Ricardo concluded that economic growth will eventually stop because the progress of the society requires an extra amount of food produced at the expense of using more and more labour. Ricardo added that periodic gravitational tendency of profit to fall is slowing due to the improvement in machinery, discoveries in science and technology. It allows to keep that part of the labour which is required for their introduction, and to reduce the price of consumer goods. Such technical improvements only weaken this tendency, but don't entirely negate it.

Ricardo didn't share the Smith's view on value. He pondered that, based on Smith's view, wages and profits can grow simultaneously, and he opposed to the Adam Smith's idea with his own argument that the value splits into incomes, but doesn't consist of incomes, and this assumption affects the proportion in which the value is shared between classes. However, analysing the accumulation Ricardo did not take into account the fixed capital, which allowed to make a conclusion about the probability of full realization of the total product.

Ricardo believed that as the capitalist production meets people's needs and there are no limits for productivity and demand expansion besides profit rate reducing he denied the possibility of general overproduction. However, the first crisis of overproduction occurred in 1825.

James Mill, a follower of David Ricardo, as a source of value considered not only the workers' labour, but also the work enclosed in the capital goods. According to his theory, both workers and capitalists each receive their part of produced commodity as equal commodity owners. The two main targets of political economy by John Mill are the consumption by the society and the supply ensuring, which influences on this consumption. He pointed out that "what is annually produced is annually consumed; or, what is produced in one year is consumed in the next year". According to Mill, the quantity of goods produced by any definite nation is equal to the demand for these products at every moment of time. J. Mill also admits that despite this equality, some products can be produced in quantities much higher or lower relatively to demand for these products.

J. Mill distinguished the productive and unproductive consumption. The things that are made by someone, belong to someone, and are used by their owner with a defined purpose. The scientist highlighted two such defined purposes: to use things for immediate enjoyment and to use things for profit obtaining. Using things for profit obtaining refers to the productive consumption, and using for immediate satisfaction refers to the non-productive consumption. Those that are used to obtain the final profit are represented in wages, machinery and raw materials. According to Mill, it is the fact of paramount importance, and those who ignore this fact, make mistakes in the understanding political economy's basis. What remains from the annual product for being invested in capital, is necessarily consumed, because for the capital purposes it should be reflected in the wages payment, during the raw materials purchase, in the finished product, or finally, in making similarly produced machinery, through payroll, or raw materials using. Mill assumed that in the political economy a year acts as a period which includes the renewable cycle of production and consumption. Some things are produced and consumed in a period which is less than a year. The others have a turnover considerably more than a year. Anyway, a period of the year is convenient because it is associated with other class production, which leads back to the agriculture [4].

Marx, considering the peculiarities of capital accumulation in conditions of free competition, criticized all those who agreed with Adam Smith's view. He identified gross national product with the sum of income of the society classes. Marx believed that because of this reason their judgments concerned the analysis of simple, not of the extended reproduction. He created his own all reproduction types analysis scheme, according to which all the economy was divided into two divisions – one division produced capital goods, and the other – consumer goods [5, p.593]. Marx stressed that accumulation is impossible without any expanded reproduction, but not every expanded reproduction acts as capital accumulation, in such role it appears only during certain historical era.

Criticizing Adam Smith, and basing on the definition of the components of value, Marx emphasized that the expanded reproduction does not involve the possibility of unlimited growth of production regardless of consumption growth. Extended reproduction means reproduction of the contradiction between production and consumption in a growing scale.

He criticized the vulgar doctrine of economic crises caused by a reason of under-consumption which is the result of demand lack for purchasing the quantities of goods at such prices which would surpass the costs of their production. The content of one of the under-consumption economic crisis scenarios is that due to their low wages the workers cannot buy the product produced by themselves at its value. As a result, the crisis can be overcome by stimulating the non-productive demand of the third parties (by T. Malthus).

According to another scenario of under-consumption crisis, the growth rate of consumption lies far behind the growth of production capacity, resulting from using invested part of the income. The formed surplus of capacity surpasses the actually existing demand. This causes a drop in investment, income decline and inhibition in economic development. That is, the nascence of the crisis is linked with under-consumption because of savings surplus. Marx also criticized all economists who, like Ricardo, recognized only "intermittent" not "general" overproduction.

In his "Capital" Marx highlights the causes that lead to the nascence of the crises of general overproduction by evaluating the processes of capital accumulation and income distribution.

According to the concept of K. Marx, steady capital growth is the main purpose of capitalistic production, but the rising of value constantly conflicts with the methods which help achieve this goal [5, p.636]. To produce more surplus value it is necessary to constantly expand the production of consumption value, which faces a limited purchasing power of workers because the technological progress leads to the increase in organic structure of capital, which causes a decrease of variable capital in the proportion. Reduce of the part of variable capital causes a decrease in purchasing power. Even not examining the strict proportions of the process of expanded production we can see that the limit of variable capital creates a narrow scope for extended reproduction.

5. Conclusions

Thus, the theory of accumulation, created by the classical political economy, reflected essential features and characteristics of the phenomenon which took place in the appropriate era of development of productive forces and economic relations. Analyzing the experience of their predecessors, K. Marx demonstrated that capital accumulation had the historical and socio-economical nature, but he also stressed that the expanded reproduction entail the exacerbation of the contradiction between production and consumption. Fruitful achievements of the classical school of economists made the basis for further research of the interconnection processes between accumulation and consumption, and the results of interconnection impact on the economic development of the country.

Results of the study will allow to identify the achievements of classical political economy, which were confirmed by statistics data and promoted real economic growth. Prominent representatives of the classical school – Adam Smith and David Ricardo – distinguished savings (in Adam Smith's opinion – capitalist thrift) as an important factor of capital accumulation. Indeed, the savings are the one of the potential opportunities of capital accumulation and deserve the extra attention of the economists, because in some countries, including Ukraine, there was a problem of incomplete savings transformation into the capital accumulation for a long time, and, consequently, the actual capital increase was significantly below potential.

Analysis of the classical school achievements will provide an explanation of the current economic reality and solving the urgent practical problems through disclosure of the rate of the consumption and accumulation proportion and identifying the characteristics of gross national income distribution between consumption and accumulation.

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Summary

The article analyzes the views on interconnection between the processes of the capital accumulation and consumption submitted in the works of the most famous classical school of political economy representatives. Capital accumulation historical retrospect studying is very important for the modern economic situation in Ukraine. It might helps to improve the structure of domestic production through the seeking of the best forms of capital accumulation. Researching the formation of capital accumulation theory in its connection with consumption processes will allow understanding the main cause of the scientific problem and finding its optimal solution.

Keywords: capital accumulation; consumption; transferred value; national income; expanded reproduction.

JEL classification: P00

UD classification: 330

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ORGANIZATIONAL CULTURE AS A COMPONENT OF HUMAN RESOURCE MANAGEMENT IN STRATEGIC MANAGEMENT SYSTEM

Valeriy Nikiforenko, Vera Kravchenko*

1. Introduction

The dynamism and complexity of modern business environment set guidance to new, complex challenges, which need to be approached holistically. Life requires profound changes in views on the ways of effective functioning of the organizations in the market environment. Today, obvious is the need for the implementation of the system of strategic management, which is a generic concept, as are the main objectives of the Organization, reduced the problems facing it and are necessary for the limited resources. The strategy should be intrinsically holistic, shared environment, a balanced resource, real, as risky must organically combine long- and short-term objectives, i.e. to ensure the implementation of personnel policy. In modern conditions of shortage of skilled workers in the labour market, the fighting and competition of business entities for the professional staff is escalating. In achieving this goal, i.e. to ensure the enterprises knowledgeable staff that not only demonstrates effective work behavior, but also becomes a devotee of his organization, the challenge is not only to attract staff to the company, but also to develop and retain it in the long run. World practice proves powerful tool for achievement of this purpose is organizational culture.

2. Analysis of studies and publications in recent years

The first scientific understanding about the Organization culture (corporate culture) appeared in Western literature in the early 80-ies of the twentieth century. Thanks to the research of T. Piters, R. Waterman, E. Shane, K. Cameron and other scientists the development of managerial Sciences became the impetus for a new direction-resource approach, which increases the effectiveness of the organization achieved by improving the efficiency of its human resources, the quality of the methods used to stimulate the ability of creative self-realization, involvement in governance. Therefore, the formation of the views on the organizational culture as a mechanism of regulation of labor personnel conduct became apparent.

Development of scientific approaches to the study of the role of organizational culture in the process of human resources management (which will be discussed below) have found reflection in the writings of foreign and domestic scholars, namely: K. Cameron, T. Piters, R. Waterman, E. Shane, E. Pomeranceva, T. Solomanidina, O. Tikhomirova, A. Voronkova, O. Grishnova, A. Kolot, D. Lifinceva, G. Nazarova, I. Petrova, M. Semikina, S. Paseka, I. Teron, O. Harchishina, G. Haet, etc. The analysis of their studies and publications indicates on the one hand, the presence of a large number of opinions on this issue, and on the other hand, that often the scientists opinions reflect only those aspects in which they are recognized experts (psychological, social, management etc.).

3. The selection of unsolved parts of the general problem

Significant world heritage in the field of new approaches to organizational culture and the role of staff in terms of quick and not always predictable changes in the market environment, while the existence of several technological structures are in need of further comprehensive research. It is obvious that the existence of different views of scholars shows not only the diversity of opinions, but also the availability of certain gaps in the methodological and methodical approaches to ensure

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implementation of the complex and multi-faceted system of strategic management, in which the main components are the human resources management and organizational culture.

4. Statement of the problem

This circumstance causes the urgent need to define system forming relationships, organizational culture and human resources management as an essential component of strategic management. This goal were defined for themselves by the authors of this study. To achieve a particular purpose it was singled out the decision of the respective tasks, namely: studying and summarizing the opinions of scientists of different branches of Sciences concerning the essence of organizational culture and human resources management; defining your own copyright vision roles and interrelations of the organizational culture and human resources management as system components of strategic management of organizations; the formation of the respective conclusions and proposals.

5. Summary of the basic material of the study

The theoretical and methodological basis of the work is the fundamental position of the theory of management, the study of domestic and foreign scientists and specialists on issues of strategic management. In the study methods of theoretical generalization, retrospective analysis and synthesis, statistical analysis, a systematic approach and expert assessments and opinion surveys are used.

We tried to analyze the opinions of recognized scientists with regard to the need to separate the elements of the system the relationship of organizational culture and human resources management.

Famous researcher E. Shane proved that organizational culture is a system “of the collective of the basic notions that many group in solving the problems of adapting to the external environment and internal integration, which proved its effectiveness and so are treated as value and transferred to the new members of the group as a proper system of perception, thinking and feeling concerning these problems” [1, p.31–32]. In this definition, you can separate the two aspects that are relevant to strategic management, namely the need to adapt to the external environment and the internal integration of Organization’s members in accordance with its development in the future. These are, of course, important aspects, but they may not serve as a comprehensive definition of the strategic management of human resources components, since there is managerial influence on the part of managers.

T. Piters and R. Uotermen have uncovered the link between culture and success in the work of the company, namely: “led” a number of beliefs and values of organizational culture that led these companies to success: 1) faith in action; 2) connection with the consumer; 3) promotion of autonomy and initiative; 4) consideration of the people as the main sources of productivity and efficiency; 5) knowledge how to manage; 6) not to engage in what you do not know; 7) simple structure and small staff management; 8) the simultaneous combination of flexibility and rigidity in organizations [2, p.245–247]. Having studied the experience of 62 leading American companies, they have concluded that most of them hold relevant structural divisions and have implemented special programs aimed at diagnosis and improvement of the organizational culture, the relationship between the management and employees are based on the principle of performance – from a man” [2, p.297]. The paper described that you can also specify multiple components of strategic management: the simultaneous combination of flexibility and rigidity in the Organization and the people as the main source of efficiency. It has some limited strategic vision of organizations development.

