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**CONTEMPORARY ECONOMY:  
SOCIAL, LEGAL AND ECONOMIC ASPECTS**

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Symposium digest reviews relevant questions on development of national economies in terms of global market transformations, scientific and practical interest of presented articles pertains to the setting up the academic companies, problems of public administration and anticorruption law, development management of small and medium enterprises as well as flexible enterprise management and value-based management in retailing. A lot of attention is given to the contemporary socio-economic problems and problems on assessing economic potential of national enterprises and export to EU.

Professionals of various economic spheres, civil servants, businessmen, scientific and public organizations, educators and students will find in this digest useful information for further researches.

Materials are printed in authors' edition.

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## INTRODUCTION

The modern world is under ambiguous in its effect transformations that influence on all aspects of the modern economy, affecting some slowdown in economic growth, increasing interdependence of countries under condition of instability. All this stimulates radical changes in regulatory policy of states and effective social and economic transformations.

XV International Symposium «Contemporary Economy: Social, Legal and Economic Aspects» is devoted to important issues of national economies in terms of global market transformations that are relevant not only within individual countries presented by the participants of the symposium, but also acquire a global significance. The articles demonstrate and explain the close relationship and interdependence of social, economic and legal aspects of the modern economy.

Scientific and practical interest of presented articles pertains to the spheres of setting up the academic companies, problems of public administration and anticorruption law, development management of small and medium enterprises as well as flexible enterprise management and value-based management in retailing. A lot of attention is given to the contemporary socio-economic problems such as social disparity, social contract and role of foreign investment in development of national socio-economic system. As of Ukraine, digest highlights questions and problems on assessing economic potential of national enterprises, export to EU and directions of competitive policy.

We hope that materials of Symposium will be useful for all the participants and readers who are not indifferent to reflection on finding solutions to social, legal and economic problems of our time, to development of national economics under globalization challenges.

Respectfully yours,

Rector, dr., prof.



Anatolii MAZARAKI

## **OLGA BAKALINSKA**

Doctor of Juridical Science (S.J.D.), Assistant Professor, Department of International Private, Commercial and Civil Law; Kyiv National University of Trade and Economics  
23 Kioto st., Kyiv, Ukraine, 02156, phone: +380445314202,  
e-mail: bakalinskaya@ukr.net

### **STATE AID CONTROL TO BUSINESS ENTITIES □ THE GUIDING DIRECTION OF COMPETITION POLICY OF UKRAINE**

#### **Abstract**

This paper analyzes the problems and the development trends of competition law and the Law of Ukraine. The author focuses on the problems of formation of a modern monitoring and state aid control to business entities. The author also identifies shortcomings and prospects of implementation of the EU's progressive experience in this field.

#### **Introduction**

The role of the state in the legal and economic life of the society significantly increases in the conditions of the social and market transformation of Ukraine and existing integration processes between Ukraine and the European Union. Ukraine has a well-developed regulatory and institutional framework for the protection of economic competition. However, one of the insufficiently regulated areas of this activity is state aid to business entities. The active participation of the state through the provision of various types of state aid to business entities is a prerequisite at overcoming the crisis phenomena. In this regard, the provision of state aid to business entities acquires a strategic importance in the face of the ongoing financial and economic crisis. At the same time, the use of state aid to business entities is quite broad, and the current system of providing such state aid leads to distortion of economic competition in the form of obtaining by certain enterprises unjustified advantages over competitors.

The legal framework for monitoring and state aid control in Ukraine was established as part of the implementation of commitments under the Partnership and Cooperation Agreement, which entered into force in 1998 [1]. Since 2002, finally, after long attempts at the normative consolidation of the state aid system or some of its elements, the Ukraine international obligations which arose, in particular, as a result of the signing of the Association Agreement between Ukraine and the EU [2], the Verkhovna Rada of Ukraine adopted the Law of Ukraine «On State Aid to Business Entities»(dated July 1, 2014), which comes into force in full on August 2,

2017, in order to ensure protection and development of competition [3]. The Association Agreement between Ukraine and the EU provides for the implementation of a significant pledge of activities aimed at integrating our country into the European Community. One of the key points of the agreement is the reform of the existing system of providing state aid to business entities.

### **Main part**

Getting a positive result from the introduction of state aid to business entities largely depends on the efficiency of regulation and the only possible due to the introduction of monitoring and control of state aid. The Law of Ukraine «On State Aid to Business Entities» establishes the basic principles of the construction and the procedure for the introduction of a complete functional monitoring and control of state aid to business entities which is defined by the Antimonopoly Committee of Ukraine as an authorized body in this field.

It is important to reform the policy and legal regulation of state aid in Ukraine in a way which will create transparent mechanisms of regulation and minimize the negative impact on competition in the provision of such support.

The issues of legal regulation of the provision of state aid were paid attention by such researchers as O.O. Bakalinska, M.Y. Barash, Z.M. Borisenko, N.M. Bugaenko, S. Kasyanov, O.O. Kostusev, N. Legeida, N. Leshchenko, G.M. Lozova, T.V. Nekrasova, A.V. Nivievskyi, S.S. Onishchenko, O. Pletnova, S. Taran.

State aid is a special form of government intervention in the economy to stimulate certain economic activities. As a result, there may be significant adverse socio-economic effects, in particular: the imbalance in the domestic market (disruption of the market mechanism, the creation of a specific business climate, inefficient spending large amounts of public resources), as well as leveling the benefits of international trade.

In the scientific literature, the concept of «state aid», «state regulation», «government support», «stimulating», «subsidy» is often identified without the necessary analysis of their content and correlation together.

The term «state aid to business entities» is a novelty of the Ukrainian legislation and for the first time at the legislative level is fixed by the Law of Ukraine «On State Aid to Business Entities» [3], which was adopted at the request of the EU-Ukraine Association Agreement.

According to the Law, state aid is a support in any form of undertakings through state resources and local resources, which distorts or threatens to distortion of economic competition, creating advantages for

the production of certain products or proceedings of certain types of economic activity [3]. In Ukrainian legislation, the issue of state aid to business entities is regulated by the Economic (Commercial) Code of Ukraine. In particular, in Article 16, the legislator refers to the need to regulate the order and resolve the manner and basis of application of the provision of such support in the Law and points out some means of «state support» such as subsidies, compensation and additional payments for the sold state products [4]. According to Lichak, «state support» is the mechanism which stimulates business entities to rational and economic activities. The key word in this definition is the term «incentives», which, in turn, is characterized in the legal literature as a combination of factors that stimulate business entities to proper economic activity [5, p. 407]. F. Shakhmalov's view is interesting, because he notes that in determining the nature of state support, «we should talk not about resources which are somehow invested in the development of entrepreneurship or attracted to current economic activity, but only about resources which are free, compared with the usual market acquisition or preliminary in monetary or commodity form (bank or commercial loan)» [6, p. 88].

In our opinion, the aforementioned term is a general concept which includes all forms of state support to business entities, while the concept of «state aid» is covered by the concept of state support as one of its varieties. That is, the form of state support can be recognized as state aid in cases established by law.

Moreover, the legislation offers term «incentives» for designation of state assistance to business entities, in particular, in the Law of Ukraine «On Stimulation of Automobile Production in Ukraine» [7], «On Stimulation of Regional Development» [8], «On Stimulation of Domestic Engineering for Agriculture Development» [9].

Firstly, grants, subsidies, loans should be considered as a form of state aid if they fall under the criteria defined by the legislation on state aid. Secondly, it is necessary to organize and make changes to the relevant legal acts of the Ukrainian legislation to avoid conflicts in the interpretation of terms. We consider it necessary to use the term «subsidy» as a synonym for the term «state aid» when further analyzing the EU and Ukrainian legislation.

Concerning the content of the concept of «state aid to business entities», the views of scientists and legislators from different countries are also not unanimous. However, this issue is a key to the construction and operation of the control system for the provision and use of state aid to business entities. Since only the range of legal relations is determined by the definition of the object of regulation.

In economic theory, there are a number of approaches to determining the scope of the concept. Thus, the Organisation for Economic Co-operation and Development (OECD) indicates the existence of three main approaches to the definition of «state aid» [10, p. 25–28]. They have the following features in common: it is a state policy which affects competition by providing benefits to individual companies or sectors; in the end, it reduces the overall well-being. The difference is in the amount of activities which include the concept of «state aid», as well as understanding the difference between «preferences». Thus, the supporters of the first approach note that state aid is an advantage over other producers in a certain area, i.e. over competitors in the market, including foreign ones.

The second approach used by the EU is based on the understanding of state aid as advantages over other companies in the same country (for the EU – within the single market), i.e. without regard to the benefits provided to domestic producers and their foreign competitors within the same commodity market. A third approach is proposed definition of indirect state aid anticompetitive impact on the market by comparing current prices of raw materials and finished products with pre-calculated prices which would emerge in the market conditions [11].

In fact, state aid is the impact on competition and trade in the form of subsidies, tax incentives and other forms of government concessions in favor of certain companies and therefore may have a negative impact on other firms. Each country (including the EU and WTO) more or less provides support for economic activity (i.e. the support for industrial sectors, some firms, regional development, innovation, investment, trade, small businesses, and such key industries as transport, agriculture and the defense industry) by introducing different instruments, including subsidies, tax exemptions and other measures which have less direct influence. This kind of state activity is ancient as most traditional financial functions of the state (tax increase + government spending). However, in the modern era of free trade, these types of state intervention in the economy are problematic if they significantly affect trade and competition. With the opening of trade and international position of the country (including in the context of integration into the EU and WTO membership), it is necessary to fully take into account international rules on state support for economic activity (and the interests of new trading partners on the impact of state aid and subsidies on trade and competition).

At the present stage, the concept of state aid has changed; restrictions are imposed on the use of support for business entities for the sake of normal economic development of countries. European requirements and

the effective functioning of the common market is the key to competitiveness of national economies, the preservation of global economic security.

Here we must address to Porter's views. He writes that «the role of government should be to «push» domestic industry and to encourage its development, rather than offer «help» that allows industry not to develop» [12, p. 48].

After analyzing the concept of «state aid» we define the goals and effects of its provision in practice. State aid to business entities is available in all countries with market economies and is one of the most important policy instruments [13, p. 151].

S. Onishchenko writes that the objectives, which are pursued by the state in the provision of state aid, can be internal and external in the economy. The external economic objectives include increasing exports and its profitability, as well as the reduction of import [14, p. 43].

Internal objectives of state aid are more diverse. Furthermore, they have economic, political and social character. There are functions which the market is not able to perform even under conditions close to perfect competition – «market failures». The neoclassical economic theory understands it as the situation in which the market not only can achieve the social goals that society sets itself, but does not provide the best solution in view of economic efficiency [15, p. 17]. Correcting these market failures (e.g. assistance to the most backward regions and economic sectors) is one of the main purposes of state aid to business entities. Also, state aid under the social function is used to overcome unemployment and support small businesses and others.

Sometimes these objectives overlap with foreign trade as support for national producers in a particular industry. For example, metallurgy is able not only to solve the economic and social problems of the whole region, but also to influence international trade in the relevant market.

Thus, the provision of state aid in many cases is justified from the point of view of the interests of society or its individual groups. Moreover, the support of individual enterprises often not only improves their competitiveness, but can also have a general positive impact on the competitive environment [16 p. 162].

In addition, it is necessary to pay attention to the negative consequences of the provision of state aid. First of all, it should be noted about the political aspect: uncontrolled and opaque provision of state aid is the cause of corruption in power through lobbying of certain business entities.

Today, the institution of state aid to business entities is an institution of competition law. Furthermore it has a significant impact on the national economy. Yes, we have repeatedly noted that, with the development of economic relations, the sphere of distribution of competitive relations is constantly expanding [17, p. 140]. Today, under the influence of the processes of globalization and European integration, competitive mechanisms introduced in the field of implementation from public procurement and the provision of state aid to business entities lead to the formation of relevant new institutions in the system of competition law of Ukraine. This institution provides for the normative fixing of the boundaries of state intervention in economic processes for providing artificial support to business entities with a view to ensuring the development of certain sectors of the national economy. The competitive law establishes the rules of conduct for market subjects, defines the limits of the exercise of economic rights, and prohibits subjects of competitive legal relations from performing unfair competition and abusing market power.

These norms, mainly, regulating property relations, which is characteristic of private law. However, competition law contains norms which establish the powers of competitive bodies to suppress, prevent and limit anticompetitive activities, and also prohibit state authorities, local authorities, administrative and management bodies from taking acts and taking actions that restrict competition. Providing the mechanism of normal economic competition is an important activity of the state in the economy. Ukrainian legislation is the direction of government regulation called «Protection of Economic Competition». State guarantees for the protection of economic competition are enshrined in Article 42 of the Constitution of Ukraine, which underlines the importance of this principle for the functioning of a market economy Ukrainian state [18]. This guarantee has received its implementation in the state competition policy. The process of formation of the national legislation on state aid is a relatively short period of time, which, in turn, makes it impossible to efficiently regulate social relations in this field. In this paper, we paid attention to the problems which exist today and require further solutions by the amended legislation. The definition of state aid in the Law of Ukraine «On State Aid to Business Entities», in our opinion, does not contain an exhaustive list of its features.

According to Article 1 of the Law of Ukraine «On State Aid to Business Entities», «state aid to business entities» is a support in any form of undertakings through state resources and local resources, which distorts or threatens to distortion of economic competition creating advantages for

the production of certain products or proceedings of certain types of economic activity» [3]. The definition of state aid enshrined in Article 1 of this Law is similar to that provided for in Article 107 (1) of the «Treaty on the Functioning of the European Union» [19]. However, the fourth condition for the existence of «state aid» as contained in European legislation, namely the impact on trade, is not provided in Article 1 of the Law of Ukraine «On State Aid to Business Entities». However, it follows from the preamble of the aforementioned Law (in the part of Ukraine's international obligations). Thus, it is desirable to include in the definition contained in this Law, the sign of the actual or potential impact on trade. This will properly allow identify the supporting measures as state aid, as well as avoid further disputes in the future when deciding whether to recognize the state aid support event.

It is also worth noting that fixing elements of state aid in the definition contained in the Law does not fully regulate the issues of attributing supporting measures to state aid. An important problem of the legislation on state aid is the lack of a procedure for determining the supporting measures provided for by legislation as state aid. The proposed definition of state aid contains elements of state aid and the Law of Ukraine «On State Aid to Business Entities» is a list of forms which can be given to state aid. Nevertheless, in line with these provisions, in our opinion, it is difficult to determine the supporting measures as state aid. European legislation does not contain a definition of state aid to avoid abuse. However, the definition of the supporting measures as a state aid is based on six special tests. We offer to investigate this issue more carefully about the possibility of improving national legislation based on the experience and the provisions of European legislation in order to implement appropriate procedures for determining supporting measures as state aid.

Thus, Article 107 (1) of the «Treaty on the Functioning of the European Union» (hereinafter referred to as TFEU) provides for the general framework for the functioning of the state aid system in the EU. It contains the following provisions: «Unless the Treaty provides otherwise, assistance which in any form is provided by a Member State or provided at the expense of public resources distorts or threatens to distort competition, giving advantages to certain economic entities or the production of certain goods, is incompatible with the internal market, provided that it affects the trade between Member States «[19]. This is the main prohibition of the provision of state aid, according to which illegal measures, in general, are determined by means of six tests. These include [20, pp. 13–35]:

- Test 1. The initial phrase of Article 107 (1) does not apply to this measure: «Unless the Treaty provides otherwise, ...».
- Test 2. The measure is implemented by the state or provided at the expense of public resources.
- Test 3. It creates advantages based on the principle of selectivity.
- Test 4. The recipient of the corresponding advantage (in general) is the «business entity».
- Test 5. West Europe really or potentially distorts competition.
- Test 6. It affects the trade.

Any measure, which does not meet the six conditions, is not considered state aid. Article 107 (1) TFEU does not define the term «aid» itself. A dynamic approach to the interpretation of the concept of «aid» is observed in the practice of the European Commission and the European Court of Justice. In particular, case law recognizes that there is no interpretation of this concept and the presence of elements of assistance is determined on the basis of the impact of the measure on competition and trade, as well as the measures to which it creates advantages for selected companies or industries. In addition, the European Commission justifies the lack of definition by the fact that the introduction of any definition could create or create for Member States the possibility of circumvention by adopting industrial or economic policies.

According to Article 8 of the Law of Ukraine «On State Aid to Business Entities», the Antimonopoly Committee (AMC) of Ukraine is the authorized body in the field of state aid control [3]. Today, the AMC has State Aid Department. It should be noted that 7 people are engaged in state aid control in this department. In our opinion, given the existing volume and number of schemes of state aid in the state, such a number of staff makes it impossible to assess qualitatively and objectively the existing schemes of state aid in the country. It is necessary to pay attention to the system of the EU bodies in this field. For example, monitoring and state aid control in the EU is entrusted to the Commission, which is empowered to carry out continuous monitoring of all programs of state aid in the EU in order to protect the principles of fair competition within the common market (paragraph 1 of Article 88 TFEU) [19].

The European Commission is the executive branch of the EU, which roughly corresponds to the role and functions of the government in the systems of national states. The Commission is composed of the College of Commissioners of 28 members, including the President and Vice-Presidents. The Commissioners, one from each EU country, are the Commission's political leadership during a 5-year term. We believe that it is a body with considerable powers and strong human resources which can

properly perform its functions in state aid. The European Commission (Directorate General for Competition, Directorate General for Agriculture and Directorate General on Energy and Transport) is «High Authority» with supranational powers. The European Commission is also the executive body of the European Union and the guardian of the Treaties. Thus, the European Commission does not allow the state aid, which is prohibited in the common market [21, p. 12].

### **Conclusion**

The study of the legal regulation of state aid to business entities allowed to formulate the following conclusions. The definition of state aid, which is fixed by the Law of Ukraine «On State Aid to Business Entities», is not perfect and needs clarification both categorically and through the normative consolidation of basic forms and types of state aid.

Improvement of the monitoring system of Ukraine and state aid control requires a functional and organizational separation of the functions of the monitoring and state aid control from the implementation of the functions of state control and regulation in the field of economic competition are carried out by the Antimonopoly Committee of Ukraine.

According to part two of Article 12 of the Law of Ukraine «On State Aid to Business Entities», after the consideration of the state aid case initiated as a result of verification of information on illegal state aid, the Authorized body decided to recognize state aid as unacceptable for competition, then such aid is subject to termination and refund [3]. The above legal norm only establishes the obligation to return the state aid, which was granted, without additional liability for providers of such aid. The law establishes the obligation to state aid provider to take appropriate measures to return it and inform the Authorized body about the measures taken.

In our opinion, the current legislation should contain a requirement on the obligation of the recipient of state aid, recognized in the order established by law to be illegal, regarding payment of interest for illegal use of funds in the amount not less than the NBU discount rate established on the day of receiving such assistance.

With the purpose of introducing a mechanism for compensation of damage harm to business entities who work in the same market with a beneficiary, the law should provide for the introduction of a norm in accordance with which the business entity, who has suffered damage as the result of illegal state aid, has right apply to the Commercial Court for a compensation. Such damage is compensated by the person who committed the violation.

It is also advisable to give the Antimonopoly Committee of Ukraine broad extensive powers to investigate and research the facts of violation of the rules for the provision and use of state aid, transferring the authority to make decisions on the qualifications of violations and sanctions to the commercial court of first instance. At the same time, business entities retain the right to apply for the protection of their rights directly to the court, as well as to appeal the decision of the Commercial Courts of first instance to the higher courts in accordance with the rules of jurisdiction and jurisdiction defined by the Commercial Procedure Code of Ukraine. The proposed changes will enable competition authorities to focus on thorough The proposed changes will give the opportunity to focus the attention of the antimonopoly bodies on a thorough market research, identify and suppress facts of violation of the rules of competition law, will help to streamline the activities of the law enforcement agency, will help to increase the effectiveness of measures to prevent and suppress violations.

The solution of these problems, in our opinion, will allow to properly ensure the functions of the national monitoring system and monitoring state aid control.

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## **NATALIIA BIELIAIEVA**

PhD in Economics, assoc. prof. Kyiv National University of Trade and  
Economics, Management Department  
Kyoto 19 St., 02156, Kyiv, Ukraine, tel. +380953425057,  
e-mail: [nswork@ukr.net](mailto:nswork@ukr.net)

### **NEED AND FEATURES OF MARKETING MANAGEMENT SYSTEM IMPLEMENTATION AT THE COMPANY AS A COMPONENT OF ITS SUCCESSFUL ECONOMIC DEVELOPMENT**

#### **Abstract**

Marketing activity is comprehensive and exhaustive and covers an impressive range of issues. Companies that do not use marketing approach in their activities, risk losing their market position. Without constant and systematic analysis, especially customers and competitors, the company will not be able to respond to the changes and fluctuations in consumer demand, on their tastes and preferences, price dynamic, and therefore can not develop effective product and price strategies aimed at specific segments of consumers, for the purpose of creation some competitive advantages. Also, without the use of marketing researches and measures to create a positive image of the company and attraction new customers, the company will have no chance in development in general.

#### **Introduction**

General questions of marketing management considered in lot of scientific works of foreign scientists, such as B. Berman, H. Hershgen, John. R. Evans, P. Dixon, F. Kotler, D. Karič, K. McConnell. In the Russian economic literature such scientists pay attention to this issue, as G. Abramova, G. Bahiyev, G. Krylova, E. Utkin, P. Zavyalov. In the Soviet literature this aspect covered by Ukrainian scientists, including E. Azarian, P. Haidutsky, O. Hudzynsky, Y. Zavadsky, I. Gerchikova, N. Moiseeva, O. Belarus, A. Voychak, A. Kredisov, V. Onischenko, O. Sokolenko, V. Popov, T. Tsygankova and others. But at the same time, marketing management of enterprises in Ukraine is not still so popular, the theoretical and methodological framework is not covered enough, there are problem issues, it is not elaborated the strategy of enterprises transition from obsolete administration and management forms and methods to the new, scientifically justified market methods, in particular such as directly marketing management.

## Marketing as a key element of the union of all company's activities

Product requirements, which are dictated by consumers, make necessitate the use of the most appropriate management structures, combination in the management process centralized and decentralized forms, more complete consideration of the customer requirements in the production program, increasing of competitiveness, implementation of program-target approach in case of making and adoption of management decisions. Concept of marketing management of the company can be shown with the scheme below (Fig. 1).

