

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

Collective monograph edited by M. Bezpartochnyi

**Management mechanisms and  
development strategies of  
economic entities in conditions  
of institutional transformations  
of the global environment**

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M. Bezpartochnyi**

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ISMA University  
Riga (Latvia) 2019



**Ekonomisko vienību vadības  
mehānismi un attīstības  
stratēģijas globālās vides  
institucionālo pārveidojumu  
kontekstā**

**Kolektīva monogrāfija  
M. Bezpartochnyi zinātniskajā redakcijā**

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Informācijas sistēmu menedžmenta augstskola  
Rīga (Latvija) 2019

**UDK 65.005.339.9**

**Management mechanisms and development strategies of economic entities in conditions of institutional transformations of the global environment: collective monograph / edited by M. Bezpartochnyi / ISMA University. – Riga: “Landmark” SIA, 2019. – 344 p.**

The authors of the book have come to the conclusion that it is necessary to effectively use modern management mechanisms and development strategies of economic entities in order to increase the efficiency of their activities. Basic research focuses on diagnostics threat of bankruptcy, assessment of bioenergy potential, intellectual property, efficiency of corporate governance, use of information support, ensuring competitiveness of banking institutions, functioning of the tax system and its decentralization, assessment of the investment climate and investment risks, functioning of a small business. The research results have been implemented in the different models of cluster structures, mechanisms for monitoring the quality of health care, predicting the convergence of economic development, innovative development models, and development strategies of economic entities in various sectors of the economy in the context of euro integration. The results of the study can be used in decision-making at the level of international business, ministries and departments that regulate the processes development of economic systems, ensuring stability and efficiency. The results can also be used by students and young scientists in modern concepts of the development of economic entities in the context of institutional transformations of the global environment.

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The collective monograph is approved for publication at the meeting of the Scientific Council of the Information Systems Management University of 08<sup>th</sup> January 2019, Minutes No. 1-19.

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**ISSN 978-9984-891-06-4 (print)**

**ISSN 978-9984-891-07-1 (electronic)**

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## INTRODUCTION

Institutional transformations of the global environment are characterized by complex socio-economic processes and management problems. Disruption of production, economic and financial relations with consumers and suppliers, technological backwardness of many industries, unstable financial position of most economic entities provokes a high level of uncertainty and instability of conditions for effective functioning, which creates a real threat to the positions of economic entities in the market. As a result, most economic entities are not able to fully use their resource potential and production capabilities, often reducing their own work to the struggle for survival instead of sustainable functioning.

An analysis the current state of economic entities shows that market conditions have highlighted the challenges of their sustainable development. The problems existing today cannot be solved without the formation of a mechanism and strategies ensuring the sustainable development of economic entities. The mechanism should be based on the sustainability of economic entities, which is ensured through deep transformation processes, raising economic relations to a new stage of development, endowing them with new qualitative content and making them more viable and effective. As a result, there is a need to implement modern strategies for the development of economic entities, taking into account the institutional transformations of the global environment.

The purpose of writing this collective monograph is to substantiate the theoretical-methodological foundations and develop of organizational-economic mechanisms for the development of economic entities in the context of institutional transformations of the global environment.

The object of the author's research is the economic, organizational, social, production, resource, political, regulatory and spatial transformations of the global environment, features and development trends of economic entities, the synthesis of international experience in the field of sustainable development of economic entities in various areas of the national economy and international economic relations.

The subject of the research was various processes development management of economic entities; rationale for the formation of organizational-economic mechanisms to ensure the sustainable development of economic entities; formation of development strategies for economic entities in the context of institutional transformations of the global environment; socio-economic processes; formation of mechanisms for regional decentralization; modernization of educational management and implementation of international law.

## Chapter 1

# THEORETICAL BASES AND MANAGEMENT MECHANISMS OF DEVELOPMENT THE ECONOMIC ENTITIES

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**MODELING OF  
PROCESS OF  
DIAGNOSTICS OF  
THREAT OF  
BANKRUPTCY OF THE  
ENTERPRISE SUBJECT  
OF FOREIGN  
ECONOMIC ACTIVITY**

In modern conditions of housekeeping of the enterprise in the international market carry out the activity under the influence of many negative factors of external and internal environment which can lead to financial crisis and bankruptcy. Crisis management with application of different forms and methods of management of finance is applied to neutralization of the crisis phenomena at the enterprises.

At the organization of business management in the conditions of crisis there is need for the only methodical and theoretical approaches to diagnostics of level of crisis. Conceptual provisions of creation of a system of diagnostics of crisis state are for this purpose investigated, quantitative assessment of financial threats of emergence of crisis is offered, methodical approaches to the analysis of crisis and its results are developed.

Research of problematic issues of crisis management by the enterprise, diagnostics of financial and economic activity were performed by both domestic, and foreign economists scientists, in particular, N. Bryukhovetskaya, I. Blank, N. Dmitriyeva, O. Getman, N. Evdokimova, T. Zagorna, L. Ligonenko, T. Kostenko, L. Krepyk, M. Korotayev, T. Berdnikova, O. Vyborova, L. Kostirko, O. Moroz, A.

Terebukh, O. Gavrish, P. Krush, V. Savchuk, A. Sigayov, Sh. Rapoport, D. Stechenko, A. Shegda.

Ambiguity of theoretical provisions and insufficiency of the corresponding practical developments in the sphere of diagnostics of financial and economic activity of the enterprises indicate the need for a system research of this problem.

Today diagnostics which has pronounced special-purpose character not only creates an information system of support of adoption of management decisions which is based on a complex and systematic research of all parties of financial and economic activity of the enterprise, but also defines ways of influence on financial parameters of its work.

The competitive situation in which the enterprises subjects of foreign economic activity (FEA) of any form of ownership and branch orientation should carry out economic activity is not stable, not predicted and not deprived of influence of adverse external factors.

In the conditions of rapid changes of factors of the external environment are formed essentially new on structure and structure of a control system which are capable to react to external threats and difficulties quickly. An important role is played at the same time by diagnostics of activity of the enterprise. Any sphere or activity can be subject to diagnosing [1].

According to O. Getman and V. Sherstobit, diagnostics of the enterprise is assessment of economic indicators of work of the enterprise on the basis of studying of separate results, incomplete information for the purpose of identification of possible prospects of its development and consequences of adoption of the current management decisions [2].

L. Kostirko defines diagnostics as a complex of researches which are directed to identification of the purposes of functioning of economic entity and ways of their achievement [3, p. 336].

According to R. Rapoport, diagnostics is a research activity which is directed to establishment, the analysis and assessment of problems of increase in system effectiveness of management of the organization and identification of the main directions of their decision. Therefore, diagnostics allows to reveal problems not only in an enterprise management system, but also in any other system [4, p. 127].

Generalizing the given definitions, it is possible to claim that diagnostics is a complex analysis of current state and the prospects of development of the enterprise for the purpose of the solution of problems and use of advantages which arise and are created in the

course of its activity.

Found distribution in special literature also of the concept "economic diagnostics" which purpose is complex assessment of a financial state, business activity of the enterprise for search of ways of improvement of its solvency, identification of changes in a financial state in space and time, definition and forecasting of major factors of influence on a financial condition of the enterprise [5, p. 154]. The main tasks of economic diagnostics are:

- assessment of a condition of an economic system (enterprise) on condition of limited information;
- analysis of efficiency of the mode of functioning and stability of work of the enterprise;
- definition of possible options of economic dynamics, leaving structure of communications between indicators which characterize activity of the enterprise;
- assessment of possible consequences of management decisions.

One of the directions of economic diagnostics is bankruptcy threat diagnostics. For the purpose of this diagnostics in the system of the general financial analysis of the enterprise the special group of subjects to observation which form the possible "crisis field" which creates bankruptcy threat is allocated. The group of objects of the crisis field includes liquidity indicators of assets, structures of the capital, urgency of financial obligations which are used and also indicators of formation of a pure cash flow from operating (production and commercial), investment and financial activities.

Restriction of diagnostics of the crisis phenomena and threat of bankruptcy only is considered a research of the actual financial state of the enterprise inexpedient (by means of monitoring of a system of financial performance). Diagnostics of crisis of development of the enterprise for the contents and the direction is diagnostics of problems which arose in the course of functioning of the enterprise in the international market and can cause negative consequences for its activity (to generate threat of emergence of a situation of bankruptcy and the termination of activity). The main task of diagnostics of threat of bankruptcy is creation of necessary analytical base for development of management decisions of rather these problems.

Therefore, understand the system of the retrospective, operational and perspective target analysis directed to identification of signs of crisis state of the enterprise, assessment of threat of its bankruptcy and/or overcoming crisis as diagnostics of threat of bankruptcy.

Diagnostics of threat of bankruptcy is one of necessary stages of process of crisis management as its results give the chance to determine crisis depth, its scales, reality and the expected time of emergence of a situation of bankruptcy, to prove the actions necessary for its overcoming, to estimate possibilities of the enterprise concerning overcoming crisis and forecasting of consequences of further developments [6].

Diagnostics of threat of bankruptcy of the enterprise as a complex economic research has to have own logic and structure. It is offered to allocate as a part of diagnostic testing certain subsystems (depending on the purpose and methods of implementation of diagnostics), having defined the main tasks and a circle of objects of a research within each system. Being based on this concept in the course of diagnostics of bankruptcy of the enterprise, it is possible to allocate the following stages of its modeling logically (Figure 1.1).

The first stage – creation of information base of a research. The possibility of formation and qualitative signs of information base of a research is an important factor as access to certain sources of information causes completeness and reliability of information, the choice of research receptions, correctness of a diagnostic conclusion. Performing diagnostics demands use of a certain set of information of internal and external character concerning results and the prospects of activity of the enterprise.

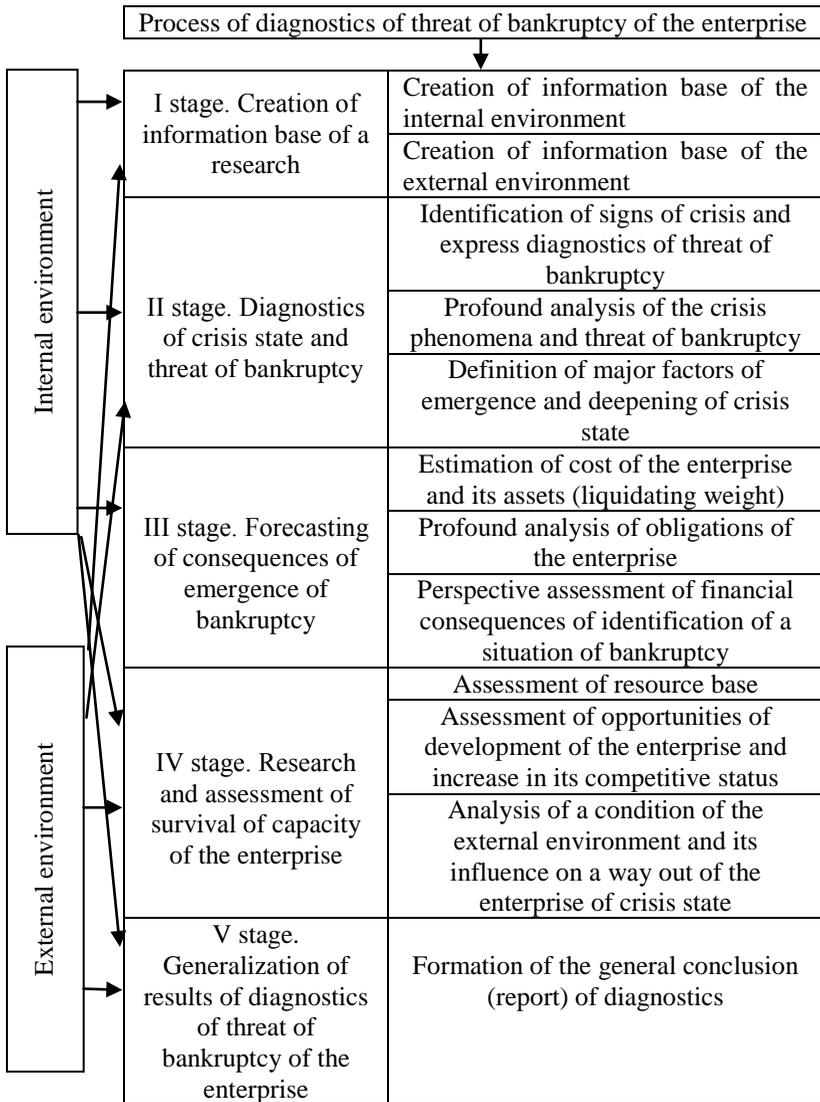
Sources of internal information are financial statements of the enterprise and also primary accounting and operational information of rather financial obligations of the enterprise, his debtors, the available inventory holdings and other liquid values, sources of income generation, structure of operating costs and so forth.

Sources of the external information are publications in the press and specialized editions, tactical reviews, reviews of political and economic news, speeches of representatives of power structures, publications of drafts of acts and forecasts of decisions of the government, macroeconomic statistics expected percent on the credits, rates of inflation and so forth.

The second stage of model is diagnostics of crisis state and threat of bankruptcy of the enterprise.

Determination of depth of crisis state of the enterprise subject of foreign economic activity and level of threat of a situation of bankruptcy is carried out in such sequence: signs of crisis and express diagnostics of threat of bankruptcy of the enterprise are defined. At this stage of work,

on the basis of the public reporting of the enterprise with use of special receptions of the analysis reveal external signs of existence of crisis state.



**Figure 1.1 Bankruptcy threat diagnostics model the enterprises subjects of foreign economic activity**

*Source: developed by authors*

Objects of a research are existence of losses by results of economic and financial activity and their sizes compared with equity; the volume of the loans which are not repaid in a certain time, unpaid percent behind debts; volumes and dynamics doubtful and overdue receivables; volume and causes of excess stocks of tangible current assets; existence of accounts payable for the budget and off-budget foundation; negative dynamics of separate indicators of a financial condition of the enterprise, solvency and financial firmness; duration of an operational cycle and reason of its continuation; quantitative assessment of reliability of bankruptcy of the enterprise which is received in the expert way or as a result of use of special indexes and models [7]. If results of the general financial analysis signal about existence of the negative phenomena and trends in activity of the enterprise, then pass to the following step of work during which the profound analysis of the crisis phenomena is carried out, major factors of emergence and (or) deepening of crisis state of the enterprise are defined. If the situation is defined normal, process of diagnostics of crisis state can be considered finished.

Definition of the list of crisis factors and assessment of the impact of any of them on emergence, deepening of crisis can be carried out by an expert way (on the basis of creation of logical chains of influence of separate economic events) or on the basis of imitating modeling (for quantitative assessment). Ranking of the list of the most negative and positive factors of external and internal environment can become result of this stage of work. Advantage of external crisis factors which cannot be localized at the level of the enterprise increases threat of deepening of crisis and reliability of emergence of a situation of bankruptcy.

Ranking of the list of the most reliable factors of development of the crisis phenomena gives the chance to define the main problems (behind importance degree) which solution will promote overcoming crisis. Positive factors are allocated as potential opportunities of the enterprise which will promote its way out of crisis state.

The third stage of model – forecasting of consequences of emergence of a situation of bankruptcy of the enterprise subject of foreign economic activity. Tasks of this stage are assessment of reliability and possible consequences of deepening of crisis to its last phase – bankruptcy of the enterprise subject of foreign economic activity (Table 1.1).

The situation of bankruptcy is not always favorable to creditors of the enterprise as liquidating weight can not be enough for full

calculation behind all obligations of the enterprise.

*Table 1.1*

**Assessment of consequences of emergence of a situation of bankruptcy of the enterprise subject of foreign economic activity**

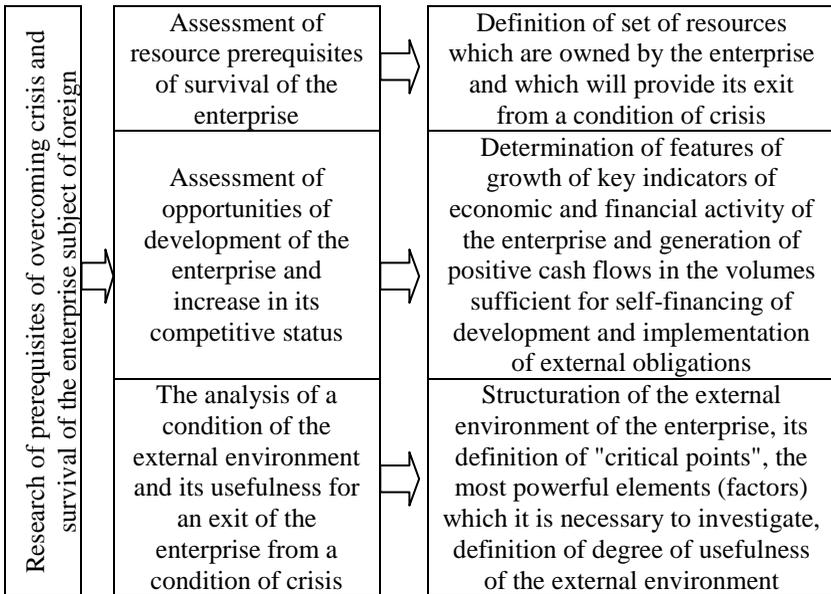
Directions of estimation	Characteristic
Estimation of cost of the enterprise and its assets (liquidating weight)	Quantitative assessment of market and liquidating value of property of the enterprise and forecasting of liquidating weight, that is to the amount of money which can be used for payments according to external obligations. At a research it is necessary to consider features of a subject to estimation (unprofitability, existence of debts, urgency of sale and so forth)
Assessment of obligations of the enterprise	Assessment of actual cost of external obligations, costs of net assets and reliability of emergence of a situation of bankruptcy at the initiative of the creditor
Assessment of financial consequences of emergence of a situation of bankruptcy of the enterprise	Assessment of quantitative parameters of satisfaction of economic interests of creditors (level of obligations and volume of their expenses owing to emergence of problem debts). The consequences of emergence of a situation of bankruptcy are assessed, considering the economic interests of owners of the enterprise. At negative value of net assets they can lose not only the acquired capital, but also contributions to investment fund of the enterprise

The fourth stage of model provides a research and assessment of potential of survival of the enterprise in the international market. This stage broadens the sphere of diagnostics and includes a research of a prerequisite of overcoming crisis and survival of the enterprise in its structure (Figure 1.2).

Forecasting of possible changes of the external environment and market situation is necessary information prerequisite for formation of conclusions concerning the direction of development of crisis. The expected positive changes are a favorable factor for localization of crisis or an independent exit from it. Negative changes will most possibly strengthen crisis which will lead to reduction of time and emergence of need for adoption of the effective decisions directed to overcoming the crisis phenomena [8].

The fifth stage of model is characterized by generalization of results of diagnostics of threat of bankruptcy of the enterprise subject of foreign economic activity. Performing diagnostics comes to the end with

formation of the general conclusion (report) in which results of the carried-out work is covered.



**Figure 1.2 Investigation phases of prerequisites of overcoming crisis and survival of the enterprise subject of foreign economic activity**

The report on diagnostics contains all received results of a research in the systematized look, namely: nature of manifestation of the crisis phenomena and their influence on activity of the enterprise; reliability of emergence of a situation of bankruptcy and its hour parameters (the expected term); extent of crisis and its scales; the reasons and factors which caused emergence of the crisis phenomena; the forecast concerning development of an external environment and a market situation, the nature of its influence on problems and possibilities of the enterprise; existence of prerequisites for survival and overcoming the crisis phenomena due to mobilization of internal resources; possible negative consequences of further development of the crisis phenomena and processes for owners, creditors, employees of the enterprise subject of foreign economic activity.

Thus, improvement and development of new methods of definition of crisis state of the enterprises subjects of foreign economic activity is

one of the perspective directions of researches which requires considerable attention of scientists and creation of theoretical and practical approaches which will allow to define with ease stability of functioning of the enterprise in the international market and to choose future strategy for further growth.

The offered mechanism of process of diagnostics of threat of bankruptcy of the enterprise subject of foreign economic activity gives the chance to accurately structure process of a research, to allocate a task and objects of separate stages of diagnostics, to provide to the management of the enterprise, its owners, investors, creditors objective and full information for adoption of management decisions and justification of the program of necessary crisis response measures.

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**STATE SUPPORT OF  
MANAGEMENT THE  
RESOURCE  
PROVIDING OF  
MACHINE-BUILDING  
COMPLEX OF THE  
UKRAINE**

The development of industry today depends on the goals that determine the choice of activities, nomenclature and range of products, directions of distribution the profits and investments, system of subordinated goals to ensure its achievement. The current state of the national economy of Ukraine and the new economic relations in the country make it possible for industrial enterprises to be independent and, at their own discretion, to form their own potential and manage it. However, at the same time, it put at the head of industrial enterprises some of the most important tasks related to the definition of development priorities, develop of strategic and tactical plans, and the assessment of its own production and economic potential.

The industrial sector of Ukraine's economy – one of the main sectors of the national economy – is central place to the creation of GDP, filling of the state budget and provision to society's needs of goods and services. The statistics of recent years show that the contribution of the Ukrainian industry to gross value added was within the range of 40-42%. This significance and multidimensionality raise the level of attention to it not only investors, entrepreneurs, as well as the state as a regulator of socio-economic development [1].

However, one must take into account that the weakest place of the national economy is the structural imbalance of the industrial complex, its deformity, high level of energy and resource intensity of production.

Today, it is extremely important for Ukraine to be not only a strategic partner for the leading countries of the world, due to attractive territorial location, availability of production resources, agricultural potential, but also to have competitive potential in the leading branches of the national economy, in particular, machine building. These issues need to be worked out in terms of building up in our country the resource potential of the machine-building complex as a system-forming of sector industry.

Today, Ukraine has developed the main priority directions of industrial development, including:

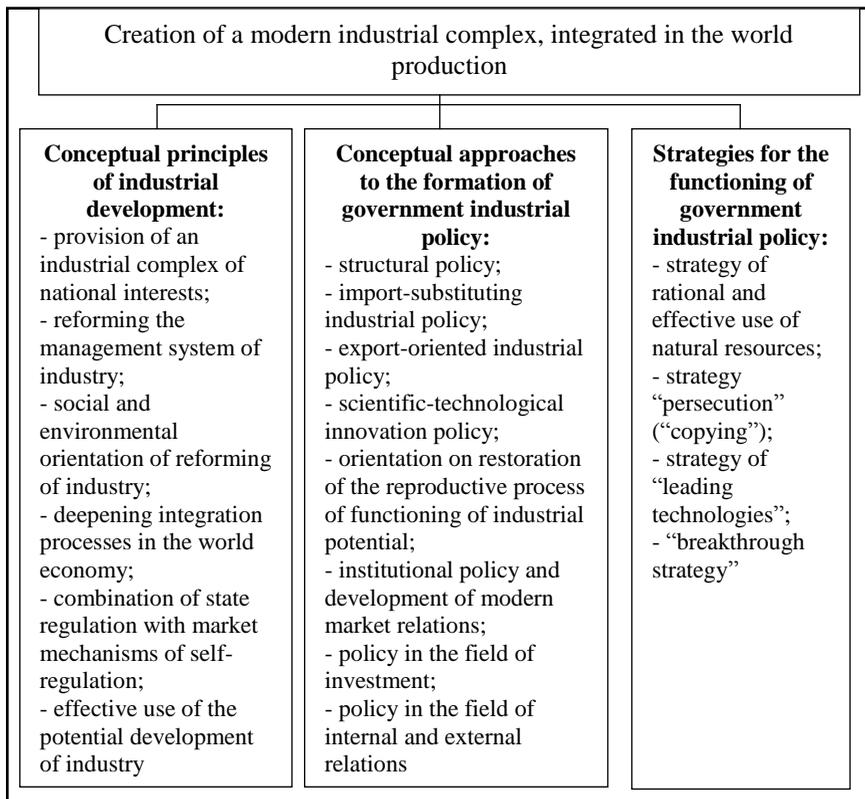
- formation of a full-fledged structure of the management system of industry with the inclusion of her of central and regional authorities;
- structural adjustment of the industrial complex in favor of industries that will provide an increase in the production of modern competitive types of industrial products that meet the requirements of world standards and provide the basis for formation of a progressive structure of exports, in particular, mechanical engineering;
- implementation of an innovative model of development the industrial that includes a combination of scientific-technical and industrial spheres;
- formation full of competitive environment and creation of equal conditions for entrepreneurship.

The main purpose of formation the industrial policy is to create a modern, integrated in the world production capable of self-development of the industrial complex, which corresponds to similar formations of developed countries of the world [2]. In accordance with this purpose, we grouped conceptual approaches to formation of government industrial policy (Figure 1.3).

Let's try to find out how are distributed at the state level the functions and actions of the administrative system of industrial policy (Table 1.2).

In our opinion, the role of legislative authorities is particularly significant for implementation of modern industrial policy of the Ukraine. In this regard, it is necessary to consider the regulatory framework for resource provision of industry, in particular, the machine-building complex of the national economy of the Ukraine.

In modern conditions, the state management should be directed towards on macroeconomic stabilization of the national economy, support of economic development of the industrial complex and effective use of industrial-resource potential of industrial enterprises.



**Figure 1.3 Conceptual approaches to the formation of government industrial policy**

*Source: developed by authors on the basis of [3]*

Issues that the state authorities are facing in relation to government support and state regulation of the resource providing of the machine-building complex of the national economy are extremely important in view of the fact that today it is necessary to find new modern forms of organization of state regulation and management of industrial complexes and systems that would promote development industry of the Ukraine.

In general, state regulation of the economy – a set of measures of state influence on objects and processes with a purpose to a certain direction of economic activity of the entities national economy, coordination of their interests and actions for the realization of social goals [4].

Table 1.2

**Functions and actions of the management system of industrial policy Ukraine at the state level**

<b>Public authorities</b>	<b>Functions</b>	<b>Actions</b>
Executive bodies	- regulatory-managerial; - watchful	- methodical support; - instructions for execution; - coordination of actions; - control
Legislative authorities	- legislative-regulatory; - regulatory	- development and approval of laws, resolutions at the highest level; - realization of legal norms

In order to achieve this, the whole state should have the means that it can use to carry out regulatory activities and regulatory implementation methods, that is, the various factors through which targeted the regulation object. In addition, the state should have a regulatory apparatus, that is, a system of certain entities that are part of the structure of state power and perform regulatory functions.

The industries of the machine-building complex produce a wide variety of products, without which now can manage practically no area of the economic complex. They provide their technical, complex mechanization and automation. Therefore, the level of development of the machine-building complex largely determines the economic and industrial development of the country as a whole [5].

Considering the machine-building complex of the national economy, as an object of state regulation, one must focus on the existing problems that exist today: imperfect economic relations, imperfect regulatory-legal framework for the management of organizational and resource providing of enterprises, the conditions of competition among enterprises of the machine-building complex, existing limited development foreign economic relations and many others.

The subjects of state administration and regulation of the resource providing of the machine-building complex of the Ukraine are the state authorities that are carriers and performers of state interests in the development of the machine-building complex of the national economy of the Ukraine.

The purposes of state regulation of resource providing of the machine-building complex of the Ukraine can be attributed:

1. Stimulation of development enterprises of the machine-building complex.

2. Support well competition.
3. Support to the balance of production in the industry.
4. Support and stimulation of development own and import of innovative technologies.
5. Stimulate the growth of skilled workers in the industry.

With regard to the methods of state regulation the resource providing of the machine-building complex of the national economy, they can be grouped as follows: administrative; economic; legislative information-orientation.

The main administrative methods include: control over pricing in the products of the industry, control over lending to enterprises of the machine-building complex; control over the signing of contracts between the state and enterprises; control of international relations.

Economic methods should include: the impact on the demand and supply of machine-building products in the domestic and foreign markets; influence on the formation of all kinds of production resources; the impact on taxation of enterprises of the machine-building complex; customs regulation; regulation of electricity tariffs [6].

Legislative methods of state regulation of resource providing of the machine-building complex of the national economy should provide the legal basis for economic entities (machine-building enterprises), which include: protection of property rights of economic entities; antitrust laws; laws in the field of trade policy; certification of products; licensing of goods and types of production; organization of state supervision and control over the quality of machine-building products.

Information-orientation methods are methods that are aimed at providing industrial enterprises of commercial information, which enables them to choose the best ways to implement current and future tasks. The main types of such information are: conjuncture information about assortment, quality and prices on the industrial products; statistical information, which provides an opportunity to obtain generalized assessments of the state of the national market of machine-building products; prognostic information – which is necessary for drawing up a plan of action on a strategic basis and current programs development of enterprises; information for the average industry performance of activity enterprises of the machine-building complex.

Government support of management the resource providing of machine-building complex of the Ukraine is carried out subject to in the state availability of appropriate resources. They include: the share of state property in industry, in particular in machine building; state

finance; legislative law; collection and processing of relevant economic-financial information.

Achievement of purposes the government support of management the resource providing of machine-building complex of the Ukraine is carried out at the expense of state intervention in issues related to the elimination of disparities and contradictions between participants market of the industry and ensuring their sustainable development.

According to estimates, current legislation on resource providing includes many basic legislative documents. Basically, they are talking about the rights and obligations of economic entities [7], the promotion of the implementation of state policy in the priority directions of development of the state, certain sectors of the economy [8], the introduction of a model of sustainable economic growth of domestic enterprises by improving the structure their fixed capital and intensive investment in high-tech production [9] and many others.

But there is no clear legal mechanism of state regulation of resource providing of the industrial complex of the national economy of the Ukraine.

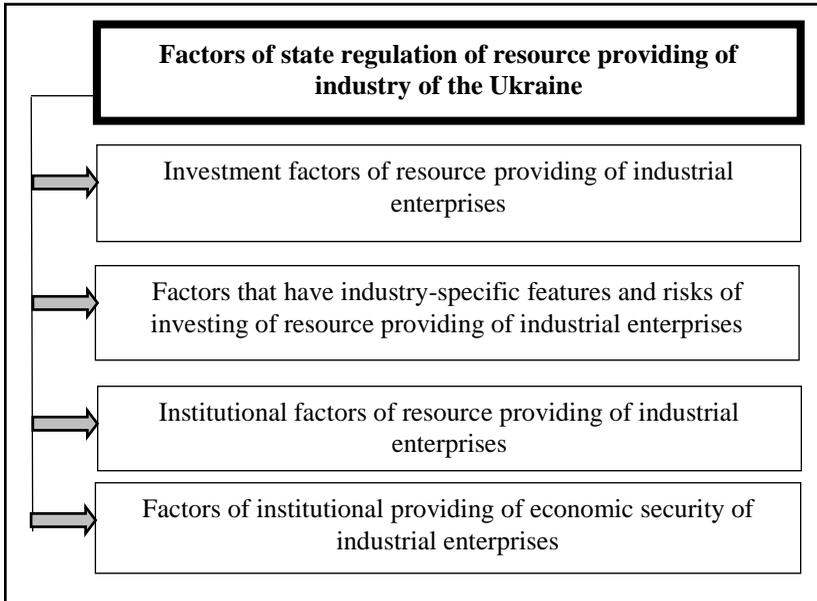
The ways of solving problems can be: improvement of the regulatory-laws framework for the providing development of the industrial complex of the national economy of the Ukraine; the need systematic and consistent implementation of the functional principles of state management of resource providing of industrial enterprises and complexes; the organic inclusion of all the individual elements of the predicted mechanism into a single system.

On the basis of the analysis of the current state and peculiarities of the use of regulatory-laws framework concerning the resource providing of the industry, the authors systematized the factors that should be taken into account in the complex of measures of normative-legal providing and state regulation of resource providing of the machine-building complex of the Ukraine (Figure 1.4).

When it comes to machine building, it becomes obvious that manage the resource providing of enterprises mechanical engineering must be developed the management concept, which should consist of: preconditions, strategy, foundation, goal, directions, methods and mechanisms (Figure 1.5).

Particular attention should be paid to the functions of management of resource providing of the machine-building complex:

- 1) formation of effective information systems;



**Figure 1.4 The main factors of state regulation of resource providing of industry of the Ukraine**

*Source: developed by authors on the basis of [10]*

2) analysis of the state of resource providing at the level of enterprises and industry;

3) planning measures to eliminate disadvantages regarding the level of resource providing of machine-building enterprises;

4) development and implementation of an effective system of stimulating the implementation of the decisions taken;

5) coordination of the implementation of decisions;

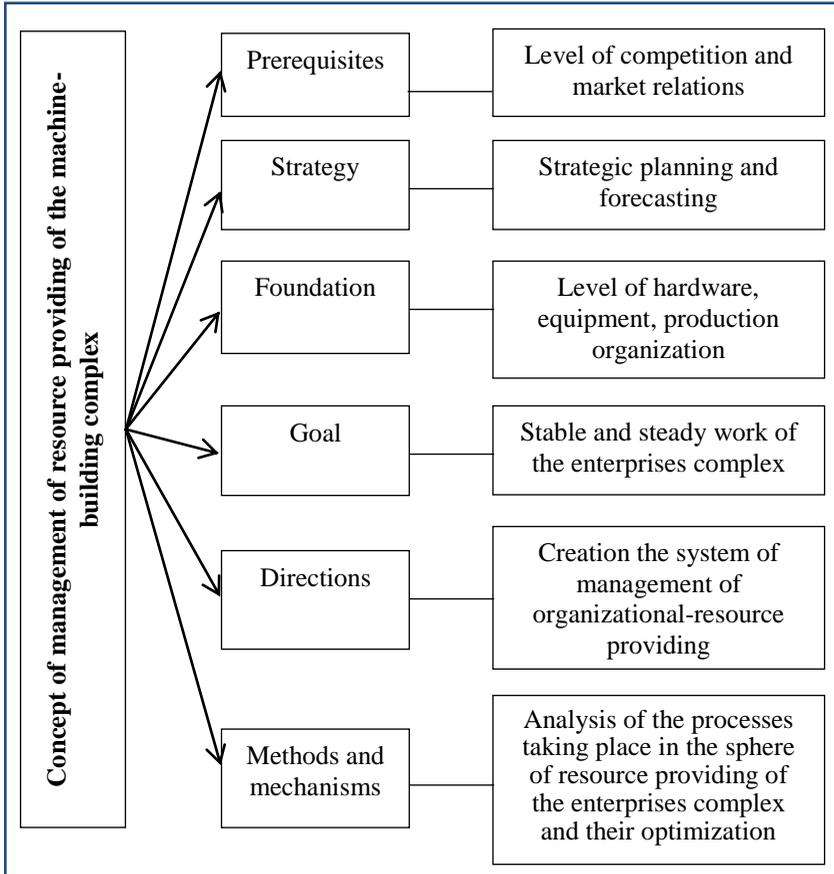
6) control over the implementation of decisions.

An important issue is the management of the industrial infrastructure of the machine-building complex, due to its inefficient use.

Further development of the machine-building complex of the Ukraine envisages:

✓ recognition of priority development of the machine-building complex on the basis of world, European and national technologies, development on the basis of technological and economic self-sufficiency, which involves the development and implementation of strategy national policy in the field of mechanical engineering;

✓ improvement of the industry structure of mechanical engineering, expansion of assortment of its products at the expense of production of social complex (consumer goods) at the level of modern quality and competitiveness requirements.



**Figure 1.5 Conceptual scheme of management resource providing of the machine-building complex**

*Source: developed by the authors*

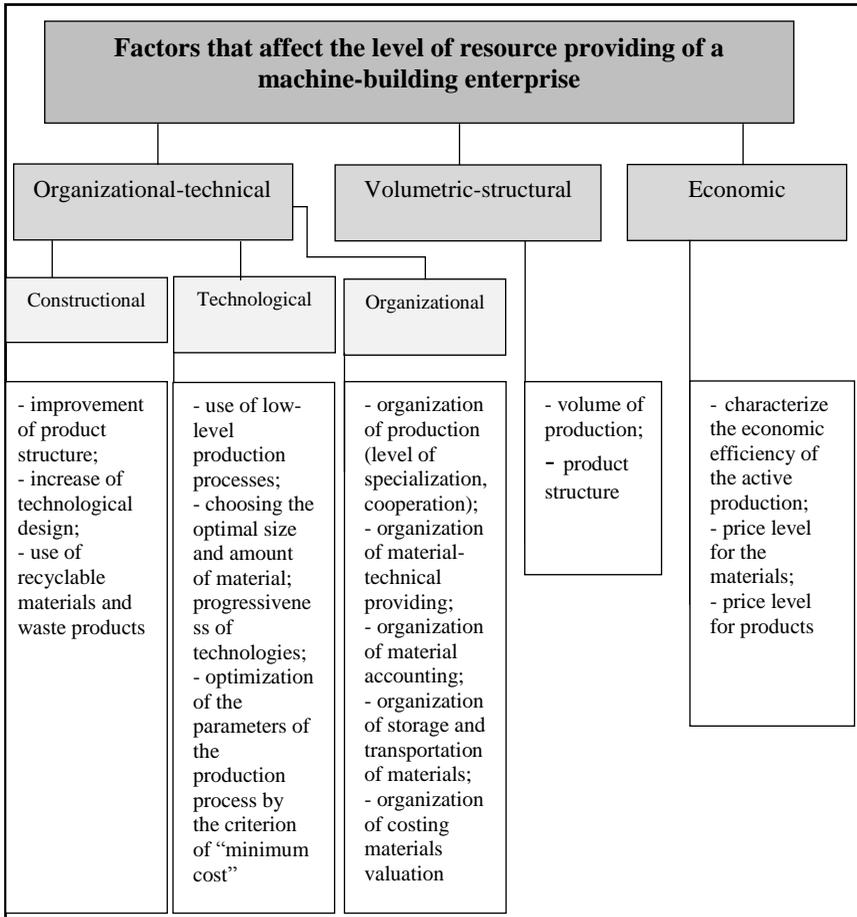
To increase the efficiency of the resource providing of the machine-building complex it is necessary:

- 1) create a new structure of resource management;
- 2) increase the accuracy of forecasting regarding the amount of resources required;
- 3) create an alternative to using resources;

4) more closely identify the shortcomings in the economic activities of economic entities, which affect the resource cost of production processes;

5) improve the accuracy of the definition of goals in the development of various strategies for the effective use of resources.

On the level of resource providing is influenced by a number of factors that can be divided into organizational-technical, volumetric-structural and economic (Figure 1.6).



**Figure 1.6 Factors that affect the level of resource providing of a machine-building enterprise**

*Source: developed by the authors*

The authors conclude that the tasks to ensure effective government support of management the resource providing of the machine-building complex of the Ukraine should be:

- ✓ creation of an effective system of the corresponding state regulation bodies on issues of resource providing of industrial enterprises, in particular, engineering based on the best international experience and compliance with international standards;
- ✓ develop of a model resource providing of the machine-building complex, which incorporates state influence on the development of the sector in terms of efficient use of resources;
- ✓ distribution of functions management and responsibilities for managerial decisions in the field of resource providing of machine-building enterprises;
- ✓ creation of an effective information system, which will provide the opportunity to quickly adopt and implement management decisions on resource providing in the machine-building complex of the Ukraine;
- ✓ improvement of the structural adjustment of the Ministry of Industrial Policy of Ukraine through reformation and coordination in the field of resource providing and resource conservation;
- ✓ formation of an appropriate personnel policy in the field that would correspond to the current realities and conditions of European integration.

In order to achieve the set tasks, it is necessary to combine and harmonize the interests of the state and economic entities with the help of certain regulatory methods, the combination of which will solve the problem of resource providing of the machine-building complex of the Ukraine, including:

1. Develop and implementation of the model resource providing of the machine-building complex of the Ukraine.
2. Development of forms of communication “science – production”.
3. Implementation of modern forms of economic relations [11].
4. Develop of normative documentation on resource providing of machine-building enterprises.
5. Development of the domestic market and integration into the world market.

The decision of the issues of increasing the efficiency of the resource providing of the machine-building complex of the national economy is hampered by a number of serious problems of domestic business, the main of which are:

- ✓ sharp fluctuations of the national currency rate;

- ✓ instability of the political system;
- ✓ high prices for energy resources, raw materials and materials;
- ✓ limited access to obtaining a loan (due to excessively high interest rates and tough loan conditions);
- ✓ instability of tax legislation, increase of tax pressure;
- ✓ narrowing the volume of the consumer market as a result of falling real incomes people;
- ✓ high level of corruption, raids and lack of protection of property rights, increase of the general level of criminogenicity in the country.

The main directions of increasing the effectiveness of government support of management the resource providing of the machine-building complex of the Ukraine, according to the authors, are made up of organizational and economic ones. The organizational directions should include:

- ✓ development of the industrial infrastructure of the machine-building complex;
- ✓ control over price policy resource maintenance;
- ✓ restructuring of the machine-building complex of the national economy;
- ✓ creation of financial-industrial groups;
- ✓ improving the efficiency of public administration and regulation of the formation and development of enterprises-leaders;
- ✓ expansion of domestic and foreign markets;
- ✓ technological re-equipment of enterprises;
- ✓ introduction of specialized information systems;
- ✓ coordination of managerial processes;
- ✓ development of marketing research.

The economic directions include:

- ✓ improvement of the tax system;
- ✓ direct state investment and support of other sources of financing for the development of production capacities of enterprises of the machine-building complex;
- ✓ realization of state economic programs of support of economic entities of the machine-building complex of the Ukraine;
- ✓ professional staffing;
- ✓ foreign economic preferences;
- ✓ development of the financial services market;
- ✓ reduction of budget deficit.

Solving the problems of government support the resource management should be based on the legislative separation of powers and

responsibilities between public authorities. For state regulation of resource providing of industry, in particular, machine building, the authors proposed the creation of an appropriate commission on resource providing, which should be formed from leading specialists in this field.

The main tasks of this commission should be:

- ✓ organizational support of initiatives and processes for introducing changes to the legislation of Ukraine aimed at the development of the machine-building complex in terms of resource efficiency and cost-effectiveness of production processes;

- ✓ assessment of the activity on improvement of organizational-resource support of machine-building enterprises and increase of their competitiveness taking into account economic and political conditions that constantly changing;

- ✓ assistance in overcoming administrative barriers in the organization and development of resource conservation in the industry;

- ✓ provision of communications and interaction of the entities of the machine-building complex with departments and government bodies from issues of the resource providing.

Therefore, summarizing the foregoing, it should be noted that the formation the resource providing of the industrial enterprises and sectors of the national economy of the Ukraine is a complicated multifaceted economic phenomenon, which is systemic and complex character. Therefore, the study and analysis of this process should be carried out at all levels of management of the country's industries, covering a wide range of problems of production and management character.

The significance and impact of resource providing on the efficiency activity of industrial enterprises is determined by the role it plays to achieve the purposes enterprise. A prerequisite for the development of domestic industrial enterprises is the choice of optimal structure of resource providing for effective work in the conditions of dynamic changes occurring in the external environment.

Thus, one of the main tasks facing the state in supporting of management the resource providing of the machine-building complex of the national economy of the Ukraine is the development and implementation of measures for state regulation of the efficient use of all available resources, ensuring the expanded reproduction in the production sphere, stable growth of production of high-quality products and organization of high-ecological production of machine-building products. It is proved that the resolution of urgent issues concerning the state regulation of resource providing of machine building should be

based on the legislative separation of powers and responsibilities between state authorities.

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**FORECAST OF  
CONVERGENCE  
OF ECONOMIC  
DEVELOPMENT  
OF UKRAINE TO  
THE EU**

International economic integration involves the harmonization of all components of the country's economic system in accordance with accepted standards in the European or world community. In accordance with the international trade theory of economic integration, the trade relations of Ukraine with the European Economic Community, including the convergence of macroeconomic policy parameters (inflation, budget deficit), levels of income per capita, etc., are included (Fisher, S., Sahay, R., and C. A. Vegh, 1998).

The physical distance is measured in kilometers from the capital of the corresponding country to Brussels, the economic distance is the set of indicators: the difference in per capita income levels, the average annual inflation, the percentage of the budget deficit to GDP and the index of economic liberalization, the time distance – as the number of years will need the CEE country in order to reach the middle level of the EU-15 with relatively low incomes (Greece, Spain, Portugal) (Martin Wagner, Jaroslava Hlouskova, 2004).

Convergence of Ukraine with the European Union is still only at the first level, the level of preferential trade agreements, which stipulate the establishment of lower trade barriers in relations between the parties compared with third countries and the most favorable trade relations. Preparatory work of the parties is being carried out in the direction of approaching Ukraine to the second stage of economic integration – a free trade zone (in the form of associate membership).

The higher levels of economic integration include the customs union, the common market and, finally, the economic union, which is a benchmark for Ukraine in the near future. In studies studying regional integration, the following effects of convergence into economic unification are singled out:

- trade effects: reduction of economic distance due to elimination

of trade restrictions, development of trade infrastructure and harmonization of quality standards;

- the effects of the common market: improving production, increasing productivity and price competition;
- the movement of factors of production: the growth of volumes of attracted foreign direct investment, labor migration into the European Union;
- losses from integration: reduction of tariff revenues to the state budget, increase of prices (Baldwin R. E., Joseph F. Francois, and Richard Portes, 1997).

Convergence was one basic objective behind the initial European Community construction and has motivated closer and closer cooperation and integration. Daniel Vaughan-Whitehead and Rosalia Vazquez-Alvarez the founders of the EC had planned that common economic interests towards economic integration would drive more convergence in terms of living standards and then also in terms of welfare states and social policies. Jean Monnet, in his address at the signing of the Treaty establishing the European Coal and Steel Community (ECSC) on 19 March 1951, already emphasised: The pooling of the production of coal and steel through the creation of a single market of 150 million consumers covering the territory of the six countries, in which all producers will have free and equal access to markets and all consumers a free and equal access to supplies will stimulate technical progress, the increase of productivity and the improvement of the standards of living.<sup>1</sup> One of the aims of the Treaty of Rome in 1957 was precisely to reduce ‘the differences existing between the various regions and the backwardness of the less favoured regions’ and to promote ‘harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it’ (Article 3). ‘Convergence’ was then complemented by the term ‘cohesion’ (economic, social and regional), which acquired a treaty basis in the 1986 Single European Act, and refers to the EU’s ambition to reduce the gaps in development and wealth through a catching-up process and faster rates of growth for countries and regions at lower levels of development. It is important, however, to highlight that such a convergence process at EU level was never seen as one that would tend towards parity. Even the Maastricht nominal convergence criteria, which put the concept of convergence at the core of the EU’s and national member states’ policy agenda, and

applied it to macroeconomic indicators, did not require convergence to a single point, but rather towards a range with upper and lower bounds, which would accommodate differences among member states.

Convergence in wealth and living standards represents one major objective of the European Community construction, as recently evidenced by the objectives of the European Pillar of Social Rights (EC 2017a, 2017b). The aim of this volume is to provide insights into economic and social convergence trends in the EU and to better identify the possible contributions of industrial relations to such trends. While the literature on convergence to date has focused mainly on ‘economic convergence’ – and notably by means of comparing GDP per capita between countries over time – the contributors to this volume look at the convergence of European Union countries (EU28) on a greater number of socio-economic dimensions, as evidenced in each of the independent chapters that comprise the volume. Besides the contribution of each individual chapter, the aim of this first chapter is to better understand the importance of convergence as one major objective of EU construction and the place it is currently taking in the EC policy agenda (Section 2).

The main inputs from the national chapters, which reconstitute their country’s ‘national story’ in terms of convergence, and provide some evidence of the impact of industrial relations on convergence (Section 3). The experts in their different chapters offer statistical analyses and, when data are sparse, illustrate their national ‘convergence story’ with a number of in-depth case studies, including a number of crosscountry studies. This introduction does not aim at summarising convergence among the country studies but rather to provide some analysis of how industrial relations may have helped to explain country trends in terms of convergence in labour and social indicators. We then try to present some trends in social and economic convergence among the EU28 through a series of social and labour indicators, taking as a basis the European Pillar of Social Rights (Section 4).

The selection of indicators was decided by the experts’ group who in their national chapters in the volume further illustrate national differences in socio-economic dynamics across Europe. This EU28 comparative analysis is conducted with the aim of identifying trends and convergence among member states, and then of understanding such trends in relation to changes in industrial relations. This leads to discuss a number of policy issues in the conclusion (Section 5), which are further explored in the national chapters in light of particular domestic contexts.

Agreed in Maastricht by the EU Member States in 1991 as part of the preparations for introduction of the euro, the convergence criteria are formally defined as a set of macroeconomic indicators which measure:

- Price stability, to show inflation is controlled;
- Soundness and sustainability of public finances, through limits on government borrowing and national debt to avoid excessive deficit;
- Exchange-rate stability, through participation in the Exchange Rate Mechanism (ERM II) for at least two years without strong deviations from the ERM II central rate;
- Long-term interest rates, to assess the durability of the convergence achieved by fulfilling the other criteria.

The exchange-rate stability criterion is chosen to demonstrate that a Member State can manage its economy without recourse to excessive currency fluctuations, which mimics the conditions when the Member State joins the euro area and its control of monetary policy passes to the European Central Bank (ECB). It also provides an indication of the appropriate conversion rate that should be applied when the Member State qualifies and its currency is irrevocably fixed.

*Table 1.3*

**The five convergence criteria in EU**

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

According to the Treaty, at least once every two years, or at the request of a Member State with derogation, the Commission and the European Central Bank assess the progress made by the euro-area candidate countries and publish their conclusions in respective

convergence reports.

In general, after independence, several revolutions and the fifth presidential election, Ukraine, unlike Poland, Slovakia, Estonia and other countries, did not enter the path of successful development, and after a period of economic decline it became stagnant. National income per capita in Ukraine has fallen to 2.3 thousand dollars (for comparison, in Poland – 12,7 thousand dollars, in Slovakia – 16,8 thousand dollars, in Estonia – 17,8 thousand dollars) and took an intermediate position between Morocco (2,9 thousand dollars) and Honduras (2,2 thousand dollars).

*Table 1.4*

**Data for convergence criteria for Ukraine on 2018 year**

Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
113,7	1,41	71,8	8,4	27,8

Therefore real convergence – within and outside the Eurozone – remains a determinant factor shaping the economic policy strategy for most in the medium term. For the purpose of forecast the nearest perspectives of full convergence of Ukraine to EU we analyzed the statistic data. As all economic processes are inert, so with the high level of reliability we can extrapolate the dynamic of the main macro economic indicators statistical methods are used to get trends.

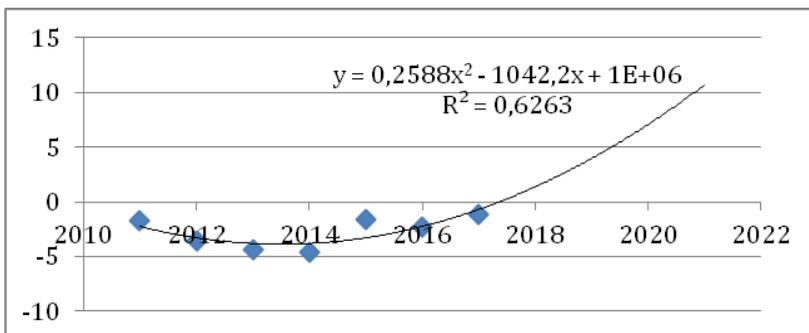
The accuracy of approximation with the hypothesis was applied to all five convergence criteria for Ukraine. The method of polynomial statistical dependence was used, the hypothesis about the form of dependence of macroeconomic indicators.

The magnitude of the accuracy of the approximation is actual high – up than 0.6, so the trend line reliably displays the original data and takes them into account when building the approximation.

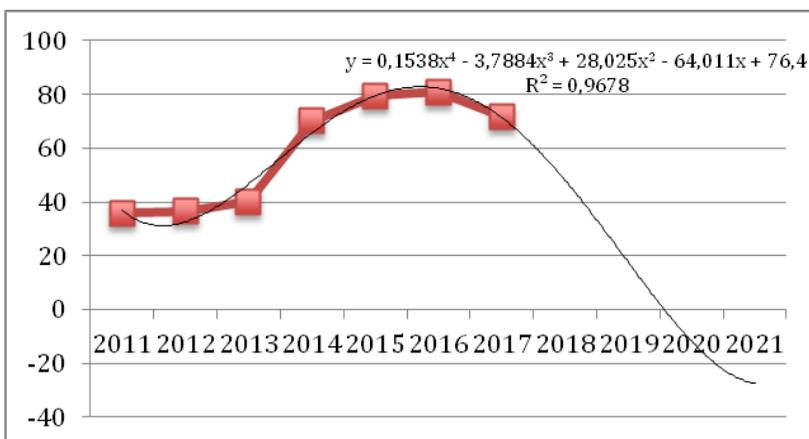
The reference indicator value “government deficit as % of GDP” is 3%, the trend for this indicator for Ukraine is not positive in frame of macroeconomic and political situation in the country.

The reference indicator value “government debt as % of GDP” is 60%, the trend for this indicator for Ukraine is positive in frame of macroeconomic and political situation in the country.

Long-term interest rate shows a tendency to increase (Figure 1.9) and under conditions of preservation of existing economic trends is unlikely to decline in the near future.



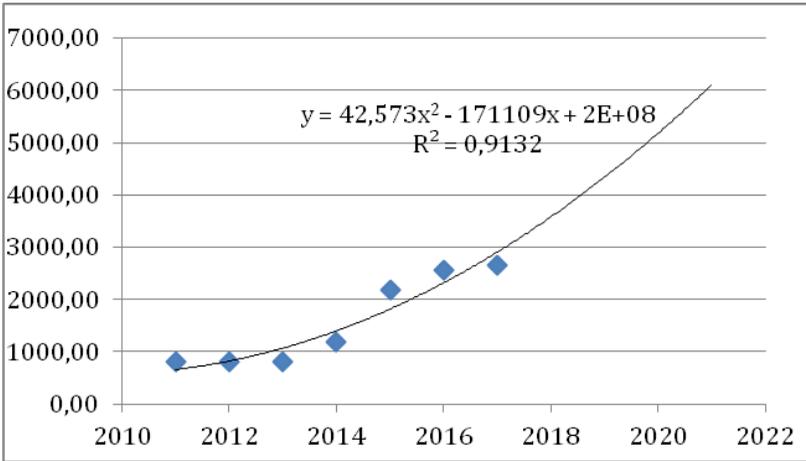
**Figure 1.7 Government deficit as % of GDP**



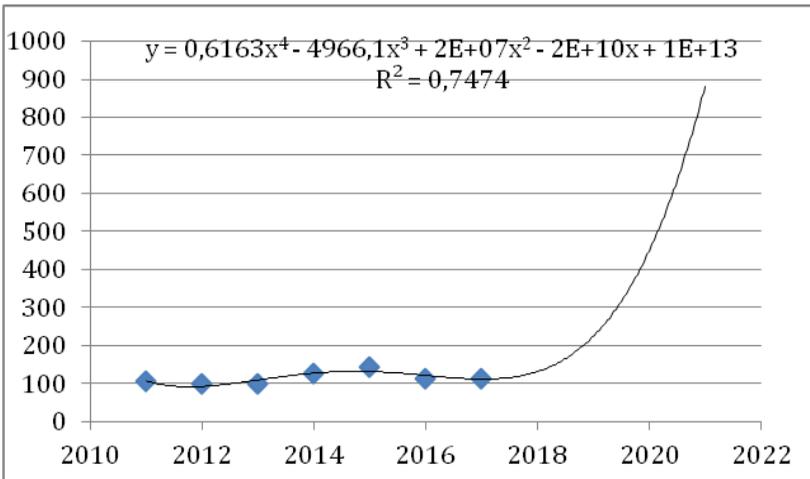
**Figure 1.8 Government debt as % of GDP**

The trend of raising interest rates is closely correlated with the forecast of inflation and the gradual increase in the level of consumer prices (Figure 1.10) in Ukraine by the period up to 2021.

The exchange rate of the hryvna against the US dollar is unstable, the NBU is taking steps to stabilize the national currency rate (Figure 1.11). For the period 2015 – September 2017 course exchange rate of the hryvna was characterized by high volatility. Hryvna against the dollar cheaper almost four times. So way, the national currency policy the bank of Ukraine should be directed to development and implementation of a complex of events on the return of trust in the national currency, currency market liberalization and extension of floating exchange rate regime.



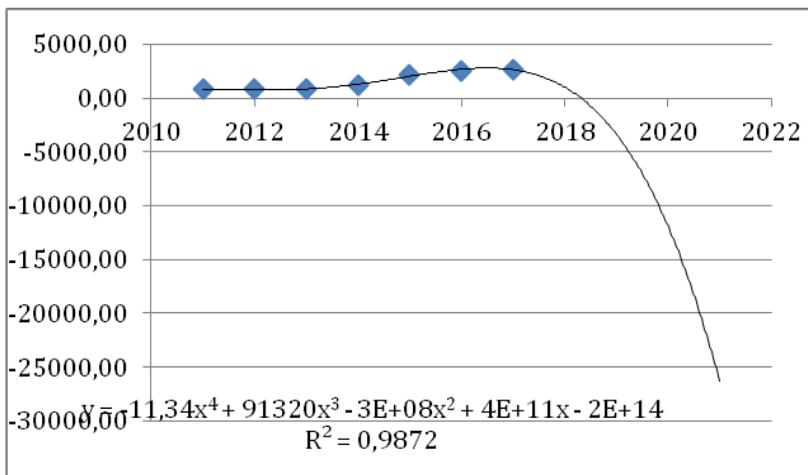
**Figure 1.9 Long-term interest rate**



**Figure 1.10 Consumer price inflation rate**

To do this, the National Bank of Ukraine with the support of the European Commission within the framework of the project EU-FINSTAR is preparing a new one currency legislation in order to liberalize it.

It is in the direction of road research maps of future changes are seen by the author's prospects for their further research.



**Figure 1.11 Deviation from a central rate**

So, the construction of trends for all the five convergence criteria in EU for the Ukraine gives grounds to conclude that the prospects of full convergence of Ukraine to the countries of the European Union are not a matter of the near future.

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**THE ROLE OF  
GOVERNMENT  
SUPPORT IN THE  
EFFICIENT  
DEVELOPMENT  
OF THE  
AGRICULTURAL  
SECTOR**

As in the economic systems of most countries in the world with a developed market economy, the agro-industrial sector is primary at Ukraine's present stage of economic development. The industrial base of the agro-industrial sphere relies on an extensive infrastructure network and a system of research and support for its development.

Priority development of the agro-industrial sector of Ukraine and its leading industries provides the population with food products, industry with raw materials, and foreign trade with export goods [4].

With the strengthening of globalization processes in the development of the national economy, there is a further prioritization of economic enrichment and subordination of the country to international tendencies, which causes an increase in the polarization of incomes and a decrease in the role of the state as a regulator of socio-economic relations.

The negative results of such phenomena primarily affect the agrarian sector, and therefore its state support in the unified world economy has a stabilizing and stimulating role in ensuring sustainable development of rural areas [2].

Support for the agrarian sector is usually carried out at the expense of budget funds. Therefore the strategic tasks of public administration should be their rational use by introducing effective mechanisms and tools for supporting and monitoring their effectiveness.

In the context of globalization and the periodic emergence of global financial crises, the possibilities of non-financial instruments for attracting foreign investments, one of which is state branding, are growing. The brand allows the country to enter a new economic level, and improve it

several times at the expense of branded goods and services [7].

The works of domestic scientists are dedicated to the study of theoretical and methodological principles of state regulation of the economy in providing favorable conditions for the development of the agrarian sector, among whose are: M. Gadzala [4], P. Sabluk [4], I. Yurchenko [5], and others.

The subject of the features of the development of the state policy of supporting the agrarian sector in the conditions of globalization was studied by Y. Lupenko [5], O. Shpiculyak [7], O. Grishchenko [6], and others.

In recent years, the level of state support of the agrarian sector of Ukraine has undergone some changes. Thus, the volume of direct state support and the abolition of the preferential VAT regime (as of 01.01.2017), which occupied a significant share in the total amount of state support, significantly decreased.

Worldwide data shows that state support for agriculture in OECD countries, as a percentage of gross revenues in Ukraine, is 8% (the last in the ranking of the countries), while the world average is 17%. It is worth noting the countries, in which the level of state support is very high, which provides significant opportunities for agricultural development: Norway (58%), Switzerland (57%), South Korea (51%). The manufacturer's average protection level in OECD countries is 1.1. Ukraine has only 0.87, and this is the last place in the ratings (21 out of 21). Leading countries for this indicator are: Ireland – 1.97, Japan – 1.82, Norway – 1.78.

As of the end of 2017, the total amount of state support for agriculture amounted to UAH 4774.3 million. (Table 1.5), including UAH 1473.0 million from the general fund, and UAH 3301.3 million from the special fund.

In 2018, compared with 2017, from the State Budget of Ukraine, funding for cheapening loans has decreased by about 78%, as well as a significant reduction in financial support in the agro-industrial complex is for 92% and financial support of agricultural producers is by 80%. However, there is an increase in state aid in 2018 for research, applied and scientific and technical developments – 10.5%, support for the development of hop, the laying of young gardens, vineyards and berries has increased almost 4 times, support for the livestock sector – an increase of 23 times As for the support of livestock production, it is a positive dynamic, since it balances the necessary nutritional elements in the rational consumption of the population of the state. Also, the increase in state aid for some areas in recent years is positive (Table 1.6).

Table 1.5

**Amount of financial support of agriculture from the State Budget of Ukraine, 2017-2018, UAH million**

<b>Name</b>	<b>General Fund</b>	<b>Special Fund</b>	<b>Total:</b>
1	2	3	4
2017 year			
Financial support of measures by cheapening of loans	300,0	0,0	300,0
Research, applied scientific and scientific and technical developments, works on state target programs and government orders in the field of development of the agro-industrial complex, training of scientific personnel, scientific developments in the field of standardization and certification of agricultural products, research and experimental development in the field of agro-industrial complex	71,5	48,5	120,0
Financial support of measures in the agro-industrial complex	55,0	5,0	60,0
The expenditures of the Agrarian Fund are related to the complex of measures for storage, transportation, processing and export of objects of state price regulation of the state intervention fund	0,0	51,4	51,4
State support for the development of hops, the laying of young gardens, vineyards and berries and their supervision	75,0	0,0	75,0
State support of the livestock sector	170,0	0,0	170,0
Financial support of agricultural producers	1473,0	3301,3	4774,3
2018 year			
Financial support of measures by cheapening of loans	66,0	0,0	66,0
Research, applied scientific and scientific and technical developments, works on state target programs and government orders in the field of development of the agro-industrial complex, training of scientific personnel, scientific	77,5	55,1	132,6

Table 1.5 (the end)

1	2	3	4
developments in the field of standardization and certification of agricultural products, research and experimental development in the field of agro-industrial complex			
Financial support of measures in the agro-industrial complex	-	5,0	5,0
The expenditures of the Agrarian Fund are related to the complex of measures for storage, transportation, processing and export of objects of state price regulation of the state intervention fund	-	52,2	52,2
State support for the development of hops, the laying of young gardens, vineyards and berries and their supervision	300,0	-	300,0
State support of the livestock sector	4000,0	-	4000,0
Financial support of agricultural producers	945,0	-	945,0
Financial support of farms	1000,0	-	1000,0

Source: formed on the basis of materials [9]

Thus, state aid for scientific research, scientific and technological development decreased in 2018 compared to 2016 by 219.0 million UAH. The situation regarding state support for the development of hops (vineyards, berries) was considerably improved – UAH 300 million, financial support of agricultural producers – UAH 945 million in 2018, livestock development – UAH 3700.0 million. However, it should be noted that although the level of state support in some areas has increased, taking into account the inflationary processes observed in Ukraine in recent years, it has significantly decreased in the equivalent of freely convertible currencies.

This has a very negative effect on the development of rural areas and the well-being of the rural population. The negative aspect is the reduction of the state financing for the improvement of health and rest of the children of the agricultural workers (from 2015, the financing was stopped), for state support of the All-Ukrainian-sports society “Kolos”, an organization devoted to the development of physical culture and sports among the rural population (from 2016 p. Financing stopped), etc.

State support for agriculture in Ukraine is distributed in certain areas (Table 1.7).