K. Cameron and R. Kuin proved that the culture of the organization is manifested in the fact that it is valuable, as well as what style of her leadership, language and symbols, and the everyday norms, are defined by success. In other words, everything that defines the uniqueness of the nature of the Organization, [3, p.52]. This opinion is quite narrow, in our opinion, and cannot be considered as a system of characteristics of strategic management.

It should be noted that Ukrainian scientists are focusing on issues of organizational culture of considerable interest, as evidenced by numerous publications in professional journals.

In particular, G. Nazarova considers indicators (factors of influence) level of organizational culture

in the face of a new paradigm of management that is based on innovation management and priority role of the worker in the manufacturing process [4, p.290]. This interpretation to determine the impact of organizational culture on the effectiveness of strategic management, of course, moves to a more clear separation of interrelations in the organizational culture and human resources management, but also requires a determination of appropriate methodological approach.

O. Grishnova notes that "... not only values significantly affect the corporate culture system functioning, but also corporate system affects the employee value. For example, if one of the most important company's values is the development, then the values of such companies' staff are manifested in the quest for development. Development and self development have become the value of the vast majority of the company's employees" [5, p.238]. Mutual influence, indicated by O. Grishnova, really is important but not the only component of an effective organizational culture functioning.

A more systematic relationship between culture and strategic management is represented by A. Baste, who argues that the development of the culture is associated with the definition of the basic values, the back way to social cohesion of employees, the establishment of a specific type of relationship between the members of the Organization, as well as with the environment [6, p.14].

A specialist in the field of organizational culture Semikina provides the appropriate assessment of the real state of organizational culture in Ukraine, which is a substantial barrier to the transition of the national economy to strategic management. In her opinion "... for the majority of Ukrainian businesses organizational culture has entered in contradiction with tasks of adaptation to the requirements of the competitive environment. Disadvantages and problems of formation of organizational culture negatively affect the motivation of the personnel for the effective work, State of socio-labour relations, peculiarities of the labor mentality, which, in turn, become one of tangible obstacles in ensuring effective activity of enterprises" [7, p.238].

V. Usachova more clearly, albeit succinctly describes the ratio of the major component of strategic management. She claims that "organizational culture and work with the staff perform for each other internal factors of influence, since, on the one hand, the changes in organizational culture cause the need for corresponding changes to work with the staff, on the other hand, areas of human resources, develop the organizational culture, in turn, get it as the basis for its further improvement" [8, p.7]. But in the system of strategic management this represents only the operational and tactical level, human resources management, is the basis of the highest – the strategic level, and requires a consistent methodological approach.

In the opinion of I. Teron "... qualitative organizational culture sets the coordinate system and the instruments involved interactions that define the vector of development of values, norms, forming the structure of motivation, standards of labor behavior and harmonizing the interests of personnel" [9, p.640]. In our opinion, this vision is somewhat limited and may not be treated as a system component of strategic management.

The collective monography "Corporation: governance and culture" proved that the installed features of personnel as the carrier of culture causing the need to continually adapt its behavior to change the conditions of functioning of the enterprise, are the basis of its culture. Methods of organizational culture adaptation are attuned with methods to support culture. This changes the focus of Manager as to personnel management, namely: "... changing the style of management of conflict or crisis; role redesign and a change of focus in training; change of stimulation criterion; shift in personnel policy; change of organizational symbolism and rites" [10, p.309]. Perhaps this work is closer to another approach to determine the factors that may be useful in determining the methodological approaches to the formation of appropriate strategies for the management of human resources.

O. Harchishina sets the organizational culture as an important component of effective development of organization. She stressed that in organizational culture to crystallize the most successful, viable, proven experience examples of thinking, behavior, decision-making and relationships are supported in the process of natural development organization, as well as the conscious efforts of managers and

owners. This gives reason to believe that the culture of the enterprise is, in fact, the most valuable and irreplaceable motivational development resource [11, p.7].

It is necessary to note that some of the scientists are quite right, in our view, to notice the role of organizational culture in the administrative influence on the staff of the organization. In the opinion of S. Paseka, the corporate culture components, in addition to rules and sustainable practices, are added to the customs in the corporate governance sector [12, p.96]. I. Petrova claims that these definitions must be attributed to the organizational culture administrative context, the content which the author sees that the organizational culture, first, is a subsystem of modern means of management of the Organization; and secondly, the process of its formation cannot be informal, free formation of values and customs, and must be subject to appropriate administrative influence [13, p.77].

Thus, the analysis of scientific opinions indicates that in the economic literature, the problem of organizational culture and human resources management needs a profound study of the ratio of specific concepts and their place in the system of strategic management as the practice management staff puts a new problem for the growth of the role of the intangible assets of the enterprise, and therefore the important component is the organizational culture.

Let us look at some options for the relationship of these concepts that are used in the scientific lexicon more frequently for everything.

1. Organizational culture and human resource management act to influence other internal factors. According to the generally accepted interpretation of the factor it is the driving force reason of any process that defines its character or some of its features. But this interpretation does not allow to determine the location of each of the concepts in the process of strategic management, because they can be interpreted as single-ordered, and as such, having an independent isolated meaning.
2. Organizational culture as a standalone subsystem is an important factor influencing the strategic management effectiveness. The existence of this interpretation has the right to be used, but from the methodological point doesn't provide system links of strategic management categorized apparatus.
3. Organizational culture as a tool (method) of personnel management. Indeed, the personnel management is regarded as a set of mechanisms, principles, forms and methods of influence on the formation, development and use of personnel of the Organization, implemented as a series of interrelated areas and types of activity. Therefore, HR acts both as an organization and as a process, and as the structure. According to this fact, it can be argued that the system of personnel management refers to a set of methods, procedures and programs by which the organization impacts its staff in order to maximize their potential.

At the same time, our goal is to define more clearly the methodological approach to the specific concepts and their place in the strategic management of the organization.

If you use the appropriate methodology for the determination of the ratio of the organizational culture and human resource management, you can offer the scheme, which allows, in our opinion, to provide a better view of the place and the relationship of specified above concepts in strategic management system (Fig. 1). At the same time, the given relationship requires additional consideration for the determination of the place of the organizational culture and human resources management in the system of categorical apparatus.

It is clear that the limited size of the article does not provide the possibility of a detailed presentation of the entity and the system of content categories such as strategic management, principles of management, the strategic management and corresponding strategies, methods and techniques and technologies that should be used to achieve certain goals. Therefore, we outline only a fraction of the specified categories, namely "goals – strategy – methods – techniques". If you use the common understanding that the aim determines the organizational structure of the organization, system and management mechanism and is the core, system developing factor, you can use the following sequence.

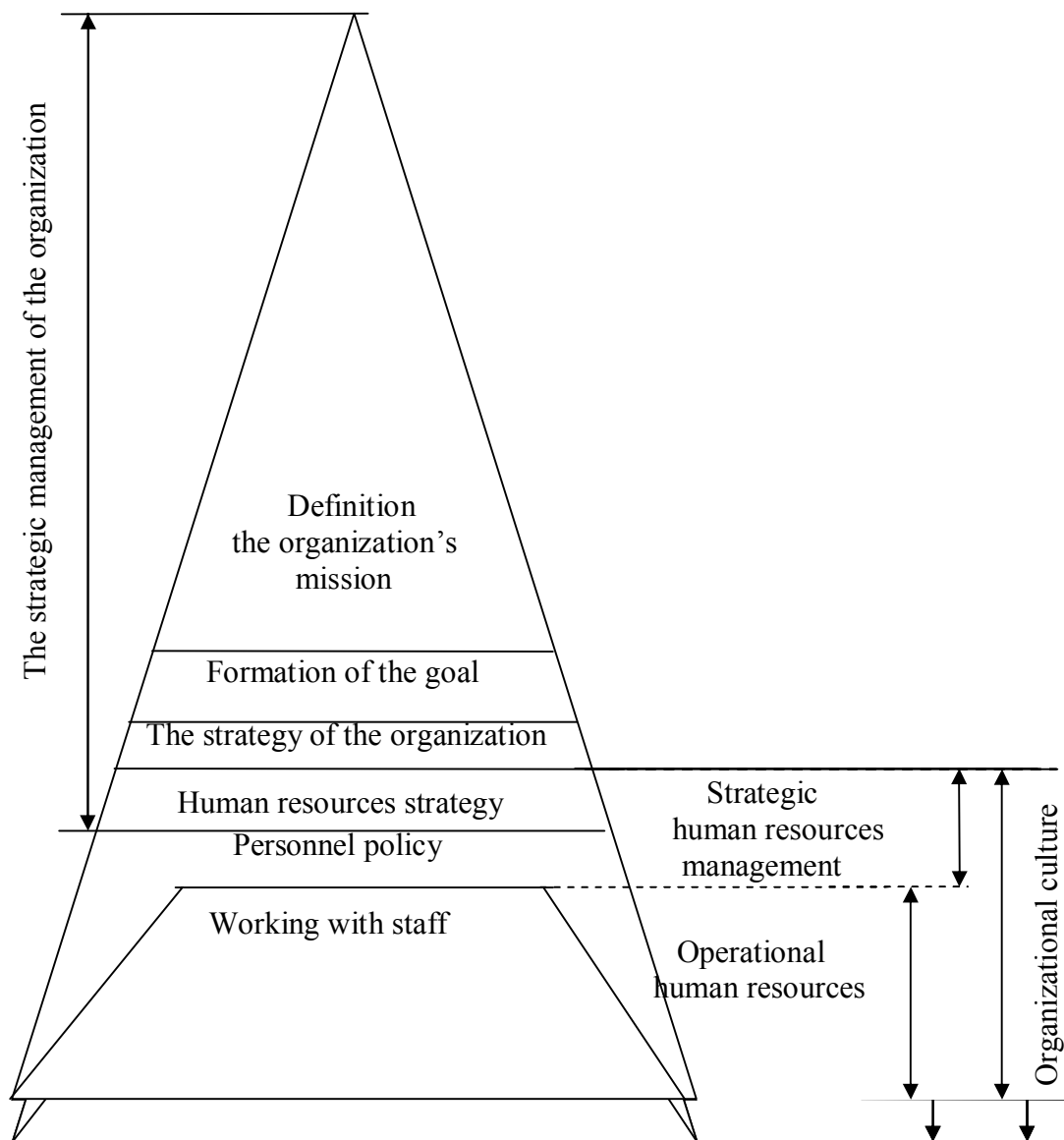


Fig. 1. Systemic connections of strategic human resource management and organizational culture

If there is a clear sense of purpose, it is necessary to select an appropriate strategy that defines promising directions and trajectory of motion in time and space; arrange shapes, technologies, techniques, methods and methods of activity of people. It is necessary to note that the strategy first, is a dynamic model of the target system, activity that takes into account the influence of factors of external and internal environments, and, secondly, it is a management function that is detached. Thus, the strategic human resources management specifies the overall direction of the company on the path to achieving its goals through people management. In turn, the aim of the management is the effective organization of human resources within a single enterprise or institution. In a market economy, a new understanding of management lies in the fact that instead of the known control circuit of A. Fayolle (planning, organization, management, coordination, control) a more complex model that is based on the relationship of management processes and the operations, objectives and resources of the organization starts to function. Generalization of domestic and foreign experience allows you to formulate a global goal of personnel management: the formation, development and implementation of the highest efficiency of the employment potential of the organization. Being the same purpose in the organization of work with the personnel it should be mastered the mechanism of management of labour (individual, psychological, etc.), the activities of the person in strict

accordance with the principles of efficient use of his/her personal capacity and personality, who owns the collective psychology, high qualification, developed sense of organization and co-owner of high responsibility. The main method (tool) of the implementation of such system is the organizational culture, which favors and is one of the most important strategies for the entire system of strategic management of human resources. Thus, the organizational culture can be seen as a holistic and efficient personnel management only in the conditions existing in the current structure of the dominant values and the availability of reference defining a hierarchy value orientation of the staff that will make up the essence of the culture of the organization.