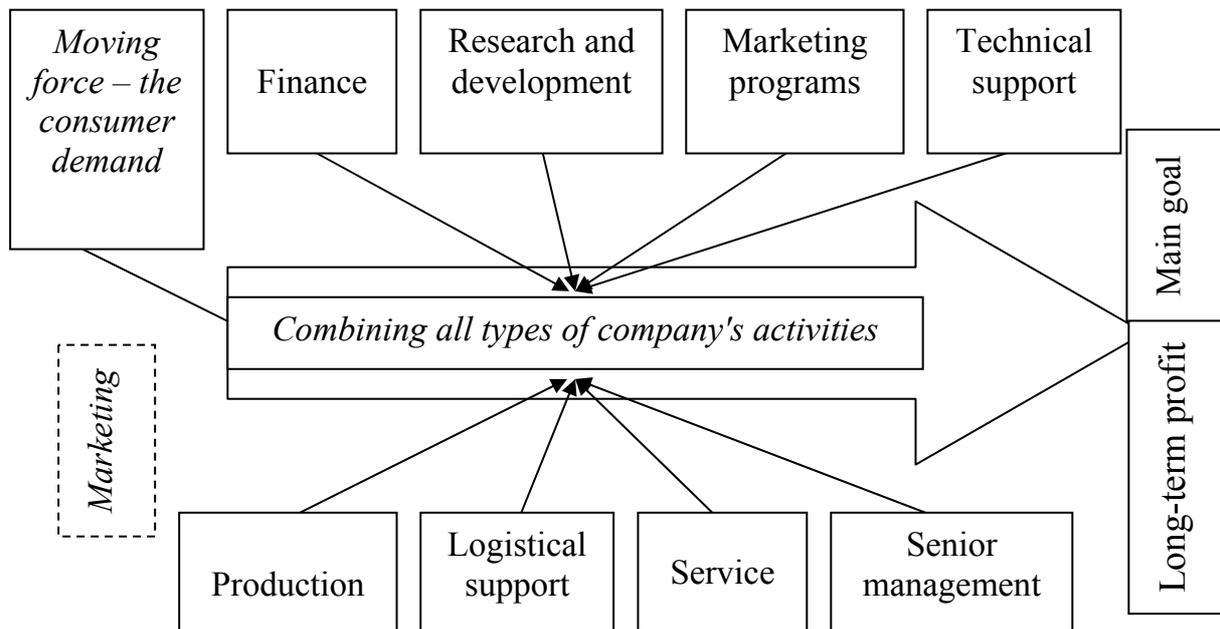


Figure 1. Basic concept of marketing management of the company  
Source: [1]

Thus, marketing activity acts as an objective necessity to orient scientific and technical, manufacturing and sales activities of the company in the consideration of market demand. The marketing activity of the company aimed to have a well-founded, based on market demands, specific current and mainly long-term goals; establish ways of their achieving and the real resources sources of economic activity; determine the range and quality of assortment, the optimal structure of production and expected profit.

In marketing management a new approach to the development of the production program of the company is based on the principles of marketing; it is considered as a tool of the production and marketing (sales,

promotion) regulation. The essence of the mechanism is that the consumer dictates his requirements to the market, the requirements for a particular product quantity and quality, and the producer, in his turn, adapts to them, but not passively, but actively, by forming, in his turn, specific needs.

Thus, the marketing business management facilitates the analysis, design and implementation of measures aimed at establishing, strengthening and maintaining mutually beneficial relationships with customers; provides the possibility of company's activities organizing on the principles of optimal use of available capacity and obtaining the greatest profit, taking into account customer satisfaction. Marketing at the enterprise management system fulfills the escort mission, beginning with the organizational and preparatory, and ending with a control function.

Another challenge in marketing planning process is a development of the strategic plans and operational actions concerning to sales (promotion) of products of the company (Table 1).

*Table 1*

**Communication of the goals and objectives of the analysis of business marketing management of the company**

Objectives	Goals
Stabilization of prices, profitability and market position	Determination of the company fraction in the total sales on a particular commodity market, prices level for similar products of the competitors
Achieving the highest rate of sales growth	Factor analysis of products sales
Maximizing of the sales profitability	Analysis of the correlation of profit and total value of net profit from sales
Maximizing of the all company assets profitability	Analysis of the correlation of profit and total assets, that generated by both own and borrowed sources

Source: [2; 4]

Marketing management system provides an execution of certain phases (Fig. 2).

Thus, we can see that from the first phase marketing management aimed at channeling all resources of the company, depending on the current market conditions, to the development of those products that would satisfy the consumer and be fully implemented (realized).



*Figure 2. The sequence of the marketing management process at the enterprise*

Source: [3; 5]

Accordingly, in the center of the company it should be the buyer (consumer) and his needs and requirements. Therefore, a comprehensive system of marketing and management (Marketing Management) combines all efforts of the company in order to meet, satisfy the needs and demand of the parties, which are involved in the exchange process, for the best way.

On this basis, and also according to the rapid development of informational environment and technologies, the greater attention should be paid exactly to the informational company promotion, including to the creation of company image in the Internet as a part of the marketing management of the company activity. In this case, the development of web-site – it is the creation of marketing tool, which is appointed to the demand stimulation of certain services or products, or informational resource aimed at providing to the audience the needed information, or

creating a service resource, that would solve the problem of providing certain services to visitors interested in them. However, it should be remembered, that the site development, which can efficiently perform all these functions, – it is a complex process and it requires highly professional performance. At the same time, it can be create static or simple dynamic sites, that are smaller, but also able to perform some essential tasks concerning to the promotion of the company.

So a Web-site in the current economic conditions is a kind of interface between the company and its environment – partners, suppliers and customers. The creation of the site is one of the main tasks of business activity, including in the Internet.

The consumer receives from the website advertising banners and commercial and business publications many useful Web-addresses, from which he can find out prices or even order products.

This method of messages transfer to the potential customers is more effective than traditional means of communication: mail, phone, fax. With these mandatory elements as interface or navigation client can choose the necessary information by his own. The site is an addition to the advertisement campaign, enabling to make feedback and interactive work with enterprise data (including the possibility of using B2B Edition).

It should be noted, that with the focus at concept of marketing management, it does not exclude an implementation of marketing management functions. That is because modern marketing and management are inseparable, interpenetrate and complement each other. Marketing has become that integral discipline, which absorbed the knowledge about the methods in the field of marketing, sales promotion, researching of consumer demand, and other, which gradually evolved since the time of the creation the first product (commodity) and appearance of the first seller and the first buyer. Having descended from the original market functions of the company, marketing, in fact, has become as a new ethically defensible business philosophy. This is due to the fact that marketing can not be narrowly specialized. It permeates all activities of the company, consider it in terms of the end result, i.e. customer satisfaction.

Thus, modern marketing requires much more than just a product creation, that meets customer needs, assign to it the appropriate price and ensure its availability to the targeted segment of consumers. Companies should constantly communicate with their clients to remain them such and in the future. Overall, in the sense of communication there should not be anything random, otherwise, the profit of the company would reduced due to the large costs on the communication process, and because of damaged image (or part of the image) of the company.

Marketing communications complex consists of four main means of action: advertising; propaganda; sales promotion; personal selling. The modern interpretation of the marketing mix is a market policy and concept, according to which the mix includes «5 P»:

- product,
- price,
- place,
- promotion,
- personnel.

In recent years, this concept is complemented by several other «P», including people, package.

So, as it was defined above, in case of providing marketing management in modern conditions the most important part of modern marketing mix become people. In terms of marketing management they can be divided into three categories:

- staff of the company,
- retail (wholesale) traders,
- consumers (buyers).

The success of any modern company, the value of obtained profits or volume of the market, to which the company extends its influence, directly depends on the professionalism and expertise of its staff. Therefore, a company while employing professionals must carefully treat their selection, decently pay for their work, promote those who are able through the ranks, grow loyalty to the company, use employees only for other main qualifications (do not give work, that they are not able to do), encourage for creative exploration of new ideas and solutions.

Thus, the radically new need of marketing management was offsetting the center of economic decision-making from the industrial links of company to those, who constantly feel the pulse of the market. Marketing service, thus, has transformed into a «think tank», the source of information and advice on not only the market, but also industrial, scientific, technical and financial policy of the company.

It should be noted that marketing tools are not used independently. They should complement each other. Lack of coordination may lead to temporary neutralization of the various instruments [2]. But reconciliation policy in the field of prices, communications, work with products and promotion on the basis of the target group, can lead to the formation of the intelligent marketing policy.

## Conclusion

Implementation of a comprehensive marketing-based management system of the company will provide a marketing orientation of the management activity, regardless of the size and capacity of companies, will improve the efficiency of domestic and foreign companies. So that along with the use of strategic management approach will ensure strengthening their market position and obtain long-term competitive advantage.

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## **ALINA BOIKO**

Phd, Prof. Economic Theory and Competitive Policy Department,  
Kyiv National University of Economics and Trade,  
Kioto 19 str., Kyiv, 02156  
E-mail: alvboyko@gmail.com

## **TETIANA LOSITSKA**

Phd, Head of the Scientific and Research Department,  
Kyiv National University of Economics and Trade,  
Kioto 19 str., Kyiv, 02156  
E-mail: ndch\_TL@knteu.kiev.ua

# **LOCAL ECONOMIC RESILIENCE AND DECENTRALIZATION**

## **Abstract**

This study is dedicated to conceptual and definitional issues associated with the term «local economic resilience». Local economic resilience decidedly depends on the macroeconomic situation, state regional policy and local factors (strengths and weaknesses). Local economic resilience to internal (regional) and external (national and international) risks is, therefore, becoming more critical in terms of decentralization. This study examines the effective measures for ensuring the resilience of a political subdivision (namely amalgamated community, raion or region) to internal and external shocks that are beyond its control or influence.

## **Introduction**

Theoretical understanding economic resilience is coming mainly from the latest events and processes in the global economy, its nonlinear dynamics in the late XX – early XXI century, while the theory of resilience in natural science has earlier period of development. Currently the usage area of the term «resilience» is a very broad. The «resilience» concept has long crossed beyond physical understanding and become general scientific one. Taking into account the historical tradition of knowledge accumulation about «resilience» and basic methodological approaches to determining the meaning of this definition it is rightly to conclude the following [1]. The resilience is a universal attribute of tangible and intangible phenomena and processes, including the internal properties of the economic systems. General and philosophical nature of the resilience concept determines the complexity and ambiguity of its interpretation, what was emphasized in the last century.

Above all, resilience is a complex, multifaceted construct that has been defined ever more elaborately over time and in different contexts [2]. Resilience, stemming from the root, resilio, meaning to leap or spring

back, is concerned with the ability of a system to recover and, in some cases, transform from adversity [3]. The OECD Council at Ministerial Level defines resilience as: «... a broad concept, centred on the ability not only to resist and recover from adverse shocks, but also to «bounce back» stronger than before, and to learn from the experience. Resilience is also multidimensional, encompassing a range of interconnected factors and conditions. Strengthening resilience is also the more essential today in the face of increasing police complexity and interconnectedness, deep-seated demographic and technological trends, and growing environmental pressures, all of which increase the likelihood of some critical event having negative impacts on economic growth and well-being» [4, p. 2]. It is rightly to conclude that resilience is a result of the interaction of the economic system elements and it reflects inner structure of the economic system. These two statements lead to the conclusion: resilience is found in inside the system and it is its intrinsic quality. Strengthening resilience of the economic system to the influence of destructive factors needs an improvement of the internal components of the system.

Thus, economic resilience is «the capacity of an economic system to adapt in response to both short-term shocks and long-term changes in ecological, social and economic conditions with the aim of supporting the community to thrive whilst using its fair share of ecological resources. It requires the ability to: absorb shocks and retain basic system functionality; self-organise (social institutions and networks); innovate and learn in response to disturbances» [5, p. 18]. Theory of economic resilience emphasizes the idea that disruptive various events occur regularly. Therefore, an economic system (national, regional or local) should be designed to bounce back quicker and stronger because the impact was less. Figure provides an illustration of this idea (figure 1). This figure shows the more resilient system is better able to withstand the disruptive event compared to the less resilient system.

The fundamental issue addressed by this dimension is that «resilience operates from a systems perspective, understanding incidents as a complex imbedded process occurring at the intersection of natural and human forces across multiple scales, evolving and changing over time. Complexity and change stresses the idea that disruptive events cannot always be anticipated, but that when they occur they should result in learning and adaptation. Adaptation is critical when trying to build resilience against cyber-incidents, given the quickly evolving nature of the cyber landscape [6, p. 2]». This idea deals with the fact that resilient economic system demonstrates the purposeful adaptive behavior to changes in the external and internal environment to maintain basic macroeconomic parameters in the predicted range.

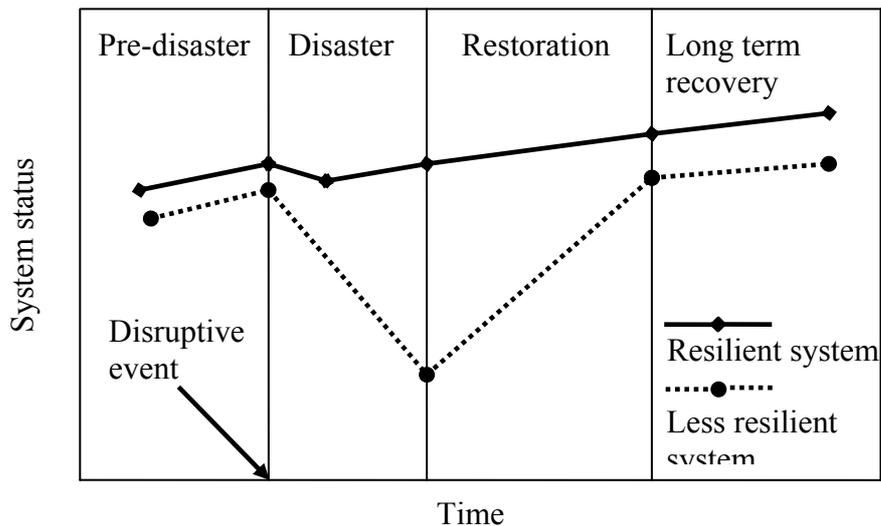


Figure 1. A resilient versus less resilient system

Source: [6, p. 1]

The figure shows that the US economy is relatively resilient as a result this country was able to rapidly recover after the world crisis in 2008–2009 (figure 2). According to the line graph, the Polish economy is also relatively resilient, as a consequence of this, country was able to withstand the mentioned above crisis. The EU economy and German economy are less resilient systems as compared with two other analyzed economies.

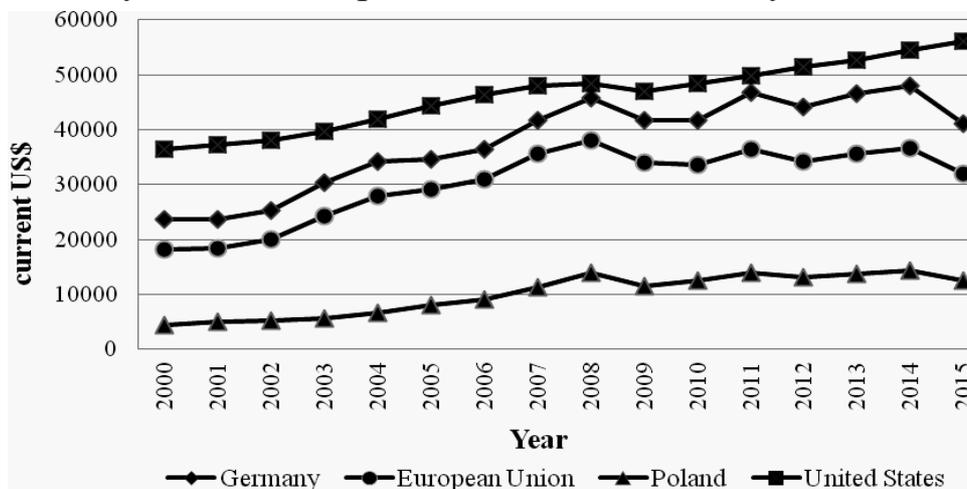
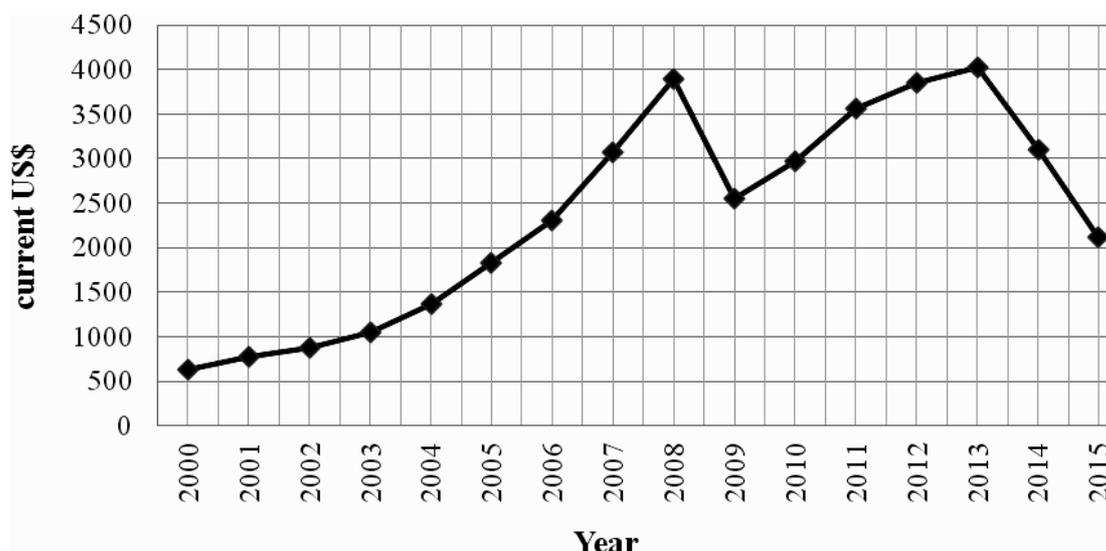


Figure 2. GDP per capita by selected countries in 2000-2015

Source: World Bank Data

The Ukrainian economy is also less resilient system. The volume of GDP per capita was increasing steady till 2008 and then it dramatic went down (figure 3). It is clear that the main factor influencing this dynamics was world crisis 2008–2009. From 2009 to 2013 the Ukrainian economy was recovering. In 2013 it reached level which was a bit higher than in 2008. A sharp decreasing of GDP per capita in 2013–2015 was caused by a rise in social and politic instability.



*Figure 3. GDP per capita Ukraine in 2000–2015*

Source: World Bank Data

In the wake of the recession in 2008–2009, the tools of national and local governments have been re-gearred for considerable recovering, stabilization and economic growth. However, the basis of the considerable recovery is still in question: long-term unemployment and inflation rate are persistently high; investment and the balance of trade remain significant concerns, as does corruption and bureaucracy levels, the level of shadow economy; and there remain major disparities in the relative performance of different regions, raions and amalgamated communities. Among main challenges for considerable recovering, stabilization and economic growth should be also mentioned following: a social inequality and an economic isolation, localization, urbanization, and a weak inter-regional cooperation in Ukraine. These factors take a toll on the local economic resilience.

Taking up that task we should focus on the challenges and opportunities for local economic growth by means of the «local economic resilience» concept and decentralization. Several definitions of local economic resilience can be found in the literature, among which Martin and Sunley proposed the following: the capacity of a regional or local economy to withstand or recover from market, competitive, technological and other shocks to its development growth path, if necessary by undergoing adaptive changes to its economic structures and its social and institutional arrangements, so as to maintain or restore its previous developmental path, or transit to a new sustainable path characterized by a more efficient, productive and equitable use of its physical, human and environmental resources [7, p. 13].

Economically strong regions – in which all individuals and businesses can access affordable housing, quality schools, employment centers, and other basic services – are the foundation of a prosperous Ukraine. The official data illustrates a deepening of unevenness at the local level in Ukraine. Enhancing the unevenness is manifested in a significant asymmetry social, environmental, economic and innovation development of Ukrainian regions, as well as increasing a gap between the most and the least developed regions. Dynamics of the key factors that characterize the local economic resilience shows the significant regional asymmetry and fixing the economic development unevenness in Ukraine, specifically localization of financial and human resources in Ukrainian capital – Kyiv, and Dnipropetrovsk region, Zaporizhia region, Kharkiv region. The asymmetry of the local economic development enhances differentiation in a quality of life and the local differences in human capital development, increasing the external labor migration, unevenness in investment distribution and excessive concentration of financial capital in certain regions.

However public governance and decentralization reforms, which are currently carrying out in Ukraine, slightly change mentioned situation. One of the most important elements of the New State Regional Policy implementation is the State Fund for Regional Development (TSFRD), established in 2012. The functioning of TSFRD in Ukraine is essential for regional and local social and economic development. Through the TSFRD functioning, it has been begun funding regional development projects on a competitive basis and in accordance with regional development strategies and action plans for its implementation. It should be emphasized that nowadays it occurs a gradual withdrawal from the old practice of funding only the new facilities construction, especially in public sector. Such so-called «hard» projects were dominated in the lists for funding at the expense of the state subsidies.

Currently the social and economic development of regions and certain territories is financed by way of so-called «soft» projects. Consequently the implementation of the New State Regional Policy creates the diverse opportunities for regional and local self-development. In 2016, TSFRD appropriated 3.0 billion UAH for 810 regional investment projects and regional development programs, which was more on 100 mln UAN than in 2015. Taking the inflation rate into account it should be emphasized that the financing of the regional project and programs had not been increased in 2016. Moreover, one of the biggest problems is partial use of planned financial resources. According to the foreign methodological approaches and practices the following directions and measures should be

included to a new state regional policy [7–9]: supporting resilience-building businesses and industries; development multiple financial vehicles; community-based investment; demanding new economic indicators; striving for a socially-just economics.

### **Conclusion**

The measures of the local self development due to decentralization can be implemented by means of the coordination of regions' interests based on fiscal decentralization and tax competition, subsidiarity, public-private partnership, and co-financing. Inter-regional integration should be based solely on a voluntary basis and benefits that can be achieved by aligning the interests of state agencies, local governments, business and civil society. This approach requires innovative forms and methods of management at both national and local levels, and also a denial from the power relations, based only on the vertical line and transition, to the horizontal connections in the network relations.