Table 1.6

**Distribution of State Expenditures for Agriculture in Ukraine  
during 2016-2018, UAH million**

Name in accordance with departmental and program classification of expenditures and lending to the state budget (general fund)	Years			2018 in comparison with 2016 (+, -)
	2016	2017	2018	
Financial support of measures by cheapening of loans	285,0	300,0	66,0	- 219,0
Research, applied scientific and scientific and technical developments, execution of works on state target programs and government orders in the field of development of agro-industrial complex	50,5	71,5	132,6	+82,1
Financial support of measures in the agro-industrial complex	-	55,0	5,0	+5,0
Organization and regulation of the Agroindustrial institutions and activities of the Agrarian Fund	49,3	74,5	52,2	+2,9
State support for the development of hops, the laying of young gardens, vineyards and berries and their supervision	-	75,0	300,0	+300,0
State support to the livestock sector	300,0	170,0	4000,0	+3700,0
Financial support of agricultural producers	-	1473,0	945,0	+945,0

*Source: formed on the basis of materials [1]*

The World Trade Organization (WTO) plays an important role in financing agricultural business in Ukraine, which is an incentive for competitive national production. Ukraine is a full member of the WTO, so on 10.04.2008 the Verkhovna Rada of Ukraine adopted the Law of Ukraine “On ratification of the Protocol on Ukraine’s accession to the World Trade Organization” [2]. As a member of the WTO, Ukraine has the right to facilitate access to world markets for its products, can count on an increase in investments, and has access to a dispute settlement mechanism, where it can protect its trade interests. Ukraine has received a tool for monitoring the predictability of technical regulation, sanitary, phyto-sanitary and other measures that are intended to be put into effect

by other WTO countries. Also, an important aspect for the agrarian sector is state support, which allows to effectively subsidize the agro-industrial complex (Table 1.8).

*Table 1.7*

**Types of State Support to Agriculture in Ukraine, 2018**

Support directions	Characteristic
1	2
Price regulation	The state regulates the wholesale prices of certain types of agricultural products, setting minimum and maximum intervention prices, as well as applying other measures defined by the Law “On State Support to Agriculture”, subject to the rules of antimonopoly legislation and of fair competition
Commodity intervention	Commodity interventions are carried out by the Agrarian Fund by selling (supplying) certain objects of state price regulation on the organized agricultural market on a spot or forward basis in order to establish the price of equilibrium (fixing) at the amount not exceeding the value of the maximum intervention price
Financial intervention	Financial interventions are carried out by the Agrarian Fund through the purchase of certain objects of state price regulation on the organized agricultural market on spot or forwarding in order to establish the equilibrium price (fixing) at a rate which is not less than the value of the minimum intervention price
Temporary administrative price regulation and temporary budget subsidy	Temporary administrative price regulation is a complex of administrative measures aimed at preventing or stopping the speculative or agreed price setting by the sellers and buyers of state price regulation objects in the organized agricultural market, which cannot be corrected by the standard procedures of state interventions. Carries out price regulation in The Agrarian Fund, which is a state specialized institution authorized by the Cabinet of Ministers of Ukraine to conduct price policy in the agro-industrial sector of the Ukrainian economy
State mortgage purchases of grain	The Agrarian Fund (the creditor) grants a budget loan to the grain producer, which is the subject of state price regulation, on the bail of such an object, which is issued by transferring to the creditor a double warehouse certificate
Financial support of business	Cheaper loans are made in the credit subsidy mode and consist in subsidizing part of the fee (interest) for using

Table 1.7 (the end)

1	2
entities through the mechanism of cheapening of loans and compensation of lease payments	loans granted by commercial banks in national and foreign currencies. Compensation of lease payments consists of partial reimbursement of lease payments paid by the subjects of the agro-industrial enterprise for purchased equipment and equipment for agro-industrial complex on terms of financial leasing
State support to the livestock sector	The budget subsidy is provided in order to maintain the level of solvent demand of Ukrainian consumers of livestock products and prevent the loss of profitability of Ukrainian producers of such products. Special budget subsidies also include the bee family and silk products.
Budget subsidy for the development of agricultural commodity producers and stimulation of agricultural production	An agricultural commodity producer whose principal activity is the supply of agricultural goods made by him on his own or leased fixed assets, and the proportion of the value of agricultural goods is not less than 75% of the value of all goods delivered to them during the previous 12 consecutive tax accounting periods in aggregate, has the right to a budget subsidy for the development of agricultural commodity producers and stimulation of agricultural production after its introduction. They are the authority to register the recipients of the budget subsidy

Source: formed on the basis of materials [9]

Like all WTO members, Ukraine has no restrictions on domestic aid programs from the “green box”. The budget financing of “green box” programs can be increased by Ukraine, as it is not restricted by the WTO, namely infrastructure, consulting, marketing services, environmental protection, training, inspection of products, development of a modern system of technical standards, acceleration work on their harmonization with international and European standards, etc. According to the agreements, Ukraine has no obligation to reduce internal support, which is provided through the “yellow” development program. There is only an obligation not to exceed the agreed annual aggregate dimension of support (AMS). The annual SVP, which accumulates support programs in the “yellow box”, should not exceed 3 billion 43 million UAH for Ukraine. At the same time, the possibilities of providing support are not limited to this indicator. In addition, Ukraine can spend each year on “yellow” nonproductive programs up to 5% of the annual value of gross agricultural production and on each

Table 1.8

**Government support within the “green”, “yellow” and “blue” boxes according to the WTO**

“Green Box” Events	“Yellow Box” Events	“Blue Box” Events
<ul style="list-style-type: none"> <li>- veterinary and phytosanitary measures;</li> <li>- promotion of agricultural products, including the collection, processing and distribution of market information;</li> <li>- maintenance of strategic food stocks, domestic food aid;</li> <li>- provision of guaranteed income to agricultural producers, improvement of land use;</li> <li>- support for producers’ incomes, not related to the type and volume of production;</li> <li>- assistance in the restructuring of agricultural production</li> </ul>	<ul style="list-style-type: none"> <li>- subsidies for livestock and crop production;</li> <li>- grants for livestock breeding;</li> <li>- subsidies for elite seed production;</li> <li>- subsidies for feedstuffs;</li> <li>- price support: compensation of the difference between the purchase price and the market price for agricultural products;</li> <li>- Providing the manufacturer of goods and services at prices below the market;</li> <li>- purchase from the producer of goods (services) at prices exceeding the market;</li> <li>- privileges for transportation of agricultural products</li> </ul>	<p>Direct payments under production restraint programs will not be subject to commitments to reduce internal support if:</p> <ul style="list-style-type: none"> <li>- such payments are tied to specific areas and harvests;</li> <li>- such payments are made on 85% or less of the basic level of production;</li> <li>- payments for cattle are made on the basis of a fixed number of livestock</li> </ul>
<b>Measures in the context of social responsibility</b>		
<ul style="list-style-type: none"> <li>- scientific research;</li> <li>- training and advanced training of personnel;</li> <li>- information and consulting services;</li> <li>- food safety control;</li> <li>- improvement of infrastructure (construction of roads, reclamation facilities) with the exception of operating expenses for its maintenance;</li> <li>- environmental protection;</li> <li>- implementation of regional development programs</li> </ul>	<ul style="list-style-type: none"> <li>- preferential crediting of agricultural producers at the expense of the budget;</li> <li>- debt cancellation;</li> <li>- expenses for leasing services;</li> <li>- compensation for part of energy costs;</li> <li>- compensation for part of the costs of fertilizer and plant protection products</li> </ul>	<p>The activities of the “blue box” in their orientation and content are close to the “green box” measures, in addition to certain restrictions</p>

*Source: formed and supplemented on the basis of materials [3]*

individual product up to 5% of its annual value. Blue Box measures also have no budget financing constraints, if such payments are tied to specific areas or harvests, carried out at 85% or less of the basic production level, or if payments for livestock are made on a clearly defined number of heads [3].

Thus, the level of state support for agriculture, subject to a certain reform of the mechanism for providing such support, provides for sufficient opportunities to protect the domestic agro-industrial complex in terms of WTO membership and meet modern needs.

The development of the agro-industrial sector of Ukraine include balanced and interconnected structural rearrangements of all its branches, the maximum introduction into production of the most important achievements of scientific and technological progress, world experience, the most progressive forms of the economy and the organization of production on the basis of the priority solution of the actual problems: including deepening of restructuring enterprises and forms of management; development of cooperation; introduction of market-based management methods – management and marketing; state regulation of the agrarian economy through more effective use of price levers, financial and credit and tax systems; development of markets for agricultural products, material and technical resources and services; intensification and diversification of foreign economic activity, etc.

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**THE FORMATION OF  
THE CONTROL  
MECHANISM OF THE  
HEALTH CARE  
QUALITY IN UKRAINE  
AT THE MODERN  
STAGE: GENESIS OF  
THE LEGAL  
PROVIDING**

The world experience of the healthcare sector reforming indicates the necessity of the gradual and planned legal providing of the qualified health care. It can be achieved through wide establishment of different ways of health care quality control in the healthcare sector. The process of the healthcare sector reforming lasts in Ukraine and it is necessary the synergy of doctrine, legislation and practice. The legal base, that

regulates the questions of the health care quality for the population, consists of such main acts: the Law of Ukraine of 07.07.2011 № 3611-VI “About changes in Fundamentals of legislation of Ukraine about the healthcare regarding the improvement of the health care provision”, the Order of the Ministry of Healthcare of Ukraine of 28.09.2012 №752 “About the procedure of control of the health care quality provision», the Order of the Ministry of Healthcare of Ukraine of 01.08.2011 №454 “About the approval of administration Conception of the health care quality in the healthcare sector of Ukraine till the year 2020”.

In Radysh Y. and Stepanenko A. opinion, principles and forms of control of the health care quality provision, that are existing now, do not meet the needs of the present time and cannot meet the consumers and providers needs of the healthcare [1; 2]. It forces to search for new approaches and methods to the formation of the control mechanisms of the health care services quality, that will be adequate to the modern stage of the healthcare development, for creation of effective legal means of regulating, according the international norms of law.

In the scientific literature, Nyzhnyk N., Mashkov O., Mosov S. believe that control is the system of observation and inspection of the functioning process and factual state of manageable object with the aim of rating reasons and effectiveness of accepted by this object decision and results of its fulfilments; it is the detection of the deviation from requirements, that are formulated in this decisions; it is the elimination of the unfavorable consequences of decisions’ fulfilments and informing of competent authorities about that [3; p.25].

Malynovskyj V. Y. writes that the functions of the control in the healthcare system, from the point of society view, firstly, are in providing of accessibility of information about the healthcare sector; secondly, control is the condition of law compliance, order, protection of human rights and liberties.

Such scientists as Grando A.A., Yarmenchuk A.D., Reshetnykov A.V., Tregubov Y.G., Dmytrieva N.V., Lusan S.G. concentrate their attention at the necessity at the improvement of departmental control in the public administration in the healthcare sector. However, there is not enough number of well-grounded researches of the present system of the state control of the health care quality provision in the Ukrainian health care organizations (HCO).

The problem of the health care quality (HCQ) provision has its own history. Smiyanov V.A. underlines three main stages of the development of the HCQ provision in Ukraine [5]:

- The state (budget) system of healthcare (until the middle of 80-th years of the XX c.)
- The stage of the new economical mechanism introducing (second part of 80-th years of the XX c.)
- The independence of the country with the appearance of market mechanisms of economics (since 90-th years of the XX c. until now).

The state (budget) system of healthcare had the vertical, centralized system of administration. The style is administrative command system. The healthcare develops at the ground of unified norms of planning, financing of health care and firm budget discipline. The cost recovery at the services of healthcare, which were provided to the population free of charge, was made for the costs of the public consumption funds. The receipt of money from the state budget determines the current upkeep of the healthcare. The economical effectiveness of the healthcare in this period is not self-aim.

The functioning of the healthcare in that period had clearly outlined, closed sectoral character. All processes of the HCQ system administration were only in boundaries of healthcare sector.

In such conditions, the system of the HCQ provision had such characteristics:

- HCQ control was departmental and had multi-staged sectoral character;
- System was not responsible for HCQ;
- HCQ rated by using quantities indicators, that were created by the state statistical service;
- Indicators of activities of healthcare institutions usually reflected the amount of given help;
- Main attention was paid to the control of permanent or constant loss of working capacity;
- Standardization was only sectors of medicaments and equipment of HCO;
- The number of unsatisfied patients with the quality of health care increased.

In 1987, the Resolution of the USSR Government and CC of the CPSU “Main directions of the development of the healthcare of the population and the restructuring of the healthcare in 12-th five-year plan and till the 2000 year” came out. It was said that the necessary condition of the intensification of HCO activity was increase of HCQ effectiveness. For achieving of this aim, the main mechanism should be the change at the economical methods of administration. The decision

started the development of economically rated relations in the healthcare. Besides the budget, financing, contractual and paid services were introduced.

Instead of the previous principle of financing (at the bed and the number of visits) the long-termed financing per capita started. The main source of financing became the budget costs based on the expenses per year. The system of planning was changed; the plan norms for therapeutic and prophylactic institutions were clarified.

At the start of the 90-th years of the XX c. big hardships in introducing of the new economical mechanism appeared. It was because of the total worsening of the economic situation in country and intra-sectoral character of the experiment. The state budget deficit of the healthcare after the collapse of the USSR played the main role in the reform crisis. In this period, like and in previous, citizens – the consumers of the health care services – do not became the full members of the process of healthcare reforming. They were completely excluded from the sphere of economic relations.

Last years it was done some work for methodological improvement of the HCQ provision in Ukraine at the state level. Appropriate normative acts witness about it.

The HCO's state accreditation, that was introduced in Ukraine since 1997 (Resolution of the Cabinet of Ministers of Ukraine №765 of 15.07.1997 “About the approval of the procedure of state accreditation of healthcare institutions” with the next changes, the order the Ministry of Healthcare of Ukraine of 14.03.2011 №142) rated the HCO activity at the ground of expert rate of its accordance to definite accreditation standards.

During 2000-2017 normative acts that raised the role of the licensing of medical practice in provision of prerequisites for the HCQ provision were accepted in Ukraine. The work to standardize the medical practice was done.

The state program of the adaptation of the Ukrainian legislation to the EU legislation (Law of Ukraine № 1629-IV of 18.03.2004) means the harmonization of the national system of standardization with the European principles. In Ukraine the mechanism of creation medical, technological and normative documents according the principles of evidence-based medicine is introducing now. In the ground of its mechanism normative acts are valid, especially the National strategy of reforming of healthcare in Ukraine during 2015-2020 and “Conception of the administration of the health care quality in the healthcare sector in

Ukraine till 2020”, approved by the Resolution of the Ministry of Healthcare of Ukraine 01.08.2011 № 454. Now the HCQ provision is regulated by the Procedure of the HCQ control that was approved by the Order of the Ministry of Healthcare of Ukraine 28.09.2012 № 752.

According to the p.3 of the Procedure, HCQ is the health care provision and using other measures for organization of the provision by healthcare, according to the standards in the healthcare sector. The rate of HCQ is definition of the accordance of given health care to the established standards in the healthcare sector. The control of the HCQ provision is made by using the next methods: internal and external HCQ control; self-rating of medical workers; expert rate; clinical audit; monitoring of the indicators quality system; certification according to the requirements of the valid Ukrainian legislation and EU legislation.

The internal control of the HCQ provision is carried out by the HCO administration and/or by the HCO medical councils within the limits of authority determined by the legislation. The external control of the HCQ provision is carried out by bodies of state executive power within the limits of powers determined by the legislation, especially by the way of control compliance with license conditions of the economic activity from the medical practice, the HCO accreditation, certification of doctors, junior specialists with medical education, professionals with higher non-medical education, who work in the healthcare system, conducting clinic-expert rate of quality and amount of health care.

Such constituents realize the control of the HCQ provision:

- structure, process and results of health care;
- organization of the health care provision;
- realization-control of the administrative decisions;
- accordance to the qualification requirements of medical workers, including the heads of HCO;
- study of the patient’s opinion about given health care;
- ensuring the rights and safety of patients while providing them health care.

The HCQ control takes place in cases of patient’s deaths; primary invalidation of able-bodied persons; disagreements of the established diagnoses; non-compliance the health care standards, clinical protocols, logs of technical equipment by HCO; patient’s complaints or complaints from persons who look after patients.

At the state level, the Main accreditation commission and License commission of the Ministry of Healthcare of Ukraine and regional administrations of healthcare realize the current external control of HCQ

(accreditation and licensing).

Accreditation is the rate of activity of the therapeutic and prophylactic institution, according the requirements of standards that characterize structure, process and conclusive results of the institution work.

According to the Law of Ukraine “About the licensing of forms of economic activities” 02.03.2015 № 222-VIII, licensing is the instrument of state regulating of economic activities, that are subjected to licensing, that is directed at the providing of the realization of the unified state policy in the sphere of licensing, protection of the economic and social interests of the state, society and separate consumers.

In the sector of healthcare licensing is the receipt of the permission (license) and instrument of state control requirements of the legislation that can be used to medical practice, forensic medicine and forensic psychiatric examinations.

The Procedure of the state accreditation of therapeutic and prophylactic institutions independently from the ownership form and administrative subordination is regulated by the Resolution of the Cabinet of the Ministers of Ukraine of 15.07.1997 №765 and accepted according to it the Order of the Ministry of Healthcare of Ukraine of 14.03.2011 №142. These documents say that the accreditation is obligatory for all HCO and takes place no earlier than in 2 years after the start of the subject activity. According to this resolution, special accreditation commissions realize accreditation. In the result of activity of such accreditation commission, accreditation certificate with the expiration date for 3 years gives out. Until the end of the expiration, date of the accreditation certificate the therapeutic and prophylactic institution must undergo the procedure of the recurrent accreditation.

In medical scientific literature the discussion about the role and necessity of state control after the activity of separate doctor or therapeutic and prophylactic institution continues. The arguments «cons» the control are its moral onerousness and unwillingness from the side of the providers of the health care services. Arguments “pros” from the side of patients are obligations and constancy of control as guarantor of provision of appropriate quality of healthcare services. So, the licensing process is considered as preliminary control, the main function of which is the provision of some level of quality of health care services by the subjects of entrepreneurship, which are functioning at the market of health care services.

According to art.7 of the Law of Ukraine “About the licensing of the

forms of economical practice” the forms of the economical practice that must be licensed are:

- medical practice;
- pharmaceutical activity (production of remedies, wholesale and retail of remedies, import of remedies);
- the activity of cord blood banks, the other tissues and cells of human;
- taking, remaking and conservation of donor blood and its components, realization of them and made from them remedies by HCO;
- cultivation of plants, production, preservation, buying, realization, import and export at or from territory of Ukraine, annihilation of narcotic, psychotropic substances, precursors.

The researchers of the problem of licensing and accreditation of HCO have different ideas about the commission structures.

Nadyuk Z.O. proposes to improve the licensing and accreditation procedures by the introduction to the commission structure such specialists as: doctor-expert from epidemiology; doctor-expert from the questions of municipal hygiene; doctor-representative of the professional association; doctor-representative of the other therapeutic and prophylactic institution; tax-inspector; auditor-accountant; lawyer; expert from the medical insurance; representative of the regional patients association [6]. The civil servants (the workers of the Ministry of Healthcare of Ukraine) will be: doctors-experts from epidemiology and municipal hygiene, lawyer, auditor-accountant. The program of licensing and accreditation must include:

- correspondence of the conditions of the health care provision to the sanitary-hygienic and meteorological standards;
- providing of qualified health care provision;
- providing of the effectiveness of the health care provision;
- providing of the legitimacy in the activity of therapeutic and prophylactic institution;
- analysis of the financial-economic reports and conclusion about economical expediency of existence.

This approach is transitional to the European model of the HCO certification, which is difficult to implement in Ukraine at one moment. Therefore, we should gradually bring closer the system of HCQ control to the best world practices.

One of the ground methods of external control of the health care and analysis of patients complaints is Clinical Expert Commission (CEC),

the activity of which is regulated by “Statute about clinical expert commission of the Ministry of Healthcare of Autonomous Republic of Crimea, structural units from the questions of healthcare of regional, Kyiv and Sevastopol state city administrations” (further Statute), approved by the Order of the Ministry of Healthcare of Ukraine (05.02.2016 №69).

According to the statute there are clinical expert commissions (CEC) of Ministry of Healthcare of Ukraine, which have status consultative-advisory body, are created by the Ministry of Healthcare, can be constant (only request the documentation and research it) or permanent (visit the places where some incident happened); CEC of the Departments of Healthcare of the State Regional Administrations (can be created\liquidated by the order of the corresponding department, can be constant or permanent); medical councils of HCOs. The clinical expert rate of the quality and amount of health care takes place in cases of patients deaths; primary invalidation of able-bodied persons; disagreements of the established diagnoses; non-compliance by HCO the health care standards, clinical protocols, logs of technical equipment; patients complaints or complaints from persons who look after patients.

Also, the Project of Conception of professional licensing of the doctor’s forecasts using of the new forms of control of the quality of the work of medical worker by keeping of CEC system. Agreeing with the necessity of using of the professional licensing of doctors and creation licensed commission; we pay attention at a number of gaps in the valid legislation in relation to CEC.

Therefore, for the period 2015-2017 CEC of Ministry of Healthcare considered 180 appeals relatively inappropriate health care, conducted 29 clinical expert rates. CEC found out 36 accidents of violation of the health care standards. As a result, CEC made the decisions about 7 out of turn accreditations and 3 unplanned inspections of observance of licensed conditions (decisions about the out of turn certification of doctors are absent). According to the results of the activity of CEC of regional level, we have: for the period 2015-2017 14 CEC of regional level considered 3437 appeals. There 309 accidents of violation of the health care standards were found; in 1002, accidents are absent the violations of health care. As a result of clinical expert rates is 67 decisions about the referral to Ministry of Healthcare the letters about the setting out of turn certification (in 6 regions: Vinnytsya region (28), Dnipropetrovsk region (21), Lviv region (6), Donetsk region (5), Ivano-Frankivsk and Ternopil regions (3), Rivne region (1), rest 8 regions – 0

decisions) [6].

By this, monitoring of decisions of CEC is absent; the certification of doctor is selective and does not guarans the stop of incompetent doctor's practice.

The separate problem are the situations, when according to the result of CEC are absent the violations of provision of health care. In such cases, it would be great to conduct mediation or provide peaceful settlement.

Another question to the work of CEC is responsibility of expert. The Statute in the chapter IV "Structure and procedure of CEC work" in p.6 sais "if the member of CEC finds himself in the situation, that can be interpreted as such, that has the features of real or potential conflict of interests, he must notify in writing the head of CEC about the conflict of interests before the start of any discussion. In case of absence information about the conflict of interests, if about that is known after the decision of CEC, – such decision must be cancelled by the head of CEC and must be settled repeated meeting of CEC. Repeated decision of CEC is final". By this is absent any responsibility of expert for non-disclosure about the conflict of interests, and the mechanism of excluding this expert from CEC structure for non-disclosure of the information and violation of confidentiality.

The next question that should be regulated in the valid legislation is requirement relatively duration structure of CEC and possibility of submission of candidatures from public organizations, though such participation is forecasted in Statute.

In our opinion to the structure of CEC must be included lawyers and human rights activists, because in the expert conclusion often figures such point as attraction of doctors to the disciplinary liability. The expert conclusion of CEC is used by law machinery in criminal proceedings; on it rely the forensic medical experts during the examination of "medical files".

This problem can be decided through insurance of civil responsibility in sphere of professional medical activity.

Therefore, CEC is not enough method of reaction at the violations, connected with the quality of health care, given by the doctors. The methodology of its implementation requires improvements.

In conclusion, we can say that implementation of the system of continuous improvement quality on the ground of health care standardization, licensing and accreditation, introducing of the clear mechanisms of doctor salaries, according the quality indicators of

treatment, structure, process and result. It will allow changing the present command-bureaucratic philosophy of the quality control to the quality management and much more improving the health care quality control to the population of Ukraine.

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**GREEN ROOF'S  
PROJECT-  
ENVIRONMENTAL  
SOLUTION FOR THE  
PEOPLE AND THE  
COMPANY**

## 1. Introduction

Corporate Social Responsibility (CSR) deals with the interconnection of three important areas of social life. They are economic, social and environmental aspects trying to connect business

entities to their day-to-day activities in order to contribute to society in the long run and create a good reputation of companies. The CSR is closely linked with concept of Sustainability which began to appear around the 1980s. worldwide. Sustainability in all its areas means meeting the current needs of society, with particular emphasis on maintaining the same quality of life for future generations.

The aim of this scientific study is to point out the benefits of implementing environmental responsibility as one of the social responsibility dimensions for increasing the competitiveness of business strategies by creating a corporate shared value on example of green roof project implementing.

The natural resources of the planet are not inexhaustible. They need to be rationally distributed and recovered using different methods and principles to mitigate the global burden of the planet at the same time as they meet the new demand needs. In this case, management decisions can be the key to tackling climate change. International companies could greatly reduce negative business externalities as a global warming issue with contribution for a better living standard of the society.

Although many corporations are involend in CSR activities, but they do not have environmental management in their core business values. Its implementation into a company's long-term strategy is mostly an exception. Mainly appear for reinforce the company's reputation. Whereas international corporations are considered to be the major polluters the environment around us.

The CSR area of business activities is still developing (Montiel – Delgado – Ceballos, 2014). According to the authors, they are generally based on three main pillars:

- a) economic proceeds,
- b) social aspect and
- c) environmental factor.

These three pillars are interconnected. Economic proceeds are the part of social aspect and that is part of a larger ecological system. In order to achieve sustainability, there must be balance between all of three pillars. Despite the most preferred economic model, such as capitalism that meets human needs or creates new jobs, is its concept only partly used. From the point of view of contribution to society capitalism generates profits that promote employment, investment, salaries and support the increase in overall demand. In this view, the company is perceived as a separate entity whose public and social problems are not so affected. In this sense, CSR is more focused on

building the company's reputation and only partially affects the economic interests of the company. Capital markets are focused on short-term profits and many companies act at the expense of social and environmental needs of the society. In this case, national governments have an important role to ensure that corporate spending on CSR activities meets the requirements of the general public. According to corporate social responsibility supporters, corporations face to inequalities between increasing their profitability and investing in CSR. In general, we can argue that the parallel between financial performance and CSR activities is slightly positive and the influence of CSR activities and corporate risk is negative (Cai – Cui – Jo, 2015). According to Clarkson (1995), corporate social responsibility can play an important role in supporting relationships between all stakeholder (interest groups in the company, such as customers, public, suppliers, business partners, etc.). Hillman and Keim (2001) argue that effective management of all stakeholders can overcome competition by increasing the social value of society in the long run. The right CSR policy can't be chosen by implementation of important role of customer's preferences, which is based on the behavioral economics that combines economic theory with human psychology.

## **2. Problem Formulation and Methodology**

However, the company's willingness to invest part of its profits in improving the social environment, the effect may seem to be low. Capitalism and consumer behavior of consumers tend to greater individual consumption than is necessary for them. However, the global issues and their awareness are becoming more urgent and discussed in the last decades. General public has been changing their consumption behavior towards satisfying not only their own needs, but also the needs of society.

Porter and Kramer (2011) point out that companies should take the initiative and combine economic profit and social responsibility into one long-term strategy of the firm. The solution lies in the so-called Shared Value (CSV) – model in which companies create a certain economic and social value at the same time. Sense of creating an enterprise's economic value is its orientation to the needs and challenges of the social environment. The model of shared value against the previous economic models recognizes not only traditional economic, but also social needs of the market. In general, we can specify three basic forms of shared

value model:

- a) Less dispersal of supply chains.
- b) New services and products that reflect consumer needs in marketing, manufacturing and distribution areas.
- c) Demand for technologies that save energy and support employees.

To succeed in implementing this model, each of these areas requires new forms of co-operation tailored to a particular business that clearly define measurable goals. Companies that try to solve social problems only in their own direction will not be successful in creating long-term and sustainable value than those used the shared value model. Implementing shared value into business processes is possible between sectors, both in developing and developed economies. Because the success of society is now also depended on its social activity. The new business model thus enables businesses to engage in different areas that lead to greater efficiency, diversification, markets expanding and meeting new customer needs. This is evidenced by an increase in demand for services and products that take account of social needs. For example, the food sector, which has so far only focused on the taste and quantity of products, now adds products to its portfolios in regard to healthy nutrition. Nevertheless, a shared value model is not about sharing a business value already created in the form of redistribution. A traditional business model provided a fair contract, can increase the producer's revenue share by increasing the price of goods or services by approximately 10% to 20%. Economists estimate that even by 300% of revenue in the form of shared value model can be raised. Nevertheless, initial investment into the new concept and implementation of new business practices, tend to bring significant economic outcomes and benefits to all stakeholders.

Nowadays activities of many companies have been rebutting Milton Friedman's (1970) claim that the company's goal is to achieve revenue without applying any social responsibility. However, it is generally proven that the company's activities that enhance the life of the local community and improve the environment lead to increased corporate performance as well. For both consumers and public generate positive feedback (Porter – Kramer, 2011). According to Bansal and Roth (2000), there are three major motivations for companies that lead to environmental responsibility. It is competitiveness, legitimacy and ecological responsibility. These incentives can occur individually, but companies can be driven forward by combining them.

Enterprise externalities, such as surplus product packaging or

greenhouse gas production, do not create an excessive cost burden for the environment alone, but also for businesses themselves. However, at present, there are only very few companies that have achieved the right rate of productivity, accepting areas such as health, safety and the environment. As opposed to increased costs in the area of minimizing environmental pollution in the past, today it is bringing new possibilities of using modern technologies to mitigate the ever-increasing negative impacts of company activities on the environment.

Therefore, environmental management can be characterized as a system direction in all corporate activities to create and to protect the environment in terms of sustainable development at local, regional, international and global levels. The objective of environmental management is to set up a company management way of to mitigate negative environmental impacts and on the other hand, make it profitable. For instance, restriction of emissions, waste production or energy consumption.

In general, we can define the main objectives of environmental management include:

a) Change of undesirable waste to a raw material source – an example can be recycling, from which it is possible to use a certain raw material again in the given economic system.

b) Limitation of natural resources consumption – two alternatives are being considered: artificial price growth of resources, which would increase the tax burden on the consumption of natural resources at the same time as the abolition of subsidies on energy prices or the more efficient use of natural resources, which can be implement by structural changes in terms of technological development.

c) Support to the ecological system – the protection and revitalization of territories and cities that have been devastated by human activity. For example, surface mines, areas damaged by acid rain or waste dumps.

d) Manufacture limitation of undesirable products – create the secundary waste initiation which has a negative impact on ecology in a long-term. These are various degradable substances or radioactive waste. To limit the growth of such a waste, fees are levied under the applicable waste government legislation in that country.

It follows that the main objectives of environmental management are related to the current global challenges that need to be addressed. For their implementation into corporate components, initial investment is needed to ensure long-term benefits in both economic and social terms.

The problem of measuring environmental behavior is that it always occurs in a different form and that different tools are used to express it. Another problem is that only some of the approaches to environmental behavior of companies consider the impact of the consumer behavior on the environment. Generally speaking, the public should be more aware of negative environmental issues, which can be helped by the ever-increasing public awareness and education in this sphere which can turn the consumer behavior. Nevertheless, Kollmuss and Agyeman (2002) claim that there is often a difference between consumer attitudes and behavior. Because the question of whether the environment is important for us and whether we sort waste in our household, we do not have to always get the same or true based answers.

As a result of corporate decisions applying environmental management elements to their activities can be so-called green projects that are capable of reducing negative environmental impacts and could bring financial savings to those businesses that point to their corporate responsibility and become leaders in the so-called “green” market (Ucii, 2010). Overall environmental awareness is a catalyst in the areas of water use efficiency, raw materials regulation and waste recycling. Because better use of resources provides space for improvement of technology which lead to forward to increase efficiency in the overall value chain (Porter – Kramer, 2011). In this case, we can state that the company’s initiative to support the environmental behavior of its employees and customers can bring significant benefits to society in the future.

Global climate change is the result of human activity. Although they have been left unnoticed for a long time, many of us realize that climate change, such as global warming, causes a change in the environment in which we live. From this point of view, these changes can also have a significant negative impact on the quality of life (as we are convinced, this is what is happening today on our entire planet, 2018 is considered to be one of the warmest years for many decades) and the overall wellbeing of society. Higher production of carbon dioxide, in particular from combustion of fuels as well as other human activities, leads to a gradual, steadily increasing air temperature. As a result, fundamental elements of ecosystem functioning have been changing for all living organisms, including humans.

One of the examples and options for solving the problem are also various applications of green design elements within environmental business activities. For example, the company that applied green design

elements to its internal processes was the Ford Motor Company in the US. The factory was built in 1917 in Dearborn, Michigan. Since 1927, when the construction was completed, it was one of the world's largest factories. In 1999, when the complex needed redevelopment, the Ford River Rouge Complex entered into a redesign contract with architect William Donough. The most prominent technology used by the architect in the project was the so-called "living roof". The reconstruction of this green area was completed in 2004 with an area of 40,000 square meters of the total roof area of 100,000 square meters. The main benefit for the factory and especially for its employees was the insulation that regulates the indoor temperature of the building and purifies the rainwater. Although the relationship between CER and financial performance is still little explored (Kim – Statman, 2012), companies can maximize their corporate performance by investing appropriately in these activities. This is confirmed by this complex that received the LEED gold certificate and its annual energy cost savings climbed up to \$ 50 million. As Porter and Kramer (2011) argue, the use of available modern technologies can greatly mitigate negative environmental impacts while bringing benefits to society.

### **3. Problem Solution**

#### **Creating Shared Value on the Example of Green Roof Projects**

Nowadays, many international corporations react to annual trends and they try to specialize in a field of so-called "green style". A demand for quality and economical buildings, development of green technologies and other green trends increase an awareness of society about the prosperity of projects like these. In some cases, they can help prevent problems like the energy crisis. One of the sustainable ways that can society, cities and other subjects introduce in their CSR activities for fighting against global climate changes is the so-called "green building" project. Green buildings constitute effective use of natural, energetical and social sources. That is environmentally friendly during their whole cycle. In the end, it's a creative design, which not only minimalizes the negative impact on humans' health, but also strengthens the reputation of society. One of the main advantages is the energy saving during a live cycle of an object, quality of projects and protection of the air from overheating. Today's green projects are more rentable than ever, and that speaks to a bigger group of people, who prefer their economic advantages. The opinion of Klassea and McLaughlina (1996) confirms

this fact. They say that environmental activities are the result of the higher financial productivity of a company.

One of the problems of global warming is in a decrease in the green areas. A temperature in cities, where trees grow is up to 18 Celsius degrees. While the temperature of a surface without green areas is up to 50 Celsius degrees. That means that the temperature in one year will increase by circa 0,03 Celsius degrees over a month (Malachová, 2017). One of the concepts that solve this problem is the green roofs project. Although it's getting more popular over the time, they have applied for the first time 2000 years ago. According to ancient myth, the first known green roof belonged to the queen of Babylon entitled the Hanging Gardens of Babylon, which was one of the Seven Wonders of the Ancient World. The gardens were in a cascade structure circa 5 meters far in height from each other. Europe had this type of structure before the 15th century. The so-called "zeml'anky" were found on the area of today's Scandinavia. There were the green areas on the rooftops. That helped the inhabitants naturally isolate the buildings.

We can identify 6 main advantages of today's green roofs (Rakšány, 2014):

a) Economic view – a price and a speed of construction. The average time of constructing on the area of 100 square meters with 4 workers is 10 hours.

b) Economical-energetic view – a green area on the roof works as an isolation. It prevents from overheating in summer and it lowers usage of energy during winter.

c) Hygienic view – if the grass is maintained in according to technical parameters, the air conditioner won't be needed. The air conditions usually deteriorate humans' health.

d) Ecological view – the green roofs bring a natural balance of the climate. They minimalize drain of rainwater and naturally circulate returning of water into the air.

e) Aesthetical view – the green roof is the best accessory of sustainable development for someone who wishes to be in balance with nature.

f) Acoustical view – the green areas can naturally absorb the noises.

The green roofs bring all the mentioned advantages. It doesn't depend on what is there if ornamental trees or moss. Based on the frequency of the care that green roofs need and based on the design we distinguished:

a) **Intensive green roofs** – this type comes from limits of statics and

economics of a building. They are suitable for straight roofs because the green areas need a frequent care. It also brings varied spectrum in choosing of the plants and higher creativity.

**b) Extensive green roofs** – on the other hand, this type of roof does not require a frequent care. It's the type of small layer of a substrate. It's an ideal condition for succulents, moss, and sedums.

The green roofs participate in a production of oxygen, regulate smog, prevent overheating, and cool down the air. They increase the quality of air thanks to the evaporation of water, help the drainage system. They are dust filters, lowers heating and air conditioning costs, increase the value of a building and protect from UV radiation. They play a major role in the creation of a natural ecosystem, biodiversity of soil and help to eliminate global warming.

Hardin (1968) said that degeneration of the environment is a social problem and a solution is socially-beneficial approaching of a group. That is why are the green roofs a good solution for institutions. They bring many advantages to the public and they build a positive awareness.

Despite all that was mentioned, there are few projects like that today. The reason can be higher initial costs and following maintenance of the green roofs in the future. The direct link exists between the ecological effect of the green roofs and resulting costs. According to Breuninga (2013), only the first-rated multi-layered green roofs can provide long-term investing goals for a building. And they protect object from externalities. That protects the building from fast aging, that faces UV radiation. They store rainwater and save energy during intensive hot months.

In general, the main advantage of the green roofs is storing of rainwater. They can replace water tanks and provide development of a rain system without high investments. A business object can lower its water draining fees to a local home rule. Even though, it doesn't have to be a big saving. That can be the reason why corporations aren't willing to sacrifice income on the behave of the similar environmental activities (Kim – Statman, 2011). The exemplary outcomes of financial analysis in chart 1 – 4 shows that the extensive green roofs are a good infestation from a long-term perspective. While this analysis didn't considerate items like lowering insurance fees for building, increasing a business reputation, lower certification fees, or shorter time for achieving a planning permission.

Table 1.9

**The Investment Analysis of Extensive Green Roof**

The extensive green roof system	14.00 \$ / sf
Costs for the maintenance over 40 years	15.00 \$ / sf
The additional costs for the statics (increasing the roof load)	4.00 \$ / sf
<b>Total costs over 40 years</b>	<b>33.00 \$ / sf</b>

Source: BREUNING, J., online, 2013

Modern constructions of the green roofs have a positive ecological effect. They protect waterproof membranes from externalities, that can cause serious damages. They also prevent an aging of a building that faces UV radiation. Construction of the green roofs protects from energy leaking mainly during hot months. The important advantage for an owner of a company is its ability to store rainwater.

In this point (Table 1.9, Table 1.10) are the expenses for a realization of the roof circa 33,000 American dollars. The green roof advantages are 32,000 American dollars from the long-term perspective. Which means that the investment and its outcome almost equal zero. Savings from the chart (Table 1.10) shows that it has protentional to be profitable form a long-term perspective.

Table 1.10

**Benefits for the Green Building Operator**

Extending service life by waterproofing. Experts predict doubling the life of the building for at least 40 years. Expected life of waterproofing in 20 years without a green roof and initial waterproofing costs of \$ 25.00 /sf. Costs of complete waterproofing 25 \$ / sf.	25.00 \$ / sf
Insulation effect of green roof over 40 years. The insulation effect in this case - and still a lack of reliable data – is evaluated by experts as 2.5 cm (1 ") of conventional insulating materials. Savings 2.5 cm (1 ") Isolation: 3.00 \$ / sf.	3.00 \$ / sf
Repair costs reduction over 40 years. The roof is protected against mechanical damage (predicted value).	4.00 \$ / sf
<b>Preliminary potential savings for the owner of the building</b>	<b>32.00 \$ / sf</b>

Source: BREUNING, J., online, 2013

Table 1.11

**More Green Roof Savings**

Savings through reduced waste water charges	1.00 \$ / sf
Typical tax incentives (depreciation, sales tax, etc.).	3.00 \$ / sf
Direct incentives after installation by organizations (from \$ 0.00 to \$ 5.00 / sf), through reduction of insurance or cancellation of long-term guarantees for roofing.	5.00 \$ / sf
<b>Other potential savings for the owner of the building</b>	9.00 \$ / sf

Source: BREUNING, J., online, 2013

It was proven in last years that the main advantage of the green roofs is their ability to store rainwater. The green roofs work as an extensive storing mechanism that can replace rainwater tanks. The green roofs can protect valuable soil without substantial investments into rainwater systems. The green roofs are economically enriching from this point of view.

Table 1.12

**Comparing Costs and Revenues of Extensive Green Roof**

The total costs over 40 years.	33.00 \$ / sf
Preliminary potential savings for the client / building owner.	32.00 \$ / sf
Other potential savings for the client / building owner.	9.00 \$ / sf
<b>Total installment or savings for the client / building owner (&gt; 40 years)</b>	8.00 \$ / sf

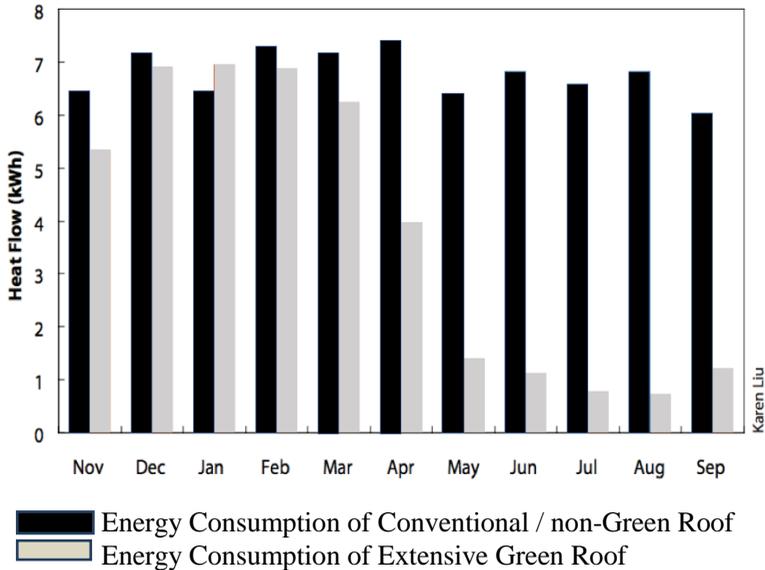
Source: BREUNING, J., online, 2013

This analysis shows that extensive the green roofs are a good investment and it can be profitable form a long-term perspective. But those numbers don't cover everything, like a higher price of a building thanks to a green cover of a roof.

Building in Boston is a good example. The green roof of this building increased its price by 2,4 million American dollars from its original price 112 500 American dollars. A different green roof project in combination with photovoltaic panels accelerate the speed of investment returning by 10 years. These outcomes stress economic importance of the construction of the green roofs in comparison with classical concrete roofs that have higher heat radiation (Breuning, 2012).

According to Figure 1.12 during May – September 2001 was the

daily energy usage of the classical concrete roof from 6 to 8 kWh, while energy usage of the green roof was 1,5 kWh. That represents 75% heat energy saving. In contrast during November 2000 – March 2001 almost the same values of heat energy saving were recorded. It was caused by snow which kept the same temperature on the roofs during these months.



**Figure 1.12 Comparison of the Average Daily Energy Consumption Through a Conventional and Green Roof in Ottawa, between November 2000 to September 2001**

*Source: EPA, online, 2008*

An example of energy savings of the green roofs is a paper that was about energy costs savings of the green roofs in Florida. The conclusion of the project showed that in the second year of existence of the green roof it decreased inflow of the heat by 40% in comparison to the neighbor concrete roof. During winter when the temperature was under 13 Celsius degrees was an inflow of the heat lower by 50% in the case of the green roof in comparison to the neighbor concrete roof (Epa.gov, 2014).

As was mentioned, the green roofs can drain rainwater which would end up in discharges. They can contain 50 – 100% of rainwater depending on the construction of the roof (Epa.gov, 2014):

- In North Carolina, according to researches a green roof can contain from 60% to 75% of rainwater.
- In Portland are the green roofs approved as ecological projects that should help drain rainwater. An inspection of a green roof for 15 months showed that it can drain 70% of downfalls. The result is a natural circulation of water back into the atmosphere and lower sewer charges.

Even though, the green roofs save energy, during summer and winter savings depend on the building, the climate environment, and the quality of the roof construction. That's why the answer for balancing profit of business and social responsibility can be the realization of a green roof. That can bring the advantages in form of improvement of environment next to a productivity of employees, and a creative design of a project can improve the value of a local society. The summarization of benefits and costs of the green roofs are in Table 1.13.

*Table 1.13*

**Summarizing the benefits and costs of the green roof**

Benefits / costs	Energy / Hydrology	Other Benefits
Personal Benefits	- Reduction of energy consumption - Extended life	- Noise Reduction - Aesthetic value - Food production
Social Benefits	- Decreasing the rapid warming of the air - Drainage of rainwater - Reduction of installation costs (using modern technology)	- Minimizing air pollution - Minimizing greenhouse gases - Benefits for human health
Personal Costs	- Installation/Construction - Architectural, static and engineering costs - Plant care	-----
Social Costs	- Program report	-----

*Source: EPA, online, 2008*

**Conclusions**

Despite all the advantages of the green roofs, there is an exceptional point in a positive impact on people in general. According to Gardner's paper (2017), a simple test was carried out at the University of

Melbourne – 150 students took part in this test. The students had to press a button on a lighting screen which showed different series of numbers. They had to press the button every time number 3 appeared. The task was paused for a 40-second break. During the break, the students had to look out of a window. The first group of the students was looking at the city landscape on concrete rooftops of the buildings during the short break. The second group of students was looking at the green rooftop filled with blooming flowers. After the break, the test was repeated. The students' group that was looking at the green roof achieved better results than the students' group that was looking at the classical concrete rooftops. It shows that the green roofs accelerate cognitive senses and concentration of testing students. A green landscape has a positive impact on exhausted workers or rather prevents the exhaustion. According to scientist doc. Kate Lee (2015) the green roofs have some positive impacts on thousands of employees that are working in surrounding offices with the green roof view. This research proved that when the microbreaks are connected with the view of nature that can last less than a minute the conclusion will be the positive mood of the employees and increase of productivity. According to the author, these positive impacts of the green roofs are beyond doubt, and they lead to needing for the greening of the cities.

According to the study Deuble and de Dear (2010) held in Australia a satisfaction level of inhabitants of a building is higher in contribution with their ecological beliefs. The higher environment protection awareness the higher the tolerance towards constructing of buildings with green aspects there is. That confirms a claim of Leiserowitz (2007), Doss and Morris (2001) according to them everyone can affect with one's actions environment. It can be achieved by making an appeal for a change of policy of the climate changes. From this point of view, it can be said that in the most cases when the changes of constructing design are made the priority is to fulfill users' needs and expectations of these spaces according to their preferences. That confirms the Croson's and Treich's (2014) opinion that environmental economics closely related to moral feelings and individuals' values.

The answer for the business's balancing of a profit and a social responsibility can be the realization of a green roof that brings the advantages for the business. An improvement of the environment increases the productivity of employees and alongside a creative design of project it can share its value with the local society.

## Acknowledgement

This paper was created within the research projects of the Ministry of Education, Family and Sport of the Slovak Republic VEGA No: 1/0420/19

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## Chapter 2

# JUSTIFICATION AND FORMATION OF STRATEGIES FOR DEVELOPMENT THE ECONOMIC ENTITIES

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## CO-WORKING AS DEVELOPMENT TOOL OF THE CONSTRUCTION INDUSTRY AND BUSINESS TOURISM IN UKRAINE

The economy of Ukraine is in extremely difficult situation and involves a number of problems: deterioration in living standards of the population, disintegration of many state and private enterprises various industry, decrease in attraction of the domestic and foreign capital. These problems make a reservation more with uncertainty of military aggression.

As the indicator of prospects of economy the situation can serve in construction as in recent years the construction organizations be on the last positions in rating among other industries. This results from the fact that demand for these products among the population because of prompt dollar exchange rate disappeared, the trust in Ukrainian to consumption by banking services disappeared, and domestic investors are not ready to finance projects on this industry because of existence of big risk and insufficiency of means for financing. Therefore experts in this industry create strategy which has to the purpose economical use of resources that would lead to reduction of expenses and to increase in attraction of the foreign capital.

From the aforesaid it is possible to tell that for successful functioning of the enterprise in the market it is necessary to adapt, first of all, to crisis conditions and at the same time to develop such project on minimization of the expenses with high quality which would not raise doubts at foreign investors [1].

The transformational processes happening in Ukraine predetermine need of finding of ways of ensuring overall performance of the enterprises. The role and value of efficiency should be considered in the context of fast development of technological process and social and economic changes.

Involvement of foreign investors will allow to improve positions of the construction industry which is key for many others.

But to warn such negative phenomena, the state has to control and stimulate attraction of direct foreign investments in the construction industry of Ukraine.

Despite global financial and economic crisis, the world industry of meetings continues to develop in more than 150 countries. By 2009 the world market of business tourism provided annually more than 600 million. Business trips and nearly 300 billion. Dollars of a financial turn. According to foreign experts, by 2020 the number of the international business trips will increase three times up to 1800000000. In a year, receipts from tourism will reach 210000000000 US dollars. At the same time income gained from one tourist will average 1250 USD (now the foreign tourist spends about 500 USD on a trip) [2].

Consideration of tourist appeal of Ukraine usually begins with the fact that it is one of the largest countries of Europe and is in its geographical center. Yes, this our competitive advantage – but not the main, and auxiliary. It and also existence of wonderful mountains, the seas, the old and new cities – not the main reason to arrive to Ukraine,

considering tens of attractive opportunities which are offered by other European countries: France, Spain, Italy, Turkey, Germany, Great Britain, Austria, Greece, Georgia, Poland, Croatia, Montenegro, etc.

Business tourism plays a significant role in the international, internal and foreign tourism of Ukraine, the prospect of its development - the most favorable. The share of business tourism in the world, according to the experts the WTO, makes nearly 20 percent.

Business tourism – one of cost-effective types of tourism in the world. Nearly 50% of revenues of airlines, 60% of revenues of hotels are made by service of this category of tourists [3].

In economically developed countries business tourism on profitability can be compared to oil business [4].

Occurrence of our state in increasing numbers of the international organizations, holding here the European and world forums, sports competitions and the championships allow to change quickly a situation to the best. Ukraine has all opportunities to become the world-class business and tourist power.

Kharkiv has all prerequisites to become the center of business tourism. Moreover, at the moment it is the most perspective view of tourism for development in Kharkiv. However not all factors necessary for this purpose are rather developed, that is the Kharkiv city authorities in cooperation with private investors have to pay attention maximum to further development of infrastructure and involvement of business community to Kharkiv.

At the moment there are no structures, purposefully are engaged in development of business tourism and advance in Ukraine, its certain regions and the cities as places of corporate actions. However, foreign experience shows expediency of creation of the CVB (Convention and Visitor Bureau) organizations which remove the city, the region and the country in general on competitive level and is a business tourism development infrastructure basis.

Business tourism is not only a perspective and profitable view of travel business, but also is characterized by the high and stable growth and relative resistance to action of economic, political, climatic and other factors. It demonstrates that business tourism in itself is a key element of stimulation of growth of national economy. As a result, the economic crisis is not capable to influence business in business tourism as the phenomenon of the industry of meetings consists that development of any state as well as any business, it is impossible without asset – a leg of exchange of information, mastering new

technologies, professional development at all levels of business education, participation in the international congresses and exhibitions. For this reason in the context of business tourism it is necessary to pay attention to creation of collective spaces, in particular a co-working, business incubators, anti-cafe and training centers. The co-working as type of collective spaces is the most widespread in the world.

On the basis of the carried-out analysis of economically active population of the Kharkiv region on methodology of the International Labour Organization (ILO), as it considers resident population and temporarily living people in this territory, but does not consider temporarily absent and deficiency of vacant positions of jobcenter, it was calculated balance coefficient which shows value, that is the proposal of professional labor exceeds demand for the period about 2014-2016. It characterizes the market as *pratsedefitsitny*.

Calculations of coefficient of load and *vakantnost* of one workplace since 2014-2016 also represent value  $> 1$ , that is it is sign of cyclic unemployment as the proposal of labor exceeds demand for it, it is more than a coefficient, the situation in labor market is worse. That is not all unemployed will be able to be employed. For the city of Kharkiv this situation is adverse.

Provided that a part of the unemployed who did not work for the following reasons: care of children, the circumstances influencing efficiency (on pressure condition in a workplace) and deficiency of vacant positions, will work in a co-working center, the indicator of unemployment will decrease. As the indicator of employment will grow.

For the analysis of an indicator of unemployment provided that people who lost work will work in a co-working center.

As the co-working is a model of work in which participants, remaining independent and free, use the general space for the activity. In particular, the co-working is popular among freelancers, remote workers, translators, programmers, designers and businessmen. The co-working takes the intermediate place between work from the house and use of separate office.

Co-working the centers are services in the organization of rational working process.

Potential clients of the center can become: businessmen; journalists, designers, programmers who work as freelancers; specialists in consulting; the companies from another town organizing exit seminars, trainings and other actions; writers; school and university students; representatives of creative and professional communities.

The market a co-working services in the Kharkiv region is presented by the small number of the companies, poorly developed. Assessment of capacity of these services is a difficult task. It should be noted that users a co-working services generally freelancers are self-employed people who are provided various services. This category of people conduct the activity, as a rule through, the Internet. It is difficult to estimate indicators of their activity in number as official statistics in the Kharkiv region is not kept.

Proceeding from it, market size can be calculated only approximately. Statistics of search queries of Google (Google AdWords) was for this purpose used. Data processing is carried out : a co-working – 33100, a co-working Kharkiv – 720, a co-working center – 880, a co-working center Kharkiv – 30. In total inquiries on subject – 34730. But to be realistic how many people are interested in work in a co-working center difficult therefore for the analysis it is necessary to choose the inquiries connected with the Kharkiv region more precisely. Let's receive as a result of 750 inquiries of people who are interested in it [5].

Provided that this number of people will work in a co-working the center it is possible to draw a conclusion that will work for 750 people more.

Thus, provided that a part of the unemployed who did not work for the following reasons: care of children, the circumstances influencing efficiency (on pressure condition in a workplace) and deficiency of vacant positions, will work in a co-working center, the indicator of unemployment will decrease. As the indicator of employment will grow.

That is signs of cyclic unemployment when the proposal of labor exceeds demand for it will decrease. Not all unemployed will be able to be employed, but it will reduce pressure upon the existing jobs of jobcenter, and will give the chance to find necessary personnel potential to small businessmen.

Researches were conducted on the example of the Kharkiv space the New Place – space in shopping center which holds large events (a conference, performances, exhibitions) for the purpose of involvement of business tourists and offers a traditional co-working, its advantage is the area of 1500 sq.m with the minimum rent [5]. Recommendations about growth of the market of business tourism thanks to development of a co-working in Ukraine were developed.

Today those companies which started during the crisis period have as the operating platforms, and large-scale plans for development. And their development is not limited to the capital, but goes to regions and

abroad. Local operators consider the possibilities in the European markets and also leave in Commonwealth of Independent States. For example, Regus actively develops in the countries Commonwealth of Independent States – as directly, and on a franchise. In particular, in Kiev on the Maidan the region's first kovorkingovy project of the company under the Space brand was placed [6].

There is a stereotype that this type of working space popular with freelancers, startups, creative people. Really, a co-working traditionally are associated with startups and creative audience, but a trend of the last years - demand for a format from the large companies and corporations to which the co-working gives flexibility in the rent relations.

Today a co-working for 40% consists of divisions of corporations which have to interact with other market. Another 40% make small and medium-sized companies which are in a stage of rapid growth.

It is possible to rent several jobs if the team expanded and vice versa to refuse them if the staff was cut down. Such format gives full flexibility.

By estimates of the Knight Frank company, the difference in profitability of 1 sq.m of office and a co-working makes 30-50% (at fillability of a co-working close to maximum). A difference in profitability it is caused by the fact that risks at management of a co-working are higher, than at offices. If at offices long lease agreements for 3-5 years work, then in a co-working jobs are given by the day / by the month. Therefore the main risk of a co-working is a risk of emergence of large volume of the free areas. As a result, at not filling of a co-working its profitability with 1 sq.m considerably decreases [7].

Experts highly appreciate the prospects of the market of a co-working in Ukraine in the next 5-10 years enough. This niche in Ukraine is not filled and interesting to large network players yet. In capital a co-working profitability high, but also risks are significantly higher, than in the same Europe [8].

Experts explain the sharp growth of the market of a co-working with the fact that in the modern, quickly changing world, an opportunity to reduce quickly or on the contrary to increase the spaces occupied by the company is very important factor.

Besides, many companies gradually depart from possession and independent management of offices in favor of outsourcing therefore the demand of a co-working will grow.

Many large companies in the USA, for example, of Amazon and Google, actively use a co-working for accommodation of separate teams and design groups at work on this or that project.

But the problem is that in Ukraine the co-working is almost not settled. Supervisory authorities have yet no opportunity to look after properly such type of activity. As people who work in such rooms independent of this establishment, and does not bear responsibility for business of particular persons of management of a co-working.

Such centers for various schemes of payment work (hourly or monthly). Besides, some allow to employ for an extra charge the courier, the accountant, the manager, even to use services of the consultant for business. These benefits provide a possibility of effective work for architects and people of different professions [9].

Opening of a co-working is necessary a large number of time as it is necessary to choose the successful place, to consider a set of factors: arrangement (near the subway, or transport stops and the area for a possibility of the parking), planning and a condition of the room, a condition. That this place developed and had rather high visits by clients.

Today for opening of own office big expenses are necessary, the co-working centers is much cheaper and more convenient to persons who only begin to do own business.

In 2015 tenancy cost in business center of Kharkiv was \$25 last year - \$20 for 1 sq.m a month. The co-working Kharkiv space the New Place - space in shopping center suggests to rent it for only 5\$ [10].

Co-working the centers has certain shortcomings and advantages.

Advantages of a co-working:

- An opportunity to expand a circle of contacts. The more productive contacts in the business, the better, there is an opportunity to exchange the original ideas.
- Under the same roof it is possible to bring together easily adherents for implementation of the separate project.
- The atmosphere of independence in work yields effective results, the factor of absence of heads gives an impulse to creativity.
- In the center it is possible to increase professional level, attending trainings and seminars. For participants of the center such events are held free of charge.
- The people of different specialties united by the general space feel at home, but there is no “an oppressive need of performance of homeworks”. Often household situation prevents to focus on process of implementation of many projects, reduces efficiency of work.
- The businessman can accept visitors by the nature of business activity outdoors that dangerously, and in the meeting room of the center.

- Organizers of the center took care of all necessary the equipment for work.

- Even in house conditions a factor of free distant work not so free, it: payment of the electric power, the high-speed message with network.

- In a co-working center the working person at all seeming independence does not remain alone with the tasks. Around it there will always be an expert at whom it is possible to consult competently.

- Often for private traders of the center organizers hold seminars, trainings, conferences.

Shortcomings of such type of activity:

- An opportunity to lose personal belongings, need to take care of safety of things in the public place.

- At all requirements to silence there is a specific noise from work on the keyboard.

- Presence of neighbors can distract some people.

But the main shortcoming is that work in such place is not free. But now it is necessary to pay for everything therefore it is necessary. In the countries of Europe such places act on the state basis for support of development of initial businessmen. Considering ecosystem value of collective spaces, mayors of the cities have to think of possibility of financing of their creation for the purpose of growth of the market of business tourism in the city.

This type of activity is rather favorable as there is practically no competition. The co-working is one of the most interesting types of business. According to directors of three such objects, for the last year demand for these services grew on average by 30-40%. That is the need for such centers where it is possible to be engaged in the work. Such unprecedented popularity is connected with several factors. Main of them is a crisis in the country as a result of which some people lose work, and others are released independently. Now it is a high time to think of own business. Investors are often ready to support such projects because for today the bigger quantity does not trust banks and seldom uses a deposit. The co-working is often rented also by investors that it was possible to cooperate with businessmen.

Our experts in the construction industry will be able fully to work in such conditions, to feel comfort and to gain the mass of new knowledge, attending master classes in a co-working, exchanging experience with other experts. The most perspective projects of workers will be able to find investors. The atmosphere inspires for work as people come to a co-working not because it is necessary but because important and there is a

wish.

The practical value of the work is to provide motivated recommendations for the more effective construction of an advertising message that affects the viewer, without damaging his feelings and without causing harm.

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**CONCEPTUAL BASES  
FOR STRATEGIC  
MANAGEMENT OF  
INSTITUTIONS OF  
HIGHER EDUCATION**

The system of higher education, being a subsystem of social reproduction, represents an ordered set of economic relations in the field of production, exchange and consumption of educational services in market conditions. The modernization of higher education becomes next stage of its reform, the purpose of which is to create a mechanism for the sustainable development of the education system in the conditions of the environmental variability (in particular, the social sphere).

The problem of strategic management in institutions of higher education is studied in the writings of Ukrainian and foreign authors, among whom I.G. Akhmetov [1], O. P. Belan [2], O. B. Vretennikov [3], O. O. Grudzinsky, E. Yu. Gorbunov, A.P. Egorshin, T.N. Zhukov, N.V. Kozlovskikh [4], I.V. Kolchyk, L. V. Konovalov, D. P. Norton, J. Cotter , P. Lawrence, J. Lorsch, G. Mintzberg, M. Porter, A. J. Strickland, G. Hamel , etc.

The authors' opinions vary concerning the issues what the strategic management of an institution of higher education is.

Therefore, for example, I.G. Akhmetov argues that “strategic management is a key element of the management system of the institution of higher education, without which tactical and operational levels virtually lose their meaning” [1].

O. P. Belan interprets this concept as the following “strategic management of an institution of higher education is a process that determines the sequence of actions for the development and implementation of the strategy: strategic planning; strategic organization of the system in accordance with the chosen strategy; strategic control and regulation” [2].

O.B. Veretennikova as well as O.P. Belan is of the opinion that strategic management is “a process that links strategic planning and

decision-making with the daily process of current operational guidance” [3].

More broadly, the notion of strategic management of an institution of higher education is presented in the work of N.V. Kozlovsky. The scientist is of the opinion that “strategic management is a dynamic set of five interrelated management processes: environmental analysis; definition of mission and goals; election strategy; implementation of the strategy; assessment and control of strategy implementation. These processes are interconnected and have a stable feedback” [4].

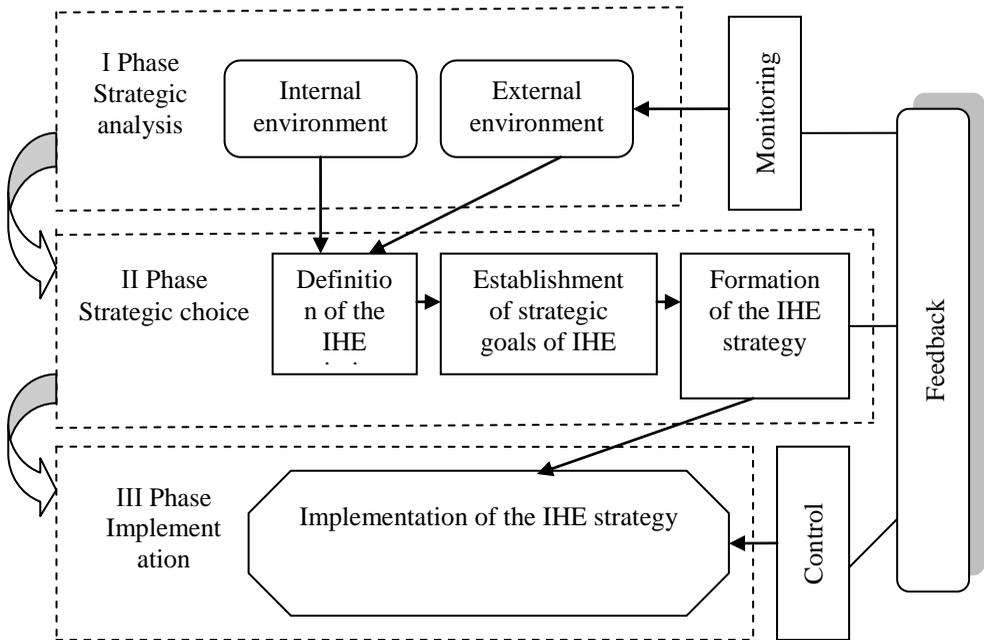
Recently, the importance of strategic management of an institution of higher education has increased significantly. As noted above, this concept can be interpreted in different ways, summing up, it should be noted that the strategic management of the IHE is a system of management decisions that are designed to ensure the free functioning of the IHE in a market environment. At the same time, it is important that strategic management enables the institution of higher education to adapt or counteract certain factors that influence the development of IHE and its competitiveness.