From the standpoint of many researchers of the process of organizational culture formation it directly depends on the identity of the process of creating the group, as the essence of the band, characteristic of its members the image thinking, attitudes, feelings and values, are the result of the collective experience and collective learning, which is expressed in the system adopted by the group of representations that appear as the culture of this group.

For the above mentioned practical implementation it is advisable to conduct certain work on the formation of adequate leadership style. Heads of enterprises and their structural divisions in the first place have to pay attention to the development of such qualities as: knowledge of science management, complex thinking, motivation level, information openness, constructive critique, organizational skills, ability to motivate, persuade and resolve conflicts, initiative, ability to learn, professional competence. But, in order to demonstrate a constructive business activity and initiative subordinates are required to have social confidence and a strong desire to develop, together with the enterprise. This is possible only under the conditions, unless specifically and systematically an effective social-psychological (innovation business) climate is formed, the essence of which is the all staff involvement in the organizational culture development.

The organizational system of the strategic human resources management is built on the basis of the existing organisational and structural system of personnel management. This is distributed into three main variants of the organizational design of the system:

1. Complete separation system in an independent structure (but there is a danger of separation from operational practices implementation strategy).
2. The selection body of the strategic management in independent structural unit (strategic management) and the formation of strategic working groups on the basis of units of the system of personnel management.
3. The formation of the system of strategic personnel management without the separation of the structural units (but a secondary role is given to the issue of strategic management).

Most of control system over the process of formation and development of organizational culture is included in the tasks of personnel management, and subject to, respectively, the Director of personnel management. This is due to specific features of objectives of organizational culture that are associated with the functions of the system of personnel management, and their successful implementation requires close cooperation.

Management of the organization is done by people, both the subject and object management is staff. However, at present, there are very few organizations in Ukraine that have special service, engaged in the formulation and implementation of corporate values. At the same time, many organizations have a wide field to corporate values, so the management of Ukrainian enterprises still need to understand the significance of organizational culture that is more often called the immaterial basis of the development and success of any organization.

The results of sociological survey of a number of leading enterprises of Odessa region with the participation of the authors indicate that their leaders (the owners) have already acquired a certain experience in promoting organizational culture. Yes, 40% believe that the organizational culture needs to be at the enterprise; 35% are trying to establish the organizational culture with Western technology; 25% say they need organizational culture at the company, but for consistent work on

its formation and development they have not enough specialists and financial means. According to conducted studies, we can conclude that the number of those who are engaged in the field of management, have a negative coefficient qualifying deviation that indicates a significant discrepancy required and actually available for skill level on the implementation of the functions of the organizational culture. Given the key role to the heads of organizations in the formation and development of an effective organizational culture, you can make a general conclusion about the urgent need for significant long-term work and the efforts of scholars and practitioners regarding the achievement of effective knowledge and skills in the strategic management of organizations.

The effectiveness of the organizational culture for its strategic direction, and therefore the capacity to develop (level of adaptivity) can be defined, based on how it achieves the main goal. The main goal of organizational culture is the socio-economic system self-organization with the help of staff. The level of organizational culture development can be defined by using the quality indicators: availability of special groups (managers, service staff, culture managers), developed system of encouragement and stimulation of workers, suitable to shape and develop the corporate culture etc. As noted by the authors, the leading role in shaping the organizational culture almost always is taken on themselves by the leaders. On the positive influence on the individual worker, the organizational culture may manifest in shaping the values of professional activity, self-development, self-realization, self-learning that is featured in the enterprise's personnel competitiveness. Therefore, it becomes clear that organizational culture is a culture of organizing socio-economic system.

The essence of the organizational culture is displayed in its functions, in which implementation culture is one of the social mechanisms of socio-economic processes of the enterprise management. The main functions of organizational culture are informative, educational, educational development, motivational, integrating security, regulatory control, changing, adaptive, communicative, selective, stabilizing, optimizing, reproductive [15, p.263]. Because organizational culture is present in all spheres of the personnel activity of the enterprise, its function must be implemented in all functional blocks of enterprise management system, including human resources management.

It is important to note that many functions of organizational culture are closely confronted to the functions of the system of personnel management. Organizational culture, affecting each functional unit of management system, reflects the ideology of management of the Organization, i.e. creates a foundation of the management process and is its ideology.

The practice of successful companies shows that the culture of the Organization is posed by leaders who broadcast to a group of individual values. The task of a leader is to manage and control the manifestation of all elements of the culture. Organizational culture as a unique phenomenon that reflects the specificity of each specific organization, its basic values, principles, norms and artifacts. That is why important is not a specific list of these postulates, but the degree of their effectiveness for a particular organization. Let us provide a list of corporate values and mission of the leading companies in the world that have a high level of organizational culture (Tab. 1).

Tab. 1. Corporate values and mission of leading companies with developed business culture
(improved authors according to data of [16])

| Company | Some basic corporate values | The Mission of the |
|------------------------------|--|---|
| Microsoft (United States) | Staff (staff) Consumers Constant improvement Think and act globally Innovation | Assist the person and society all over the world, realize their potential to the fullness |
| Bayer (Germany) | The responsibility of the Mutual aid Continuous improvement Trust (a customer, business partner, shareholders, society) | To be a world leader in the supply of goods and services of premium for individual mobility |

Cont. Tab. 1

| | | |
|----------------------------------|---|---|
| Toyota (Japan) | Responsibility for their duties Creativity Practicality Respect and gratitude | Produce reliable vehicles and promote the sustainable development of society through the use of innovative and high-quality products and services |
| Mitsubishi (Japan) | Corporate social responsibility Consumers Integration and integrity The development of the | We strive to provide maximum satisfaction and security from driving for our valued customers and our society |
| GlaxoSmithKline (United Kingdom) | Openness Respect for people Consumers Integration | Improve the quality of human life by enabling people to do more, feel better, live longer |
| HSBC (United Kingdom) | The responsibility Openness to different ideas and different cultures Communications with consumers, citizens and society | We give the possibility of businesses and economies thrive, helping people make their hopes and dreams and realize their abilities |

Examples of leading companies show that it is quite natural that there are differences in core values and mission statement. At the same time, a detailed study of the basic corporate values and missions of listed companies provide an opportunity to identify similar traits of basic corporate values, namely: the consumers desire for development and continuous improvement, innovation and openness, communication with society and social responsibility. But we want to draw attention to the fact that the presence of the specified values is formed due to effective human resources management system, because its carrier is always a specific personality. It is clear that without the system (Note-focused) work on finding, attracting, use and development (and social) staff members forming effective organizational culture as a factor of influence on the successful activities of any organization is practically impossible.

Management of the formation and development of organizational culture allows us to generate new business to the community, which will correspond to modern requirements of the society, which will be taken not only as a mechanism for extracting maximum profits, but also as part of the society. Thus, the organizational culture becomes of the more importance in the overall performance of the enterprise. Examples of dynamics of the key indicators of successful activity of leading companies with well-developed organizational culture are given below (Tab. 2).

Tab. 2. The dynamics of the key indicators of successful activity of leading companies with well-developed organizational culture (developed by [16])

| Company | Average annual growth in key indicators of development for 10 years,% | | | |
|----------------------------------|---|------------------|------------|--------------------------|
| | Revenue | Operating profit | Net profit | EPS (earnings per share) |
| BMW (Germany) | 6.24 | 8.41 | 10.56 | 9.98 |
| Bayer (Germany) | 3.48 | 9.66 | 8.71 | 7.40 |
| Danone (France) | 4.97 | 2.88 | 5.43 | 1.63 |
| L'Oreal (France) | 5.06 | 6.65 | 7.09 | 9.63 |
| Toyota (Japan) | 3.79 | 0.57 | 2.70 | 5.13 |
| Mitsubishi (Japan) | 7.63 | 19.11 | 18.08 | 32.37 |
| GlaxoSmithKline (United Kingdom) | 2.16 | 0.97 | 1.96 | 3.33 |
| HSBC (United Kingdom) | 5.04 | 2.68 | 6.33 | 1.15 |

6. Conclusions

Thus, the foregoing allows you to generate the following conclusions:

1. The problem of organizational culture and human resources management requires in-depth system study of the ratio of specific concepts and their place in the system of strategic management that has become the foundation of a clearer awareness of the range of actions in the medium and long run for significant increase of efficiency of organizational activity in the conditions of uncertainty and rapid changes of the environment.
2. Summarizing the various scholars' opinions in the relation to the organizational culture concepts and strategic human resources management, used in scientific vocabulary is more likely, leading to outcomes of the author's vision of system interlinks specified concepts, given in Fig. 1.
3. As the strategic goal in the Organization of work with the personnel should master the mechanism of management of labour (individual, psychophysiological, etc.), the activities of the person in strict accordance with the principles of efficient use of his/her personal capacity and personality, who owns the collective psychology, high qualification, developed sense of organization and co-owner of high responsibility, the main method (tool) of the implementation of such system is the organizational culture, which also has to act and is one of the most important strategies for the entire system of strategic management of human resources.
4. The lack of a clear awareness of the necessity to meet the urgent needs of all levels of social production in the transition to strategic management requires the development of a large-scale programme of action for the application of compatible developments of overseas and domestic scholars and practitioners in Ukraine.

Further research in this direction has, in our opinion, a good prospect given the effectiveness of the achieved results under the condition of combining the efforts of scientists from different fields to ensure the systematic and comprehensive approaches to the formulation and implementation of strategic management at all levels of social production in Ukraine.

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Summary

It is determined copyright interpretation of backbone interconnection of organizational culture and human resource management as crucial components of strategic management. Approaches studied abroad and domestic scholars on the meaning and place of the organizational culture in achieving the goals of the organization in the market environment are analysed. Different points of view regarding the value specified terms are generalized. Grounded application of specific categorical apparatus is defined in system communications elements of strategic management. A list of actions is offered to implement the long-term nature of modern approaches to the widespread introduction of strategic management practices in Ukrainian organizations.

Keywords: system-relationships; organizational culture; strategy; human resource management; strategic management category.

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THEORETICAL PREREQUISITES OF THE MARKETING USE IN THE FINANCIAL MARKET SEGMENTS

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1. Introduction

Marketing is gradually becoming a reality in the activity of financial institutions in the financial market. This reflects the natural process of extensive marketing development that is associated with the spread of its concepts, methodologies, techniques, and models to new areas – financial assets market. With the development of marketing activities in the financial market a gap between the outrunning practice and inadequate theoretical basis of marketing activities in specific financial sector becomes apparent. The theoretical basis of marketing activities of institutional investors so far has not received systematic generalization. Therefore, particular attention is given to scientific justification of opportunity, expediency and limitations of the marketing use in institutional investors' activity as a group of financial institutions that provide the investment process implementation in the economy. If there are similarities and differences of the marketing environment in the real and financial sectors of the economy, the opportunity and expediency to form theory of the marketing institutional investors are assumed.

The aim of the study is to determine the prerequisites of financial marketing formation in the financial market segments.

2. Statement of the main content

In the late 90s of the last century marketing approaches, methods and tools regularly gained recognition and popularity in the financial market segments. Regularity is caused by a number of the following reasons.

First of all, it is manifestation of the general ability of scientific knowledge – its intensive development as a result of penetration into various spheres of expedient activity of the person outside the birthplace of this knowledge. In addition, marketing as a system of knowledge (initially – about the commodity market) has universal character, as it is aimed at harmonizing exchange processes that are inherent to the market.