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## **RYSZARD BOROWIECKI**

PhD Full Professor Cracow University of Economics, Department of  
Economics and Organization of Enterprises,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935367,  
e-mail: [borowier@uek.krakow.pl](mailto:borowier@uek.krakow.pl)

## **TOMASZ KUSIO**

PhD, Adjunct Professor Cracow University of Economics, Department of  
Labour Resources Management,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935358,  
e-mail: [kusiot@uek.krakow.pl](mailto:kusiot@uek.krakow.pl)

### **ACADEMIC COMPANIES – ISSUES ON SETTING UP AND OPERATING**

#### **Abstract**

The paper discusses the possibility of setting up academic enterprises using the university infrastructure. The content refers also to issues of financing commercialization which leads to the emergence of academic companies, as well as institutional university preparation for the commercialization of knowledge.

#### **Introduction**

Managing of nonprofits requires more and more often the methods and techniques that have so far been applied only in companies. Similarities are related to management in higher education, which has, in conceptual terms, been reflected in the definition of entrepreneurial or third-generation institutions [9]. At the same time, referring to the need to increase research funding, considering the place of higher education in the creation of a knowledge-based economy, external sources of funding are sought outside the university. The universities, apart from the undisputed immense potential of the knowledge, are also in possession of fixed assets which proper management can lead to research funding.

Efficient management of fixed assets can lead to direct financial benefits by making the equipment or other type of university infrastructure available outside the institution. On the other hand, as a direct way of obtaining economic benefits, higher education institutions can also indirectly utilize the potential of their assets to gain economic benefits. The aim of the paper is to present the possibilities of using university assets to obtain financial benefits through such a method of commercialization which is creation of academic companies. The paper also leads to the description of this form of commercialization of knowledge and its financing sources.

### **The usage of scientific apparatus for business purposes**

The establishment of research facilities often goes in line with the establishment of academic enterprises. Students, PhD students, and academics are inclined to start up businesses based on the use of university properties. Observations in this field, stemming from managerial training, confirm that, in particular, PhDs and academics tend to do business that is based on the use of university infrastructure. On the other hand, in the case of students there is a greater tendency to detach from the university and to pursue its goals outside university. A great influence for those who are considering setting up a university-related academic company have conditions and university preparation to incubate startups. If there are appropriate premises in the university, such as rental accommodation at attractive prices, such as information and communication facilities in the form of shared server space, telephone or internet access, fax, this positively affects the potential positive decision to start and operate businesses at the university. In the case of academic enterprises established in universities, ideas for setting up and operating a company often come from perceiving the university potential, especially its infrastructure. The infrastructure can be used on the basis of contracts between the entrepreneur and the university. Researchers or doctoral students, on the basis of their own ideas for commercial use of apparatus, are willing to get engaged in business activities setting up the company with university shares. The university's shares result from providing equipment or facilities on a time basis. In many cases decisions and concepts for businesses arises from the innovative ideas on how to effectively use available university assets. The information about university assets, including the apparatus and equipment, is very often only and exclusively available to the employees and other members of the academic community. If the information of available university assets was available to a large number of potential stakeholders, it would be possible to increase the possibility of establishing academic companies with participation of stakeholders from outside the academic community. This increases the probability of the dynamics of setting up academic institutions, including the university itself. The definition of an academic enterprise is mainly referred to an academic participation, ie the university participation including its shares in the company. The definition of an academic enterprise proposed by K.B. Matusiak [5, p.78–80] refers to an independency of an employee or employees who uses/use intellectual organizational resources of the parent organization for economic purposes. In the context of naming, the definitions of an academic company are spin-off or spin-out or even start-up. However, the concept of start-ups is usually associated

with a setting up a company, and it is of no particular importance whether this rise has or has not direct relation with higher education institution. The differences in defining start-ups into spin-offs and spin-outs results from the existence or lack of existence of university shares in the academic company.

### **Transfer of technology and knowledge in academic institutions**

It should also be borne in mind that setting up academic companies, based on the use of university equipment and facilities, is often a technology transfer. The basic channels for the flow of scientific and technical knowledge are as follows [6, p. 29–30]:

- contract research, ordered by companies or offered by R & D facilities,
- licenses for inventions, utility know-how formulas,
- scientific and technical advice,
- flow of technical staff, training,
- start-ups,
- information in scientific-technical publications.

The above channels of scientific-technological knowledge are between science and industry. In the case of creating spin-off companies, those where the university possesses shares, as a rule, these enterprises are results of perceiving opportunities of new usage of the university facilities and devices. The more engaged part is in this case the employee of the university. However, the university can, and should support such engagement by organizing entrepreneurial courses and trainings.

As K.B. Matusiak states [12, p. 57] «At present times of rapid change, entities without entrepreneurial competencies geared to innovative change have little chance for success, and often also for market survival». Higher education entities, as one of such entities, should firstly create the right internal environment for creating and implementing positive changes. On the other hand, they should also as the focal point in their environment, «central tie of the integration of cluster structures and the consolidation of innovative environments», create conditions and indicate ways to spread and innovate. Creation of innovations very strongly connected with the scientific environment, including in particular higher education, results from research conducted by universities. However, the current role of universities in the context of «learning regions» [12, p. 85–86] has a central dimension because of the need to transfer knowledge, experience and skills.

### **Commercialization and scientific work**

The creation of academic enterprises is considered to be the most difficult but also the most profitable form of commercialization of the research work of R&D units employees. The value of developed and

implemented technology in the form of a functioning company is much higher than the value of the patent or know-how itself [14, p. 12]. However, for most researchers, publications remain the most important measure of scientific success [8, p. 64]. Only a small proportion of scientists consider commercialization an important process. Money does not play a major role, there must be professional recognition, the possibility of promotion, the benefits of facilitating the acquisition of funds for future research and projects [8, p.64]. Involving scientists in research projects usually results from the need to acquire further funding for further research. Therefore, it seems that the model of commercialization by setting up academic enterprise can be an effective motivator. In the context of the participation of researchers in EU research projects where funding for research is obtained from the European Commission, there is a need to disseminate the results of the work carried out. Dissemination is a part of the project implementation requirements and funds are also provided for this type of activity, but dissemination generally does not go hand in hand with the need for business secrecy when it comes to setting up a new company created to earn financial revenue from the sale of a new, innovative product. In this case there is a conflict of interest in terms of commercialization in the form of creating a new business. However, the requirement of dissemination does not concern the implementation of research funded by own or other university funds, which does not require an element of dissemination. Dissemination and presentation of interesting achievements in local, national or international scientific forums is a feature of a scientific work. It serves for further creative work on already elaborated interesting solutions. One can distinguish the necessity or rather the obligation to disseminate the results of publicly funded work.

The issues of dissemination of research results are closely correlated with the legitimacy of setting up businesses. While publicly-funded research requires wide dissemination, the effectiveness of the profit-oriented companies requires a high degree of restraint of the developed innovations. Selling a new product to be profitable and safely implemented in order to make a profit takes place after a period of strictly confidential technology and product specifications. Therefore, the research leading to innovation should not be disseminated. In this case, the question of funding is particularly important. Technological companies do not share with others with respect to the results of the research to a safe moment when the stage of mass production is so significant that it does not jeopardize future profits. In the context of innovations based on public funding, ie at public universities and institutes, where both public interest in research funding is important, as well as the need to implement research results in practice,

there is an idea is to commercialize the innovations on the basis of full or partial public funding. The restraint in full dissemination of research results is also important.

The strategy for self-implementation of technology can be implemented in the following variants [11, p. 137]:

- spin-off is an entity created in the way of separation from the parent entity (enterprise or other organization, such as R&D unit), in order to undertake activities which would be difficult or impossible to realize within the entity,
- start-up – opportunities for developing start-up companies are often based on «business angels» and venture capital investments.

Research on academic companies in Poland indicates the following factors influencing spin-offs creation:

1. academics have difficulties in adapting to market needs,
2. academics are reluctant to take the risk of setting up their own business,
3. developers who successfully implement their achievements are not sufficiently encouraged.

Probably these factors result from different predispositions and other ways of thinking of entrepreneurs and scientists [4, p. 159]. It should be borne in mind that high potential for increasing both national and European competitiveness is visible in academic enterprises. The advantages of an academia and of a developer are presented in figure 1. Innovative companies in developed economies are regarded as the engine of technological progress [6, p. 29–30].

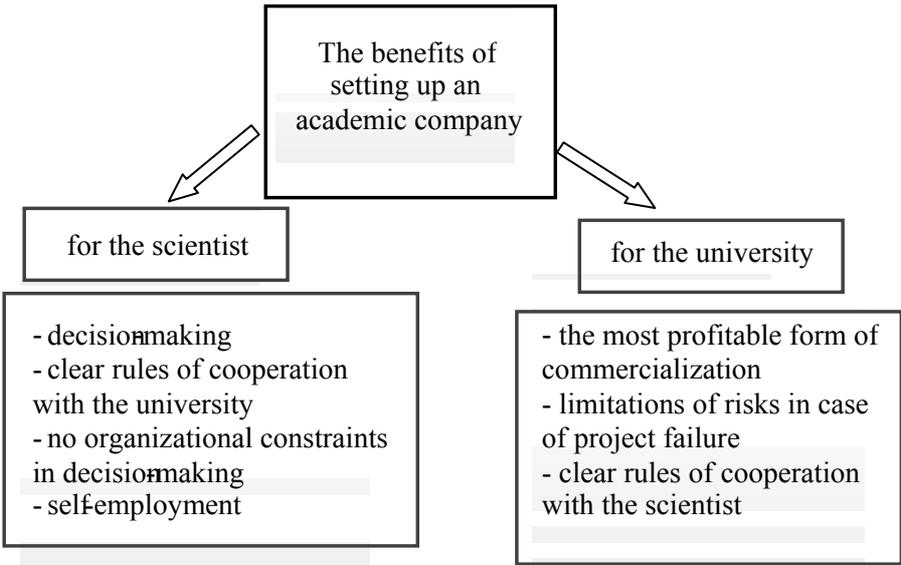


Figure 1. Relations with the university

Source: [13, p. 14]

Reconciliation of a researcher and manager roles is a big problem in universities, and the issue of the establishment and functioning of academic companies is not a major problem. These discrepancies are often a great difficulty in appointing university authorities, where outstanding scientists are appointed to manage the university, but unfortunately, they are not able to perform properly in the practical implementation of management functions.

Following US experiences, it can be indicated that the progress of academic entrepreneurship is a long-term challenge, and the expected effects may appear after years [12, p. 294]. Initiatives to accelerate the development of innovative academic entrepreneurship should be supported by the academic authorities, particularly in the initial stage. Academic entrepreneurship in Poland is at an early stage of development [12, p. 232], and the involvement of scientific institutions and their staff has outrun legal regulations at both national and local level.

### **The impact of funding on the creation of academic companies**

Issues related to the requirements or their lack, when it comes to dissemination of research results, relate to the type of research funding. Type of funding may determine if there is a requirement for dissemination. Financing is divided into public, private and mixed i.e. partly private and partly public. Business models of R&D and business sectors can be implemented in the following ways [7, p. 25]:

1. on-demand services,
2. research grants with the use of results by business,
3. Joint venture,
4. company with university and business shares,
5. consortium of an enterprise with R&D company,
6. university spin-off.

When conducting research funded by a commercial partner, secrecy is more important than where funding is predominantly or thoroughly public. The issue of academic companies is becoming more and more present during discussions on the diversification of research funding sources and especially of non-public origin. The desired and expected research financing are own or private resources.

R&D expenditures borne by the private sector (the economy) are usually tied closely to the commercialization and use of scientific inventions in practice [14, p. 8]. Expenditure incurred on research, according to W. Orłowski, usually has an indirect impact on the innovativeness of the economy [14, p. 8]. The emergence of academic enterprises, therefore, seems far more likely in the case of external financing of a private nature. These may be both commissioned funds but

also own developers' funds or university funds for the purpose of research with the final stage – commercialization within a start-up company (Table 1 shows the sources of innovation funding).

Innovative ideas creation at the university leading to commercialization requires proper regulation at the academic level. The possibility of getting incomes for research should also be ensured by adequate institutional rules. The regulations are included in the acts called «Commercialization regulations». The existence of such regulations makes it possible for the researcher to be aware of the possibilities as well as get motivated for entrepreneurial opportunities or for the new possibilities of raising funds for research.

*Table 1*

### **Sources of financing innovation**

<b>Criteria</b>	<b>Division</b>	<b>Examples of methods</b>
<ul style="list-style-type: none"> <li>• Type of ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Public</li> <li>• Private</li> </ul>	<ul style="list-style-type: none"> <li>• Country budget, EU funds</li> <li>• Bank credits, PE/VC, loans, stock exchange</li> </ul>
<ul style="list-style-type: none"> <li>• Origin</li> </ul>	<ul style="list-style-type: none"> <li>• National</li> <li>• Foreign</li> </ul>	<ul style="list-style-type: none"> <li>• National investors</li> <li>• Foreign direct investments</li> </ul>
<ul style="list-style-type: none"> <li>• Method of financing</li> </ul>	<ul style="list-style-type: none"> <li>• Direct</li> <li>• Indirect</li> </ul>	<ul style="list-style-type: none"> <li>• Depreciation, Profit, credit</li> <li>• Technological parks, Entrepreneurship incubators</li> </ul>
<ul style="list-style-type: none"> <li>• Sources of financing</li> </ul>	<ul style="list-style-type: none"> <li>• Own capital</li> <li>• Foreign capital</li> <li>• Other capital</li> </ul>	<ul style="list-style-type: none"> <li>• Ownership shares, business angels</li> <li>• Financial market</li> <li>• High risk capital</li> </ul>

Source: [16, p. 411]

In addition to the data in Table 1, internal and external funding sources for R&D and innovation can be distinguished. For the internal financing of innovative activities own company resources, generated in the process of current operating activity, are used. Secondary financial inflows are obtained by cashing in tangible and financial assets (securities, or it is made from depreciation charges). Private equity (PE) investment funds are also available when financing innovation, these funds raise funds from investors and invest them in non-public companies. Venture capital (VC) funds can be distinguished as part of PE funds. They invest in companies development. VCs have high risk capital to be invested in early start-ups and PEs invest in all phases of companies development cycle. Apart from

capital, VCs provide enterprises with management experience, which may be defined as intellectual management know-how. In order to achieve an adequate return on investment, PEs and VCs support companies in their decisions, thus facilitating them to gain a strong, competitive market position. Additional benefit for companies using this form of innovation financing is an investor's help to manage and access markets. The primary purpose of investing by means of venture capitals is the profit resulting from the increase of company value. This increase is the result of its market success through the commercialization of innovations and their successful market acceptance. Companies have access to R&D financing sources such as their own resources as well as external resources which purpose are an innovative development companies. The perspectives for coming years are that the structure of innovation financing in enterprises should change so that more funding will be from public funds, EU funds and modern forms of financing such as venture capital or business angels [10, p. 102].

#### **Aspects of setting up academic companies**

The environment has strong influence for the decision to start a business. As the closest environment for academic staff is the academic environment this very workplace shapes the decisions for setting up the academic enterprise. The positive impact of the academic environment could be defined as only half-hearted [12, p.241]. As far as students are concerned, the household should be in many cases regarded as the primary environment. If the household can be described as entrepreneurial and own entrepreneurial attitudes are generally perceived positively, this environment should be treated as the primary reference. As noticed by K.B. Matusiak [12, p.242] stimulation of entrepreneurship may result from a change of mindset for both academics and students. What is in favor of entrepreneurship are, among other things, activities such as demonstration of good practices by graduates or academics who had set up companies and succeeded in this regard. Another determinant of entrepreneurship boosting is the increase of knowledge, competence and skills in the area of setting up and running a business, defined as preincubation of entrepreneurship.

When discussing management of innovative product, an international reference is essential. Offering products on EU market means that a product can be offered to every customer which for a provider means the need to equip the product with specific data and promotional information. There are different approaches to targeting new innovative products for the domestic or international market. Similarly, it is important to focus on promotional activities: they can only be targeted at the local, regional or national markets, but they may also address the international market at

once. Similarly, the issue of reference to different audiences in the promotional strategy, will be relevant. When targeting a product to the local and regional market, the promotional tools such as *public relations* and *company image* may be used. Examples are winemaking products developed in university laboratories and subsequently offered on the local and regional market. Customers, who know the university, can be convinced that appropriate, high quality of the offered product, is translated for sale. In turn, directing products to the supra-local and supranational markets, it should be borne in mind that customers may not have the right idea of a university as a shareholder in a company. From this point of view it is difficult to use the same promotion tools that can be used for local or regional promotion. The transnational dimension of the product offer means the need to prioritize markets for the products that are targeted and, consequently, the use of such universal tools that will ensure an appropriate level of interest for foreign customers.

The academic enterprise should not, in its offer, limit itself to one type of market, ie regional or national. The geographically broader market is potentially a bigger market and bigger sales. Of course, a thorough analysis of markets and outlets should precede the referral of products, but market analysis should also refer to an increasingly popular transnational market. The arguments for directing products to markets other than domestic are advanced communication technology, where products can be promoted through satellite TV or the Internet in the home country and abroad. Also the product information can reach very exotic places.

Proper product promotion is adequate to proper offer preparation as it can help in attracting products to consumers. Additionally creating the right offer with appropriate graphics and signage help in easier browsing the offer. A particular role can be attributed to well-known people and also experts such as scientists presence in advertisements who recommend products. Such authorities make it easier for the customer to gain the confidence to make the right choice by purchasing this product.

Academic entrepreneurship should be an important element of regional innovation systems, especially the creation of academic companies perceived as the best indicator of effective industry-science relations. In addition, spin-offs are also treated as one of the groups of technology transfer infrastructure units [6, p.29-30]. The creation of academic companies causes broader supply of innovative solutions to the economy, enabling new, practical solutions to the emergence of companies that produce products and services using the latest technology, creating jobs for people with higher education, self-employment of researchers and

students, and its beneficial effect on reducing unemployment and an increase of the competitiveness of individual economies.

Development of academic enterprises requires:

- ideas,
- effective protection,
- the courage to take action on the market,
- financial resources

In turn, the success of spin offs can be ensured by:

- strong scientific foundations,
- knowledge resources, both technological and business,
- Institutional system to support the smooth creation and operation of companies [17, p. 177].

Supporting the emergence and development of innovative companies is reflected both in the institutional dimension, through the offering of a range of business environment institutions at local, regional and national level, as well as in the financial dimension through the funding of interesting ideas by public and private institutions. The knowledge and technology transfer advisory service deals with a wide range of activities, including: Legal, accounting, marketing, or related to raising funds for the establishment and development of the company. Some ideas to become innovations should be recapitalized or fully financed from external sources. While in the case of micro-scale activity, the entrepreneur is able to finance the activities on his own, so that in the case of large-scale operations, the funds required to start a business and its early operations exceed the financial capacity of the originator. In such situations, if the originator is willing to implement the project, it seems necessary to seek external sources of funding, with more or less attractive funding. Generally, funding is dependent on innovation and the attractiveness scale of the idea.

The implementation of R & D results may encounter various types of problems, of which formal and legal problems are indicated as quite significant. The lack of proper regulations on the side of the university can effectively discourage academics or students or PhD students from undertaking activities in the field of creating spin-offs. Therefore it is important to create an institutional framework of both commercialization process at universities as well as the formation and development of academic companies. This should be done in the form of so-called «regulations of commercialization», which could be accompanied by active university policy promoting pro-innovation activities for: academics, administrative staff, students and doctoral students. Contents of

«regulations of commercialization» should also be directed towards encouraging the academic community to create initiatives supporting the processes of knowledge-based economy.

### **Conclusion**

While discussing the role of universities in developing a knowledge-based economy, the role of academics and innovative solutions is often emphasized. Less attention was hitherto attached to the institution's material capital. In the era of the third generation university, effective management of university assets becomes important. The possibility of making scientific equipment – market accessible – means obtaining additional funding for scientific research. This kind of extra funding for the university can be defined as a direct form of obtaining financial resources from university assets.

Another form – indirect – where University is a partner with its shares in a company refers to the availability of the assets for a specified period of time and for a specific purpose. In such a case, sharing the assets equals its contribution to the spin-off. This type of company represents, also regulated by national legal acts relating to higher education, direct model of commercialization. Depending on the financial university commitment to the emergence and operation of a company, there are two types of academic enterprises: spin-offs and spin-outs.

However, the level of entrepreneurship of members of the academic community, and in particular, of university staff, is still insufficient in the context of business start-ups. This is both the effect of perceiving a scientist-entrepreneur by the scientific community as a person more oriented towards achieving financial gain than as a full-fledged scientist. Contradict to this stereotype are the benefits of both the university as well as the scientist-entrepreneur resulting from setting up and operating such enterprises.

At the same time, there is a divergence in the way research results are treated by science and business. They are widely disseminated by scientists, but on the other hand the research results are to the maximum extent latent by business so that competitors cannot be aware of the innovations until the serial production starts. Therefore, for a scientist it is not all that easy to function as an entrepreneur. Similar problems arise from diversified external sources of funding innovative solutions. Funding from external sources of public origin, such as EU funds, requires dissemination, while sources of financing of private origin are primarily concerned with commercial secrecy.

The functioning of a newly established academic enterprise, except that it is subject to standard market challenges, can benefit from the fact

of academic origin. This applies both to the rules for the promotion of products and services as well as to the support of business environment institutions.

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## **RYSZARD BOROWIECKI**

PhD Full Professor Cracow University of Economics, Department of  
Economics and Organization of Enterprises,  
Rakowicka27 St., 31-510 Cracow, Poland, tel. + 48122935367,  
e-mail: borowier@uek.krakow.pl

## **BARBARA SIUTA-TOKARSKA**

Dr.hab., Cracow University of Economics, Department of Economics and  
Organization of Enterprises,  
Rakowicka27 St., 31-510 Cracow, Poland, tel. + 48122935367  
e-mail: basia.siuta@wp.pl

# **DEVELOPMENT MANAGEMENT OF THE SME SECTOR ENTERPRISES. SUCCESS FACTORS DEPENDING ON THE STAGE AND PHASE OF THEIR DEVELOPMENT<sup>1</sup>**

## **Abstract**

The publication discusses the issues related to development management in the SME sector enterprises (micro-, small and medium-sized business entities), considering individual stages and phases of their development. It indicates the fundamental factors of their success, attributable to the entrepreneur himself/herself, and also to the enterprise. The empirical part of the paper presents the practical verification of the model developed by N.C. Churchill, V.L. Lewis, concerning the development of small and medium-sized enterprises, conducted among 501 SMEs in Poland, singled out in terms of capital. Specific similarities and differences between businesses with Polish capital and with foreign capital are proven, and the directions of changes in their stage development are shown. In this aspect, this paper has an empirical and cognitive value, referring to the model approach to the issue of their stage development in the literature of the subject.