Strategic management is carried out over three main phases: strategic analysis, strategic choice (strategic planning itself), and strategy implementation (Figure 2.1).

*Strategic analysis.* To implement it, an effective information system is needed to provide data for analysis of past, current and future situations. Qualitatively conducted diagnostics of the strengths and weaknesses of the institution of higher education provides a real assessment of its resources and capabilities and is the basis for the strategy development. Along with the analysis of the internal environment, it is also necessary to study the external environment.

Studying the basic conditions in which an organization should work, various methods are used in strategic management. The most popular and most widespread approach is related to the SWOT analysis.

According to E. Knyazev and K. Taverny [6], there is a real possibility within the framework of SWOT-analysis to assess the activity of the institution of higher education and its environment in the terminology of the business world. An institution of higher education produces its own product, owns certain resources, competes in a certain market (market of educational services) and occupies a certain part of it (segment); it has a kind of production process, it is connected with its customers and consumers, and so on.



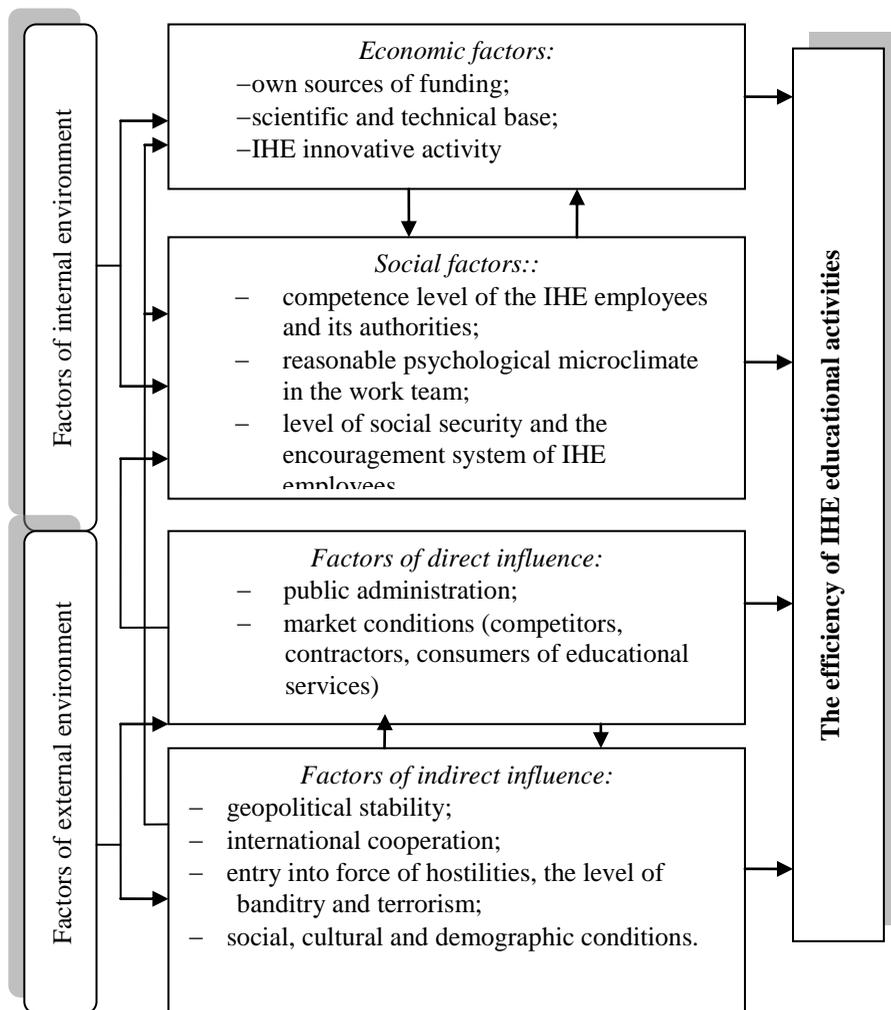
**Figure 2.1 The scheme of the strategic management process at an institution of higher education**

*Source: improved by the authors according to [5]*

A large number of factors, the effect of which is sometimes difficult and even impossible to predict and forecast, influences the development level of the IHE. In view of this, there is a need to systematize factors by dividing them into those that will contribute to the development of IHE (that is, they are actually opportunities), and those that lead to development inhibition (that is, threats), as well as identify the weaknesses and strengths typical of national higher education.

For the SWOT analysis of the higher education system, it is necessary to identify the main groups of factors of the external and internal environment influenced by the industry and in order to increase the effectiveness of the educational activities of the IHE (Figure 2.2).

The factors of the internal environment are a set of variables located in the field of IHE activities and direct influence from its management. Directly the factors of the internal environment can be divided into economic and social.



**Figure 2.2 Influence of factors of internal and external environment on the economic efficiency of IHE educational activity**

*Source: developed by the authors on the data [7]*

The basis for determining the economic factors of the internal environment is the availability of the IHE economic potential. A set of resources and capabilities of IHE should be taken into account under the economic potential. These resources and capabilities determine the prospects of its activities under certain conditions.

In our opinion, one of the most important factors is the availability of IHE own sources of financing technical development; availability of material and technical and scientific and technical base; application of modern technologies. This will allow, firstly, to keep up with competitors and to keep pace with the ongoing changes in the educational services market; and secondly, to attract new entrants even from the number of foreigners. These factors do not play a role if there is no match between managerial decisions and economic laws of the development of IHE and the strategic positioning of its services in the market. They are a reflection of what the IHE seeks in its endeavors, what it seeks to achieve, what challenges it sets.

As for the social factors of the internal environment, the microclimate and the level of social security of the collective staff management serve as the basis for their identification. Therefore, among the social factors of the internal environment, the following should be considered: the level of the IHE authorities 'competence, its academic staff (AS) and other categories of personnel. It also includes creation of a system of social support for AS and other categories of personnel; availability of incentive system and staffing; ensuring the possibility of self-realization of AS; reasonable psychological microclimate in the work team.

The academic staff of the institution of higher education is a key element of the higher education system, which defines all other its components of resources, first of all, the quality of research and the efficiency of educational activities. Human resource support in the modern conditions is a factor in increasing the competitiveness of institutions of higher education.

Nowadays, the human resources formation, which meets the requirements of the innovative character of the modern economy, plays a leading role. The problem lies not only in the level of vocational education, the training of qualified specialists and scientists, but also in changing their own image of these personnel, which is primarily motivated by innovative development, initiative, self-education [8].

Unfavorable factors in reducing the IHE resource supply (namely, personnel) include:

- the outflow of the most qualified teachers from the field of science and education to other sectors of the economy due to an inadequate financial evaluation of their work and, consequently, worsening living conditions;
- unwillingness of young specialists to receive postgraduate

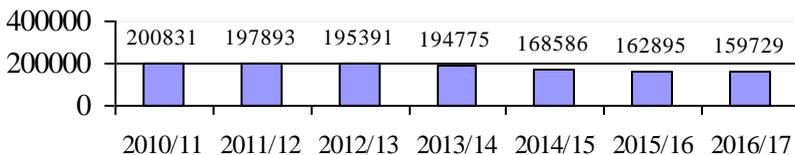
education and continue their professional activities as teachers of IHE, which leads to the "aging" of the academic staff of IHE;

- a large percentage of academic staff working under conditions of incomplete employment;
- high level of teacher mobility, which is evidence of their orientation not to employment, but to economic incentives related to survival;
- significant overload by training sessions.

It is worth noting that not only the quantitative indicators of staffing, but also its qualitative characteristics change.

The number of academic staff for the analyzed period (2010-2017) tends to decrease. The number of both full-time and freelance academic staff of all accreditation levels is decreasing.

The dynamics of the number of academic staff of institutions of higher education of the I-IV accreditation levels by years is presented in Figure 2.3.



**Figure 2.3 Dynamics of the number of IHE academic staff of I-IV accreditation level of Ukraine**

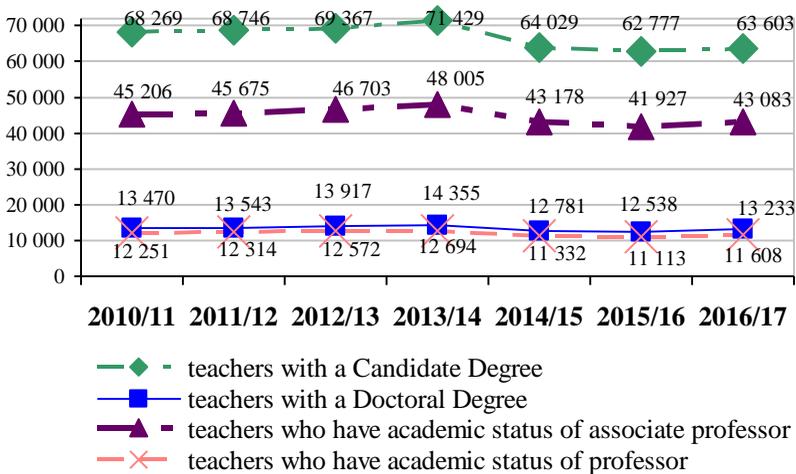
*Source: built according to the data [9]*

The dynamics of the number of teachers having a Doctorate and Candidate Degree, as well as an academic title of associate professor or professor, that is, the quality indicators of academic staff of the I-IV accreditation level by year is shown in Figure 2.4.

According to the data shown in Figure 2.4 undulate tendencies are seen in the dynamics of the IHE academic staff number of I-IV accreditation levels with a degree and academic status. The decrease in the indicators may be due to a decrease in the number of education institutions of all accreditation levels during this period in Ukraine.

With regard to environmental factors, they all belong to a set of factors outside the IHE control and which should be taken into account when assessing the level of economic efficiency of its educational activities. Such factors include public authorities (including local government), their resolutions, laws, etc.; partners and partnerships (including international ones); activity of competitors in the market of

educational services.



**Figure 2.4 Dynamics of qualitative indicators of IHE academic staff of I-IV accreditation level**

*Source: constructed according to the data [9]*

In addition to the fact that the environmental factors affect the IHE, they also have an impact on each other. Today’s conditions dictate the need to expand the range of spheres of external influence. If earlier the focus was mainly on economic and technical circumstances, now this set is complemented by social values, an analysis of the sphere of political and legal responsibility.

One of the most important factors influencing the changing environment is the reduction of almost all types of resources: reducing the number of entrants; contraction and aging of academic staff; reduction in funding. All this leads to an intensification of competition in the educational services market due to limited resources and the need to develop more effective methods of managing the institution of higher education. The basis of the sustainable competitive advantages of the modern IHE is the relationship with the stakeholders (consumers of educational services and other products providing IHE, the labor market, suppliers of other resources that provide access to the best resources).

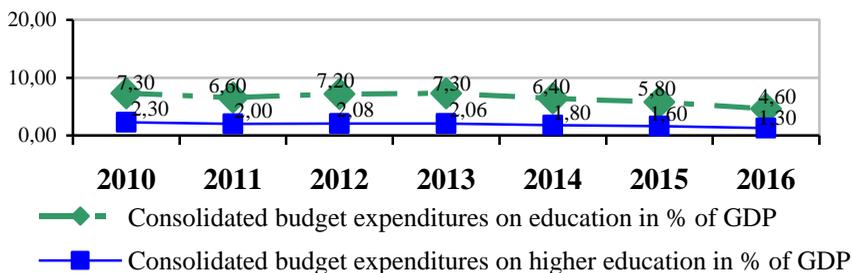
The governments of European countries understand the need for education and human capital development, and therefore spend significant amounts of public funds on support of national educational programs, provide tax incentives to those involved in the process of

organizing educational activities and research. Very often, funding for higher education abroad is carried out through the support of students (individual grants, personal scholarships, concessional loans, etc.), that is indirect method [10, p. 142].

In developed countries, the share of public funding for higher education varies. Thus, in Canada it is 70-85%, Holland 90%, Germany 95%, and Great Britain 62%. At the same time, the share of tuition fees in the structure of the budget of institutions of higher education in all these countries is much lower than we have. For example, in England, tuition fees make up 12%, in Canada – 11%, while students from the Netherlands, Germany, Finland, Sweden do not pay for education at all. In New Zealand, universities are funded by 96% by the government, and 4% are revenues from tuition fees [11, p.59].

According to the Law of Ukraine “On Education” [12, art. 61, clause 2], the state must provide budgetary allocations for education of not less than ten percent of national income, as well as currency allocations for main activity. But due to the mechanism imperfection for planning budget expenditures and the budget deficit existence nowadays, educational expenditures, as well as cultural and social expenditures, are often financed by the “residual principle”, that is, funds for covering these expenditures are allocated in the last turn and in the amounts that “remained” after covering other necessary public expenditures.

According to the experts, world spending on higher education reaches \$ 300 billion, which in turn is 1% of world GDP. As for the share of expenditures on higher education in % of GDP in Ukraine, this indicator in the analyzed period (2010-2016) is in the range from 2.3-1.3% (Figure 2.5).



**Figure 2.5 The dynamics of expenditures on education in general, and on higher education in particular, in % of GDP**

*Source: built by the authors according to [9]*

The dynamics of the share of expenditures on higher education in the total amount of all expenditures on education is also characterized by a gradual decrease, since from 31.3% in 2010 it decreases to 28% in 2016, and in 2015 the indicator of rates is only 27.1%.

The legal basis provides the grounds for the IHE to attract additional resources from their own economic activities and contractual academic and scientific work. The existence of such a right of state institutions of higher education along with private ones is crucial in attracting additional resources into educational activities and creates the necessary opportunities for ensuring free competition in the educational services market, which positively affects the quality of their provision.

Special funds and funds received from additional sources, including tuition fees for commercial property, and other proceeds, are not subject to seizure and remain at the disposal of the institution that earned them. These funds are spent on the organization of the educational process, the implementation of research work, retraining of staff, business activities, etc. In addition, institutions of higher education and research institutions have the right to conduct foreign economic activities on the basis of agreements with foreign legal entities and individuals and to have foreign exchange earnings.

With regard to institutional factors of political influence, among them it is worthwhile to highlight the geopolitical situation, international relations, and the political situation. At present, there is a very significant factor that affects not only the activities of institutions of higher education, but also other sectors of the economy of Ukraine, the conduct of hostilities in the East of our country.

As the recent research shows, Ukraine is accelerating its integration into the European Union, joining the economic, political, legal and scientific community, as well as creating the preconditions for EU membership. In this regard, modern education should focus on the innovative economy, human development, and the requirements of the international labor market.

When considering the factors affecting the effectiveness of educational activities, one should not forget about market factors. They affect the existence of stable relationships with partners: suppliers, consumers of educational services and other contractors. No IHE can exist in isolation from the outside world, it needs reliable connections, through which it not only can provide educational and economic process, but also position itself in a real business environment.

In order to overcome the weaknesses and increase the effectiveness

of educational activities, the IHE must use all available opportunities. Realization of possibilities will allow to reduce or even to neutralize most of the threats facing the modern manufacturers of educational services. However, the main threats to IHE are budget cuts and changes in legislation on higher education, military service and demography. On the above factors, the institution of higher education is not able to influence. Their negative influence can be reduced or replaced by a stronger positive effect of the realized opportunity.

Thus, strategic analysis is one of the most important stages in the strategic management of the IHE economic efficiency when developing an effective strategy, and provides a real assessment of its own resources and capabilities, as well as a deep understanding of the external competitive environment.

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**BIOENERGY  
POTENTIAL  
DEVELOPMENT OF  
THE AGRARIAN  
SECTOR AS A  
COMPONENT OF  
SUSTAINABLE  
DEVELOPMENT OF  
UKRAINE**

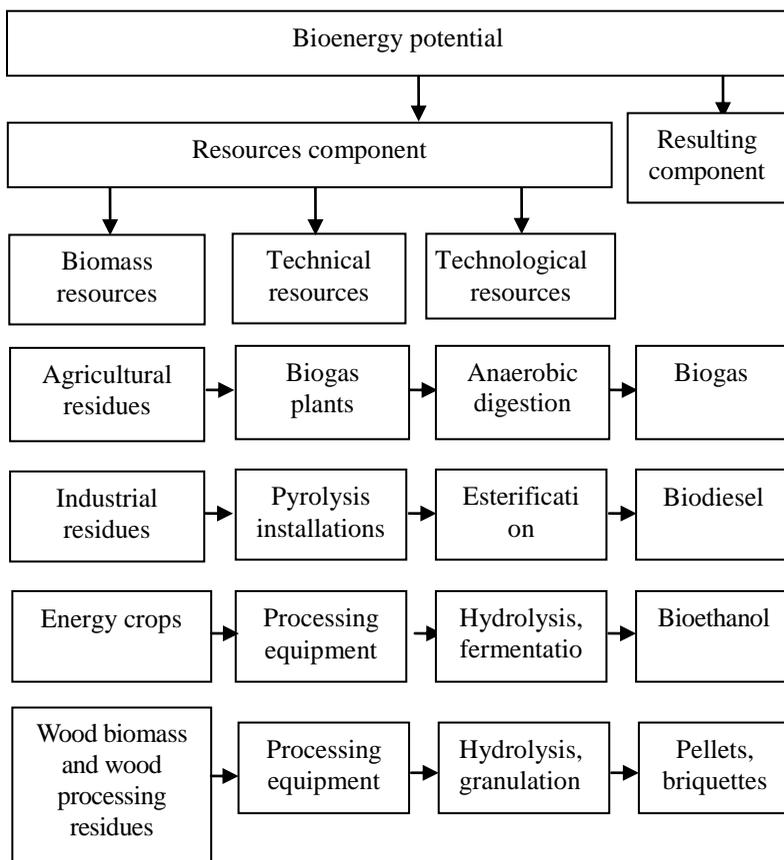
Ukraine has a significant biomass potential, which is economically feasible for energy production. The main components of the potential are primary agricultural wastes (straw, corn for production of corn and sunflower) and energy crops, whose cultivation on an industrial scale is actively developing in the European Union. Depending on the yield of agricultural crops, this potential varies within the range of 27-37 million tons of fuel equivalent per year, which accounts for 13-18% of consumption of primary fuels in Ukraine. According to the State Agency for Energy Efficiency and Energy Conservation of Ukraine (2018), the annual technically achievable bioenergy potential is 31 million tons. etc. (including electric – 10.3 million tons of electricity, heat – 20,7 million tons of oil).

According to the systems approach (Kaletnik, 2018), the “bioenergy potential” of any economic system can be viewed as a cumulative opportunity for the production of material goods using resources that are systemically interconnected. However, this approach does not determine the purpose of the use of capacity, therefore, it is somewhat limited.

Effective approach to the interpretation of the category “bioenergy potential” is the most objective. According to this approach, not only available and potential resources are taken into account, but also the possibility of using them for relevant tasks. Thus, the concept of “bioenergy potential” is directly related to production, with the result that biomass resources are transformed into a new quality.

Bioenergy potential is a reflection of possible achievements of effective end-points in the most expedient way to use existing resources. Also this term can signify the use of available and strategically possible biomass, expressed in the potential ability to produce energy sources of a certain composition, technical conformity and quality in the right

amount. Taking into account the above, the structure of the bioenergy potential can be represented as a link between its two components: resource and efficient (Figure 2.6).



**Figure 2.6 Components of bioenergy potential**

*Source: formed by the authors*

Ukraine, as well as a number of other countries, views the achievement of such strategic goals as food security, energy security and defense capabilities of the country as priorities at the current development stage, which justifies the need for the development of the energy sector. As indicated in the Outputs of the Energy Industry of Ukraine for 2016, “Recent years have proved difficult for the Ukrainian energy sector”. Its condition is most affected by the destruction of oil,

gas, and coal industry infrastructure; the shortage of certain types of energy resources; lack of commitment to supply diversification of certain types of energy under conditions of high volatility in prices on world markets; high monopolization of certain segments of the energy market of Ukraine as well as reluctance of the industry and the consumer market to increase energy prices. In addition, in 2016 the decrease in oil production resulted in dependence on imports of petroleum products (the share of imports reached 80%). Thus, according to the State Statistics Committee of Ukraine (2018) energy dependence of Ukraine on energy imports is 60-70%.

The monopolization of the structure of production and sale of petroleum products has caused negative consequences for both consumers and producers, since this is primarily due to the formation of monopolistically high prices for these products. In addition, environmental harm from emissions of cars running on gasoline and diesel fuel, is becoming more tangible. Therefore, the use of alternative fuels every day is of particular relevance. In particular, we are talking about the production of energy carriers of biological origin, or biofuels: biodiesel, bioethanol, biogas. In Ukraine, the biofuels market is just beginning to form. The main reasons for its slow development are the low level of environmental awareness of consumers and the lack of state support, because the production of biofuels all over the world is subsidized. A huge problem is that most of feedstock from which biofuel could be delivered is currently exported to European countries and not used in Ukraine, although for this purpose Ukraine has the appropriate legislative, scientific and technical potential.

Currently agriculture is considered one of the potential industries, it can produce feedstock that is needed for the production of biofuels. The use of a certain part of agricultural products for the production of biofuels is considered as an alternative to traditional agricultural practices. Taking into account the , current trends in the development of market relations, a system of management decisions and actions aimed not only at achieving maximum production and profits, but also at balancing the economic, environmental and social interests of the enterprise plays a significant role for efficient production in agricultural enterprises combined with the conversion of bioenergy crops.

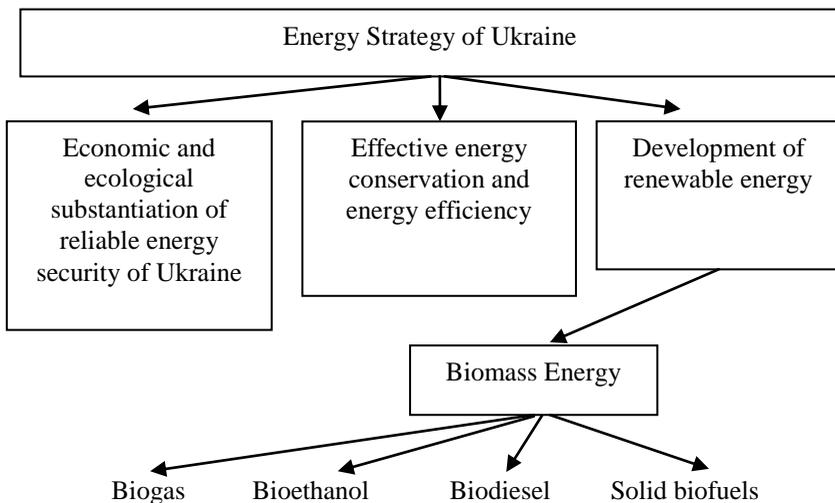
Biomaterials need not only be grown as the primary source of energy, but also to be converted into fuel with subsequent conversion into useful energy. However, from an economic point of view, conversion is not only the transfer of certain resources from one sector

to another with obtaining future benefits, but also the process of economic restructuring, and it is quite complex and dynamic. We believe that ensuring efficient production in agriculture, combined with the conversion of bio-raw materials, requires the interaction of a set of technological, technical, economic, organizational, managerial, social and other activities, enterprises, diversification of production activities, market entry of a new type of product, improvement of the ecological status of the location area enterprises and should be the goal of management decisions on the conversion of organic raw materials. However, for the formation of a strategy for managing the conversion process of organic raw materials in agricultural enterprises, an analysis of the external and internal environment of the economy in relation to this type of production activity is necessary. The choice of management strategy is determined by the ratio of strengths and weaknesses characterizing the process of conversion of organic raw materials in agricultural production. It is an effective strategy for the development of the bioenergy industry in agriculture that can increase the internal potential of an enterprise and, through the use of external opportunities, strengthen its financial condition.

One of the directions for the development of energy security and the growth of biofuel production is the implementation of measures in accordance with the Energy Strategy of Ukraine until 2035.

The strategy is developed taking into account the trends of geopolitical, macroeconomic, social and scientific and technological development of the country, which have certain risks of determining these factors. Therefore, it is necessary to ensure continuous monitoring of the Energy Strategy and periodic clarification of the volumes and deadlines provided for by the strategy, taking into account price movements for fuel and energy resources in the world and the country, state development programs, achievements of scientific and technical progress, and improvement of environmental legislation. The main directions of energy strategy development are shown in Figure 2.7.

Thus, the implementation of the state energy program will ensure the development of energy-saving technologies and reduce energy dependence. Thus, to reproduce the natural resource potential, the possibility of greener production and the development of bioenergy have an impact. This is explained by the fact that in the agrarian sector the production process is closely related to living organisms: plants and animals, biological processes that take place according to certain laws of nature and objectively require the adaptation of individual technological



**Figure 2.7 The main directions of development of the energy strategy of Ukraine**

*Source: formed in accordance with the Energy Strategy of Ukraine for the period until 2035 "Safety, energy efficiency, competitiveness"*

processes to the rhythm of nature, which characterizes the need to take into account the biological features of certain types of natural resources, including bioenergy. Considering the above, the development of bioenergy is an important direction in enhancing the competitive advantages of the domestic economy and preserving the environment, creating opportunities to ensure a balanced development of the industry. In order to determine the main factors of influence, a SWOT analysis has been proposed. On its basis, external opportunities and threats are established, as well as internal strengths and weaknesses in the implementation of the conversion process of organic raw materials (Table 2.1).

To establish links between the most significant strengths and weaknesses of the internal environment, as well as the capabilities and threats of the external environment, a matrix of interrelationships of the SWOT analysis has been proposed (Table 2.2). When choosing a strategy, the greatest attention is given to the interrelations of the weak sides of the internal environment and the threats of the external environment. The combination of this relationship can lead to a halt in the production process and damage, instead of the expected profit. When carrying out the process of conversion of agricultural feedstock in

agricultural enterprises, an unrealized opportunity may turn into risk factors (threats).

*Table 2.1*

**Evaluation of the external and internal environment of the agricultural enterprise in the conversion of organic feedstock into energy by the method of SWOT-analysis**

<b>Strengths</b>	<b>Weaknesses</b>
1. High potential of available organic feedstock for conversion into energy resources	1. The instability of the supply of feedstock for the conversion of energy
2. Organic feedstock – local fuels are cheaper than traditional fuels.	2. Lack of long-term contracts for the supply of conversion products
3. Production of own energy (strengthening of energy security)	3. Low level of technological conversion line support
4. Reducing the negative impact on the environment	4. Lack of incentives to reduce the negative impact on the environment
<b>Opportunities</b>	<b>Threats</b>
1. The possibility of attracting additional funds	1. Competition with other biofuel producers
2. Creation of new jobs	2. Lack of quality standards for fuels produced from agricultural feedstock
3. Export opportunities for fuels produced from agricultural feedstock	3. Low level of state (financial) support for the energy use of agricultural feedstock

*Source: formed by the authors*

The SWOT analysis identifies the following key biofuel policy needs for Ukraine (Zulauf et al, 2018): investment in breeding programs and science to develop new and high-yield crops; incentives to bring uncultivable land into production, such as tax exemptions and low interest loans; investment in biofuels infrastructure; establishment of a government agency for biofuels.

The development of energy from renewable sources – especially liquid biofuels – should be the main goal of Ukraine’s energy policy. The reasons for this are:

- renewable energy plays an important role in reducing carbon dioxide emissions (CO<sub>2</sub>)
- increasing the share of energy from renewable sources helps to ensure energy security by reducing Ukraine’s dependence on energy sources imported;

Table 2.2

**Matrix of interrelations of internal and external factors of the process of conversion of feedstock in agricultural enterprises**

<b>Factors</b>	<b>Opportunities</b>	<b>Threats</b>
<p><b>Strengths</b></p> <p>1. High potential of available agricultural feedstock for conversion to energy.</p> <p>2. Biofuels produced from local agricultural feedstock are cheaper than traditional fuels.</p> <p>3. Own energy (energy security of the enterprise).</p>	<p>1. Strengthening the energy security of the enterprise due to the direction of attracted additional funds for the production of energy from its own sources.</p> <p>2. Use of available feedstock for conversion into biofuel with attraction of labor resources and the possibility of obtaining additional funds.</p> <p>3. Diversification of production activities, entry into new markets.</p>	<p>1. Stimulation of the use of energy produced from agricultural feedstock to reduce the negative impact on the environment to obtain state support.</p> <p>2. Use of own feedstock for biofuel production, which reduces production costs and increases the competitiveness of the goods.</p>
<p><b>Weaknesses</b></p> <p>1. The instability of the supply of feedstock for the conversion energy.</p> <p>2. The absence of long-term contracts for the supply of goods conversion.</p> <p>3. Low level of technological conversion line support.</p>	<p>1. Expanding the export potential of bioenergy resources, which may lead to long-term contracts.</p> <p>2. Establishment of an additional technological line for the conversion of agricultural feedstock at the expense of raised funds.</p>	<p>1. Measures aimed at the stability of the supply of agricultural feedstock and bioenergy resources, taking into account the quality standards of the goods received.</p> <p>2 Concentration on preventing the stop of the line of conversion of agricultural feedstock and obtaining preferential state support.</p>

Source: formed by the authors

- in the future, renewable energy sources will become economically competitive compared to the traditional sources used today;
- the introduction of energy from renewable sources contributes to the development of the agro-industrial sector, helps to create new jobs.

The most attractive are the strategies arising at the intersection of the fields of strength and opportunities:

- strategy of enhancing energy security, the use of its own organic feedstock for conversion into energy resources and the use of energy resources obtained at the enterprise;
- strategy of using the existing potential of agricultural feedstock for the conversion into an energy resource with the subsequent sale of the product obtained and the attraction of additional labor resources;
- strategy of diversification of its own production program and access to new markets.

The formation and rapid development of the biofuel market in Ukraine is a requirement of today. After all, the possibilities of reducing the energy dependence of our state through the production and sale of biofuels exist and have good prospects to become one of the important priorities for the development of the Ukrainian economy.

Thus, the implementation of these strategies for a separately defined agricultural enterprise is very problematic. Therefore, for agricultural enterprises, when making management decisions on the choice of a conversion strategy, it is necessary to take into account the production and financial potential of a particular farm, since the right choice of management actions will ensure the choice of a strategy that is consistent with the company's ability to convert organic raw materials. The result of such actions may be the improvement of production activities, its diversification; the possibility of entering new markets, in particular biofuels; stabilization of the financial condition of agricultural enterprises.

The agricultural sector has significant potential for the supply of feedstock needed for the production of bioenergy. At best, this can lead to a reduction in greenhouse gas emissions and will benefit soil and water quality, and will also contribute to biodiversity. However, in each case, it is necessary to compare market prices or the alternative value of agricultural products and raw materials used to produce renewable energy.

Consequently, the development of the biofuels industry in the conditions of its own energy resources shortage and a significant energy dependence of Ukraine is a decisive necessity of the present, capable of

making a significant positive impact on the development of the economy as a whole, increasing the level of produces commodities with high added value, and stimulating the development of related industries and agricultural production in particular. In addition, as world practice shows, a significant social effect from the development of biofuel production is represented by the creation of additional jobs and the improvement of the living standards of the population.

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**STRATEGIC  
MANAGEMENT  
OF  
INTELLECTUAL  
PROPERTY IN  
ORGANIZATION**

21<sup>st</sup> century is characterized by knowledge economy basic principles' formation and their active implementation in most of the key spheres of activity in developed countries. In the knowledge economy the considerable share of GDP is formed by activities which are related with information and knowledge creation, accumulation, transferring, spreading, using and saving. Information and knowledge characteristic feature is the difficulty of their primary occurrence source determination. It is also difficult to secure the right to profit from their future using. Knowledge becomes enterprise's intangible assets and needs appropriate account, storage conditions and using control. Relevant knowledge as the result of creative scientific activity gets the shape of intellectual property, namely its certain objects. The need of this resource management is caused by its appearing in organization or the necessity of attracting from external sources for competitiveness increasing. These processes cause the appearance of new direction in management science. It is named as intellectual property strategic management. That's why the selected topic considered being so actual.

Intellectual property different aspects are investigated by as native so foreign researches. Some of them are: G.Androschuk, V.Bazylevych, P.Butnik-Siverskyy, M.Vachevskyy, I.Kornilova, N.Puzynya, U.Suini, B.Urovskyy, P.Tsybulyov, V.Chebotaryov, P.Meggs, B.Milner, M.Naydyonova, V.Mukhopad, D.Sokolov, D.Michael, Miyake Sinken and others. But it is still opened question of intellectual property strategic management and its theoretic-methodical support.

Intellectual property strategic management is the dialectical combination of common and specific. The common is the base of intellectual property strategic management understanding. It is formed by the theories of strategic management and innovation management. The specific is the intellectual property theoretical positions. They determine the specifics of intellectual property strategy development and

implementation. So, intellectual property strategic management is the set of organization long-term goals and actions. They are directed to providing of coordination, interaction and consistency of different levels and elements of management process. It is necessary for effective intellectual property strategies' development and implementation. They can help to establish the balance between innovative organization with its separate divisions and constituents and environment and also to achieve set strategic goals of intellectual property development. The intellectual property strategic management peculiarities are [10, p. 447]:

- Intellectual property is the key driver of enterprise development, which is possible in few strategic business units at one time.

- Competitive advantages have long-term character. They can be formed in the process of intellectual property portfolio continuous improvement.

- A stable base of intellectual property rights protection provides adaptability in choosing organization development strategies. It permits to use more strategic alternatives.

- Systematic risks associated with the appearance of new competitors are minimized. If you enter the market with a new product which is based at the objects of intellectual property rights with a great commercial value you need to overcome many barriers. Some of them are sufficient intellectual and financial potential and time lags associated with intellectual property rights registration.

- Necessary resources are minimized. They are connected with the objects of intellectual property rights extension of geographic presence. Because solution of the problem of intellectual property rights geographic diversification is provided by licensees who take costs for licensed products promotion to different markets.

Intellectual property management system evaluation in organization can be done through the management subsystems' analysis, considering their functional load, specificity and meaningful content of business processes of intellectual property management cycle. Expert assessments of each subsystem of intellectual property management are calculated by the formula:  $\omega_j x_j$ .

Where:

- $\omega_j$  is the weight coefficient, which is determined expertly within the limits  $\omega \in (0;1)$ ;

- $x_j$  is the expert evaluation of the parameter from 1 to 10 marks, where 1 is the worst score, 10 means that this characteristic fully compliant the best practice of intellectual property management in the

chosen market. The overall integrated assessment of management effectiveness is defined as  $\Sigma\omega_jx_j$ . For example, as the result of organization intellectual property management system diagnostics we have gotten its subsystem's estimates. They are shown in Table 2.3.

Table 2.3

**Diagnostics of the Intellectual Property Management System at the Enterprise**

No.	Intellectual Property Management Subsystem	Estimate
1	Information support (patent and marketing research)	$\omega_1a_1=0.17*9=1.53$
2	Legal support (intellectual property rights registration and protection, patent and licensing policy development, intellectual property management strategies)	$\omega_2a_2=0.15*10=1.5$
3	Organizational and methodological support (planning, coordination in the field of enterprise intellectual property, organizational form choice etc.)	$\omega_3a_3=0.17*8=1.36$
4	Intellectual property objects' generation (their structure, dynamics, commercial potential)	$\omega_4a_4=0.11*8=0.88$
5	Commercialization, intellectual property transfer (forms, documental support)	$\omega_5a_5=0.1*10=1$
6	Intellectual property objects' estimation, inventory, taxation, accounting	$\omega_6a_6=0.1*9=0.9$
7	Staff support (organization staff structure, its motivation)	$\omega_7a_7=0.1*10=1$
8	Financial support (amount and sources of financing etc.)	$\omega_8a_8=0.1*8=0.8$

Source: [5, p. 45]

So, the final integral score is:

$$X_{\text{integral}} = \Sigma\omega_jx_j = 1.53 + 1.5 + 1.36 + 0.88 + 1 + 0.9 + 1 + 0.8 = 8.97$$

Obtained score is 8.97 (or 89.7%) from 10 possible marks. This is evidence of fairly high level of intellectual property management system effectiveness at the enterprise. It confirms good starting opportunities for offensive strategies realization.

Intellectual property strategic management subsystems are organically linked with intellectual property management subsystems and implemented through appropriate strategies.

According to different sources and authors approaches we have

generalized intellectual property management strategies' classification [1, 2, 6, 9]:

I. Strategies for implementation:

- Global strategy is important for international and transnational companies and also in the world trends' study of intellectual property development.

- Central, regional, sectoral strategies are being implemented in science-technical, innovation, technological politics and realized within national, regional, sectoral innovation systems.

- Institutional strategy is realized at the specific economic entity level.

II. According to the objects of intellectual property rights' protection form there are distinguished such strategies as patenting and commercial secret preservation. Main patenting strategies are:

1. Strategies are used for obtaining patents on various aspects of the same innovation [8, p. 67].

1.1. Umbrella patents strategy provides maximum coverage of basic intellectual property rights object all possible modifications. The example is IBM patent for atomic force microscope.

1.2. Patent fence strategy is the situation when firm surrounds its main patented intellectual property object by non-improving substitutes patents. Non-improving substitutes are inventions, functionally identical to the main.

1.2.1. The strategy of blocking patents is the strategy oriented to patent holder protection of the technical directions where he can't work out and fabricate products. So he wants to block them from competitors.

1.2.2. Dead patents strategy is used for developments which will not be realized. Its aim is to slow down competitors' development and to prevent them from entering the market.

1.3. Deblocking patents strategy provides products exit from the action sphere of competitors' blocking patents.

1.4. Patent thickets strategy is oriented on creation of intellectual property rights' objects thick rights' net which the company-competitor need to break on the way to invention commercialization.

1.5. Local patents strategy allows for all known technical decisions analyzing and selecting of minimum number of signs which are used in all these decisions (Zinger's patents strategy).

1.6. Adaptation patents strategy is advisable when selling equipment or technologies which need refinement.

1.7. Patent flooding strategy is opposite to patent fence strategy.

Flooder surrounds innovator's patent or technology by his patents so that over time innovator loses the possibility to use or improve his development effectively.

1.8. Underwater patents strategy is the strategy according to which company submits patent applications on technologies or separate elements. This company will never use them. But it will help to protect from competitors.

1.9. Disorienting patents strategy uses patents where deliberately work results are distorted and invalid constructive solutions are presented for competitors' disorientation.

1.10. Patent ever greening strategy is directed on patent monopoly extension and development exclusive use prolongation through getting secondary patents shortly before the original patent expiration.

2. Strategies are connected with intellectual property commercial and marketing functions realization.

2.1. Rentier strategy is the strategy of invention patenting. This invention is the base of complex product or product with significant consumer demand production. This strategy provides getting income from the transfer on a licensed basis of the right to use the invention to other persons.

2.2. Patent ambush strategy is implemented in those branches where the standards for product production are used. These standards are based on patented developments. The owner informs other participants about the patent only when the standards have been adopted.

2.3. Batch licensing strategy is realized by right holder to oblige users to buy rights on many technical decisions instead one that they need. Such working price is much higher than one technical decision price.

2.4. Masking patents strategy means concealing the true intentions of the patent owner. For example, it is used at the conquest of new markets to disorientate competitors who analyze market participants' patent portfolios.

2.5. Advertising patents strategy provides patents using for the purpose of advertising.

2.6. Tender patents strategy is advisable when patents are necessary to take part in tenders on equipment or technology development for the purpose of victory probability increase.

2.7. Reporting patents strategy is implemented for projects reporting requirements compliance. The application is submitted for report regardless of the development actual state.

2.8. Additional obligations or concealed remuneration strategy is provided additional obligations and incomes which are not covered by the patent. For example, Google provided a program to use also foreseeing the need to install search engines for all users including smartphones.

2.9. Excessive demands strategy provides patent holder agreement for transfer of the property rights on objects of intellectual property rights to other subjects. But patent holder tries to provide excess royalty. For example, Samsung use such strategy towards Fujitsu.

2.10. Patent trolling or patents-killers strategy is realized by nonproductive company. It offers the market nothing. But it buys rights from their holders for conducting court cases with big firms in order to obtain a retort or undermine the competitor credibility. For example, ICom GmbH used such strategy towards Apple.

III. In a competitive position there are such strategies.

1. Innovation leader strategy is the strategy of a small number of companies. They are oriented to capture and preservation of dominant positions in high-tech branches and on the market based on new product or process development. Usually this strategy is implemented within consequent offensive and defensive strategies realization.

Offensive strategy is focused on base objects of intellectual property rights with high commercialization potential due to creation of new branches, markets, wide segmentation possibilities. This strategy is implemented through patent strategies, early interception of ideas, research leadership. It realizes such principle: "do your objects of intellectual property rights morally old". Don't wait when your competitor do it. Offensive strategy is characterized by "queen effect". U.Knudsen interprets it in such way: "While you are running competitors bite you behind. But if you stop they will eat you". Firms used this strategy are called "supernovators". Their market share is 2-2.5% from common firms' number.

Defensive strategy means to attack quickly and unexpectedly. Usually it is used for maintenance and strengthening leading positions on the market. Companies used this strategy are called first wave imitators or "novators". Their market share is 13-13.5%. Their aim is monopoly establishing on the market segments formed by the objects of intellectual property rights creators but not influenced by them. This strategy is implemented through "creative imitation" and "smart second" strategies. Defensive strategy is realized by such companies as De Beers Consolidated Mines, General Mills. In their activity creative imitation is

supplemented by the outpacing strike strategy.

In general offensive and defensive strategies are implemented also through such strategies as price leadership, products differentiation, rationalization, “market niche” mastering and filling, merger and acquisition, orientation on small high-tech firms etc.

2. Follower strategy provides paying attention on gradual intellectual capital and objects of intellectual property rights portfolio extension. It will permit to move from simple imitation to creative, then to knowledge generation and business individualization. Firms used this strategy are called “early majority”. Their market share is 34 %. At the macro level, classical in the implementation of this strategy can be considered the experience of Japan and South Korea.

3. Outsider strategy is traditional strategy. It provides episodic objects of intellectual property rights using when they or products have already been taken by the market and shown their commercial evaluation. Such firms don’t develop their own objects of intellectual property rights. They are called superconservative. Their market share is 16 %.

IV. For development source of objects of intellectual property rights portfolio there are such strategies: internal (closed) and external (open). This approach shows what sources prevail. The firm creates own intellectual property objects and issues the rights or borrows them from other owners.

V. By the way of objects of intellectual property rights receiving:

- Independence strategy suggests availability of considerable science-technical, staff, information, financial potential as the base for own objects of intellectual property rights creation.

- Acquisition strategy points to external transfer chosen form of necessary objects of intellectual property rights.

- Participation and cooperation strategies provide definition of form, character, participation terms, partners’ goals in objects of intellectual property rights creation. One of the forms of such strategy implementation is strategic alliance. For example, strategic alliance NUMMI created by General Motors and Toyota Motor.

- Integration strategy proposes some ways for objects of intellectual property rights portfolio development through joint venture creation, merger and acquisition.

VI. For degree of objects of intellectual property rights portfolio change there are radical and improving strategies. This classification shows the innovation transformation depth. These strategies are realized

through engineering and reengineering.

VII. For the character of intellectual property management there are strategies of centralization, subcentralization, decentralization, mixed. This classification allows to determine the degree of enterprise independence while decision making towards intellectual property strategic development.

VIII. For the type of innovation behavior there are such strategies as violet (“proud lion”, “mighty elephant”, “slow-moving hippopotamus”), patient (“cunning fox”), exploratory (“swallows”), commutate (“gray mice”).

IX. For business processes types of intellectual property management there are strategies of formation, saving and protection, transferring, using.

X. For the commercialization way there are strategies:

- Authorized capital formation strategy is advantageous for institutions of higher education and science organizations. According to this strategy they may form small and middle science innovation enterprises.

- Image making strategy provides positive impression about enterprise based on using unique technology or well-known producer license.

- Financial and economic activity optimization strategy means that the objects of intellectual property rights increase enterprise assets or reduce taxes.

So, such multicriteria approach evidences about enterprise intellectual property development and using vectors variety. From the other hand, it also shows the presence at the enterprise strategic set structure different types of intellectual property strategies with different ways of their combination. Their using will help to form balanced organization intellectual property rights portfolio and its effective implementation.

That's why in knowledge based economy intellectual property strategy formation and realization take dominant position in the modern high-tech enterprise strategic management. Choosing and using particularizes of different intellectual property strategies types are determined by the external and internal factors difficult complex. Therefore future researches perspective directions are intellectual property strategies combinations systemic investigation and strategic management methodical instruments implementation for strategic alternatives choice foundation when enterprise optimal strategies

portfolio forming.

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## Chapter 3

# STRATEGIES OF COMPETITIVENESS IN ENSURING OF DEVELOPMENT THE ECONOMIC ENTITIES

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**THEORETICAL  
BASES FOR THE  
APPLICATION OF  
DIRECT MARKETING  
AS A TOOLKIT OF  
ECONOMIC  
ENTITIES DEVELOPM  
ENT UNDER  
CONDITIONS OF  
ECONOMY**

In the modern business environment, the traditional price wars do not provide the desired effect, because the consumer needs something more from the seller than just low prices. Low price, mass advertising and traditional marketing do not guarantee successful sales. For modern economic entities the use of technologies of direct marketing and marketing databases allows to communicate with each client as if they are the only one who increases the profitability of cooperation. In such a situation it is important to properly use the tools of direct marketing.

Therefore, it is important to determine the influence of direct marketing as a toolkit for the development of economic entities in e-Economy on the behavior of the modern consumer (internal and external) and to just if the feasibility of its use in operating activities of economic entities.

Unlike the vast majority of other communication tools, direct

marketing is different in that it excludes the presence of different intermediaries and retailers. This sales option uses contact with buyers to distribute a particular product directly, relies on advertising, which requires immediate response, and is not only intended to familiarize consumers with the features of the commodity products offered to them.

Direct marketing pursues a long-term, mutually beneficial partnership between well-known buyers and the manufacturing company.

After analyzing the tendencies of the development of modern society in Ukraine, we will determine that the information revolution in combination with new directions of development of biotechnology, robotics the creation of automated systems has led to the emergence of the sum of knowledge about a new type of society – the informational one. “The global economy was not created by markets, but by the interaction between markets, governments and international financial institutions”, says M.Castells. Fundamental shifts in economic activity caused by emergence of information technology, received the title of “new economy”, which was called to become the foundation of the mega-community, which is formed. “New economy” is not by chance called “knowledge society”, emphasizing the special role of science and education in the development of modern production. The new economy, which heads the Internet business, is not a network economy, it is an economy driven by information technology, which depends on self-programmed personnel and is organized around computer networks.

Direct marketing as a toolkit of development of economic entities in terms of e-Economy uses many tools in its arsenal, among which are the most popular and classic – direct mail (address and non-direct mailing), personalized sales, postcards and e-mail, and phone presentations, the original self-mailer, exhibition exposition, which is possible in modern conditions. [3, p. 1023]. The advantages of direct marketing are in Table 3.1.

There are various forms of direct marketing that differ in how the appeal is delivered:

1. Direct mailing. Delivery of any goods or messages in this case is carried out by the postal service or any private delivery service. The success of this system is based on the quality of mailing lists, text and packaging.

2. Catalogs are divided into four categories: offering a holistic product line, retail, the business to business format and specialized consumer catalogs.

Table 3.1

**Advantages of direct marketing**

No.	Advantage	Explanation
1	2	3
1	Target audience selection	Direct marketing provides an opportunity to segment the market for various categories of consumers, and to identify those consumers who need the product offered by the company
2	Geographic location selection	The use of direct marketing makes it possible to control the delivery of advertising exactly to the region where the main part of the consumer market is located, and to isolate those regions where consumer density is low and advertising costs do not pay off
3	Selection by demographic criterion	Differentiation by age, sex, nationality, marital status will allow a more rational use of funds for advertising: information about the product will receive the person who needs it
4	Use of psychological aspects	Using telemarketing allows you to set preferences, lifestyle, consumer habits and adjust the supply of a product for this information
5	Reducing the volume of unnecessary information	With direct marketing you can save on advertising costs of the goods for the entire population, which is only needed for a certain percentage of people.
6	Speed of response	In direct marketing the speed of a possible response is the highest among other types of advertising
7	Counting the feedback value	In direct marketing, counting the value of feedback on the informed consumer is much easier than the same indicator in the outdoor advertising
8	Possibilities of the answer	With the help of direct mail, telemarketing, or other method of contact with the consumer, a wide range of contact information is provided, and having more possibilities to find an enterprise, the probability of contact of the consumer with the enterprise also increases
9	Possibility of contact with the audience at the place of its location	Using databases of individuals and legal person, an enterprise will have the opportunity to offer goods to a potential or already existing consumer and at home, at work, and even during rest

*Table 3.1 (the end)*

1	2	3
10	Obsessive	Possibilities to avoid obtaining information from the enterprise by the potential consumer are much less than in the case of television, radio, newspapers, etc.
11	Testing	Testing of direct marketing activities is often used on a limited volume of people (sample) selected from the total volume of the target audience of the enterprise (total population). This is done in order to assess the possible performance of economic entities. In other types of ads testing is very difficult and costly
12	The cost of direct marketing activities	The ratio of the cost price for direct marketing to consumer's response is the highest compared to a similar ratio in outdoor advertising or in the media

3. Mass media. This option is one of the most commonly used when advertising information about a particular product is spread in various newspapers, magazines, TV channels and other media.

4. Phone marketing, which is currently carried out by thanks to incoming and outgoing calls.

5. Interactive marketing, which includes the use of interactive computer systems that integrate sellers and buyers in real time. There are two main marketing channel formats: the Internet and specialized commercial interactive services.

This contributes to the benefits of direct marketing, the use of which creates more convenience and reduces the buyers time to search and purchase goods / services; provides the buyer with the choice of a larger number of trading enterprises; contributes to long-term relationships with each buyer and employee of the company; is a more economical and effective method of selling goods / services to potential buyers and potential customers. The disadvantages of direct marketing are in Table 3.2.

Also, the cons of direct marketing can conclude: high cost of manufacturing and distribution of advertising appeals, which may not be difficult for small economic entities; the difficulty in verifying the effectiveness of direct advertising. To do this, you need to order special tests, which leads to an additional increase of cost of direct marketing; a large number of promotional materials can annoy those who receive

Table 3.2

**Disadvantages of direct marketing**

No.	Disadvantages	Explanation
1	Updating data bases	The correctness of information in data bases and them a intenance of their relevance are carried out with considerable time and money costs
2	Imposition	The consumer’s receipt off requent reminders about a company can negatively affect there lation ship
3	Use of personal in formation	Personal in formation canon lybe used with the consent of the individual. Use with out consent gives the right to an individual to sue an enterprise
4	Mistrust	Mainly, personal letters, calls, e-mail sareless trusted than TV, radio, newspapers, etc.
5	Lack of personnel	Creativity, know ledge of psychology, leader ship skills, possession of direct marketing and marketing technologies hould be available from a specialist in the direct marketing of economic entities. The presence of such specialists is limited.

them; if the advertiser does not know the target market well, a significant percentage of sent adverts won’t be responded and won’t be effective [1, p. 465].

Types of direct marketing:

1. Traditional: individual (personal) sales; direct mail marketing; catalog marketing; phone marketing.

2. New: direct telemarketing; online shopping.

3. 1) Individual sales are the most typical form of direct marketing. Thus, we can formulate some of the communication features of individual sales:

- the pronounced character of personal sales allows establishing a long-lasting personal relationship between the seller and the buyer;

- the process of personal sales involves a certain and immediate reaction from the buyer;

- personal sale ends directly with the purchase of the goods;

- at the same time, personal sales – the most expensive type of communication;

- another serious disadvantage of this form of direct marketing is the relatively small audience.

2) Direct mail marketing includes: post mailing of letters, promotional materials, samples of goods, booklets to potential buyers for addresses from mailing lists.

3) Catalog marketing is a direct marketing method with use of catalogs of goods that are sent to buyers or presented in stores.

4) Telephone marketing (telemarketing) – use of the phone as a vehicle of direct sale of goods to customers. This method has become the main method of modern direct marketing [1, p. 466].

Thanks to the e-Economy, new direct marketing channels include:

1. Direct telemarketing: direct sales advertising, home buying channels.

2. Interactive marketing (buying online).

Direct telemarketing is the marketing of goods and services through promotional TV videos, programs using the feedback element: phone numbers that allow buyers to contact for more information or order a product / service for free.

Interactive marketing or online shopping is a fast-growing direct marketing form that involves the use of real-time communication channels and e-commerce tools.

An important element of marketing communications is direct marketing, which plays an increasingly important role in the influence on consumer behavior. For successful implementation of direct marketing programs some prerequisites are needed, it is primarily the creation of relevant databases about consumers at economic entities. Such databases should contain the names of the consumer firms or the customers' surnames, their addresses, telephone numbers. Database in direct marketing are closely linked to CRM – concept of management of relations with consumers or customers, which allows consolidating all customer information, and streamline all stages of relationships with customers from marketing and sales to after-sales service.

Direct marketing, as a tool of development of economic subjects in conditions of electronic economy also helps in creating a positive company image in the community, maintains relationships with customers, and discovers their needs, attitude to the goods and services. After analyzing it, the company is able to modify the range of products on the market. However, the most important thing is that direct marketing gives the maximum efficiency and selectivity of the impact, allows to calculate in advance the rate of return on each invested currency unit, relying on the attracted and interested client.

In this way, direct marketing is mostly effective when it is possible to refer to relatively small (when compared with the readership of newspapers, for example) group and hope to find there maximum quantity of potential, and real buyers in time.

Also direct marketing involves the implementation of marketing programs for consumer awareness, development of instructions for sales and organization. Most of the strategies of direct marketing provoke the failure because of the leaders of domestic enterprises and responsible for advertising staff create inefficient program of integrated marketing communications (IMC) for building of a long-term relationships with potential and existing customers [4, p. 217].

According to Direct Marketing Association direct marketing is an integrated marketing system that uses one or more media (mass-media) for advertising to cause a certain feedback in any area of business activity of economic entities, and these reviews are entered into the database. Most of the strategies of direct marketing include a combination of three or more advertising media to achieve a certain feedback from potential customers.

Traditional marketing opportunities such as direct mail and telemarketing are becoming more expensive and less successful. Nowadays Internet, which offers an attractive alternative with important advantages, becomes an effective tool for implementation of integrated marketing communications.

Economically developed countries are constantly improving methods of direct marketing as one of the most effective means of selling goods. The most modern forms of direct marketing specialists consider direct response television marketing and interactive marketing.

It is advisable that the system of marketing policy relations in the service company included:

- introduction to the organizational structure of management of economic entities of new management units – CRM, PRM, SRM, HRM;
- development of relevant strategic directions and their implementation;
- creation of information and analytical center;
- formation and maintenance of an interactive and multi-channel communication system of economic entities with stakeholders in the process based on a feedback system.

This approach will allow implementation of the marketing policy of the relationship of the enterprise, which will be focused on enhancing of the competitive advantages caused by the formation and active use of relevant complex information. Such a policy will allow the top management of economic entities to show flexibility in making effective management decisions [2, p. 155].

It should be noted that direct marketing, as a toolkit for the

development of economic entities in the electronic economy at the present stage, is one of the most rapidly growing areas of not only marketing communications, but also the entire marketing activity in general. If we conditionally divide the marketing budget into “classic” marketing and direct marketing, the ratio between them will be in developed countries of Western Europe, respectively, 50–60% to 50–40%, in average in Eastern Europe - 80% to 20% in Ukraine - 86-88% to 14-12%.

The main factor contributing to the increasing role of direct marketing and the growth of its share in the communication budget is also the improvement of direct marketing tools. In the first place, this concerns the widespread introduction into the practice of direct marketing of the latest information technologies.

Effective use of direct marketing tools will influence the awareness of all participants in the shareholder-manager-personnel-consumer system, coherence, and the performance and productivity of the enterprise and its staff.

The use of direct marketing technologies as a toolkit for the development of economic entities in an e-Economy is necessary to improve the efficiency of economic activity. This is due to factors such as: increased demand for direct advertising services; development of the industry of distance selling and mobile communications; the emergence on the market of specialized agencies and organizations that provide services for direct marketing and sales of targeted databases; the need to establish personal contact with consumers; introduction of the concept of customer relationship management. Difficulties in the use of direct marketing by Ukrainian enterprises consist primarily in the lack of experience in using this marketing tool, while in the west firms use significant marketing tools through direct marketing.

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**CORPORATE  
GOVERNANCE AS AN  
ELEMENT OF FULFILLING  
SOCIAL TASKS OF  
ENTERPRISES**

### **1. Preliminary remarks**

For contemporary societies, issues related to business and entrepreneurship have become the basis for creating a new system of values. This affects the social situation of nations, hence the need to regulate the behavior of economic entities in relations with the environment (competitors, suppliers, recipients, local community, regulators), so that it is possible to eliminate pathological behaviors that often lead to a crisis of trust between market participants. The market mechanism is not only valuing, but also valuing and regulating functions. It is also necessary to properly formulate and give weight to this problem in the Polish economic reality.

The increase in the mobility of capital in the international space has become one of the causes of economic integration and globalization of

financial markets, the effect of which is particularly visible on the capital markets. Despite the lack of barriers to the flow of capital, there is still a difference between the level of inflow of investments to countries with developed and emerging economies. A set of corporate governance principles can be an important instrument strengthening the competitiveness of the market, because it satisfies not only the consumer needs of customers, but also the requirements of the company's social environment.

Issues of corporate governance are increasingly recognized as important determinants of the functioning of market entities. Transparent mechanisms of functioning of corporate governance, limiting the field for corruption, are also considered as an important element of modern democracy. The quality of legal regulations in the scope of controlling the operations of companies is of great importance in the conditions of growing competition, technical progress and deregulation of markets, including financial ones.

## **2. Corporate governance - theoretical approach**

Corporate governance is an ambiguous concept in scientific understanding [Sołtysiński, Szajkowski, Szumański, Szwaja 2005, p. 451], because it contains elements of micro and macroeconomics, sociology and psychology. For this reason, it can be understood in various aspects, as evidenced by the definitions presented below. In the original sense corporate governance is a set of norms and principles that guide (or in terms of the model – should be guided) managers of companies or organizations. We can also understand corporate governance as attempts to develop and implement the principles of good practices, habits regarding the functioning of enterprises (especially public companies) on a given capital market and in the wider environment.

In a narrower sense, corporate governance includes individualized rules for managing and supervising companies and determining the rights of their shareholders. It is often presented as “a description of the habits that provide companies' capital providers with certainty of return on investment. In a broader sense, the mechanisms of corporate governance can be understood as legal and economic institutions that can be changed through political processes” [Shleifer, Vishny 1996, p. 5], which indicates the possibility of impact of corporate governance principles on the investment attractiveness of a given capital market.

In a broad sense, corporate governance is understood as any action aimed at incorporating a network of relations between corporate

managers (management and supervisory boards of companies), directors and persons having the sale of equity securities. More generally, it is the corporation's relationship to shareholders and society. There is no doubt that in both dimensions corporate governance is undergoing transformation in the era of globalization.

Many definitions of corporate governance are simply descriptions of practices or preferred orientations in this matter. Many authors describe corporate governance in terms of the system of its building and shaping, as well as operating and controlling the company with the prospect of achieving long-term strategic goals. The goal of such actions is to achieve satisfaction of shareholders, creditors, employees, customers and suppliers as well as fulfillment of legal regulations and demands of the local community. In the globalizing economy, an important aspect of corporate governance seems to be the impact of external factors, including impulses flowing from other capital markets, on the development of specific regulations in a particular country. In the most common terms, shareholders are defined as owners of public companies. Ownership of shares refers to specific rights, including the right to dividends or ownership, however, in most systems, in practice, ownership is not tantamount to using opportunities (eg, influencing the decisions of the management of companies). In more developed capital markets (especially in the Anglo-Saxon system) shareholders' rights are emphasized and respected to a greater extent.

Corporate governance is becoming an increasingly important issue in the functioning of public companies. It regulates the way of organizing information flow processes within companies, supervision and internal control. It is also the basis for shaping the relationships between enterprises and the market environment, including primarily with shareholders. Corporate governance principles are implemented in enterprises in order to improve the transparency of their functioning, strengthen shareholder rights and improve the quality of communication between companies and investors.

Corporate governance is the basis of responsibility in companies, institutions and enterprises, considering on the one hand the pursuit of business and social goals, and on the other – simultaneous support of the aspirations of individuals and teams. The proper management structure is of fundamental importance for strengthening the progress of economies (in particular emerging markets) to prevent the creation of illegal structures and behaviors. Despite the growing interest in the subject of corporate governance in the entities of the global economy

and discussions on the formulation of policy and development of the best corporate management practice, based on unbiased and objective research and collective expertise of its person and institutional members, this issue has a number of problems and inaccuracies. First and foremost, they result from the failure of members of supervisory boards and boards to properly fulfill their obligations. This is all the more important in the era of development of telecommunications techniques, which allow the shareholding of companies to provide more and more detailed information.

Corporate governance can also be defined as any activity aimed at including a network of relations between corporate managers (management and supervisory boards of companies), directors and persons who perform buy / sell operations on capital markets. This concept can also be understood as a corporation relation to shareholders and society.

Corporate governance, which is gaining more and more popularity in public companies, can also be defined in other ways. First of all, this is any activity connecting people interested in the company. Second, it is the relationship between the company and the owners of capital or society. Thirdly, these are all legal regulations, customs and behaviors of capital market members, aimed at attracting investors. A positive effect of a well-implemented corporate governance system is the strengthening of the economy and socio-economic development. Effective corporate governance [*The Globalization of Corporate Governance 2010*]:

- promotes effective use of financial resources (in the company and in the economy);
- ensures that the company is managed in accordance with the principles of law, regulations and public expectation;
- supports efforts to reduce corruption in business transactions and attract investment capital by raising the confidence of both domestic and foreign investors.

Legal regulations in the field of corporate governance are designed to provide a “pro-developmental balance between the interests of all entities involved in the functioning of corporations.” Achieving this balance is possible due to the appropriate formulation of economic and legal principles (formal and informal, eg through the system of values used in enterprises), both by state authorities, market institutions (eg capital market) and the companies themselves. Appropriate structure and construction of corporate governance principles allows for building

a network of relationships based on the fair functioning of entrepreneurs and the business environment (including the local community).

Enterprises operate in the system of entities connected to each other and mutually powered. In return for capital from investors, they offer a dividend, employees provide remuneration and motivational systems for their work, while co-operators have the option of long-term cooperation. Corporate governance is necessary for the proper functioning of all these systems. Their regulation is necessary due to information asymmetry that occurs between people employed in enterprises (insiders) and their owners or the external environment. An incomplete picture of the company's situation may lead to withdrawal of capital or problems with establishing cooperation.

### **3. Corporate social responsibility and social tasks of enterprises**

Corporate social responsibility (more often referred to as corporate social responsibility, corporate social responsibility, CSR) is defined as the concept by which companies at the stage of strategy building voluntarily take into account social interests and environmental protection, as well as relations with various stakeholder groups.

Therefore, it covers not only formal and legal requirements for the functioning of enterprises, but also making investments in human resources and relations with the company's social environment. Meeting the needs of all stakeholders (and thus conducting social dialogue) is one of the key elements of raising competitiveness by enterprises in a long-term development strategy. This is not only about providing products for which customers report demand, but also investing in common goods, such as environmental protection or ensuring fair competition. The cost of adapting to the requirements of the modern economy, which is open to the environment, is treated as an investment in the continuity and development of the company.

The state administration is also involved in creating an environment conducive to the development of socially responsible business. This is done by, for example, creating a legal framework for the functioning of markets, public companies or their individual bodies (supervisory boards, boards), providing the basis for the operation of companies friendly to stakeholders: caring for the interests of shareholders or shareholders, providing an adequate level of remuneration to employees or contributors to market all necessary information (eg by running websites and investor relations activities). This is the role of corporate governance in legal regulations.

Corporate governance and corporate social responsibility are the most important elements building public confidence in the market economy [GREEN PAPER 2011]. They are also a factor increasing the competitiveness of enterprises on a regional and global scale, because properly managed, guided by the principle of sustainable development of the company are best prepared to meet ambitious goals, compete on the market and satisfy the needs of the internal and external environment.