At the same time, in modern scientific literature attempts to interpret the concept of “the market” as “consumer need” [1, p.18] or “any interaction which people do to carry out trade with each other” [2, p.19], should be classified as incorrect. They recorded only some aspects of this fact – exchange relationships that are built on a voluntary basis. They are equally common to all possible markets (goods, labor, financial, intellectual products, etc.). In general, as you know, every market is characterized by three main attributes that define qualitative market differentiation. These attributes include: objects of an exchange, subjects of an exchange and exchange rules. In this context, the actual process of trade is not a purpose of exchange, but a need cannot be an identity of exchange relationships.

Objects of an exchange in the financial market are on the one hand, the actual cash or non-cash funds, on the other – “contracts” (i.e. liabilities) called in standard market lexicon “financial assets”. In some cases as an object of an exchange in the modern market practice is used the notion of “financial service” as “a transaction of financial asset” that is made in the interest of the third parties at their own expense or at the expense of these persons, and in cases stipulated by law at the expense of the involved financial assets of others for the purpose of receiving profit or maintaining

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the real value of financial assets. “So as a result of an exchange one of the parties gets money and the other – a contract, called a financial asset”.

The main players – that is, subjects of an exchange in the financial market are a priori, on the one hand, the natural person or legal entity – the owner of the money savings (the final creditor), on the other – a natural person or legal entity who needs a certain amount of temporarily idle funds and is responsible for the return of these funds with the agreed remuneration (the final borrower). In addition developed network of financial intermediaries is peculiar to financial market, acting in favor of the final creditor and the final borrower; they promote the exchange process between them with the caused amount of remuneration sum for services rendered.

Exchange rules – is one of the most important objects of state supervision and regulation recorded in legislation on activity in branches of some countries’ financial market and in international markets. In fact the definition of those attributes of financial markets allows us to consider this market as a system that deserves the description of the theoretical or empirical model. It is accepted that the correlation of supply and demand in modern situation on the market in the marketing theory and practice is defined by the concept “buyer’s market”.

As for the market of real assets (goods and services) this characterization is generally accepted and finds its expression in the increased activity of producers and sellers of products to stimulate demand, occupying and maintaining competitive positions. Analogy of the “buyer’s market” situation in the financial markets is practically similar to commodity but only in the event that according to common and dominant belief the goods in this market are financial services and money – is the usual means of payment for this service.

Alternative views about the nature of the goods and specifics of exchange processes in the financial market although they have a right to exist but so far neither in classical marketing theory nor in the theory of finance are enough determined.

In these circumstances following the logic of the concerned, most of financial market professional participants and consumers of financial services, market financial institutions should be active in promoting the benefits and advantages for consumers of appropriate services – which they have been carrying out successfully in the marketing and business since the late 80s early 90s of the last century.

However, the implementation of the concept “financial marketing” objectively requires a thorough evaluation of scientific opinions of the authors that appeal to the concept of expanding the scopes of marketing application in the financial market segments. It equally can promote both the enrichment of professional financial market participants, a significant loss of final creditors’ savings and consequently, and reduce their real consumption. In other words, the real location, in money terms, of the consumption rights between the savers and market financial institutions is not excluded.

In this context one of the alternative points of view on the essence of “financial marketing” may be based on the fact that the commodity on the financial market is real money and the means of payment are “financial assets” – it is a kind of commitment of financial institutions about increase of savers’ invested amounts in the financial business [3, p.196]. As practice and analysis of the current financial crisis show these commitments can be broken like an avalanche and create the illusion of prosperity in the regime of an advancing level of consumption over the current income.

The possibility and feasibility of marketing development in the financial market are obvious. This is testified by the gradual entry of the classical marketing culture in the exchange processes of the financial market that can be traced in the scientific works of scholars and specialists. Scientific substantiation and subsequent popularization of marketing in the financial markets are associated with the names of R. Its, P. Kaysel, M. Gaels. For these reasons the scientific and practical interest

presents sufficiently thorough analysis of the scientific opinion on the use of marketing in the financial market segments.

Famous European specialist in the sphere of managing the world market of investments – Mark Saint Gaels – in 1994 defined the role and tasks of marketing in finance market in the process of activity research of institutional investors (especially investment funds) and corresponding companies managing their assets (AMC). In this context, marketing is represented as:

- search for new customers, creation, development and support of a customer base;
- ability to convince the client to invest into a particular investment fund in conditions of the legal ban on guaranteeing the income of investment funds;
- generating sales of investment funds taking into account the specifics of their activity (open, closed, interval);
- servicing the needs of clients in favor of maintaining their good attitude to a particular investment fund [4, p.63].

However, it should be noted that M. S. Gaels takes the concept of sales away of the marketing activity. Following the accepted logic of marketing purposes establishment, one of the priority is to organize effective sales of the generated consumer values. That is, he compares “marketing” and “sales” as different marketing concepts although the sale is a component of marketing activities.

Defining the need of marketing and formulating its objectives, and considering the strategic aspect of institutional investors Peter Kaysel attempts to construct a typology of property in the market economy in favor of revealing the main dominant of behavior, i.e. motivation of institutional investors’ activity.

On the basis of the scientific definition of “typology” related to the identification of similarities and differences of the objects which are studied and to the search of reliable ways of their identification the made attempt should be stated as unsuccessful. The initial moment of the declaration of four qualitatively different types of property in the market economy is given by the typology. Peter Kaysel includes to these:

- 1) collective (which occurs at redemption of the enterprise by staff or administration team);
- 2) corporate (as a result of the property purchase which passes to the new owner – a legal entity – usually a corporation merger);
- 3) institutional capital (which has three versions: portfolio investment, venture and one that develops);
- 4) private investor [5, p.96].

Thus, from three versions of institutional capital two are considered as the main:

- venture;
- portfolio.

Obviously it is allowed to mix the backbone signs and to construct lots from different nature elements. Undoubtedly, the qualitative difference of elements of the object research and, moreover, their reliable identification in the context of this typology is absolutely impossible.

However, in terms of marketing institutional investors in the financial market the P. Kaysel’s definition of the main dominant of their behavior deserves the attention. As such he defines “search of the best possible disposable income” [5, p.98]. Summing up the experience of developed countries he indicates that professional institutional investor operates with a wide range of financial instruments.

According to the definition of an English explorer Richard Its, financial marketing is the sphere of goods sales and links with public that reflects the orientation of business to carry out the high-quality customer service process in conditions of studying the factors of the company's financial attractiveness and its product [6, p.69]. However, the specified sphere of sales is just one of the financial marketing functions but not its purpose.

The problem of marketing in the securities market as one of the financial market segments of Ukraine for the first time among Ukrainian authors was identified in 2002 by the authors V. N. Parsyak, V. P. Krapiva, V. V. Zeldis. This fact per se testified the penetration of the classical marketing concept into the financial sector which should undoubtedly take into account the experience of developed countries and should be recognized as a positive phenomenon in a market economy of Ukraine.

At the same time the theoretical postulate concerning features of marketing in the securities market is not fully defined [7, p.5]. Instead of features of marketing in the securities market it gives a trivial characteristic of the Securities Market (MPS). Besides it proposes an unsystematized structure of financial market and its participants, the features which are characteristic to securities as a "product of special sort" are not fully disclosed.

Basing on pragmatic interests of Ukraine's economy it seems logical to focus financial business on the European market model. This is substantially caused by the declaration of Ukraine's European choice, which is associated with the development of skills of co-existence with partners in the EU. Besides the absence of convincing arguments concerning the Ukrainian choice of pro-American orientation as a world economic leader and Japanese – as it is a strong and adaptive US rival in the global market is completely apparent. The current Ukrainian economic system actually ignores European concept of orientation to the market.

Traditional logic search of primary objects of investing the accumulated money usually corresponds to the technology of market analysis by the principle "top-down". The vector of advantages of this logic is formed initially by the criterion "recession-rise" in scale: the global economy; regional economy of the world; economy of certain countries. Then within the overwhelming country or several countries the attractiveness of certain tools from the point of view of their profitability is analyzed. On this basis the address and concrete investment decisions are made.

At the same time according to P. Kaysel and many other professionals the institutional investors who conduct the analysis of the markets by the principle "from below – to top" are quite widespread. "They ignore world economy completely and try to obtain fast profit from a concrete situation in the concrete country" [5, p.98]. In this interpretation the fact of recognition of the profit existence in the financial market is important.

The innocent thesis about "fast profit" which corresponds to the formulated behavioural dominant of institutional investors was formulated by famous Western experts at the end of the last century. Actually it became a symptom (manifestation) of a wave of modern world financial crisis.

In 2002, Academician of NAS of Ukraine Yu. Pahomov emphasized the phenomenon of "fast profit" ("instant income") [8, p.8]. Only six years later in the period 2008–2009 an adequate idea of the harmfulness of quick profit in the financial market for both global and national economy began to be formed among the scientific community of Ukraine. The assessment of the reasons for crisis expressed by S. O. Moskvina in the round table discussion carried out in 2009 by national agency of "State Investments" in Kiev appeared to be one of the first public confessions of this fact [9, p.9].

That is, in addition to the behavioral aspects of the institutional investor the following marketing activities are of theoretical and practical interest:

- analysis of the role and importance of institutional investors in financial markets;

- quantitative assessment of factors of investment appeal of industries, countries and areas as a result of comparison of investment inflow and outflow, i.e., the study of the financial markets conjuncture;
- the introduction of concept “competitive opportunities” in the struggle for investment capital.

Thus, the vision of Western experts of the special role of marketing in the financial market is quite naturally investigated in the activity of a particular group of its professional members. Most expressively this role and need for marketing were shown in the first half of the 90s in Europe, and a bit later in Ukraine, in actions of those professional participants who can be identified as “institutional investors”. Their role in investment process as practice shows, is more significant in comparison with the activity of small investors and so-called “business angels” (private investors).

Its highlights several prerequisites for the development of marketing in the financial market. The first prerequisite concerns universality of culture of marketing, the second – lack of existence of uniform rules in marketing [5, p.124]. Besides, he considers dependence of marketing strategies character in the financial market on the specifics of the country and its legislation as not less important prerequisite.

3. Conclusions

Expedient definition of financial marketing gained the recognition in the encyclopedic reference book “Tools and Establishments of the Financial Market” published for the first time in Ukraine in the section “Risk management and financial marketing”. Financial Marketing is the theory and the tool of knowledge processes and regularity of the financial market development with use of the basic conceptual principles of strategic planning [10, p.265]. Financial marketing as new scientific knowledge is philosophy of financial business which reveals through categories a conceptual system. The system includes the basic instruments, their properties and the relations between them.

Concerning the prospects of development of financial marketing of institutional investors it is possible to state the following prerequisites:

- development of tendencies of marketing concepts extension and penetration into new financial market segments,
- orientation of financial marketing of institutional investors on all the range of financial services;
- creation of the correct conventional theory of financial marketing capable to expect and prevent negative consequences of the advancing development of social and economic practice;
- verification of a scientific hypothesis of real opportunities and restrictions of financial marketing of institutional investors;
- topicality of searching key marketing tools for receiving competitive institutional investors in the conditions of an increased competition for clients and effective financial assets.

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Summary

The main prerequisites of marketing development in the financial market are systematized. Here is defined the interpretation of financial marketing as philosophy of financial business. Prospects of development and introduction of financial marketing in the investment market segments are outlined.

Keywords: prerequisites; market; financial market; the financial market substrata; subjects and tools of an exchange; players; network of financial intermediaries.

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BANKS IN POLAND – THE QUALITY OF SERVICES

A. Rudzewicz^{*}

1. Introduction

Every bank or any other business interested in preserving a certain position on the market has to find ways of persuading their clients that the services they offer are among the best. The key to success is to maintain the best quality of the offered services. The main aim of this article is to characterize the quality of banking services on the Polish market. The data were collected from a variety of scientific research and reports prepared by institutions related to the banking industry.