## **Introduction**

The development of contemporary enterprises is implemented in the context of so-called paradoxes of management, expressing themselves, among others, in the necessity to ensure stability to the enterprise, and on the other hand – in its constant changeability [22]. Taking into consideration changeability, complexity and unpredictability of the

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environment, we can indicate that changes made in businesses in relation to the environment, while constituting an imperative, prove, however, a clearly individualised character [22]. Taking into account this character of undertaken actions, one should emphasise that the development of a firm and its management are observed in the form of the acceptance of a change (forms or states) in the transition to more perfect structures in a specific aspect, according to the adopted criterion as a point of reference [5]. Following F. Piontek, one can indicate that development, as a process of transformations and changes and particularly managing it, should be subordinated to the dignity of a human being, fulfilling criteria articulated by axioms, natural law and the deposit of values fixed in natural law [15]. Treating the term of development approached in this way as a starting point, the authors of this publication adopted as the aim of this paper to draw the reader's attention to the problems of development management, considering the issues of the stage development of firms (transition to more perfect forms or states). Based on the findings of own research into the SME sector entities in Poland (micro-, small and medium-sized enterprises), the empirical verification of the five-stage model of small and medium-sized business growth created by N.C. Churchill, V.L. Lewis [8] is presented, at the same time indicating differences between entities with Polish capital and with foreign capital in the same classes of their size.

### **Enterprise development management**

First, it is necessary to define the terms «enterprise management» and «enterprise development management». The term «enterprise (organisation) management» is understood as a set (system) of activities regulating the functioning of a given organisation in accordance with the goals set. In this meaning, management includes functions concerning the maintenance of the balance with the environment, planning, organising, motivation, control and analysis of the results. Management comprises information activities integrated with the decision-making process. The essence of management can be boiled down to the process of making decisions which concern setting goals, the ways of fulfilling them and the methods of analysing the results.

Therefore, management is a process of coordinating activities to accomplish goals of the firm by people grouped in organised structures, with the use of technique and based on the tasks set [9; 10]. The essence of management is regarded to be the formulation of the goal of the activity, planning, winning and allocating necessary human and tangible resources, related to organising structures and controlling the fulfilment of the goals [9; 24].

According to J. Duraj, the management process consists of actions which constitute a constant and systematic way of doing something in corporate teams [9], but some functions can be attributed to them, such as: planning, organising, deciding, motivating and controlling. According to M. Mroziewski, management is a category referring to tangible and human factors of the organisation and the relations undergoing among them, and we can distinguish the institutional and the functional approach to management [14].

The term «enterprise development management», as A. Stabryła points out, is a system whose aim is the shaping of any progress, namely: technical, organisational, personal, information, as well as technical and production progress. At the same time, it is defined that strategic and tactical management institutions are its subjective part, and the global activities of a firm are its objective part, but the occurring developmental changes include both innovative and restructuring ventures [18]. A. Stabryła also points out to so-called programming of changes in enterprise development, defining this notion as a stage in which «the system development is created in a systemised, organised way and based on the venture feasibility analysis» [19]. Knowledge is considered a special area of enterprise development, whereas managing this area is oriented to the processes of learning and improving skills of the firm's employees, the systematisation and proper use of knowledge in the economic practice [19]. It is believed that in knowledge management, particularly in conjugation with information management, lies the creative potential of an enterprise, being the factor of achieving competitive advantage [19].

J. Machaczka indicates that organisation development management always depends on the specificity of the situation in which it currently is, on the assets possessed by it, regardless of threats and possibilities to avoid them [12]. The adoption of the developmental orientation in enterprise management is related to its significant impact on the implementation of the whole management process [7]. At the same time, based on experiences from practice, it is proven that with the development of an enterprise and the achievement of various stages of its development, also management problems and the ways of solving them change [7]. As managing small and medium-sized enterprises is a relatively young subdiscipline of management studies [20], and due to the fact that the sector is heterogeneous – it is stressed that there should be no universalisation when creating concepts and rules with regard to the process of managing small and medium-sized enterprises without considering the level of enterprise development. It means that small

enterprises and those with a short period of their activity, cannot be managed in the same way as larger and mature ones [17].

In the literature of the subject specific factors having importance on the path to development are indicated [3], depending on the stage on which a firm is.

Table 1 presents the factors of success or failure of small and medium-sized enterprises in the process of their evolution, related both to the entrepreneur and the enterprise itself, adopted in the five-stage model of business development, co-created by N.C. Churchill and V.L. Lewis [8].

*Table 1*

**Factors of success or failure of small and medium-sized enterprises in the process of their evolution**

Specification	Stage I Existence	Stage II Survival	Stage III Success		Stage IV Take-off	Stage V Maturity
			Phase 1 Passive	Phase 2 Active		
<b>Entrepreneur</b>						
Entrepreneur's goals	***	**	*	**	***	*
Strategic abilities	*	*	*	**	***	***
Managerial ability	*	*	**	***	***	*
Operational abilities	***	***	**	**	*	*
<b>Enterprise</b>						
Management system	*	*	**	**	***	**
Financial resources	***	***	*	**	***	**
Human resources	*	*	*	**	***	**
Resources of the firm	***	**	**	**	**	*

Explanations: \*\*\* – critical importance, \*\* – important factor but under control, manageable (able to be controlled), \* – insignificant (secondary factor).

Source: [21].

As it can be seen in Table 1, the most important factors of success or failure (critical ones) of small and medium-sized enterprises on various stages of their development include:

- stage I: entrepreneur's goals and operational abilities, financial resources, as well as resources of the firm,
- stage II: operational abilities and financial resources,
- stage III: managerial abilities,
- stage IV: entrepreneur's goals, managerial and strategic abilities, as well as management system and human resources,
- stage V: strategic abilities.

It is worth emphasising that depending on the stage and phase of enterprise development, both the management system and specific components in its activity, including organisational structure, strategy and mutual relations between the enterprise and its owner, change [4]. The most visible are differences in organisational structures and mutual relations between the owner and the firm, as well as factors which are critical, important and insignificant.

### **Changes of the stages in the development of the studied SME sector entities in Poland, distinguished in terms of capital**

The description of the development of enterprises, with special consideration given to firms of the SME sector, is one of more important challenges of the contemporary management theory [13]. Based on various management concepts and the observations of the economic life and business entities functioning in it, so-called models are created, presenting changes which occur or can occur on the path to their development<sup>2</sup>. Among many development models, an important group is constituted by so-called models of the lifecycle of organisations, in which specific stages or phases through which organisations go are distinguished. It should be noted that some authors indicate the lack of the occurrence of typical stage development of some enterprises, such as the fast growth of so-called gazelles. However, empirical research confirms the lack of the stage character of development only with regard to strictly specific entities, without negating their usefulness for the others. In spite of some drawbacks of lifecycle models, their application is related to the ability to predict the shaping of some processes or events in the organisation, hence, they constitute an image of a development path possible to be implemented.

Within own empirical research into the SME sector firms in Poland, the model of the development of small and medium-sized enterprises created by N. C. Churchill and V. L. Lewis indicated before was used for the assessment of their stage character.

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<sup>2</sup>In the literature of the subject, one can come across the criticism and assessment of being out of touch with reality by the models which created earlier, and even those created at present "do not keep up with" the occurring and progressing changes in the environment. In spite of the occurring criticism, it is observed that both in the theoretical approach and in empirical research there are still research areas undertaken which indicate the occurring relations between the lifecycle of an organisation and its development, and they are treated as important and current issues in the research process in management studies. In her publication *Epistemiczny status modeli ekonomicznych* (*The Epistemic Status of Economic Models*) H. Zboroń made an attempt to recognise an epistemic status of models in the orthodox economics along with the presentation of an alternative concept of so-called constructivist approach [23].

Entities being the object of the research are non-financial enterprises of the SME sector, among which the following were distinguished: micro-enterprises, small and medium-sized enterprises. Within the research, the distinction was made into: entities with Polish capital, which should be understood as enterprises with Polish private ownership and with mixed ownership with the majority of the capital of the entities with Polish private ownership, and entities with foreign capital, namely private entities with foreign capital and with mixed ownership with the majority of the capital of foreign entities, controlled by non-residents, which are included in the sector of non-financial enterprises. The study was conducted from January to July 2013<sup>3</sup>.

The results of the study of the SME sector firms with Polish capital and with foreign capital according to the size classes of the studied entities, with regard to the final stages of their development in the analysed years 2001–2006 and in the years 2007–2012, are presented in Table 2.

*Table 2*

**The structure of the SME sector entities distinguished in terms of capital with regard to their stage development in the years 2001–2006 and in the years 2007–2012 according to their size classes (in %)**

Specification	Enterprises with Polish capital			Enterprises with foreign capital		
	2001–2006	2007–2012	Change	2001–2006	2007–2012	Change
Final stage (FS)						
<b>Micro-enterprises</b>						
Lower stages of development						
Stage I	30.4	21.3	--	25.4	11.9	---
Stage II	22.8	44.7	++++	11.9	13.2	+
Two-phase intermediate stage of development						
Stage III phase 1	21.5	13.8	--	20.0	13.8	--
Stage III phase 2	17.7	7.4	---	25.0	37.9	+++

<sup>3</sup> 501 enterprises were studied, including 251 with Polish capital and 250 with foreign capital from three regions of Poland, different in terms of socio-economic development, namely the central, the southern and the eastern one. Among the studied firms, considering the size classes of the entities, 43% were micro-enterprises, 37% were small enterprises, and 20% were medium-sized enterprises. In the study the method of the triangulation of research techniques was used: direct, structured survey; survey questionnaire in the form of a postal questionnaire; direct interview conducted via the Internet, so-called CAWI; direct computer-assisted telephone interview, so-called CATI. The survey in the form of the survey questionnaire was completed in the first half of 2013. As a result of this study, 271 research questionnaires were obtained, 20 of which in the form of direct interview. In the survey in the form of direct interview via the Internet, so-called CAWI, 50 questionnaires were obtained, and in the computer-assisted telephone interviewing, so-called CATI-method – 180 questionnaires were obtained.

Higher stages of development						
Stage IV	1.3	4.3	+	12.2	8.5	–
Stage V	6.3	8.5	+	5.5	14.7	++
Small enterprises						
Lower stages of development						
Stage I	8.5	6.6	–	29.4	4.8	-----
Stage II	20.3	19.7	0	5.9	16.9	+++
Two-phase intermediate stage of development						
Stage III phase 1	30.5	22.9	--	10.3	12.0	+
Stage III phase 2	25.4	21.3	–	29.4	26.5	–
Higher stages of development						
Stage IV	3.4	13.1	++	13.2	13.3	0
Stage V	11.9	16.4	+	11.8	26.5	+++
Medium-sized enterprises						
Lower stages of development						
Stage I	7.9	0.0	--	24.2	2.4	-----
Stage II	15.8	20.0	+	15.2	12.2	–
Two-phase intermediate stage of development						
Stage III phase 1	21.1	17.5	–	12.1	9.7	–
Stage III phase 2	36.8	27.5	--	21.2	36.6	++++
Higher stages of development						
Stage IV	7.9	17.5	++	9.1	17.1	++
Stage V	10.5	17.5	++	18.2	22.0	+

Denotations: changes in the growth of shares (plus sign) in the compared research periods, changes concerning a decrease in shares (minus sign), where: 0 for changes from the range  $<0p.p.\div 1p.p.$ );  $\pm <1p.p.\div 5p.p.$ );  $\pm \pm <5p.p.\div 10p.p.$ );  $\pm \pm \pm <10p.p.\div 15p.p.$ );  $\pm \pm \pm \pm <15p.p.\div 20p.p.$ ),  $\pm \pm \pm \pm \pm 20p.p.$  and above.

Stage I – the emergence and the existence of the enterprise on the market, stage II – survival, stage III phase 1 – success through disengagement, stage III phase 2 – success through growth, stage IV – separation and expansion of activity, stage V – maturity.

Source: own study based on: [16].

The analysis of the structure of the SME sector enterprises in this respect with regard to the final stages in their development achieved by them in the years 2001–2006 and in the years 2007–2012 enabled to calculate the total shares of the firms in which the following were proven:

- lower stages of development, namely stage I (the existence) and stage II (survival),
- two-phase intermediate stage of development, namely stage III of phase 1 (success through disengagement) and stage III of phase 2 (success through expansion), and
- higher stages of development, namely stage IV (growth) and stage V (maturity).

Such ordering enables to answer the question which of the studied firms achieved higher stages of development (IV–V), intermediate stage (stage III), and which achieved lower stages of their development (I–II).

What arises from the analysis of the data concerning the shares of **enterprises with Polish capital** is that on lower stages relatively highest shares were characteristic for micro-enterprises, significantly lower shares – for small enterprises and relatively lowest shares – for medium-sized enterprises. In the two-phase intermediate stage of development, relatively lowest shares were characteristic for micro-enterprises, significantly higher shares – for small enterprises, and in comparison with them, relatively higher shares – for medium-sized enterprises. On higher stages of development, medium-sized enterprises were characterised by relatively highest shares, small enterprises were characterised by comparatively lower shares, and micro-enterprises by relatively lowest shares.

What also arises from the analysis of the data in Table 2 in **enterprises with foreign capital** the shares of these entities on lower stages of development in the years 2001–2006, regardless of their size class, were similar (the share of micro-enterprises was 37.3%, of small enterprises was 35.3%, and of medium-sized enterprises was 39.4%). In the years 2007–2012 the situation in this respect changed markedly because the highest shares on lower stages of development were characteristic for micro-enterprises (25.1%), relatively lower – for small enterprises (21.7%) and relatively lowest – for medium-sized enterprises (14.6%). The trend of a decrease in the share of enterprises on lower stages of their development with an increase in the size class in the years 2007–2012 appeared to be similar to that noted in enterprises with Polish capital. On the two-phase intermediate stage of development (stage III), relatively highest shares were characteristic for micro-enterprises (45% in the years 2001–2006 and 51.7% in the years 2007–2012), and lower shares concerned small enterprises (39.7% in the years 2001–2006 and 38.5% in the years 2007–2012) and medium-sized enterprises (33.3% in the years 2001–2006 and 46.3% in the years 2007–2012). On higher stages of development, the lowest shares were characteristic for micro-enterprises (17.7% in the years 2001–2006 and 23.2% in the years 2007–2012), whereas higher shares for small enterprises (25% in the years 2001–2006 and 39.8% in the years 2007–2012) and for medium-sized enterprises (27.3% in the years 2001–2006 and 39.1% in the years 2007–2012).

It is worth observing that small and medium-sized enterprises with foreign capital are characterised by similar shares on individual stages of their development, namely on lower stages, on the intermediate stage and on higher stages of their development.

Regardless of the indicated results of the analysis of the data included in Table 2, one can also notice relatively higher shares of firms

with foreign capital in comparison with firms with Polish capital on higher stages of their development, namely jointly on stage IV and V:

- among micro-enterprises, respectively: 17.7% in comparison with 7.6% in the years 2001–2006 and 23.2% in comparison with 12.8% in the years 2007–2012;

- among small enterprises, respectively: 25% compared to 15.3% in the years 2001–2006 and 39.8% compared to 29.5% in the years 2007–2012;

- among medium-sized enterprises, respectively: 27.3% in comparison with 18.4% in the years 2001–2006 and 39.1% in comparison with 35% in the years 2007–2012.

From the presented data it arises that in the compared research periods, a positive change in the years 2007–2012 was proven, manifested in a marked increase in the shares of enterprises with Polish capital and with foreign capital jointly on stage IV and V of their development. Particularly visible is a change with regard to medium-sized enterprises in which in addition to the growth of the share of the enterprises with regard to stages IV and V, also a distinct decline in the difference between enterprises with Polish capital and enterprises with foreign capital was marked.

What results from the analysis of the changes in the shares of businesses displaying individual stages of development in the years 2007–2012 in comparison with the years 2001–2006 is that the biggest changes were marked in respect of:

- micro-enterprises with Polish capital with regard to stage II and stage III – phase 2, and among micro-enterprises with foreign capital with regard to stage I and stage III – phase 2;

- small enterprises with Polish capital with regard to stage III phase 1 and stage IV and among small enterprises with foreign capital with regard to stage I, as well as stage II and stage V;

- medium-sized enterprises with Polish capital with regard to stage I and stage III- phase 2, and stages IV and V, and for enterprises with foreign capital to stage I and stage III – phase 2.

Based on the results of the conducted survey, comparative computations were made among enterprises distinguished in terms of capital with regard to changes of their proved final stages in the years 2001–2006 and in the years 2007–2012, as:

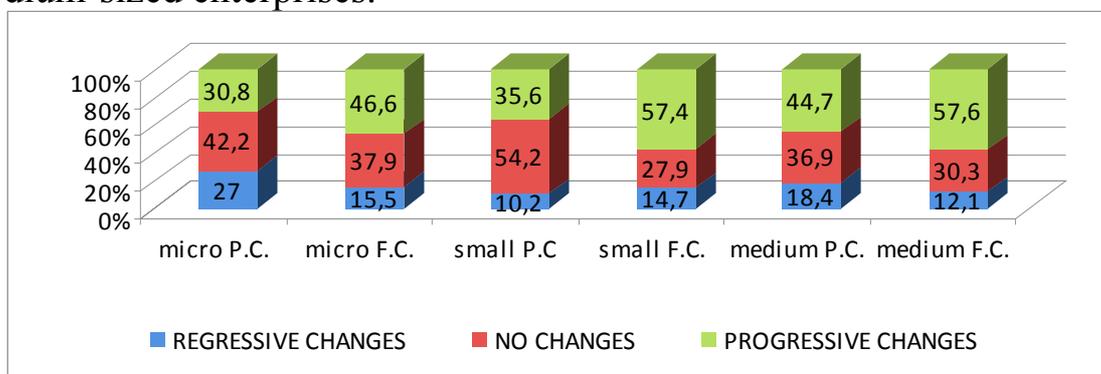
- transition to a higher final stage in the other period, namely progressive change,

- transition to a lower final stage in the other period, namely regressive change,

- no change of the stage, that is staying on the same final stage in the compared research periods.

Figure 1 presents the results obtained in this respect.

In **enterprises with Polish capital** an increase in the percentage of entities displaying transition to a higher stage of development was marked, with the growth of the size class, amounting to, respectively: about 31% for micro-enterprises, around 36% for small enterprises and about 45% for medium-sized enterprises. The percentage of entities with Polish capital displaying the transition to a lower final stage was: 27% for micro-enterprises, over 18% for medium-sized enterprises, and more than 10% for small enterprises. No change of the final stage concerned over: 54% of small enterprises, more than 42% of micro-enterprises and about 37% of medium-sized enterprises.



Denotations: P.C. – Polish capital, F.C. – foreign capital.

*Figure 1: Directions of changes in the stage development of enterprises distinguished in terms of capital in the years 2007–2012 in comparison with the years 2001–2006 according to their size classes*

Source: own study based on: [16]

Among **enterprises with foreign capital**, the transition to a higher stage of development was proven: in about 47% of micro-enterprises and in similar percentage of small and medium-sized enterprises (more than 57%). The transition to a lower stage of development was marked for more than 15% of micro-enterprises, about 15% of small and over 12% of medium-sized enterprises. No change of the final stage was characteristic for about 38% of micro-enterprises, 28% of small and 30% of medium-sized enterprises.

Between the firms with Polish capital and with foreign capital with regard to changes of final stages in the years 2007–2012 in comparison with the years 2001–2006 differences are visible, concerning:

- significantly higher percentage of firms with foreign capital displaying the transition to a higher stage of development in all size classes of the firms,

- lower percentage of firms with foreign capital displaying the transition to a lower final stage, except for small enterprises,
- lower percentage of firms with foreign capital which display staying on the same stage of development in all their size classes.

### **Conclusion**

Based on the analysis of the importance of the factors of success or failure of small and medium-sized enterprises in the process of their evolution, as presented in the literature of the subject, and the analysis of own research into the stage character of the development of firms of the SME sector, it can be indicated that with regard to businesses in Poland, the usefulness of the application of the five-stage model of their growth, created by N.C Churchill, V.L. Lewis in research into entities of this sector was confirmed. It also means that the model can be used also in the future in this type of research into the stage development of small and medium-sized enterprises, both in Poland and in other countries, with similar conditions of their activity.

What results from the analysis of the results of own research with regard to the stage development of the SME sector firms with Polish capital and with foreign capital in the periods of their activity in the years 2001–2006 and 2007–2012 is, among others, that:

- in the period 2007–2012 in comparison with the period 2001–2006 positive changes were proven in the firms distinguished in terms in capital, characterised by higher stages of their development (jointly stage IV and stage V) with regard to all classes of their size, namely micro, small and medium-sized enterprises. It can prove achieving the desired direction of their development;
  - considerably higher percentage (the comparison of final stages) of enterprises with foreign capital in all classes of their size compared to enterprises with Polish capital, indicating the occurrence of progressive changes (transition to higher stages of development);
  - lower percentage of businesses with foreign capital in all size classes in comparison with businesses with Polish capital, indicating that they stay on the same level of development;
  - lower percentage of micro and medium-sized enterprises with foreign capital indicating regressive changes (transition to a lower stage of development).

The presented data usually prove more beneficial effects of stage changes in the development of the SME sector firms with foreign capital in comparison with SMEs with Polish capital, concerning the achievement of

a comparatively higher stage of their development. In this context, it seems appropriate and reasonable to continue this type of research, considering critical factors of their development.