There is a close interdependence between economic and social phenomena in theory and practice. It is therefore necessary to strictly define the nature of the relationship between these spheres. Modern companies are required to perform economic and social tasks at a high level, including non-productive functions: towards the crew and the external environment [Pisz 2002, p. 404-407].

Finding a balance between maximizing profit and moral responsibility towards the environment is undoubtedly a difficult task, but it is possible to implement thanks to honest management of information and making investments in human capital. Tasks set for enterprises in the modern market economy are feasible due to appropriate wording (at the state, market and company level) and fulfillment of corporate governance principles.

The human capital has a growing significance in the contemporary global economy, hence it is based on information and knowledge. Under the concept of human capital we can understand the knowledge and creativity of employees, their unique skills and loyalty in relation to the employer. A properly constructed system of corporate governance principles must also be based on the proper way of personnel management by the HR department. Managing people in the enterprise, recently called human resources management, is "... a process of legitimate and intentional influence on subordinates, appropriate shaping of their professional behavior, conducive to achieving the assumed organizational goals." Of course, this process should also include the element of selecting appropriate staff in such a way that the achievement of goals is possible with the least possible problems, dependent and independent of the behavior of individual people. The implementation of goals leads to shaping the image of the company's values in the minds of the stakeholders.

The work of staff within each organization affects clients and investors, as well as other participants in the company's life. Particularly important role is played by HR specialists who combine in various

combinations the interests of clients, investors, managers and employees. They deal with people, productivity, information and work, thus creating the right infrastructure. On the other hand, thanks to a well-organized information system, it is possible to achieve a proper representation of stakeholders' needs, which in turn is a source of further development and an incentive to implement innovations that can improve the functioning of the entire system of connections that the company is. By defining the recipients of the services and goods that the company can provide, clearly defining their expectations, adapting the HR department's work to the values important to them and engaging them in the company's operation, the company provides stakeholders with services that create value and ensure loyalty, as well as give satisfaction from work. Such activities allow for building social capital (ie building positive relationships with all interest groups in the company's environment), which in turn translates into goodwill. These processes are not without significance for its market value.

#### **4. The role of corporate governance in fulfilling social tasks of enterprises**

The proper regulation of the legal rules governing the functioning of capital markets is fundamental to strengthening the progress of economies. It prevents the creation of illegal structures and behaviors, conducive to the misuse of information. Insufficient corporate governance systems may therefore lead to inefficient operation of enterprises. The quality of legal regulations in the area of controlling the operations of companies is of great importance in the conditions of growing competition, technical progress and deregulation of financial markets.

As regards the management of information about companies, investor relations understood as overall communication activities of the company allowing effective management of information flow between the company and capital market participants are also very important. The goal of investor relations is to build the company's credibility in the eyes of investors and analysts. Effective investor relations facilitate a reliable valuation of the company by the market and enable raising capital through the stock exchange.

There are external mechanisms to control the operations of companies, including issues in the field of corporate governance. These include: competition; capital donors, including banks; legally required necessity to prepare financial statements and balance sheets; government

regulations; labor market; media; threat of hostile takeover.

The most frequently discussed aspects of corporate governance that are covered by good practice regulations are [Roe 2003, p. 85]:

- respecting shareholders' rights; companies should respect the rights of shareholders, as well as help shareholders exercise these rights. It is possible thanks to effective communication of information in a comprehensible, accessible and encouraging way for shareholders to participate in general meetings and company's operations on a daily basis;

- respect for the interests of people involved in the day-to-day operations of companies (so-called risk carriers), including the local community;

- the role and responsibility of the board; Management needs skills and experience to be able to deal with various issues related to the company's operations and should have the ability to obtain and use information, which facilitates the management process. In this matter, it is necessary to construct a management board (a combination of managerial and non-executive positions) in order to exercise control over capital entrusted by investors with an appropriate level of commitment;

- integrity and ethical behavior; ethical and responsible decision making is important not only for public relations, but it is also necessary to act in risk management. Companies should develop corporate governance principles to keep directors and managers and make ethical decisions.

- transparency of the company's achievements; companies should publicly explain roles and responsibilities of management and management to provide information about the corporate governance status of the company to shareholders. They should also implement requirements to independently verify and protect the integrity of the company's finances. The disclosure of information about the organization, especially its financial data, should be made at the required time and designed to provide all investors with access to information.

The corporate governance principles are determined by the power of influence of state authorities, conditions of competition on the market, public expectations of the company and understanding of shareholders' rights by themselves.

Corporate governance rules are often defined as a combination of legal regulations and voluntary private sector enterprise practices. These rules give companies the opportunity to effectively raise capital in the

form of external financing and mobilize human resources to initiate a long-lasting policy of generating economic and social values. It is important to remember to respect the rights and interests of the owners of capital and all rules established in society. In other words, corporate governance is a system by which companies are managed and controlled. It is also connected with minimizing transaction costs of company management, because the processes in enterprises are stable and transparent for all market participants.

The theoretical foundations of corporate governance, undertaken in literature, focus on two opposing perspectives: the owner and stakeholders. On the one hand, the company is treated as an instrument for generating the return rate for shareholders on the capital invested (shareholders' rights must be respected by the supervisory board, general meeting and management), on the other hand the approach takes into account the care of external stakeholders: employees, lenders, suppliers, clients or society (this is a newer approach, from the second half of the twentieth century), a network of long-term contracts connected with the company and trust.

Progressing globalization processes, internationalization of economic activity (crossing enterprise boundaries), development of technology, establishment of enterprise networks, simultaneous cooperation and competition of companies cause the emergence of new tendencies and combining current theories in order to improve management processes and attract companies' capital. Modern competition is based on the use of human resources, knowledge and information, the new phenomenon is also the growing involvement of institutional investors' capital (despite the decrease in the trust of the community to the work of company boards) who have the ability to verify the correct formulation and fulfillment of corporate governance principles in companies. The indicated tendencies of changes in the functioning of business entities cannot be without significance in the construction of appropriate development strategies of companies on the international arena, which is why excessive idealism and separation of the perspectives of business activity evaluation must be modified.

The owner perspective appears most often in the Anglo-Saxon literature of the subject [Brigham, Houston 2008, p. 271], where the right of ownership is considered to be the basis of capitalism, economy and social order (including individual freedom). It derives from the idea of mercantilism, reformation and capitalist traditions (eg the original of a joint-stock company, such as the East India Company, which was

established through the search for the most effective way of multiplying capital and association). On this road, business entities were created – joint-stock companies, transformed in the course of development into corporations, as private associations, which merges individual rights of owners under a common name and ensures them protection of corporate law. The increase in the scale of operations of companies over time has increased the importance of investors (not related to their operation) at the expense of the owners. At the same time, the growth of companies forced the necessity of their undisturbed development in civic society, hence the view of the easement of economic agents towards society.

“Domination of the owner’s interest is the best way to ensure the economic efficiency of the enterprise” [Hayek 1969, p. 124], but even so the most important is the social interest that justifies ineffective decisions. Similar beliefs were voiced by M. Friedmann, who considered creating profit for owners as the main business goal, not disturbed by the interests of governments or the local community (“the only social business responsibility is to increase profits” [Friedmann 1970]). This is a monistic approach, focusing on the pursuit of the interests of one group – shareholders (dominant in the markets of Great Britain, USA, Ireland or Australia), allowing external intervention only in the event of disruption of market mechanisms.

Globalization of capital markets, competition for investor capital, increase in the role of institutional investors in companies, privatization processes or capital consolidation in many sectors are phenomena that increase shareholder role and focus management on the protection of their interests.

The stakeholders’ perspective includes the company’s connections with all stakeholders (individuals or groups of people who influence the achievement of the company’s goals or are influenced by its effects), which makes it necessary for companies to fulfill social goals [Freeman, Reed 1983, p. 91]. It is a dualistic approach that takes into account the interests of shareholders on an equal footing with other people associated with the functioning and development of the enterprise, especially employees or pluralists, where the interests of all cooperators are assessed at the same level of significance (occurs in Japan, Germany, Denmark, Sweden, the Netherlands). It is based on achieving consensus in society and the company. External control systems, such as the government or the capital market, are less important here. The basic value is to build long-term relationships and trust in business partners (eg in Japanese keiretsu). This is a guarantee of a high level of

employment and stable industrial relations. It should be remembered that without the support of interest groups the company could not exist and develop, because they are individuals and economic entities that take over some of the risk associated with the functioning of the company. At the same time, however, many interest groups may interfere with the company's basic tasks, demanding that its claims be fulfilled. They can therefore influence the effects of the company's operations. The enterprise as a social institution is also supposed to pursue the interests of its surroundings (understood as the corporate social responsibility), which is a new global trend. As an interest in the environment, we can define various activities of companies, eg ecological, pro-health, education, philanthropy, etc.

As Figure 3.1 below shows, the approach in developed countries to shaping the relationship between the enterprise and the environment is extremely different. Experience shows, however, that capital is seeking a destination at a place where shareholders' interests are respected, even if more competitive and effective entities operate on another market.



**Figure 3.1 Respecting the interests of shareholders and stakeholders in selected countries (the surveyed collectives account for 100%)**

Source: M. Yoshimori, *Whose Company is it? The Concept of the Corporation in Japan and West*, w: B. de Wit, R. Meyer (red.), *Strategy, Process, Content, Context. An International Perspective*, International Thomson Business Press, Londyn 1998, p. 839.

The entities most involved in corporate governance in specific companies or organizations are: government agencies and state

authorities, stock exchanges, company managers (management board, managing director, managers, shareholders and auditors). Other influential groups may be lenders, suppliers, employees, creditors, clients and the local community.

It is important to identify possible pressure groups whose decisions, caused by personal interest, can affect the way and the effectiveness of the entities' functioning.

The two groups can be distinguished, whose interest and influence on the existence of a public company and disclosure of financial data is stronger than others (eg its lower-level employees or clients): owners without control rights (so-called outsiders) and controlling owners, managers (so-called insiders). The difference between the two groups is primarily access to confidential data related to the daily operations of the company (these data would be extremely valuable to potential investors when assessing the profitability of alternative investments). Investors diversify their portfolios to reduce risk (in line with portfolio theory) and / or maximize revenue – access to confidential data minimizes the risk of investment and may contribute to an increase in revenue. On the other hand, entering into possession of confidential information may cause legal liability for their correct use (which is associated with the prohibition of abuse in their own interest – the so-called insider trading) [Mabe Jr. 2004]. It is obvious that such access is facilitated for people “inside” the company, hence also their resistance to restrictions in the use of possessed knowledge. The “outsiders” group, however, demands equal conditions for market participation.

The principles of corporate governance are used to convince investors that their savings, deposited in the securities of a given company, are used in a rational and safe manner and will contribute to the growth of the investor's income. National jurisdictions place emphasis on the implementation of the corporate governance assumptions by companies in all economic relations, by creating the law protecting the majority of shareholders, limiting the practice of insider trading or just disclosure of financial data. The process of integration of markets, including capital markets, contributes to the rapid flow of information, including legal regulations in individual countries. Proven solutions are used in subsequent jurisdictions, which translates into an increase in the efficiency of entities operating in the global economy, as funds from investment markets are located in entities that best meet the principles protecting shareholders' interests. Owners without the right to control the company in its daily functioning postulate an increase in its

role in the decision-making processes concerning companies. In this way, only entities that fulfill the principles of corporate governance and ensure their shareholders protection of their interests, and at the same time their functioning is transparent and lawful, are able to attract capital not only from the domestic market, but also from around the world.

Corporate governance records more and more often take into account the needs of the local community. The British, American, German, Japanese and French managers have a positive attitude towards the approach of stakeholders [Vinten 2001]. Nevertheless, behaviors different from those declared may appear in the company's day-to-day operations. However, the company's economic results are positively correlated with their social responsibility policy, hence the need to change the attitude of company managers also in its day-to-day operations.

It also results from social premises expressed by politicians or the media, especially during social unrest in a given country – hence it can be noticed that in countries with a stable and dynamic growth trend less interest is devoted to the interests of other groups involved in the existence of the enterprise outside the owners of capital [Financial Times 2008].

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**INFORMATION  
SUPPORT OF  
ENTERPRISES  
MARKETING  
COMMUNICATIONS  
ACTIVITY**

Upon the conditions for the informational economy formation in Ukraine and worldwide, the marketing communications development on the enterprises became more important due to the fact that they are a source and a vehicle of information. The marketing communications are the instruments of high level of efficiency for the entrepreneurial strategy realization. Any kind of strategy is, first of all, a scientifically substantiated system, the full realization of which allows to achieve the established goals effectively.

Informational support is the determining factor for the justification of strategic decisions and the effectiveness of the marketing

communications system functioning. It can be considered: as a resource, on the basis of which the management of the company makes strategic decisions for its further development; as information necessary for the management of economic processes and contained in databases of information systems; as the creation of information conditions for the system functioning. Informational support providing management system with the necessary information by means of searching, receiving, storing, transmitting, processing information and creating data banks (Rohoza, 2009).

Marketing communication strategies are developed by a large number of enterprises, but the justification for their choice is not always evident and identical for different types of enterprises. Changes in production technologies, delivery and sales channels of goods and services, enterprises size, specialization and region of activity, population, level of consumer income, have an influence on the choice of communication tools and accordingly on the information support formation.

At the present stage, the practice of enterprises marketing communications activities testifies the significant information needs of the management. The reasonableness of strategic and operational decisions adoption in the field of communications are not satisfied completely, which is related to the information targeting mainly on the internal environment, and information about external environment has a fragmentary, non-systemic nature. According to domestic researchers, in today's conditions, the amount of information available at the enterprise management disposal has increased by 60% compared to 10 years ago, but time for decision-making has decreased by 3 times. Most of marketing and advertising managers of domestic enterprises recognize the need for continuous monitoring and accumulation of information about the impact of environmental factors on the development of marketing communications activities of enterprises. Such situation generates information volumes increase, its differentiation and a rapid change of its usefulness. The marketing information system (MIS) creating for enterprises communication tasks solution is a topical issue.

The analysis of publications provides an opportunity to note the lack of issues about the formation and implementation of marketing communications information provision, in particular, the integral understanding of information needs, information interests and requests of individuals who take strategic and operational decisions in the field of marketing communications, does not reflect.

Therefore, at the initial stage of information support development, it is important to determine the information needs of advertising, marketing and other departments' representatives on the enterprise.

Accordingly, the main tasks of information provision for the marketing communications implementing are the creation of a system of interdependent, complementary indicators, the formation of information links between economic actors, reducing the level of uncertainty under making strategic communication decisions, provide information for advertising and communication departments' managers in the correct form at the right time (Mazorenko, 2010).

The resources necessary for the implementation and functioning of the information support of the communication activity of the enterprises are defined:

- human resources – personnel responsible for identifying information needs, organizing the research, collecting, analyzing information and providing it to users for making informed managerial decisions;

- information technology – technical, software and organizational support used for storing and processing information and establishing communication between the personnel of the enterprise;

- finance – the cost of labor for the involved personnel, the purchase of software products, marketing researches conduction or buying the results of marketing research, the marketing research agencies services usage;

- information – a set of data that has been pre-processed and can be used for managerial decisions making.

Taking into account expediency and necessity of the MIS introduction, we offer the methodical principles of its development at the enterprises. The establishment of the system is based on the approach of the State Standard of Ukraine “Information Technology. Kinds, completeness and designation of documents when creating automated systems”, but the marketing features of the information system are taken into account and adapted to the advertising industry. The following steps should be:

- 1) identification of information needs for solving marketing communications tasks of the corresponding structural divisions of the enterprise by means of standardized and informal employees surveys. The revealing their needs, problems, requirements to the marketing information system, which can be summarized as a report on the identified needs for marketing communication information character and

expectation regarding the MIS;

2) the assessment of possibilities to meet the information needs of structural units, by showing ways to fulfill the requirements of potential users of the MIS. Comparative assessment of various options in terms of methodological, organizational and financial capabilities of the enterprise is done. The decision about the independent, outsourcing or combined method of content and technological formation of the MIS is made;

3) the development of the MIS concept. The structure, types and formats of incoming marketing data and marketing information necessary for solving marketing communication tasks are formed. The approaches and economic-mathematical methods of their solution are determined;

4) determining the source of marketing information resources. A list of marketing information providers is being prepared. Suppliers can be employees of the company and third parties: the State Statistics Service of Ukraine, executive bodies, industry professional associations (for example, the All-Ukrainian Advertising Coalition, the Association of Outdoor Advertising of Ukraine, etc.), research and consulting companies, advertising industry companies for the provision of advertising services, freelancers, etc.;

5) the development of a technical task for the MIS creation. This document should contain formal requirements, on the basis of which the development of the MIS is carried out. The task can be carried out by the personnel of the agency or a third-party organization;

6) technical preparation and the MIS putting into operation. For the creation of the MIS, new or application-ready software can be developed: typical or adapted, since it was developed for other objects.

Making the decision about the marketing communications complex and its components, the company faces the problem of determining their ratio in the general budget. Researches show that management personnel are guided by their own empirical experience of past advertising campaigns or the behavior of competitors that are copied. Using such a strategy of planning the articles of the communication budget, an enterprise can get a negative result, since it is not always effective extrapolating the experience of advertising one product to another.

For the effective use of marketing information, its distribution among users of the structural subdivisions of the enterprise, depending on their information needs and within their rights and responsibilities were formalized (Table 3.3). Information adapted for use of author's technique Melnikovich O.M. (Melnikovich, 2012).

Table 3.3

**Information needs of the enterprise and possible marketing communication solutions of the employees**

Information needs	Structural divisions of the enterprise whose employees are users of information	Content of marketing decisions of the enterprise on the information basis
1	2	3
Determining the socio-demographic and psychographic portrait of the target audience	Procurement Division, Strategic Planning Department, Marketing Department, Advertising Department, Public Relations Department	Setting up advertising and marketing communication goals, defining the target audience of the company, developing a marketing communication strategy to promote the proposal.
The advertising message quality evaluation	Marketing Department, Advertising Department, Public Relations Department	Selection of advertising materials for the company promotion
Search for new ideas for advertising and communication channels	Marketing Department, Advertising Department, Public Relations Department	Creation of enterprise advertising materials; selecting channels of communication with the target audience
The consumer, cultural, technological and other trends of society development research	Marketing Department, Advertising Department, Public Relations Department	Creating advertising products, selection of perspective communication channels
Media evaluation	Marketing Department, Advertising Department, Department of Public Relations, Media Planning Department	Purchase of advertising space and the development of a media plan
Determining the benefits of the target audience for acceptable advertising and	Marketing Department, Advertising Department, Department of Public Relations, Media	Choice of effective advertising media; selection of potentially effective advertising products; development of

*Table 3.3 (the end)*

1	2	3
marketing communications tools	Planning Department	marketing communication (advertising) strategy for the promotion
The advertising campaign communicative effectiveness estimation	Sales department, Marketing department, Advertising department, Department of public relations, Media planning department	Determining the enterprise activity effectiveness; development of advertising and marketing communication goals and strategies
Estimation of PR messages and PR-campaigns of competitors in the media	Marketing Department, Advertising Department, Department of Public Relations	Selection of information topics for the preparation of PR messages and the frequency of their appearance in the media
The estimation of competitors advertising campaign on television, radio, print media, outdoor	Marketing Department, Advertising Department, Department of Public Relations, Media Planning Department	Choice of advertising campaign acceptable frequency, release period and power in the media; definition the size of advertising budget and its structure; periods of rise and fall of advertising activity during the year, month, week, day
Assessment of enterprise and competitors sales promotion measures	Sales Department, Purchasing Department, Marketing Department, Advertising Department	Choice of acceptable sales promotion measures
Evaluation of information messages in the media about the state, trends and forecasts of the advertising market development	Marketing department, Advertising department, Purchasing department, Sales department (Sales department), Strategic planning department	Determination of the effectiveness of marketing communication activities of the enterprise; setting of marketing objectives of different levels

The possible sharing of data between users-partners of structural subdivisions will allow to solve not only operational, but also strategic marketing communication tasks.

The process of integration of the companies into a single information space is intensified, without which it is impossible to establish and further strengthen the positions weakened during the years of the reform of intellectual potential. Nevertheless, enterprises often encounter lack of information that would meet the specific needs for the implementation of the relevant projects (Dubovyk, 2010).

Researches conducted by the authors have shown that most enterprises have insufficient level of information support for making decisions in the field of marketing communications. The directions of improvement of information for marketing communication are offered in Table 3.4.

*Table 3.4*

**Matrix of marketing communication information provision improvement directions**

Problem	Ways of information support improvement for problem solving		
	Personnel	Technologies	Information
1	2	3	4
Insufficient information about the internal environment	Formation of requirements for financial and managerial reporting compilation in accordance with the information needs of marketing, advertising, public relations departments of the enterprise	Use of information and communication technologies for establishing the relationship between the personnel of the enterprise, use of internal communication facilities of the enterprise	Extension of marketing communications activities indicators set to be evaluated
Low level of information about the external environment	Responsibilities distribution about external environment research between employees of marketing, advertising, PR departments	Use of geoinformation technologies, monitoring systems	Conducting market research about the external environment

Table 3.4 (the end)

1	2	3	4
Weak analytical base	Staff skills improvement. Outsourcing use during complex analytical calculations	Implementation of analytical software products	Data collection suitable for analysis, unification.
Inaccurate predictions, low predictive efficiency	Personnel skills improvement of using forecasting methods. Conducting expert surveys.	Using information technology with forecasting functions, data mining	Gathering information about factors affecting the activity of enterprises and trends in the field of communications

Source: (Savchuk, 2016)

Within these areas of information support improvement, we propose to consider recommendations for information seeking, its accumulation and processing.

Thus, we can conclude that the information needs form the basis of creating a marketing information system and affect the management decisions about communication activities. The correctness of their determination affects on the possibility of reducing the level of uncertainty when making managerial decisions. Improving the process of meeting the information needs of the persons who make strategic marketing decisions in the field of communications involves the creation of a marketing information system of the enterprise, which consists of the following stages: emergence of information needs, transformation into an information request, the search and collection of information, information processing, use information for decision making and assessment the level of consumers information needs satisfaction. Each stage involves different levels of information support development and using different types of data that are used in accordance with the tasks provided. Determining the information needs of marketing, advertising and public relations departments and formulating recommendations for providing the necessary data for their satisfaction will prevent the adoption of false management decisions that can reduce the effectiveness of enterprise marketing communications activities.

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### **FORMATION OF THE BENCHMARKING DEVELOPMENT STRATEGY OF THE PROCESSING COMPANIES OF AGRIBUSINESS**

Conducting a comprehensive study of the process of establishing agroformations involves outlining a clear strategic goal and criteria for its achievement. On this basis, more specific tasks are identified – tactical goals, their targets and indicators of performance [1, p. 54].

In connection with the ever-increasing competition in the domestic market and the integration of industrial enterprises into the world economy, the need for solving strategic problems is growing in the practice of management. In its turn, there is a need to study methodological approaches to forming a strategy for the development of processing enterprises of agro-industrial complex.

There are many definitions of the strategy, but in this article only two authors are defined that give not so much a formal definition as vector directions in developing a strategy that helps to avoid frequent mistakes in the formulation and formulation of a development strategy.

Widely known definition of the strategy of Henry Mintzberg [2, p. 11], given by him in the form of a combination of 5 “P”: strategy – action plan (Plan); strategy is a trick, that is, actions aimed at outrunning their opponents (Ploy); strategy is the order of action, ie the plan may not be implemented, but the order of action must be provided in any case (Pattern); strategy – the position in the environment, that is, the connection with his environment (Position); strategy is a perspective, that is, a vision of the state to which one must strive (Perspective).

The strategy of enterprise development is the definition of the main long-term goals and the tasks of the enterprise, the adoption of actions and the allocation of resources necessary for implementation set goals [3].

The research of agribusiness development problems requires a comprehensive and thorough evaluation of them on a new theoretical and methodological basis.

Processing enterprises of agroindustrial complex in the process of development are in constant interaction with other economic subjects, building relations with their environment: competitors, consumers, suppliers and others. Each form of relationship between elements of an enterprise and elements of its environment is a strategic problem that requires the study of an adequate theory for its solution.

The methodology of forming economic development strategies is “an organic combination of the logic of developing strategic plans, programs, projects, specific methodological principles and approaches, system of indicators, as well as a system of methods for compiling and justifying the optimality of predictive and planned indicators of economic entities” [4, p. 108].

Recently, the process approach has become increasingly used among Ukrainian enterprises. The system approach to management is a principle that is directly related to the process approach. Production and management are seen as a system of interconnected processes, and each process, in turn, as a system that has an input and output, its “suppliers” and “consumers”.

A benchmarking method can be applied to one of the newest and most advanced approaches to increasing competitiveness for export-oriented processing enterprises of the agroindustrial complex.

Benchmarking has long won asympathy, commitment and is successfully used in the practice of Japanese, American, Western European, Scandinavian enterprises.

Most Ukrainian enterprises do not use the concept of benchmarking. Also, not well known and complete benchmarking projects, which would be carried out by Ukrainian consulting firms.

Although, of course, elements of benchmarking are found in many projects to improve the working methods of Ukrainian enterprises.

The scientific concept of “benchmarking” first appeared in 1972 at the Institute for Strategic Planning, Cambridge during the research activities of the consulting group PIMS. Then the basic principle of benchmarking was formulated – in order to find an effective solution in the field of competition, it is necessary to know the best experience of other enterprises that have succeeded under similar conditions.

Benchmarking (from the English benchmark – “beginning”) is a mechanism for comparative analysis of the efficiency of one enterprise with indicators of other, more successful enterprises. Benchmarking (Benchmarking) is treated as a system for evaluating enterprise performance based on comparison with any relevant analogue. But, in essence, there is no unambiguous interpretation of the essence of benchmarking, since this term has recently appeared in domestic science. Benchmarking is designed for:

- Evaluation and comparison of the company’s own capabilities with the capabilities of the most powerful competitors in the industry and other industries;

- Determining the success factors of enterprises that have achieved the best indicators;

- The use of these data as the basis for determining the strategy and objectives of their own enterprise, as well as methods for achieving these goals.

Not every processing enterprise can afford to develop and implement a strategy for the growth of economic potential without the use of positive experience, especially in the current global financial and economic crisis, as it is a very long-term and complicated process that is determined by factors of the internal and external environment.

Strategic changes mean large-scale transformation processes that take place under the influence of the business environment, taking into account the potential of the enterprise. Controlling innovative development involves positive qualitative changes in the activity of the enterprise, changing the current state of the enterprise to a completely

different, more qualitative.

World practice has developed three types of strategies for innovative development of the economic potential of the enterprise, which can be practically used for processing enterprises of agroindustrial complex:

- transfer strategy (involves the use of foreign scientific and technical potential);
- borrowing strategy (is to master the production of high-tech products already produced in other countries, using cheap labor and existing potential);
- strategy of building up (based on the use of own scientific and technical potential, attraction of foreign scientists).

Today, the achievement of the economic development of Ukrainian enterprises through the large-scale introduction into the economic circulation of such products of intellectual work as knowledge, technology, scientific and technical developments, etc., their commercialization and achievement of the socio-economic effect is determined by the model of innovation development of the European Union economy. There are five basic principles of the concept of benchmarking (Table 3.5). To obtain the desired effect, it is necessary to make benchmarking an integral part of the innovative process of improving the production and economic activity of the processing plant.

The process of evolution of benchmarking is similar to the classic model of “transition from art to science”.

At the present stage strategic benchmarking is provided, which is a systematic process aimed at evaluating alternatives, implementing strategies and improving performance characteristics, based on the study of successful strategies of external partners of the partners. Benchmarking is a process of finding a standard or benchmarked, cost-effective competitor for comparison with its own enterprise and borrowing its most effective methods of work.

At the heart of benchmarking is the comparison of the product of a competitor with the product of the company in order to increase the competitiveness of the firm. In a broader perspective, benchmarking is not only an advanced technology of competitive analysis, benchmarking is: the concept of natural development, the desire of firms to continuous improvement; the process of improvement itself, that is, the continuous search for new ideas, their adaptation and use in practice.

Benchmarking provides an opportunity to identify benchmark results of the enterprises of one industry in order to make optimal decisions on the development of enterprises and taking on the best methods of their

Table 3.5

**Characteristics of the principles of benchmarking at the enterprise**

No.	Principles of benchmarking	The essence of the principles
1	Concentration on quality	It is that quality management should be carried out continuously on all aspects and functions of the enterprise, and not only at the stage of providing the service or selling the product to the end user. The main focus is to prevent mistakes and defects, not their recognition and correction. That is, the methods of prevention are based on the concept of benchmarking, rather than reactive methods of product quality management.
2	Importance of business processes	This is a departure from the functional structure of the enterprise and the allocation of its system of basic and auxiliary business processes. This approach is determined by the fact that in a functional organization the responsibility for passing business processes is not fixed by a specific structural subdivision of the enterprise.
3	The need to take into account the imperfection of the classical model of quality management in the process of planning the benchmarking activity	Features of the classical model TQM include: the need for continuous improvement; importance and attention to the buyer; cultural changes; group work; the importance of the contribution and responsibility of each employee; control by the senior management of the enterprise. The results of the implementation of the TQM system are compared with the results of the enterprise before the implementation of TQM. In essence, the decision to implement this system underlines the ineffectiveness of management in the past.
4	Systematic external benchmarking	Aimed at the continuous study of the microenterprise of the enterprise. Employees of the enterprise should also understand the importance of internal business processes and their ongoing study. Management should combine these two analyzes into a single system, which will be the basis for implementing the improvement process at the enterprise.
5	Benchmarking is the basis of survival	At the level of the individual enterprise, Western management argues: without benchmarking, the survival of the organization in an aggressive environment is impossible. In this case, two important prerequisites for the successful implementation of benchmarking are identified: the approval of leadership and the belief practically all employees of the organization in the need for change, often significant.

work. In Ukraine it is impossible to conduct benchmarking due to the closedness of all internal information. It is impossible to conduct a comparative analysis of the structure and dynamics of costs of competitors.

Other strategic problems include ineffective management, low competitiveness of enterprises and their products, inflexible price policy, inconsistency of the personnel management system with market conditions, etc. It should be emphasized that the strategic problem can be aimed at overcoming the weaknesses, as well as on the development of enterprise capabilities and the phased implementation of the benchmarking strategy (Table 3.6).

One of the main problems of many domestic enterprises is the contradiction between the market environment and internal production orientation. It is believed that the best analogue for comparison is the “market leader”. Identification of the factors leading to the lagging behind of the investigated enterprise from the leader makes it possible to reduce the backlog.

Ensuring high competitiveness of the enterprise and growth of its economic potential is possible only with application of benchmarking strategy.

Sequence of benchmarking strategy implementation: 1. Definition of functional spheres of analysis. 2. Selection of factors and variables to be analyzed. 3. Identification of leaders in the industry and beyond, as defined above by factors and variables. 4. Evaluation of the values of all factors and indicators of the activities of leaders. 5. Comparison of leader indicators with own indicators to determine the lag. 6. Developing a program of action to eliminate the backlog. 7. Implementation and monitoring of the implementation of the program. For processing enterprises, we propose the use of three types of benchmarking:

1. Internal benchmarking, which reduces to the analysis and comparison of performance indicators of the various structural units of the same enterprise.

2. Benchmarking, focused on competitors - focused on comparative analysis of goods (works, services), productivity of production processes and other parameters of the investigated enterprise with similar characteristics of competitors.

3. Functional benchmarking, which analyzes individual processes, functions, methods and technologies in comparison with other noncompetitive enterprises. Firms that use similar techniques,

Table 3.6

**Stages of implementation of benchmarking strategy**

No.	Implementation stages	Brief description of the stages
1	Definition of a benchmarking object	Establishing the needs of the enterprise in the changes, improvement; the effectiveness of the enterprise is assessed; the main operations which influence the result of activity are distinguished and studied, as well as the method of quantitative measurement of characteristics; Determine how deep the benchmarking should be. The object can act as a real industry company and some hypothetical company that embodies the best achievements of the industry.
2	Choosing a comparative company	It is necessary to establish what benchmarking will be - external or internal; searching for enterprises that are a benchmark; to establish contacts with these enterprises, to form categories for evaluation and analysis.
3	Definition of information search methods	You need to gather information about your own organization and organization of benchmarking partners. For this, both primary and secondary data are used. The information received should be comprehensively verified.
4	Analysis of information received	The received information is classified, systematized. The method of analysis is selected. Evaluated the degree of achievement of the goal and the factors that determine the result.
5	Introduction of innovation-competitive advantages	Develop a plan for implementation, procedures for monitoring, evaluation and analysis of the implementation process. Ensure that changing processes achieve the highest efficiency.
6.	Rating	Constantly checking the desired changes and business results with the established reference model of your own business organization. On the basis of the received - creation and support of a system of continuous improvement of business performance. The comparison takes place at all levels of activity.

techniques or technologies and are not competitors, willingly go for a mutual exchange of primary information and are interested in

implementing joint projects aimed at improving those or other comparable transactions. Ukrainian enterprises need to study the experience of foreign business leaders in developing a strategic direction for development.

We propose analysis and comparison of indicators of activity of processing enterprises of agroindustrial complex in the implementation of benchmarking strategy on the basis of rating analysis.

Principles of rating analysis for processing enterprises of agroindustrial complex: scientific, as the latest methods of economic research are used; intelligibility for a wide range of users; use of an accessible information base; complexity, wide coverage of all sides of the processing industry; information security rating analysis; independence and objectivity, analysis should be based on reliable information; harmonization of statistical processing of indicators with wide use of expertise; ensuring a systematic approach.

Thus, the rating serves as an indicator of the state of economic potential of processing enterprises of agroindustrial complex.

An interesting innovative and innovative approach to strategy development was proposed by W. Han Kim and R. Mavborn. Their concept is called the “blue ocean strategy”, which differs significantly from the well-known traditional strategies and provides the use of a new market space.

The blue ocean strategy is formulated in general, based on six principles that act as a limitation (neutralization) to individual risk factors. With the wording of the strategy, four of them are related, namely:

- 1) reconstruction of the boundaries of the market, which means the formation of a free market space in various branches of industry, thereby weakening the risk of searches;

- 2) the concentration at building a strategy on a broad vision, rather than on specific numbers, which allows you to master the risk of planning;

- 3) exceeding available demand and attracting entirely new customers should minimize the risk of scale;

- 4) maintaining an appropriate sequence of elements that create a business model that reduces the risk of lack of its effectiveness.

The other two principles relate to the implementation of the strategy, its organizational and managerial aspects. The first of these, due to appropriate leadership, must neutralize organizational risk, the second through the application of the relevant motivational system, reduces the

risk of management associated with the behavior and attitudes of people [6, p. 31].

The innovative direction of forming the strategy for the development of processing enterprises of agroindustrial complex is the basis of the construction of high-tech production aimed at the creation and implementation of innovative products for domestic users and the achievement of large-scale exports.

The methodology of forming the strategy for the development of processing enterprises of the agroindustrial complex is a set of the most important basic approaches that constitute the systemic and integral nature of scientific and practical methods of cognition and includes the following elements: the strategy of enterprise development as a comprehensive plan for achieving competitive advantages in the industry in the form of a single integral system, systemicity and integrity strategic planning, cycle and continuity of strategic plans, use of innovative approaches to development strategy development in order to obtain unique development opportunities.

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

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

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

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

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

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

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

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

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

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

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

*Table 3.7*

**Characteristics of factors influencing the competitiveness of Ukrainian banks**

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

*Source: systematized by the authors*

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

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

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

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

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

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

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

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

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

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

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

Researchers in their writings offer different concepts of competitive

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**INNOVATIVE  
DEVELOPMENT  
MODEL OF  
INSTITUTIONS OF  
HIGHER EDUCATION  
IN THE SYSTEM OF  
STRATEGIC  
PRIORITIES OF  
COMPETITIVENESS  
MANAGEMENT**

At the current stage of social and economic development of Ukraine, education and science develop in the context of European integration and globalization processes. Their social significance is that these areas are intended to create a basis for the nation development on innovative principles, taking into account the needs of both the country as a whole and each person. The rapid development of information technologies and telecommunication facilities, the integration of education, science and production, the state dependence on the processes taking place in the world and the need for their study and adaptation, on the one hand, and the fierce competition between institutions of higher education (IHEs), on the other hand, need to change the priorities of scientific and educational sphere development. Thus, the competitiveness of the education system should be considered as one of the state priorities in ensuring Ukraine's competitiveness at the international level.

With that in mind, the priority task of the development of the higher education system in Ukraine at the present stage is to increase the competitiveness of institutions of higher education among the world's leading scientific and educational centers.

Analyzing the current trends in the evolution of the educational

system, as part of the social and economic development of Ukraine, it should be noted that the educational space is not an exception to the set of areas that fall under the influence of globalization and integration processes. The mentioned above defines the content and directions of the development of all education levels, encourages the search for new forms and learning technologies. The aggravation of the competitive situation in the market of educational services results in an increase in the requirements for educational and other activities of the IHE.

Investigating the problem of IHE's competitiveness, researchers point out that the situation on the domestic educational service market is becoming more and tenser every year [1], while the IHE management system, given its conservatism and dependence on budget financing, is the most vulnerable link in the practice of managing the competitiveness.

In this regard, the issue of ensuring the viability and creating competitive advantages in both Ukrainian and foreign educational services market are becoming very acute for institutions of higher education in the nearest future. Competition is a driving force that forces participants to compete for development. At the same time, competitiveness is a multi-faceted concept, which in the most general sense can be defined as the object ability to win in a competitive struggle.

It should be noted that the concept "competitiveness of the institution of higher education" is relatively new and has quite a lot of definitions. They include from the ability to outstrip other IHEs in achieving the goals set for the present and potential capabilities of the institution of higher education to provide an adequate level of educational services that meet the needs of society in preparation highly skilled specialists, as well as needs for the development, creation and implementation of scientific and methodological and scientific and technical products, both now and in the future [1].

Competitiveness of institutions of higher education, as a category, in the theory of management of competitiveness should be attributed to the object level of an economic entity (enterprises, organizations), taking into account the features of the educational sphere, as a subject area of research. At the object level of the product of educational activity, the competitiveness of educational service (education direction, specialty, program) should be considered, which is the main component of the competitiveness of the IHE.

The works of such Ukrainian and foreign scientists as O.Yu. Belash, V.I. Lugovoi, I.M. Garayev, S.V. Demin, V.A. Lazarev, I.R. Loshenyuk,

S.A. Moknachev, V.M. Mykhailin, N.I. Pashchenko, T.N. Ryabchenko, Kh. A. Fashiev and others were devoted to the problems of evaluation and ensuring the competitiveness of the IHE, and in particular the quality of higher education.

At the same time, it should be noted that scholars are more concerned with the reform of the educational system, paying insufficient attention to the economic aspects, developing tools and methods for forming a market-oriented strategy for management of IHE. This increases uncertainty in the further development of education institutions, limits the possibilities for increasing the competitiveness of educational services.

In order to ensure and maintain their competitive advantages and positions in the ratings of institutions of higher education, more and more attention should be paid to the creation of such characteristics, which in the long run will allow them to compete successfully both in Ukrainian and foreign markets. This is achieved through a well-considered personnel policy aimed at attracting talented professionals with the key competences of a modern teacher: balanced professional and academic training, teaching experience and the possession of modern teaching methods, and through a well-considered marketing strategy in the field of image management and competitiveness of IHE. Therefore, there is a need for continuous improvement of business processes, which determine the strengths of the IHE and is the basis of its competitive advantages.

In addition, one of the main factors of competitiveness is the ability of institutions of higher education to provide the community with highly skilled professionals, competitive both in the domestic and foreign labor market. This expresses in the ability of graduates to apply in practice the knowledge and skills they acquired, their professional success, teamwork skills, career growth, and wage levels.

Consequently, the IHE competitiveness is a complex feature, determined on the one hand by its potential for providing competitive educational services, on the other hand, by the perception of the labor market of IHE graduates, as well as by the rating of IHE, which depends on the visibility and importance of the university's online presence and the citation of its staff. At the same time, in assessing the competitiveness of IHE, it is necessary to take into account the fact that the quality of education is the main competitive advantage of education institutions at the present stage, along with the price. The latter refers to a set of consumer characteristics of educational services, which provide

the opportunity to meet the complex needs for comprehensive development of personality [2].

It should be noted that the IHE competitiveness depends on the impact of various external and internal factors that shape the competitive environment and competitive advantages of institutions of higher education, the main of which is the education quality. At the same time, it must be taken into account that both the market for educational services and the competitive environment of IHE have their own specifics. Thus, in particular, the competitive environment is determined by the parameters of the market of educational services and the degree of the social and economic sphere of a particular region influence on it. Considering the regional aspect, scientists have been able to identify some characteristics of the competitive environment of IHE. They include [3] increasing dependence on demographic and migration processes; the presence of disproportions between the volume, quality of training of qualified specialists and the demands of the social and economic environment; the lack of information transparency that would allow consumers to receive reliable data on the quality of educational services provided by education institutions; the intensification of state intervention, which is expressed, above all, in measures to harmonize resource provision of IHE with the results of their activities and to strengthen entry barriers to the educational services market (accreditation and licensing).

One of the most important factors in ensuring Ukraine's competitiveness in the global economy, on the one hand, and facilitating its transition to the principles of real (and not declarative) innovation and investment modernization, on the other hand, is the effective use of the intellectual property potential in general and of teachers and employees of institutions of higher education in particular [4].

An innovative development model implies the systematic introduction of science achievements into the real economy, as well as the activation of innovative activities of organizations and business structures. It is evident that the most important role in this process must be played by the innovative activity of IHE. In this context, innovation-oriented, forward-looking and progressive development aimed at creating changes in the education system and maintaining their positive outcomes becomes an important component of the competitiveness of institutions of higher education. In addition, education institutions that pay attention to innovation activities are more likely to adapt to changes in the external environment, which creates additional competitive

advantages for them.

Under such conditions, an important priority of the state innovation policy of Ukraine should be the creation of a favorable innovation climate and the provision of comprehensive support for existing small and medium-sized enterprises, technology parks and business incubators, which already exist and are established on the basis of state-owned IHEs. This is especially important for technical and technological universities, since in the real sector of the economy of Ukraine, in spite of the huge resource potential of the state, the possibilities of increasing production are largely exhausted due to extensive factors. One of the factors of the country's innovation development is the innovation business as a whole, as well as its important components – small innovative enterprises, technology parks and business incubators affiliated with IHE. The solution of these and other issues in the context of increasing the competitiveness of IHE requires the restructuring of universities activities with the identification of the innovation component as a priority.

Effective forms of collaboration between IHEs and business entities in the field of innovation should include the creation of an appropriate infrastructure tailored to encourage and support applied research in science and technology in collaboration with outside researchers, institutions, government agencies and private companies. Such infrastructure has been called the technological cluster (technopolis). Technopolis is “a legal entity or association on the basis of the agreement on joint activity of legal entities (participants), the main task of which is the implementation of investment and innovation projects, the implementation of science-intensive development, high technology and the production of competitive in the world markets of products” [5].

The experience of foreign universities has shown that the creation of small innovative enterprises on their basis provides advantages to institutions of higher education. Among them are additional sources of financing for IHE; realization of scientific innovative projects of IHE; stimulation of scientific activity; providing practical knowledge to students; increasing the graduates competitiveness in the labor market; enhancing the image of institutions of higher education.

In such a partnership, an institution of higher education should help enterprises make the right choices at each stage of their innovation development, act as a consultant and assistant, promote innovation potential and increase the efficiency of their activities. At the same time, the IHE has to perform an educational function by developing and

implementing interactive educational products. This will promote the innovative approach in the activities of both business structures and educational products, acting as factors of their competitiveness. According to the monitoring of the state institution “Center for Research and Statistics of Science” Ministry of Education of Russia, at the beginning of 2011, 725 business companies were registered, of which 708 were created in 176 universities and 17 in the research institutes. In the form of limited liability companies, 683 organizations (97.34%) were created in the form of closed joint stock companies, 19 (2.66%) [6].

German universities set up their own small business support centers. The four largest German research organizations – the Max Planck Society, the Fraunhofer Society, the Leibniz Society, and the Society. Helmholtz – have the relevant units, whose function is to support scientists in the field of the implementation of scientific results at universities and research institutions. Services provided by such units include counseling, assistance in creating an innovative enterprise, preparation of a business plan, financing and industrial introduction of inventions.

The principle of functioning of small innovative enterprises at US universities is a triad: from fundamental knowledge through national laboratories to technology commercialization. Therefore, in the United States, most of the long-term innovation research is carried out at universities.

There is a similar experience in Ukrainian IHE. Therefore, the Innovation Center was opened at V. N. Karazin Kharkiv National University. It was created with the purpose of effective commercialization of scientific, technical and technological developments [7]. Its structure includes the department of transfer and commercialization of scientific, technical and technological developments; department for certification, patenting, licensing and intellectual property; department for the development of international relations and grant activities; analytical department. The Innovation Center’s strategic tasks include creating the environment, oriented at the effective use of scientific, scientific and technical and technological potential of IHE with the purpose of development, introduction and industrial development of new technology, technologies and products of intellectual activity of scientific and pedagogical workers, students and postgraduates; engaging in active research activity in the field of high and innovative technologies of scientific and pedagogical workers, postgraduate students and university students; developing and

introducing innovative approaches and methods in the educational process; as well as forming a base of innovative developments of the university, national and world funds and programs for financing innovative projects, various grants.

The main activities aimed at activating the scientific and innovative activities of IHE in Ukraine as well as promoting its implementation include development of the State target scientific and technical and social program “Science in universities”; making amendments to the Law of Ukraine “On State Procurement”, which enable institutions of higher education and scientific institutions to procure purchases without the passing of a tender procedure at the expense of the state budget special fund; renewal of the agreement between Ukraine and the European Community on scientific and technological cooperation, which provides financial support for scientific projects of institutions of higher education, scientific institutions through exemption from import duties and VAT when importing scientific equipment, machinery, components to the customs territory of Ukraine; implementation of complex inter-university scientific projects, which is planned starting in 2013, which will enable to concentrate financial and human resources on the priority directions of science and technology development and solve important scientific, economic and public problems, avoid duplication of subjects, unite efforts of several scientific schools to solve urgent problems.

Taking into account the importance of the effective selection of scientific projects for the coming years in order to obtain competitive scientific results, the introduction of which will be able to influence effectively the development of the economy on an innovative basis, government decisions on the initiative of the Ministry of Education and Science of Ukraine approved changes to the tasks and activities of the State Target Scientific, Technical and Social Program “Science at universities”. [8]. This will enable the activation of scientific activity in institutions of higher education and deepen its interaction with the educational process through the development of research activities; increase financing for updating the material and technical base of IHE; attraction of young specialists into the domestic sector of scientific research and development, development of leading scientific schools, etc.

The realization of this target program will help to solve the most important tasks, the main of which are [8]:

- updating the material and technical base of the scientific and

educational centers of institutions of higher education: for example, during the period of implementation of nine IHE projects, equipment was purchased for the amount of 7312 thousand UAH, which is 50% of the amount of funds, which was proved to meet the objectives of the Program;

- executing research and development works on their basis and obtaining specific scientific results aimed at the innovative development of the national economy;

- forming a network of scientific and educational centers and in the further centers of collective use of equipment.

Scientific communities of institutions of higher education of Ukraine do not remain aside these processes. Thus, the Resolution of the International Scientific and Practical Forum “Science and Business is the basis of economic development”, which took place on October 11-12, 2012 in Dnipro, has been defined [10]: the strategic priority direction of the IHE and research institutions of Ukraine is the commercialization of scientific research; in the formation of scientific parks, the feasibility of uniting scientific schools and the material and technical base of scientific research, taking into account the demand of the real sector of the economy; the need to accelerate the work of the IHE on the entry of Ukrainian-Russian inter-university network of technology transfer and its integration into the European EEN network; expediency of coverage in the mass media of the experience of joint basic and applied scientific developments of the IHE and business structures in order to spread the best ones and their commercialization.

In order to achieve theoretical, methodological and technological breakthroughs in all spheres of activity of institutions of higher education, without which it is impossible to overcome economic and technological crises, to form a new vision of prospects and to achieve the goals of higher education, it is necessary to create and maintain an effective management system for innovative activity of IHE as a basis for ensuring its competitiveness.

The importance and priority of the innovative development of the IHE necessitates the development of methodical and methodological foundations, practical tools and normative support, and the formation of an adequate level of innovative management tasks for the strategic management system. At the same time, one should take into account the problems faced by institutions of higher education at the stage of innovation transformations. Among these problems the first priority is to be solved: the issues of lease of premises and scientific equipment; the

problem of personnel supply due to the influence of a number of factors, namely: lack of staff and their low professional training, lack of opportunities for young people to implement creative abilities in the face of financial deficits, reluctance of young people to link their lives with science; improvement of the information support system for small innovative enterprises in IHE (there is a shortage of information about state support, lending and leasing services, potential investors, new technologies and equipment). There is a question of financial support in the absence of real financial and lending mechanisms for providing such support (it is necessary to intensively involve sources of external financing of small innovative enterprises in IHE, developing modifications of venture financing schemes for innovative projects, business network, stimulating small innovative enterprises with IHE for participation in international projects).

The solution to these and other problems requires the formulation of development strategy of a modern institution of higher education, the definition of a strategic vision as a benchmark in the innovative transformations in IHE. In this context, the strategic vision in this context is understood as "... a clear, well thought-out direction of development that allows the optimal allocation of resources in time and create (select) a unique strategy, methods and models for its achievement. The Strategic Vision of IHE should answer the question "What will the institution be after 30-50 years and what needs to be done?" [11].

Developing a strategic vision and appropriate strategy it is advisable to take into account the following features:

- need for the creation and use of a data bank of social, economic, political indicators in order to forecast trends in the educational industry in the region, Ukraine;
- taking into account the results of objective monitoring of the University's performance in preparing the strategy and in processing its implementation;
- defining the university's market niche in the educational and research sphere;
- emphasizing the increase in the efficiency of the university's work organization, including the increase in the effectiveness of students' academic and scientific activities, teaching and methodological and research work of academic staff;
- attracting foreign investments in the research and innovation work development, material and technical base of the university.

The implementation of an innovation strategy is impossible without the formation of appropriate policies in the field of innovation and research. In the course of the research, the authors determined that the IHE innovative development model should be based on some principles and requirements. They include the integrity of the scientific and educational processes and their focus on the society's economic and social development; the concentration of scientific and financial resources in the priority areas of the research, the full cycle of research and development ending with the creation of finished products; support of leading scientific schools and collectives, individual scientists capable of providing a high level of scientific research and education; support of entrepreneurship in the scientific and technical sphere; the integration of science and education into the international community.

The success of the innovation policy implementation aimed at achieving competitive advantages requires the restructuring of the organizational structure of universities in order to transition to a new, innovative structure.

The advantages of forming an innovative management structure in the IHE are the science and technology transfer development; increase in IHE personnel motivation level; scientific schools and collectives development; increase of the IHE graduates competitiveness level in the labor market; more attractive educational offer. The above-mentioned issues form the positive image of the innovation-oriented education institution. In particular, research shows that European universities are increasingly focusing on technology transfer. First of all, this contributes not only to obtaining additional profits, but also to create the image of an education institution, whose graduates and scientific workers not only have a high education level, but are also the founders and beneficiaries of economic success associated with the technology commercialization. The restructuring object must be all IHE structural units but above all, the basic units of the "operating level".

The strategic level there is a university administration and academic council, defining a strategy for innovation development, policy in innovation, science and other fields of activity. At the functional level, there are functional units that provide the vital functions of IHE in all spheres (educational, scientific, financial, economic, cultural, commercial, etc.) and the so-called techno structure, which represents a combination of functional innovation units and centers.

Restructuring of the management organizational structure in the context of ensuring its innovation development and competitiveness

should be carried out taking into account the following:

1. Separation of strategically important training directions on the basis of: the university profile; the real leadership chance in these areas in the region; restrictions on the number of such areas (5-6 recommendations of experts); the stable association formation of these training areas with a specific potential university.

2. Construction of the organizational structure of the institutes (faculties) with obligatory reflection of the selected areas in their names. In this case, it is necessary to determine the optimal number of institutes (faculties, departments, and average staff of departments).

Another approach to solving the problems of providing innovative development of the IHE is to create a unit responsible for innovation activity. A striking example of such an innovative structure is the structure of innovation policy management and the innovation activity organization of Lomonosov Moscow State University. Such a unit serves as the focus of the University's innovative thinking, allows the accumulation of scientific experience and its practical implementation through the transfer of technology, science parks and incubators [9]. The choice of the university's innovation structure should be done taking into account the number of specialists training areas, the breadth of scientific topics and the IHE size. The need for the transfer of innovations to practical activities, in particular, in the educational process, remains common to all types of innovative organizational structures.

An innovative model for organizing the activities of Ukrainian institutions of higher education needs to be developed taking into account global trends, namely, focusing on continuous improvement of the higher education quality, updating its content and organization forms of the educational process; optimization of the system of higher education, its differentiation; integration, globalization of educational and scientific systems; cooperation of business, education and science; capitalization of educational services and scientific developments; formation of multi-vector investment support system of university education, development of public-private partnership in this sphere; development of small innovative enterprises in the structure of IHE.

In order to implement an effective national modernization policy, it is necessary to state assistance in solving the issues of expanding the innovation sector of the economy, stimulating the innovation activity of small innovative enterprises affiliated with IHE, which will promote both the competitiveness and the formation of a positive image of the

IHE, as well as the innovative progress of society as a whole.

Investments in the IHE competitive potential cause an increase in the level of its separate elements, in particular the level of IHE being equipped by the necessary basic means, the intensity of their physical and moral upgrading; compliance of marketing resources with the tasks of IHE development and positioning.

They also include the issues of informational support of educational process, scientific, technical activity and management, availability of intangible assets; the adequacy of financing innovative activities, social and environmental programs and activities, as well as the activities of the IHE in general. It is important to mention staff training and development; managerial staff development, the organizational structure compliance, technology and management system for the IHE development, marketing and management of the interaction with the stakeholders.

At the same time, the investment system formation in the IHE competitive potential involves taking into account the specifics of the research subject area, due to the need to ensure the IHE effectiveness.

Thus, the IHE economical efficiency is the cost-effectiveness ratio of results and costs. The high level of IHE economical efficiency is ensured by the preservation of labor, material and natural resources and provides an opportunity to expand the institution activity.

It should be noted that the economy of the institution of higher education depends to a large extent on its management, the key tasks of which are to identify the strengths and weaknesses of the internal environment of the IHE, the assessment of each structural unit contribution to the development of the university and activities. These activities include educational, research, innovation, financial economic issues, monitoring of services markets and employers, analysis of possible threats from the external environment, forecasting and selection of activity strategic directions.

In addition, taking into account the specifics of the IHE activities, the scientific and technical efficiency as a set of indicators such as patent, inventive, publishing, design and innovative activity, should be considered as an important part of its economical efficiency. The scientific and technical activities of the IHE provide the opportunity to implement projects on the principles of economic calculation, which is one of the most effective methods of establishing economic relations in order to increase income, the effective use of living and settled labor in commercial and budgetary organizations.

Commercial (economic) calculation is a management method, which involves a comparison of costs and performance in monetary form. It is a mechanism that can ensure the IHE effectiveness in a market economy. The economic calculation is based on the following basic principles:

- comparison of results and expenses in monetary form;
- self-repayment and ensuring excess revenues over expenses;
- material interest and material liability of employees and the collective as a whole.

However, the introduction of the economic calculation principles in the IHE activities at the level of faculties, structural units, institutes has certain limitations. As practice shows, introduction of financial accounting, reporting, calculations in the university in order to ensure maximum transparency of the flow of financial resources, and optimizing costs between individual units, require the creation of a significant staff of workers for accounting and control. In addition, a special methodology and financial management computer program are required.

The calculations show that the costs for maintaining such a staff are significant, do not meet the regulatory requirements for the provision of IHE activities and the requirements of staff arrangement. Consequently, the effect ratio of the projects implementation on the terms of economic calculation and the IHE corresponding costs in modern conditions does not provide economical efficiency.

At the same time, an increase in IHE revenues by increasing the tuition payment for contract graduates cannot be justified due to the low solvency of the population of Ukraine and a large number of IHEs, which dump the prices for their survival.

In order to solve the problem of ensuring the IHE economical efficiency in such conditions, it is necessary to stimulate materially the academic and maintenance staff in order to find ways to increase revenues and reduce the costs of an education institution.

It should be noted that, when achieving a positive financial result of the IHE activity, an ecological (energy-efficient) efficiency plays an important role that is, reducing the technogenic burden on the environment and rationalizing the use of nature. Ecological efficiency is an organizational, practical, scientific and innovative result of a value-oriented nature, aimed at the rational and economical use of energy and natural energy resources in the national economy, obtained through the use of technical, economic and legal methods.

Thus, traditional approaches to assessing the IHE effectiveness are usually based on financial indicators. However, in the field of educational activity, the main factors influencing financial results are quality of education, level of educational process, quality of training, level of recruitment of students, number of graduated students, number of students by forms of training, staffing capacity, level of vocational guidance work ( marketing communications), etc. Traditional financial indicators are supplemented by non-financial parameters – satisfying students’ needs, reputation, image, brand, etc., which, as a rule, have a significant impact on the IHE effectiveness.

It should be noted that even entrepreneurial structures nowadays, in strategic planning and managing their business efficiency, apply for not only financial but also non-financial indicators [11]. It is the level of non-financial performance that determines the IHE social effectiveness – meeting the needs of people and society, improving the social sphere, improving the quality of people’s lives, improving the people’s well-being.

According to the authors, in addition to the economical efficiency of investments in the IHE competitive potential, social efficiency is a not less important criterion for their assessment. Its main manifestation is a positive impact on the society development, namely: improving the education quality; provision of the state economy by specialists whose specialization and level of qualification correspond to the labor market’s needs; promotion of personnel development; contribution to the science and technology development.

In order to assess the social efficiency of investments in the IHE competitive potential in the framework of this study, the authors propose conducting a multifactorial analysis of the level of competitive potential dependence on the main factors of its formation, which increase as a result of the implementation of a particular investment project, measure or program.

In addition, when choosing investment directions and evaluating the efficiency of investments made, particular attention should be paid to the limited resources, in particular financial ones. This necessitates the optimal use of available resources in the process of investing in certain components of the competitive potential of institutions of higher education on the basis of the economic and mathematical model of investment optimization, which ensures the choice of the best option in accordance with accepted criteria and existing constraints. The main objective of investment optimization in the IHE competitive potential is

as follows the choice of directions and volumes of investment that would provide the highest possible level of competitive potential of the university when using available financial resources. Achieving a certain goal involves performing the main tasks, namely:

- determination of initial parameters of investment process optimization in the IHE competitive potential and forecasting their possible changes;
- detection of interconnections between initial parameters and restriction formalization in the form of inequalities;
- assessment of the environment influence;
- formalization of the investment optimization main goal in the form of a target function of the economic and mathematical model, which takes into account the actual levels of the competitive potential components and the implementation indices of the CP;
- assessment of investment effectiveness by criteria of economic and social efficiency;
- estimation of the model, changes of the initial parameters and decision on the necessity of the model correction.

Consequently, this approach ensures the rational use of IHE limited financial resources, since they allow them to be directed at financing the programs and measures that are most needed to increase the competitive potential of institutions of higher education. The investment optimization in the competitive potential of an institution of higher education contributes to the implementation of its strategy by achieving relevant strategic goals with a minimum specific cost, and, as a result, leads to higher competitiveness of institutions of higher education.

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## Chapter 4

# MANAGEMENT AND USE OF INVESTMENT AND FINANCIAL- CREDIT MANAGEMENT TOOLS FOR DEVELOPMENT THE ECONOMIC ENTITIES

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## THE TAX SYSTEM AND ITS INFLUENCE ON FORMING OF THE INCOME PART OF LOCAL BUDGETS

At the present stage the economic development of regions of Ukraine varies considerably in interregional differentiation. Therefore the aspects of economic research and analysis of regional development are the problem object of both scientists as well as central and local authorities.

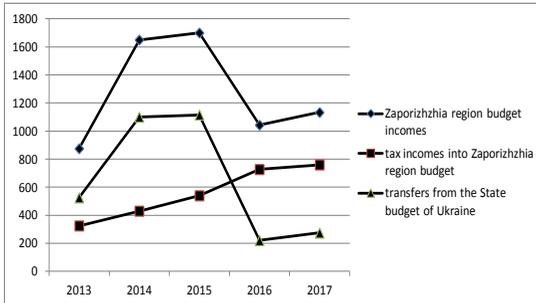
The decision of this problem became the issue of the day after the reform of the budget and tax systems due to implementation of The Budget Code of Ukraine in 2011 and the tax strategies in 2017 [1, p.63]. In Ukraine the problem of providing of local budgets with sufficient financial resources is a lot acute.

Research of this question needs the detailed and rigorous analysis of the certain sections of the The Budget Code of Ukraine. For this purpose it is important to bring to notice that due to the item 9.1 of the Budget Code of Ukraine the budget incomes are divided into: tax incomes; non-tax incomes; capital transactions incomes; transfers.

In view of this it is worth noting that the determination of dependence of budgets of different levels on the tax incomes takes on greater importance. Thus due to the item 9.2 t of the Budget Code of Ukraine the budget incomes are understood as the national taxes and charges fixed by the laws of Ukraine on taxation (compulsory payments) and local taxes and charges (compulsory payments) [2].

As an example let us consider the regional budgeting sources of Zaporizhzhia region (Figure 4.1). It can be seen, that the official

transfers from the State budget exceed considerably the regional budget tax incomes.



**Figure 4.1 Sources of Zaporizhzhia region budget forming over 2013-2017, million hrn.**

However the influence of fiscal politics on the income part forming of Zaporizhzhia budget is substantial.

So in the process of forming of the income part of the state budget, the flow of funds is carried out in a centralized way. Namely from the budgets of the lower level – to the district budgets, from the district – to the regional ones and finally to the state budget.

Funds are aggregated into the main budget on an increasing principle (from lower to higher levels). It is provided by the only revenue base of all budgets, the only system of expenditures, and the most importantly by the manageability of the process of drawing up and executing a budget from a single center. From our point of view the separate entity assumption is more progressive, as when a budget is formed, signed and executed by the proper authorities isolated and independently, the budgetary system is considerably more effective, than one based on principles of unity [3, p. 313]. In view of this we suggest to consider the forming of local budgets in Ukraine.

According to the effective procedure of the incomes and expenditures differentiations between the links of the budgetary system let us define the level of the expenditures cover of the local budgets by the own and obligated sources in the regions in 2015 and 2017. The research results are presented in Tables 4.1 and 4.2.