2. The role of quality in banking services

“Quality” is a term of ambiguous meaning that is hard to pinpoint. It is used in many different contexts and may refer to many different domains of life and human activity, organizations and institutions. Using the best IT in banks, observing the security and safety rules or a sizeable ownership capital will be of a lesser importance if the whole banking system does not promote or implement strategies to achieve quality [1, p.397–404].

A consumer who has to make decisions concerning financial services is often uncertain [2, p.267–268]. The phenomenon of intense risk present in the market of financial services is related to the basic characteristics of these services, i.e. immateriality or elusiveness. The inability to check and compare the service with a similar one and the impossibility to own it after purchase lead to a greater uncertainty while buying a service than a good which can be inspected or returned [3, p.247]. Thus customers tend to look for more detailed information, often from their friends, Internet or other mass media. In their attempt to persuade their potential customers that their services are of the highest quality, banks use a variety of certificates, rewards or positive opinions of their clients. They try to build a good reputation and win the trust of customers who are already using their services. Besides the image of a financial institution, there are other factors encouraging a consumer to choose a particular bank's offer. These include staff competence, availability and the décor of the offices, the number of cash dispensers, the monthly fee for running an account etc [4, p.19; 5, p.17].

A. Styś [6, p.100] claims that the quality of banking services may be determined by the technological potential which shortens the time of services and improves their accuracy and reliability. He also points out that other important factors in banking services are reference, recommendation and good opinion which often guarantee high quality and reduce the risk on the part of the consumer.

The quality of banking services is directly related to the satisfaction and loyalty of customers. It may be assumed that the increase of quality of services results in the increase of customers' identification with their bank, their satisfaction with and loyalty to the bank. Hence, the decrease on the quality of services leads to less satisfaction, loyalty and lack of willingness to cooperate with the bank. V. Zeithalm, L. Berry and A. Parasuraman [7, p.35] showed that the higher is the opinion on the goods and services offered by a business, the higher is the loyalty of the customers as well as their willingness to pay more for the services.

J. Garczarezyk [8, p.126–127] tested the determinants influencing the perception of banking services by Polish customers. His research helped to distinguish the most important ones in shaping customers' opinions about banking services. They are presented in Tab. 1.

3. Results of empirical research

The empirical data usually confirm the positive evaluation of the quality of banking services in Poland. P. Stodulny's [4, p.143–144] study showed that on a scale of 1 to 10, the entire banking

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industry scored 7,43 points, which means that the customers are generally happy with the quality of the services. This has also been confirmed by the CBOS poll, where nearly all (93%) users of current bank accounts expressed their satisfaction with their bank and every third consumer (31%) expressed great satisfaction with the bank services. Very few customers were unhappy or could not assess the banks running their accounts (Fig. 1).

Tab. 1. Determinants of quality of banking services

| Area | Determinants |
|--|--|
| The image of the financial institution | <ul style="list-style-type: none"> – Credibility and trust in institutions; – Security services (no risk); – Opinion of the institution among friends, experts; – Personal safety customer in the bank; |
| Facility and distribution services | <ul style="list-style-type: none"> – Exterior and interior facilities; – Convenient location facility; – Number of service; – Opening the facility for customers; – Ability to travel, parking; – Ensure confidentiality |
| Staff, customer service | <ul style="list-style-type: none"> – Expertise and knowledge of staff; – Communicative personnel; – The speed and efficiency of customer service; – Timeliness of orders and transactions; – Kindness and friendliness of the staff; – The speed and efficiency of handling of complaints; |
| Offer, price | <ul style="list-style-type: none"> – Range of services; – Adaptation of the offer to the needs; – The ability to use the cash machines; – The fees and commissions; – The interest rate on loans and deposits; |
| Communication with the customer | <ul style="list-style-type: none"> – Service information in the institution; – Sending an mail offer to the client; – Clarity and completeness of leaflets, brochures |

Source: own work based on: [8, pp.126–127]

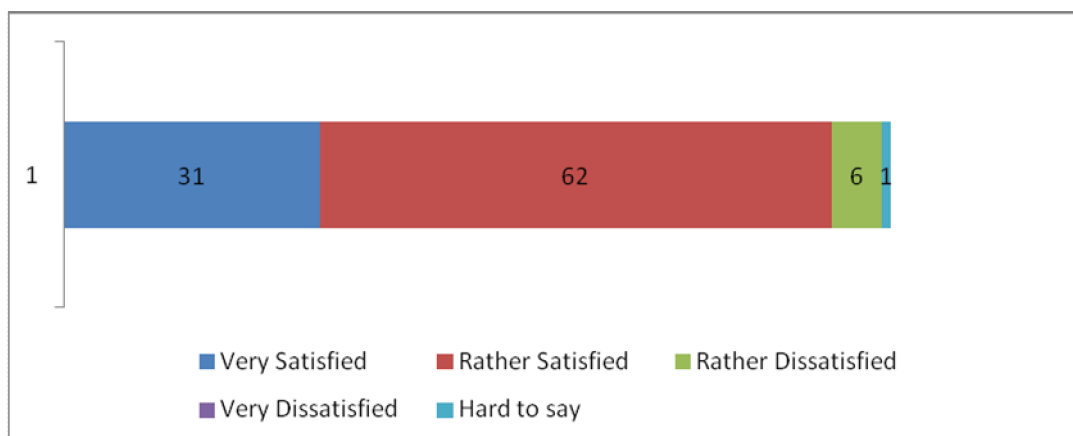


Fig. 1. Level of satisfaction with banking services (in %)

Source: own work based on [9]

While selecting the bank to run their personal account, 55% of Poles take into account its reliability. The second most important factor, selected by 51% of respondents, is the distance between the bank and home. Next in line, were the number of offices and cash dispensers, and the convenience of their location, selected by 40% of respondents. Such results may signify that convenience is of

significant importance. While putting money in a bank we want to be sure that we will have a steady and easy access to it (Tab. 2).

Tab. 2. Factors influencing the choice of bank

| Determinants | % of answers |
|--|--------------|
| Solid bank | 54,8 |
| Bank branch close to home | 51,1 |
| Convenient location facilities | 44,5 |
| A large number of the cash machines | 42 |
| A large branch network | 36,8 |
| Habit | 26,8 |
| Access to banking services by phone | 20,2 |
| Interesting conditions for promotion | 19,6 |
| Access to banking services by Internet | 19,4 |
| Modern products | 14,2 |

Source: own work based on [10]

Customers are increasingly interested in the online banking services since it is usually much faster and more comfortable than actually going to the bank. They are less interested in bank consultants' services, their knowledge, manner or personality. The direct service parameters give way to the speed and comfort of online banking [11, p.242].

The factors which have the worst influence on the banks' reliability is their willingness to gain profit at the expense of customers' ignorance (33% of the respondents) and the regular increase in costs (32% of the respondents). 29% of the respondents would not open accounts in a newly opened bank and for 7% of the respondents the aggressive bank commercials are rather discouraging. In the last two years the number of Poles satisfied with banking sector has increased from 30% in 2012 to 46% at present. The image of financial institutions has improved – 67% of the respondents believe it is more positive whereas only 16% of respondents believe otherwise. Elevated service fees and unfavorable interest rates for both, loans and deposits are the real weaknesses of the Polish banking sector. Fees and commissions are factors which have the strongest influence on Poles who want to open an account or buy new bank products (44%). The main assets of banks are security, financial stability and a variety of deals [12].

According to bankers, customers display much trust in the banking sector in Poland. Nearly half of them (46%) believe that the customers' trust is very high. The assessment of this respect of the banking sector in Europe is lower (Fig. 2).

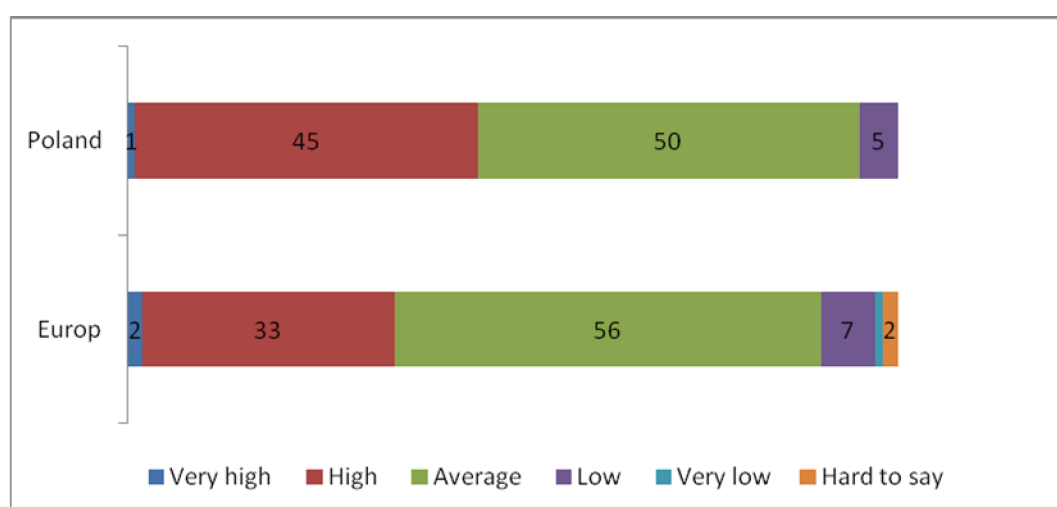


Fig. 2. Level of customers' confidence to banks (in %)

Source: own work based on [13]

According to the study carried out by TNS Polska in March and April of 2015, 87% of the respondents claim that their choice of a bank was a good choice. Even though the bank has not always met their expectations, the majority still uses its services. Nine out of ten customers claim that they have not switched to a different bank in the last five years [14].

4. Conclusions

Each bank or any other company that wants to maintain a certain position on the market must find ways to convince the customer that only their services or goods are competitive. The key to success is to maintain the best quality of service. The main aim of this article is to characterize the quality of banking services on the Polish market. Data sources are the research and reports of many institutions connected with the banking sector.

The best information technology in the bank, duly complied with prudential standards of sizable equity would mean much less if the whole bank organism was not set to promoting the quality and it will not be strategy focusing on its achievement.

High maintenance costs and unfavorable customer interest, both deposits and loans, according to customers are weaknesses of Polish banking. On the other hand, the main strengths of banks which the Poles include are: security, financial stability, and a large variety of offers.

The studies by many institutions confirm good results of Polish banks in the dimension of trust and reputation. 87% of respondents claim that the choice of the bank was a good choice for them. Nine out of ten customers of the banks replied that in the past five years have not changed their bank. Services provided by banks in Poland are highly rated.

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Summary

The quality of services is an essential factor in customer service and one of the best ways to distinguish a bank from its competitors. The banking sector in Poland is undergoing development and becoming increasingly competitive by prioritizing the question of quality and correct relations with customers, which is confirmed by research carried out by a variety of institutions. It does not mean, however, that all banks enjoy similar trust from its customers. In general, the Polish banking sector compares really well with other banks in Europe.

Keywords: banking services; quality of services; banks' reliability; determinants of quality of banking services; level of satisfaction with banking services.

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UD classification: 336.71(438)

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THE REGULATORY POLICY OF THE STATE AND MECHANISMS OF ITS REALIZATION IN AGRICULTURE

N. Vdovenko, Y. Sharylo*

1. Introduction

The state policy takes an important place in public life and its purpose is to timely reveal current problems of the development of perspective branches of the economy, to analyze them, to establish the causes of occurrence, discrepancy and to find ways of solving these issues. In the sphere of the state policy the specific decisions are aimed at elimination of branch problems, needed programs, government regulations, mechanisms and their implementation tools development. The solution of these issues depends on rational regulation of development of perspective types of activity which are specifically connected with foodstuff, including aquaculture as a sector of state fisheries.