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## **AUGUSTO D'AMICO**

Prof., Director of the Department of Economics of University of Messina  
e-mail: damicoa@unime.it

## **DANIELA RUPO**

Prof.ssa, Department of Economics of University of Messina  
e-mail: drupo@unime.it

# **ACCRUAL BASIS ACCOUNTING IN THE PUBLIC SECTOR AND DECISION USEFULNESS OF INFORMATION<sup>4</sup>**

### **Abstract**

Traditionally, the public sector used cash-based accounting systems, whose limitations have been broadly highlighted in literature, as they not provide the information that is necessary for a government to operate efficiently and effectively. The potential offered by the accrual accounting, that allows the measurement of economic results and of the assets and liabilities of the public entity, is the main reason behind the choice adopted by a growing number of countries that have decided to shift from cash-based to some form of accrual accounting in the public sector. The implementation of accrual-based system is expected to provide management with more useful information for decision-making, and to increase accountability and responsibility of public choices. The paper addresses some critical considerations about the need to design an integrated information system to ensure the availability of reliable information for different users, inside and outside the public organization.

### **Introduction**

All over the world many countries in the last two decades are implementing accrual accounting for their governments and/or for local municipalities. When using accrual accounting budgeting and reporting practices, mechanisms of control of public expenditures and fiscal policy need to be adapted, and cash flow perspective will be no longer the primary *focus* of the accounting information system. In this article some critical consideration will be developed in order to point out the main issues of the ongoing evolution of accounting in the public sector, with particular reference to EU experiences in this field. The aim of the work is to investigate and discuss the *pros and cons* of accrual accounting, in relation

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<sup>4</sup>Though the paper is the product of a common research, in the phase of final drafting par. 1 and 5 can be attributed to Augusto D'Amico, par. 2, 3 and 4 to Daniela Rupo.

to type, users and scope of information, both for external stakeholders and for public management. The paper is structured as follows. Section 2 briefly describes the theoretical paradigm underlying the evolution of accounting system in the public sector. Section 3 refers about the main features and problematic issues of the implementation of accrual accounting in the public domain. Section 4 discusses certain trends emerging by a recent survey conducted on the experience of adoption of accrual accounting systems in the European countries. Section 5 addresses some conclusions on the topic investigated.

### **New paradigms in the public sector**

The drivers of change, mostly pushed by financial pressures, among EU countries, lead the public sector to become more competitive and responsive to citizens, in order to overcome the limitation of bureaucracy and offer value for money, transparency and choice flexibility (OECD, 1993).

In an attempt to support the evolution of public systems towards achieving greater efficiency, effectiveness, responsiveness and accountability, different theoretical approaches have been developed in literature. A research stream, referring to the New Public Management paradigm, has stressed the evolution path of the public sector indicating some basic doctrinal components («group of ideas») [1]:

1. *Hands-on professional management in the public sector;*
2. *Explicit standards and measures of performance;*
3. *Greater emphasis on output controls;*
4. *Shift to disaggregation of units in the public sector;*
5. *Shift to greater competition in public sector;*
6. *Stress on private-sector styles of management practice;*
7. *Stress on greater discipline and parsimony in resource use.*

The growth of this movement was marked by the proliferation of regulatory interventions in different countries, aimed at stimulating the necessary change in decision-making and more responsible public choices. The emerging rules defined by the regulatory evolution require the adoption of new measurement *tools* and *frameworks* for management control and for external reporting. It is still ongoing a deep rethinking of control models, which is drawing a perspective shift from «process» compliance (regularity of acts) to «results» achievement. In this scenery, accounting information system is asked to support managerial decision making according to economic rationality, and then to allow performance appraisal, both at an individual level and at the organizational level.

Nevertheless, the trend traced by the introduction of many precepts referred to the paradigm of New Public Management is also

subject to criticism and skepticism. Among others, the reasons for this skeptical view arise from the observation of the way the first managerial models have been applied in the public domain, without having adequately considered the specific conditions of this context.

More recent theories have therefore stated new management models that partly outperform the New Public Management conceptions. Above all, with reference to issues affecting the governance of public institutions, the paradigm known as «New Public Governance», has found broad consensus among academics and practitioners [2]. Nevertheless, the New Public Management set the foundation of evolution of accounting systems in the public sector.

### **The adoption of accrual accounting in the public sector**

The new perspective generally adopted by the recent reforms of public accounting systems is to conceive an integrated information system that can increase the value of accounting data, ensuring that the information is useful for the various purposes for which information system is designed [3; 4]:

- a. ensuring transparency with regard to resource management and facilitate the exercise of democratic control;*
- b. improving relations between different levels of government and relations between political and administrative decision-making;*
- c. increasing the rationality of management choices and capability to evaluate their effects;*
- d. supporting the audit and control activities to address corrective interventions.*

Until the adoption of accrual accounting, the operations were disclosed in financial statements by cash-basis accounting. Similarly, budgeting activities were founded on the cash approach, or anyway ignoring non-monetary flows. Traditional accounting in the public sector provided information on what cash receipts have been paid to the entity and how cash appropriations have been made. The starting point that have been questioning traditional accounting in the public sector in the last decades is the observation of the critical features of cash-basis accounting system, which makes it impossible to comment on the economic outlook linked to the capability to generate a net income (the value creation, a *flow* measure) and on the «net worth» (the value of all assets minus the value of all liabilities, a *stock* measure) of the public entity.

Moreover, the financial results and indicators obtained through a traditional accounting system encompass, sometimes to a considerable extent, some items of low reliability, such as unpaid accounts and/or receivables at year's end.

This can primarily explain why in many countries governments have decided to introduce accrual accounting in the public sector. In a first phase, the adoption of this new accounting model was limited to units, bodies, agencies and companies operating in economic activity, also in competition with private companies. At the present stage, accrual accounting is spreading to municipalities and central governments, often put beside cash accounting at year's end reporting with the aim to increase comprehension of public results, mainly for statistical purposes or for consolidation of public accounts

Among many critical issues emerging by the experiences observed in different countries [5; 6; 7; 8], this paper addresses the attention on the following questions: 1. What level of relevance can take accrual model of accounting in the public sector if it is not relevant for budgeting? 2. Is accrual accounting useful to the management of public entities for administrative and decision making purposes?

Accrual budgeting would imply the inclusion of such costs as depreciation or accrued employee entitlements in the annual budget. Some experiences shows that one of the main goals that motivated the introduction of the accrual basis in the public budget was to *make the public budget more transparent and to improve the efficiency of public spending and accountability* [5, p. 106].

On the other hand, accrual accounting is expected to allow better performance valuation, so that its implementation can bring benefits in the budgeting process, and for performance measurement, too. As was argued by Guthrie (1998): *«A redefined public sector performance rhetoric now includes 'outputs', 'efficiency' and 'results' and 'outcomes' of activities and includes holding managers accountable for the 'full cost' of operations; consideration of long term obligations and overall 'financial position'.* The advocates of accrual accounting point out the advantage of focusing on resource flows considering the period in which they were generated or consumed because this allows a more reliable measure of the cost of services.

Despite the theoretical acceptance of New Public Management's philosophy, the implementation of management systems and tools typical of the business world is a challenge many public entities are far to win. The low development of management control systems seems to be the result of the combination of a medium quality infrastructure base (in terms of organizational systems) and a low use of planning and control tools. As argued by Laplesy et al (2009), the adoption of accrual accounting in the public sector is self-evident and problematic at the same time:

– *Self-evident*: it is an almost relentless movement, pushed by NPM, a model of reform which privileges quantification and results and in which accounting has a central role. «Despite the limited evidence base and despite the protestations of highly regarded academics, such as Guthrie et al., the world of public sector accounting practice regarded the adoption of accrual accounting as progress, as self-evident» [9, p. 721–722];

– *Problematic*: the adoption of accrual accounting in the public sector raises some problematic issues: 1. the challenging question of whether many ‘so-called’ assets, such as public monuments, should actually be regarded as assets or liabilities, on the assumption that they are the subject of cash outflows rather than inflows, having they no income streams, but needing to be maintained; 2. the existence of heritage assets, that raises problem of valuation, because the acquisition cost is unknown, the replacement cost is unknown or irrelevant, the current (realisable) value could not be obtained in the market; 3. the problems related to recognition and accounting of infrastructure assets and 4. community assets; 5. the peculiarity of public assets that leads a danger of capital erosion rather than the consideration of their maintenance [9, p. 721–722].

Furthermore, among the others challenges of accrual accounting, the absence of prices for public services and the controversial meaning of economic results, moving from the consideration of the non-profit nature of public entities.

In fact, when coming into contact with the operational reality of public organizations, one must acknowledge the difficulties related to the first applications of accrual accounting in this context, where often it is hard to remove the idea that cash accounting system best suits the peculiarities of this entities, whilst accrual accounting does not offer particular benefits, in spite of the efforts required for its first implementation.

Not only advantages, therefore, but also disadvantages, are linked to the introduction of accrual accounting in the public sector. Table 1 presents a synthetic representation of these *pros* and *cons*.

*Table 1*

**The *pros* and *cons* of accrual accounting in the public sector**

Pros	Cons
More reliable valuation of periodic results	More need to «estimate» economic measures
Costs allocation	Ambiguity and discretionary cost accounting
Assets and liability recognition	Heritage and other items of difficult estimate/ non useful identification as assets or liabilities
Supporting long term planning in a multi-dimensional perspective	Need (and related complexity) to balance investment budgeting and economic sustainability

Source: own elaboration.

### **The «state of the art» in EU countries: the OECD survey (2016)**

From what emerged from the OECD survey (2016) [10], around three quarters of OECD countries (twenty-five countries, 73%) have adopted accrual accounting for their year-end financial reports, although they have not necessarily implemented all aspects of what may be regarded as a full accrual accounting framework. Three countries (9%) indicated that they are in the process of transitioning to accrual accounting.

Six countries (18%) indicated that they follow cash accounting. Among these, 2 countries indicated that they are considering whether to require ministries and departments (Ireland), and agencies (Norway) to report on an accruals basis in addition to continuing to report on a cash basis; two countries (Italy and Luxembourg) have an ongoing reform process to move to accrual accounting, though progress has been limited. Only two countries (Germany and the Netherlands) indicated that they do not have any plans to adopt accruals, although one (the Netherlands) has agencies reporting on an accrual basis.

More than a quarter of OECD countries prepare their annual budgets on an accrual basis. Countries that report on an accrual basis have progressed differently in populating their balance sheet with assets and liabilities.

The survey shows that looking at the accounting and budgeting framework, two dominant models are emerging: i) *a majority of countries prepare accrual financial statements and cash budgets and budget execution reports*; ii) *a significant minority of countries prepare accrual financial statements and budgets, the latter incorporating either accrual, or cash, or both accrual and cash appropriations and related budget execution reports.*

The introduction of accrual accounting was often part of, and aimed to facilitate, wider public management reform initiatives. The motivation for reform mentioned most often in the survey include: *presenting a fair view of the public finances, assessing the full costs of government operations, introducing or enhancing a performance culture, and modernising public management.* Having similar presentation and preparation basis for all fiscal reports (including statistics) is a motivating factor for some countries that have adopted or are transitioning to accrual budgeting in addition to accrual accounting.

Among the reform challenges and critical aspects resulting from the survey:

1. *the identification and valuation of assets and liabilities*, as the most challenging task in the first stage of implementation of accrual accounting;

2. *putting in place new IT systems*, a task that is already difficult enough when the accounting framework remain unchanged, and whose difficulty increases exponentially when the accounting basis changes from cash to accrual and the new system is required to support this new framework;

3. *the importance of human resources management and capacity*. Having staff or consultants with knowledge and experience of accrual accounting, IT systems, makes the difference, enabling the implementation of sophisticated accrual accounting framework;

4. *accountability and transparency* are considered by Ministries of Finance as the main positive outcomes of the reforms.

### **Conclusions and remarks: toward integrated information systems in the public sector?**

The introduction of accrual accounting in the public sector is imposing a radical change not only in the way in which accounting events are disclosed in financial statements, but also in managerial models and in the organizations' processes. The normative push to adopt the new system, as is often the case in the public sector, has meant that, contrary to what should be the logic direction of evolution of information systems, the information system affects the organizational architecture of the public entities and not, viceversa, the operations and the information needs drive and influence the design of the information system.

For accrual accounting to effectively support decision-making, appropriate methodologies and tools should be still developed, to ensure that internal reporting is consistent with the needs of the various users. Information system should provide coherently the budgeting process, the financial reporting and the voluntary accountability reports, enabling a more comprehensive and credible communication between the public entity and its stakeholders (see Fig. 1). The hope is that the process of implementation of accrual accounting in the public sector can benefit from a trial and verification phase, if not guided exclusively by regulatory action, or accelerated by the introduction of further reforms.

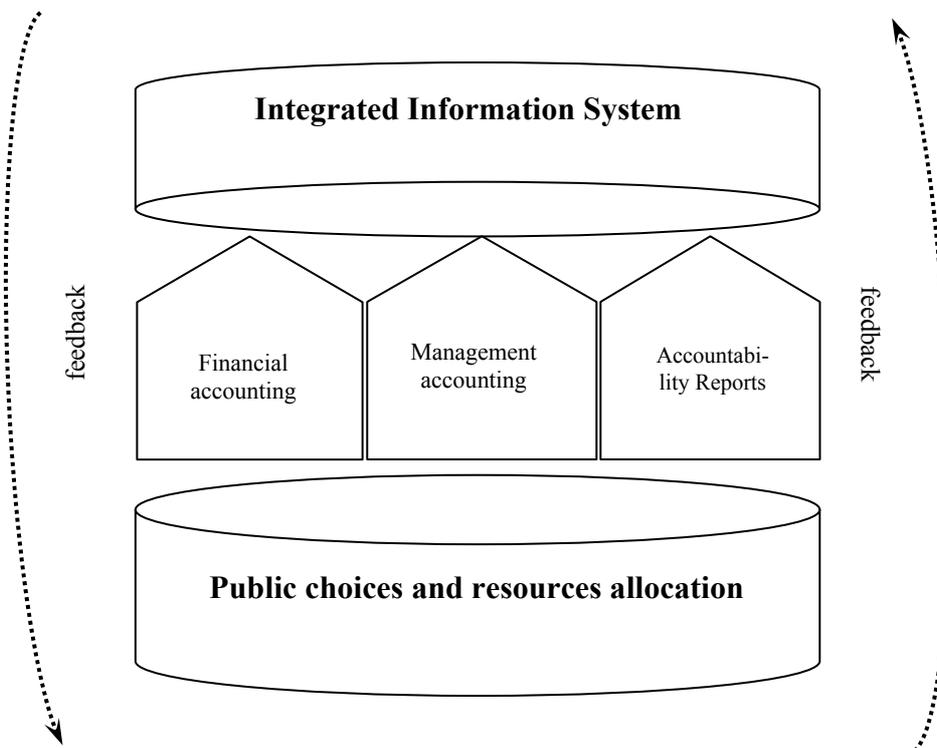


Figure 1. The Integrated Information System in the public sector

Source: own elaboration

It is perhaps true what was argued by Pallot many years ago (1999), when discussing about these issues, that «there are no easy answers and that it will require innovative, multi-skilled people to *reinvent accounting*» [11, p. 517].

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## **NATALIIA ILCHENKO**

Ph.D in economics, Associate Professor at the Department «Department of trade entrepreneurship and logistics», Doctoral candidate  
Kyiv National University of Trade and Economics  
Kioto 19 st., 02156 Kiyv, Ukraine, tel. + 380672346445,  
e-mail: i\_natalya@ukr.nert

### **GLOBALIZATION PROCESSES AND TRENDS OF DEVELOPMENT OF THE WHOLESALE TRADE**

#### **Abstract**

The analysis of the development tendencies of wholesale trade in Ukraine is conducted and the problematic issues of statistical investigation of the availability of warehouse space at enterprises are identified. The methodological approach to the control of flow processes at the enterprise of wholesale trade is developed, taking into account the functional features of the formation of a complex of interrelated business processes in a certain sequence and in their entirety and if they are consistent with the overall strategy of the company in the conditions of dynamic changes in the market environment, to meet the needs of consumers.

#### **Introduction**

The globalization of the economy contributes to the manifestation of entirely new patterns in the development of the world economy, these processes are significantly manifested at trade enterprises in Ukraine, which has both positive and negative consequences. Under the influence of intensification of activities, development of modern approaches of European countries to the functioning of the enterprises of wholesale trade with used technologies, there is a need of introducing a new philosophy of strategy formation and optimization of business processes in wholesale trade of Ukraine.

Wholesale distributors are a network of entities of all forms of ownership engaged in commercial intermediation between the production of goods and retail trade. Changes in the wholesale segment mainly occur rapidly, but the state, unfortunately, almost did not and does not regulate these processes. This has led to a significant reduction in the role of wholesale trade as the system organizer of the movement of commodity resources.

**The mechanism of the systemic approach to the development of wholesale trade in Ukraine.**

Before developing a methodological approach to assessing efficiency of management of business processes at the enterprise of wholesale trade,

it is necessary to study special features of development of wholesale trade in Ukraine.

The Fig. 1 presents the dynamics of the number of enterprises by kind of economic activity «Wholesale and retail trade; repair of motor vehicles and motorcycles» in the percentage of the total.

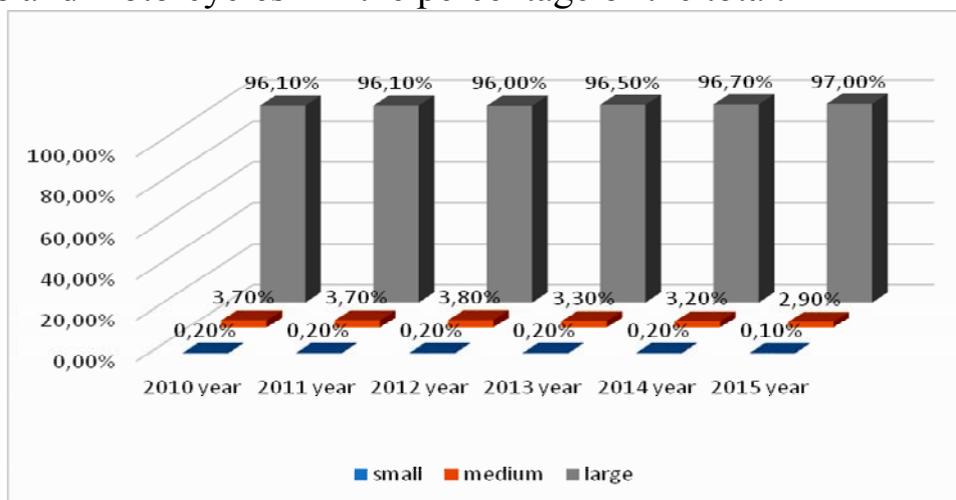


Figure 1. Dynamics of number of enterprises by kind of economic activity «Wholesale and retail trade; repair of motor vehicles and motorcycles» as a percentage of the total population, % [1]

Source: Systematized by the author [1], without considering in the occupied in 2014 territories of Ukraine

In Fig. 2 we see the data on wholesale trade turnover for food and nonfood goods, the turnover of which amounted to 18 and 82% in 2015 year respectively. The same trend was observed for 2005–2015.

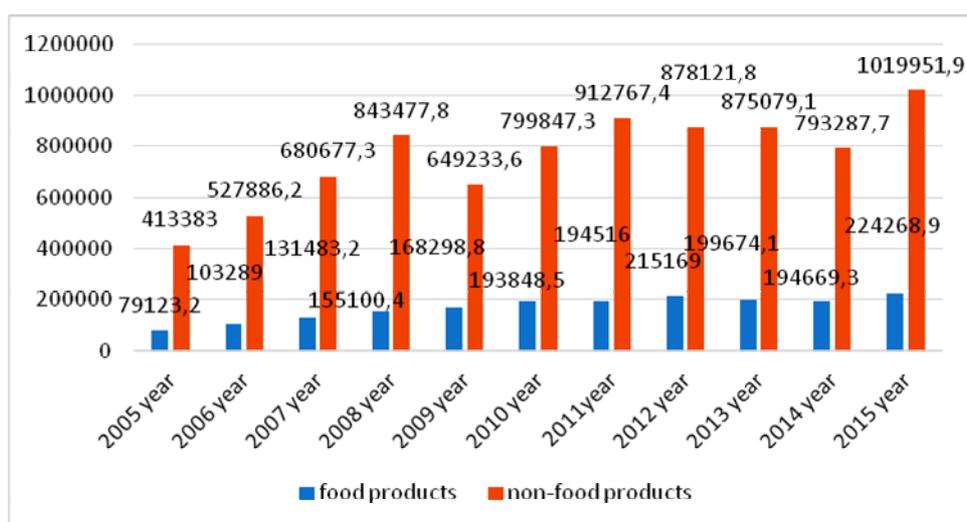
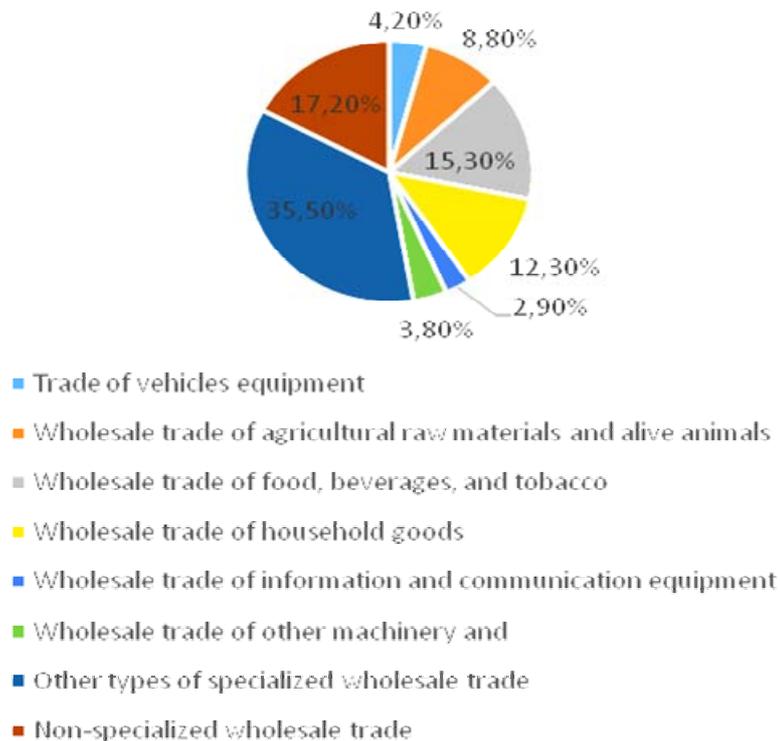


Figure 2. Dynamics of wholesale trade turnover for 2005–2015 years, million UAH [2]

Source: Systematized by the author according to the state statistics service of Ukraine for 2010–2015 [2], without considering in 2014 year and 2015 year occupied territories of Ukraine.