Table 4.1

**The level of the expenditures covers of the local budgets by the incomes in the regions of Ukraine (without inter-budgetary transfers) in 2015**

No.	Regions	2015		
		Incomes, billion, hrn.	Expenses, billion, hrn.	Coverage level, %
1	Vinnitsya	0,63	0,9	70,1
2	Volhynian	0,23	0,57	40,7
3	Dnipropetrovsk	3,42	3,28	104,2
4	Donetsk	4,2	4,1	102,3
5	Zhytomyr	0,37	0,65	57,4
6	Transcarpathian	0,27	0,66	40,9
7	Zaporizhzhia	0,99	1,62	61,1
8	Ivano-Frankivsk	0,36	1,01	35,7
9	Kyiv	0,74	0,57	129,2
10	Kirovograd	0,3	0,52	58,02
11	Lugansk	0,89	0,86	103,3
12	Lviv	0,85	1,37	62,2
13	Mykolayiv	0,41	0,66	61,8
14	Odessa	0,82	1,12	72,99
15	Poltava	0,83	0,52	159,8
16	Rivne	0,32	0,81	39,2
17	Sumy	0,46	0,47	97,3
18	Ternopil	0,23	0,68	33,6
19	Kharkiv	1,22	0,94	129,4
20	Kherson	0,27	0,61	44,6
21	Khmelnitsky	0,35	0,78	45,2
22	Cherkasy	0,39	0,56	70,4
23	Chernivtsi	0,18	0,6	31,03
24	Chernihiv	0,35	0,47	75,1
25	City Kiev	1,44	0,5	287,7
Ratio of max/min value		23,33	8,72	-

*Source: calculated by the authors according to the data from the State Statistics Service of Ukraine*

Table 4.2

**The levels of the expenditures cover of the local budgets by the incomes in the regions of Ukraine (without inter-budgetary transfers) in 2017**

No.	Regions	2017		
		Incomes, billion, грн.	Expenses, billion, грн.	Coverage level, %
1	Vinnitsya	1,63	3,98	40,95
2	Volhynian	1,47	4,32	34,03
3	Dnipropetrovsk	15,03	8,85	169,83
4	Donetsk	3,85	13,09	29,41
5	Zhytomyr	3,24	3,54	91,53
6	Transcarpathian	0,98	5,51	17,79
7	Zaporizhzhia	1,77	4,07	43,49
8	Ivano-Frankivsk	0,27	3,41	7,92
9	Kyiv	2,16	3,49	61,89
10	Kirovograd	0,23	2,24	10,27
11	Lugansk	4,35	9,42	46,18
12	Lviv	4,70	4,34	108,29
13	Mykolayiv	0,80	2,82	28,37
14	Odessa	1,85	3,30	56,06
15	Poltava	9,60	4,12	233,01
16	Rivne	1,96	1,97	99,49
17	Sumy	2,61	1,63	160,12
18	Ternopil	0,92	4,36	21,10
19	Kharkiv	10,38	3,48	298,28
20	Kherson	1,00	1,40	71,43
21	Khmelnitsky	0,97	1,42	68,31
22	Cherkasy	2,18	1,97	110,66
23	Chernivtsi	0,82	1,08	75,93
24	Chernihiv	2,16	3,49	61,89
25	City Kiev	50,63	62,27	81,31
Ratio of max/min value		220,13	57,66	-

*Source: calculated by the authors according to the data from the State Statistics Service of Ukraine*

Determination of volumes of incomes and expenditures of inter-budgetary transfers is carried out due to different principles that results in the groundless increase of income withdrawing from the state budget in those regions, where they raise at a rapid rate.

Regions that have a sufficient tax base and fill the state budget get at disadvantage. Such areas, as Poltava, Kharkiv head the list in incomes per capita, but they are at the bottom in expenditures [4, p. 205].

In Ukraine the level-by-level control and regulation of budgetary processes are needed at every level. Thus while monitoring the interbudgetary relations from the regional perspective (namely the budget of Zaporizhzhia region), it is important to make a point of the responsibility of every level to the next one.

Besides at determination of the income part forming of the budget the differentiation of the income items of general and special funds of both State and local budgets of Ukraine is of great importance.

If a new type of the state budget income is fixed by the law, it's placing to a general or special fund is determined by the law on the State budget of Ukraine on a period till the proper amendments in the The Budget Code of Ukraine will be made [2].

Taking into account the above mentioned items, as an example, we can consider the budget of Zaporizhzhia region. So the incomes and expenditures of regional budget of Zaporizhzhia region

are carried out in accordance to The Tax and Budget Code of Ukraine as well as another legislative acts taking into account the basic tasks of the budget policy, focused on the social standards increase, and gradual growth of region economy, that resulted in increase of industrial and agricultural production volumes, goods turnover, investments during 2017.

The present level of centralization, due to which 72% of funds are directed to the state budget and only 28% are divided between approximately 12 thousand local budgets does not add any financial stability to the regions, taking no notice of their needs and current problems [5, p. 90].

The incomes of the regional budgets must allow the local authorities to complete their tasks in full. The income part of budget of Zaporizhzhia region is worked out on the basis of the tax law and other laws with taking into account: the expansion of budget incomes sources due to introduction of new items of the special fund into local budgets.

The overrepresentation of the special fund incomes in the local budgets is a positive tendency that is the result of expansion of the list of the

special fund sources, including the development budget.

While researching the influence of the tax system on the income part forming of the local budgets, it is important to touch on the tax burden ratio. Let us analyze the budget incomes tax burden of Zaporizhzhia region and of the state budget in total.

Let us calculate this ratio for the Zaporizhzhia region as well as for the whole state over 2015-2017 and let us compare them.

The tax burden ratio of the state budget of Ukraine:

$$Rtb_{2015} = 149529,2 / 215276,8 = 0,69$$

$$Rtb_{2016} = 279461,6 / 314616,9 = 0,89$$

$$Rtb_{2017} = 297752,7 / 346025,5 = 0,86$$

The tax burden ratio of the budget of Zaporizhzhia region:

$$Rtb_{2015} = 624473,8 / 804052,7 = 0,78$$

$$Rtb_{2016} = 791958,8 / 903148,5 = 0,87$$

$$Rtb_{2017} = 876144 / 991559 = 0,88$$

As one can see, the tax burden of the state budget and the budget of Zaporizhzhia region are not even.

The tax burden of Zaporizhzhia region grows constantly, as taxes are integral to the incomes of this region. The dynamics of the state Rtb has leaping character, as the incomes of the state budget are multifaced and the part of taxes in it is changing, though it remains dominant.

While researching the local budgets (by the example of budget of Zaporizhzhia region), it is important to pay attention to equalization ratio. This ratio is one of the instruments of the budgetary control. It determines the part of the local budget that will be transferred to the state budget. The equalization ratio is used to be calculated by the formula asset, that are to be transferred to the state budget, and varies from 0,6 to 1,0. Its usage has to stimulate the local authorities to increase the incomes that is taken into account at determination of the volume of interbudgetary transfers and differentiated depending on the level of such incomes providing.

Thus the ratio of the regional equalization is calculated as the ratio of actual incomes in the accounting period of the current year, fixed to the budget of a political unit, to actual incomes in the accounting period of the current year due to the settled budget of the region. Considering this ratio with regard to the regional, district budgets and budgets of cities we can take note, that ratio of the regional equalization of the regional budgets looked up more or less steadily from 2007 to 2010, in 2011 he went down from 0,2598 to 0,2249, and in 2012 -2017 it started to grow again.

Due to the average figures, the ratio of the regional equalization of the district budgets keeps a rising tendency, especially well visible it was in 2010 and 2011.

The ratio of the regional equalization of the budgets of cities showed a reducing tendency from 2007 to 2010, and from 2011 till now we can see the increase of this ratio.

While analyzing every region separately the peculiarities of the budget forming must be taken into account. The peculiarity of the strategic planning of Zaporizhzhia region budget lies in the fact that it is an industrial region with widely developed transport connections, aircraft industry, engineering, metallurgy, energy industry. In the region the experimental policy of liberation and reduction of some tax types (for example, land tax) is introduced, that positively influences the decrease of tax pressure and the leading out of a proper income part out of the so-called “shadow economy”. This tendency increases the income part and causes the correct functioning of the interbudgetary relations “from the bottom upwards”.

The general situation in the industrial development of Zaporizhzhia region has a negative tendency; the amount of machine-building, metallurgical and other enterprises of heavy industry grows down.

However the part of region incomes that is transferred to the state budget contains considerable incomes from the industrial sector. This income item, in spite of reduction of amount of heavy industry enterprises, is until now one of the main sources of regional incomes. The correctly formed income and expenditure parts (by means of the above calculated ratios), make it is possible to achieve the positive macroeconomic performance, i.e.: increase of the actual, nominal GDP in whole and per capita, increase of the average salary both in the whole Ukraine and in the regions, reduction of unemployment, increase of industrial production volumes, that, in its turn, influences the improvement of socioeconomic situation in our state.

The positive tendencies in strategy forming of the effective operation of the interbudgetary relations on the basis of incomes and expenditures are shown as the changes of the legislative framework in the form of reduction of income tax (from 19% in 2016 to 18% in 2017) and VAT (from 20% in 2016 to 17% in 2017), application of the simplified taxation system and the united tax payment.

Thus the united tax in amount of almost 109 million hrn. was transferred to the state budget from the small and medium-sized businesses of Zaporizhzhia region. At the same time the amount of

corporate customers using the simplified taxation system increased.

Distribution of budgetary funds in Ukraine has a vertical structure, it has no economic sense. It is the problem of forming of interbudgetary relations in Ukraine. It is necessary to extend the existing and create the new specialized funds, to transfer money targeted. It will promote development of priority directions of each region. The suggested calculations of equalization indexes between the incomes and the expenditures for 2015 – 2017 show the considerable influence of the tax burden on the state budget and the budgets of regions. At the legislative level, the calculated tax burden indicates the level of both national and regional fiscal pressure. Thus this ratio is used as a equalization index for the reduction of tax load in form of reduction of tax rates and granting tax concessions.

The correct, detailed calculation of the equalization indexes gives the opportunity to get the data of budget that are the most precise and correspond to the actual datas of budget.

Therefore these indexes are extraordinarily actual for forecasting both the state and regional budgets. The analysis of the influence of the tax system showed that the part of local taxes charges is low. It speaks for the secondary, supporting role of the local taxes and charges, the substantial dependence of the income part of of local budgets on the decisions of the central government authorities, insufficient independence of the local authorities.

Therefore it remains actual to grant the greater independence and expansion of rights and duties of local authorities, including in forming of local budget. For this purpose it is necessary to introduce taxes and charges that are payments for the proper local services and that will fill the same local budgets.

In Ukraine the main sources of the income part of the local budgets are the fixed incomes and official transfers. Therefore the local authorities have to influence the development of the fixed incomes base and increase the own income part. The principal directions of strengthening of the income base of the local budgets through the tax system must become: support of enterprises that create new workplaces and increase the payroll budget; the clear differentiation of functions and powers of all power levels increase of influence possibilities of the local authorities on the local budgets filling; rights expansion of the local financial authorities in the field of economic activity, tax lawmaking; introduction of effective policy in the field of land resources management; granting the greater independence of the local authorities

in local taxation; strengthening of fiscal value of the local taxes and charges; promotion of the development of small and middle-sized businesses.

The above-mentioned suggestions will assist the filling of the local budgets, expenditure reduction for the aims that do not reflect the budgetary process essence, rising of living standards in the region that is an integrated index of economic policy efficiency of the region and the state.

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**ANALYSIS OF  
CONCEPTUAL  
ARRANGEMENTS OF  
TAX COMPLIANCE IN  
THE CONDITIONS OF  
EUROONTEGRATION OF  
UKRAINE**

Becoming of Ukraine as democratic, social – oriented, legal state, its entrance in European and World communities makes the one of the main task to provide legal reform which forecasts, in particular, bringing national legislation in line with the norms and requirements of international law.

The convergence of legal systems leads to the development of a theory on the implementation of the Strategy of Ukraine’s integration into the world community, requiring a rethinking of the provisions of international law by synthesizing the ideas of the respective legal directions. The prospects for the development of the domestic economic system in modern conditions are conditioned not only by the level of Ukrainian legislation and the quality of the legal system, but to a large extent, the full consideration of the requirements and norms of international legal institutions, and in the first place of the European Union. The implementation of international law in national legislation is understood as a process consisting of a set of procedures and tools that contribute to improving the effectiveness of the implementation of these norms. As a result of implementation, on the one hand, borrowing from the provisions of international law (procedures, institutions, language fragments, legal acts, principles, values, legal ideas), and, on the other hand, the transformation of national legislation in order to update and improve the norms of the national legal system. Thus, “implementation of the norms of international law” against the background of another terminology, which is also used in the context of the consideration of “foreign” legislation, is actually a practice of adapting to the legal “field” of the relevant international, state, in particular, the European Union countries, Ukrainian legislation. At the moment, it is a question

of a system of financial and legal principles, which harmonize key principles and legislative norms regarding the general rules of functioning and development of economic entities in Ukraine.

The adoption of the Law of Ukraine “On ratification of the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their member states on the other” [1] has finally confirmed the European aspirations and European choice. Ukraine has undertaken to build a developed and stable democracy and a market economy. In order to effectively implement this Agreement, the state faced the need to implement political, socio-economic, legal and institutional reforms. The further improvement of economic relations, trade, investment and fair competition largely depends on good governance in the field of taxation. Therefore, the issue of tax policy in Ukraine has always been and remains relevant. Despite the fact that during the period since the signing of the Association Agreement with the EU, Ukraine has made a number of changes in the tax legislation of the state, among which the system of electronic value-added tax administration has been introduced, the modern Ukrainian tax system is complicated and controversial. A complex, heterogeneous and unstable regulatory framework for taxation, as well as inconsistencies and contradictions between individual legislative norms, is characteristic of it; a significant uneven distribution of the tax burden due to the large number of tax breaks and the existence of a variety of tax evasion schemes; non-transparency of tax regulation; the costs of administering individual taxes are significant compared to the budget revenues generated by their collection, etc. Important in the context of reforms in Ukraine is the application of the principles of good governance in the field of taxation, which is noted in the Agreement on the Association between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their member states, from the other side, in particular the principles of transparency, exchange of information and fair tax competition [2], which are respected by Member States at EU level.

Characterizing the tax policy of the European Union, attention should be paid to the system of measures carried out by the institutions and bodies of the EU, as well as its member states. The aim is to harmonize the tax laws of the EU member states, eliminate tax barriers and tax discrimination in the EU internal market, inadmissibility of unfair tax competition in the jurisdictions of the EU member states, develop new principles and mechanisms for eliminating double taxation,

coordinated actions in the fight against tax offenses etc. Each state which is a member has its own taxation system and implements its fiscal policy. Accordingly, there is no single tax system in the European Union. Instead, each EU member state brings its taxation legislation in line with the EU Treaty. Accordingly, in the legislation of the European Union there is no general document that would systematize the main norms of the tax legislation of the EU, issued in the form of directives, regulations, decisions and recommendations. At the same time, the EU harmonization system for taxation purposes is based on the well-established principles enshrined in the Treaty establishing the European Community, namely Articles 5, 90-93 [3].

Thus, the principle of proportionality provides for restrictions on the activities of EU institutions by the powers conferred upon them by the EU constituent documents and the established objectives of European integration.

The principle of subsidiarity means that EU institutions do not have the right to interfere independently with the functioning of any of the segments of the economy of the Member States, except where such an intervention is necessary to fulfill the EU's strategic objectives.

The principle of unanimity states that any decision on the formation of a tax policy in the EU should be taken by unanimous consent of the EU member states and fixed in the relevant norm of the integration legislation. And also the possibility of a Member State to veto any decision in the field of harmonization of taxes, which can cause disastrous consequences for the economy of this state.

The principle of fiscal non-discrimination covers two main provisions: first, the impossibility of direct or indirect taxation of domestic taxes by one EU member state of products of another EU member state in excess of the taxation of national products; secondly, the Member State of the EU should not levy taxes on the products of other Member States in order to indirectly protect their products.

The principle of neutrality of taxation, the essence of which is the prohibition of the reimbursement of domestic taxation on the export of products to the territory of another EU member state in excess of the level of paid direct or indirect taxes.

It should be noted that today Ukraine is in difficult political and economic conditions. Despite this, realizing their aspirations to be recognized as European partners, while fulfilling the terms of the Agreement "On the Association between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their

Member States, on the other hand”, the Ukrainian state is forced to adapt to the requirements of the European Union, to carry out political, socio-economic, legal and institutional reforms, to adhere to recognized international principles of cooperation, adopted in the member states of the European Union. In our opinion, one of the promising directions for improving economic relations, trade, investment and fair competition may be reforming and improving the efficiency of the functioning of the domestic taxation system, as well as adapting the existing tax legislation to the peculiarities of the current conditions of functioning of economic entities.

Significant contribution to the development of tax legislation was made by such legal scholars as L.K. Voronova, M.P. Kucheriavenko, certain issues of tax relations in their work were investigated by N.V. Voronina, T.A. Latkovska and others. In turn, the tax system is in constant motion, due to changes in the political and economic environment in the world and in Ukraine in particular. Therefore, in our opinion, it is urgent on the basis of the analysis of scientific works, the current legislation and practice of its application to highlight certain aspects of the principles on which the tax legislation of Ukraine is based on the implementation and harmonization of the European Union’s law in the process of ensuring the development of economic actors.

From a philosophical point of view, the principle (Latin principium – the beginning, basis) – the first principle, the guiding idea, the basic rule of conduct. In a logical sense, the principle is the central concept, the basis of the system, representing the generalization and spread of any position to all phenomena in the area from which this principle is abstract [4, p. 289].

Principles play an essential role in the construction of tax legislation, which, in our opinion, should be understood as a collection of all normative and legal acts: laws, bylaws and legal acts regulating social relations that arise in the tax process. Their importance is also strengthened by the fact that the principles are the fundamental or fundamental principles of legislation, on the basis of which the genesis, development and functioning of tax-legal phenomena occur. Undoubtedly, they should be the basis for the formation of tax legislation as a whole, and in relation to its components. The principles enshrined in the Tax Code of Ukraine are becoming a benchmark for both the Code itself and for other normative legal acts regulating taxation relations. The existence of a system of principles is an important prerequisite for balancing or more precisely harmonizing tax

acts, they will avoid collisions, and if they exist, the rules-principles act as the highest level requirements.

It should be noted that the principles of tax law are the main elements, the basic directions and guidelines of tax policy, which reflect the objective ties and laws of development of tax legislation, resulting in its qualitative characteristics. Accordingly, emerging initially as tax-legal ideas, in the future, these ideas become the principles of tax law only in the case of their legislative consolidation.

Article 4 of the Tax Code of Ukraine contains a list of principles on which the tax legislation of Ukraine is based: the universality of taxation; equality of all payers before the law, prevention of any manifestations of tax discrimination; the inevitability of the onset of a statutory liability in case of violation of the tax law; the presumption of the lawfulness of decisions of the taxpayer in the event that the norm of a law or other legal act issued on the basis of the law, or if the rules of various laws or various normative legal acts involve ambiguous (plural) interpretation of the rights and obligations of taxpayers or controlling bodies, as a result of which there is an opportunity to make a decision in favor of both the taxpayer and the controlling body; fiscal sufficiency – the establishment of taxes and fees, taking into account the need to achieve a balanced budget expenditure with its revenues; cost effectiveness of taxation; neutrality of taxation; Stability – changes to any elements of taxes and fees can not be made later than six months before the start of a new budget period in which new rules and rates will apply. Taxes and fees, their rates, as well as tax breaks can not be changed during the budget year; uniformity and convenience of payment; the only approach to the establishment of taxes and fees - the definition of all mandatory elements of the tax at the legislative level [5].

The principles enshrined in the Tax Code of Ukraine require a detailed analysis of their consistency and optimality. This is due to the fact that they are the conceptual foundations and provisions on which the tax legislation is being drafted.

The principle that constitutes the essence of tax relations is the universality of taxation, the content of which consists in the fact that each person is obliged to pay taxes and fees charged by the Tax Code, customs laws, and the fees to which he is a payer. This principle is based on the premise of Art. 67 of the Constitution of Ukraine. The Constitution establishes a principled approach to the imperative principles of the regulation of tax relations, which ensure the

implementation of the duty itself, and not the obligation of the taxpayer. Formally, the legal basis for such a duty is the availability of such a provision in the Tax Code, customs legislation (in the case of taxation of operations for the movement of goods across the customs border of Ukraine), and taxation laws. This principle is emphasized by two important guidelines. First, the universality of taxation is based on the performance of the duty, and not on the regulation of relations within the framework of an obligation that generates counter rights and obligations of the participants. Secondly, such a duty may arise only with respect to established taxes and fees, that is, payments that are legally defined and fixed in accordance with a clear procedural form [6, p. 19].

The principle of the inevitability of the onset of a statutory liability in the event of a breach of the tax law forms the general principles of liability for violation of tax laws. The basis for liability is a tax offense under which the unlawful acts of taxpayers, tax agents, officials of the controlling bodies are understood, which led to non-fulfillment or improper fulfillment of tax legislation requirements. The Tax Code of Ukraine defines its composition, stipulates the types and sanctions applicable to violators of tax legislation. When applying this principle, it is important to separate the responsibilities of obligated persons, that is, taxpayers and tax agents and officials of the bodies to which the legislator entrusts the functions of exercising control in the field of taxation.

One of the important principles, in our opinion, should be the equality of all payers before the law, the prevention of any manifestations of tax discrimination, that is, to ensure the same approach to all taxpayers, regardless of social, racial, national, religious affiliation, ownership of a legal entity, citizenship physical person, place of origin of capital. The principle of equality should include the emergence of a tax liability for any person, both resident and non-resident, if he is in the relevant period in the territory of the state. In this case, an additional principle - the principle of residence, as allowing to determine the limits of the subjective rights and legal obligations of taxpayers in the tax process, is applied. Describing the principle of equality of all payers before the law, pay attention to the following components. Thus, for taxpayers, the direct feature is direct equality, which places them in an equal position with regard to the tax press. The next component is the equilibrium, which should be understood as the effect of tax levers aimed at supporting the state's economy, balanced

development of its various sectors.

Neutrality of taxation, as one of the principles of tax law, involves the establishment of taxes and fees in a way that does not affect the increase or decrease of the taxpayer's competitiveness. The duty to pay the tax, which relies on the payer, leads to a reduction in his wealth. In turn, this should not entail negative consequences for the existence and development of the taxpayer. First of all, tax payments are directed to the formation of public funds of funds, at the expense of which, including satisfy the needs and directly the payers themselves. It is important to see that tax pressure should be fair to all categories of taxpayers. Accordingly, the establishment and collection of taxes should exclude the provision of benefits to one payer in comparison with others.

The essence of the principle of uniformity and convenience of payment is the establishment of terms of payment of taxes and fees, based on the need to ensure the timely receipt of funds to the budgets for budget expenditures and the convenience of their payment by payers. The principle of equal tax burden (neutrality, universalization) – implies a general obligation to pay taxes and equality of all payers before tax law. This principle is formulated in the Constitution of Ukraine and follows directly from it. In the field of tax relations, this principle means that it is not allowed to establish additional, as well as increase in tax rates, depending on the form of ownership, the organizational and legal form of entrepreneurial activity, the location of the taxpayer and other grounds of discriminatory character [6, p. 24].

The establishment of taxes and fees should be in accordance with the solvency of taxpayers, which has been consolidated in principle of equity. The principle of equity must be realized through real taxation. Establishing the necessary taxes, the state should be guided by the real needs of society, although it should be noted that most often the interests of society do not coincide with the interests of the state. At the same time, when determining what part of the income of a taxpayer is levied in the form of a tax, it is necessary to take into account how objectively the burden of taxes is distributed among different groups and strata of society, as well as on which the collected taxes are spent.

As noted above, Ukraine is now in difficult political and economic conditions, which greatly affects the course of reforms, including in the tax area. The state's economy requires additional investment, in order to attract additional funds in certain sectors of the national economy, the state applies certain levers. Among such levers an important place is occupied by tax privileges. Thus, Article 30 of the Tax Code of Ukraine

provides for tax exemptions. Tax exemption should be understood as the tax and customs legislation provided for exemption of taxpayers from the obligation to charge and pay tax and collection, payment of tax and collection at a lower amount, if there are grounds. A tax allowance may be provided through a tax deduction (discount), which reduces the tax base before tax and collection; by reducing the tax liability after tax and collection; establishment of a reduced rate of tax and duty; exemption from tax and fee. Concerning the grounds for tax privileges, they have features that characterize a particular group of taxpayers, their type of activity, the object of taxation or the nature and social significance of their expenditures [5].

Summarizing the above considerations, we note that, on the one hand, the application of tax privileges is a prerequisite for attracting additional funds in the field of the national economy of Ukraine and, accordingly, improving the state of the economy of the state, on the other – violated the basic principles that are the basis of tax legislation. Thus, by applying privileges to a certain group of taxpayers, the legislator violates the principle of equal rights for all taxpayers before the law, and avoids any discrimination, the direct feature of which is direct equality with the tax press. Violated the principle of social justice, associated with the objective distribution of tax burdens among different groups and strata of society.

Thus, we can state the existence of a conflict of principles and norms in tax legislation, which requires further study. Solving this problem will help to improve tax legislation, its consistency, modern requirements and social orientation, as well as increase its efficiency. Accordingly, the formation of modern tax legislation should be based on scientifically developed principles that will form its basis [7, p. 51-52].

In turn, effective implementation of effective principles in the field of taxation of the European Union, in our opinion, will contribute to further improvement and development of the tax system and fiscal authorities of Ukraine. Namely, ensuring the effective collection of taxes and strengthening the fight against tax fraud, including the harmonization of policies to counteract and counter fraud and smuggling of excisable goods, as well as tax evasion. In the final variant, implantation and harmonization of the principles and norms of tax law of the European Union will provide an opportunity to ensure the further effective development of business entities in the conditions of modern Ukraine.

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**MANAGEMENT  
TOOLS IN  
FINANCIAL  
SUPERVISION  
(FOCUSING ON FRG  
AND SLOVAKIA)<sup>1</sup>**

The chapter provides introduction into legal regulation of management tools in financial supervision as a part of regulatory framework of financial market supervision in Federal Republic of Germany (FRG) and Slovakia. It handles with selected supervisory tools for managing appropriate market environment.

Financial market supervision (*financial supervision*) can be described as a role performed by a public authority. It is a power supported by the state which guarantees potential sanctioning of subjects if financial market rules set by the regulatory bodies are broken. Financial supervision and regulation set rules to protect the stability of the financial sector [see ref. 1]. In fact, most national legislation on financial market is a subject to harmonization on EU-level that leads to legal integration of the EU single financial market, e.g. community legislation focused on harmonizing license requirements for the providing financial services [see ref. 2].

As a part of the European System of Financial Supervision (ESFS) in 2010 an European Banking Authority (EBA), headquartered in London, was established [see ref. 3]. The central task of the EBA is the development of regulatory standards for European banks, but compliance is up to the national supervisory authorities of the Member States and may only in exceptional cases, such as a breach of European law, be punished by the EBA.

In FRG the German Federal Financial Supervisory Authority (so-called BaFin) and the Deutsche Bundesbank share the banking

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<sup>1</sup> *The chapter is an output of the scientific project VEGA 1/0440/17 Innovative forms of funds pooling and their transfer.*

supervision, in Slovakia National Bank of Slovakia (NBS) shall perform supervision of the financial market.

## **FRG: DIVISION OF RESPONSIBILITIES BETWEEN BAFIN AND THE DEUTSCHE BUNDESBANK**

The primary legal basis for the supervision of banks in Germany is the Banking Act (Kreditwesengesetz – KWG) [see ref. 4], which has by now been amended fairly extensively on a number of occasions since it first came into effect in 1962. There are also a number of special Acts, such as the Pfandbrief Act (Pfandbriefgesetz – PfandBG), the Safe Custody Act (Depotgesetz – DepotG), the Building and Loan Associations Act (Bausparkassengesetz – BauSparkG) and the Savings Banks Acts (Sparkassengesetz – SpkG) of the Federal States. The primary objectives of banking supervision are summarized in section 6 of the German Banking Act. These are to work to prevent undesirable developments in the banking system which:

1. endanger the safety of the assets entrusted to institutions;
2. adversely affect the orderly execution of banking transactions,  
or
3. may substantially prejudice the economy as a whole.

The cooperation between the BaFin and the Deutsche Bundesbank is governed by section 7 of the Banking Act, which stipulates that, among other things, the Bundesbank shall, as part of the ongoing supervision process, analyze the reports and returns that institutions have to submit on a regular basis and assess whether their capital and their risk management procedures are adequate. BaFin and the Deutsche Bundesbank have agreed on the details of this arrangement in a Memorandum of Understanding [see ref. 5]. In consultation with the Deutsche Bundesbank BaFin has also issued a *Guideline on the execution and quality assurance of the ongoing supervision of credit and financial services institutions by the Deutsche Bundesbank* (Supervision Guideline) [see ref. 6]. The BaFin is an independent Federal Agency based in Frankfurt and Bonn. It is subject to the laws and supervision of the Federal Ministry of Finance. BaFin exercises according to section 6 paragraph 1 of the German Banking Act for the supervision of the German banks and acts in accordance with section 7 of the Banking Act with the German Federal Bank (ongoing supervision).

## **LICENSE/AUTHORIZATION AND THE CONDITIONS THAT HAVE TO BE MET**

An institution has to be granted a license, if it want to do business under the banking rules. Any party wishing to conduct banking business in Germany requires a written license from BaFin (sections 32 and 33 of the Banking Act). According to section 32 of the Banking Act anyone wishing to conduct banking business or to provide financial services in Germany commercially or on a scale which requires a commercially organized business undertaking requires a written license from the Federal Banking Supervisory Office. The application for the license must contain the following particulars:

1. suitable evidence of the resources needed for business operations,
2. the names of the managers,
3. the information which is necessary for assessing the trustworthiness of the applicants and of the persons specified in section 1(2) sentence 1,
4. the information which is necessary for assessing the professional qualifications, as required for managing the institution, of the proprietors and of the persons specified in section 1 (2) sentence 1,
5. a viable business plan showing the nature of the planned business, the organizational structure and the planned internal monitoring procedures of the institution,
6. if qualified participating interests are held in the institution:
  - (a) the names of the holders of the qualified participating interests,
  - (b) the amount of these participating interests,
  - (c) the data required for assessing the trustworthiness of these holders or of the legal representatives or of the general partners,
  - (d) if these holders are required to draw up annual accounts: their annual accounts for the last three financial years, along with the auditor's reports compiled by independent external auditor if such reports are to be prepared, and
  - (e) if these holders belong to a group: particulars of the structure of the group and, if such accounts are to be drawn up, the consolidated group accounts for the last three financial years, along with the auditor's reports compiled by independent external auditor if such reports are to be prepared;
7. the facts indicating a close relationship between the institution

and other natural persons or other enterprises.

Further more section 33 of the Banking Act calls different necessary capital requirements.

To this end, certain conditions must be met. Following are some examples:

1. When an institution is being established, it has to prove that it is endowed with a particular minimum amount of initial capital. **For investment banks**, for example, the initial capital required is at least 730,000 euros, while for deposit-taking credit institutions it is at least 5 million euros.
2. The institution must have at least two senior managers (executive directors). Both must be **fit and proper** persons. Being a fit person means that the persons concerned have during their professional careers to date acquired sufficient theoretical knowledge and practical experience to enable them to carry out their new jobs properly. BaFin consults the Federal Central Register (Bundeszentralregister) for criminal offences and the Central Commercial Register (Gewerbezentralregister) for business offences in order to verify whether they are reliable (i.e. proper) persons.
3. The applicant must declare any holders of significant participating interests in the proposed institution and the size of any such participating interests. Any such persons must also be “proper” persons. If they are not, or if they fail to meet the standards required in the interests of sound and prudent management of the institution for any other reasons, BaFin may refuse to grant it a license.
4. In addition, the license application must contain a viable business plan indicating the nature of the proposed business, the organizational structure and the proposed internal control systems. BaFin checks whether the applicant is ready and able to take the necessary organizational measures in order to be able to carry on its business in a proper manner.

The BaFin has to inform the applicant within 6 months whether permission is granted or denied (section 33 of the Banking Act). In so doing, the BaFin pays particular attention to the following points:

1. Credit institutions must have adequate own funds (section 10 of the Banking Act). The minimum amount of own funds that a bank must hold depends on the risks that it takes on. A bank’s default risks, for example, must be backed by liable capital

equal to at least 8 per cent of its risk-weighted assets. As part of their ongoing supervision, banking supervision staff monitor whether institutions have adequate capital to cover risks incurred in respect of on-balance-sheet assets and off-balance-sheet transactions – such as lending, securities, derivatives or participating interests. Under the new Solvency Ordinance (Solvabilitätsverordnung)[see ref. 7], in addition to default and market risks, operational risks must also have adequate capital backing now.

2. In addition, banking supervision also checks whether institutions have adequate liquidity, i.e. whether they invest their funds in such a way as to ensure that adequate liquidity for payment purposes is guaranteed at all times (section 11 of the Banking Act).
3. Under the Supervisory Review Process (SRP) BaFin also supervises those risks which do not require capital backing under the Solvency Ordinance. Key elements of the SRP are the establishment of adequate risk management systems and the supervision thereof by BaFin.
4. In addition to institutions' annual reports and accounts, the banking supervisors' main sources of information include the audit reports which external auditors or audit associations produce as part of their auditing of the annual report and accounts. In addition, every month institutions have to file abbreviated balance sheets, known as monthly returns, from which the major balance sheet items and risk positions and changes therein can be identified. Institutions must also report major changes – for example, emergent net losses or changes in senior management, in their domestic and foreign branch network or in participating interests of more than 10 per cent. Large exposures and “Millionenkredite” (loans to one borrower total 1.5 million euros or more) also have to be reported. BaFin can also gain deeper insights into a bank's financial situation by way of special on-site inspections. BaFin can give prior notice of such inspections, but it can also pay the bank a “surprise” visit [see ref. 8].

According to section 2 Financial Services Supervisory Act (FinDAG) the BaFin is under the legal and technical supervision of the Federal Ministry of the Interior. Legal supervision checks the legality of the decisions. The examination procedure also performs a convenience

check and can intervene by administrative directives or regulations in individual cases [see ref. 9].

## **MANAGEMENT TOOLS OF SUPERVISION IN SLOVAKIA**

In the area of the financial market, NBS shall contribute to the stability of the financial system as a whole, as well as to the secure and sound functioning of the financial market for the sake of maintaining its credibility, the protection of financial consumers and the protection of other clients in the financial market and out of respect for the rules of economic competition. NBS shall perform

1. financial market supervision pursuant to the Act on National Bank of Slovakia and separate regulations,
2. other activities in the area of the financial market pursuant to above mentioned Act and separate regulations.

The purpose of financial market supervision is to contribute to the stability of the financial market as a whole and to the secure and sound functioning of the financial market, with the aim of ensuring financial market credibility, the protection of financial consumers and other customers, and compliance with competition rules. Supervision of the financial market, including both macroprudential supervision and supervision concerning the protection of financial consumers shall be exercised by NBS.

As part of its supervision tools, NBS mainly:

- a) exercises supervision over financial market participants,
- b) identifies, monitors and assesses risks to financial stability and contributes to strengthening the resilience of the financial system and decreasing the build-up of systemic risks with a view to safeguarding the stability of the financial system as a whole,
- c) in cooperation with the European Central Bank, performs tasks and powers under the Single Supervisory Mechanism (SSM),
- d) issues legislation of general application for the enforcement of laws on financial market,
- e) to the extent required for the performance of its tasks cooperates and exchanges information with parties to the European System of Financial Supervision, with foreign financial market supervisory authorities, with other public bodies in Slovakia,
- f) acts to protect financial consumers, including by processing information submitted by financial consumers, other customers

and by consumer associations concerned with the marketing or provision of financial services.

In supervising NBS conducts on-site inspections and off-site supervision, monitors compliance with the provisions of the Act on Financial Market Supervision, separate laws, and other legislation of general application which apply to supervised entities, lays down prudential business rules, safes operation rules and other requirements for the business activities of supervised entities, conducts proceedings, issues validations, authorizations, approvals/prior approvals, imposes remedial measures/sanctions, issues other decisions, opinions, methodological guidelines and recommendations. The scope of supervision of financial market participants does not include the adjudication of disputes arising from legal relations between financial market participants and customers.

Financial Market Supervision Unit acts as an organizational unit set up within NBS which is empowered to:

- conduct proceedings and take first instance decisions,
- conduct on-site inspections,
- conduct off-site supervision,
- act to protect financial consumers,
- draft proposals for the regulation of the financial market that serves to implement provisions of the Act on Financial Market Supervision and separate laws on financial market,
- perform other tasks conferred on NBS which concern supervision of the financial market [see ref. 10].

NBS proves and assesses the fulfillment of conditions for granting the banking authorization. According to article 7 paragraph 2 of Act on Banks following conditions in general have to be proved:

- a) a share capital of at least 16,6 million euros,
- b) share capital and other financial resources of the bank have a transparent and legal provenance
- c) prospective shareholders with a qualifying holding in the bank are eligible and acceptable and their relationships with other persons are transparent,
- d) the members of the bank's statutory body are nominated,
- e) persons nominated to positions are fit and proper persons,
- f) the draft articles of association of the bank are available,
- g) a business plan based on the strategy proposed for the bank's activities, supported by real economic calculations, is available
- h) a group with close links that includes a shareholder with a

- qualifying holding in the bank is transparent,
- i) the exercise of supervision is not impeded by by the legal system/the close links of the group mentioned in subparagraph,
  - j) the bank's registered office, headquarters, and place of business will be in the territory of the Slovak Republic,
  - k) the shareholders establishing the bank can prove their financial capacity to overcome an adverse financial situation faced by the bank,
  - l) appropriate technical systems and procedures, and adequate resources, material and technical conditions are available for the proper conduct of banking activities,
  - m) adequate organizational conditions/qualified personnel/functional management/control system, including internal control and internal audit, a risk management system, and prudential rules and regulations are available for the conduct of banking activities.

## CONCLUSION

Despite the fact of European banking harmonization and the validity of European passport principle some conditions for granting the banking license/authorization in FRG and Slovakia vary. Mainly, an example of a different amount of capital is worth mentioning. The banking regulation in FRG is based on the minimum capital requirement under CRD/CRR regime, i.e. 5 million euros. In contrary the Slovak Act on Banks stipulates requirement for more than 16 million euros so it exceeds the minimum capital requirement on EU Level.

On the other hand, some requirements arise from common Community supervision experiences (for example *close-links* and *co-location* condition) which were to be reflected in European Law (Post-BCCI Directive, Herstatt Bank Case) [see ref. 11]. The national approach differs from the experience of each jurisdictions. National regulatory disparities are gradually being removed (especially in the financial market regulation) by the trend of replacing directives with regulations, as mentioned by M. Hodás [see ref. 12]. The final outcome results to market unity.

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**INFLUENCE OF  
INVESTMENT CLIMATE  
ON THE INVESTMENT  
ATTRACTIVENESS OF  
AGRICULTURE**

The formation and development of market relations in Ukraine are inextricably connected with the agro-industrial complex, which is the basic sector of the national economy. Significant investments are needed to revive and further build the capacity of the agro-industrial complex. After all, the potential of the agricultural sector is not only fertile land and the people who work on it, it is also fixed assets: equipment, agricultural machinery, etc. It is estimated that more than 90% of these funds over the past 15 years have proved to be in urgent need of replacement. To do this, you need to spend at least 400 bil UAH. [1] Agriculture needs significant investment resources that will help it avoid irreversible decay. In times of crisis, the problem of attracting investment resources and ensuring their rational use is paramount and the possibility of developing agricultural production in the future depends on its solution. [2] Therefore, the main task of the state is to improve the investment climate by increasing financial revenues, accumulating investment resources and concentrating them on priority areas of economic development. [3]

The investment climate is defined as a combination of economic, social, political and legal factors determining the state of the investment process.[2] Rich natural resources, convenient geographical location, availability of skilled labor, significant scientific and technical and agricultural potential, level of development of industrial production indicate the presence of a significant investment potential of the country. [4]

However, in Ukraine, the investment activity of national and foreign investors is significantly restrained by a number of external and internal factors. Therefore, the transformation of the agricultural sector into a highly efficient, competitive in the national and foreign markets sector of the economy, ensuring food security of the state and solving social problems in rural areas is one of the strategic goals of the state at present. [1]

The economy of Ukraine, which is gradually emerging from a protracted crisis, in particular, overcoming the depressive 2012-2013 and the crisis of 2014-2015 from 2016 demonstrates positive trends in economic growth, which, above all, manifest themselves in the gradual growth of the country's GDP. Thus, in 2016 this growth was 2.3%, in 2017 – 2.5%, in the third quarter of 2018 – 2.8% compared to similar periods of previous years [5, 6].

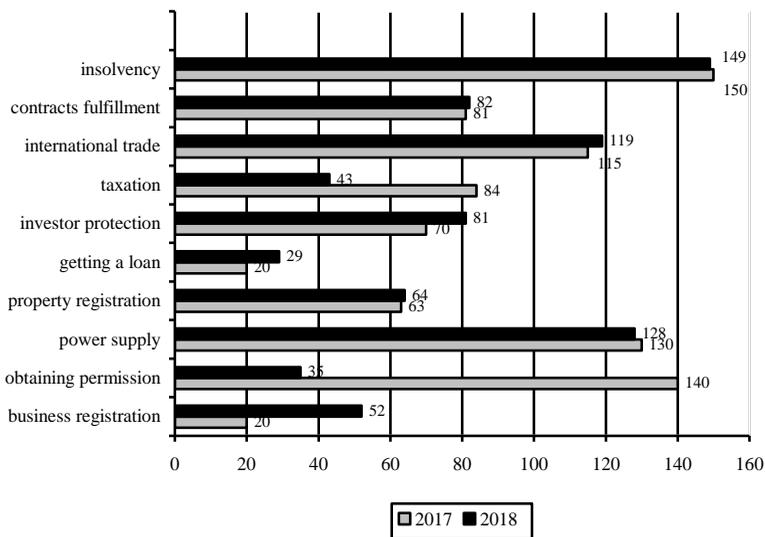
However, even such a dynamic of economic growth does not allow achieving macroeconomic stabilization, which is associated with a high level of inflation, a continuation of devaluation processes, insufficient reserves of gold and foreign exchange reserves, and the like. All this requires the development of an effective investment policy of the country on the basis of a clear strategic position of public authorities. [5]

Investment activity involves the implementation of a wide range of procedures, complex, but at the same time the most important ones among which the study of the environment is where the entire investment process takes place. A potential investor analyzes the macroeconomic environment, examines the characteristics of the market in which the recipient of investments operates, evaluates the possibilities of doing business in the country as a whole. An important information resource, in this case, is the study of international rating agencies, the results of which we will analyze. [5]

Thus, in the Doing Business-2018 rating, Ukraine took the 76th place, having risen by 4 positions compared to the previous year. Positive changes have occurred in 4 out of 10 key research positions. (Figure 4.2) Moreover, a significant improvement can be noted only in two of them – “obtaining a building permit” for which we took 35th place, against 140 in the rating of 2017 and the indicator “taxation” (43th position against 84)

Separate attention is required by the rating indicators, for which Ukraine took the worst place: in terms of connectivity to energy supply systems (128 positions), due to the international trade index (119 positions).

The worst rating indicator of Ukraine is a solution to the problems of insolvency (149 position amongst 190 countries), which investigates time and financial costs, as well as the final result of the process of resolving issues of enterprise insolvency. At the same time, Ukraine's position has significantly deteriorated by the criteria for registering an enterprise (falling from 20 to 52 places, which are mainly due to the lack of significant changes in the analyzed period in this direction, however, the active dynamics of the other participants in the rating). [7]



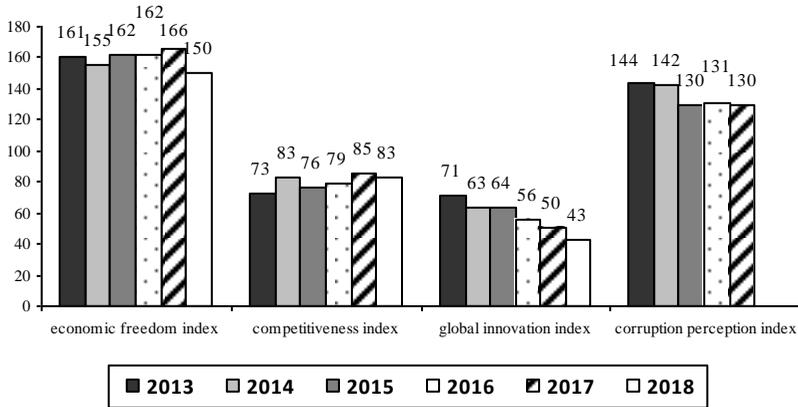
**Figure 4.2 Ukraine's ranking in the Doing Business 2017-2018 ratings**

*Source: made by the author on the basis of 7*

According to the results of the American Research Center The Heritage Foundation in cooperation with The Wall Street Journal Index of Economic Freedom 2018 published annual ranking of countries in the world in terms of economic freedom. According to the current study, Ukraine scored 51.9 points out of 100 possible and ranked 150th out of 180 countries. Thus, we once again found ourselves in a group of countries with a predominantly non-free economy. (Figure 4.3) [8]

In the ranking of the most innovative countries of the world Global Innovation Index 2018, Ukraine ranked 43 out of 126 and improved last year's result by 7 positions. (Figure 4.3) Ukraine demonstrates the highest rates of innovation in education and science (43rd place in the ranking) and business (46th place in the ranking). At the same time, institutions and infrastructure remain the least innovative (107 and 89 places in the ranking, respectively). [9]

Due to the Global Competitiveness Index report, issued by World economic forum, Ukraine ranked 83 out of 140 countries in the global competitiveness ranking of the economy, with poorly developed institutions, an extremely fragile financial system, and macroeconomic indicators. [10]

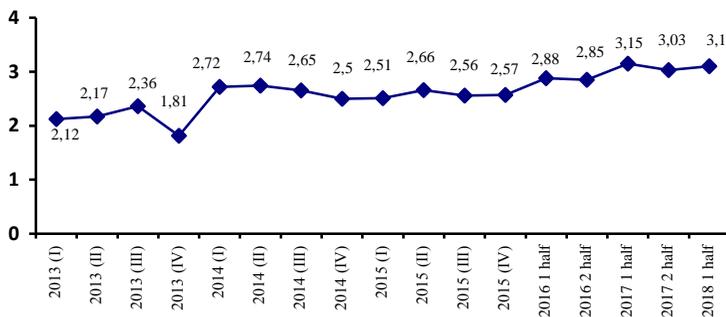


**Figure 4.3 Ukraine’s position in the world economic ratings for 2013-2018**

*Source: made by the author on the basis of 7, 8, 9, 10, 11*

In the global Corruption Perceptions Index from Transparency International for 2017 (The index is a rating from 0 (very high level of corruption) to 100 (very low level of corruption)) Ukraine received only 30 points out of 100 possible and became the most corrupt country in Europe. [11] (Figure 4.3)

The index of investment attractiveness of Ukraine according to the top managers of member companies of the European Business Association remains in a neutral plane. In the entire history of measurement – since 2008 – the Index has never reached the positive zone – above 4 points. The highest index was recorded at the end of 2010 – beginning of 2011 – 3.4 and 3.39 points respectively. The result in the 1st half of 2017 was the highest since 2011 (3.15 points). (Figure 4.4) For the first half of 2018, the index is 3.1 points. According to most investors, the business environment has not changed significantly. The defeat in the fight against corruption and its high level, the lack of progress in creating an anti-corruption court, the slow pace of implementation of judicial and land reforms, the lack of privatization, and the conflict in the East – these and other factors, unfortunately, do not add optimism to investors. Although there are positive changes: automatic VAT refunds; optional printing; increased opportunities for electronic payments; steps towards an increase in the electronic document flow. [12]



**Figure 4.4 Significance of the investment attractiveness index of Ukraine during 2013-2018**

*Source: made by the author on the basis of 12*

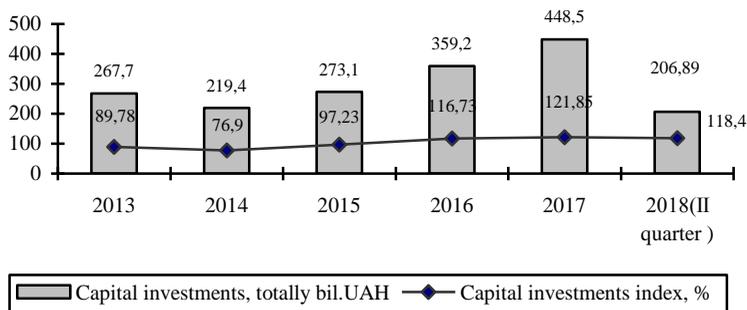
Consequently, the value of world economic rating indices and the investment attractiveness index are important indicators of the investment climate in Ukraine, analyzing the dynamics of which allows us to form a clear conceptual understanding of the real state of the problems that inhibit investors' ability to actively pursue investment activities in the country, as well as follow the real steps taken in direction of their effective solution. [5]

Let us analyze the investment activity of Ukrainian enterprises in 2013-2018. (Figure 4.5) Thus, in 2014, we observe the lowest activity of investors, which attracted only 219.4 billion UAH in agriculture. But, in the following years, the volume of investments dynamically increased and in 2017 amounted to 448.5 billion UAH, which is 25% more than the volume of capital investments for the corresponding period of 2016. Significant share of capital investment was absorbed into machinery, equipment and inventory and vehicles – 47.9% of all investments. 41.4 b UAH of capital investments were directed at capital repairs of assets (9.2% of the total volume).

In January – June 2018 enterprises and organizations mastered 206,89 bil. UAH of capital investments using all sources of financing, which is 26.5% more than the capital investments volume for the corresponding period of 2017. [6, 13]

The own funds of enterprises and organizations remain the main source of financing of the capital investments, which account for 75.4% of the total. And this, in turn, actually testifies to the closed nature of economic recovery and the strong dependence of the state of investment

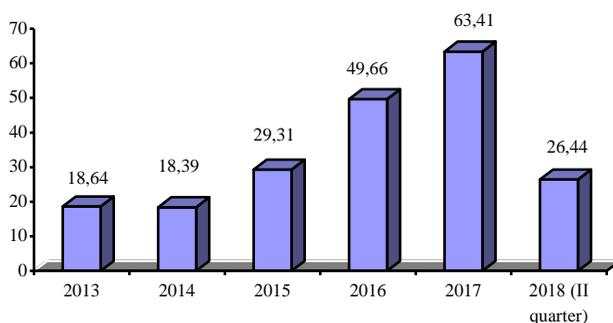
in the country on the profits of enterprises and organizations, which is almost not supported by state support or credit resources.



**Figure 4.5 Dynamics of capital investments volume in the Ukrainian economy and the index of capital investments for 2013-2018**

*Source: made by the author on the basis of 6*

The volume of investments in the fixed capital of agriculture in 2017 became a record for the entire history of Ukraine's independence (63.4 b UAH), that's 1.3 times higher than the indicator of 2016 (49.66 b UAH) and 3-4 times – in 2013 (18.64 b UAH) (Figure 4.6). In the second quarter of 2018 26.44 bil. UAH was attracted, which is 7% more than in 2017. We believe that such a positive trend is due to the fact that investors positively assess the level of profitability of their investments in the future. We can also observe the positive dynamics of investment growth indices throughout the study period.



**Figure 4.6 Dynamics of capital investments in agriculture of Ukraine**

*Source: made by the author on the basis of 6*

The attraction of financial resources of foreign investors is important for the development of the country's economy and agriculture in particular. (Table 4.3) In general, we observe a positive trend in attracting foreign direct investment (FDI), but their growth is very low. Thus, the growth of FDI (from countries of the world in Ukraine) to GDP in 2015 was – 1,6%, in 2017 the figure rose to 0,7% at a threshold of 5%. Such results are due to the fact that GDP grows faster than the volume of FDI. Along with the lack of activity of domestic investors, a significant threat to the economic security of Ukraine is the monopolization of foreign capital of strategic sectors of the economy, as can be seen indirectly by an increase in the share of FDI (from the countries of the world) in GDP from 31,1 in 2013 to 51,9 in 2015.

In 2017, the share of FDI decreased to 33,7%, which is 5 times higher than the threshold. The share of FDI in GDP per capita in 2017 is 5,1% (Investment of External Economic Activity of Ukraine 2010-2016, 2017).

Table 4.3

**The dynamics of attracting foreign direct investment in Ukraine**

	Investment volume, m USD					FDI in GDP,% / GDP growth in FDI,%				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
FDI from the world in the economy of Ukraine	51,71	53,70	40,73	36,15	37,51	<u>31,1</u> 1,6	<u>44,7</u> 2,0	<u>51,9</u> -15,6	<u>40,4</u> -5,1	<u>33,7</u> 1,2
including agriculture	0,72	0,78	0,62	0,50	0,59	<u>4,4</u> 0,4	<u>7,4</u> 0,6	<u>6,1</u> -1,6	<u>4,7</u> -1,1	<u>5,1</u> 0,7
FDI from the EU countries in the economy of Ukraine	41,13	41,03	31,05	26,41	26,20	<u>22,9</u> 1,2	<u>40,2</u> -0,1	<u>37,2</u> -12,0	<u>29,6</u> -5,2	<u>23,5</u> -0,2
including agriculture	0,51	0,55	0,43	0,34	0,40	<u>3,2</u> 0,1	<u>5,3</u> 0,6	<u>4,3</u> -1,2	<u>3,2</u> -0,9	<u>3,5</u> 0,6

Source: 13

This means that for the time being, agricultural production remains an insufficiently attractive industry for a foreign investor, which seeks to pay back its investments in the shortest possible time. [13]

In assessing the investment attractiveness of the industry, its specific features should be considered as a type of economic activity. Agriculture is closely associated with living organisms and largely depends on hydrometeorological conditions (the sum of effective

temperatures, rainfall), natural hydrometeorological phenomena and episodic situations, therefore it is a risky economic activity. In addition, agriculture uses such a specific and limited by physical and geographic parameters resource as land. In this regard, it is important for an investor to assess the qualitative parameters of the soils, their geographical location, ecological status, and the like.

To stimulate economic activity and its development in many countries, a number of benefits are provided for investors, including tax holidays; reduction of income taxes; soft loans; financial assistance in the form of an investment premium; the creation of free economic zones; financing investment projects in depressed areas. It is advisable to study the relevant foreign experience of applying financial regulation instruments for investment and innovation activity with the aim of identifying promising ones, taking into consideration the possibility of implementing directions and practical measures of state policy in Ukraine. [14]

Thus, the investment climate is a very important component of the economic system, which should create the prerequisites for stable investment growth in agriculture by enhancing investment activity. The problem of increasing the efficiency of the investment process in agriculture is one of the most important. As our studies have shown, in recent years, national and foreign investment in agriculture has increased, although the share of investment in the agricultural sector in the total investment is extremely small. At present, the investment climate does not satisfy the interests of investors, and the investment attractiveness of enterprises in the agricultural sector is at a low level. And although Ukraine has improved some positions in the ratings of world economic publications, there are still opportunities for further improvement in some areas, in particular in the field of government regulation: the fight against corruption, the judiciary, and the land, the anti-corruption court, military actions.

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**MINIMIZATION OF  
INVESTMENT RISKS  
IN ENGINEERING AND  
IMPLEMENTATION OF  
IT- PROJECTS**

At the present stage of information technology (IT) is considered as one of the main tools for the implementation of the strategic objectives in various fields. Management in the economy lead to the use of increasingly complex IT in process automation control government agencies and large companies. Increase the value and significance of data to be processed in turn leads to the need for effective it management. Introduced new principles of organization and management, new IT-services to users. Constantly modified and supplemented by the requirements of modern IT. In turn, the complexity of managing leads to qualitative and quantitative growth of their providing component - information and communication system (ICS). It is known that most of the projects on the development of information systems is currently not completed in time, exceed the budget or dealt with the lack of functionality to the system can be used. According to the Chaos Reporton the status of the development of IT-projects conducted by Standish Group [1], every fifth project fails, every second is not able to meet the deadline or is of lower quality or incomplete functionality.

One of the reasons for this situation is the wrong decisions made by project managers, in particular wrong decisions during the execution phase of the project. So, project managers can delay the time of replacement of less efficient developer more efficient. One of the objectives for the management of IT-projects is the task of managing the execution of the project [2]. The complexity of this task, due to the fact that, as a rule, something goes not according to plan, for example, violated time and budget, the reasons could be other factors, such as the underestimation of the complexity of the tasks, the low productivity of developers, and so on [3]. For decisions to be taken at this stage, characterized by increased subjectivity. Making incorrect decisions can lead to violation of the terms of the project and / or over budget. Very rarely one project is superior on all criteria. Usually each of them has its advantages and disadvantages. To choose the best variant of the project

are various methods of calculating changes in the value of money over time [4]. The main idea of these methods is to calculate how profitable is each variant at a given time interval. When such calculations are unavoidable errors due to inaccurate forecast indices - for example, future bank interest rates, annual profits, revenues from the project in three, five, ten years, etc. For brand projects are very difficult to accurately predict financial flows, because they strongly depend on the subjective reactions of many people, therefore, the practical application of such methods in the analysis of real brand projects limited. The article discusses the implementation of multi-criteria analysis of brand projects based on fuzzy decision theory. The initial data used by the expert pairwise comparison of alternatives for each criterion.

It is impractical to choose a project only on economic criteria (given profit, the profitability index investment, etc.) without taking into account the complexity of its implementation, degree of maturity, risk, and other factors. As the source data assumes the use of expert pairwise comparisons of alternatives on each criterion.

When deciding the most important thing is to choose the best option. Therefore, the main thing is not to predict what indicators will ensure the implementation of a project, and to determine the advantage of one option over the other. Also, a method for sensitivity analysis of the decision to variations of the expert comparisons of alternatives.

The choice of intelligent information systems. Assume that known:

$P = \{P_1, P_2, \dots, P_k\}$  is the set of projects for the creation of intelligent information systems (IIS);

$G = \{G_1, G_2, \dots, G_k\}$  is the set of quantitative and qualitative criteria for evaluation of projects.

Multicriteria analysis of alternatives consists in the ordering of elements of the set  $P$  according to the criteria  $G$ . taking into account published data management projects highlight the following evaluation criteria IIS:

- $G_1$  - degree study of the project;
- $G_2$  - expected effect;
- $G_3$  - risks;
- $G_4$  - speed output IIS on the market;
- $G_5$  - future development IIS;
- $G_6$  - cost of the project.

Multitude of the selected criteria is open – it can be supplemented with regard to specific information intelligent systems. In addition, each criterion can be viewed as a set of individual indicators at a lower level

in the hierarchy. For example, risks ( $G_3$ ) may include legal, financial, fashion risks, risks of loss of competitive advantage for the "cloning", risks of changes in legislation and etc.

Most of the methods of multi-criteria analysis convert a vector of individual criteria, which assesses the alternatives in the scalar integral criterion. With this approach it is difficult to take into account qualitative criteria, which are assessed by experts. One of the well-proven themselves in the management of mathematical methods of work with quality information is the theory of fuzzy sets, which is an effective mathematical tool for dealing with uncertainty.

To build the decision model used method of fuzzy multi-criteria analysis [5], which allows to take into account the peculiarities of the development of intelligent information systems. The method is based on the following principles:

1) criterias are considered as fuzzy sets defined on the universal set of alternatives using a membership function;

2) the membership functions of fuzzy sets are determined by expert paired comparisons of alternatives;

3) the coefficients of importance of the criteria used to concentrate the appropriate fuzzy sets;

4) the decision shall be made by the scheme Bellman – Zadeh [6] by the intersection of fuzzy sets of criteria that corresponds to the option that is better than others simultaneously satisfies all criteria.

We denote as  $\mu_{G_i}(P_j)$  number from the interval  $[0, 1]$ , which project  $P_j \in P$  is evaluated according to criteria  $G_i \in G$ : the greater the number  $\mu_{G_i}(P_j)$ , the better the project  $P_j$  criterion  $G_i, j = \overline{1, k}, i = \overline{1, n}$ . Then the criterion  $G_i$  can be represented by fuzzy set  $\tilde{G}_i$  on the universal lot of information intelligent systems  $P$ :

$$\tilde{G}_i = \left\{ \frac{\mu_{G_i}(P_1)}{P_1}, \frac{\mu_{G_i}(P_2)}{P_2}, \dots, \frac{\mu_{G_i}(P_k)}{P_k} \right\} \quad (1)$$

where  $\mu_{G_i}(P_j)$  - the degree of membership of element  $P_j$  fuzzy set  $\tilde{G}_i$ .

Find the degree of membership of a fuzzy set (1) will the method for construction of membership functions on the basis of pairwise comparisons. For each pair of projects expert criterion  $G_i (i = \overline{1, n})$

evaluates the advantage of one option over another. Paired comparison it is convenient to specify this matrix:

$$A = \begin{matrix} & P_1 & P_2 & \dots & P_k \\ \begin{matrix} P_1 \\ P_2 \\ \dots \\ P_k \end{matrix} & \begin{bmatrix} a_{11} & a_{12} & \dots & a_{1k} \\ a_{21} & a_{22} & \dots & a_{2k} \\ \dots & & & \\ a_{k1} & a_{k2} & \dots & a_{kk} \end{bmatrix} \end{matrix},$$

where  $a_{ij}$  - the advantage of the project  $P_i$  before project  $P_j$  ( $i, j = \overline{1, k}$ ), is determined by the whole scale Sahati[6]:

- 1 – if the advantage is absent;
- 3 – if the advantage of the weak;
- 5 – if a significant advantage;
- 7 – if a distinct advantage;
- 9 – if the absolute advantage;
- 2, 4, 6, 8 – intermediate comparative evaluation.

Matrix of pairwise comparisons  $A$  is diagonal ( $a_{ij} = 1$ ) and back symmetrical  $a_{ij} = \frac{1}{a_{ji}}, i, j = \overline{1, k}$ . The degree of fuzzy membership (1) correspond to the coordinates of the eigenvectors  $W = (w_1, w_2, \dots, w_k)^T$  of the matrix  $A: \mu_G(P_j) = w_j, j = \overline{1, k}$ . Own vector is found using the following equations:

$$\begin{cases} A \times W = \lambda_{max} \times W \\ w_1 + w_2 + \dots + w_k = 1 \end{cases} \quad (2)$$

where  $\lambda_{max}$  is the largest eigenvalue of the matrix  $A$ .

According to the principle of Bellman-Zadeh, will be the best alternative, which is to the greatest degree simultaneously satisfies all the criteria. Fuzzy decision is the intersection of individual criteria:

$$\begin{aligned} \tilde{D} &= \tilde{G}_1 \cap \tilde{G}_2 \cap \dots \cap \tilde{G}_n \\ &= \left\{ \frac{\min_{i=\overline{1, n}} (\mu_{G_i}(P_1))}{P_1}, \frac{\min_{i=\overline{1, n}} (\mu_{G_i}(P_2))}{P_2}, \dots, \frac{\min_{i=\overline{1, n}} (\mu_{G_i}(P_k))}{P_k} \right\} \quad (3) \end{aligned}$$

In accordance fuzzy solution of (3) is the best project with the

maximum degree of membership:

$$D = \arg \max (\mu_D(P_1), \mu_D(P_2), \dots, \mu_D(P_k)) \quad (4)$$

Improving the effectiveness of the implementation of information systems in various sectors of activity is closely related to their level of intellectuality. At the present stage of development of information systems and technologies most routine operations to transform the information is already automated and further increasing efficiency requires automation of intellectual and creative activity of man.

The creation of intelligent information systems, which would provide the company with modern methods of data analysis, generation of alternative solutions, evaluation and selection of the best, is an extremely important and urgent task. The introduction of mobile and the use of expert systems is a necessity, which would help to navigate in a changing environment.

In the work it was decided to compare three of the project for the creation of intelligent information systems, namely Oracle, SAP, and author's elaboration based on genetic algorithm.

Oracle and SAP – the world leaders in the segment of enterprise management systems. The products of both suppliers belong to the class of large integrated systems and broad functionality that allows you to meet the needs of businesses in virtually any industry. However, the high cost of licenses, consulting services and support solutions from Oracle and SAP is often a key issue when choosing IIC. For this reason we are together with them compared authoring, to visualize on the defined criteria of their advantages or disadvantages.

The calculated values of all components of the criterion  $G_i$  each alternative  $P_1, P_2, P_3$  set  $P$  of IIS variants are presented in Table 4.4.

Expert paired comparison projects  $P1 \div P3$  criteria  $G1$  to  $G6$  are given in Table 4.5.

In each matrix the three elements correspond to paired comparisons with Table 4.5. Other items found based on the properties of the diagonal and the inverse of the symmetry of the matrix of paired comparisons.

ter crossing  $\tilde{G}_1 \cap \tilde{G}_2 \cap \dots \cap \tilde{G}_6$  we obtain the following fuzzy set:

$$\tilde{D} = \left\{ \frac{0,08}{P_1}, \frac{0,1}{P_2}, \frac{0,06}{P_3} \right\} \quad (5)$$

Table 4.4

**Evaluation component criteria for each alternative**

criterion component	alternatives		
	P <sub>1</sub> – Oracle	P <sub>2</sub> – SAP R/3	P <sub>3</sub> – author's development
G <sub>1</sub> – extent of study of the project	90%	95%	50%
G <sub>2</sub> – the expected effect	75%	75%	75%
G <sub>3</sub> – risks	25%	10%	60%
G <sub>4</sub> – speed of entry IIS into the market	35%	50%	10%
G <sub>5</sub> – development prospects of IIS	55%	70%	70%
G <sub>6</sub> – project cost	high	high	low

which shows the advantage of the project P<sub>2</sub> over the other. Thus, the project P<sub>2</sub> are better than others at the same time satisfies all the criteria according to their importance.