2. Scope and the purpose of research

The undeniable role of the agrarian sector of the economy in increasing of life standards of the population provides the development of conceptual framework of its formation and transition to dynamical development in modern conditions. Domestic scientists, for example, V. Bodrov [1], N. Zybza [2], A. Kachnyi [3], S. Kvasha [4], Y. Lupenko [5], I. Lukinov [6; 7], Messel-Veselaka [2], P. Sabluk [2] were engaged in the research of the problem of state regulation of agrarian sector of economy, the same as scientific researches of foreign scientists like J. Galbraith [8], R. Coase [9], F. Quesnay [10], A. Smith [11], K. Marx [12; 13; 14], J. Schumpeter [15], F. Hayek [16], and others generate interest in the problem of theoretical formation of the state regulation of economy system. The theoretical and practical research of functioning of fishery on principles of its development, regulated by state were provided by domestic and foreign scientists: A. Kozyrazkaya [17], G. Simon [18].

The purpose of this work is caused by the necessity of substantiation of methodological maintenance of state regulation of economy development of agrarian sector perspective branches which are connected with the foodstuff and the development of practical recommendations on application of mechanisms of state regulation in the fishery industry and aquaculture sector.

3. Results

Our research gives the possibility to assert that the economic scientific thought was formed during an epoch of considerable fluctuations of foodstuff manufacture when hunger was a widespread phenomenon. It explains the fact that all civilizations were formed near large water reservoirs or rivers. The lowest stage of wildness of mankind was got over with introduction of fish food. The research gives the chance to confirm A. Smith's opinion that by means of a product of the earth the fish can be taken from water. Therefore for the first time in the theoretical and methodical plan it is proven, as by means of a product of water it is possible to receive cattle-breeding products "from the earth" [1]. Quantity of products which are received from the earth and fishery, considering their natural productivity, depends on the sizes and appropriate usage of the capital spent on them. If capitals are identical and are equally correctly used, their quantity is proportional to their natural efficiency [1].

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© Y. Sharylo; Director; Budget establishment "Methodological and Technological Center of Aquaculture".

K. Marx was also proving that the earth (from the economic point of view it also concerns water) which was providing the person with food at the beginning, became a general subject of human work. All subjects which are necessary only to “pull out” from their direct connection with the earth – the objects of the labor given by nature, for example, fish which is caught, are separated from its natural environment – water [2].

We also share F. Quesnay’s opinion, who pointed that the heads of the state, together with land owners and farmers should promote increment of production of the earth, after all, the success of all the state branches, and agrarian sphere in particular, depends on this profitable source [4]. It is necessary to mention that the state independence of Ukraine began with the acceptance of some acts which directly concerned the development of agrarian sector of economy and its system of state regulation. Accepted in 1990 “The concept of transition of the Ukrainian Soviet Socialist Republic to market economy” recognized an urgency of creation of necessary preconditions for maintenance of own policy of transition to market economy for the purpose of increasing Ukrainian people life standards. By the law of Ukraine “On priority of rural and agricultural social development in national economy” it is recognized that the priority of rural and agricultural social development results from the exclusive importance and indispensability of agricultural products in life of a person and society (Fig. 1).

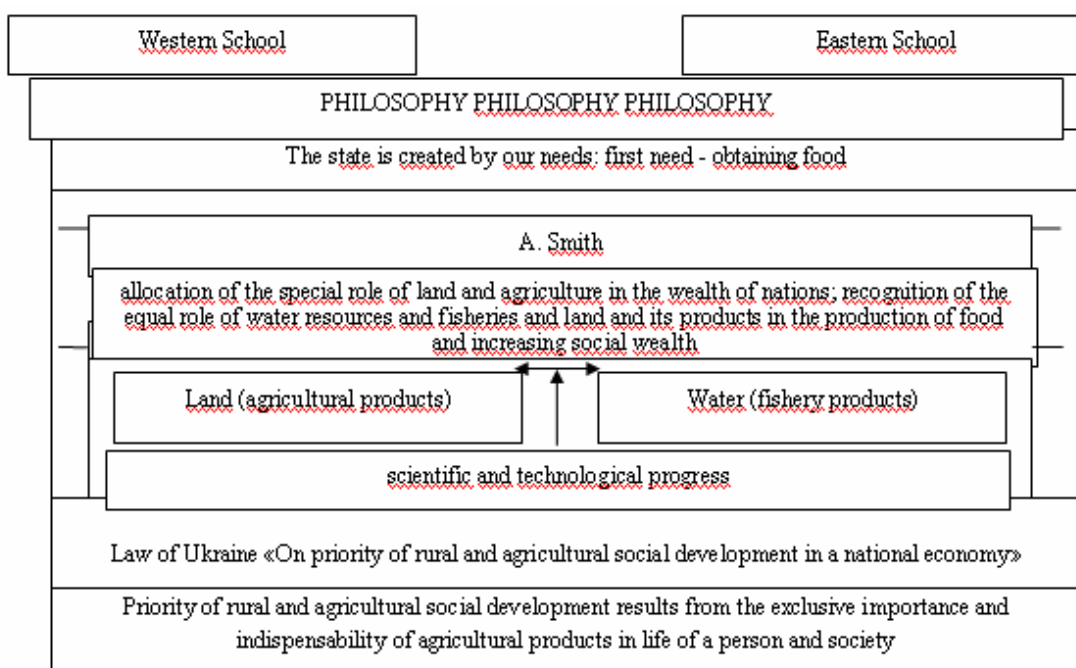


Fig. 1. The theoretical nature of the role of the agricultural sector and water resources and the fishing industry in national development

This aspect assumes the actuality of a regulatory policy in the sphere of aquaculture for the purpose of removing the obstacles for the development of economic activities. The regulatory policy in the sphere of aquaculture is the direction of a state policy focused on perfection of legal regulation of economic relations, and also administrative relations between regulative bodies or other public authorities and subjects of a fish economy in sphere of aquaculture, a non-admission of economically inexpedient and inefficient regulative certificates acceptance, reduction of the state intervention in business entities activity and removal of obstacles for the development of economic activities. It is carried out in limits, order and way established by the constitution and laws of the country.

In this context, the search of the solution of the issues goes before the State agency of fisheries, as the central enforcement authority, which provides the state policy in the sphere of fisheries and

aquaculture. In connection with occurrence of new types of specialization of the enterprises and division of manufacture into operations, fast development of technologies, under the aegis of the Statistical Commission of the United Nations the world revision of the international statistical classifications of kinds of activity and production is carried out. So, at the European level the central statistical classifications were accepted. Ukraine is a participant of international cooperation within the framework of the European statistical space, which, besides EU Member States, includes the countries of the European free trade association and promotes integration of our state in the European and world community, increases its international prestige. Requirement for harmonization of national statistical classifications with their international analogs contributed to updating of current system of national statistical classifications of kinds of economic activities and production. The first edition of NACE was developed for execution of the Government program of transition to the international account and statistics system. The purpose of working out the second edition of NACE was to bring it into compliance with EU base of international statistical types of activity classification (DK 009:2005) and revision of certain positions of classification on national level.

Therefore for fastening the diversification process of fisheries in the direction of development of aquaculture and realization scientifically – conceptual prospects of productivity of advancing perfection of the state regulation of aquaculture development system on the basis of the unitized manufacturing process with high standards and regulations of its methodological tools, the important step was made by State agency for fisheries by working out the national version of NACE (DK 009:2010) (Fig. 2). Usage of methodical approaches to divide the economic activities into phases allows to allocate: Section A – “Agriculture, forestry and fishery”. Chapter 03 “Fishery and cultivation of aquaculture” – consists of two groups, each of them is specified by types of activity (sea and fresh-water aquaculture). Besides, a new classification of lines of activity and types of aquaculture in Ukraine is offered. The passed Laws “On aquaculture” and “On fisheries, industrial fisheries and protection of water bioresources” define the main principles of activity, the governmental control and regulation in sector, preservations and rational use of water bioresources, an order of mutual relations between public authorities, local government and business entities. It is necessary to mention that an actual meaning gets the question of perfecting the process of forming the mechanism of generalization of the administrative information on manufacture of stocking material and commodity fish [3].

The system of fish manufacture indicators reception is developed, that completely satisfies requirements of the central enforcement authority, which provides the policy in the sphere of fisheries, for reception of the information for the performance of the functions assigned to it.

The carried-out analysis gave the possibility to confirm the essential feature of formation of the offer on agrarian production. And this feature is obvious to us, because it is connected with biological features of agricultural production manufacturing. It completely influences the sector of fisheries where traditional laws of biology operate, which are taken into account in modern production technologies. So, the consideration of biological laws in fishery manufacture is the basic theoretical approach to understanding the periodicity of formation of production supply in fisheries sector. In turn, it essentially influences the market balance, determined between cumulative demand and the cumulative supply. Therefore aquaculture should be recognized as the partner of agrarian sector equal in rights, instead of as the minor sector and subordinate to it or manufacture, and doesn't receive proper attention. Transformation of aquaculture to a competitive sector of the state economy is restrained by the lack of innovations, investment inaccessibility and the possibility of active intervention of the foreign companies on the domestic fish market and dependence on import. There is the possibility to come to a conclusion that the specific problems were caused by frequent modifications of governing sectoral body, which means that the system of sector regulation was changing every 2–3 years. However since 1999, the state has made attempts to stop administrative intervention in activity of fishery producers in favor of economic regulation methods application.

Conditions for self-development of the sector in market conditions were created. Despite special modes of the taxation, fish production remained unprofitable, and the sector wasn't deducted from a crisis state. It is necessary to mention that now State agency of fisheries of Ukraine has lost its function of development of a state policy in the development of fish economy. This fact does not contribute to the improvement of state regulation of aquaculture and negatively affects its productivity.