Fig. 3 shows the structure of the wholesale turnover of enterprises of wholesale trade by kinds of economic activities in 2015 year. More than a third in the overall structure of the wholesale turnover is the other types of specialized trade, the types of non-trade are two times less, wholesale trade of food, beverages, and tobacco is total of 15.3% and household goods – even less.



*Figure 3. The structure of the wholesale turnover of enterprises of wholesale trade by types of economic activity in 2015 year, % [2]*

Source: Systematized by the author according to the data [2] excluding the temporarily occupied territory of Crimea and Sevastopol as a part of the zone of the ATO.

Modern statistical observation does not provide information on the number of wholesale companies that use their own warehouses, so it is impossible to estimate even the level of provision of storage area in the wholesale trade of Ukraine. Based on the conducted research, it is clear that some companies have a semblance of use of storage facility, and some do not have it at all. Analysis of changes in the volume of commodity stocks of the enterprises of wholesale trade for 2010–2015 are shown in table 1.

*Table 1*

**The dynamics of the stock of the enterprises of wholesale trade  
for 2010-2015, billion UAH**

Stocks of goods	2010	2011	2012	2013	2014	2015
Total, Incl.:	730,8	83,9	109,2	112,1	122,5	156,6
- food	17,8	20,6	21,5	25,6	22,7	23,1
- non-food	55,2	63,3	87,7	86,7	99,8	133,5

Source: Systematized by the author according to the data [3] excluding the temporarily occupied territory of Crimea and Sevastopol as a part of the zone of the ATO.

As is evident from the conducted study, the basic structure of commodity stocks in wholesale trade enterprise accounts for non-food goods. Their share in the studied years accounts up to 75–85% of the inventory which confirms the expediency of stockpiling of non-food products and accelerating the turnover of stocks of food products.

In 2015, the relative level of capital investment in the wholesale and retail trade repair of motor vehicles and motorcycles to the total number of capital investments by types of economic activities amounted to 7.57%. This confirms once again the problem of development of wholesale trade in Ukraine and lack of funds for implementation of innovative development processes. The index of capital investment in the wholesale and retail trade; repair of motor vehicles and motorcycles (percent to the corresponding period of the previous year) amounted respectively: in 2011 – 105.6% in 2012 year to 113.7%, in 2013 – 92.8%.

The potential of our state to participate in the global processes of the market economy is quite significant, but Ukraine, at the present stage, uses it insufficiently as a result of unfinished reforms. To implement the tasks, it is necessary to continuously improve the process of wholesale trade of goods, to expand the range of services that wholesale intermediaries will provide for producers and retailers and seek to optimize business processes in the supply chain of goods.

Strategic level of management of the trade enterprise establishes a system of goals and directions of development approaches and principles for evaluating business processes. Given the overall corporate strategy, the company creates a portfolio of functional strategies focused on a process approach in the management system of business processes of trade enterprise. The mechanism of control of flow processes of an enterprise of wholesale trade, in the author's understanding, is the system of interaction of objects and subjects governing development processes (planning,

adjustment, optimization) and implementation (execution and control) of management decisions through the effective use of regulatory and market mechanisms of resource, production, and financial potential of the enterprise of wholesale trade on the basis of the set of interrelated business processes, carried out in sequence and in their entirety consistent with the overall strategy of the company in the conditions of dynamic changes in the market environment to meet the needs of consumers.

Globalization processes in the world and Ukraine are expanding the boundaries of the supply chain. The development of an omni-channel strategy promotes competition in the organization of e-commerce and enables wholesalers to differentiate their services and optimize power supply, which is a pressing problem in Ukraine. More than three quarters of B2B companies reported that online services have radically changed the interaction of customers with the company. The development of an omni-channel strategy promotes transparency in the procurement of goods corresponding to charges related to the delivery of goods, customs clearance, tax and others. So, 72% of wholesalers have indicated that the cost of implementing an omni-channel strategy is much greater for them than using a single channel and 71% of consumers indicated that increased credibility of companies using this strategy. However, consumers and wholesale trade expect greater state protection of e-commerce in the implementation of the omni-channel strategy.

To the question «What do you expect from an investment from the introduction of an omni-channel strategy?» employees of wholesale trade enterprises responded – increasing consumer demand through the introduction of an omni-channel strategy – a 76% increase in indicators of satisfaction – 69%, increase in competitive advantage – 64% efficiency and cost savings by planning inventory and range of goods – 59% (Fig. 4).



Figure 4. The structure of answers of the respondents about perspectives on implementation of the omni-channel strategy, %

Source: own research.

Thereby, the formation and development of the wholesale market in Ukraine require intensive formation of its infrastructure, creating on a new foundation of information, financial, and regulatory support, development of material-technical base of enterprises, warehouses, distribution centers by attracting investments that will contribute to optimizing business processes, improving the functioning of the economy.

### **Conclusion**

Further improvement is required for: the development of a competitive trade environment; the formation of modern warehousing network and inventory optimization; development of wholesale markets; expansion and improvement of the infrastructure of the enterprises of wholesale trade; the increasing of the role of wholesalers in the marketing of domestic products and the formation of integrated supply chains; the creation of an effective unified information space for the enterprises of wholesale trade and market information services in Ukraine; optimization and legalization of a network of retail and wholesale enterprises; improving the wholesale sale of goods, expanding the range of services that will wholesale intermediaries will provide for producers and retailers; promote the development of e-commerce in wholesale trade, which requires to build its network infrastructure, software, and mechanism of formation of a contractual relationship between participants on this process.

We have developed proposals that will contribute to the optimization of business processes at the enterprise of wholesale trade, taking into account the functional features of the formation of a complex of interrelated business processes in sequence and in their entirety and which are consistent with the overall strategy of the company in the conditions of dynamic changes in the market environment in order to meet the needs of consumers.

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## **ANDRZEJ JAKI**

PhD, assoc. prof. Cracow University of Economics,  
Department of Economics and Organization of Enterprises,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935367,  
e-mail: [jakia@uek.krakow.pl](mailto:jakia@uek.krakow.pl)

## **PIOTR BARTKOWIAK**

PhD, assoc. prof. Poznań University of Economics and Business,  
Department of Investment and Real Estate,  
Al. Niepodległości 10, 61-875 Poznań, Poland, tel. + 48618569119,  
e-mail: [piotr.bartkowiak@ue.poznan.pl](mailto:piotr.bartkowiak@ue.poznan.pl)

# **USE OF LEAN MANAGEMENT AND THE CONCEPT OF A FLEXIBLE ENTERPRISE MANAGEMENT IN THE CONTEXT OF ENVIRONMENTAL MANAGEMENT<sup>5</sup>**

## **Abstract**

The environmental management systems allow for the use of available resources in a way that ensures notable financial benefits, while protecting the depleting natural resources. The functioning environmental management systems admittedly help to reduce the consumption of raw materials, and thus operating costs, but their role is to eliminate the losses which have already incurred. Modern methods and concepts of management as lean management and the concept of a flexible enterprise can be regarded as a complement to already functioning management systems. Thanks to which, the manufacturing companies gain effective tool for building a sustainable competitive advantage

## **Introduction**

The environmental management systems are some of the more common management systems in manufacturing companies. These systems allow for the use of available resources in a way that ensures notable financial benefits, while protecting the depleting natural resources. The functioning environmental management systems admittedly help to reduce the consumption of raw materials, and thus operating costs, but their role is to eliminate the losses which have already incurred. The recent turmoil in the global economy has forced a change in the approach to this subject. On the basis of these experiences, a search of new ideas and management methods, whose primary goal is to eliminate the losses before

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they appear in the production process has begun. Thereby, contributing to the reduction of the functioning costs of the enterprise. Such modern methods and concepts of management include: lean management and the concept of a flexible enterprise. These concepts can be regarded as a complement to already functioning management systems. Thanks to which, the manufacturing companies gain effective tool for building a sustainable competitive advantage, which consists mainly of the reduction of the costs associated with disposal of waste generated at the end of the production process.

### **Evolution of the concept of environmental management**

There are many reasons that speak for the implementation of environmental management systems in manufacturing companies. At this point, we can distinguish the normative, strategic or operational premises.

The environmental regulations, tightening in the late 70s of the 20th century, forced companies to take single, adequate to the situation which occurred, activities at the organizational level. The negative environmental impact was reduced mainly by introducing a filtration and sedimentation systems and external recycling. These activities aimed to reduce the amount of waste and emissions of hazardous substances. In the 80s of the 20th century, on the basis of global environmental problems, the interest from the side of the environmental and consumer policy was returned to the beginning of the process (production input parameters). This process resulted in the introduction of environmentally sound technologies and closing the circulation cycles of materials and raw materials.

Subsequently, attention was drawn to the ecological requirements of the human resources management, and controlling of the company. These actions can be described as comprehensive, aimed at protecting natural resources and closing the circuits. At the operational level, a development from an additive to an integrated approach, in terms of environmental protection, can be observed [6].

The introduction of environmentally conscious business management at the strategic level requires the development of medium-and long-term guidelines that apply to the use of benefits of ecological management. These include the identification of opportunities and threats in relation to particular company's environmental protection, as well as developing, implementing and evaluating the created environmental program. Since the late 70s of the 20th century, the management strategies in the field of environmental protection, were based on empirical and conceptual analysis. For example, the strategies of risk, opportunity, innovation, and neutral behaviour that were conceptually developed by Steger, based on

the market opportunities and potential risks portfolio. Thanks to this approach, a development involving the transition from defensive to offensive strategy of the environmental management took place [1].

In the 90s of the twentieth century, the environment played an important role on the normative level by taking into account the economic and social corporate responsibility. The premise of this process was the integration of environment into overall enterprise value system – the philosophy, principles, or a mission. The main goal of the normative level became increasingly the requirement of the application of the sustainable development principles. This issue is becoming increasingly important, and was launched at a global conference on environment in Rio de Janeiro in 1992 [5].

Initial changes in production were limited only to certain elements related to environmental protection. The decision to introduce innovations was often influenced by local communities and local authorities who enforced solutions by introducing appropriate legislation. Over time, companies started to notice, in the environmental protection, the opportunity to achieve better results. Protecting the environment at this stage was to generate less waste during the manufacturing process. Thanks to which, the same quantity of raw material could produce a more finished product. This resulted in an obvious way to increase the profitability of production and performance indicators related to business processes.

Roughly around the same time, it was noted that positive changes resulting from environmental resource savings can be multiplied by changing the conditions under which people work. Although the process of adjusting the work conditions (environment) began much earlier, but only in the era of the global business development, the approach to this issue changed. Workplace ergonomics has become a way to build a positive image of the company that cares about every aspect of its activities. Indirectly, the two processes, increasing the concern for environmental protection and ergonomic approach to the design of workplaces, resulted in improved financial results. The processes that occurred during this time are only the beginning of changes in the functioning and approach of the businesses to the surrounding environment.

### **Environmental management in a manufacturing company**

The experience of companies shows that at the operational, strategic and normative level, there are diverse requirements for the implementation of ecological management. In order to facilitate to meet these complex requirements, since the mid-90s of the twentieth century, the environmental management systems based on international standards

started to be more commonly used. Currently, there are various mechanisms to support the implementation of such systems. Already in 1992, in the UK, the BS 7750 standard was developed. This was the first standard for worldwide coverage for the environmental management systems which became the basis for the later formed Eco-Management and auditing systems in 1993 (EMAS – Eco-Management and Auditing Scheme) and the ISO 14001 standards in 1996. In April 2001, the revised version of EMAS entered into force, the so-called: EMAS II.

Most companies expect, as a result of implementing the system, the achievement of specific economic objectives, including: reducing the costs associated with the implementation of effective (integrated with the production) technology, which is the opposite of the «end of pipe technology»; the minimization of the risk of liability and the use of increased interest in environmentally friendly products as well as minimizing the cost of raw materials, waste disposal and energy consumption. Many companies also count on the dismissal or reductions in payments due to the economic use of the environment (environmental taxes and charges) and the relaxation of reporting requirements.[10]

The standardization process of the environmental standards ensured the rise of the same rules of conduct in relation to the protection of the environment in all companies in which these standards were implemented. The standardization process itself proceeded in a similar way as it was in the case of the ISO quality standards of the 9001 series. The companies tried to find their own solutions that were appropriate for each situation. With time, some solutions were standardized in the form of an environmental standard and found its application in many enterprises of different industries. The business activity in this area was further stimulated by the rising prices of raw materials and new legal requirements.

It is worth noting that while the ISO 9001 series is implemented in most large manufacturing companies, the ISO 14001 series is not as much popular any more. An effective implementation of a quality standard provides an introduction of some elements into the management system which ensure saving of raw materials. In practice, the environmental standards are introduced by companies, which in a particular way want to emphasize their commitment and concern in relation to the protection of dwindling environmental resources. Regardless of the motives which guided and still guide the companies implementing environmental standards, it should be noted that these activities are focused on liquidation of the consequences of the production (post-production waste, defective products, etc.).

To achieve this goal, the management team also took other actions. With the implementation of the standards, a continuous improvement approach to the production process began to operate in enterprises. The different types of improvements consisted largely on improving the working conditions of employees, by reducing the negative impact of the production process on the environment. Despite the significant financial expenses related to the implementation of standards, companies that opted for these innovations quickly became more profitable. This resulted in a significant increase in the popularity of this type of solutions. Companies who implemented these concepts additionally began to look for new ideas to improve the solutions used by competitors.

### **Environmentally friendly business production management**

Concepts such as: «environmentally friendly business management», «environmental protection in the enterprise,» «environmental management in the enterprise», and «environmental management system» were in the early 90s of the twentieth century often used interchangeably, and therefore different definitions were created. The term «environmentally conscious corporate management» means all activities of a company having a positive impact on the elements of the environment and the interactions between living organisms and the environment – in terms of biological, spatial and social aspects. Managing a business is then ecological, when only partial, but also reactive, measures to protect the environment in the enterprise are used, and where proactive actions regarding the environmental management are implemented. The phrase «environmentally conscious corporate management» therefore presents a generic term that can apply to both, the technical aspects, and the way of management.

The formulation «environmental protection in the enterprise» means all technical activities carried out in order to maintain or create environmental-friendly conditions for the living organisms. These actions are to maintain – from the standpoint of the existing elements of the environment – an appropriate level of purity of air, water and soil conservation, recycling, use or disposal of waste and protection against noise and radiation. In terms of their effectiveness, these activities can be divided into additive and integrated. The additive actions relate primarily to individual devices, and integrated refer to the product.

The environmental management functions, based on the classical form of management by Deming (Deming cycle), can be defined as: «...part of the general management functions, used to prevent the negative impact of business on the environment, the introduction and implementation of environmental policies, as well as controlling the relevant environmental

processes....». «Environmental management in the enterprise» is thus understood as an operational and strategic task, thanks to which:

- environmental aspects are integrated in the basic functions of the company (among others, purchasing, production, sales, organization, investment, human resource management) and at all levels (normative, strategic and operational);
- systematic planning activities related to planning, implementation, controlling and correction of tasks are carried out in the area of environmental protection in the enterprise in accordance with the principle of continuous process improvement.

It can be stated then, that the concept of environmental management considers the total – both active and proactive behaviour of a company relative to the environment. The ecological management with a company therefore includes technical and management aspects, which, through the environmental management system can constitute a holistic approach [12].

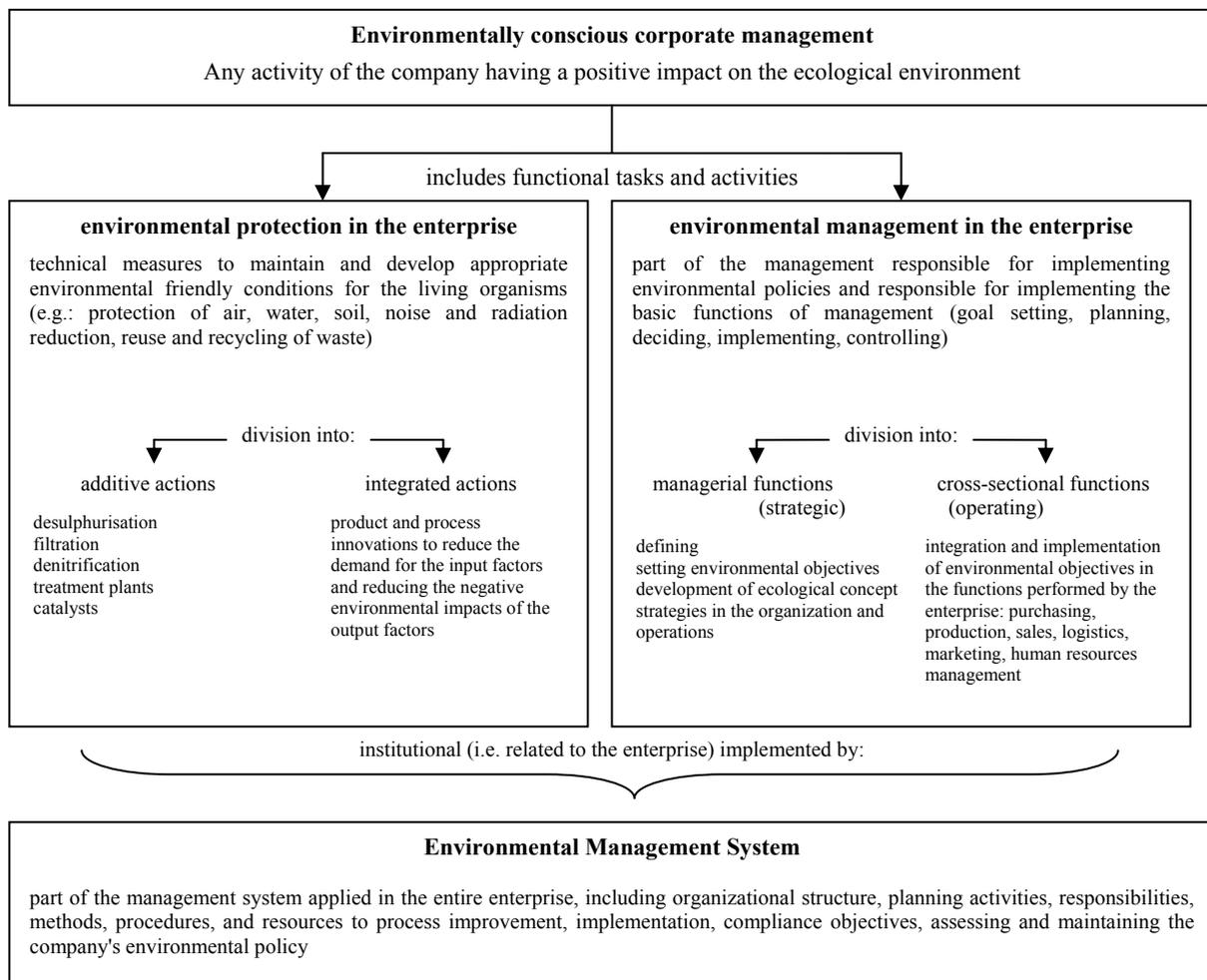
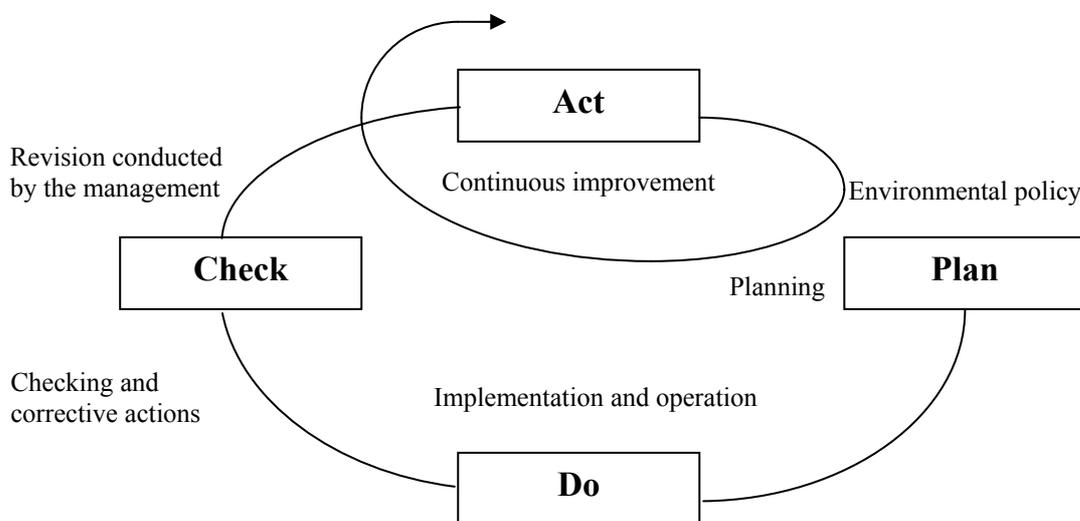


Figure 1. Distinction of concepts between: environmentally conscious corporate management, environmental protection in the enterprise, environmental management and environmental management systems

Source: [14] and [1]

Defining the concept of «environmental management system» one can refer to the definition of the word «management». The term «management» is often used as a synonym for running an enterprise and understood as: «...in accordance with the plan, running organizations taking into account specific purposes...» or «...activities that are necessary in a multi-personal organization with a regulated division of labour in order to achieve specific objectives through the efficient use of resources». A particularly important definition, both for quality management systems, and environmental management is the definition according to Deming, which constitutes the basis for ISO 14001 (Figure 2). It guarantees a process of continuous improvement within a cycle consisting of phases: planning (Plan), implementation (Do), control (Check) and activity (Act) [3].



*Figure 2. Model of EMS acc. ISO 14001 on the DEMING cycle*

Source: [14]

The environmental management systems are designed to provide uniform measures to protect the environment at the following levels: normative, operational and strategic (if possible, based on existing standards). While the environmental management in the enterprise is defined functionally (i.e. referring to the tasks and activities), the environmental management system can be defined institutionally (i.e. referring to the organization). The environmental management in the company then is transformed into the environmental management system, when it is implemented systematically as a constantly recurring process of environmental management in the company of institutionalized structural and procedural organization by national or international standards (such as EMAS or ISO 14001 standards). The commonly used definition of the

environmental management system is based on the definition provided in the ISO 14001 standard and describes him it as «a part of the overall management system including organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for the development, introduction, implementation, evaluation and maintaining the environmental policy» [3].