Table 4.5

**Paired comparison projects**

criteria	pair comparisons
G <sub>1</sub>	absolute advantage P <sub>2</sub> over P <sub>3</sub>
	clear advantage P <sub>1</sub> over P <sub>3</sub>
	weak advantage P <sub>2</sub> over P <sub>1</sub>
G <sub>2</sub>	essential advantage P <sub>1</sub> over P <sub>3</sub>
	essential advantage P <sub>2</sub> over P <sub>3</sub>
	відсутня перевага P <sub>1</sub> над P <sub>3</sub>
G <sub>3</sub>	essential advantage P <sub>2</sub> over P <sub>3</sub>
	weak advantage P <sub>1</sub> over P <sub>3</sub>
	there is no advantage P <sub>1</sub> over P <sub>2</sub>
G <sub>4</sub>	weak advantage P <sub>1</sub> over P <sub>3</sub>
	essential advantage P <sub>2</sub> over P <sub>3</sub>
	there is no advantage P <sub>1</sub> over P <sub>2</sub>
G <sub>5</sub>	essential advantage P <sub>3</sub> over P <sub>1</sub>
	weak advantage P <sub>3</sub> over P <sub>2</sub>
	weak advantage P <sub>2</sub> over P <sub>1</sub>
G <sub>6</sub>	absolute advantage P <sub>3</sub> over P <sub>2</sub>
	absolute advantage P <sub>3</sub> over P <sub>1</sub>
	weak advantage P <sub>2</sub> over P <sub>1</sub>

This algorithm, based on fuzzy sets, implemented in Microsoft Excel

and universal for evaluation to select the best projects.

In practice, the question often arises: “What needs to change in this project, to become the best?” To answer this question it is necessary to know how “anxious” resolved expert paired comparisons. Below is a proposed approach to the study of the sensitivity, the idea of which is to define what will be the solution, if you change one of the pairwise comparisons. When you change one of the paired comparisons of the options necessary to ensure the consistency of the other. For illustration depict the histogram, which will reflect the best project in the appropriate criterion.

1) Consider projects on their degree of elaboration, SAP R/3 has a clear advantage over the author’s development. To improve the author’s design based on genetic algorithm (GA) is often necessary to not only Finance, but also experience, business communication successful investors in the creation and development of business.

2) Further analyzed the projects expected effect, a clear advantage is the project of SAP R/3. To change the level of benefits the other two projects should:

- ensuring management efficiency;
- to improve the accuracy of incoming and outgoing information;
- increase productivity of managerial personnel;
- reduced operating expenses;
- increase the scientific validity of the initial information.

3) The most risky is the project authoring on the basis of GA, for changes in the level of benefits of the project under this criterion must:

- to anticipate problems instead of reacting to them after they occur;
- to do preventive measures wherever possible;
- to prepare plans for the solution of problems before problems arise;
- to study the root causes of risk, and not their manifestations;
- use clear, structured and repeatable process for solving problems.

4) Improvement of advantages over other projects requires author’s elaboration based GA for this need:

- creation, development and utilization of new products and processes;
- improvement of the quality level of technical and technological base of production;
- improvement of the quality level of the research and development base;
- increase the efficient use of personnel and information potential;
- improving the organization and management of innovative activity;
- rationalization of the resource base;

- the achievement of competitive advantages of an innovative product over similar products on the domestic and foreign markets.

5) Author's elaboration based on GA is the most promising, because it aims to take a leading position in the market. For the long-term prospects in the development of the IIS must conduct ongoing analysis of the adequacy and appropriateness of the existing market structure, functions, tasks, skill level of staff in a particular economic situation.

Having estimated IIS at their cost, we see that author's development on the basis of GA has absolute advantage before other projects as is the cheapest project. To increase the level of preference for other projects it is necessary to reduce the price.

Summarizing the above, determine that it is necessary in order to make the author's elaboration on the basis of GA was the best. After analyzing the project determined that to improve its will on the criteria  $G_1$  (degree of elaboration of the project) and  $G_2$  (expected effect), as the criterion  $G_1$  is the worst.

For improving the level of study and the expected effect of the project should: o new financial services market, their standardization across the enterprise, improving the quality of customer service and transparent tracking performance, it is necessary to provide a unified platform for the delivery of of financial services. This platform should provide the ability to quickly rebuild automated business processes without compromising the reliability, safety and quality of their provision.

To enable planning and optimization of logistics network, tracking the passage through it of cargoes and shipments must provide a unified logistics system planning and accounting. This system should provide the ability for strategic planning of the logistics network, the solution of optimization problems, as well as full support for the operational functioning of logistics enterprises. In addition, the system should provide the ability to quickly change in order to market new customization services.

As currently IIS occupy one of the key places in the enterprise, the quality of provision of it services, their reliability, consistency with the business requirements and the flexibility to change come to the fore. This IIS should accelerate the process of adaptation to changing business requirements and to ensure consistent settings of providing it services.

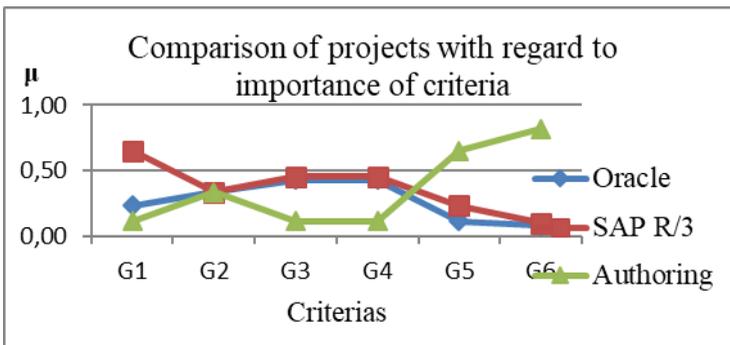
Having fulfilled all the necessary conditions to improve and identifying new benefits before projects are:

Table 4.6

**Paired comparison projects**

criteria	pair comparisons
G <sub>1</sub>	essential advantage P <sub>2</sub> over P <sub>3</sub>
	weak advantage P <sub>1</sub> over P <sub>3</sub>
	weak advantage P <sub>2</sub> over P <sub>1</sub>
G <sub>2</sub>	there is no advantage P <sub>1</sub> over P <sub>3</sub>
	there is no advantage P <sub>2</sub> over P <sub>3</sub>
	there is no advantage P <sub>1</sub> over P <sub>3</sub>

Elaborating the project authoring that based of development GA, are the results of calculations are presented in Figure 4.7, namely, the IIS is the best, thanks to the improvement of the criteria of the degree of elaboration of the project and the expected effect.



**Figure 4.7 Optimization of the choice of intelligent information systems**

Any information intelligent systems designed to meet any need, get the effect. Use IIS directly affects the economic performance of the user (for example, an automated quality control system significantly reduces losses from defects, resulting in lower costs of production, and thus increase profits). The economic effect is easily valuation and must be calculated under the economic rationale.

These projects make use of the following indicators:

- 1) Cost of the software (SA) – fixed cost set of programs of the information processing system and software documents required for operation of these programs.

2) Cost of means of computer equipment – fixed cost on office equipment and computer accessories that will satisfy the needs with the introduction of the IIS.

3) Costs of training of the personnel – the success and efficiency of it projects depends on the skill level of the personnel involved in the administration and improvement of IT-systems and the training of end customers, project managers and employees, it is therefore necessary funding for this area, for maximum results.

4) Cost of maintenance is one of the most expensive components, as is the process of ensuring that it works IIS, changes in the detection of errors, adaptation IIS to the new operating environment, as well as increase productivity or improve certain characteristics.

5) Cost of the extension of the project cost which includes expanding the range of tasks and services that are delegated to the remote offices, and further development of the network of these offices.

6) Cost of the communication system – managing information communication in the organization includes actions necessary to ensure timely receipt, collection, dissemination, storage and ultimate disposition of information. It provides a very important link between people to exchange ideas and different kinds of information, which ultimately is necessary for the successful completion of the project. Any person involved within the organization must be ready to send and receive information through the information system through the established channels. Communication management organization should be focused on group interaction in the framework of the management of the organization and includes:

- information of development project information links an organization that is collected, processed and distributed data, including both raw data and those obtained from direct calculations, analytical processing, expert assessments, and others;

- means for processing information, i.e. information technologies based on modern software products;

- communication tools based on modern means of communication, focused on ensuring the timely collection, generation, distribution, storage and transmission of the necessary project information;

- documentation of work – collecting, processing and preservation documentation on the project.

Each organization determines the level of profitability IIS, and then based on it and on the basis of the amount of development costs to determine the selling price IIS and to offer its customers.

Table 4.7

**The cost of key indicators**

criteria of an assessment	Oracle	SAP R/3	author's development
Cost of the software	700 000 \$	800 000 \$	200 000 UAH
Cost of means of computer equipment	75 000 \$	100 000 \$	100 000 UAH
Costs of training of the personnel	2 500 \$	5 000 \$.	10 000 UAH
Cost of support of the software	30 500 \$	50 000 \$	25 000 UAH
Cost of extension of the project	200 000 \$	350 000 \$	50 000 UAH
Cost of communication systems	6 000 \$.	10 000 \$	20 000 UAH

If the offered price is below average prices for similar programs at other conditions being equal, the customer will prefer to buy IIS from this developer. Therefore more efficient for the customer to choose author's elaboration based on genetic algorithm, and the development of IIS for risk analysis of it projects is suitable for enterprises and small businesses.

The implementation of it projects without analysis of alternatives results in an increase of its value increases the level of possible risks, and the results are far from expected. Errors in risk assessment can lead to incorrect management decisions, it is important to identify and assess all project risks.

In this graduation project achieved the goal: developed IP that improve the quality of decisions on the selection of it projects (in terms of inaccurate and uncertain expert information based on the use of fuzzy linguistic variables) and allows you to take the appropriate and informed decisions using subjective quality expert information provided, including, in the form of interval estimates.

For her achievements have been solved such basic tasks:

- Peculiarities of evaluation projects it projects
- Conducted the selection and assessment criteria assessment of the risk of it projects
- Conducted the selection and sorting of risk it projects
- Feasibility of using the method of fuzzy multi-criteria analysis in choosing the best it project
- Using these rules, you can identify ways of improving the efficiency of an it project that will ensure its dominance over the other options.

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## **THE INFLUENCE OF THE BANKING SECTOR ON THE SECURITY OF FINANCIAL MARKET**

A dominant role in the financial market of Ukraine are plays the banking system.

Improper performance of the banking system by its core functions undermines economic ties between business entities and becomes one of

the main threats to the financial market of Ukraine.

In general, according to scientists, the economic security of the country is a separate element of the system financial security of the country, which ensures the state of protection of the vital important needs and interests of person, country and society in the economic sphere from internal and external challenges, threats and dangers [5].

In general sense the financial-economic security of the banking system is the state of most effective use of financial resources to prevent threats and ensure the stable functioning of banking activities.

The main objective of ensuring the economic security of the banking system is to achieve maximum stability of its functioning, as well as to create the bases and prospects of its development regardless from objective and subjective factors and threats.

The banking sector is characterized by greater risk comparison with other industries of the economy. Risk is understood to mean the likelihood or threat of loss a bank of its own resources, lack of incomes or carrying out additional costs as a result ensuring of financial transactions.

The risks of threats to the economic security of the credit-banking sector are diverse, therefore, it is proposed to divide them into external and internal (Table 4.8).

*Table 4.8*

**Types of threats to the economic security of banking business**

<b>Internal</b>	<b>External</b>
1. Threats associated with carrying out a risky credit policy of the bank.	1. Threats caused by changes in the economic, political and social spheres of the country.
2. Threats caused by low quality management of the bank.	2. Threats caused by unfavorable market conjuncture.
3. Threats related to violation of the liquidity a credit institution.	3. Threats connected with criminalization of the banking sector.
4. Threats connected with violation of banking legislation.	4. Threats connected with fluctuations on the world markets.

*Source: systematized on the basis of sources [4; 7]*

Given the fact that the financial stability of the banking system is influenced by external and internal factors, the security of banks should be aimed at neutralizing their negative impact and achieving a certain effect from taken the measures.

The level of economic security of the banking system is determined by:

1. The level of competition on the bank market.
2. The quality of bank regulation and supervision by the National Bank of Ukraine.
3. The level of development of industries of the national economy.
4. The level of dependence the banking system of the country from the internal and external sources of financing.
5. The level of capitalization the banking system of the country.
6. The stability of the national currency.

Correlation the assets of bank and non-bank financial institutions in Ukraine is approximately 90-93% versus 7-10% in favor of banks. But periodic crises in Ukraine lead to the impossibility of preserving and increasing their savings, both in the banking sector and in other segments of the financial market. The dynamics of the number of banks in Ukraine in the last months of 2018 is shown in Table 4.9.

*Table 4.9*

**The number of commercial banks in Ukraine in 2018**

Date	Number of operating banks	Of them with foreign capital	Including with 100% foreign capital
1.01.2018	82	38	18
1.02.2018	82	39	18
1.03.2018	82	39	18
1.04.2018	82	39	20
1.05.2018	82	39	20
1.06.2018	82	39	20
1.07.2018	82	40	23
1.08.2018	82	40	23
1.09.2018	81	40	23
1.10.2018	81	41	24
1.11.2018	79	39	22

*Source: [2]*

Today the financial system of Ukraine is experiencing one of the most massive crises during the years of independence which is reflected on the activity of financial markets of the country. The number of banking institutions has tends to decrease. Over the past six years the number of banks has declined more than doubled, by 53.4%. One of the important reasons of reducing the number of banks is their recognition as insolvent – in addition to the violation of legislation that regulating the issues of prevention and counteraction of the legalization of incomes

obtained by criminal means, there was insufficient level of their capitalization and the inability of shareholders to provide the appropriate level financial support. The number of banks with foreign capital also declined significantly – by 26.4%.

Another trend that has a significant influence on the security in financial-credit sphere linked to use of digital financial technology in the financial markets. For example, the implementation of technologies block chain involves significant changes in the regulation of financial market, optimization of interaction between the National Bank of Ukraine, authorities and participants of financial market. In this direction the National Bank of Ukraine has developed a concept and a roadmap for the development of cashless settlements in Ukraine. Part of concept under the name of Cashless Economy is solutions that are based on the technology block chain. Introduction of cashless payments is one of the priority directions of development of the banking system of Ukraine. Particular attention is paid to new technologies that can simplify calculations for both citizens and small and medium businesses [8].

At the same time, the level of economic security of the banking system depends from the aggregate of bank risks, the incorrect management of which leads to emergence of threat the security of bank. If we consider the economic security of bank as an element of the security the banking system, then the risks in the work of the bank directly affect to the operation of the banking system. Bank risk, as a rule, is identified with the monetary and financial losses of bank.

On the other hand, bank risks are considered as a possibility of a negative outcome in an uncertain situation and, as a result, as an opportunity to generate income based on the volatility of financial markets (currency, stock market). Bank risk is a situational characteristic of activity the bank that reflecting the uncertainty of its outcome and characterizing the probability of a negative deviation from the expected [5].

In Table 4.10 shows the risks of individual banks and the banking system as a whole through implementation of digital financial technologies.

The detailed distribution of aggregate liabilities and capital of banks by groups, according to the classification of National Bank of Ukraine is given below in Table 4.11.

In accordance with the decision of National Bank of Ukraine dated 29 December 2017, No. 444, the criteria for distributing banks to separate groups by 2018 remain the same as in 2017:

Table 4.10

**Risks and opportunities arising from the influence of digital financial technology**

<b>Sphere of influence</b>	<b>Risks</b>	<b>Opportunities</b>
Consumer sector	Confidentiality and security of data; lack of continuity in banking processes; unacceptable marketing practices.	Providing more specialize banking services; reduction of transaction costs; acceleration of banking processes.
Bank system	Strategic risks and risks of profitability; increasing the relationship between financial parties; high operational risk; risks management by third parties; risk of terrorist financing – money laundering.	Improvement and more efficient ensuring of banking processes; innovative use of data for purposes of marketing and risk management; potential positive influence on financial stability due to increased competition.

Table 4.11

**Distribution of liabilities and capital by groups of banks according to the classification of National Bank of Ukraine**

Groups of banks	Unit measurement	Liabilities		Capital	
		01.01.2018	01.04.2018	01.01.2018	01.04.2018
Banks with a state share	million UAH	656 369	645 816	77 483	71 728
	% to systems	55,97%	56,85%	47,36%	45,09%
Banks of foreign bank groups	million UAH	357 109	334 285	58 530	59 355
	% to systems	30,45%	29,43%	35,78%	37,31%
Banks with private capital	million UAH	159 283	155 838	27 584	27 998
	% to systems	30,06%	13,72%	15,07%	17,60%
Total bank system of Ukraine	million UAH	1 172 761	1 135 939	163 597	159 081

Source: [4]

- banks with a state share – banks in which the country directly or indirectly owns share more than 75% of authorized capital the bank;
- banks of foreign bank groups – banks whose controlling stakes are

owned by foreign banks or foreign financial-bank groups;

– private with private capital – banks in which among the ultimate owners of a qualifying holding are one or more private investors who directly and/or indirectly hold at least 50% of authorized capital the bank.

On 15 February 2018 the National Bank of Ukraine by decision of the Board Directors No. 101 “On Approval of the Method for Calculating the Liquidity Coverage Rate (LCR)” approved a new standard for banks – the liquidity coverage rate or LCR.

LCR is the ratio of high-quality liquid assets of the bank to the amount necessary to cover the increased outflow of funds from the bank within 30 days. The standard reflects the level of stability of a particular bank to short-term liquidity shocks. Taking into account the significant level of dollarization of the Ukrainian banking system, banks will have to comply with the LCR standard both in national and in foreign currencies. Starting from 1 June 2018 calculation of standard LCR is performed in test mode. From 1 December 2018 banks will calculate LCR daily and report to the National Bank of Ukraine on a monthly basis. This standard was introduced in order to maintain financial stability and increase the stability of the banking system to possible liquidity shocks [8].

In addition, the National Bank of Ukraine has introduced an annual assessment sustainability of the banking sector. The objects of stress-testing will be 25 banks, which collectively account for more than 90% of assets of the banking system. Stress testing of interest and currency risks will be conducted. The result of testing will be assessment of capital adequacy for each bank in the forecast period for each of the macroeconomic scenarios. Adherence to banks of sufficient levels of core and regulatory capital is a key condition of efficient functioning of banking institutions under current macroeconomic conditions, and also serves as evidence of ability the bank to absorb the negative effects of a possible crisis.

When organizing an effective the security system of bank activity must adhere to the following principles:

– complexity – ensuring the safety of personnel, material and financial resources from possible threats by all available legal means, methods; ensuring the security of information resources throughout the life cycle, at all technological stages of their processing and use, in all regimes of functioning; ability of the system to development and improve according to changes in the conditions of operation the entity;

– timeliness – precautionary character of measures by ensuring the security. Establishment of tasks, formation of integrated security at the preliminary stages of develop of the security system based on the analysis and forecasting of the circumstances, security threats, as well as the develop of effective prevention measures;

– continuity – use by criminals of legal and illegal methods in order to combat with the methods of protection that ensure the security of activities;

– activity – protection the interests of banking institutions through the use of standard and non-standard methods;

– legality – security system based on the legislative framework, which regulates the process ensuring of banking activity;

– substantiation – measures and means of protection that must be implemented at the current level of security development and meet established requirements and norms;

– economic expediency – comparison of possible losses and costs on ensuring of security (criteria efficiency – cost);

– specialization – involvement to develop and implementation of measures and means of protection the specialized departments or institutions;

– interaction and coordination – implementation the measures of ensuring the security based on the clear interaction of all interested departments and services, third-party specialized institutions;

– improvement of measures and means of protection based on own experience, new technical means taking into account changes of methods and means of reconnaissance, money laundering schemes, financing of terrorism and financial espionage;

– centralization of management – independent functioning of the security system with organizational, functional and methodological principles with centralized management of the security system.

The main purpose of the bank security system is to prevent losses from the disclosure of confidential information; theft of financial and material-technical values, violation of the functioning of information systems.

The security of banking activities should be considered at two levels, because the banking system has a two-tier construction. In assessing the compliance of the banking system with the criteria and strategies of financial security, according to experts, it is advisable to allocate three interrelated aspects: a general assessment of the viability of the system; assessment the role of central bank in the banking system, its legislative

functions and the reliability of mechanism their implementation; assessment of ability the banking system to interact both with its individual actors, and with state and community centers on the develop of strategic and short-term goals of development the economics [5].

The main and functional goals determine the formation of necessary structural elements and the general scheme of security organization. The general scheme of organization the security of banking activities contains actions (measures) that are carried out consistently or simultaneously, namely:

- formation of necessary resource potential (capital, personnel, rights, information, technology and equipment);
- general-strategic forecasting and planning of financial security by functional components;
- strategic forecasting to ensure financial stability of the banking system;
- general-tactical planning the security of banking activity by functional components;
- tactical forecasting in the system of ensuring financial stability of the banking system;
- ensuring of functional analysis the level of security the banking activities;
- general assessment of achieved level of security the banking activity.

Only on conditions of ensuring in the necessary measures are taken to achieve the required level of security the banking system.

Thus, an analysis of the current state the banking sector of Ukrainian economy provides an opportunity to identify several problems in the banking sector:

- political and financial instability in the country;
- low quality of bank assets;
- decrease of liquidity the banking assets;
- low confidence to the banking system among the population;
- imperfect and unstable regulatory framework in the country;
- high degree of vulnerability the banking system to the currency-exchange rate policy in the country, conducted by the National Bank of Ukraine.

In order to strengthen banking institutions of own positions on the financial market they need first to improve liquidity indicators, which can be done through interaction with other financial intermediaries, in particular, with insurance companies, securities traders through the use

of non-standard schemes of work with other players in the banking services market and search of informal approaches with customer relationships, raising standards for the providing traditional banking services, developing fundamentally new banking products and services and create a positive image of the bank.

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The current development of the Ukrainian economy necessitates the stable functioning of economic entities and raising the standard of living of the population, which is primarily due to the search for methods of effective management of financial resources. This problem is exacerbated in the face of tight market competition. To ensure the rational attraction and use of finance and to increase their own financial resources, it is necessary to ensure their well-organized management. The solvency, liquidity and financial sustainability of enterprises depend on the effective formation and use of financial resources [1].

Joint-stock company "Kharkivoblenergo" (hereinafter referred to as JSC "Kharkivoblenergo") was selected as the basis for the study. Its subject matter is:

- transmission, supply and distribution of electricity;
- provision of services on the wholesale market of electric energy (capacity) of Ukraine and foreign countries;
- electricity supply at a regulated tariff;
- operation of transmission lines and substations, production of electric energy;
- design, construction, expansion, reconstruction, technical re-equipment and overhaul of electric networks, buildings, constructions, machines and mechanisms;
- conducting research and development research in the field of technology, engineering, ecology, economics, energy and power engineering;
- other activities [2].

Effective financial management of joint stock companies will require a more detailed study of the financial condition and the determination of the causes of existing financial problems in the enterprise. In the framework of the analysis of the financial condition of JSC "Kharkivoblenergo" liquidity, financial stability and liquidity probability were calculated. The results of calculating the liquidity indicators of JSC "Kharkivoblenergo" in 2014-2016 are presented in the Table 4.12.

Table 4.12

**Indicators of liquidity of JSC “Kharkivoblenergo” in 2014-2016**

Indicator	Year			Deviation	
	2014	2015	2016	2015 from 2014	2016 from 2015
The coefficient of absolute liquidity	0,200	0,015	0,004	-0,184	-0,011
The coefficient of quick liquidity	1,53	1,64	1,44	0,106	-0,202
The coefficient of total liquidity	1,63	1,70	1,46	0,075	-0,239

The coefficient of absolute liquidity of JSC “Kharkivoblenergo” during the 2014-2016 period decreased from 0.2 to 0.004 (at the normative value of 0.2-0.25), which is a negative trend and indicates the need to increase the absolute liquidity of the enterprise by reducing the volume of current liabilities or increase in cash reserves of the enterprise.

The coefficient of quick liquidity of JSC “Kharkivoblenergo” decreased from 1.53 in 2014 to 1.44 in 2016 (at the normative value of 0.8-1.0). The quick liquidity ratio exceeds the normative value, which indicates a sufficient level of liquid current assets to cover current liabilities.

The coefficient of total liquidity is less than normative and shows a tendency to decrease during 2014-2016 (from 1.63 to 1.46). The low value of the coefficients of absolute and total liquidity indicates the existence of financial risks for the enterprise JSC “Kharkivoblenergo”.

The indicators of financial sustainability of JSC “Kharkivoblenergo” in 2014-2016 are presented in the table 4.13.

Calculation of indicators testifies to high financial stability of JSC “Kharkivoblenergo” and its slight decrease in 2014-2016 years – the coefficient of autonomy decreases, the coefficient of financial stability (correspondingly, the coefficient of financial debt increases). The coefficient of maneuvering has increased, but remains below the norm, indicating a low mobility of the enterprise’s own capital.

In order to predict bankruptcy and assess the impact of commercial risks on the activities of JSC “Kharkivoblenergo”, an estimation of the probability of bankruptcy was conducted using the Altman’s model, which provides for the calculation according to the formula [3]:

Table 4.13

**Indicators of financial sustainability of JSC “Kharkivoblenergo”**

Indicator	Year			Deviation	
	2014	2015	2016	2015 from 2014	2016 from 2015
Own working capital, ths. UAH.	231898	280197	364792	48299	84595
The coefficient of autonomy	0,83	0,79	0,67	-0,0465	-0,1169
The coefficient of financial stability	5,04	3,71	2,04	-1,3219	-1,6744
The coefficient of financial debt	0,20	0,27	0,49	0,07067	0,22103
The coefficient of maneuvering	0,10	0,11	0,15	0,00211	0,03931
The coefficient of coverage of current assets	1,63	1,70	1,46	0,07511	-0,239

$$Z = 0,717 \cdot x_1 + 0,847 \cdot x_2 + 3,107 \cdot x_3 + 0,42 \cdot x_4 + 0,995 \cdot x_5 \quad (4.1)$$

where  $x_1$  – ratio of working capital (own working capital) to the amount of assets;

$x_2$  – the ratio of retained earnings (net profit) to the amount of assets;

$x_3$  – the ratio of operating profit to the amount of assets;

$x_4$  – the ratio of the book value of equity to the attracted capital (for companies whose shares are not quoted on the stock exchange);

$x_5$  – the ratio of income to the amount of assets [4].

The results can be in three intervals:

<1,23 – th enterprises are definitely insolvent

1,23-2,90 – the uncertainty zone

> 2,90 – the financially sustainable enterprises [5].

The data for calculating the probability of bankruptcy of JSC “Kharkivoblenergo” is presented in the Table 4.14.

Calculation of Altman’s coefficients:

$$Z_{2014} = 0,717 \cdot 0,087 + 0,847 \cdot 0,010 + 3,107 \cdot 0,017 + 0,42 \cdot 5,036 + 0,995 \cdot 1,480 = 3,713$$

$$Z_{2015} = 0,717 \cdot 0,084 + 0,847 \cdot 0,010 + 3,107 \cdot 0,034 + 0,42 \cdot 3,714 + 0,995 \cdot 1,478 = 3,204$$

$$Z_{2016} = 0,717 \cdot 0,098 + 0,847 \cdot (-0,027) + 3,107 \cdot (-0,032) + 0,42 \cdot 2,040 + 0,995 \cdot 1,820 = 2,617.$$

Table 4.14

**Data for calculating the probability of bankruptcy of  
JSC “Kharkivoblenergo” in 2014-2016**

Indicators	2014	2015	2016
Own working capital, ths.UAH.	231898	280197	364792
Unallocated (net) profit	27054	32157	-99571
Amount of assets	2666775	3344379	3732493
Operating profit	45870	113794	-117860
Equity	2224965	2634944	2504580
Capital is attracted	441810	709435	1227913
Net profit	3947866	4941404	6793241
Coefficients in the Altman’s model			
X1	0,087	0,084	0,098
X2	0,010	0,010	-0,027
X3	0,017	0,034	-0,032
X4	5,036	3,714	2,040
X5	1,480	1,478	1,820

The calculations show that Altman’s indicator for JSC “Kharkivoblenergo” decreases from 3,713 in 2014 to 3,204 (the company was considered financially stable). In 2016, the Altman’s coefficient declined to 2,617 – the company moved into a zone of uncertainty. The decrease of the Z coefficient in the dynamics indicates the need to develop measures to prevent the likelihood of bankruptcy and minimize financial risks in the work of JSC “Kharkivoblenergo”.

The analysis revealed significant financial problems in the work of JSC “Kharkivoblenergo”, namely:

1. The problem of management of accounts receivable, namely, its significant growth in 2016, a significant excess of receivables over payables and a decrease in the turnover indicators of accounts receivable and payable in 2014-2016.

2. Profitability of the enterprise in 2016 due to excess of growth rates of the cost over the growth rate of net income of JSC “Kharkivoblenergo”.

The results of a detailed analysis of the balance of payables and receivables are presented in the table 4.15.

The ratio of receivables and payables characterizes how much payables can be repayable due to accounts receivable. It is calculated as the ratio of accounts receivable to payables. The value of the coefficient should be less than 1,0.

Table 4.15

**Comparative analysis of accounts receivable and payable by  
JSC “Kharkivoblenergo” in 2014-2016**

Calculations	2014		2015		2016	
	AR	AP	AR	AP	AR	AP
Goods, works, services	503093	68441	775790	30781	1437444	163842
With a budget	4851	19774	2	57827	5602	79821
By issued advances	1598	252296	47278	368945	3569	491799
From insurance		6010		9995		21969
With pay		12457		21593		81583
Others	5059	29137	64138	65502	12616	201549
Together	514601	388115	887208	554643	1459231	1040563

In 2014:  $R_{r/p} 2014 = 514601 / 388115 = 1,33$

In 2015:  $R_{r/p} 2014 = 887208 / 554643 = 1,60$

In 2016i:  $R_{r/p} 2014 = 1459231 / 1040563 = 1,40$

Thus, during the period of 2014-2016 in the work of JSC “Kharkivoblenergo” the amount of accounts receivable exceeds the payables (the coefficient exceeds 1). Although the payables of JSC “Kharkivoblenergo” can be redeemed due to current receivables, this situation shows that the company’s “freezing” of accounts receivable and requires action to reduce the amount of accounts receivable.

Information on the share of receivables and payables of JSC “Kharkivoblenergo” in the structure of the capital of the enterprise is presented in the table 4.16.

In general, the company has a significant excess of receivables over accounts payable, which threatens to reduce the business activity of JSC “Kharkivoblenergo” through the “freezing” of funds in accounts receivable. On the one hand, a significant amount of accounts receivable is explained by the sector specifics of the company’s operation and the “timeliness” of preparing financial statements (financial statements are formed as of January 1, while payments for consumed electricity begin to occur mainly on a monthly basis after the 15th day).

The development and implementation of measures aimed at reducing the receivables of JSC “Kharkivoblenergo” is complicated due to the specifics of the company’s operation, as the main reason for the increase in total receivables for electricity was non-payments of the Municipal Enterprise (ME) “Kharkivvodokanal” and the ME “Kharkivski Teplovi Merezhi” (“KTM”) [2].

Table 4.16

**Accounts receivable and payable of JSC “Kharkivoblenergo” in the structure of enterprise capital in 2014-2016**

Indicator	Year		
	2014	2015	2016
Accounts receivable for goods, works, services	18,9	23,2	38,5
Accounts receivable on settlements	0,2	1,4	0,2
Other accounts receivable	0,2	1,9	0,3
Total receivables	19,3	26,5	39,1
Accounts payable for goods, service, works	2,6	0,9	4,4
Accounts payable to the budget	0,7	1,7	1,9
Accounts payable on insurance	0,2	0,3	0,6
Payables to pay	0,5	0,6	2,2
Accounts payable on received advances	9,5	11,0	13,2
Other accounts payable	1,1	2,0	5,4
Total payables	14,6	16,6	27,6
Excess of accounts payable on accounts receivable	-4,7	-9,9	-11,5

It is ME “Kharkivvodokanal” and ME “Kharkivski Teplovi Merezhi” are the largest consumers in the structure of electricity consumption throughout Kharkiv region, and therefore the largest debtors of JSC “Kharkivoblenergo”.

JSC “Kharkivoblenergo” in accordance with the rules of the current legislation during 2013-2016 conducts work aimed at ensuring proper and timely payment in accordance with the terms of the existing contracts for electricity supply. However, in spite of lawsuits and appeals to regulators and state authorities, the payables of utility companies to JSC “Kharkivoblenergo” are increasing.

Also, in 2016, National Energy and Utilities Regulatory Commission on its own initiative reduced the amount of subsidies of JSC “Kharkivoblenergo” by 111,2 million UAH, which resulted in a significant increase in the cost of purchased electric energy in the organized market and the company receiving a net loss on the results of work in 2016.

Thus, the presence of a significant receivable and a reduction in the amount of subsidies is one of the reasons for a significant increase in the cost of production of JSC “Kharkivoblenergo” in 2016.

Further, a more detailed study of the problem of the loss-making of the company in 2016 will be carried out due to an increase in the growth

rate of the cost over the growth rate of net income of JSC “Kharkivoblenergo”.

Actual cost of sold products of JSC “Kharkivoblenergo” consists of payments for purchased electricity and operating expenses of the company (material costs, labor costs, deductions for social measures, depreciation, other operating expenses).

The dynamics of the cost of JSC “Kharkivoblenergo” in 2015-2016 is presented in Table 4.17 (according to the financial statements of the company).

*Table 4.17*

**Dynamics of cost of JSC “Kharkivoblenergo” in 2015-2016, mln.**

Indicator	2015		2016	
	Value	%	Value	%
Purchased electricity	3859,321	80,1	5738,391	82,8
Operating expenses	959,969	19,9	1189,367	17,2
including				
Material costs	120,572	2,5	133,286	1,9
Salary expenses	404,853	8,4	571,271	8,2
Deductions for social events	143,053	3,0	124,274	1,8
Amortization	196,444	4,1	267,265	3,9
Other operating expenses	95,047	2,0	93,271	1,3
Actual cost	4819,290	100,0	6927,758	100,0

In the general structure of cost, the largest share is the article “Purchased electricity”. According to the results of 2016, the share of this article (without taking into account economic needs) amounted to 82,8% (or UAH 5738,4 million).

Cost of sold products in comparison with 2015 has increased by 43,8% (or UAH 2108,468 million). The main increase occurred in the following articles:

- “Purchased electricity” for UAH 1879,07 mln. (or 48,7%);
- “Salary expenses” by 166,418 million UAH. (or 41,1%).

Changes in the volume of purchases and purchasing prices of electricity produced by JSC “Kharkivoblenergo” in 2015-2016 are presented in Table 4.18.

Purchase of electric power of JSC “Kharkivoblenergo” is carried out at SE “Energorynok”. The total amount of electricity purchased in 2016 amounted to 6391,725 million kWh, which is 270,76 million kWh more than in 2015.

Table 4.18

**Changes in the volume of purchases and purchasing prices of electric power of JSC “Kharkivoblenergo” in 2015-2016**

Indicator	2015	2016
Volume of purchased energy (million kW•h)	6120,965	6391,725
Useful leave (million kW•h)	6085,450	6241,060
Operating expenses (kop / kW•h)	79,19	111,00
Purchase price (kop / kW • h)	63,05	89,78
Constant costs (kop./kwh • h., UAH / Gcal)	16,14	21,22
Average retail tariff (kop./kwh•h)	81,20	108,84
Profit (cop. / KWh)	2,01	-2,16

The cost of purchasing electric power in comparison with 2015 increased by UAH 2262,7 million and amounted to 5738,391 million UAH.

The average purchase price for 2016 amounted to 89,78 cop. / kW•h. without VAT. The increase in the average purchase price compared to 2015 amounted to 26,73 kopecks per kW•h or 42,4%.

It should be noted that the existence of significant receivables from ME “Kharkivvodokanal” and ME “KTM” leads to the appearance of payables of JSC “Kharkivoblenergo” to SE “Energorynok” (as at 31.12.2016, such debts amounted to 132,4 million UAH, and as of 01.04.2017 it was fully repaid).

In fact, JSC “Kharkivoblenergo” carries out payments from SE “Energorynok” at its expense, which could be directed at solving operational and investment tasks, paying wages and paying taxes [6].

In the presence of payables to SE “Energorynok”, NEURC introduces regulatory sanctions to JSC “Kharkivoblenergo”, namely, the retention of funds from the current account. The period of detention was 125 banking days, and the size of the shortfall of JSC “Kharkivoblenergo” for operating activities amounted to 484,3 million UAH (shortfall funds should have been aimed at preparing networks and equipment for the autumn-winter period, replenishment of emergency stocks, payment of wages to staff, etc.) [7].

The problems of significant increase of accounts receivable, growth of cost price and loss-making activity of JSC “Kharkivoblenergo” are related. That is why the formation of complex proposals for improving the financial management of the joint-stock company JSC “Kharkivoblenergo” is important. Taking into account the systematic violations of the current legislation by other NEURC licensees and

conducting settlements only under the coercion of court decisions, whose cases are maximally hindered by the involvement of a powerful administrative resource, the recommended measure is, at the legislative level, granting NEURC's the authority to impose financial sanctions on licensed enterprises that do not fulfill their direct obligations Towards other participants in the energy market. The problems of significant increase of accounts receivable, growth of cost price and loss-making activity of JSC "Kharkivoblenergo" are related. That is why the formation of complex proposals for improving the financial management of the JSC "Kharkivoblenergo" is important.

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## Chapter 5

# PRACTICAL ASPECTS THE IMPLEMENTATION OF MANAGEMENT MECHANISMS AND DEVELOPMENT STRATEGIES AT THE LEVEL OF SECTORAL ECONOMIC STRUCTURES

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**MAIN DIRECTIONS FOR  
THE IMPLEMENTATION  
OF GREENING THE  
AGRICULTURAL  
PRODUCTION IN  
UKRAINE**

The ecological situation in Ukraine in recent years has deteriorated so much that now both the economic status of business entities and food security of the country depend on it. One of the most important components of the economic security in the agrarian sector is the provision of its ecological and economic components in the agro-food market. In its turn, provision of the economic security of agrarian production cannot be separated from the environmental basics of the production sector.

The output of domestic agricultural products on the European market today acquires a new socio-economic content, and it is necessary to change the priorities in the system of agrarian relations. That is why today there is a process of reconsidering the role of economic and environmental priorities and the obvious advantage is given to the environmentally safe development of the agrarian production. The priority place in the agrarian system should be taken by the environmental quality criterion at the national level, and the need for greening the agrarian production. It is beyond any doubt and requires an immediate search for radical ways for its global implementation.

Greening is the direction of the innovative development of agrarian enterprises which are based on mastering ecological methods of management, provides a wide recovery of natural and anthropogenic resources at the expense of forming steady ecological-economic

systems, directed at the increase in the amounts of production of the competitive produce, with the application of ecological methods of management based on the implementation of adaptive-landscape systems of husbandry, rational involvement in the economic turnover and increase in the efficiency of applying natural, material, and work resources in the rural area.

Nowadays political, economic and social conditions have already been created for the development of environmentally-directed innovations in agricultural production. In order to benefit from these prerequisites and as a consequence from the results of the introducing this type of innovation, an ecological and economic management system should be implemented. The system is considered by scientists as an integral part of managerial science that takes into account and implements the objectives of environmental protection and rational use of natural resources in the planning, implementation and control of economic actions to ensure the balanced functioning of the ecosystem, as well as its innovative development (Melnyk, 2014).

The main way to overcome the environmental crisis that has developed in the agrarian sector of the country is to integrate the interests of the environment and economy in agricultural production. At the same time it is necessary to take into account on the one hand the close correlation of the natural use of agro-systems, the state of the environment and the resource potential of the country, and on the other hand the prospects for the development of the national economy (Volyk, 2006).

Optimizing the use of the environment in agricultural production and minimizing the negative impact on it can be achieved by improving the organizational and economic mechanisms of natural management.

The development of an ecological and economic mechanism for the organization and development of agriculture will provide the formation of human social-ecological and economic values in the agricultural system.

Researches of I.S. Voronezka, L.G Melnik, O.V. Prokopenko, L.A. Chromushina, O.I Shkuratov and other scientists are devoted to the issues of formation of the economic mechanism of environmental management of agrarian production and environmental activities.

Economic approaches to improving the mechanism of production and consumption of environmentally safe products are also considered in the works of S.M. Ilyashenko, Ye.V. Mishenina, V.V. Pisarenko, and others.

There are several different types of economic mechanisms depending on the tools influencing the implementation of the environmental activities. Scientists Koniayev O.V. and Zhyikov G.Y. distinguish two types – compulsory and encouraging. The first ones include preferential crediting of agricultural producers; price stimulation of environmentally friendly products; subsidies (centralized or local); interest-free loans; exemption from taxes, a part of the profit (income) (Koniayev, 2009).

Authors Dubodielova A.V., Yurinets O.V., Fedorov M.M. in addition to these two types of economic mechanisms distinguish the third one – marketing, which includes the following directions, such as creation and provision of development of the market of natural resources and environmentally-friendly goods; expansion of the “marketing chain” structure with the inclusion of the environmental expertise; trade of quotas on harmful emissions; ecological excise tax, environmental insurance and promotion, etc. (Dubodyelova, 2011).

When there are changes in the relationship between the society and the natural environment, there are changes in the human consciousness, psychology, system of values and behavior toward the environment. The main stimulus for the initiation of this process is the appearance of new needs of the society, which would combine economic, environmental and social components (Vasyutkina, 2014). That is, the transition to the economy which is focused on the principles of ecologically balanced development requires, first of all, the change of human attitude to the environment.

However, the problem of the formation of a strategy for the environmentalization of agrarian production is still not sufficiently investigated in the theoretical as well as practical aspects.

Greening of the agrarian production is an integral part of implementing the concept of sustainable development. However, sustainable development of the agrarian production is possible with corresponding actions of agrarian enterprises towards greening and innovative approach to production with the purpose of their transition to a qualitatively new level of agricultural business activity, where the preference is provided for ecologically safe development of the agrarian production.

For today agrarian enterprises require sustainably-focused reconstructions in their producing activity, the latter includes:

- rational use of land which is accompanied by conserving and increasing the fertility of the soil;
- provision of the optimal level of land plowing, which makes

impossible to develop water and air erosion of the soil;

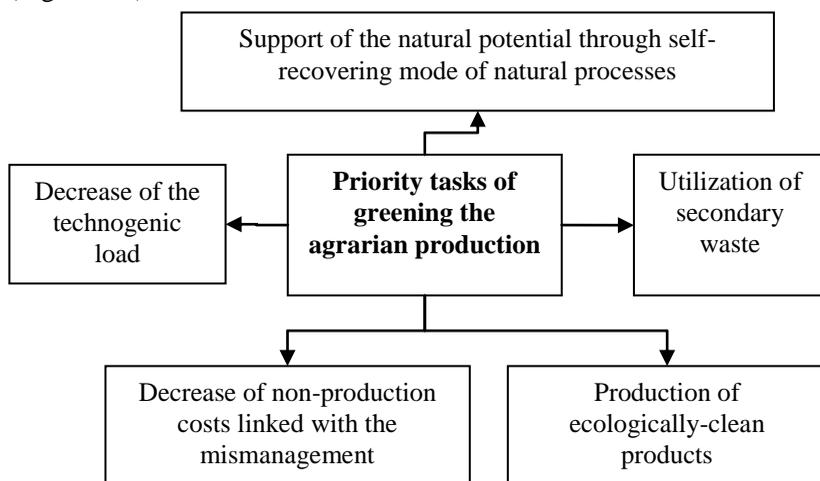
- abiding by the regulations on limitation of exceeds in acceptable norms of contamination for produce, provision of environmental friendliness;

- compliance with the set regulations towards transportation, storing and application of mineral fertilizers, means of protecting plants and animals,

- avoidance of environmental and food contamination by chemical substances;

- abiding by ecological norms during projecting, building, reconstruction and commissioning new structures and buildings, ameliorative systems and so on.

We generalized the main tasks of greening the agrarian production (Figure 5.1).



**Figure 5.1 Tasks of greening the agricultural production**

*Source: generalized by the author*

For today the most important problem is the provision of population with high-quality food products, made in the agrarian sector, as well as solution to issues of food security. At that the main demands are made not only for the quality of the products but also for the condition of the environment. These problems are crucial both in Ukraine and in many countries of the world (Mykhaylenko, 2014).

The innovative model of agricultural development sets a goal to increase competitiveness of agrarian companies in production and

distribution-marketing spheres by means of implementing modern technologies, types of products and methods of management (Kyporenko, 2015).

In our opinion, to provide the main principles for the sustainable agricultural development in the region it is necessary to green the agricultural activity; enhance the efficacy of utilization of the resource potential in the field and formation of ecologically-focused system of managing agrarian production.

Understanding the ecological insecurity makes population reconsider their attitude towards foods. More and more attention from consumers is paid to the condition of health however they realize that ratio between the selection of food and the condition of the environment which are the main factors of influencing people's health.

Greening is the main direction in the activity of agrarian enterprises and it is based on mastering ecological-economic methods of management, with the purpose of providing extended recovery of natural resources at the expense of forming sustainable ecological-economic systems, increase in amounts of production of competitive ecologically safe products, creation of agrarian systems using ecological methods of management.

Functioning of agrarian enterprises according to the concept of steady development requires creation of fundamentally new conditions for entrepreneurial activity, the base of which is greening of the agricultural production and increase in efficiency of applying the resource potential of the AIC and formation of the ecologically focused system of management.

All economic and environmental tools of this model are interconnected, and its important component is a system of government environmental management, which includes: general management and special management. At that the public authorities of general competence carry out their activities by adopting resolutions and orders on key issues in the agrarian sector; the public authorities of special competence ensure the implementation of the state policy in various areas.

Environmental management tools (Figure 5.1) imply the certification and labeling of environmental products, which proves that the correspondence of the certain object to the specific regulatory document is kept. The process of certification and standardization should be carried out in accordance with the international standards adapted to the conditions of Ukraine.

Ecological and economic tools, in our opinion, are an integral part of environmental marketing and they include:

- production of ecologically safe agricultural food products and their ecological positioning;
- price formation taking into account environmental costs;
- formation of a market with environmentally safe products, based on international standards of ecological agricultural production;
- distribution of environmentally safe agricultural products;
- formation of the information and communication system for the promotion of agricultural food products.

Economic stimulation of environmentally-focused agricultural production is directly related to the protection and use of land, conservation, reproduction and increase in soil fertility, as well as the protection of the environment as a whole.

The mentioned stimuli are legally classified:

a) provision of tax and credit privileges to citizens and legal entities that carry out at their own expense the measures of use and protection of land which are included in the national and regional programs;

b) allocation of funds from the state or local budgets to citizens and legal entities for the restoration of the previous condition of land, caused not by their fault;

c) exemption from payment for land plots in the stage of agricultural development or improvement of their state according to the state and regional programs;

d) compensation from the budget funds to reduce the income loss of land owners and land users as a result of the temporary preservation of the degraded and unfertile land that was caused not by their exploitation.

The principles of the economic stimulation mechanism include: the principle of combining economic stimuli and penalties; the principle of stimulating the final results of the carried out measures; the principle of independence from forms of management and property.

The main directions of organizational and economic management in agrarian production are:

- formation at the state level of measures that can change the format of relations between production and the environment in the direction of the rational use, reproduction of agricultural systems;

- implementation of environmental policy measures at the state and regional levels, the basis of which is the process of implementation and development of environmentally friendly production, the rational use of the possibilities of the state's economy, especially its financial

resources, production, scientific, and technical potential;

- determination of social priorities considering the specific ecological situation in the regions, according to which it is planned to eliminate the negative phenomena of nature management and transition to environmentally friendly production;

- combination of state influence with the market forms of management, stimulation of qualitative changes through priority financing, lending, material and technical, information support, introduction and development of environmentally friendly production;

- carrying out economic-ecological monitoring over the process of transition to environmentally friendly production in the analysis of internal strengths and weaknesses of agricultural producers;

- consideration of changes in the external factors and their impact on the competitiveness of products and enterprises in the agrarian sector of the economy, namely, to detail their actions, to clearly distinguish market opportunities and threats.

Nowadays the transition to new agribusiness systems is a complex process and for its implementation it is necessary to change the principles of functioning of agribusiness entities, accelerate their innovative development and provide the possibility for their organizational transformations. Therefore the modern conditions of the management of agrarian enterprises require the formation of a whole scientifically grounded management system that considers the interests of the consumer aimed at balancing the demand and the supply with minimal losses, provides profitability of sales activities and makes possible to respond adequately to changes in the internal and external environment.

Provision of the efficiency of agrarian enterprises under market conditions is possible by increasing the productivity of crops and livestock, restoring the specialized production, reducing the costs of production and sales of products, improving the system of sales, and, as a result, the level of merchantability and profitability of organic products. Also, for agricultural enterprises, it is important to address such issues as expanding the range and increasing the volume of organic production along with the demand for this type of product on the market, improving the quality and competitiveness of products, especially in the domestic market, improving the economic relations between processing and marketing enterprises.

For the effective functioning of the mechanism of ecological and economic management, the strategic approach must be combined with

the environmental management system. At the same time, it is important to note that the traditional system of environmental management is sufficient for the generally accepted system of economic activity. Whereas it is necessary to rebuild the existing system in accordance with the requirements of international standards to achieve competitive advantages in the world market. Thus, for the transition of agricultural enterprises to an ecologically oriented type of management, it is essential to take into account ecological and economic criteria and methods of management. Furthermore the organization of industrial relations in agriculture should be based on the rational use of natural resources and the formation of an ecological and economic management system.

We consider that greening of the production at agrarian enterprises is tightly connected with the innovative activity and should be considered as an integral part of its development with the creation at the government level of the system of ecological-economic management. Therefore the organization of the production relations in agriculture should take place based on the rational application of the natural resources – on the one hand and formation of the system of managing them on the other hand. To achieve this it is necessary to apply innovative technologies – economic models which based on the usage of biological husbandry elements and optimization of the production processes will make possible to achieve a high level of management, predictability and efficiency. Unlike traditional technologies they are based on the use of energy- and resource-preserving systems of husbandry

The practical implementation of ecologically balanced development of agrarian enterprises and restoration of the environment can provide an effective combination of two principles (institutions): social ecological responsibility, which reflects the level of its institutional maturity in the adoption of certain management decisions and social ecological motivation, which are both based on the material and the spiritual values of the society as a whole and every subject of the agrarian economy in particular.

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**SYSTEM OF PRINCIPLES AND  
CRITERIA FOR EVALUATING  
THE IMPACT OF  
INSTITUTIONAL FACTORS ON  
ECONOMIC GROWTH OF THE  
PUBLISHING AND PRINTING  
ACTIVITIES**

In the current context, the system of criteria for evaluating the institutional impacts is characterized by excessive normative nature, the application of methods developed by international organizations and which takes into account mainly the political aspects of the economy as a whole and do not pay enough attention to individual industries, which leads to a significant generalization of evaluating methods without identifying features of institutional development one or another sector of the economy. A review of methodological approaches to the evaluating the institutional development has shown that a significant number of international organizations in the world are developing their own methods for evaluating the effectiveness of institutions, which makes it difficult to develop an unified approach to the evaluating of institutional development.

Much attention is paid to the influence of institutional factors on economic growth in their writings by foreign authors: D. North, R. Coase, K. Perez. A detailed analysis of the evaluating of the impact of institutions on the growth of transition economies was made in his research by L. Moers (1999) [1]. For this, he applied two EBRD indexes and an indicator calculated by “Euromoney”. The interest of our study are the growth factors presented in the work of O. Havrylyshyn, T Wolf, J. Berengaut and others (2000) [2]. Considering that small enterprises dominate the structure of the PPA (Publishing and printing activities), the work of T. Beck, A. Demirgüç-Kunt and R. Levine (2003) [3], which studied the problems of evaluating the impact of small and medium-sized businesses on economic growth through the prism of institutional theory. So, there is a large set of indicators developed by various world organizations and evaluate one or another side of the functioning of the state.

A significant problem in the methodology for evaluating the institutional environment is the fragmentation of the methods and their

corresponding indices. Usually each influential organization conducting such an evaluation has its own system of indices, which usually take into account not a general state of institutional development, but only certain aspects of it. This predetermines the absence of a generally accepted methodology and some inconsistency of estimates. Although attempts to group and systematize indexes were carried out repeatedly. So, S. Deminsky (2012) [4] suggests to apply the existing methodological approaches and the corresponding indices to conditionally divide them according to the method of application: according to the first approach, a separate regression is formed for each of the used indices with a correction to the initial economic conditions, openness of the economy, inflation, etc., and in the second case a regression is created for each index based on the method of instrumental variables, which treats them as tools.

The basis of the methodology of O. Havrylyshyn, T Wolf, J. Berengout and others (2000) [2] contains nine indices of institutional development evaluation, formed by five leading world institutions:

1) The Freedom House International Democracy Index: Democracy Development (FRdem), Freedom of Thought (FRec), the average value of the Quality and Legislation Indexes (FRleg), the Index of Civil Liberties (FRpol) [5];

2) Index of legal system of EBRD, analyzes the efficiency of the legal system of the country (EBRDIeg) ;

3) The World Bank's aggregate index, evaluates the institutional environment for indicators: predictability of legislation and government policies; protection of property rights; the quality of the relationship between government and business; the effectiveness of the state in providing services; administrative restrictions on business [6];

4) An integral indicator of the Heritage Foundation's strategic research institute, which characterizes the level of economic freedom [7]. In general, this index is made up of ten criteria, but in order to avoid duplication with other indicators, the authors suggest only two: the aggregate index of economic freedom (HERgen) and the corruption index (HERIeg);

5) The component of political risks in the index of Ukrainian risks, calculated by the European magazine «Euromoney».

As a result of the research, an integral indicator of the influence of the institutional environment on economic growth was formed:

$$GR_{i,t} = a_0 + a_1 INFL_{i,t} + \beta_1 RI_{i,t} + \beta_2 RI_{i,t-1} + \beta_3 RI_{i,t-2} + \gamma_1 IC1_t + \gamma_2 IC2_t \quad (5.1)$$

where INFL – inflation rate for the corresponding period; RI is the index of structural transformations; IS1 and IS2 are two “clusters” of initial conditions that characterize macroeconomic imbalances, the level of social development and the changes caused by them. So, this allows to control three factors of the development of market economies in developing countries: the quality of macroeconomic stabilization; the depth of structural change and liberalization; initial conditions of operation.

To study the characteristics of the activity and the impact of the business climate on economic growth, the PPA proposes to separate this influence among the influence of small and medium-sized stakeholders. For this purpose, special estimates based on the business climate index are proposed, combining barriers to entry and exit to the market, effectiveness of property institution protection and contract performance. Transformation of regression, developed in the framework of the study of T. Beck, A. Demirgüç-Kunt and R. Levine (2003) [3]:

$$I_B = BE_i + \gamma X_i + \varepsilon_i , \quad (5.2)$$

where BE<sub>i</sub> – indicators of the business climate and institutional development; X – a set of additional variables (labor resources, the share of the state order in the output of the complex, the share of exports and imports in the output, the value of fixed assets, the profit of the complex, etc.); ε – logarithm of production per one enterprise.

However, the practical application of this approach is limited due to the neglect of the time aspect, the lack of methodological approaches to the calculation of indicators of the state of the business climate and institutional development.

That is why there is an urgent need for a generalizing evaluation of institutional influences on the functioning of individual industries, which should take into account the cyclical nature of the development of PPA, taking into account institutional and economic factors. This is confirmed by other scientists who propose to investigate the institutional effects on economic indicators in the long term (J. Gwartney, R. Holcombe, R. Lawson, 2006) [8]. All this necessitates a combination of an evaluation of institutional changes and changes in the structure of industrial production into a single integral indicator.

Before proceeding to the task, it is necessary to submit a summary evaluation of the cyclical development of PPA:

$$Cd = Pout + Pe + In + Rf, \quad (5.3)$$

where  $Cd$  – the dynamics of the cycle;  $Pout$  – output integrated economic and institutional indicators in the base period;  $Pe$  – integral economic indicator of the functioning of the PPA, including product output, profits, investments, labor resources, fixed assets;  $In$  – integral institutional indicator;  $Rf$  – revolutionary factors, that is, a dramatic transformation of the institutional environment: technological breakthroughs; financial crises, political risks; force majeure and the like.

The feasibility of introducing economic indicators into the formula for evaluating the development of a PPA is confirmed by the works of foreign authors. Thus, in particular, the work of T. Beck and L. Laeven (2006) explores the relationship between economic growth and the level of institutional development of countries with transitional economies (2006) [9]. The value of the study lies in the fact that the authors analyzed the dynamics of the institutional development of transition economies on the basis of available resources and features of historical experience, in turn, allowed us to construct the corresponding instrumental regressions for these institutional variables.

Evaluation was conducted for several variants of the dependent variable and various indicators of the quality of the institutional environment. As a characteristic of the pace of economic development, various quantitative indicators (GDP, consumption, expenditure of resources) were used. As part of our study, we adapted the economic indicators of industry conditions and offered to carry out an assessment based on five indicators important for the functioning of the PPA: sales of products, profits, investments, labor resources, fixed assets.

According to the evaluation of these economic indicators of the functioning of the complex, there are no difficulties, since these indicators are presented in official statistics, are publicly available and are published annually.

The situation with calculating generalized institutional indicators is much more complicated. In this direction, the existing systems of intra-industry economic measurements are overly complicated and take little account of the institutional parameters of production. Under these conditions, scientists talk about the need to use a number of cost indicators (D. Frolov, 2006) [10]: product institutionalism – the share of total institutional costs in the unit cost of production; institutional production efficiency – the volume of sales per unit of institutional

costs; institutional capacity of the product – the value of institutional assets per unit of sales; institutional returns – the volume of sales per unit of institutional assets.

However, for an effective generalizing evaluation of the impact of institutions on the development of PPA and the institutional nature of production, it is important to develop new indicators simultaneously with traditional ones (Y. Smirnitskyi, 2002) [11]. Thus, it is possible to propose for the evaluation an indicator of the cost of a unit of institutional production, which is understood to be:

$$Cins_{1Q} = \frac{Cins}{Q} \quad (5.4)$$

where Cins is the sum of expenses associated with the preparation, creation, implementation and dissemination within industry-specific regulations of industry regulations, standards, regulations, norms, standards and the like.

The above indicators certainly have an applied value through the focus on identifying reserves to improve the efficiency of the production function of the PPA. At the same time, they can be adjusted depending on the goals of the institutional analysis and its features. Thus, the indicator of institutional returns can be calculated as the volume of production per complex development program, which will allow to evaluate its impact on the final effect.

However, while the calculating of the group of presented indicators, there are some difficulties. The main problem in this direction is the lack of a generally accepted method of valuing institutional assets, although it is noted that the value and structure of institutional assets should be identified during the audit. So, summarizing the existing approaches, we propose to calculate the existing institutional assets and reserves that can be or are already involved in the production process, as a set of intangible assets, organizational and informational factors of production. Under these conditions, the indicator will include elements of all three types of assets. A similar approach is proposed when taking into account institutional costs, which will consist of costs associated with intangible, informational and organizational factors of production.

Returning to function 5.3. On the initial economic and institutional indicators (Pout.), Then they are proposed to be calculated as a set of economic and institutional indicators in the previous to the period under review. In general, in conditions of cyclical development of the PPA, the

cardinal changes in the next cycle as compared with the previous one can be significantly affected by revolutionary factors (Rf.), which substantially change the very dynamics of the operating conditions. In the case of Pf. remains unchanged; only institutional and economic indicators influence the dynamics of the development of the PPA. In conditions of significant changes in Pf. development can occur in three scenarios:

- with constant economic and institutional indicators, changes are possible in the short term (political, technological transformations)
- in the next version, the cyclical nature of development may not change. Under such conditions, the action of revolutionary factors compensates for changes in economic and institutional indicators, as a result of which the dynamics remain unchanged;
- the third option – the change of all indicators, depending on their dynamics, can lead to a slowdown or activation of development.

Having considered all the features of the calculation of the function of the cyclical nature of the development of the PPA, we believe that this function should contain a number of restrictions that affect the phases of the cycle. After analyzing the methodological approaches to evaluating the impact of institutions on the development of economic systems, we suggest that the first restriction is to apply the transaction costs (Ctr) indicator, and given that in the presented function, economic indicators are at the same time as institutional, then the second is cumulative operating expenses (Cox).

Since the method for determining current transaction costs is based on data from the previous period, the current value and some random variables that may occur contrary to the predicted level of current and future expenses, the proposed system of restrictions will look like this:

$$\left. \begin{aligned} C_{TR} &= C_{TRo} + C_{TRn} + C_{TRh} \\ C_{OX} &= C_{OXo} + C_{OXn} + C_{OXh} \end{aligned} \right\} \sum_{i=1}^n K, K = C_{TR} + C_{OX}, \quad (5.4);$$

where CTR is the dynamics of transaction costs; Ctrn – current transaction costs; Ctro – transaction costs of the base period; Ctrh – transaction costs arising from unforeseen situations in the economic system; Cox – dynamic of operating expenses; Coxn – current operating expenses; Soxo – operating expenses of the base period; Coxh – operating expenses arising in case of unforeseen situations in the economic system.

The results obtained make it possible to assess the impact of institutional changes on the development of PPA (DE) based on the ratio of the dynamics of the cycle and costs:

$$D_E = \frac{P_{out} + P_e + I_n + R_f}{C_{TR} + C_{OX}} = \frac{Cd}{K_{\Pi}}. \quad (5.5)$$

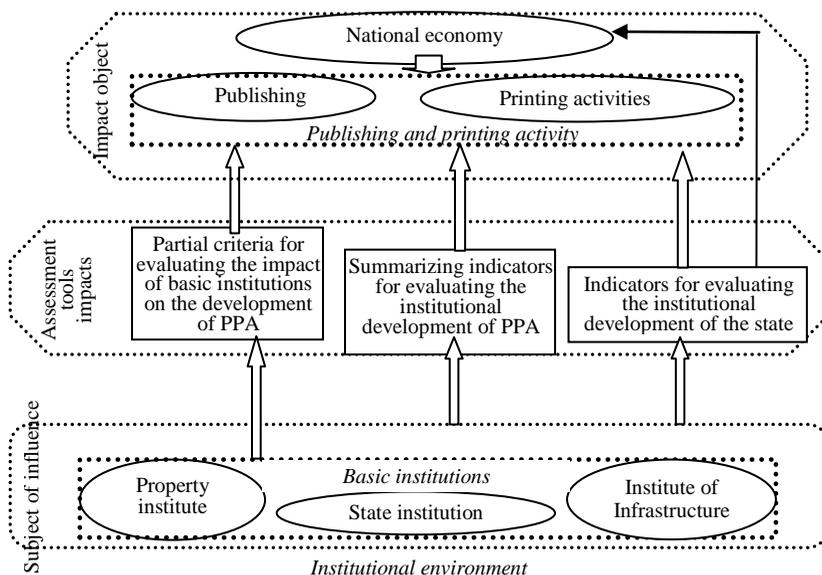
The calculation of this formula allows in a certain way interpret the results. So, if  $DE > 1$ , then the impact of institutional changes can be considered successful, that is, stakeholders have reached a new level of development, overcoming the existing difficulties in increasing costs and transformations of the system. Provided that  $DE < 1$ , reverse trends occur and institutional variables exert negative pressure on the PPA. The situation in which  $DE = 1$  is almost impossible, because in this case there are no cyclic fluctuations, and this is unlikely due to the dynamism of the system.

By proposing an approach to a generalized evaluating of the influence of institutional factors on the development of a PPA, we believe that this methodology can provide a general understanding of the effect of the institutional environment on the functioning of an activity, without taking into account the impacts of individual institutions, regional characteristics, the complementarity of institutions and the possibility of identifying negative impacts some of them.

Under these conditions, further development is the formation of a methodology for calculating institutional impacts based on an integral evaluation indicator for each of the groups, determining the significance of each of the criteria in the integrated indicator, which will allow analyzing the impact of basic institutions on the functioning of PPA in dynamics (Figure 5.2).

However, the problem of the synthesis of an integrated indicator for evaluating the impact on PPA for each of the basic institutions remains unsolved.