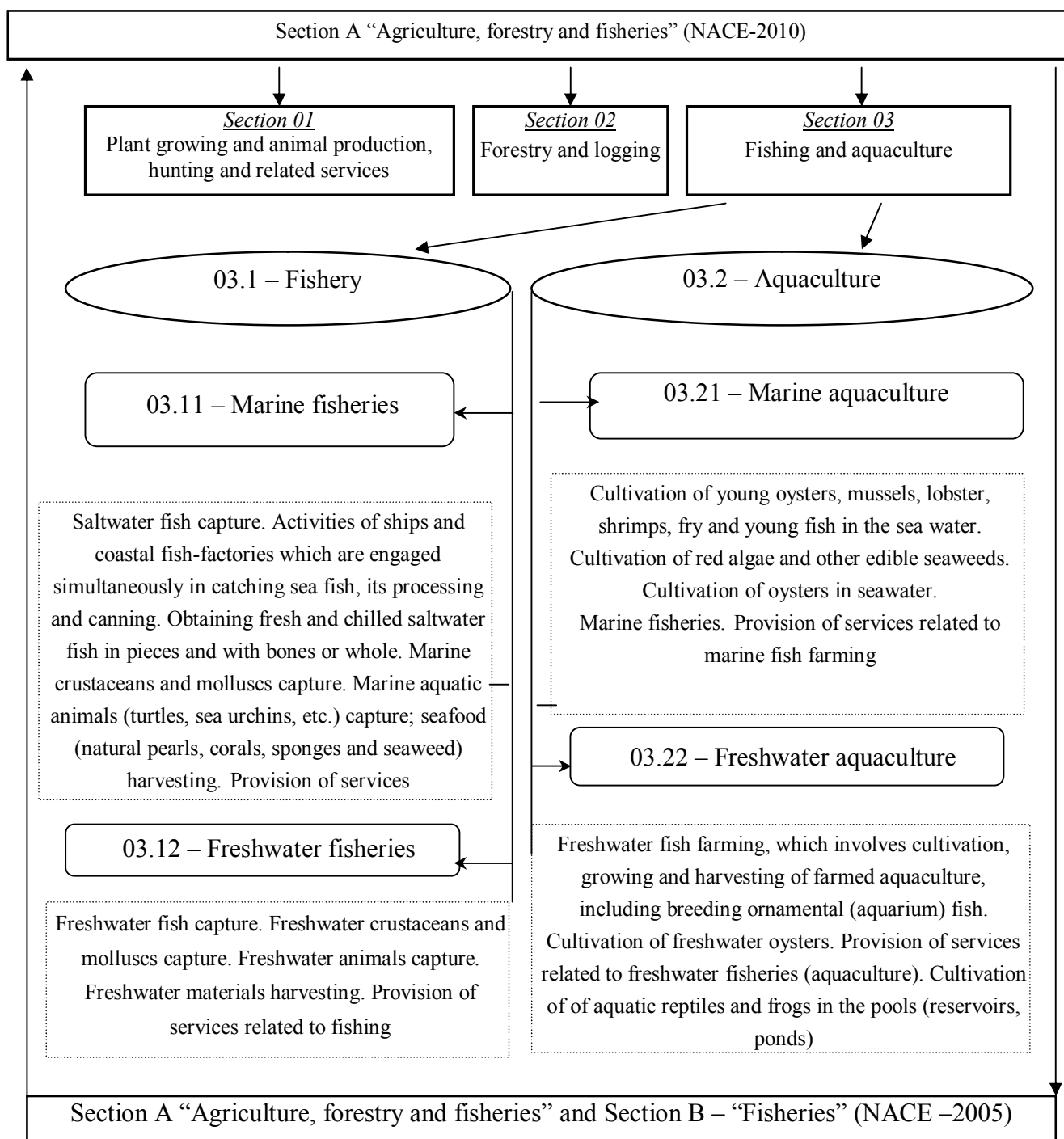


Fig. 2. Offers no positioning of aquaculture in the new Classification of Economic Activities (NACE-2010)

The State agency of fisheries brought up a question of maintenance of fish capacity increase of water bodies from 3,0 centner/hectare to 15,0 centner/hectare. It is necessary to mention that in Ukraine, the average fish capacity of fish farms which is reported to various types of associations and Public service of statistics of Ukraine, is 3,7 centner/hectare. Ineffective use of ponds in the country is observed. At the same time, considering the productivity of ponds for farming of commodity fish and a stocking material, according to the area based on fish cultural and biological specifications, reservoirs can annually give more than 163 thousand tons by extensive and 6,6 centner/hectare by gazing use of water bodies, 400 thousand tons by a heavy use of internal reservoirs (16,4 centner/hectare). Therefore for maintenance of rational use of the fishery water bodies (or their parts), there have to be made specific fish cultural and biological norms of reception of production from the unit of water object area within the zones of aquaculture, depending on environmental conditions and natural efficiency of reservoirs. Working out these specific norms is a basis for increasing the state supervision (control) over the fish capacity. The basic idea is that fisheries should adhere to the specific norms all without exception, together with those subjects who rent or intend to rent feeding ponds. This activity is conformed with paragraph 4, part 1, article 8 of the Law "On aquaculture" from 9/18/2012 No. 5293-VI, point 8 of Regulation on the Ministry of agrarian policy and food of Ukraine confirmed by the Decree of the President of Ukraine No. 500 from 4/23/2011 and in the fulfillment of the order of the Cabinet of Ministers of Ukraine No. 24843/7/1-11 from 9/26/2011. Besides, the Order of the Ministry of agrarian policy and food of Ukraine "On the statement of aquaculture areas (fish culture) and fish capacity of regions of Ukraine" from 1/30/2013 No. 45 was developed and confirmed and then registered in the Ministry of Justice of Ukraine from 2/11/2013 No. 240/22772. The analysis leads to the assessment that the central executive body which implements the state policy in the field of fisheries is given the authority to provide state accounting, monitoring, state cadastre of living aquatic resources, as well as state accounting and registry of fishery water bodies (or their parts). For this purpose, the primary task is the development and approval of the Procedure of the state register of fishery water bodies (or their parts). And the design of the new passports for fishery technological ponds and water body passport (reservoir, pond, lake), which will further provide the smooth, rational use of the water body, land under this water body or hydraulic structures of the reservoir, which are in use on a rental basis. Legislative and regulatory base of aquaculture development through measures of its support, government regulation and the use of appropriate tools is now being formed from a number of legal acts. An important role is played the Laws of Ukraine "On the basic principles of the state agrarian policy for the period till 2015" from 18.10.2005, "On fisheries, commercial fishing and protection of living aquatic resources" from 08.07.2011, "On Aquaculture" from 18.09.2012, "The fish, other aquatic resources and food products from them" from 06.02.2003, the Resolution of the Cabinet of Ministers of Ukraine dated 11.08.2010 "On approval of the use of funds provided in the state budget for the financial support of the agricultural sector entities through the mechanism of cheaper loans and lease payments compensation", the Presidential Decree of 03.09.2007 "The concept of improving the state regulation of economic activity". Simultaneously the process of normative legal base improvement continues. Considering perspective of the sector, regulatory changes are offered for the Law of Ukraine "On the rent of the state and municipal property" by which the withdrawal of hydrotechnical constructions of fish farming technological reservoir from the list of kinds of the state property is prescribed. According to the current legislation these objects could not be a leasable property. With the acceptance of these regulatory changes in the Law, it will be possible to lease hydrotechnical constructions of fish farming technological reservoir in general order which existed for lease of the state property. Therefore, in accordance with Regulations on State Agency of Fisheries of Ukraine, approved by Presidential Decree and within the State Target Economic Program of Fisheries for 2012–2016, approved by the Cabinet of Ministers of Ukraine on 23.11.2011 No. 1245, selected nowadays forms, methods, regulations of aquaculture development are the basis for the implementation of the state policy in line with international standards and norms.

4. Conclusions

It is necessary to note that in current conditions, forms, methods, means of aquaculture development regulation are the basis for realization of a state policy according to the international standards and norms. Therefore we had possibility to draw these conclusions: 1. Undoubtedly, prominent feature of aquaculture is a specific nature of the object of manufacture – the fish which is grown in conditions, supervised by man. To fully use this advantage and to give the state support to this type of economic activity development, these issues have to be dealt with: a) maintenance of increasing water objects fish capacity from 3,0 centner/hectare to 15,0 centner/hectare; b) certification of the fish farming technological reservoirs, which are leased. 2. Thus, we see expediency of optimization result, indicated above, not only taking into account aquaculture zones, but also: a) soils, where reservoirs are located, with the use of correction factor. For average levels of soil fertility (podsolis, loams, sandy) it is equal to 1, for unproductive soils (pebbled – 0,4, peaty – 0,5, sandy – 0,6, high-fertile (black earth – 1,2)); b) feeding ponds have to be divided into categories (channel, waste, by area; c) it is necessary to provide indicators of fish capacity both for commodity fish, and for a stocking material. 3. The carried out analysis brought to an estimation that, to the central enforcement authority, which provides the state policy in the sphere of fisheries, is given the right to provide the state account, monitoring, the state cadastre of water bioresources, and also the state account and the register of fish farming water bodies (or their parts). According to the above said, there is a priority in development and further registration of “An order of conducting the state register of the fish farming water objects (or their parts)”.

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Summary

In this article it is summarized that in current conditions, forms, methods, means of aquaculture development regulation are the basis for realization of a state policy according to the international standards and norms. Therefore we had possibility to draw these offers undoubtedly, the prominent feature of aquaculture is a specific nature of the object of manufacture – the fish which is grown in conditions, supervised by Man. To fully use this advantage and to give the state support to this type of economic activity development, these issues have to be dealt with: a) maintenance of increasing water objects fish capacity from 3,0 centner/hectare to 15,0 centner/hectare; b) certification of the fish farming technological reservoirs, which are leased.

Keywords: regulation; industry; agriculture; manufacturing; aquaculture; market development.

JEL classification: A130, B210, D230, D200

UD classification: 351.824.1:639.3/5

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THE QUALITY LEVEL OF SERVICES PROVIDED IN LOCAL GOVERNMENT ADMINISTRATION AND LOCAL BUSINESS DEVELOPMENT OPPORTUNITIES

Z. Warzocha, M. Grzybowska-Brzezińska, K. Fadrowska *

1. Introduction

Many authors have divided territorial marketing into internal and external ones. Internal territorial marketing refers to actions and processes taking place within the units of local governments and influential organizations. Its actions are mainly directed at the employees of local governments and, additionally, at people and organizations closely related to particular local governments, which include local communities of residents [1, p.286]. It is proposed to divide the internal region of the territorial marketing into two sub-regions. The first one refers to the employees of the local government units, and specifically to the actions which aim at the optimal organization of the staff, where the emphasis is placed on the effectiveness, the flow of information, the right division of competence and the harmonious human relations' [2, p.56]. Actions undertaken within the first sub-region help the employees concentrate on the primary goals and values realized by the territorial units, but above all aim to unify those plans and goals with the individual goals of the employees.

The other sub-region of the internal marketing, also called "the broad understanding of the internal territorial marketing", refers to the relations between a local government unit and the local community and organizations operating within the premises of that local government unit. The local community is of the utmost importance in this segment of marketing. "The aim of marketing activities directed at the local community is to shape its group identity and internal bonds, and stimulating its engagement and participation in managing the municipality, solving its social, political, economic, financial and ecological problems" [3, p.9; 4, p.37].

Actions undertaken within the scope of the external marketing, in the broad sense, are aimed at attracting domestic and foreign investors as potential receivers of locally offered services. The other addressees of this type of marketing include tourists, students, educated employees or residents of other territorial units' [3, p.10–11]. However, local officials are mostly interested in the external investors who can bring money to cities or municipalities. Investors setting up businesses within premises of cities or town, also create job opportunities for local communities thus contributing to decreasing the unemployment. Cities today use a variety of marketing tools to attract new investors, like identifying potential advantages for future investors and presenting offers that are competitive to others coming from other territorial units [4, p.2].

It is necessary to remember that attracting external investors is related to the internal territorial marketing and the mentioned actions aimed at the work of employed office workers. Positive relations between prospective investors and office workers may contribute to forming partner relations based on mutual trust. This may in turn help build a positive image of a city that is investor-friendly and open to new challenges.

From the social point of view each form of partnership, regardless whether it is between natural or legal persons, is of essential importance. The relations between local governments and economic entities and other institutions are particularly significant since their cooperation helps to achieve their individual goals but also improves the city's infrastructure. The cooperation of local authorities and their relations with the business and non-business areas is regulated by the law, but the

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partner relations formed along the way usually give better results. This is why, the idea of partnership defined as a set of harmonized actions should become a part of the development strategies of cities and regions. The main task of a city in a particular region is to create a friendly environment which is conducive to fulfilling the needs of its residents and other interested parties [2, p.59].

Quality of services provided by local government and its support are among the factors, which have an impact on development of SMEs in smaller cities aside of macroeconomic conditions, capital, viability of business idea or personal characteristics of an entrepreneur [1, p.286]. Local authorities should strive to build good relationships with business that is meant administrative support for efficient troubleshooting, provide direct and indirect financial and legal assistance, consultation, training and other forms of support for the development of entrepreneurship in their area [2, p.56]. Many studies have pointed to the poor quality of administrative services of local government. Lack of competence, long delays, and excessive bureaucracy are often noted among the top barriers to the development of SMEs [3, p.9; 5, p.37]. Under the conditions of globalization and significant expansion of the use of technologies by the public sector that increases the efficiency of organizational pressure, the need of implementation of modern management methods in order to improve the quality of public services (including the monitoring) is widely recognized [3, p.10–11]. This task means creating a totally different culture of continuous improvement in public institutions, using management methods being practiced in the private sector [4, p.2]. High quality administrative services for investors contribute to the economic development of an entire region.