The implementation of the environmental standards (like the quality standards) forces companies to organize the structure and behaviour changes resulting from the current culture of the organization. Consequently, this leads to the existence in the enterprise the organization culture that is still in learning. The knowledge gained in this way is used to build a more efficient structure and to an ever better use of available resources. Thanks to the idea of continuous striving for excellence, companies do not remain in place and are looking for more effective solutions that assist them in daily functioning.

The effective implementation and operation of environmental management system introduces the company into a new level of management with natural resources. All the solutions used to date, that are used to protect the environment are structured and are based on the procedures of the company. This system does not close, however, the environmental issues to reduce consumption of natural resources. It allows to look at the subject more broadly and fully integrate other factors influencing the environmental protection indirectly. Often, thanks to the introduction of appropriate procedures the improvement of the working conditions was obtained, while making better use of resources. The environmental management system forces the introduction of solutions that protect the environment and the immediate environment in which the employees work. Thanks to which not only the negative influence of the enterprise on the natural environment, but also the workplaces can be improved. The above-mentioned solution ensured a good base to develop a new approach called the sustainable management.

### **Sustainable business management in the context of the Global Reporting Initiative**

Many manufacturing companies «vaunt» with conducting activities in accordance with the principles of sustainable development and therefore seek to develop the current system of environmental management towards the sustainable management system. This is reflected in the increasing number of reports on sustainable development. The companies which are precursors of environmental reports now belong to the precursors of reports related to the sustainable development.

The ISO 14001 standard and the EMAS regulation contain uniform criteria for the quality requirements regarding the form of environmental reporting, and reports on sustainable development do not have harmonized standards yet.

The first step towards the standardization of reports on sustainable development was made as part of the Global Reporting Initiative (GRI). GRI is an international initiative, which was founded in 1997 by CERES (Coalition for Environmentally Responsible Economies) and (Unitek Environment Programme). The aim of GRI is to develop and disseminate guides for the global reporting on sustainable development. The standardization of requirements for the reporting of sustainable development should allow for comparability of the indicators published by the company. In addition to general information about the company, its vision and strategy, as well as politics, organization and management, should be published in a total of 135 performance indicators relating to environmental aspects, social and economic, but also the «integrated performance indicators», combining all the three dimensions. Currently, the GRI recommendations provide a clear reduction of the required number of reported indicators. As part of the funded by the Deutsche Bundesstiftung Umwelt (DBU) research project, a guide for enterprises was published, which includes practical tips on preparing a report on sustainable development [4].

A precise and measurable establishment of the sustainable development in the enterprise is based on an existing, supplemented by social and economic aspects, structure of the EMS. The confirmation of this is the fact of frequent patterning of reports referring to the sustainable development on the environmental report. The existing standardized environmental management systems largely ignore the strategic dimension of the environmental protection. Thus, with time, the concept of the so-called «operational burden» evolved, which was formed by the application of the ISO 14001 and EMAS standards. According to this approach, both standards require from the company an enormous amount of detailed requirements of operational activity, rather than provide evidence in terms of the minimization of the negative environmental impact and the increase of efficiency in the field of environmental protection. As a result, the participation of enterprises in the implementation of sustainable development is not fully utilized [4].

Companies have come a long way since the times in which the environmental protection practically did not exist, to the point where sustainable development has become one of the essential elements of business management. The idea of sustainable development allows to the

company to go beyond the sphere of their own interests associated with the primary goal, which is bringing profits. Thanks to this idea, the company actively influences the environment in which it has to function. The profitability of this idea is primarily based on building a long-term competitive advantage resulting from the care of every aspect associated with the use of natural and human resources. A well-designed workplace generates less production waste. Reducing this waste leads to lower demand for natural resources, which in turn increases the production of performance indicators. Another aspect is the awareness of the fact that the company, through the reduced use of raw materials, today ensures the profitability for itself and others in the future. Without the implementation of sustainable development of enterprises, we can get to a situation in which an efficient and profitable company will not face the problem of lack of raw materials for production.

### **New approach to environmental protection**

In these times of rapid globalization and the revolution in the field of the information technology development it is difficult not to notice what is the place of the development worldwide.

The customers of companies are becoming better informed and their expectations are consistently rising. At the same time, the global competition is becoming fiercer and no one never knows where the new competitor may occur [7].

Management is the field of economic knowledge which is characterized by dynamic development. The mechanization of industrial production is being replaced by automation, which in the forthcoming years will probably replace the «intelligent robotics», combined with the achievements of biotechnology. A side consequence of these processes are: lower demand for labour and the associated unemployment, and a growing threat to the environment. Unfortunately, these problems cannot be removed fully effectively. Hence, in the science of management, there are new concepts that are largely strategic in nature and influence, among others the application in the enterprises the solutions in the field of modern management methods [9].

The presented below modern methods of management with a production company, as opposed to the environmental management system ISO 14001, indirectly affect the natural environment. Despite this, they allow for efficient management of scarce natural resources and reducing the costs associated with environmental protection. The existing solutions based on a system of environmental management and sustainable development are a good basis on which it is possible to effectively implement the modern management systems. In addition, companies

pursuing these ideas more easily adapt to the requirements of new systems and are able to effectively counter the difficulties arising from the turmoil in the global market.

### ***Lean management***

Lean management is the management with a company in a «slimming» way. The concept of *lean* refers to the set of principles and techniques aiming at the maximum cost-effective (slimline) business organization and production process. In general, this entails reducing the number of organizational units and employment, as well as making changes in the organization and technology of production, sales, logistics processes inside and outside, bringing down the costs. In practice lean management may be introduced separately, but can also be regarded as one of the courses of action of a method called *reengineering* [9].

The name of this management concept (lean management) was indeed coined in the U.S., however, it was inspired by the experiences of a Japanese company: Toyota Motor Corporation. This company, since 30 years of the last century has created and refined a production management system, based on the principle of eliminating any signs of wastage. In this system, the most important sources of losses, and hence the possibilities of saving in industrial enterprises were, among others. identified. These included:

- **overproduction** – producing larger quantities than it results from the possessed and reliably projected order portfolio,
- **unnecessary traffic** – unnecessary movement of workers, due to mistakes of the improper organization of work or a lack of sufficient control,
- **awaiting** – the material, the previous operation, quality control, etc.,
- **unnecessary transport** – that is, errors in the concepts of logistics, causing unnecessary movement of materials, components and products, or excessive elongation of road transport,
- **stocks** – the creation and maintenance of stock in central warehouses of the company, departmental stores and at the places of manufacture; this is where the concept of ‘Just in Time’ deliveries comes from
- **defects** – defects in the product, including manufacturing defects and complaints, including defects in design and technology, information system, trainings, etc.,
- **excessive processing** – excessive consumption of materials caused by poor correlation range of the assortment (type, dimensions) of the purchased materials and the actual needs of their processing technologies. [9]

The system also includes guidance on ways of encouraging the employees to implement, in their daily work, the concept of lean management. With the typical Japanese precision, it was specified that it is necessary to:

- keep constant monitoring of the actual production rates and causes of delays and losses, and provide all the employees with any information concerning this subject,
- constantly enrich the workers' knowledge, by a training scheme, which is primarily devoted to the production systematics, cleaning (maintaining order in the workplace) and self-discipline,
- keep optimal maintenance, by sensitizing all employees on any signs of inefficiency of the equipment, including those who do not have a direct contact with it in their work,
- minimize the time of refitting the machines, software changes, repairs, etc.

The concept of lean management is associated with the marketing and logistics management, especially in efforts to organize, shorten and «straighten» the logistics chains and inventory management. Also, in the sphere of purely marketing actions, «slimming» can, among others, relate to the elimination of costs of an advertisement which does not bring any effects, improvement of market research organization, changes in the concept of distribution reducing the costs of mediation [9].

Lean management is a tool that in the broader scope «sees» the problem of environmental management. Using this method, the company is not just limited to the elimination of wastes that are already generated. A proactive approach to natural resource management is applied, which is reflected e.g. in avoiding to manufacture excessive quantities of products. In the classical approach to environmental protection, the overproduction is not treated as an environmental problem. In the lean management, there is an indirect influence on the environment by the elimination of overproduction. This approach is definitely better, because in addition to the obvious limitations on the use of raw materials, there is no generation of the additional costs associated with the production of a needless production batch. The complexity of Lean solutions manifests itself in particular in the approach to the workplace organization. By the use of one of the tools of lean – SMEAD, that is a quick refitting of the machines – the manufacturing process is designed that not only consumes a small amount of raw materials but also reduces the unnecessary movements of workers and shows the simplest way to perform an action in the production process. The consequence of that is to minimize the tools, which must be

used by the employee in order to obtain the desired effect. This improves the ergonomics of the workplace and at the same time reduces the possibility of committing an error, in case of a use of the wrong tools. This in turn leads to more efficient use of resources, and thus to produce a finished product with less amount of human effort, or influence on the environment, etc.

Another lean tool – 5S – in turn allows for the direct improvement of working conditions of workers engaged in the production process. The effect of the introduction of 5S is the increase in cleanliness in the workplace, among others, by reducing the excess processing. This directly helps to rise the indicators related to the use of raw materials in production. The ergonomics of workstations also decidedly increases. These examples demonstrate the strong advantages of the modern methods of management, which is lean management in relation to the use of resources and the environment.

### ***The concept of a flexible enterprise***

An organization, when carrying out their project in a variable environment, must have a strong ability to adapt. Adaptation is a process of accommodation of individuals, social groups, as well as organizations and institutions to the new environment. This implies a need to adopt new norms, values and behaviour patterns. IN order to meet these requirements, the organization (company) should be characterized by flexibility. This feature is easy to adapt to new conditions and to the new situation. It is also (in relation to the company) elasticity, flexibility, extensibility and ease of adapting to a changing environment in which it has to function. These terms are very close in meaning, complementary, and are of particular importance in the analysis of the business in a changing market environment [9].

In the literature on the subject, flexibility of a company is often associated with the ability to adapt of the entire company:

- business flexibility is the ability to adapt to specific changes, global markets, without fundamental changes within the company [11],
- enterprise flexibility means fewer rules and regulations, which gives flexibility in acquiring and disposing of workers and their effective use in business tasks [13],
- a flexible company is the company whose structure and culture enable its quick adaptation to the changing customer needs and requirements of the competition [2],
- flexibility consists of: external flexibility (external flexibility requirements of the source of competitive advantage, the diversity in a particular

environment) and internal flexibility (the set of capabilities to compete in the external dimension) [17],

- flexibility is the ability to make transformations of the structure or qualities of the system at which there is the maintenance or achievement of its stationary or dynamic equilibrium; the approach of the equilibrium is a spatial, relative recognition, and assumes the existence of the relative size of the reference (fixed or variable over time) [17],
- flexibility is seen as a series of adjustments and stabilities (including the assumed dynamic), within shorter or longer periods [16].

The literature on the subject also presents a different approach to business flexibility together with their different characteristics. On the basis of which we can distinguish the following types of flexibility: reactive, adaptive-inertial, anticipatory, creative. The first two flexibilities are called passive, while the latter two are called active flexibilities. The literature also stresses that because of the time horizon and the hierarchization of elements of the company and its environment, the classification of flexibility concerns the operational, tactical and strategic level [16].

The complement of the reference to the issue of flexibility of the company in the rapidly changing environment is focusing on the characteristics and manifestations of flexibility and the tools and mechanisms affecting its implementation. The features, that characterize an ideal, flexible enterprise are:

- ability to follow changes in the environment and to develop more quickly than competitors,
- efficient system of learning about the customers' feedback and responding to their expectations,
- short decision-making processes: a flat structure,
- authorization of executive staff,
- the staff used to changes [2].

An important category of a company's flexibility are the tools (mechanisms) that affect its provision. The flexibility model of the company as a function of the ability to control and make changes include: the tasks of the management determining about the company's range of control and its environment, that is, a consequence it is readiness to respond to changes (the range of control should include technology, organizational structure and the corporate culture) [15].

However, the basic tools (methods) that affect the company in terms of the provision of the company's flexibility include: the redundancy of

resources, the diversification of activities and/or resources, monitoring, decision-making processes. The intelligent application of these tools in the management process enables the company to guarantee a high level of flexibility in the changing market environment. The company implementing, in its activities, the process of organizational learning, using its intellectual capital through the above tools will be able to adapt its regeneration potential to the changing environment [8].

The flexible company concept allows companies to respond better to the demands related to the adaptation to the changing business conditions. With regard to environmental management, the implementation of flexibility deals with the use of all opportunities to reduce the costs that are associated with the use of the environment. Interestingly, companies that did not formally implement the ISO standard of the 14001 series, are in a better situation. When implementing the flexible business ideas while maintaining environmental protection objectives, the companies can minimize the number of required processes, at the same time achieving better results in environmental protection. Flexible companies are able to change their approach to environmental issues quickly, due to: changing laws or the increasing market requirements. This allows for faster response and implementation of new environmental solutions than the classical system of environmental management.

Another element that distinguishes a positive management approach is its holistic approach to any changes. New environmental requirements are implemented simultaneously with changes that affect the raising of the workplace's ergonomics. The flexible approach allows for additional positive results in the activity of the entire enterprise. A flexible enterprise responds much faster to market needs and can fully use each change forced by the market, thereby achieving the above-average financial results.

### **Conclusion**

Environmental protection has become one of the decisive elements that help in building an efficient competitive advantage of a manufacturing company in the times of a global economic downturn. For many years, the companies introduced only a few improvements which gave measurable effects on the natural environment. Currently, in order to build a competitive advantage effectively, we need to completely change the approach of companies to the ecology problems. In the era of universal access to information, it is increasingly more difficult to hide uncomfortable facts about the functioning of the enterprise from the public (consumers). Information about pollution or about the negative impact of a company on the surrounding environment leads to a decrease in revenues, and often to serious financial problems. Manufacturing companies, have

realized this and now they try to find a way to prevent or eliminate environmental problems at the earliest possible stage. Initially it seemed that the correct implementation of various environmental management systems will eliminate these problems. With time, these systems were standardized, and a general model of environmental management was built, which was standardized in the ISO 14001 international standard. This standard is currently the most widely used model of environmental management by manufacturing companies.

The problem is still the choice of an appropriate management system that will achieve success in the global market. The implementation of the environmental management system only, allowed, to date, for the introduction of solutions, which led in an orderly manner to achieve this goal. However, it has to be born in mind that the very idea of an environmental management system was established some time ago, in somewhat different conditions. Although this system has evolved over the years and now tends towards sustainable development, however, globalization requires the implementation of appropriate solutions. The modern management concepts such as lean management, the concept of flexible companies or organizations are able to look more broadly at this issue and provide effective management tools in a dynamically evolving free market economy. Moreover, it seems that nowadays the sole implementation of the environmental management system is not enough anymore to meet the challenges that a company has to face.

The functioning environmental management systems admittedly help to reduce the consumption of raw materials, and thus operating costs, but their role is to eliminate the losses which already incurred. This means that companies are in a situation in which the well-functioning environmental management systems allow for the elimination of losses that occurred during the manufacturing process. On the basis of these experiences, a search of new ideas and methods of the management with a production enterprise, whose primary goal is to eliminate the losses before they appear in the production process has begun. The response to this issue are the modern methods and concepts of management, such as: lean management and the concept of a flexible enterprise. These concepts can be regarded as a complement to already functioning management systems. They can also be treated as separate systems. Regardless of the separation or combination of these systems, it should be noted that all of these systems allow to avoid generating unnecessary costs. In particular, the costs associated with the exploitation of the environment. From this perspective, these systems are particularly useful in building a sustainable competitive advantage, especially in turbulent market environment.

An additional merit of modern methods and management concepts is their comprehensive approach. The problems of environmental management are fully integrated with the needs of workers. This is expressed through the creation of ergonomic work stations, through which it is possible to indirectly obtain larger environmental effects. Thanks to ergonomics, it is feasible to create jobs, which in a holistic way meet environmental requirements, while remaining friendly to the employees. The synergy effect occurs here, which allows to obtain a skilful combination of multiple benefits of the environmental protection objectives with the «friendliness» of a workplace.

Modern technologies such as lean management and flexible enterprise organizations are able to react quickly to the changing needs of societies. At the same time responding to these needs, they can generate additional profits resulting in obtaining an effective competitive advantage built in compliance with environmental resources.

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## **ANDRZEJ JAKI**

PhD, assoc. prof. Cracow University of Economics,  
Department of Economics and Organisation of Enterprises,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935367,  
e-mail: [jakia@uek.krakow.pl](mailto:jakia@uek.krakow.pl)

## **TOMASZ ROJEK**

PhD, assist. prof. Cracow University of Economics,  
Department of Economics and Organisation of Enterprises,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935367,  
e-mail: [rojekt@uek.krakow.pl](mailto:rojekt@uek.krakow.pl)

# **THE ROLE OF FOREIGN INVESTMENT IN CREATING THE DEVELOPMENT OF THE SOCIO-ECONOMIC SYSTEM<sup>6</sup>**

## **Abstract**

Foreign investment is a special form of international capital turnover. In its effect not only the transfer of funds, innovations, intellectual capital, but also the transfer of specific investment goods takes place. It is asset investment which should serve the establishment of permanent international contacts between the countries of exchange. It builds permanent economic relations based on property placement, which inclines international entities to seek business safety. At the same time, it exerts strong but both positive and negative influence on the development of the socio-economic system. The paper presents the essence of foreign investment, analyses its localisation factors and effects with special consideration of the influence on the development of the socio-economic system in Poland.

## **Introduction**

An investment is a venture whose essence is present renunciation for the sake of future benefits. The present is relatively certain, while the future is unknown. Therefore, an investment is a sacrifice of the certain for an uncertain benefit [1]. When we narrow the term of investment to foreign investment, we can discuss it from two points of view. In the macro-economic approach, foreign investment is defined as the flow of capital or as one of external sources of financing the economy of the hosting country. In the micro-economic approach, it is defined as the basic source of

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financing transnational economic entities and the transfer of necessary factors of production outside the country [5]. In other words, it is a capital investment in a foreign firm in order to achieve permanent influence on the management of its activity and make profits on it [8].

In the first place, foreign investment is important for countries whose savings are too small in relation to potential investment demand. Then, foreign capital can be an important means stimulating fast economic development. Therefore, the inflow of foreign investment contributed to the acceleration of socio-economic changes and became the main tool of support for restructuring, revitalisation, privatisation processes in the period of the transformation of the Polish economy, which was difficult for the society [2]. The consequence of the adaptation of foreign capital in Polish enterprises, organisations, local governments was the implementation of new production technologies, management techniques, creation of changes in product and service demand fulfilling international standards and adaptation to market requirements. The process triggered entrepreneurial behaviours and innovative activities of citizens, enterprises and regions. In Poland's investment strategy, foreign investments aimed at the internationalisation of the domestic economy, getting it out from the economic and social backwardness, the integration of Poland's economy with the economy of the European Union. Moreover, foreign investment, in addition to portfolio investment and external bank credits for enterprises, is the main source of capital not increasing the sovereign debt. In the economic sense, foreign investment is identical to domestic investment [1]. What makes them different is the origin, capital ownership structure, decisions concerning net profit allocation, the time of retaining capital in the location. Foreign investment is a financial capital which in so-called «investment portfolios (packages)»<sup>7</sup> is a fast (imported) vehicle of the implementation of innovation in the economy [7]. Imported innovations, acquired in the *know-how* formula are primarily modern technological solutions, innovative production technologies, modern organisational solutions, innovative management systems and methods.

### **Positive and negative aspects of foreign investment**

In the assumptions of the economic development of a country, foreign investment is still of strategic significance for an economy. A substantial effect of foreign investment for the economy of a country is its impact on the level of GDP and GDP per capita, as well as the volume of

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<sup>7</sup> Investment portfolio is a set of financial (such as shares and debentures) and real (such as real estate) assets of a investor, being a form of investing assets.

exports, leading indirectly to an increase in the number of jobs, economic recovery to the regional and local scale.

Foreign investment contributes to the stabilisation of the balance of payments of a country, enhances the stabilisation of the exchange rate. It is extremely important for a country which is characterised by a low domestic savings rate and high current account deficit. Since the globalisation process increases competition on the market, which causes a necessity to modernise products and production processes, it is foreign capital which is an important supplementary source of financing investment of domestic entities.

Foreign investment, as every economic phenomenon, affects the environment in which it is implemented. This effect is both positive and negative.

Among positive effects we can undoubtedly point to the growth of export opportunities of a bigger and bigger number of enterprises, higher financial outlays on the improvement of staff qualifications or «attracting» new, foreign business partners [4]. It should be emphasised that the positive impact of foreign investments is beneficial mostly in the initial period of the economic transformation of a hosting country whose low level of equity limits developmental capabilities. Foreign investment causes reduction of technological differences between developed and developing countries. The growth of the level of competition of domestic enterprises takes place, solutions (technological ones, for example), applied by foreign investors have a stimulating effect on local firms, inspire them to implement new solutions [12]. Without a doubt, all these factors directly influence raising the attractiveness of regions in which investment has begun, and thus the growth of competitiveness and development of the whole socio-economic system.

Negative consequences of foreign investment also result from the impact of foreign investment on domestic entities in respect of posing too strong competition for local businesses [14]. It translates directly into the reduction of their developmental capabilities, the consequence of which is the weakening of the market position. Another risk consists in low inclination of foreign investors to cooperate with local enterprises, as well as winning their markets by using dumping prices and taking advantage of the actual monopolistic position.

Therefore, in countries undergoing political transformation, which means that these are usually countries with low economic potential, including Poland, there is a constant need to modernise the economy. The need for the modernisation of the economy aims at stimulating the directions of links with the international environment. The choice of a

beneficial direction of international cooperation requires reconsideration of the strategy of the development of regions, and defining strategic benefits. The instrument which influences it considerably is the choice of the place of origin of foreign direct investment. The expectations of the country hosting investment are multiphase, they concern real investment, making distribution channels, cooperation links and benefits arising from so-called offset available.