The main methodological approaches to evaluating the influence of institutional factors and individual institutions on the functioning and competitiveness of the state as a whole are reviewed and analyzed. Among the main institutional factors affecting the functioning of the economy, the following are highlighted: the bureaucracy, business coalitions, civil society, democracy, information openness of society, the judicial system and corruption.



**Figure 5.2 The system of assessing the impact of institutional factors on the development of the PPA**

The available methodological approaches to the evaluation the impacts for each of these institutional factors are analyzed. The advantage of these methods is that they are widely used in world practice because of the possibility of justifying the influence of institutional factors on the economy using quantitative indicators. It has been substantiated that, in general, these methodologies provide for the evaluation of the impact on the economy of any one specific factor, and their application raises difficulties with the relevance of the results obtained because it is impossible to take into account the effects of other institutional factors. Developed approaches to evaluation the impact of institutional factors on the development of individual industries. The proposed methodology for evaluating the impact of individual institutions on the PPA takes into account the effect of the basic institutions, and the influence of each of them is justified by the system of proposed indicators.

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**ECONOMIC  
DIAGNOSTICS AS A  
TOOL FOR  
TRANSFORMATION  
OF  
ORGANIZATIONAL-  
LEGAL FORMS OF  
ECONOMIC  
ACTIVITY IN THE  
FIELD OF  
AGRICULTURE****Introduction**

Realization of activities in the agrarian sector of the national economy in modern conditions requires the transformation of organizational-legal forms of management. This is due to a change in the economic conditions of the agrarian market; aggravation of competition in the industry; emergence of foreign investors who are interested in investing in agribusiness and other business structures of agricultural production; optimization of production and marketing activity and increase of efficiency formation and use of resource potential; ensuring the quality of agrarian products and the competitiveness of producers in the agroindustrial market; introduction of advanced technologies in the field of plant growing and livestock, etc. In order to economically substantiate the effectiveness of the

transformation of organizational-legal forms of management in the field of agribusiness, it is possible to use appropriate methodical tools and information support for economic diagnostics.

It should be noted that the outlined scientific problem has a close connection with the practical activity of agribusiness enterprises that are experiencing problems due to changes in market conditions; this is reflected in the state of dynamics agricultural development and the final result of economic diagnostics the agribusiness enterprises.

Further research is required on the use of methodical tools for economic diagnostics in order to identify promising directions for the integration of agribusiness enterprises by creating modern organizational-economic structures that allow obtaining a synergistic effect and ensure the long-term competitiveness of enterprises in the agro-industrial complex market.

### **Formulating the purpose of article**

The purpose of article is to justify the necessity of economic diagnostics in the process of transformation organizational-legal forms of management in the field of agro-industrial complex. The main tasks are: study of economic situation the agroindustrial enterprises; definition of the basic organizational and legal forms of associations the enterprises in agrarian sector; to offer the mechanism of cluster formation; to develop an algorithm for the inclusion of agricultural enterprises in the agricultural cluster.

### **Result of research**

Formation of integration processes in the field of agribusiness, in accordance with the transformation of organizational-legal forms of management is related to the desire of the subjects industry to better organize the process of production and sale of agricultural products or services, bringing producers closer to consumers as much as possible. We believe that, at the present stage, there have been promising conditions in accordance with the market environment of the actors of agrarian sphere, improvement of the regulatory framework in the field of agribusiness and the possibilities of agricultural enterprises to create new types of structures, taking into account the current organizational-legal forms of management. In our opinion, this is possible by creating agro-industrial clusters in the form of agricultural production and service cooperatives.

It should be noted that the main organizational-legal forms of such associations are the following: agro-industrial enterprises, agricultural companies, agro-industrial complexes, agro-industrial concerns, financial-production associations.

Using the results of economic evaluation diagnostics of the economic activity integration associations in the field of agribusiness, we have identified positive effects from the creation of such structures, namely: reduction of specific fixed costs and expanding the limits of optimal use agricultural machinery and other technical means; specific generic and administrative costs are reduced; introduces the scale effect; savings on variable costs per unit of production are realized due to faster introduction of new materials and energy saving technologies; discounts to agricultural entities are provided at the expense of wholesale prices when purchasing resources in large lots; provides access to bank loans and opportunities to receive them at lower interest rates; there is a possibility of expansion the market segment or access to other markets of products; opportunities for deepening specialization and attracting qualified specialists and other employees are created, which allows to increase productivity and reduce specific wages; a synergistic effect is provided due to the flexibility of use resources; intermediaries disappear and transaction costs are reduced in the course of implementation internally branded sales and sales of the final product through its own trading network, and so on.

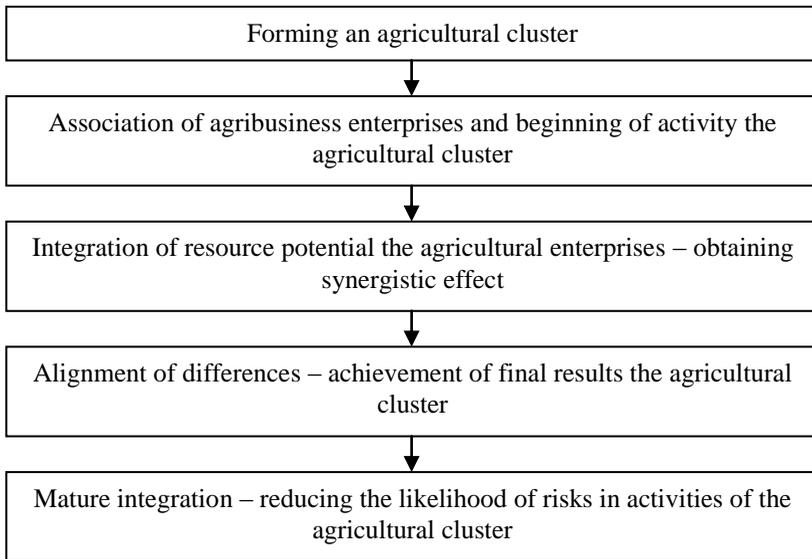
In the process of establishing and operating agricultural production and service cooperatives there is a certain relationship between commodity producers, cooperatives and other agents of the agroindustrial complex market and local self-government bodies and subjects of state regulation. The result of such relations is the realization of goals, tasks and functions of agricultural production and service cooperatives aimed at ensuring the optimum level of profitability, stable price conditions, increasing the efficiency of use of material, financial, labor and other resources, reducing the cost price of products and improving its quality, etc.

To the positive sides from the creation and operation of clusters in the form of agricultural production and service cooperatives, we include: meeting the needs and interests of participants in the agri-business entity; formation of organizational, economic and resource prerequisites for innovation development due to the processes concentration of capital and specialization on those types of economic activities that go beyond the financial capabilities or economic feasibility of individual

participating enterprises; gradual increase of the size capital, expansion of volumes and types of activity, improvement of assortment structure by forming of optimal cooperative structures through horizontal and vertical integration; self-formation of the necessary batches of agrarian products in own warehouses; use of investment and innovation potential for modernization and technical re-equipment of the material and technical base; application of modern distribution technologies, development of foreign markets for agricultural products, diversification of exports in order to replace raw materials ready for use by products of deeper processing; profit from not only agricultural activities, but also from other parts of the marketing chain (harvesting, processing, storage, packaging, transportation and marketing of agrarian products) with a relatively high share of value added in the price of the finished product; availability mechanisms of self-defense agricultural commodity producers in the competition due to a large share in the markets of agricultural products; regulation of quality, assortment and volumes production of agrarian products, purchase and selling prices, conditions for processing of raw materials; formation of an effective marketing model through the establishment of modern price monitoring by the state established selling prices for agricultural products, market research, development of tactics and marketing strategy, introduction of a single commodity and pricing policy, selection of optimal channels the commodity-money flows, marketing control and marketing communication policy; improving the efficiency of agricultural production, maintaining a sufficient level of competitive positions, changing the structure of production depending on market conditions, using the benefits of large-scale specialized production; coordination and balance all links of the closed technological chain (production, processing, storage, packaging, sale), avoiding excessive losses, reducing transport and overhead costs; implementation of social functions and development of territories, etc.

The tool of economic diagnostics allows to provide research on the availability, condition, resource requirements, their formation and effective use of agricultural clusters on the basis of statistical data.

The process of formation the agricultural cluster is presented by us in Figure 5.3. As shown in Figure 5.3, creation and functioning of the agricultural cluster consists of 5 stages. At each stage, organizational-economic measures are implemented to ensure the establishment of an agricultural cluster, the entry of agribusiness enterprises into the region, an effective assessment of the resource potential in order to substantiate



**Figure 5.3 Scheme of formation the agricultural cluster**

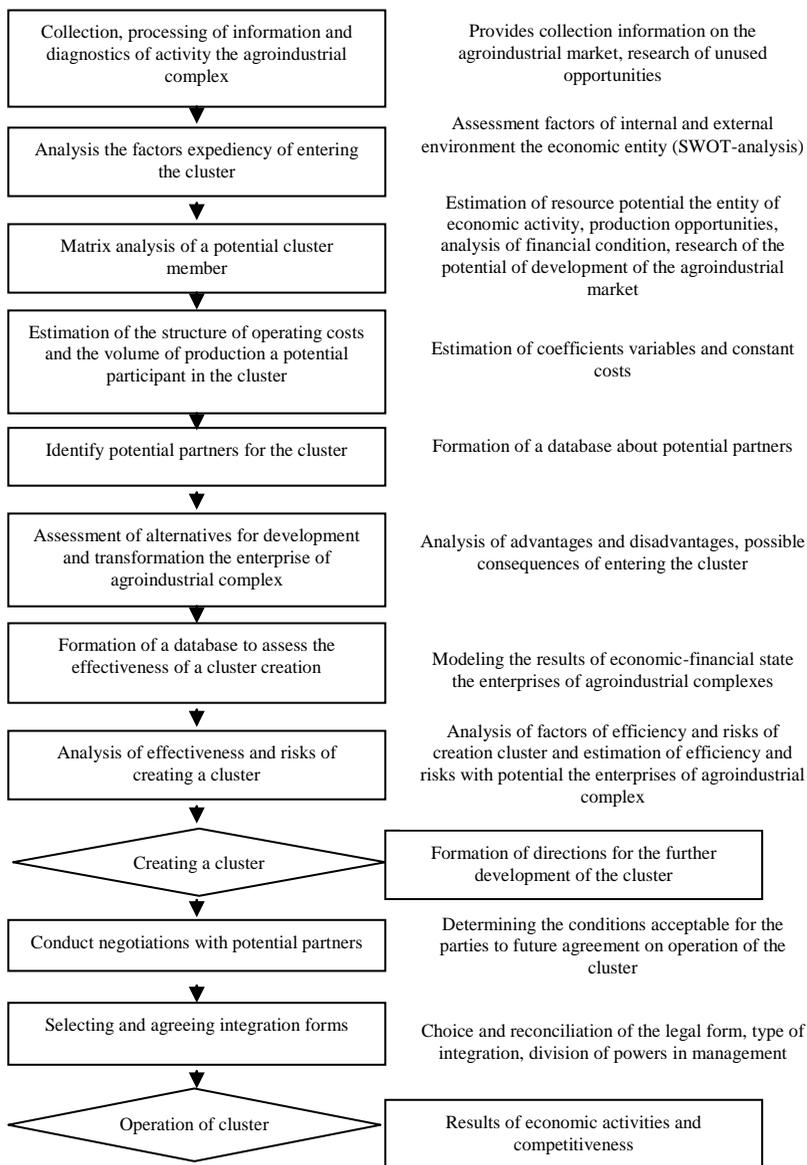
*Source: proposed by the authors*

the needs for production and production capacity, organizing the production process, promoting the products to the final consumer, obtaining a positive financial result and optimization of operational expenses, reduction of risks of economic activity.

In our opinion, when creating agricultural clusters, it is necessary to take into account the market situation of the agroindustrial complex, which is investigated through the appropriate tool for economic diagnostics of the internal and external environment.

By the method of substantiation choice the potential partners, determined the enterprises of agroindustrial complex, which can participate in creation of the agricultural cluster. In order to determine the potential participant of the agricultural cluster, we are encouraged to use the algorithm for joining the agribusiness enterprises (Figure 5.4).

Based on the data presented in Figure 5.4, based on the algorithm proposed by ourselves, the entry of agricultural enterprises into the agricultural cluster, the most significant factors under investigation can be considered – the identification of potential partners and the assessment of their effectiveness, taking into account the modeling of economic indicators.



**Figure 5.4 Algorithm entries of agricultural enterprises to the agricultural cluster**

*Source: proposed by the author*

## Conclusions

Consequently, the transformation of organizational-legal forms of management in the field of agro-industrial complex is a promising direction of forming the mechanism of economic diagnostics by creating integrated market-type structures that function and allow to increase the efficiency of activities due to obtaining a synergistic effect, provide competitiveness in the market of agrarian products through optimization of operational activities, etc.

Creation of agricultural clusters at the present stage of economic activity by agribusiness enterprises is one of the ways entering the industry from a crisis state through combining the efforts and resources of economic entities and survival in a competitive struggle.

Prospects for further exploration in this direction should be aimed at developing an algorithm for monitoring market conditions and the environment using modern methods of economic and mathematical modeling of business processes, which results in effective management decisions and ensuring the receipt of a positive financial result.

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**VIRTUAL REALITY AS A  
MODERN TECHNOLOGY  
FOR PROVIDING THE  
STRATEGIC  
DEVELOPMENT OF  
TRAVEL AGENCY**

The peculiarity of modern society is the rapidly growing mass media. Television, press, radio, information computer systems provide the globalization of everyday communication. At the moment, we can talk about the emergence a new world of life, in which formed another socio-cultural type of person. It should be noted that the enormous and continuously growing scale of the information resource market regularly creates for each member of society the problem of efficiently searching for the necessary information. It is important not only to know where to get information, but also what technology access to information it is appropriate to use to get it and use it at the right time. According to many scholars and practitioners, the current era of informatization will definitely trigger significant changes in the process to organization of tourism activities.

The development of information technologies in the XXI<sup>st</sup> century has led to the creation of a new specific form of transmission, storage and reproduction of data, which is associated with the use of virtual reality. At the moment, this technology quickly enters into all spheres of life, significantly affects the formation of a new type of culture, morality and value system. Scientific interest to virtual reality can be felt by the number of publications and works on this topic. Based on the accumulated knowledge in this field are created the new scientific paradigms.

Now virtual reality is the most dynamic and promising technology for providing strategic development the enterprise of tourism industry. The theme of virtual tourism is definitely relevant, but it is not yet sufficiently covered in the scientific literature. First of all, requires clarification the definition of virtual tourism. In spite of the fact that this problem is of interest to researchers of various branches of knowledge: tourists, philosophers, psychologists, culturologists.

Now in the scientific literature you can find a small number of

articles devoted to the topic of virtual tourism, which is quite natural and due to the relative novelty of this phenomenon. Most of the definitions of virtual tourism are reduced mainly to the description of the virtual travel technology. So, the virtual tour is considered as a way of realistic mapping of a three-dimensional multi-element space. In general, it can be said that virtual tourism substitutes a real travel, making it more comfortable, convenient and safe, because it is essentially carried out within the home or office.

Virtual excursions are multimedia presentations that allow you to view tourist attractions before they are actually visited. Examples can be panoramas of objects of any size (exhibits of museums and art galleries, hotel rooms, streets or buildings of cities, avenue of parks, types of bird's-eye view). Panoramas are interconnected among ourselves by simulated continuous movements within the object in such a way that created the illusion of real motion along and inside the object with the possibility of stopping for a circular survey in any interesting places.

Virtual excursions are often in demand in tourist activities, where they are called "virtual tours". This technology allows to zoom in or out any object, examine in detail the individual details of the interior, examine the panorama from afar, look up and down, return to all sides, get closer to the chosen point or move away from it, through active zones move from one panorama on the other. You can walk around the house from the inside or view it from the outside, make a virtual trip on an exotic island without leaving your own apartment. And all this is done in such a rhythm and order that determines a particular user.

Thus, virtual tourism is a process that allows using modern computer technology and communication networks to create and obtain as much as possible realistic sensual information about the desired countries, regions or objects without actually moving people in the geographical area. We will try to give some comments to our definition.

First of all, we note that speaking about sensual information, we understand not only the visual and audial perception. Already today there are so-called 4D-technologies that imitate sensory feeling, and it is reasonable to assume that in the future there will be ways to simulate all the diversity of human affects, that's why the completeness and realism of the virtual space will grow with each year.

Secondly, in our opinion, it is of fundamental importance in conditions of rapid development the technology of virtual reality, to emphasize that under virtual tourism mean moving to an arbitrarily remote, but really existing place. That is, under virtual tourism,

recognize the online visit to the Louvre or the Hermitage, a computer simulation of landing on the Moon (provided that it is based on documentary material). But, for example, a trip to the planet Pandora extremely realistic created producer James Cameron in the movie “Avatar” can not consider virtual travel.

It is necessary to note the important difference virtual tourism between tourism in its classical sense. Going for a real trip, the tourist aims to visit the country, region, city and much less – a certain institution. Even if the final point is a specific institution: a museum, a restaurant, a hotel, then in the process of moving to him the traveler involuntarily gets a complex of impressions from the features of the region in which he is.

Interactive virtual tours have rightly taken their place on the web sites of well-known service enterprises. To have a virtual tour on the web site in the era of widespread Internet distribution is considered a fashion trend. So, in restaurants and cafes, guests can use the virtual tour to reserve a table, visitors to museums and galleries – in advance to determine where to find a cash register, a wardrobe and which room to go to get acquainted with one or another part of the exhibition. Thus, virtual tours can significantly save time and reduce the burden on the staff enterprises of service industries. Until recently, virtual tours were limited to only two-dimensional images, but technologies are not in place, the era of three-dimensional space and the widespread spread of virtual reality are rapidly approaching.

Google Art&Culture is the largest Internet-platform that allows to visit the largest museums in the world and in the smallest detail to explore the best works of art located on the Internet. The objects of display in Google Art&Culture are about 400 museum halls. The user can stroll through the galleries using the virtual tour created using Street View technology. Such excursions are available in as many as 60 museums. Gallery of Tate (London), Thyssen-Bornemisza Museum (Madrid), Metropolitan (New York), Versailles (Paris), Hermitage (St. Petersburg), Museum of Islamic Art (Doha), National Gallery of Contemporary Art (New Delhi) – these are just some of the participants who have joined their collections with Google technologies [4].

360cities is the largest and fastest growing collection of interactive spherical panoramas in the world. In addition to virtual walks by the streets of cities, the resource has its own “counter”. On the Internet site you can virtually do dozens of “dives” into rivers, seas and oceans. And moving through the interactive panoramas of the largest European

capitals, you can consider even the smallest details, such as find out the car number [1].

AirPano is a collection of spherical panoramas with high resolution taken from the air. Due to the amount of material, geography filming, level of artistic and technical quality, AirPano has no analogues in the world. On the Internet site displayed more than 300 panoramas, what showing about hundreds of well-known landscapes of the Earth. In a separate section made virtual tours of medieval, as well as modern tourist attractions, which are called “miracles of the world” [3].

A vivid example of use the virtual reality technology in Ukraine is the 3dmaps Internet-project, which involves the creation and demonstration of virtual tours by Ukraine. After all, every Ukrainian city has its prominent places that will be interesting to visit other people. To implement this goal, was created a thematic Internet site that is a platform for the placement of fascinating panoramas of Ukrainian settlements, which popularizes the rich and distinctive cultural heritage of Ukraine in the virtual space.

The Internet-project is a useful informational resource for tourists and travelers which attracted by the originality of architectural-artistic monuments of Ukrainian culture and the picturesque beauty of our nature and objects of garden-park art. To demonstrate objects are used the virtual reality technologies, when people can interact moving in space with the help of appropriate pointers, which creates an incredible presence effect and provides a round-robin view.

At the same time, draw attention to the fact that on this site are placed the panoramas of various hotels, hostels, apartments of the private sector, which helps the user to pre-select a convenient and comfortable place of living in the city that he is going to visit. In turn, virtual panoramas of cafes, restaurants, coffee house and nightclubs will help the user not to be disappointed and visit a truly exemplary establishment for a pleasant spending time [2].

Another well-known domestic project is the “Museum Portal”. It is aimed at popularizing culture, science and museum affairs. The portal provides information and up-to-date news from museum life and access to a database with information for museum with a user-friendly interface. Also on this resource you can find unique virtual tours with the best museums of Ukraine and the world. The site portal daily get acquainted visitors with new interesting museums and expositions. Given the great popularity and development a prospect of the portal, the project team is constantly preparing new developments and expeditions

for promote in the global network of cultural and scientific heritage. When create a project used the latest technologies, such as the development of virtual tours, creation of flexible databases, photographs and video materials of HD-quality [8].

Emphasizing all the positive moments of the virtual tour, one must note one minus – even such a close, but virtual communication with the values of culture is a surrogate of true perception of art. Therefore, excursion work with objects of display on the Internet should be carried out either as preparatory to the perception of a work of art in reality or as a substitute for the perception of a real work of art if it is impossible to see or hear it in the original. The most important task of the virtual tour is the forming in a person to come to a museum or an art gallery and look at all the exhibits in the original.

Modern information technologies combine society and world cultural heritage. This is something that interests everyone and belongs to everyone: interest to historical events, culture of different countries and epochs. Therefore, there is an urgent need to move in digitize information about the world's cultural heritage for its preservation and easy access to it by any user anywhere in the world.

Particular attention in this matter should be given to the unique capabilities of multimedia technologies that used to create objects and collections of digital cultural heritage. This type of inheritance includes the entire spectrum of digital rehabilitations and Internet resources:

- educational scientific and museum portals;
- two-dimensional and three-dimensional models of objects and processes;
- multimedia information systems devoted to various historical objects and phenomena;
- objects of digital cultural heritage created using virtual and complementary reality devices.

With the development of modern information technology, it has become possible to use applications for laptops, tablets, smart phones that create interactive advanced content with panoramic video and audio-guide for conducting, for example, guided tours of a real object with the ability to see its virtual reconstruction in certain historical periods. Such multimedia technologies open up new opportunities for presenting objects and events of culture and art in systems of personal virtual reality.

Now they can be effectively used for presentations:

- theatrical and musical performances;

- museum and nature excursions;
- architectural and art monuments;
- festivals and cultural events;
- walks through cities, rivers and canals.

Preservation of historical and cultural monuments is the most important function of museums. The limited exhibition space of museums does not facilitate access to all materials that stored in funds, and the local character of institutions reduces access to them geographically. Virtual space overcomes these drawbacks of a real museum, it allows to significantly expand access to the most famous objects of cultural heritage.

In our understanding “virtual museum” is an information system that contains a conceptually unified electronic collection or set of collections of objects (exhibits) with metadata, and allows carrying out scientific, educational, exhibition and excursion activities in the virtual space. In virtual museums exhibit real, written, pictorial, cartographic, audio and video materials. In large group of digital exhibits include, for example, ethnographic collections of household items, weapons and tools of labor, jewelry, archaeological finds and architectural structures. Such exhibits represent different epochs and countries, that is, reflect the whole kaleidoscope of phenomena, processes and events of world history.

The peculiarity of the functioning of a real museum lies in the predominance of exhibit activity. Exhibitions often have a temporary, short-lived character, some exhibits give way to others, going to the museum’s stock. This causes a significant reduction in access to museum objects. The advantage of a virtual environment in front of a real museum activity is the possibility of long-term preservation the exposition. Although, virtual museums also have their “stock” in the form of virtual archives, where store materials from previous exhibitions.

More attention should be paid to the opportunities and features of the virtual environment that allows the representation of three-dimensional models of exhibits. It should be noted that the space of real museums depends on the area of the premises, the size of the exhibition equipment, and therefore, in such institutions exhibits can not always be seen from all sides. Thus, virtual museums have a significant technological advantage over the real, which is manifested in the possibility of comprehensive and detailed consideration by the visitor of certain objects of cultural heritage.

The main purpose of constructing three-dimensional object models is the need to preserve, represent historical and cultural monuments, as well as to expand access to them. The information system of the virtual museum is an environment that allows realizing these opportunities.

Talking about the foreign experience of creating virtual collections of museums, one can cite, for example, the British Museum, which in 2017 posted on the official site a three-dimensional model of the Rosetta stone. The model allows exploring the stone on all sides. You can also zoom in to read the text and text on it. Rosetta stone is a stone stove found in Egypt in 1799 near city Rosetta, near Alexandria. Stone is one of the main exhibits of the museum, it is exhibited in a glass case, so visitors can not fully consider it [6].

Modern information technology allows modeling both exterior the objects of cultural heritage and interior (including planning, decoration, decor). As an example, can give a virtual three-dimensional model of the Rundale Palace in Latvia, which is located on the official site of this historic-cultural object. The virtual project includes an exact copy of not only the appearance of the palace, but also the interior of most of the premises. The created model allows examining the structure of the palace as a whole, and “in a cut”, that is, the project laid down the possibility of representing the planning and internal structure of this building. It should be noted that in order to create three-dimensional models in this case were used various technological solutions, for example, computer modeling, photogrammetric, special scanning technologies [7].

Unfortunately, the physical condition of many historical-cultural objects deteriorates over the years, fragments or details are lost, many monuments disappear due to natural, man-made and anthropogenic influences (in particular, due to vandalism, the deliberate destruction of antique monuments). Come to us only certain certificates of these objects. The use of three-dimensional modeling technologies will restore the appearance of objects of cultural heritage, present them to society in its entirety.

The domestic cultural sector of the Internet lags behind the level of development of world information systems of similar topics. In the united Europe there is a special scientific-technical program of the European Union “Information Society Technologies”. Its purpose is to create a self-reliant and sustainable model of cultural existence in the modern world. Within the framework of this program are announced joint research projects in the field of information and communication

technologies.

The program includes the following areas:

- multimedia and information content for education and culture;
- basic information technologies and infrastructures;
- technologies and systems for e-commerce;
- cyber security and information protection.

The tasks of this program are as follows:

- to make easy and accessible to people the search, understanding and development of the cultural heritage through the virtual visit of digital libraries and electronic museums;
- protect against the destruction photo, audio and video materials of the XX<sup>th</sup> century;
- preserve the present “digital” culture for future generations [9].

It should be noted that in modern conditions information infrastructure, as a combination of information resources and software hardware of telecommunication and computer technology is one of the most important components of any kind of activity, including cultural activities of people. Information society technologies play a key role in preserving historical-cultural objects for future generations, as well as providing access to them to a wide range of users.

Virtual tourism today is fast developing it has several attractive features both for consumer services and for the manufacturer. Let’s note the most important attractive aspects for the consumer.

1) Minimal costs of personal resources: time and money. The vast majority of virtual tours are currently free, they do not require time to “collect on the road”, in addition, at any moment, such a trip can be interrupted, and then continue at a convenient time.

2) Ability to virtually visit countries, regions or objects that are inaccessible in real life. Reflecting on this item, they often mention the prospects which open to virtual tourism for people with disabilities. But the list of group’s population for which virtual tourism offers a chance to visit inaccessible territories is much wider. For example, these are unmarried European women for whom entry is closed to some Muslim countries; adolescents who can not cross the border without parenting; people burdened with family liability that do not allow them to move freely around the world (mothers with infants and young children, children with many children, etc.).

3) Travel safety. It is obvious that the risk during a journey through the Internet is less than with a real trip. However, meeting the “full of” danger in virtual reality is also possible. For example, if do not observe

the rules of security in the Internet, can lose, for example, money from your bank account. However, virtual tour under no circumstances endangers human life and health.

4) The contactless way to get acquainted with a country, region, or object is comfortable for people who do not speak foreign languages. It does not provide for direct verbal communication with indigenous peoples and thus avoids difficulties associated with lack of knowledge of the language and lack of knowledge about the place of residence. For some people virtual tourism is a preparation for a real journey.

Speaking about attractive aspects for a service provider, need to make the following caveat. If a consumer of virtual tourism services can be considered an individual (a group of people), producers can act then different economic agents. Often, these are institutions of culture, sports, education, etc. Of course, a separate group should be allocated directly enterprises of the tourism sphere.

Each group gets its benefits from entering in the virtual tourism space. In entrepreneurs have the opportunity to offer their services or goods (if it is, for example, real estate in attractive tourist centers) when selling, to increase customer loyalty. In cultural institutions – organize educational programs, to promote cultural heritage in wide circles of the population. In all cases, virtual tour allows to create an image of a modern, innovative-oriented organization.

Virtual tourism is also a promising means of promoting one or another recreation area, it gives an opportunity the potential traveler to get acquainted with the cultural, historical, recreational opportunities the places of visit and choose for themselves the most interesting objects. Virtual tourism enhances the desire to visit attractive places and see everything with their own eyes, thus, it stimulates a person to make a real trip.

In conclusion, it should be noted that virtual tours in the short term perspective will certainly not be able to completely replace the real trips, but their obvious advantages over traditional tourist products should be the impetus for the formation and further development of virtual technologies in the sphere of tourism. It is reasonable to assume the creation in the future of a powerful industry, in which virtual tours will become a popular consumer product, examples of which we can already see today.

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## **ROLE OF THE STATE IN THE SYSTEM OF REGULATION OF SMALL BUSINESS IN THE TRANSCARPATHIAN REGION**

The basis for the activity of small business in any country in the world is the legal framework. The leadership of each country chooses the optimal system for entrepreneurial activity so that at the same time business representatives are provided with the necessary conditions for carrying out their activities, and on the other hand, it would be possible to fill the budget of the country. This is an important stage in formation the economic policy of the state, especially for developing countries,

since their development depends directly on the effective functioning of business structures. The experience of the developed countries shows that for the dynamic development of both business and the state as a whole, it is necessary to adhere to the rules in order not to hinder the activity of business entities from the state and give it the opportunity for development of business. What about business representatives, it is necessary to clearly observe its obligations to the state, so that it receives revenues to the budget, which will eventually lead into the significant changes of the country's economic system [3].

In fact, in Ukraine, the legal basis for entrepreneurial activity stay sat the development stage. This is due to the fact that the legal base for the registration of enterprises, the division of enterprises into small, medium and large, as well as the method of their taxation, is changing. State regulation of small business, as well as all other structures should be transparent and regulated. The clear principles of constructing the regulation of enterprise activity have the greatest economic effect for both the state and the population [4]. These measures should be integrated into the regional policy of the enterprises, which should take into account the specifics of the regions and the most effective areas for business. The introduction of trends and the implementation of improvement measures in the activity of small businesses in the regions directly depend on the formation of a consistent state regulatory policy, as well as on the activities of management bodies in the field of economic activity. That is why the main goal is a state regulation of enterprise activity and reducing the risks of economic crises [10].

In general kind, state regional policy – a constituent of the domestic policy, which is aimed at managing development in the regional aspect? Such policy forms relationship between the state and the regions. It significantly differs from the policies, which regulate certain industries, therefore, is guided by concrete territories (regions). Considering features of certain regions, the regional policy on the development of small business aims to influence by means of use spatial features on small business, to contribute to its development. These are the responsibilities of the Ministry of Regional development, Construction, Housing and Communal Service of Ukraine. Based on the regional policy of small business development corresponding programs of each region have to be formed. The place of regional policy in state regulation of small business enterprises of regions is schematically represented in Figure 5.5 [6]. From the picture, we understand that the state regulates the activity of small business in the country, as

regional and local self-government authorities can implement small business development programs and control its activities by authorized state bodies.



**Figure 5.5 Place of regional policy of small business development in the state regulation [6]**

The most important task of regional development is the creation of favorable conditions for self-sufficient and even development of regions, which includes:

- structural and technological changes in the economy,
- balanced and sustainable development of both regional centers and small villages and towns,
- development of tourism and healthcare sectors,
- reducing interregional gaps in socio-economic development.

Local state administrations and local governments are urged to carry out an important organizational mission for creation of conditions for development of small and medium enterprises in the region. As it is declared in Article 9 of the Law of Ukraine “On Development of the State Support of Small and Medium-Sized Enterprises in Ukraine”, the powers of local state administrations in the field of small and medium enterprises development include:

- 1) definition of regional priorities and types of state support taking into account nation-wide priorities;
- 2) development of projects of regional and local development programs for small and medium enterprises, ensuring their implementation considering national priorities, national and regional socioeconomic, ecological, cultural and other peculiarities; monitoring of the implementation of such programs;
- 3) promoting the development of interregional cooperation of small and medium enterprises;
- 4) ensuring the promotion and popularization of entrepreneurial activity;
- 5) establishing cooperation with international organizations, administrative-territorial entities of foreign states concerning the development of small and medium enterprises;

6) carrying out an assessment of the financial, economic, social and other indicators of the development of small and medium enterprises and the level of effectiveness of state support, forecasting the development of small and medium enterprises in the respective regions of Ukraine;

7) assistance in the development of infrastructure supporting small and medium-sized enterprises in the relevant regions of Ukraine;

8) methodical provision of local self-governments, assistance to development and implementation of measures for the development of small and medium-sized enterprises [1].

The above-mentioned Law of Ukraine provides the activating activity of local self-government bodies on promoting the development of small and medium-sized enterprises, whose powers include:

1) determination of priorities and types of state support of small and medium enterprises, taking into account nation-wide priorities;

2) participation in the project development of regional and local programs for the development of small and medium-sized enterprises, their statements and executions taking into account nation-wide priorities; regional development of the small business; 132 national and local socio-economic, ecological, cultural and other peculiarities; monitoring of the implementation of such programs;

3) assistance in the formation of infrastructure supporting of the small and medium-sized enterprises;

4) assistance in the activity of public organizations representing the interests of small and medium enterprises;

5) formation of consultative bodies, advisory and other subsidiary bodies in the field of development of small and medium enterprises [1].

The process of small business regulation at the regional level is a little complicated, in connection with territorial distinctions of regions and their uneven development. Because of such situations need to apply different approaches both to development and to regulation of business activity in general and small business as its component. These approaches should be defined by the regional policy for the development of small businesses [5]. The development of small business is the necessary component for the further economic development. But, at this stage there is a tendency of complication the conduct of small business. It is a negative factor which needs to be solved. There is an integration of large business that is connected with the development of oligarchic structures and monopoly which harms healthy competition in the economy market [3]. The legislative base concerning with

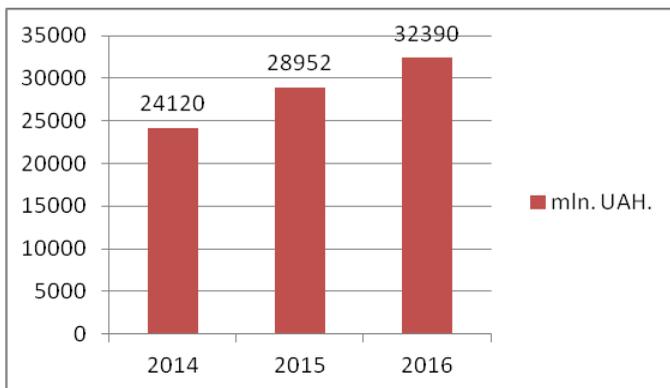
entrepreneurship has to provide conditions for its effective functioning and getting by them profits, because it is also in the interests of the state.

Small and medium business in Ukraine provides 79,1% of jobs and creates 59% of value added. At the same time, medium-sized enterprises in Ukraine are proportionally larger than in the EU. At the same time, small enterprises form only 8,5% of added value and provide with jobs 35,2% of the employed population. One of the main factors that reflects the role of small business in the state's economy is its share of GDP as separate regions and the state as general. In 2016, in Ukraine, 99,8% of businesses were small and medium-sized ones; however the share of small businesses in GDP was only 15% [9]. In comparison, the share of small and medium-sized enterprises in GDP is equal to 70% in the European Union. In Ukraine, compared to the EU, this indicator is much smaller as we have a large share of GDP under the leadership of oligarchic structures.

It badly affects the development of both the state and regional economies, due to the fact that the oligarchy is acting in its interests. It extends the monopoly to all activities. The development of small and medium businesses slows down due to the oligarchy influence on the country's market economy. However, statistical data indicate that the share of large business in GDP of Ukraine was reduced by 8,4%, from 49,1% in 2012 to 40,7% in 2016, in favor of small +4,4% and medium business +4% [9]. The obvious tendency of growth of small and medium-sized enterprises is clear in recent years. The State Statistics Service does not provide calculation of a share of small business in GDP of regions, but provides only summary data of these indicators. However it is possible to determine the level of small business development by this criterion.

Also, one of the criteria for calculating the development of the country and its regions is the gross regional product. The dynamics of the change of the gross regional product for the Transcarpathian region is presented in Figure 5.6 [9]. From this figure, we can see that the gross regional product in the hryvnia equivalents is increasing, although for calculation of the real situation it is also necessary to consider the currency fluctuations in the market, which considerable influence on national economy, due to the instability of the national currency.

In 2016, in percentage the share of the gross regional product of the Transcarpathian region to the general indicator in Ukraine is 1,35% [9]. It is caused by the fact that most of entrepreneurs in the territory of the Transcarpathian region are engaged in trade, rather than the production



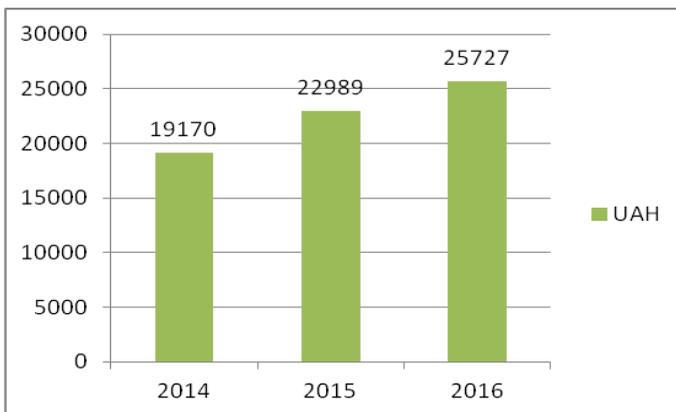
**Figure 5.6 Gross regional product (mln.UAH) [9]**

of value added products, which would improve the region's overall performance in Ukraine. The efficiency of the functioning of the economy at the regional level, we can follow through gross regional product in per capita, which is calculated from the gross regional product. This indicator is shown in Figure 5.7 [9]. It becomes clear that in recent years there has been an increase in the indicators of the gross regional profit in the Transcarpathian region. It is caused by a balanced regulatory policy of the state at the regional level.

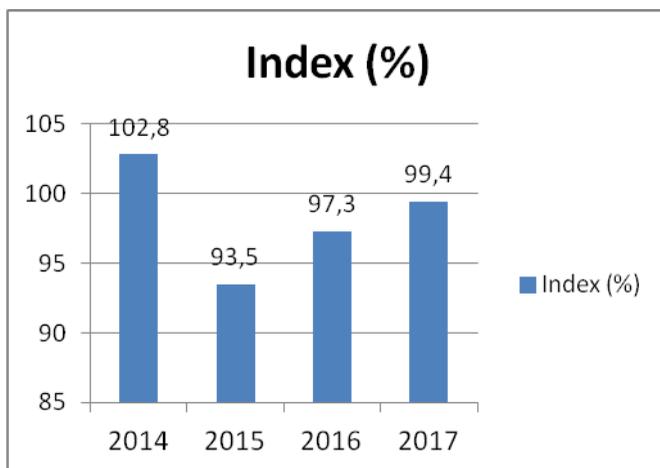
Considering that the share of small businesses in the gross value added production is insignificant, a holistic and well-balanced state policy on the development of small business for short and long-term outlook and strengthening the activity of regional executive power, local self-government and territorial communities is necessary.

The criterion that can be calculated from the gross regional product is the index of the physical volume of the gross regional product, which is calculated as a percentage of the prices of the previous year. Data for this index are shown in Figure 5.8 [9]. From this figure, we can see that there has been a sharp change in the index in 2015. This could be due to the deepening of the political crisis and sharp depreciation of the national currency, which also affected the economic indicators of both Ukraine and Transcarpathia [10].

Impact on these data has small business, but the state does not lead the separate indicators on the quality of influence of small business on the formation of the gross regional product. Maintaining such statistical data would help to improve the quality of small business, increase the gross regional product and improve the economic situation in Ukraine in general [3].



**Figure 5.7 Gross regional product per person (UAH) [9]**



**Figure 5.8 Index of physical volume of the gross regional product in Transcarpathian region in the prices of the previous year (%) [9]**

The leverage of the state regulatory policy on small business development is also the implementation of concepts and economic strategies for more clearly forming goals that will promote the development of small business and increase its role in the formation of the gross domestic product of the state and gross regional product. The leverage of regulatory policy of the state on development of small business is also the implementation of concepts and economic strategy

for more accurate formation of the purposes contributing to the development of small business and to raise its role in formation of gross domestic product of the state and a gross regional product.

One of such strategy is the “Strategy for the Development of Small and Medium Enterprise in Ukraine” for the period up to 2020, which was approved by the Cabinet of Ministers of Ukraine in May 2018 [8]. It is intended to increase the role of small and medium-sized businesses in the Ukrainian economy. The strategy will focus on six key areas:

- deregulation,
- simplify the access of small and medium-sized business to financing;
- simplify tax administration
- increasing the popularity of entrepreneurship
- the involvement of small and medium enterprises in foreign economic activity,
- ensuring innovation of small and medium businesses.

The implementation of this strategy will promote fixing of system approach to the formation and realization of state policy in this area and to the creation favorable conditions for the development of competitive small and medium business.

We came to conclusion that the main objective of the state policy of small business development is the creation of stable business conditions for small business entities and to fill the budget for the state. The state has to provide the necessary conditions for conducting small business as its effective functioning forms a basis for creation a market economy.

Consequently, it can be argued that at regional level it is necessary to take into account the experience of the European Union countries in order to formulate programs for the development of small business in the priority economic activities of Transcarpathian region. In the software formation process for small business development it is expedient to use one of the most widespread and effective methods of state regulation of economy which are applied in the majority of the developed countries – a program and target method of planning. It is based on the orientation of activities to achieve the main goals set in accordance with the logical scheme: goals – ways – methods – means – evaluation of results. In the conditions of deficiency Regional development of the small business of financial and logistical resources target programs allow to concentrate attention on the outline of the priority areas of development of the business sector.

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## Chapter 6

# DECENTRALIZATION AND FORMATION OF STRATEGIES FOR THE DEVELOPMENT OF REGIONS IN THE CONTEXT OF EUROPEAN INTEGRATION

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**TAX  
DECENTRALIZATION:  
THEORY,  
METHODOLOGY AND  
PRACTICE**

**Challenge problem:** The revenues necessary for implementation of social-economic programs and provision of public services within the territorial community are accumulated and redistributed in the budgets of the sub-national level of public administration. To effectively perform their functions, regional and local authorities need significant funds, for which the optimal distribution of tax powers within the state is needed. The issue of centralization and decentralization of the state financial management system is an important and increasingly burning topic of economic and political discussions. Nowadays, the tendency towards decentralization in public administration is quite progressive, as a result, the implementation of a certain number of powers is transferred to local authorities.

The purpose of fiscal decentralization is to balance the provision of public services with the most essential local needs and goals of territorial communities development, that is to ensure the increase of allocation efficiency and quality of the distribution of existing financial resources between the directions of their use, and this, in its turn, contributes to an increase in the level of responsibility of local authorities for the performance of the relevant functions and improvement of efficiency of the state sector functioning, as well as an

increased civil activity, improved transparency of the authorities and strengthened control by the population.

Fiscal decentralization includes decentralization of both taxation system and functions and powers. One of the important aspects is the influence of decentralization implementation on the distribution of financial resources in society taking into account the scale and methods of tax decentralization implementation.

Increasing the revenue side of local budgets by providing local authorities with the optimal volume of tax sources, more fiscal powers, in part of the introduction of additional tax payments, taking into account the resource capability of the relevant territory. The implementation of the tax decentralization is aimed at achieving the financial capacity of local communities capable of providing quality public benefits and services and ensuring the complex sustainable development of the respective territories etc.

**Analysis of Recent Research and Publications.** The issue of improvement of the public finances management system, increase of financial provision and the expenditure competence of local government bodies were investigated by such scholars and practitioners as V. Andrushchenko, V. Bazylevich, I. Vakhovich, G. Voznyak, I. Volokhova, S. Gasanov, V. Geits, S. Gherchakivsky, A. Yenina-Berezovska, T. Efimenko, Y. Ivanov, O. Kabash, M. Karlin, O. Kirilenko, V. Kravchenko, A. Krisovaty, V. Kudryashov, A. Naidenko, V. Oparin, K. Pavlyuk, V. Fedosov, O. Shishko, S. Yurii, G. Brennan, R. Bird, James McGill Buchanan Jr., G. Tullock, V. Jílek, E. Lindahl, C. McLure, R. Musgrave, M. Olson, W. Oates, Paul A. Samuelson, D. Stegarescu, Ch. Tiebout, S. Winer, W. Hettich et al.

**Selection of the previously unsettled parts of the general problem.** However, taking into account a considerable value of tax revenues in the formation of a revenue side of the budgets and modern processes of reforming the state financial management system, the deepening of theoretical and practical principles of the tax decentralization implementation and development is of great importance.

This allows formulating the purpose of the study, which is to deepen the theoretical, methodological and practical aspects of tax decentralization.

**1. Theoretical approaches to the distribution of tax sources and fiscal powers between the authority levels of the state financial management system.**

Modernization of the budgetary system on the basis of decentralization requires the transition to the renewed paradigm of the state administration, which is based on a clear division of powers between public and local authorities. The main objective of the tax decentralization is to obtain answers to questions such as what taxes and to what extent should be attributed to the authority of each level of power in the state.

The theory of public finances distinguishes two classical but at the same time opposite approaches to distribution of tax sources and fiscal powers between the levels of power. The traditional normative approach developed by *R. Musgrave* [1] (1959) and *W. Oates* [2] (1968), according to which the optimal tax load comes from the normative burden-sharing costs, and the "public choice" approach, which was offered by *G. Brennan* and *James McGill Buchanan Jr.* [3] (1980). In accordance with this approach, the effective distribution of tax authorities is closely connected with the optimal distribution of expenditure functions of the corresponding level of power.

*C. McLure* supplemented a complete description of the distribution of tax authorities formulated by *R. Musgrave* by the following issues: 'what level of power makes decisions on the establishment of taxes; what level of power defines the tax base; what level of power defines the tax rates; what level of power performs tax administration' [4, p.340].

According to *R. Musgrave*, the state in the sphere of public finance carries out three main functions: appropriation — providing the society with the necessary resources; revenue distribution; stabilization at the macroeconomic level [5]. In this case, the distribution and stabilization functions must be carried out by the central government, and the appropriation functions where possible by local authorities as they are more aware of the population needs. Thus personal income tax, corporate profit tax as the most effective instruments for the implementation of income distribution functions and macroeconomic stabilization should be established and administered by the central government.

Taking into account the dominant role of the tax distribution function, it is necessary to consider the condition of effective distribution of resources for the provision of public goods, formulated by *Paul A. Samuelson* [6; 7] (1954, 1955), as equality of the utmost replacement rate (or utmost social benefits in the model of partial equilibrium) jointly for all individuals and the maximum rate of

production conversion (respectively marginal social costs). *E. Lindahl* [8; 9] (1919) formulated the so-called "tax price" or "tax share", which, as intended, was to be paid to the consumers of public goods (services) equivalent to his/her maximum benefit. The principle of taxation of goods (services) by *R. Musgrave* [1; 10; 19] (1959; 1994) increases the efficiency of distribution. The closer individual tax share corresponds to the individual consumer preferences of public goods, the closer is the number of public goods to the effective quantity [11, p.34].

The traditional approach has a solid economic justification: the central government is fully responsible for macroeconomic stability and revenue distribution to help unprotected population stratum. In addition, the central government should provide public benefits of the state scale (defense, monetary issue), which are provided to the entire population of the country [12].

The traditional approach to the distribution of powers in the tax sector between the levels of government also offers some landmarks when establishing sub-national taxes. Firstly, the tax base or subject of taxation should be secured by a particular administrative unit to avoid horizontal competition or loss of revenue. Secondly, the tax bases of sub-national taxes should be evenly distributed among the administrative units of the same level to avoid horizontal tax imbalances. Thirdly, at the regional level, it is necessary to administer taxes that bring a stable income to ensure cost planning.

However, the traditional approach has been criticized for the shortcomings, both from the political and the economic point of view. Thus, the traditional approach is based on the presumption of the state 'goodwill', without taking into account the struggle for political power and sources of funding. In addition, in a federal state, where sub-national governments are assumed to have a certain degree of fiscal autonomy, the traditional model is ineffective. Also, despite individual characteristics, the only consequence for all states with the traditional model is the discrepancy of their own revenues of the sub-national levels of power and their expenditure responsibilities.

The central authorities often try to rectify the current mismatch at the expense of various forms of inter-budget transfers, which in its turn lead to new problems in the form of the irresponsibility of the regional and local authorities and corruption [13].

*W. Oates* [14] (1972) presents his argument about the benefits of fiscal decentralization on the topic of 'decentralization theorem', where the necessary condition for effective decentralization is the

heterogeneity of preferences. *Ch. Tiebout* [15] (1956) concluded after reviewing the research on citizens' mobility by *Paul A. Samuelson* [16; 7] (1954, 1955) that a decentralized position in certain circumstances could lead to effective distribution. Therefore both authors emphasize the heterogeneity of the preferences between the administrative units and provide the possible advantages of the decentralized taxation. On the other hand, the tax decentralization and the fiscal autonomy of local governments may result in the emergence of tax competition and, as a result, strengthening the socio-economic inequality of regions.

In contrast to the traditional approach, which focuses on the state "goodwill", in the approach of "public choice", as in the theory of *social contract* by *T. Hobbes*, the state is compared to Leviathan and uses taxes to maximize income and secure the maximum level of own expenditures [17]. The tax competition between the administrative units carries out a deterrent function and has a positive effect, and the subjects of sub-national taxes should be mobile if possible, which correlates with the model by *Ch. Tiebout* [18]. Such an approach has also been extensively criticized, mainly because of the fact that the significant horizontal competition leads to the erosion of the tax base, the reduction of the budget by administrative units and the general imbalance in the state.

In some studies [11; 19; 20; 21], it is recommended to decentralize taxes with a relatively immovable and equally distributed tax base with a potential stable income.

*M. Olson* [22] (1969) and *G. Tullock* [23] (1969) identified the fiscal equivalence associated with the unit of local government. The application of the fiscal equivalence principle leads to the establishment of local taxes with an independent tax system of local government. In order to meet the conditions for the efficiency distribution, local government should have the right to change its limit income associated with the state's financial policy [21, p.35].

The success of political decentralization is influenced by the way of fiscal decentralization, while the local government should be responsible for its own decisions in the area of taxation and expenditure, taking into account that the inter-budgetary transfers are an additional source.

One of the main arguments in favour of fiscal decentralization is explained by the decentralization theorem proposed by *W. Oates* [14] (1972) — the decline in welfare is related to the centralized provision of public goods and is caused by the heterogeneity of local preferences. The contribution of *W. Oates* is based on the early works of *Paul A. Samuelson* [16; 7] (1954, 1955), *Ch. Tiebout* [15] (1956) or

*R. Musgrave* [1] (1959). The role of tax decentralization is emphasized mainly by the first generation of the theory of fiscal federalism, where it is explained by undesirable tax competition.

Modern approaches to the problem of tax powers distribution are also of interest. Canadian researchers *W. Hettich* and *S. Winer* described the positive approach to tax structure organization, which will be naturally formed as a result of the desire of the government to ensure a budget of a certain size with the least political costs. At the same time, political costs mean the total number of electors' votes lost at the next election. The authors develop several hypotheses about the influence of external factors on the volume of political expenditures and, accordingly, on the structure of budget revenues: the pressure imposed on the tax system of one administrative unit by another competing unit; the higher the income earned from each dollar of the potential tax base of a particular tax, the greater will be the political opposition to this tax, etc. [24].

Since the 1990s, the so-called 'second generation' of the theory of tax decentralization has been formed, which focuses on the study of two aspects: the personal motivation of participants in political processes (both politicians and voters); lack of information and its impact on the behaviour of participants in political processes [25].

When resolving the problem of tax powers decentralization, the following circumstances [13] should be taken into account: what expenditure responsibilities are assigned to one or another level of power; tax decentralization takes place only when the opportunity to determine own revenues (types of taxes, tax base, tax rates, and benefits) and be responsible for taking such decisions is delegated.

*D. Stegarescu* [26; 27] (2004; 2005) defines tax decentralization as an indicator of fiscal decentralization. He considers that the decentralization indicators calculated on the costs and incomes are formalized and unable to express the real rate of implementation of fiscal decentralization. *D. Stegarescu* also emphasizes the importance of sub-national taxes, especially those where sub-national governments can establish a tax rate and tax base. Here an important role is assigned to the taxes on real estate.

*M. Jílek* [11] (2015) is searching for defining factors of tax decentralization in European and OECD countries. According to him, there are only a few studies concerning the definitions of the tax decentralization factors. The majority of the research is focused on fiscal decentralization, which can be influenced by geography and population,

level of the country development, redistribution size, income inequality and heterogeneity of advantages. He examines the impact of these variables on tax decentralization and finds some similarities with the recent studies, for example, geographically larger countries decentralize more taxes, but the typical behaviour of the population is contrary to expectations concerning their impact on tax decentralization.

*R. Bird* [28] (2015) discerns between decentralization of tax revenues and decentralization of a tax and payment administration system, since in his view, tax decentralization does not require a compulsory achievement of a decentralized tax administration. The intensity of tax decentralization and decentralization of tax administration is different depending on the country.

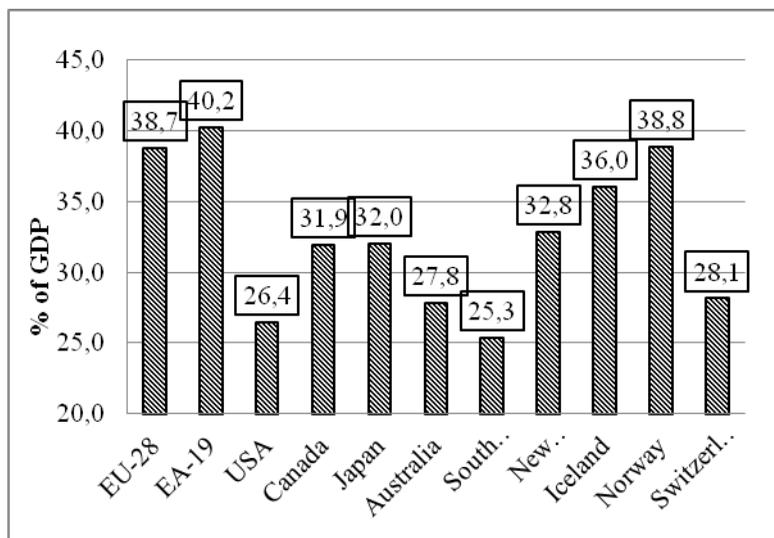
The role of sub-national taxation is important for the activities of local authorities in the sphere of self-government of their own resources and, consequently, affects the entire socio-economic development of the country. At the sub-national level of management, the real estate tax is important, and revenues from this tax, in addition to aggregate tax revenues, create a dominant portion of sub-national tax revenues. The assessment of tax capacity among the administrative and territorial levels often contradicts the general pace of fiscal decentralization and limits the speed of tax decentralization [29].

Thus, based on different theories and approaches, we formulate a number of rules that we recommend to adhere to for the purpose of ensuring the optimal distribution of tax powers between levels of government: the tax should be attributed to the powers of the central government to the extent to which it is aimed at economic stabilization and distribution of income; the taxes with the least mobile tax bases should be attributed to the local level to prevent the emergence of tax competition; the local taxes should be as simple as possible and rational in administration (for example, turnover tax, income and property taxes), and tax revenues should be sufficient to provide the necessary services to the population; the local taxes should be transparent and understandable to the taxpayer, which will increase the responsibility of the local authorities; there must be a close link between the local taxes paid and the services received by taxpayers; the tax bases, which are horizontally unevenly distributed among the authorities, are subject to taxation by the central government; profit-based taxation can be used at all levels of government, but it is best suited to the local authorities, as the services are provided by local tax payers.

## 2. Best Practices for Tax Decentralization Implementation

The effective functioning of the public financial management system is the basis of sustainable socio-economic development of both the regions and the state as a whole. To increase the self-sufficiency of sub-national governments, many countries have started to decentralize tax revenues and fiscal powers. The average tax burden in the EU Member States is 38.7% of GDP. In comparison with other developed countries, the level of tax burden in the EU is generally higher, in particular, in the USA this indicator is lower by 12 percentage points, in Japan – by 7, in New Zealand – by 5.9, in Canada – by 6.8, in Australia – 10.9, in South Korea – by 13.4. The average ratio of taxation to GDP in the EU as compared to the *EFTA (European Free Trade Association)* countries is almost the same as in Iceland and Norway, but in Switzerland, the coefficient is lower (28.1%) (Figure 6.1)

The volume of tax revenues of local budgets in comparison with the general indicator of tax revenues of the state indicates the level of tax decentralization, that is, how many revenues from taxes and fees remain at the disposal of local governments.



**Figure 6.1 Level of the tax burden in developed countries**

Source: calculated by the authors according to [31] *Taxation Trends in the European Union*. Data for the EU member states, Iceland, and Norway. DG Taxation and Customs Union. 2017. 386 p.

The level of taxation in EU member states is quite different: Denmark, France, and Belgium have the highest ratio of tax revenues to GDP (46.6, 45.9 and 45.1% respectively), the lowest ones are in Ireland (23.9%), Romania (28.0%) and Bulgaria (29.0%). In 22 EU member states, there was an increase in tax revenues against GDP in 2015 compared to the previous year, in particular, in Lithuania (1.5 percentage points), Estonia (1.3 percentage points), and Slovakia (1.1 percentage points). In six member states, the value of this indicator decreased, with the largest reduction being in Ireland (−5.3 percentage points) and Denmark (−2.7 percentage points), but the decrease in Ireland coincided with a considerable GDP increase [30].

*Dynamic analysis of the indicator in the share of tax revenues in the GDP of Ukraine between 2012 and 2016 shows relative stability of the decentralization degree of tax revenues.* Moreover, even in 2015 in comparison with other years the smallest value (19.3%) was observed, although this year the value of the indicator should be greater than between 2012 and 2014, because since 2015 the amendments to the budget and tax legislation which increased the number of sources of the tax revenue to the local budget were introduced (Table 6.1).

*Table 6.1*

**Dynamics of the level of tax decentralization in Ukraine**

Years	The share of tax revenues in the consolidated budget in GDP, %	The share of tax revenues of local budgets in GDP, %	The share of tax revenues of local budgets in the tax revenues of the consolidated budget, %
2012	24.7	5.2	21.2
2013	23.5	5.4	23.0
2014	22.7	4.8	21.2
2015	25.6	5.0	19.3
2016	27.3	6.2	22.6
2017	26.9	5.8	21.5
2018*	27.3	5.9	21.5
2019*	27.6	5.9	21.5
2020*	27.9	6.0	21.5

*Symbols: “\*” – predicted values of the indicators.*

*Source: calculated by the authors according to the data of the Ministry of Finance of Ukraine [31], the State Treasury Service of Ukraine [32], the State Statistics Service of Ukraine [33].*

The structure of distribution of tax revenues by levels of government is characterized by the level of tax decentralization.

Among the federal countries such as Australia, Austria, Belgium, Canada, Germany, Mexico, Switzerland and the USA central government receives an average of 54.0% of all tax revenues, 21.1% is deducted to the social insurance funds, regional governments receive on average 17.1%, and local self-government bodies – 7.5% (Table 6.2).

Table 6.2

**Distribution of tax revenues between the levels of public administration in federal countries, % of the total amount of tax revenues**

States	Public administration levels				
	General state	Central government	Regional administration	Local government	Social insurance funds
Australia	-	79.3	17.1	3.6	0.0
Austria	0.4	67.0	1.5	3.0	28.0
Belgium	0.9	54.3	7.7	4.9	32.2
Canada	-	40.9	39.5	10.3	9.2
Germany	0.5	30.6	23.0	8.3	37.6
Mexico	-	80.4	4.2	1.6	13.9
USA	-	43.3	19.4	13.6	23.7
Switzerland	-	35.8	24.5	15.2	24.6
Spain*	0.5	42.5	14.0	9.9	33.1
Mean value	0.6	54.0	17.1	7.5	21.1

Notation: “\*” – Spain – a unitary country with a high level of federalization.

Source: calculated by the authors according to [34] Data from Revenue Statistics 2017. URL: <http://oe.cd/oecd-revenue-statistics>

However, there are significant differences in the state’s tax revenues between the levels of state administration: the share of tax revenues varies from 30.6 in Germany to 80.4% in Australia. The regional administration manages from 1.5% of all tax revenues in Austria, 4.2 in Mexico and 7.7 in Belgium to 39.5 in Canada. The local governments account for 1.6% of all tax revenues in Mexico to 15.2 in Switzerland. It should also be noted that between 1975 and 2015, tax revenues to the federal government decreased by about 11 percentage points in Belgium, in Canada, Germany and the USA they decreased to a lesser extent. As for Austria and Switzerland, the share of tax revenues included in the federal government’s budget during this period increased by 15 and 5 percentage points respectively. There were no significant

changes in Australia and Mexico [34].

Spain is classed as a unitary country with a high level of federalization due to its highly decentralized political structure. The share of tax revenues to the central government budget is 42.5% of the total amount of the state tax revenues. Between 1975 and 2015, the level of tax decentralization increased as evidenced by the dynamics of the share of tax revenues related to local government budgets from 4 to 10%, however, the share of the distribution of tax revenues to social insurance funds decreased from 48 to 33% [34].

In unitary countries such as Greece, Denmark, Estonia, Israel, Ireland, Iceland, Italy, Korea, Latvia, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Turkey, Hungary, Finland, France, Czech Republic, Chile, Sweden and Japan on average 63.5% of tax revenues are assigned to central government budget, 24.4% - to social security funds, 11.8% - to local government budgets. The analysis of tax revenues distribution between different levels of state administration shows that the share of tax revenues that are credited to the central government budget ranges from 33.3% in France and 36.7% to 93.2% in New Zealand, to local self-government budgets it ranges from 1.0% in Estonia to 36.0% (Table 6.3).

Between 1975 and 2015, the share of tax revenues to local government increased by 5 or more percentage points in such countries as Italy, Iceland, Korea, Portugal, France, and Sweden, in contrast with Norway where the decrease by 5 percentage points was observed. As far as social security funds are concerned, the share of tax revenues in Korea, Finland, France, and Japan increased by 7 and more percentage points and decreased by the same value in such countries as Italy, Norway, Portugal and Sweden [34].

In 2015, 53.3% of total tax revenues in EU-28 (including social contributions) were distributed to the budget of the central or federal government, 30.2% was accounted for social insurance funds and 10.2% for local governments. There are significant differences in the structure from one member state to another; for example, some states are federal or include regions with high fiscal autonomy (e.g. Belgium, Germany, Austria, Spain). In Malta, the social security system is not separated from the level of the central government in terms of accounting, while in Denmark, most of the social security is financed through general taxation, which involves large domestic transfers to social security funds [30].