The main objective of the research is to identify, analyse and evaluate the quality of services offered by local administration and level of satisfaction of local entrepreneurs and other stakeholders in terms of development prospects for investments.

The principal aim of our study was to evaluate the relations between entrepreneurs and local authorities and to identify the common ground for joint enterprises and expectations arising from them. The study was carried out in Poland in a north-eastern town with a population of 20 thousand. The method used in the study was the online poll based on a questionnaire. The questionnaire was sent to 50 businesses, 46 of them were returned, each fully and correctly filled in. It consisted of questions about identifying features of the respondents, the significance of relations between businesses and local authorities and its evaluation. We also asked who initiates the bilateral relations and what do the businesses expect from the local authorities.

2. Results of study

Besides the factors conditioning the formation and development of MSP in towns like macroeconomic environment, capital, a business idea or possessing entrepreneurial qualities, there are other elements of key importance: the favorable disposition of society and the aid of local authorities. Thus, the local authorities have to endeavor to build good relations with the economic entities, utilize the indirect and direct financial and legal aid, consult, organize workshops or other forms of support for the entrepreneurial development in the region.

Based on the results of the poll, it is clear that the questioned businesses have both, formal and informal relations with the local authorities. But when asked to specify the kind of relations, nearly half of the respondents (47,83%) indicated the formal type of relations. Almost one third of the respondents also have personal contacts with the officials. Over 13% stated that their relations with authorities are mainly connected with the businesses they run. A similar part of the respondents indicated that they take active part in the life of the town. Only a few of the respondents emphasized that they realize joint projects with the authorities or support local enterprises. None of the respondents participates in the promotion of the town or sponsors enterprises organized by the town.

Almost 44% of the respondents declared that they never sought help from the authorities to solve problems in their businesses. Other entrepreneurs turned to the authorities in matters connected with hindered access to their own premises, local taxes, transport of employees or lack of specialists on the local market. The majority of the respondents claimed never to have received any help from the

office workers (Fig. 1).

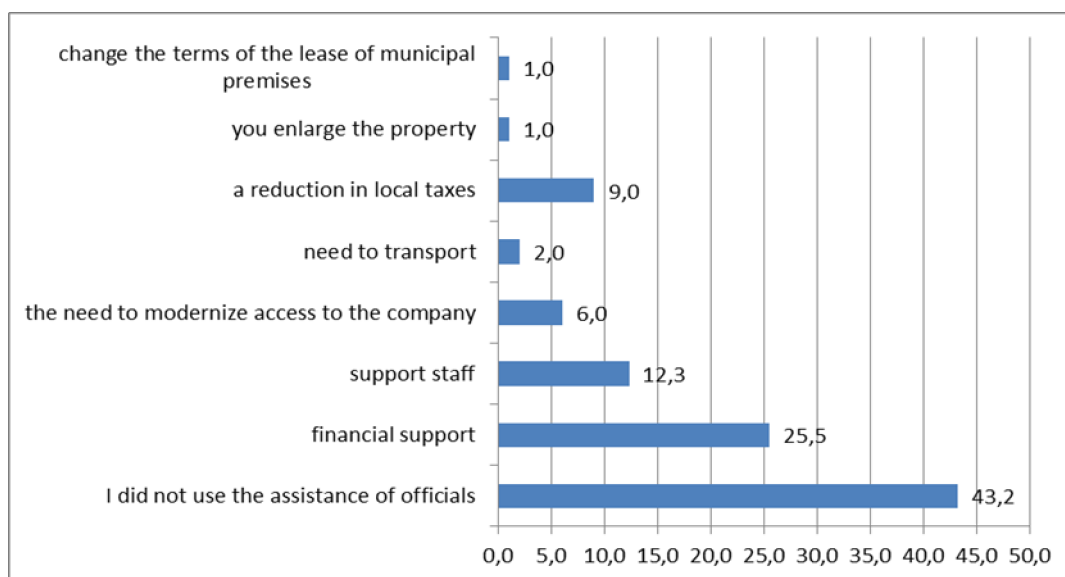


Fig. 1. Problems reported to the Municipality (in %)

Source: own analysis based on research

Many respondents pointed to the fact that the numerous difficulties in contacts with the office workers resulted from the bureaucracy and lack of good will on the part of the office workers (Fig. 2). Among the main difficulties mentioned by the respondents were lack of reliable information (56,52%), indolence of office (21,74%), excessive bureaucracy (13,04%) and lack of good will on the part of the office workers (8,70%).

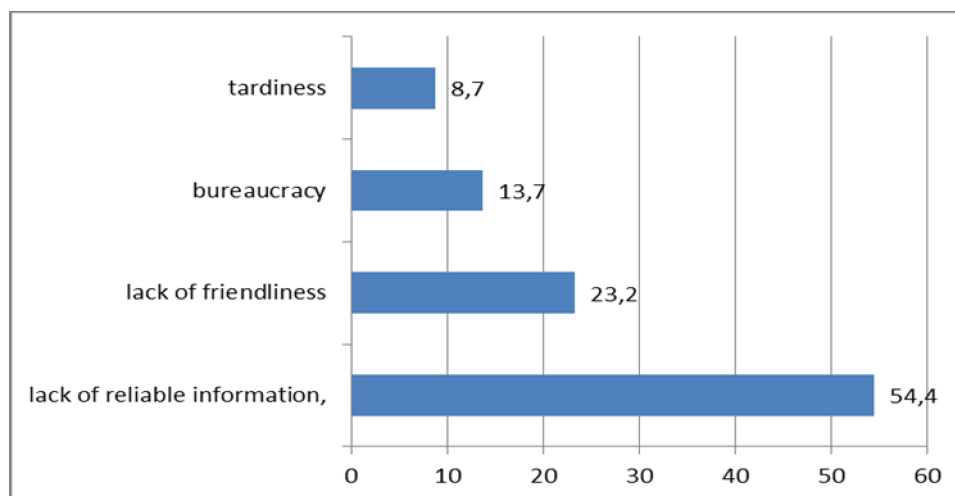


Fig. 2. Difficulties in contacts with the Municipality (in %)

Source: own analysis based on research

The presented problems and difficulties related to the quality of contacts with the municipality and its workers are a real hindrance in building mutual relations and initiating joint ventures. Entrepreneurs often visit the municipality to gain business information and not only to deal with legal matters. 54,35% of the respondents found it difficult to receive from the office workers information necessary to open and run a business. The office workers claimed that they did not possess such information (Fig. 3).

Over 26% of the respondents claimed that they had been refused the help because the office had not been formed for that reason. Only 10,8% of the respondents received necessary information.

An important element in building of a friendly environment for developing local business are office workers in the local government. The quality of customer service in any office depends not only on

the knowledge of its workers but also their disposition and personality characteristics. Over 60% of the respondents claimed that the atmosphere in the local government offices was unfriendly.

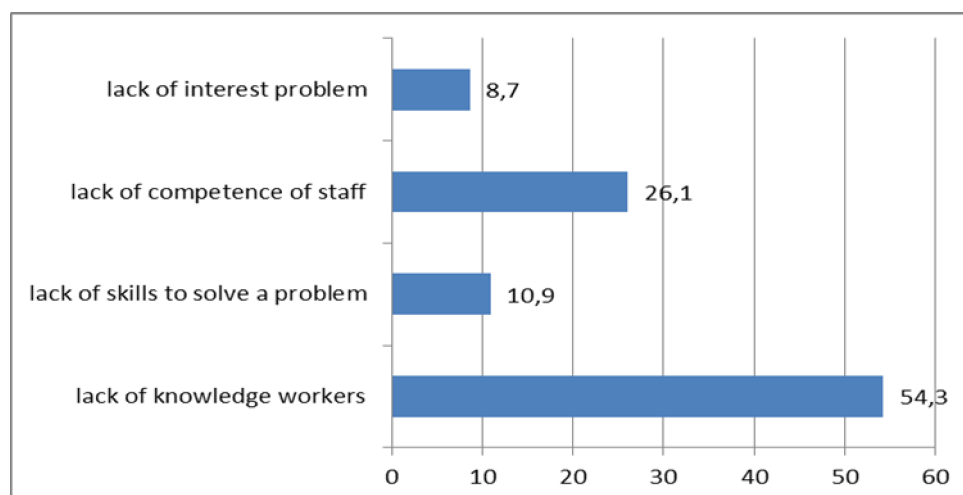


Fig. 3. Behaviours of the office workers on encountering business questions from entrepreneurs (in %)

Source: own analysis based on research

When asked about the office workers' behaviours while dealing with questions from the entrepreneurs taking part in our study, the most common answers were "we were sent from one room to another" (41,3%). 21,74% of the respondents saw a problem in the lack of clear criteria and 36,95% believed that dealing with the problem was taking a lot of time. Over 6% claimed that no-one even tried to help them when they came to the office. Only a little above 15% of the respondents said that the problem they came in with to the municipality offices were dealt with quickly and efficiently. For 17% of the respondents office workers were unfriendly and 15,23% of the respondents thought they were incompetent. Contrary to this group of respondents, 19,56% of the respondents believed that the office workers were well-behaved, 6,52% thought they were competent and 10,87% thought they were helpful. Patience and friendly disposition was indicated by, respectively, 2,17% and 4,35% of the respondents.

The significant element of our study was to find reasons for bad relations between entrepreneurs and local authorities. The respondents gave a number of possibilities, but the collected data do not indicate one essential reason of bad relations. Nearly 30% of the respondents are convinced that the local authorities need them only at the time of elections. 21,74% believe that the lack of clear standards and regulations may be a problem when it comes to office workers' behaviour. Other reasons were lack of trust in local authorities (15,22%), incompetence of the officials (13,04%) or prioritizing friends over regular customers (10,87%). A little over 10% of the respondents believe that the officials only care about their own business. However, none of the respondents was in a situation where some important information for their line of business was intentionally concealed.

Improving the quality of services provided in local government units is to improve service standards, increase the competences of employees and increase trust in the local government.

3. Conclusions

Based on opinions gathered from all the entrepreneurs taking part in our study, the relations between them and local authorities are both formal and informal. However, problems encountered in contacts with the municipality and its workers are a hindrance in building mutual relations and joint ventures. Visits to the municipality do not only arise from the need to deal with legal matters, but also to gather business information. The respondents have generally a negative opinion about the relations with the local authorities. Many of them think that the reasons are a lack of standards, reliable information and willingness to help on the part of the office workers.



Fig. 4. Determinants of improving the quality of public services (in %)

Source: own analysis based on research

Entrepreneurs point to the need of elaboration of procedures for communication and cooperation with SME, especially concerning investments. Assessment of the local authorities officials work regarding SME is far from good. The main problems include: long delays, lack of competence of the officials, absence of standards for handling various issues. Business sees the necessity for continuous bilateral efforts being made for improving the relations in order to build them mutually beneficial. Officials expect honesty and assistance in solving problems. The improvement of the services provided in quality level local government creates opportunities for business development. In this situation it is necessary to improve: the qualifications and skills of employees of the City Hall as well as the creation and development strategy of the region, the development of attractiveness of the region at the expense of more active local business and cooperation with local authorities.

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Summary

The main objective of the research is to identify, analyse and evaluate the quality of services offered by local administration and level of satisfaction of local entrepreneurs and other stakeholders in terms of development prospects for investments. The main problems include: long delays, lack of competence of the officials, absence of standards for handling various issues. Business sees the necessity for continuous bilateral efforts being made for improving the relations in order to build them mutually benefit. Officials expect honesty and assistance in solving problems.

Keywords: local government; local business; cooperation; disruptions in relations.

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