Table 6.3

**Distribution of tax revenues between levels of public administration  
in unitary countries, % of total tax revenues**

State	Public administration levels			
	General state	Central government	Local government	Social insurance funds
Greece	0.3	68.6	2.4	28.7
Denmark	0.4	72.8	26.8	0.1
Estonia	0.5	82.3	1	16.2
Israel	–	75.5	8.1	16.4
Ireland	0.5	83	2.4	14
Island	-	74.4	25.6	0
Italy	0.3	53.1	16.5	30.1
South Korea	–	55.4	18	26.6
Latvia	0.6	51.3	19.4	28.7
Luxembourg	0.1	68.3	3.5	28.1
Netherlands	1	57.4	3.8	37.8
New Zealand	–	93.2	6.8	0
Norway	–	84.7	15.3	0
Poland	0.5	48.1	12.9	38.5
Portugal	0.3	67.8	7.2	24.7
Slovakia	0.5	55.8	2	41.7
Slovenia	0.4	50.7	9.6	39.3
Turkey	–	61.3	9.6	29
Hungary	0.3	60.8	5.8	33.1
Finland	0.3	47.1	23.7	28.9
France	0.2	33.3	13.2	53.3
Czech Republic	0.5	55.3	1.2	43.1
Chile	–	86.9	7.6	5.6
Sweden	0.3	51.3	36	12.4
Japan	–	36.7	23.9	39.4
Mean value	0.4	63.5	11.8	24.4

*Source: calculated by the authors according to [34] Data from Revenue Statistics 2017. URL: <http://oe.cd/oecd-revenue-statistics>*

The share of sub-national income (defined as municipalities plus the state level where it exists) ranges from about 1% to slightly less than 1/3 of the total amount. In particular, Sweden, Germany, Belgium, Denmark, and Spain demonstrate high share of general taxes received by non-central authorities. On the other hand, the share in Estonia is 1%,

whereas in Malta local government does not charge taxes and is financed by transfers from the central government. As for the share of revenues to social insurance funds, the highest indicators in the EU are observed in France (52.8%) and Slovakia (41.9%) [31]. In certain countries (for example, in Ireland, Malta and Norway), there is no sub-sector of “social security funds” in the format defined in the methodology of the European System of National and Regional Accounts 2010, which in its turn influences the structure of tax revenues in other sub-sectors of these countries.

Tax revenues of sub-national authorities differ in terms of fiscal autonomy, that is, the ability to influence tax parameters. Therefore, even in countries with the same ratio of tax decentralization, fiscal autonomy may differ. The level of fiscal autonomy of local government bodies is generally higher in federal countries than in unitary ones, although the difference is not statistically significant [11, p. 40].

There is a positive connection between tax decentralization and fiscal autonomy, but there is a rather weak correlation:

for the countries with high tax decentralization, it is characteristic that sub-national governments have a sufficiently large amount of fiscal powers (for example, Denmark, Finland, and Sweden);

with average tax decentralization, fiscal decentralization may be high (for example, Norway, Switzerland, Italy) or low (for example, Greece, Portugal);

in countries with low tax decentralization, there is an average (for example, Belgium, the Netherlands, the Czech Republic), insignificant (for example, Slovenia, Estonia, Poland) fiscal autonomy or there is no fiscal autonomy at all (for example, Austria, Ireland).

With an average level of fiscal autonomy of sub-national government, their own taxes are less relevant in the structure of their budget revenues [35, p. 40].

The sub-national authorities have the largest fiscal autonomy in case of the autonomous establishment and administration of taxes, under these conditions the authorities can plan their incomes and expenses, bear responsibility for them and independently determine the scope of public services provided to the population. For example, the fiscal authority distribution model is used in the United States. *A. Hamilton* believes that such a model is the best for the USA, claiming that "the States must possess independent and non-controlled authorities to form their own incomes to ensure the needs of the population and to absolutely and implicitly keep this power (with the exception of the

right to establish import and export duties)” [36, p.12]. However, the model has substantial disadvantages: significant differences in the tax systems of administrative units of the same level involve unreasonable expenses (for example, trade, particularly when moving goods and services), as well as contribute to the tax base erosion.

**Conclusions and proposals.** The results of theoretical and empirical research give the opportunity to make the following conclusions.

1. Tax decentralization is realized as a process of transfer of fiscal powers to the sub-national authorities, revenues from corresponding income sources (taxes and charges) with the agreement with the expenditure powers, which promotes strengthening the independence of territories and achieving the balance of national and territorial interests in order to increase the efficiency of the use of budget funds, improve the quality of public services to fully satisfy the needs of the territorial community population.

The achievement of the ratio between the expenditures and fiscal autonomy of sub-national authorities is a prerequisite for improving the quality of public services at the local level. It has been determined there are taxes that can be decentralized to the level of local government without adversely compromising the fiscal performance of the administration system, but there are taxes that are not expedient to decentralize. In this case, the vertical fiscal imbalance is resolved through the mechanisms for distributing these taxes or by applying the intergovernmental transfers. An important issue is not only the distribution of tax revenues but also the issue of fiscal autonomy, that is, the ability of sub-national authorities to make independent decisions about the formation of their own tax revenue.

2. The level of tax decentralization of local government in the EU member states, OECD and Ukraine has been defined in accordance with the methodology of the IMF’s financial statistics. This tested approach has also been used by *D. Stegarescu* [37] (2006), *P. Bodman* and *A. Hodge* [38] (2010) and others.

The experience of tax decentralization in the OECD and EU countries shows that both the model of local taxation based on the property tax and the model in the basis of which is the taxation of income are effective. The high level of fiscal autonomy of local government largely contributes to a reduction in the dependence of the sub-national governments on funding from the national budget.

European experience convinces that deepening tax decentralization can provide opportunities for ensuring the ability of sub-national

authorities to more independently address local issues and, as a result, increase the efficiency of implementation of socio-economic development programs. As the EU plays a significant role in regional policy, it is important for candidate countries to move towards strengthening the institution of local government, therefore the European integration policy vector of Ukraine actualizes the necessity of implementation of an effective fiscal decentralization model, which includes deepening decentralization in the field of taxation. Analysis of the dynamics of the tax decentralization level in Ukraine between 2015 and 2017 indicates a qualitative shift towards the increase of financial security and strengthening the fiscal capacity of sub-national authorities.

Research of the best practices of implementing tax decentralization showed that it is important not only to strive to achieve optimal level of decentralization of budget revenues and fiscal powers, but also to consistently modernize the institutional, infrastructure and investment environment of the sub-national level, introduce mechanisms and instruments for stimulating regional development and moderate control of local finance, which would contribute to further responsible public financial management.

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**PROSPECTS FOR  
DEVELOPMENT OF  
SMALL  
ENTERPRISES ON  
THE TERRITORY OF  
THE VINNYTSIA  
REGION**

The driving force of the country's socio-economic development is entrepreneurs who are capable of assuming responsibility for the future. The development of small business (small business, farming, cooperatives) in the countryside is a significant step that will promote the revival of settlements with a small population, which, in turn, will ensure the efficient involvement of the village's social resources into work. After all, modern society requires active, creative people. It is the entrepreneur who is a professional in his business, who, in observance of the legislation, professional ethics and economic culture of the entrepreneur, carries out his activity on a high professional level.

The driving force that generates national wealth is small and medium-sized businesses [1], which creates new jobs, provides growth in gross domestic product, and stimulates the competitiveness and innovation potential of the economy.

Small entrepreneurship in the countryside, which includes farms, individual entrepreneurs and small enterprises, both agricultural and non-agricultural, produces a significant part of the consumption of goods in the total amount of agricultural production [2, 3]. However, in most cases, entrepreneurs in the countryside without sufficient financial support from the state and local self-government bodies, as well as due to the limited resources and technical support are experiencing serious problems related to the production and sale of products.

One of the steps to support the development of entrepreneurship in the countryside is the Strategy for the Development of Small and Medium Enterprises (SMEs) in Ukraine up to 2020 developed by the Cabinet of Ministers in 2016. The strategy is aimed at building a solid foundation for the gradual growth of SMEs, taking into account the temporarily limited financial support capacity and significant challenges facing the country.

The SME Development Strategy was developed to implement the Ukraine 2020 Strategy for Sustainable Development, approved by the Decree of the President of Ukraine dated January 12, 2015, No. 5, and the Government Priority Action Plan for 2016, approved by the Cabinet of Ministers of Ukraine from May 27, 2016, No. 418 [4-6; 7].

The developed Strategy is based on observance of the basic principles:

- the development of the Action Plan for the implementation of the Strategy is compulsory;

- covering only those tasks that can be carried out during the 2017-2020 period.

- limited financial resources of the state, therefore it is possible to attract other sources of financing;

- first of all, it is necessary to lay the foundation for the development of SMEs (politics, institutions, capacity, regulatory field);

- development of SME development policies requires significant time expenditures and should be carried out on a permanent basis;

- maximum effective cooperation between stakeholders [8].

We will study the results of the Strategy implementation on the example of small business development in the Vinnytsia region.

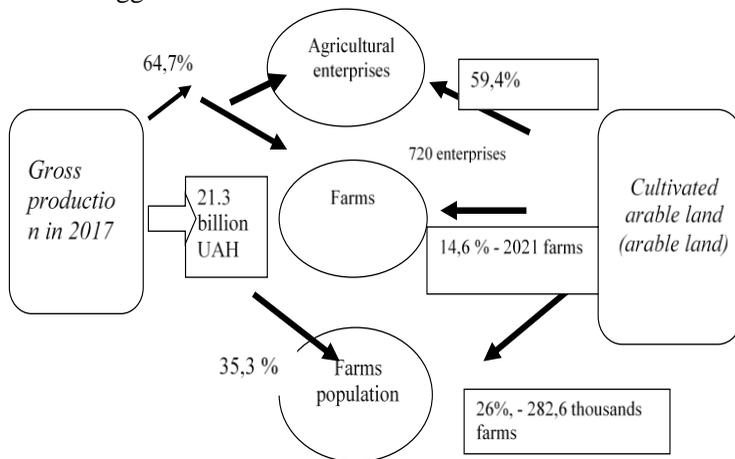
In Vinnytsia oblast, as of January 1, 2016, agricultural production is carried out by: 774 agricultural enterprises, 1894 farms and 282,6 thousand private farms providing about 2087 thousand people with working places, capital investments into the industry make 3202,5 million UAH, and the amount of export of agricultural products – USD 787.8 million. USA [9].

The use of these enterprises is 1838.2 thousand hectares of agricultural land, of which: 1667.3 thousand hectares – arable land, 44.5 thousand hectares – perennials, 19.0 thousand hectares – hayfields and 107.4 thousand hectares. ha – pastures. About 309 thousand heads of cattle, 351,3 thousand heads of pigs, slightly more than 38 thousand head of sheep and goats and 27,6 million goals poultry.

As a result, in the year 2016, agricultural enterprises of Vinnytsia region produced 8.4% of the gross output from Ukrainian agriculture.

Gross output from agricultural enterprises and farms is 64.7%, households – 35.3% (Figure 6.2). The share of arable land, used in the process of managing the economy of the population is 26%, farms – about 15%. The prevailing production in the households is potatoes – 99.8% of the total production of this product, vegetable crops – almost 98%, fruit and berry crops – 48.6%, milk – 77.3% and slightly more

than 61% – eggs.



**Figure 6.2 Structure of production of gross agricultural products**

Consequently, small businesses provide the population of the Vinnytsia region with the necessary food products by more than 60%.

Therefore, in order to promote the development of small businesses, the Department for Agricultural Development, Ecology and Natural Resources in Vinnytsia region developed and implemented the Strategies for balanced regional development of Vinnytsia region by 2020 [10].

The main strategic goals are:

1. Provision of safety of life of the population of the region.
2. Growth of the competitiveness of the economy, through:
  - creation of favorable conditions for dynamic development of small and medium business, simplification of administrative procedures;
  - support intensive development in all sectors of agriculture;
  - application of measures to improve the quality of food.
3. Investment attraction and development of international relations through:
  - creation of attractive conditions for attraction of investments in the regional economy and international donor assistance;
  - development and deepening of international and interregional cooperation.

4. Ecological safety of the environment.
5. Development of the social and tourist sphere of the region.
6. Development of local self-government, decentralization of power and intergovernmental relations through:
  - provision of infrastructure development of territorial communities of the region;
  - development of self-sufficient and financially-independent territorial communities and their associations [11].

In order to achieve the goals, a Program was developed to promote the development of small business in the countryside.

The program of personal peasant, farm, cooperative movement in the countryside and counseling in Vinnytsia region for 2016-2020 [11].

The purpose of the Program is to provide appropriate and stable conditions for the support of the development of private peasant and farm enterprises and their associations.

Implementation of the Program will be carried out by introducing certain measures:

1. Granting of preferential loans to private farmers, farms, cooperatives and other business entities in the village;
2. Partial reimbursement of the purchase of an individual milking plant or refrigeration plant for the storage and cooling of milk;
3. Partial co-financing of international technical assistance projects
4. Financing advisory services and reimbursement of expenses for the preparation of advisers;
5. Support for regional leasing.

1. Granting preferential loans to private peasant farms, farms, cooperatives and other business entities in the countryside.

The priority lines of lending are:

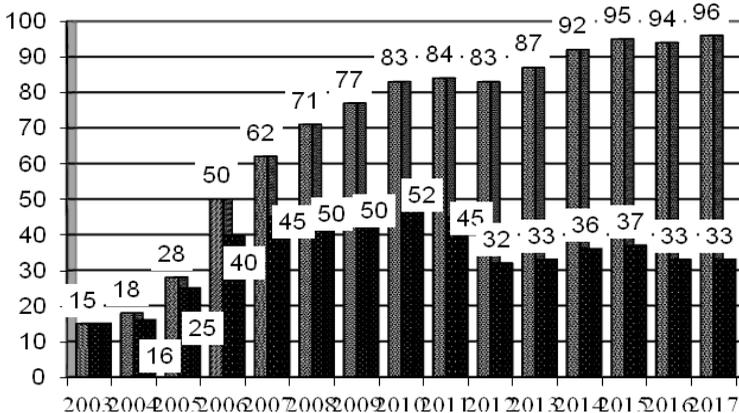
- development of livestock industries
- construction of the storage infrastructure of agricultural products
- purchase of equipment for the processing of agricultural products
- purchase of equipment in the SME.

Thus, in 2014-2017, 44 business entities received preferential loans, including 25 farms, 13 individual entrepreneurs, 5 agricultural service cooperatives and 1 processing enterprise. In total for various needs, the subjects of management were credited to the amount of 7.3 million UAH, namely:

- for the reconstruction of livestock buildings – 2.2 million UAH.
- 2.4 million UAH for the development of the infrastructure for the storage of agricultural products.

- for the processing of agricultural products – 2.3 million UAH.
- support of agricultural servicing cooperatives – 0.4 million UAH.

In 2017, 96 agricultural service cooperatives were registered in the Vinnytsia region, which is 81 more than in 2003 (Figure 6.3). The highest growth rate was observed in 2006 (the rate of change is almost 79% compared to 2005). Since 2007, the number of registered cooperatives grew steadily (+ 4-8 cooperatives annually). The exception is 2010-2012, when in the conditions of instability the number of cooperatives was equal to 83-84 years and 2015-2017 years - 94-96.



**Figure 6.3 Number of registered and active agricultural service cooperatives in the Vinnytsia region, 2003-2017**

Among all those registered in the period from 2004 to 2008, the share of operating varied within 70-90%. Since 2009, the level of operating cooperatives has started to decline. Thus, in 2012, out of 83 registered cooperatives, only 32 were left, i.e. 39%. In 2017, the share of operating cooperatives in total was 35%.

Therefore, state support is needed to promote the development and efficient operation of small and medium-sized businesses in the countryside.

2. The next component of the SME Development Program is the partial reimbursement to individual individuals of the cost of the purchased milking plant and / or milk storage and refrigeration plant.

In accordance with the specified requirements, the right to reimbursement of the cost of the purchased milking plant and refrigeration equipment is provided by individuals who hold 3 or more cows, identified and registered in accordance with the established procedure. The refund is made at a rate of 50% once every 5 years.

In the period from 2014 to 2017, compensation was paid for the purchase of milking equipment and / or purchased refrigeration equipment for the storage of milk 587 individuals for the amount of UAH 1.8 million.

3. Partial co-financing of projects of international technical assistance is carried out on the conditions of competitive selection of the developed regional development projects.

At present, the following projects are submitted for the regional selection projects that can be implemented at the expense of the state budget from the European Union to the Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine:

- Formation of agrarologic opportunities of rural communities of Vinnytsia region

- Formation of a mechanism for supporting the diversification of rural economies in Vinnytsia region

4. The financing of advisory services and reimbursement of expenses for the preparation of advisers shall be carried out in the following areas:

- ✓ Encouraging households to create family farms that are targeted at commodity production of agricultural products;

- ✓ Determination of the production of the optimal types of products that are in demand on the market;

- ✓ Reporting to the small commodity producers of agricultural products the advantages of the association on the terms of cooperation;

- ✓ Development of rural communities and territories.

At present, the Department of Agricultural Development, Ecology and Natural Resources of the Regional State Administration together with the Institute of Forage and Agriculture of Podillya of NAASU launched the work of the Innovation Platform “Best Agricultural Practices of Vinnytsia Region”. In the framework of this project, in 2017, 6 scientific and practical conferences were held with the participation of scientific assistants of UAASU, 32 educational and practical seminars on topical issues of development of agricultural production and rural areas. Also, work on its own on-line resource of the Innovative Platform “Best Agricultural Practices of Vinnytsia region”,

which contains information on best practices in the agrarian sector of Vinnitsa region, innovative technologies, recommendations for doing business and other useful information for farmers.

In 2018, the Regional Program for the Development of Small and Medium-Sized Enterprises for 2018 stipulates the payment of compensations to business entities which:

- registered and carrying out activities in the Vinnytsia region;
- provide co-financing of the project at own expense not less than 10 percent of its value;
- implement investment projects that meet the priority areas of socio-economic development and include the creation and expansion of production capacities, the introduction of innovative, environmental and energy saving technologies, production and processing of agricultural products (including the creation of mini-factories for the processing of agricultural products), construction of construction materials, production of goods for export and import substitutes.

Consequently, the Department of Agro-Industrial Development of Ecology and Natural Resources in Vinnytsia region is constantly working on developing programs to promote the development of small and medium-sized enterprises in the countryside.

### **Conclusion**

1. A modern entrepreneur is an economic entity that is able to profitably use and realize market opportunities. An entrepreneur in a village is the essence of modern entrepreneurship is the ability of an entity to respond to a potential source of benefit, that is, to find, maximize and properly implement the most favorable market opportunities. At the same time, this ability is due not only to the personality traits of the entrepreneur. Today, for the most part, it is due to the special relations that arise from the entrepreneur in the process of moving to their goal. These relationships cover the sphere of interaction both with the surrounding environment, and with the relationship within its own business structure. With the development of a market economy and entrepreneurship as one of its main institutions, these relationships are becoming increasingly important in ensuring the success of entrepreneurial activity and gaining the competitive advantages of business entities.

2. The desire of business entities to ensure the maximum possible market efficiency, as well as the requirements and needs of a socially oriented market economy, promote the activation of social functions of entrepreneurship, through which new forms of economic relations, new

cultural patterns, traditions, forms of communication, ethical and behavioral norms. Entrepreneurship becomes the form of management, which most successfully contributes to the process of formation and development of market relations in society.

3 Since the activities of any business entity in one way or another affect the environment and at the same time depends on the environment to it, then the allocated social functions of entrepreneurship are nothing but ways to interact with the environment. Accordingly, they should be attributed to the functions associated with the implementation of entrepreneurship as a type of economic behavior. On the one hand, it is the response function, that is, the means of adapting business to the environment. On the other hand, the functions of transformation, that is, the means of influencing entrepreneurship in their environment.

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**FULFILLMENT OF  
STRATEGY EUROPE 2020  
ON THE EXAMPLE OF THE  
SLOVAK REPUBLIC**

## **From Lisbon Strategy to Europe 2020**

The Lisbon Strategy was adopted during the significant economic changes associated with development of the global knowledge-based economy, which was accompanied by very high rate of economic growth achieved by the United. It was an ambition of political and economic elites of the European Union to create the conditions, which would allow Europe to “catch up” of the United States in terms of the development of conditions for using the potential of knowledge-based economy. Unfortunately, already in the halfway of the Lisbon strategy, it was clear that the achievement of its objectives is impossible. (Balcerzak, 2015)

The Treaty of Lisbon was signed in Lisbon in Portugal on 13 December 2007 by 27 EU Member States and officially entered into force in December 2009, two years after its signature. The aim was to reform the functioning of the European Union after two enlargement waves that took place since 2004 and increased the number of EU Member States from 15 to 27. (The Lisbon Treaty, 2018)

The EU and the peoples of Europe are faced with the challenge of adapting to and engaging with an ever-demanding international

economic environment. Our societies find themselves under severe pressure due to the ongoing financial crisis, which is causing economic activity to shrink and is testing the abilities of states to deliver on public services that Europeans have taken for granted. In such trying times, European societies can still look at the one thing that has allowed Europe to develop into an area of high economic prosperity and social cohesion. The only way to weather this crisis, mitigate the costs of needed reforms and create opportunities for sustainable and long-lasting recovery is through unhindered trade and increased coordination of national policies. (Martens, 2010)

The EU provides the undisputed framework for such cooperation, but EU institutions themselves are indispensable actors in providing the impetus for important political and strategic decisions. This is the case with the European Commission's 'Europe 2020: a European strategy for smart, sustainable and inclusive growth'. (Martens, 2010)

## **Europe 2020**

Europe 2020 is the EU's agenda for jobs and growth for the current decade. The strategy was adopted by the European Council on 17 June 2010 as the successor to the Lisbon strategy. (Bley et al., 2017)

It emphasises smart, sustainable and inclusive growth as a way to strengthen the EU economy and prepare its structure for the challenges of the next decade. The strategy strives to deliver high levels of employment, productivity and social cohesion in the Member States while reducing the impact on the natural environment. To reach this objective, the EU has adopted eight ambitious targets in the areas of employment, research and development (R&D), climate change and energy, education, and poverty reduction, to be reached by 2020. (Bley et al., 2017)

These targets are grouped into 3 areas, called "priorities". Three priorities should be the heart of Europe 2020:

- Smart growth – developing an economy based on knowledge and innovation.
- Sustainable growth – promoting a more resource efficient, greener and more competitive economy. (Širá, 2017)
- Inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

These three priorities are mutually reinforcing; they offer a vision of Europe's social market economy for the 21st century. (Europe 2020)

To guide efforts and steer progress, there is a large consensus that the

EU should commonly agree on a limited number of headline targets for 2020. These targets are representative of the theme of smart, sustainable and inclusive growth. They are measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison.

The set targets are as follows:

- ***The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%***, including through the greater involvement of women, older workers and the better integration of migrants in the work force.
- The EU currently has a target of ***investing 3% of GDP in R&D***. The target has succeeded in focusing attention on the need for both the public and private sectors to invest in R&D but it focuses on input rather than impact. There is a clear need to improve the conditions for private R&D in the EU and many of the measures proposed in this strategy will do this. It is also clear that by looking at R&D and innovation together we would get a broader range of expenditure which would be more relevant for business operations and for productivity drivers. The Commission proposes to keep the 3% target while developing an indicator which would reflect R&D and innovation intensity.
- ***Reduce greenhouse gas emissions by at least 20% compared to 1990 levels*** or by 30%, if the conditions are right.
- ***Increase the share of renewable energy sources in our final energy consumption to 20%***.
- ***A 20% increase in energy efficiency***.
- A target on educational attainment which tackles the problem of ***early school leavers by reducing the dropout rate to 10%*** from the current 15%.
- ***Increasing the share of the population aged 30-34 having completed tertiary education*** from 31% ***to at least 40%*** in 2020.
- The number of Europeans living below the national poverty lines should be reduced by 25%, lifting ***over 20 million people out of poverty***. (Europe 2020)

There are set the thematic areas of strategy Europe 2020 from mentioned targets. These areas are Research & Development, Education, Poverty and social exclusion, Climate changes and energy, and Employment.

The specific of these targets are that they are interrelated. For instance, better educational levels help employability and progress in increasing the employment rate helps to reduce poverty. A greater capacity for research and development as well as innovation across all sectors of the economy, combined with increased resource efficiency will improve competitiveness and foster job creation. Investing in cleaner, low carbon technologies will help our environment, contribute to fighting climate change and create new business and employment opportunities. (Bley et al., 2017)



**Figure 6.4 Europe 2020 – thematic areas**

*Source: Bley et al. 2017*

Meeting these targets should mobilise our collective attention. It will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU to deliver the results which are summarised in these targets. (Bley et al., 2017)

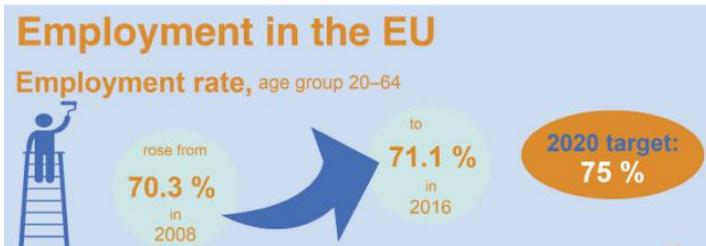
### **The strategy Europe 2020 on the example of the Slovak Republic**

Since the adoption of the Europe 2020 Strategy, the Government of the Slovak Republic has adopted a whole range of documents aimed at meeting its objectives. For the purposes of assessing the objectives of Slovakia, the most important in terms of their impact on structural changes in the economy are primarily the National Reform Program 2014 and the Research and Innovation Strategy for Intelligent Specialization of the Slovak Republic.

The fulfilment of the set targets is outlined below. The Europe 2020

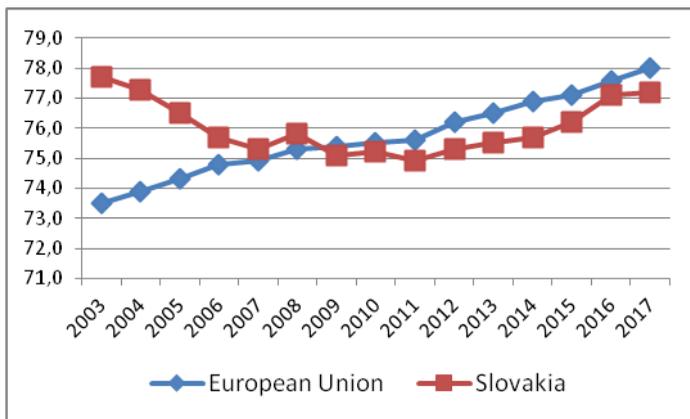
set the target for employment as follows: The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%.

The set target was fulfilled in whole period except for 2011 in the Slovak Republic. In the EU average, this goal was achieved.



**Figure 6.5 Europe 2020 Employment target**

Source: Bley et al. 2017



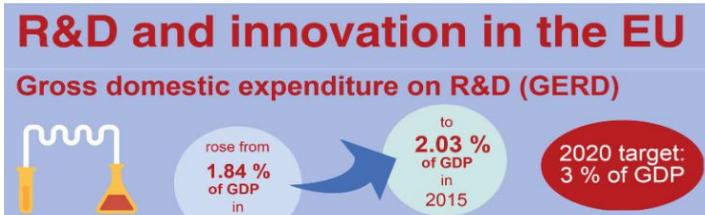
**Figure 6.6 Employment development in the Slovak Republic**

Source: own processing

According to Europe 2020, in research and development is set target of investing 3% of GDP in R&D.

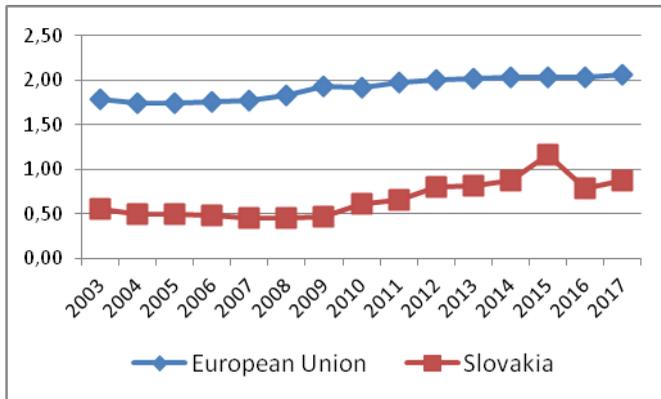
From the Figure 6.7 it is visible, that Slovakia has not fulfilled this target yet. There is an assumption, that in 2020 this target will not be fulfilled. From the 2003, the percentage of R&D expenditures to GDP is rising, but still, this value is insufficient. Compared to average of European Union, R&D expenditures to GDP are still low and under the set value of 3 %.

One of the areas of Europe 2020 strategy is sustainable growth. This growth means promoting a more resource efficient, greener and more competitive economy. (Vavrek and Chovancova, 2016)



**Figure 6.7 Europe 2020 R&D target**

Source: Bley et al. 2017



**Figure 6.8 R&D development in the Slovak Republic**

Source: own processing

Since 2011, when Europe 2020 came into force, there has been greater decline in greenhouse gas emissions values in all EU countries.

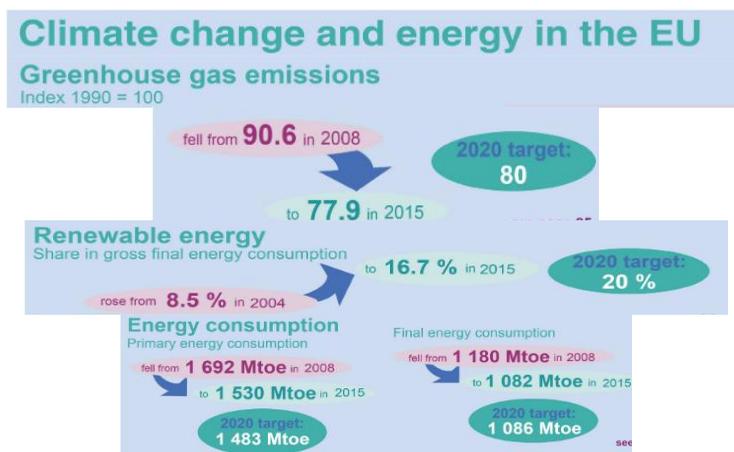
Clean energy from renewable sources comes from the natural resources of the Earth. It is usable everywhere from supplying large cities to villages and settlements in remote areas. There is sunlight, wind, water, biomass and geothermal heat. As a power source, it has got two great advantages:

when used properly, it cannot be exhausted as coal or uranium,

it does not ballast the planet and does not cause dangerous climate change. (Adamišin et al., 2015)

The energy from the sun, wind, water and geothermal heat is

practically inexhaustible, and no fuel is needed to produce energy. Biomass is a renewable resource because it is possible to reuse its stocks in a way that is consistent with the sustainability principles.



**Figure 6.9 Europe 2020 – Climate change and energy target**

Source: Bley et al. 2017

Table 6.4

**Sustainable growth indicators**

	Greenhouse gas emissions, base year 1990		Energy from renewable sources		Primary energy consumption in Million tonnes		Final energy consumption in Million tonnes	
	EU	SR	EU	SR	EU	SR	EU	SR
2005	93,26	69,06	9,0	6,4	1 713,2	17,8	1 191,5	11,6
2006	93,17	68,99	9,5	6,6	1 722,2	17,6	1 193,2	11,4
2007	92,22	66,58	10,4	7,8	1 693,8	16,5	1 173,6	11,2
2008	90,31	67,53	11,0	7,7	1 692,4	17,0	1 179,7	11,5
2009	83,79	61,38	12,4	9,4	1 598,2	15,6	1 114,4	10,6
2010	85,66	62,6	12,8	9,1	1 656,7	16,8	1 162,8	11,5
2011	83,01	61,43	13,1	10,3	1 594,2	16,2	1 105,6	10,8
2012	81,83	58,15	14,3	10,4	1 585,4	15,7	1 106,2	10,3
2013	80,26	57,63	15,0	10,1	1 569,9	15,9	1 105,5	10,6
2014	77,06	54,69	16,0	11,6	1 508,3	15,3	1 059,6	10,0
target	<b>80</b>	<b>80</b>	<b>20,0</b>	<b>20,0</b>	<b>1483</b>		<b>1086</b>	

Source: own processing

Note: SR – Slovak Republic

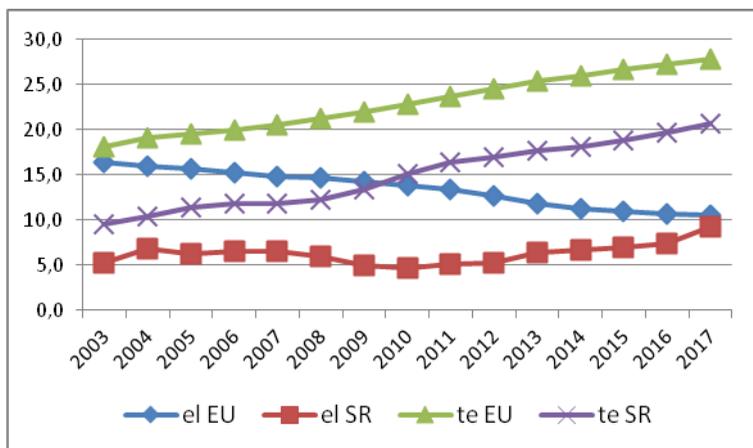
Using the energy from renewable sources in EU countries is rising, but still does not reach the stated value of 20 %. But the least data were

from the year 2014, so it can be predicted, that till 2020 this target will be reached.

Primary and final energy consumption in Slovakia was decreasing during analysed period. The amount of energy consumption in the EU countries was decreasing, too. So, according to my opinion, this target will be reached by 2020, too.

The next area of interest is Education. The aims are to reduce the early school leavers rate to 10% and to increase the share of the population aged 30-34 having completed tertiary education to 40%.

In Slovakia, the long-term school drop-out rate is below 10%. What is interesting, however, is that in recent years this rate has risen in Slovakia though the EU average has fallen.



**Figure 6.10 School leavers and tertiary education targets**

Source: own processing

Note: SR – Slovak Republic

el – early leavers

te – tertiary education

In Slovakia, also in other EU countries, % of people with tertiary education is growing. However, growth is not fast enough, and so in 2017, this % was below the EU average of 28%.

The last of the areas covered by the Europe 2020 strategy is the area of poverty and social exclusion. The number of people at risk of poverty by 2017 (which was the last year under evaluation) has declined.

To conclude it, the Slovak Republic has problems only in fulfilment of one target from the strategy Europe 2020. This target deals with

research and development. In all other areas, Slovakia fulfils the set values.



**Figure 6.11 Europe 2020 – Poverty and social exclusion**  
 Source: Bley et al. 2017

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**ADAPTATION OF THE  
TOURIST INDUSTRY OF  
UKRAINE TO THE  
CONDITIONS OF EUROPEAN  
INTEGRATION:  
ANALYTICAL REVIEW**

Ukraine is a dynamic country that is developing and seeks to become more active in the socioeconomic processes of the modern world and to integrate into the European community.

In 2014, the Association Agreement between Ukraine and the EU was signed, which defines the legal basis for deepening of bilateral relations and allows the transition from partnership to cooperation and economic integration. The implementation of the provisions of this Agreement facilitates Ukraine's integration into the EU internal market and the single regulatory space in the tourism area.

The "Economic and Industrial Cooperation" is a separate section in the Agreement which includes tourism sector.

One of the main national tasks in the direction of European integration in the field of tourism should be:

- development of normative legal acts to promote the attraction of foreign investments for tourism development;
- creation of structural units for tourism in regional and local state administrations;
- harmonization of qualification requirements and standards for higher education in institutions of higher education, which providing training for specialists in the field of tourism.

The implementation of these measures will contribute to further integration of Ukraine into the EU tourist area. Assessing the real opportunities and perspectives of Ukraine's integration into the European tourist area. It should be noted that the quality of the perspectives is the main thing, but not the number of implemented measures [1].

Considering the urgency of the problem of the Ukraine tourist industry in the context of integration into the European community, it is worth analyzing the current state and perspectives for its development.

The development of the tourism industry in Ukraine is one of the priority needs in the European integration environment. Tourism has

become not only a “window to Europe”, but also a political, socio-economic and environmental phenomenon for independent Ukraine.

The state proclaims tourist as one of the priority of development of national culture and economy, because of its place and role in the life of society. The Government of Ukraine adopted the medium-term plan for 2017-2020, which clearly states that one of the priorities is the development of tourism in Ukraine.

Nowadays tourism is a highly profitable field of economy. Ukraine has significant potential opportunities for the dynamic development of the tourism industry and the appropriate integration into the world tourist space. With this in mind, the Ukrainian Government facilitates the creation important grounds such as organization, legal and economic for the tourism development, using the international experience. Because tourism is a field of economy.

Tourism is a new economic and socio-educational opportunities, innovations, new infrastructure, in countries with well-developed tourism, it can generate up to 10% of GDP. Tourism is the promotion of Ukraine in the world; therefore, it is important that the state forms the right policy, it means the convenient conditions for tourism business, tour operators and travel agencies and consumers of tourist products, which is undoubtedly contributing to the introduction of a visa-free regime for Ukrainians.

After signing by Ukraine of the Association Agreement with Ukraine, the role of the tourism industry in the country’s socio-economic development necessitates the improvement of the state tourism management mechanisms. The main purpose is to create favorable conditions for the tourism development and related industries.

In these conditions, the development of tourism in Ukraine is very important, as an area that supports almost 50 related industries and creates additional jobs. One tourist gives work to 10 people, and the creation of one workplace in tourism is 20 times cheaper than in the industry. Tourism in Ukraine can and should become a sphere of market mechanisms realization and source of filling the state and local budgets.

It is clear that Ukraine has a great tourist potential, and it has virtually all resort resources: natural thermal waters, hydropower, medical mud, coniferous mixed forests, seaside coasts. Due to the geographical location and available natural resources, Ukraine has all the possibilities for ecological, sporting, pilgrimage, ethnographic, rural, gastronomic and many other types of tourism. Tourism development can make a significant contribution to the socio-economic development of

the country, contributing to the development of the national economy and, first of all, one of its high-yielding components – the service sector.

To date, the tourism business in Ukraine as a component of the economic complex is characterized by the following properties and functions:

- creates tourist services, forms and actualizes a tourist product and actively using marketing communications;
- has its own manufacturing industry and services for tourists;
- forms a market for tourist services at different levels of complexity;
- works as a multiplier of the growth of national income, gross domestic product, employment of the population;
- promotes the development of local infrastructure and raising the population living standard;
- represents a sphere where jobs are created cheaply and provided with a high level of efficiency and a quick return on investment;
- is a very effective means of protecting the environment, historical and cultural heritage of the country, which is the material basis of the tourism resource potential, which forms a specific field of activity;
- functions in a relationship with practically all sectors and types of human activities;
- has advantages in the integration and globalization processes taking place in the world space [2].

The “sphere of impressions”, or tourism business, has become one of the most profitable. The annual tourism revenues amount to almost 3 trillion. dollars [3]. Thus, at the present stage of domestic economy development, one of the important tasks is to increase the competitiveness of Ukrainian tourism enterprises and to increase the demand for their services, both on the domestic and foreign markets.

At the present stage of the development of a market economy in Ukraine, the urgent task is the steady integration of the domestic economy into the system of international division of labor and world integration processes. One of the stages of our country’s integration into the world is joining the EU, therefore, Ukraine’s external and internal strategy should be aimed at forming the priorities of integration.

That is why it is necessary to consider the urgency of the issue of increasing the competitiveness of domestic tourist enterprises in the context of European integration.

The basis of the organization competitiveness in the market environment forms the competitiveness of its products, which characterizes its ability to better satisfy the needs of consumers than

competitors, offering them the unique properties of products and the optimal ratio of “price and quality”.

The most important factors of competitiveness in modern economic science include the technical and technological level and the quality of products and services, their ability to meet the needs of a certain category of consumers, and to its main elements – the price level, product quality, service conditions, the period of guarantee of choice.

Priority for ensuring the domestic tourism competitiveness enterprises is the availability, use and maintenance of pure, permanent competitive advantages over a long period of time, which have the characteristics: the value for consumers, the specificity or uniqueness, the complexity of duplication with competitors. The constituent elements of the competitive advantages of a tourist enterprise are the benefits of the proposed product, which may be related to either higher quality tourist services (axiological) or lower prices for them (economic), which is consistent with the accepted market strategy at the enterprise.

The security level of tourist enterprises of Ukraine resources for access to foreign markets is high. The resort and recreation areas in Ukraine make up about 9.1 million hectares (15% of the territory). A large number of cultural and historical resources are concentrated in Ukraine. There are more than 130 thousand monuments on the state registration in Ukraine, of which 57 206 are archeological monuments (418 of which are of national importance), 51364 are historical monuments (142 are of national importance), 5926 memorials monuments of monumental art (44 national significance), 16293 – monuments of architecture, urban planning, landscape gardening and landscaping (3541 – of national importance).

In the central part of Ukraine, historical monuments related to the introduction and development of Ukrainian statehood and culture are concentrated; in Southern Ukraine, many monuments of ancient culture have been discovered; Western Ukraine is distinguished by ethnic features, folk art monuments, folk architecture, etc. In Ukraine there are more than 200 thousand objects of cognitive tourism, more than 300 museums. World-famous are historical and cultural preserves: Kyiv-Pechersk, Lutsk, Ostroh, Berdychiv, Pereyaslav-Khmelnysky, Khortytsya, historical and architectural preserves: Lviv, Kamyanets-Podilskyi, Chernihiv, Novgorod-Siversky, Sofievsky. An important resource is the places of pilgrimage: Orthodox (Pechersk, PochaevLavra), Greek Catholics (Zarvanitsa in the Ternopil region,

Krekhiv in Ivano-Frankivsk region), Hasidim (Uman) [4].

But at the same time, the tourist infrastructure is imperfect. This is the main reason why tourism companies do not realize competitive advantages. Up to 70% of historical and cultural resources are in an emergency, requiring repair and reconstruction work. It is important to ensure the conditions necessary for the implementation of tourism.

Therefore, among the most common problems of forming the competitiveness of Ukraine tourist enterprises in the conditions of European integration are:

- unsatisfactory material basis;
- poor quality of service provision;
- inability to effectively create and use competitive advantages in accordance with the conditions of the international tourist services market;
- imperfect methods of competitive struggle.

At the same time, in the context of the globalization process, the world tourism development process could not escape Ukraine, although the tourism industry of our country has so far developed considerably more slowly than the average world rate.

According to the World Travel and Tourism Council (WTTC), forecasts for the development of the tourism industry in Ukraine are positive. It is expected that in 2023 the contribution of tourism to Ukraine's GDP will reach 49.2 billion UAH (at prices in 2016), the number of jobs will amount to 389.0 thousand, and the number of foreign tourist arrivals will increase [5].

According to the statistics of economically developed countries, international tourism is considered one of the most profitable types of business entities, which is a significant incentive for the development of cultural and recreational tourism in Ukraine.

In the near future, the development of international tourism will not stop. Experts from the World Tourism Organization (UNWTO) predict that by 2030 the volume of international tourist arrivals will reach 1.8 billion people [6; 7].

The given data testify that tourism development is of great importance both for the state as a whole and for Ukrainian citizens, since it includes the most important spheres of life: socio-economic, culture and security.

In order to effectively develop tourism, conditions are needed, namely resource and territorial, in this context, Ukraine is a rich state, which is washed by the Black and Azov seas, the mountain peaks of the

Carpathians and steppe areas inhabited by wild birds and animals.

In addition to the unique territorial and cultural potential, there is a large number of Ukrainians wishing to travel in Ukraine. The following countries, such as Poland, Republic of Moldova, Hungary, Belarus, Romania, Turkey, Slovakia, Germany, Egypt, United Arab Emirates and Greece, enjoy the most popularity among Ukrainian citizens in the last 3 years.

It should be noted that Ukraine belongs to countries that occupy leading positions in the presence of valuable natural and other tourist resources. On this basis the country has the potential to create and satisfy the interest of domestic and foreign tourists. In recent years, the development of the tourist industry of Ukraine has seen a positive dynamics in the growth of quantitative and qualitative indicators of inbound and outbound tourism.

The number of citizens traveling abroad gradually increases over the years, as well as the number of visits to foreign citizens. Nevertheless, there is a negative dynamics observed among foreign tourists who were serviced by the subjects of tourist activity of Ukraine, which testifies to the non-conformity of the required conditions.

Citizens of the Republic of Moldova, Belarus, Poland, Romania, Hungary, Slovakia, Germany, Uzbekistan, Turkey and the USA prevailed among foreigners who visited our country over the past 3 years [8].

In recent years in Ukraine, which has considerable tourist potential, there is a growing interest of scientists and specialists in the problems of tourism development as a highly profitable field of the economy and an important means of cultural development of citizens.

The prospects for the development of tourism in Ukraine are determined by the action of a wide range of natural, historical, cultural, social, economic and political factors that have a clearly defined regional specificity. In addition, today's situation is characterized by the fact that the formation of a highly developed national tourism industry and its integration into the world market of tourist services are connected with the need to solve acute socio-economic problems during the transformation of socio-economic relations and the involvement of international experience.

In the context above, tourism is considered today as a national phenomenon of realization of human rights and needs as a sphere of technology for realizing needs and demands in market conditions as a special sector of modern national and regional economy as an integral

part of the socio-economic policy of the state and regions.

Today in the context of European integration for the national tourism industry, new prospects of development and new opportunities are opened, Ukraine takes part in promising programs of cooperation in the field of tourism, is involved in the introduction of the latest tourism technologies, advanced methods of training and staff training in accordance with world standards, uses the global information network and more. For Ukraine, which has real opportunities and perspectives in the tourism sector, the direction of tourism development should now be one of the priorities.

Taking into account the significant tourist potential, Ukraine could belong to the most powerful and most attractive countries of Europe, as it is located in the center of Europe at the intersection of the transport routes and has favorable natural and climatic conditions, significant historical and cultural potential, necessary human and material resources for the progressive development of its recreational sphere. The richness and diversity of the Ukrainian cultural and natural heritage can hardly be overestimated, unique landscapes, beautiful landscapes, national parks, nature reserves, mineral and thermal waters, mud springs create all the prerequisites for the formation of highly developed industrial in Ukraine, designed even for the most demanding and prosperous people. Today, enterprises from Kyiv and Odessa oblast provide 48% to 67% of tourist activity. However, such regions as the Carpathians, Polissya, and some parts of the Forest-Steppe, Steppes, and the Black Sea-Azov coastline are also becoming potentially attractive from a tourist point of view, forming an advanced infrastructure and tourist complexes, taking into account the tourist standards not only of the European but also of world importance.

At the same time, the level of development of recreational and tourist services Ukraine is significantly behind the majority of European countries. There are many problems in the tourism industry, the most significant of them can be attributed:

- low level of infrastructure development;
- a negative image of Ukraine as a whole for recreation; lack of proper advertising;
- imperfection of the regulatory framework for recreational activities;
- unfavorable investment climate.

Such a situation is not normal and requires the revitalization processes for the creation of a powerful recreational industry in our country capable of meeting the diverse needs of Ukrainian residents and

foreign tourists. In order to solve the problems, we need to hold a balanced state policy on the development of the tourist industry, which should be based on factors such as:

- state incentives for domestic and foreign tourism;
- ensuring the internal convergence of tourism services through improving their quality and expanding assortment;
- improving the service of tourists;
- construction of new and modernization of existing tourist facilities;
- cooperation with international organizations promoting tourism development.

The positive perception of any territory or its image, the brand is formed due to the influence of a lot of factors – this is the level of development of the economy, the degree of development of infrastructure, transport, services, the availability of recreational resources, the ecological component of the territory, but next to this, especially important factor in the conditions European integration of Ukraine - there is a general investment attractiveness of our country. One of the basic guidelines for the state economic strategy should be the maximum convergence of the parameters of the business and investment climate [9].

Today Ukraine needs to make a lot of effort to improve the condition of all these factors, as it will guarantee that tourists from different countries will want to visit our country and come back here again.

Exploring the Ukrainian tourism market in terms of European integration, it should be noted that our country has significant competitive advantages in the offer tourist product, namely: convenient geographical location, favorable and diverse climate, a unique combination of natural recreational resources, rich cultural and historical heritage, but the state of the market for tourist services is determined by the socio-economic and political processes taking place in Ukraine, reproducing the course of reforming social life. In view of this, it is fully justified to improve the mechanism of the state regulation of tourism.

As a rule, with the increasing importance of tourism in the economy of the country, the participation of the state in the regulation of the tourism industry through the ministry with corresponding powers or with the participation of various international organizations increases.

The formation of a single European tourist area and the development of Ukraine as a modern tourist destination require the expansion of cooperation between the country and the EU member states in the tourism sector and will contribute to satisfying the needs of domestic

and international tourism, taking into account the natural, climatic, recreational, socio-economic, historical and cultural potential of our state.

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**STATE FINANCIAL  
POLICY IN LOCAL  
FINANCES IN THE  
CONDITIONS OF EURO  
INTEGRATION**

Activity of the state in any sphere is realized through a complex of purposeful instruments oriented on the regulation of the living conditions of society, namely through state policy. The sphere of local finance, which, on the one hand, is a subsystem of state economic management, on the other hand, is an independent open subsystem with its own set of regulatory levers, is not an exception. That is why it is important to have a detailed study of the specifics of financial policy on local finance in the area of public finance policy in the field of local finance and financial policies of local self-government, as well as classical measures to implement relevant management tools.

**Policy** is a sphere of activity related to relations between individual groups, including social groups, the core of which is the problem of conquest, holding and use of power to achieve a certain goal. Policy activity is manifested in all spheres of public life, including in the financial sphere at all levels and in its entire links, and above all at the state level, business entities, local authorities [1].

**Financial policy** is a set of state measures on the use of financial relations for the fulfillment of state functions [2].

That is, the concept of “financial policy” combines the categories of finance and policy. At the same time, it is expedient to consider the financial policy at the macro-, meso- and microeconomic levels. Each level of financial policy has its own purpose. Thus, at the macro- and mesoeconomic levels, the purpose of financial policy is to optimally allocate and redistribute the gross internal or regional product between spheres of economic activity, social groups of the population, and territories. At the microeconomic level – in the optimal allocation and

redistribution of cash and financial resources of the enterprise, in particular, based on classical market mechanisms.

In turn, macroeconomic financial policy is part of the socio-economic policy of the state to ensure a balanced growth of financial resources at all levels of the financial system of the country. Ignoring the need for balanced growth of financial resources leads to the degradation of the financial system itself, the decline and collapse of the economy. The main goal of state financial policy should be to create financial conditions for socio-economic development of society, increase the level and quality of life of the population [3].

Accordingly, the state financial policy in the field of local finance is an integral part of the state regional economic policy, which determines the need for its more detailed consideration. According to the Law of Ukraine “On Stimulating the Development of Regions”, the state regional policy of Ukraine is determined by such elements [4].

1) regional development – the positive dynamics of the process of social, economic, ecological, humanitarian and other changes in the respective regions as an integral part of the implementation of the national development strategy of the country according to the formulated goals;

2) state regional policy – a set of measures, means, mechanisms, tools and mutually agreed actions of central and local executive authorities and local governments to create a healthy living environment for people throughout the territory of Ukraine and ensure a high level of quality of life and space unity of the state and sustainable development of its regions;

3) public finance policy in the field of local finance is a system of measures implemented by the central government for the management of the process of formation, distribution, redistribution and use of financial resources in regions and other administrative-territorial units;

4) the objectives of the state regional policy, which are:

– the fullest possible use of regional resource potential through the optimal combination of interests of the state and each region;

– ensuring a high standard of quality of life for a person irrespective of his place of residence through provision of:

- territorially holistic and balanced development of Ukraine;

- integration of regions into a single political, legal, economic, informational and cultural space;

- full use of the potential of the regions, considering their natural, historical, economic, geographical, demographic and other

characteristics, ethnic and cultural traditions;

- improving the competitiveness of the regions;

5) the object of the state regional policy is the territory of the state, its regions, macro regions, micro regions are determined by the legislation;

6) tasks of the state regional policy, which include:

- convergence of levels of socio-economic development of individual regions;
- providing financial assistance to territories that do not have sufficient resources to perform their functions and responsibilities;
- creation of conditions for the provision of public services according to common standards throughout the country;
- overcoming the backlog in the development of the socio-cultural sphere and social infrastructure in small towns, villages and settlements;
- ensuring comprehensive economic and social development of territorial units;
- creating of conditions for the development of intercommunal and interregional cooperation as a factor for increasing business activity in the country, and so on.

According to the requirements of the Constitution of Ukraine, the Law of Ukraine “On Local Self-Government in Ukraine” and the Law of Ukraine “On Stimulating the Development of Regions”, state regional policy should be based on the basic principles: constitutionality and legality; unity; decentralization; deconcentrating; subsidiarity; partnership; openness; responsibility; sustainable development; historical continuity.

At the current stage of Ukraine's development, the priorities for implementing the state regional policy are as follows [3].

1. Creation of a legal framework for the implementation of the objectives of the state regional financial policy (DFRP).

2. Definition based on objective criteria of the list and classification of regions and territories of Ukraine.

3. The use of experience accumulated in many countries in the organizational mechanisms for achieving the objectives of the state regional financial policy.

4. Introduction and use of the financial instruments arsenal.

**The public finance policy in the field of local finance** is a system of measures implemented by the central government in order to manage the process of creating, distributing, redistributing and using financial resources in regions and other administrative units [5].

The main element of the system of measures of state financial policy in the field of local finance is the systematic provision by central authorities of assistance to the authorities of those territories that do not have sufficient resources to perform their functions.

The tasks of the state financial policy in the field of local finance, in accordance with the priorities of the state financial and regional policy, are as follows:

- convergence of levels of socio-economic development of individual regions;
- providing financial assistance to territories that do not have sufficient resources to perform their functions and responsibilities;
- creation of conditions for the provision of public services according to common standards throughout the country;
- overcoming the backlog in the development of socio-cultural sphere and social infrastructure in small towns, villages and settlements;
- providing comprehensive economic and social development of territorial units;
- reduction and overcoming of disproportions of territorial allocation of production capacities, elimination of excessive concentration of technogenic and environmentally hazardous production in separate regions;
- restructuring of the economic and social sphere of depressed territories and regions of the first wave of industrialization;
- creation of conditions for effective and rational use of natural and resource opportunities of territories;
- expansion of the possibilities of using territorial factors of economic growth on the basis of financial autonomy of local authorities, its initiative and entrepreneurship, strengthening of financial bases of local self-government as an institution of social development and self-regulation;
- creation of conditions for the development of intercommunal and interregional cooperation as a factor for increasing business activity in the country.

According to the opinion of internal economists, the main directions of realization of the key tasks of the state financial policy in the field of local finance are as follows.

1. Creation of a legal basement for the implementation of the objectives of public finance policy in the field of local finance. The law should establish: the responsibility of the central government is to ensure the uniform standards of quality of life throughout the country.

2. Definition – based on objective criteria – the list and classification of regions and territories of Ukraine. The supreme bodies of state power should establish a list of regions and territories in need of financial support from the central government.

3. The use of experience accumulated in many countries in the organizational mechanisms for achieving the objectives of public finance policy in the field of local finance. Among them: territorial planning, programs of socio-economic development of regions, creation of international regions of economic cooperation, granting of territories of special economic status (free, special, offshore, trade zones, zones of border cooperation and preferences), technopolises and technoparks, organization of intercommunal and interregional horizontal associations and their various associations, training for local authorities.

4. Introduction and use of the financial instrument's arsenal to achieve the objectives of the SRFP. These are special budget regimes for local authorities, preferences, loans, tax exemptions and full tax exemption for enterprises that promote expansion of employment in depressed regions, reduction of interest rates on loans, reduction of rent for the use of premises and land, provision of land for a new one construction free. It is also the creation of favorable conditions for the development of small businesses.

Within the realization of the state financial policy in the field of local finance, considerable attention is paid to financial equalization. Financial equalization is the process of eliminating vertical and horizontal imbalances. In the process of financial alignment, measures are taken to redistribute financial resources both between the links of the budget system vertically, and between so-called poor and rich territories horizontally. The purpose of financial equalization is the redistribution of financial resources in favor of those power levels that have vertical and horizontal fiscal imbalances in order to eliminate them [5].

Vertical fiscal imbalances are a discrepancy between the amount of financial resources of a given level of government, regional or local, and the scope of tasks and responsibilities that are assigned to it in the process of allocating competences between central and local authorities [3]. Vertical fiscal imbalance means insufficient financial resources of a certain level of government to provide public and public services within its mission.

Vertical fiscal imbalances can be eliminated in several ways: central government or higher territorial power can take on some of the responsibilities of providing state and public services and thus reduce

the range of responsibilities of the level of government that created a vertical fiscal imbalance; the introduction of a level of government with vertical fiscal imbalances, additional taxes; the transfer of part of their taxes by the central government to the territorial level of power that has such an imbalance; at the expense of providing central grants, subsidies and other transfers.

Horizontal fiscal imbalance is a discrepancy between the volumes of financial resources of one or several territorial units of the same level of tasks assigned to them and provided by other territorial units of this level [3].

Horizontal fiscal imbalances arise when: one or more of the same level does not have sufficient financial resources to provide public and public services in volumes provided by other territories in accordance with certain standards; there are so-called poor and rich territories; some territories have more needs than others; there is a higher cost of public and public services within certain territories compared to others. Horizontal fiscal imbalances can be eliminated at higher tax rates within the corresponding territories. However, this will be unfair to the population of these territories. Therefore, the state is obliged to overcome such imbalances within the framework of the financial equalization policy.

The need to introduce financial equalization in Ukraine is due to a number of objective reasons.

First, this is the irregularity of the territorial placement of productive forces, which determines the differentiation of the tax base of the regions and territories of Ukraine. Moreover, experience shows that the differentiation of the tax base is increasing. The centers of its placement are changing. The role of traditional industrial regions diminishes relatively and the importance of the capital of the state increases. The tax base of agrarian regions of Ukraine is further degrading.

Secondly, a significant differentiation in the costs of providing public and public services and prices for these services. Considering the environmental pollution, the eastern regions of Ukraine and the regions of the Chernobyl disaster area have higher costs for these services. The price of such services is growing in the capital of the state and in other large urban agglomerations.

Thirdly, the social and economic rights guaranteed by the Constitution of Ukraine to the citizens of Ukraine make it necessary for central authorities to take effective measures to ensure uniform standards of state and public services throughout the state. Today, such

standards are not developed and they are not provided. As a result, the gap in living standards has been formed and deepened in some regions of Ukraine, in urban and rural areas.

Fourth, the need to transfer from the central government to the local level a significant part of the expenditure, not inherent in its constitutional functions. Such expenditures will be more effectively implemented locally. This includes expenditures on the financing of education, culture, health, physical education and sports and some others.

Fifth, the mixed effect of social payments. This means that the services financed from the budget of one administrative-territorial unit are also used by residents of other territorial units, but their authorities do not have any expenses at it.

The indicated measures on the realization of the state regional policy and the state financial policy in the field of local finance are based on a set of tools for its provision (financial regulation), namely:

- budget planning (short, medium and long term);
- budgetary equalization;
- intergovernmental transfers, including targeted transfers from the state budget to local budgets to address the priority tasks of sustainable development of regions; local budgets development budgets, which are formed on a medium-term basis and on stable sources of revenues;
  - concentration of financial resources to achieve the priority purposes and implementation of regional development programs on the proposal of the central executive body on regional policy, based on an analysis of budget requests of the main spending units in the process of work on the draft State Budget of Ukraine for the next year;
  - unification on a contractual basis of financial resources of regional development actors, international institutions;
  - direct state investments for the implementation of projects aimed at the development and modernization of the regional development infrastructure;
  - separate budget programs for stimulating the development of regions;
  - financing of regional development projects through the system of regional development funds.

The realization of the state financial policy in the field of local finance is intended to ensure the rational use of the resource potential and, on this basis, to solve socio-economic problems of the population. The purpose of the state financial policy in the sphere of local finance is

the most complete utilization of the resource potential of the regions through the optimal combination of interests of the state and each territory. The task of state policy in the area of local finance is to provide integrated and balanced socio-economic development of regions, taking into account available labor resources, scientific and technical potential and opportunities for their effective use. The social trend means that the state will promote the accelerated development of social and productive infrastructure in regions with low social security (especially in rural areas). Thus, the objects of the state financial policy in the field of local finance are the sectors of the economic complex of the region, social infrastructure, the natural environment, population and labor resources. The state conducts regional financial regulation for not only the listed objects, but also all administrative-territorial units that are part of the region.

Considerable attention is paid to financial equalization within the public finance policy in the field of local finance. Financial equalization is the process of eliminating vertical and horizontal imbalances. In the process of financial alignment, measures are taken to redistribute financial resources both between the links of the budget system vertically, and between so-called poor and rich territories horizontally. The purpose of financial equalization is the redistribution of financial resources in favor of those power levels that have vertical and horizontal fiscal imbalances in order to eliminate them.

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## CONCLUSION

Currently, the stable functioning of economic entities is based on the strategic goals of sustainable development, since the institutional transformation of the global environment adversely affects on the activities of economic entities by increasing competition, reducing consumer demand due to the economic crisis, and expanding the process globalization of the economy. In this regard, the question of formation and implementation of sustainable development goals is hardly predictable, since there is always a risk of a destabilizing situation.

In order to prevent negative influence from the global environment, as well as to improve the efficiency of economic entities it is necessary to periodically conduct economic diagnostics of the level of sustainable development. According to the author's research in a collective monograph, the analysis of sustainability development is carried out in several areas of activity. The main ones are economic, social, environmental, and global, since the main factors affecting sustainable development are the stable functioning of an enterprise's economy, social development, ecological situation, and relationships with the external environment.

It should be noted that the task of management sustainable development of economic entities is that it is possible to management this process only in a comprehensive way, without dividing the sustainability into separate types. Since each economic entity is a complex socio-economic system, management its sustainable development implies the creation of conditions for the balanced functioning of the constituent elements.

The effectiveness of management sustainable development of economic entities depends on its ability to adequately and timely respond to the impact of external and internal factors. External factors affect on economic entities regardless of their activities. On the internal factors of economic entities may affect. One of significant internal factors on which the sustainability of an enterprise's development depends is its organizational structure, qualification personnel, management methods. Thus, there is a need to develop an effective mechanism for management sustainable development, that is, certain techniques and methods of influence that allow economic entities to carry out an adequate response to influence from the external and internal environment, while developing along the vector of set strategic goals.

The mechanism of management sustainable development is a complex multidimensional economic phenomenon, which includes a complex of heterogeneous socio-economic interactions between the subjects and objects of management arising in the process of moving towards achievement the objectives of sustainable development. Consequently, the mechanism of management sustainable development appears to be a certain system of various methods influence of the subject on the control object, with the help of which the subject coordinates his goals with the goals of the object, which at the same time carries out the activity, guided by these methods. Management methods here act as a specific set within which interaction takes place.

Sustainable development of economic entities is impossible without the development of environment in which it operates, that is, global sustainability. If by sustainable development of economic entity we understand the stable state of its structure and the movement towards increasing the efficiency of its activity, then global stability should be understood as the stability of the external environment, the determinism of influence the factors establishing its main components. To achieve global sustainability is needed effective management mechanism of the economy by macroeconomic level.

The economic factors of external environment that influence the sustainable development of economic entities include the conditions for carrying out economic activity, the level of development the technique and technology, the level of effective demand, the effectiveness of economic policy in the country, legislative regulation of the economy and others. A special impact on the sustainable development of economic entities has phase of the economic cycle on which the country's economy is located, since during the crisis all economic processes slow down – the level of production decreases, investment decreases, sales volume decreases and, accordingly, profits. In view the impact of these factors during a crisis a large number of economic entities are subject to bankruptcy. In addition, on the market due to a decrease in effective demand, competition is sharply increasing, which entails further destabilization of the position of economic entities.

The solution of these problems lies in building an effective system of management sustainable development, which allows economic entities to adapt to the negative impact of external factors and quickly make decisions aimed at increasing the sustainability development.

Based on the application of a systematic approach to management development is achieved a harmonious combination and consistency of

management actions and decisions that ensure the operation all business processes of economic entities; generated need development with future benefits in mind; certain development strategies are being developed. In this regard, the introduction of a modern management mechanism for economic entities is not in doubt and is an important component in solving problems of overcoming crisis phenomena, problems of destabilization relations and relationships at the level of economic entity, industry, country, problems of achieving the efficiency reproduction processes on a stable long-term basis.





**Management mechanisms and development  
strategies of economic entities in conditions of  
institutional transformations of the global  
environment**

Collective monograph  
edited by M. Bezpartochnyi

**Ekonomisko vienību vadības mehānismi un  
attīstības stratēģijas globālās vides institucionālo  
pārveidojumu kontekstā**

Kolektīva monogrāfija  
M. Bezpartochnyi zinātniskajā redakcijā

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Parakstīts iespiešanai 2018-01-10. Reģ. apl. Nr. 01-27.  
Formats 60x84/16. Ofsets. Ofseta papīrs.  
19,48 uzsk.izd.l. Metiens 100 eks. Pasūt. Nr. 126.  
Tipogrāfija «Landmark» SIA, Krūzes iela 2B, Rīga, LV-1046.  
Reģistrācijas apliecības numurs: 40003052610. Dibināts: 28.12.1991.