### **Localisation conditionings in the process of the adaptation of foreign investment**

A decision about the localisation of foreign capital in a given country is dictated every time by macroeconomic factors related to the condition and the conditionings of the hosting country, however, at the further stage, their localisation is determined by regional factors. Among them, in addition to transport infrastructure and sales markets, there is intellectual capital, human capital, social capital, institutional environment, as well as development capital and structural capital. Foreign capital is particularly sensitive to the economic, social and political stability in the inviting country or region. Creating stable conditions for the functioning of external capital is an important negotiation factor for achieving relatively better benefits for the economy.

From the point of view of the investor, also value and costs of the of the factors of localisation are significant. They are changeable throughout the country, region or even town. The basic criterion determining the benefit of a given localisation is the sum of their values [9], difficult to be measured precisely because it includes measurable and immeasurable factors. These are, among others:

- the value of available environmental resources, namely the value of the totality of conditions which a given area offers to an investor for its activity;
- the value of spatial factors, e.g. the shape of the area, the size of the area, transport accessibility, distance from the centre and to the sales market, location in relation to other components of the region;
- the value of social and cultural factors of the community living in a specific area;
- the value of political factors, e.g. the scope of the competences of local self-government authorities, the way of exercising power, investment climate created by local authorities, the quality of services for an investor, political views represented by local self-government authorities, the level of the acceptance of the authorities by the society;

- the value of legal and administrative factors which to some extent are related to political factors;
- the value of economic factors being the product of the economic and social development;
- the value of technical and technological factors.

In the decision-making process an investor analyses not only the offered values of the factors of localisation, but also the costs of winning the factors of localisation. Only the cost-benefit balance becomes a premise for taking decisions connected with the choice of a new localisation.

The investor's costs related to a new localisation include, among others:

- the costs of establishing a new enterprise,
- the rate of return on the incurred financial outlays,
- the costs of extending or building new technical infrastructure,
- the costs of electricity, water, sewage, environmental protection,
- the costs of forming new production links and distribution,
- the costs of labour and winning new technologies,
- adaptation costs,
- the cost of demand recession risk,
- the cost of crossing the borders of the region with the regional and global environment.

The value of the factors of localisation changes in the long term. We can observe a change in the scale of their influence in time and space with regard to sectors of economy, types of production, both in terms of their qualities and also relative significance. The changes are presented in Table 1.

*Table 1*

### **The hierarchy of the factors of localisation in investors' opinion**

Research in 1964	Research in 1996	Research in 2012
<ul style="list-style-type: none"> <li>- Easiness of hiring workforce</li> <li>- Convenient links with the market</li> <li>- Possibility to buy buildings and other real estate</li> <li>- Manpower cost</li> <li>- Easiness to buy raw materials</li> <li>- Weaker influence of trade unions</li> </ul>	<ul style="list-style-type: none"> <li>- Proximity of sales markets</li> <li>- Means of support for business activity</li> <li>- Manpower cost</li> <li>- Workforce qualifications</li> <li>- Proximity to a motorway</li> <li>- Proximity of suppliers</li> <li>- Electricity costs</li> <li>- Services of local banks</li> <li>- Support from chambers of commerce</li> <li>- Good image of the city and region</li> </ul>	<ul style="list-style-type: none"> <li>- Technical and economic infrastructure,</li> <li>- Transport accessibility of the place of localisation,</li> <li>- Sales market,</li> <li>- Agglomeration benefits,</li> <li>- Scientific and research facilities (innovative academic centre),</li> <li>- Human capital potential,</li> <li>- Demand volume and level of its concentration (large sales market in the region)</li> </ul>

Research in 1964	Research in 1996	Research in 2012
<ul style="list-style-type: none"> <li>- Local cooperation opportunities</li> <li>- Headquarters</li> <li>- Climate</li> <li>- Transport costs</li> <li>- Plenty of power</li> <li>- Special industry centre</li> <li>- Transport equipment</li> <li>- Decentralisation of activity</li> <li>- Beneficial tax structure</li> <li>- Financial aid</li> </ul>	<ul style="list-style-type: none"> <li>- Aid from enterprises supporting entrepreneurship</li> <li>- Price of land</li> <li>- Local fees</li> <li>- Costs of renting facilities</li> <li>- Communal administration</li> <li>- Proximity to institutions of higher education</li> <li>- Proximity to research institutes</li> <li>- Public transport</li> <li>- Accommodation</li> <li>- Healthcare facilities</li> <li>- Flight connections</li> <li>- Supraregional rail connections</li> <li>- Cultural offer</li> <li>- Recreation facilities</li> </ul>	<ul style="list-style-type: none"> <li>- Possibility to take over vacant facilities</li> <li>- Financial aid for investors from state/local budget</li> <li>- Favour and competences of local authorities</li> <li>- Favourable investment climate</li> <li>- Costs of land</li> <li>- Friendly natural environment</li> <li>- Stability of law</li> <li>- Stable taxes</li> <li>- Low costs of local fees</li> <li>- Access to social infrastructure</li> <li>- Cultural offer</li> <li>- Healthcare facilities</li> </ul>

Source: own study based on: [3].

Nowadays, the most important factors of foreign capital localisation in individual regions of Poland include beneficial location and transport links of the place, a large sales market in the region, high supply and low price of workforce, a possibility to take over vacant production facilities, a possibility to find new sales markets, the relationship of the Polish partner with the region and the relationships of the foreign partner with the region.

On the other hand, the largest barriers constraining the inflow of investment include: the weakness of the market infrastructure, the narrow size of the local market, limited purchasing power of the population, lack of skilful workforce, reluctance of local authorities towards foreign investors, unfavourable attitude of the population to foreign capital.

#### **The influence of foreign investment on the socio-economic system**

The influence of foreign investment on economy is multi-faceted, it is defined as positive or negative influence, it can also be indirect or direct (Table 2). It is believed that as a rule, advantages coming from foreign investment exceed its undesirable effects and that it is a positive impulse for the economy in which it is located [11]. The most important quality of foreign investment is believed to be the ability to mitigate socio-economic disproportions in the economy.

The most fundamental phenomena proving the positive impact of foreign capital in Poland include:

- the inflow of capital to the budget, as well as an increase in outlays on investment implemented by enterprises,

- the effect of imitation [13], particularly noticed in the food industry and the production of cleaning products. In these areas Polish firms are trying to keep up with strong foreign competition very fast, and not only do they pattern themselves on it in respect of the assortment but also in the manner of advertising and marketing,

- the rise in employment in firms with foreign capital participation,
- improving staff qualifications in firms with foreign capital participation,

- the inflow of new products and methods of production, the access to new markets,

- an increase in cooperation with domestic firms, manifested, among others, in the growth of the competitiveness of sectors.

*Table 2*

### **Positive and negative effects of foreign investment**

Effects	Positive influence	Negative influence
Directs	<ul style="list-style-type: none"> <li>- the inflow of capital enabling restructuring of the economy of the region,</li> <li>- the growth of production and employment in the region,</li> <li>- an increase in the income of the region,</li> <li>- application of new methods of management and organisation of production,</li> <li>- production of higher quality,</li> <li>- the launch of new and well-known brands,</li> <li>- an increase and diversification of production and exports,</li> <li>- exerting beneficial influence on the state of the environment, better protection measures,</li> <li>- improving professional qualifications of local workforce,</li> <li>- an increase in the remuneration level,</li> <li>- filling gaps (between the desired and the actual state of investment with regard to management and organisation, efficiency and innovativeness, etc.) of the hosting country and region,</li> <li>- the rise in the use of other factors of production (labour included),</li> <li>- exerting influence on the local business environment,</li> </ul>	<ul style="list-style-type: none"> <li>- exerting adverse influence on the state of the environment (degradation in the case of so-called dirty technologies),</li> <li>- restraining competition (in the situation of an investor's monopolistic position)</li> <li>- excessive exploitation of natural resources,</li> <li>- pushing out domestic enterprises, capital from the market (including so-called hostile turnovers),</li> <li>- reduction of jobs as a result of the consolidation of production, the use of new technologies,</li> <li>- evading Polish tax system, moving profits out of the country, low inclination to reinvest profits in the country of investment,</li> <li>- development of undesirable areas of business activity</li> </ul>

Effects	Positive influence	Negative influence
	<ul style="list-style-type: none"> <li>- improvement in quality and the growth of domestic production,</li> <li>- impact on regional and local competitiveness,</li> <li>- development of infrastructure,</li> <li>- proper use of the existing industrial assets and economic infrastructure,</li> <li>- development of the desired areas of business activity.</li> </ul>	
Indirect	<ul style="list-style-type: none"> <li>- penetration of good models (e.g., implementation of new technologies, methods of the organisation of production, etc. to domestic firms),</li> <li>- positive developmental impulse,</li> <li>- a decrease in regional disproportions,</li> <li>- promotion of the region on the principal financial and investment markets.</li> </ul>	<ul style="list-style-type: none"> <li>- elimination of domestic producers from the market,</li> <li>- strengthening regional disproportions,</li> <li>- unfavourable investment structure.</li> </ul>

Source: own study based on: [10]

The most important phenomena proving the negative influence of foreign capital in Poland include:

- evading the Polish tax system and low inclination to reinvest profits,
- small percentage of greenfield investments in the total number of ventures,
- high share of supply import for enterprises with foreign capital participation,
- slow process of technological modernisation, as well as no inclination to develop research and development activities in Poland,
- rather slow inclusion of Polish firms in cooperation.

### **Conclusion**

Globalisation processes are characterised by streams of the flow of capital which looks for attractive localisations defined as benefits. The choice of the place of residence is conditioned by capital upon stability and net profit, benefits for the hosting countries are of secondary importance to it. It is the hosting country on which the conditions of the stay of capital mostly depend. The bigger budget deficit of the hosting country, insufficient accumulation, low technological level of production, low level of scientific research, backwardness in comparison with the world trends in the scientific and technical progress, the more difficult negotiation conditions. Therefore, foreign investment as a developmental opportunity for the

hosting country should be used for the development of science, the capability of implementing its achievements, reinvestment of profits, deep modernisation of individual enterprises.

The transfer of new technologies and knowledge, taking place as a result of the inflow of foreign investment, should translate into beneficial changes in the structure of the state economy, improve its competitiveness on international markets, influence the change in the structure of export in which goods with a high level of processing have a big share.

In spite of the existing also negative results of foreign investment for economy, it is still regarded in Poland as a strong source of external supplementation of capital shortage. This strong belief among numerous decision makers and economic strategists that the investment in every form is an element of the modernisation of economy needs to be corrected. The socio-economic system of Poland should be focused on the acceptance of innovative industries which guarantee building a network of regional cooperation in the form of clusters, business incubators, technological parks, offer location for state-of-the-art laboratories and participate in research and development cooperation. Foreign investment should constitute the supplementation of the country's internal capital, be an income tax payer, become the place of the transfer of licences, patents, copyrights, really shape the innovative economy of regions.

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## **GRYGORII KHORUZHYI**

Doctor of Philosophy, professor  
Kyiv National University of Trade and Economics,  
Department of Philosophy and Social Sciences

### **SOCIAL DISPARITY AS A PROBLEM OF TRANSITIONAL ECONOMIES.**

#### **Abstract**

Successful economic development of post-socialist countries requires harmonisation and coordination of life interaction between different sectors of society. The efficiency of the Ukrainian economy greatly reduces disparities that characterise the social and economic area and need to overcome.

The article examines the social contradictions of economic development of Ukraine and their endogenous and exogenous causes. Автор приділяє увагу соціальним диспаритетам в українській економіці. In particular, are considered a low GDP per capita of population, poverty, inequality, social injustice, corruption, low indices of the Global Gender Gap Index, happiness, peace and so on.

#### **Introduction**

The transitional economy is characterised by several features and socio-economic problems and contradictions. The signs of the current economic situation in Ukraine are the following: a) the opposing interests of social production, b) untimely resolving conflicting interests of social production; mass poverty of the population; b) corruption; c) the need for deeper economic reforms.

#### **The contradictions of the socio-economic situation in Ukraine.**

Ukraine has a relatively large market, some highly developed sectors of the economy, the proximity to the EU market, favourable natural conditions for agriculture, cheap labour. Reforms in Ukraine are aimed at improving the competitiveness of the economy. Meanwhile, foreign direct investment in Ukraine by the end of 2016, according to Ukrainian statistics, totalled 45 billion USD and compared to other countries in the region remain low. (1)

In this case, there are economic, legal and political instability and the constant threat from Russia, and so on. Social indicators over the years grow very slowly. It remains the low level of gross domestic income per capita. According to various sources, more than forty percent of the

population consider themselves poor or very poor. Therefore, Belarus and Ukraine, according to certain economic indicators are regarded as developing countries. (2)

The modern theory of endogenous and exogenous growth explains the situation by underestimation of the technical process and the lack of innovation, inhibiting economic growth (3). But there are quite important socio-political reasons – endogenous (internal) and exogenous (external). In the first case, the social structure of a country is incapable of producing tools for solving these problems. The second – the causes of underdevelopment are outside, that are connected with the influence of other countries (4).

The specificity of the Ukrainian economy and its long-term crisis and fairly slow development explains the simultaneous influence of both groups of factors. Among the endogenous factors are political and legal instability in the country, the lack of effective economic and social policies, state failure, the significant role of oligarchic capital, the effect of the internal and external policies of our country. External factors are related to energy dependence on Russia for many years and the occupation of the Ukraine. The combination of endogenous and exogenous effects caused the unstable economic development of Ukraine and its low rates, the availability of certain imbalances, inconsistencies and contradictions.

The intrinsic Ukrainian economy, social disparities not only distort the minds of people but also significantly hamper economic development. The term «disparity» comes from the Latin language. Thus, *Disparatum*, means mismatch, disproportion, difference, inequality (5). Under the disparity in social and economic sciences to understand the differing socio-economic conditions and personal development. According to various sources, more than forty percent of our population consider themselves poor or very poor. (6). That refers to the significant differences in standards of living compared to other European countries.

A characteristic feature of transitional economies is inequality. On the one hand, it is a prerequisite for motivation. However, unregulated property differentiation may become a factor of social destabilisation, which reduces economic efficiency. In the social sciences, the debatable question remains «fair» and «unfair» legitimate and illegitimate inequalities. Social disparity inequality can be considered to provide resources, including education, health care, income security and living conditions and personal development that people are regularly based on certain social conditions. And while the rest of society has such opportunities.

The social inequality that becomes possible due to various reasons, including the ability to influence certain social groups. Obviously, the organisation as a result of the allocation of resources and life chances can vary greatly. Social inequality means providing resources and living conditions of certain groups on a regular basis is the best and these groups always have a beneficial life chance and opportunities of implementation. The concept of «inequality» put a «horizontal» and «vertical» differences. Discussed the issue «just» and «unjust» inequality, such as floor «adhesion agent of its legitimacy.

However, gender inequality persists Ukraine. It shows a low chance in the different spheres of life high: 1) career opportunities, participation in the economic process; 2) access to education; 3) access to health care; 4) political participation. In general, gender equality index shows (The Global Gender Gap Index) that Ukraine is 69 (out of 144).

The disparity also includes the injustice that represents one of the most important values in socially responsible and democratic social systems. The value of social justice is crucial to human society as forms of orientation behaviour. In understanding the role of the social market economy fundamental values are considered in a double aspect.

First, they act in the context of the cultural framework of society, part of which is economics. Second, the main function of value creation is appropriate to order in the economy. The special role of social justice based on the recognition of a specific image of man, understood in the tradition of Aristotle as a social being regarded as individual seeking to obtain maximum benefit and guided by their own rational interest.

Like all other core values of social justice is a general social orientation that affects all aspects of life and forms the orientation behaviour. Implementation values of social justice in accordance with the concept of the social market economy focuses not on a unilateral understanding of right and the preservation of a balanced relationship between different types of justice. We know justice, to ensure the common good (*Justicia legalis*), exchange or commutative justice (*iustitia commutativa*), refers to the replacement of the payment and distribution justice (*iustitia distributiva*). (7) Social justice stands as one of the highest values in a responsible and democratic society.

The consequence of social disparity in countries with economies in transition is corruption. It is a social phenomenon that in Latin (*corruptio*) means bribery, damage, decay. Nowadays, it is abuse in the administration, justice, economy and politics. Law of Ukraine on Prevention of Corruption

determines (Article 1) this phenomenon as the use of a person granted him authority and capacity to obtain an undue advantage.

The legislation of the European countries can find a definition of corruption as the abuse of their functions in the administration, economy, justice and politics in order to obtain tangible and intangible benefits that are not legitimate claims. Today, Transparency International defines corruption as the abuse of a trusted authority for personal gain. (Corruption is operationally defined as the misuse of entrusted power for private gain.) German Federal Criminal Office defines situational, structural and network corruption, which can have both active and passive form.

Widespread corruption in the government, which has its own history. For example, one-time Prussian officials were paid no more than two-thirds of the required fee, and the rest they had to get themselves. So corruption has performed a kind of compensation not received salaries. The practice of paying public employees all wages was French invention.

A shadow economy is considered a common source of corruption, that reflects the level of criminalization of economic processes, lower legal and financial culture and, according to various sources, is fixed at 30-50% of GDP. It's overcoming is not reduced to anti-corruption and calls for specific legal measures. The above-mentioned law of Ukraine (art. 1) is imposing criminal, disciplinary and/or civil liability for corruption. However, please note that corruption violates the interests of many people and inflicts significant damage to the interests of the economy. A common source of corruption is considered a shadow economy, which reflects the level of criminalization of economic processes, lower legal and financial culture and, according to various sources, is fixed at 30-50% of GDP. It's overcoming is not reduced to anti-corruption and calls for specific legal measures. The above-mentioned law of Ukraine (art. 1) is imposing criminal, disciplinary and/or civil liability for corruption. However, please note that corruption violates the interests of many people and inflicts significant damage to the interests of the economy.

By some estimates, annual losses of the world economy from corruption reaches 2 percent. According to IMF estimates, the world today is estimated bribe in the amount of two trillion dollars, and the Organization for Economic Cooperation and Development (OECD) believes that inflicted so sorry is reaching 4 trillion dollars a year. So, corruption is permanent and influential factors hindering economic growth. Corruption seriously undermines the Ukrainian economy. According to Transparency International, the index of corruption in Ukraine last year,

along with Iran, Kazakhstan, Nepal and Russia shared 131 ranking position (Corruption Perceptions Index, CPI)

A necessary condition for the economic and social development of any country is freedom. Its criteria are considered to democracy, human rights, civil and political freedoms, freedom of the media. In Ranking Freedom in the world (Freedom in the World) Ukraine occupies the 105th place (out of 195). Category «freedom» is considered as the ability to make and execute a selection. Therefore, one must understand the essence of each of his choice and take certain decisions. In terms of the law relating to freedom of fundamental human rights. Legal freedom can be divided into three main groups: political, economic and social freedom. Economic freedom makes it possible to make their own economic decisions, including the right to property, use of it and profit from it. The right of every organised society forms a complex model of balanced freedoms and restrictions. The main limitations sense of freedom is to protect others from harm. On the other hand, everyone must recognise certain duties and responsibility.

Citizens of Ukraine have a relatively high rate in Human Capital Report (Human Development Index). It is defined by the following criteria: 1) the level of literacy; 2) employment; 3) life expectancy; 4) quality of life. In general, Ukraine is in 26th position in the world (out of 130).

Evidence of social disparity in the level of GDP, life expectancy, the presence of civil liberties, a sense of security and confidence in the future, the welfare of the family, job security. Therefore, in the happiness index (World Happiness Report) Ukraine ranks 123 (out of 157).

Russian aggression, the occupation of Crimea and Donbas fighting crime represent Ukraine as a dangerous country. In the peace Index (Global Peace Index), Ukraine occupies the 156th position (from 163). This situation greatly reduces the possibility of foreign investment and significantly hinders economic development.

Overcoming social disparities in the Ukrainian economy requires reforms in different sectors. The modern economy increasingly requires a combination of economic and social factors and that was once again confirmed by the joint research of the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), published in 2014. The central result was that economic growth slowed inequality and other social problems.

Experience in different countries shows the need for a harmonious combination of the economy with social and environmental spheres. This

economy is integrated into society and regulated by social needs, interests, norms and values. In turn, social environment surrounded by natural and can not ignore its laws. Such an integrated model was developed by the research centre in Karlsruhe (Germany). It provides a «guarantee of human existence», «public saving potential of man» and «preserve development opportunities and activities.»

So it comes to sustainability. The economic dimension means that society can not live outside opportunities and by future generations. This vector is aimed at economic development under certain environmental limits and because of intergenerational justice and global justice. «Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs.», (8). Thus the natural resources used, you could always regenerate and provide ecological cycle. It is also important to ensure the sustainable economic development, employment and sufficient financial means to save natural justice, welfare and ecosystems.

The environmental dimension of sustainability must take into account the value of nature, the desire to preserve natural resources and ecosystems. For conservation of natural resources is the basis of social and economic activity. It's ecosystem formed by various social forms adapted to the living space and appropriate forms of management culture. For example, the perfect environment is a prerequisite for health «, in society, which, in turn, enables financial income, contributing to the welfare of society and can be used for conservation. Parity economic, social and environmental dimensions have ensured the integrity to make their mutual influence possible.

To overcome social disparities in our country is necessary harmonious combination of the advantages of industrial and agricultural production methods. For example, a lot of people nowadays say that Ukraine is an agricultural country and is allegedly a major target of economic development. We know that providing the necessary food growing world population is a major challenge of our time. Obviously, the sale of grain can be seen as a source of foreign currency. However, you can choose a different strategy of development, including export finished products without grain, and products. That is an additional cost. A necessary and very important goal, it should consider the preservation of the ecosystem.

At the same time, we must not forget about the fourth industrial revolution, which so convincingly described the organiser of the Davos

Forum, Klaus Schwab, calling it «intelligent factory». This is a quantum leap in innovation development, including more closely combining industrial production with digital technology, more comprehensive and integrated measures the faster diffusion of new technologies. So it arises the question about prospects for the near future. For the world is very stretched in its development. Professor Schwab says that 17 percent of the world population, nearly 1.3 bln. people are not yet fully reached even the by the second industrial revolution.

An important prerequisite for overcoming social disparities, covering different sectors of the economy, is the UN Global Compact Eng. United Nations Global Compact. This – the UN initiative aims to promote social responsibility and support the creation of a more stable and inclusive economy. Ten principles are embodied in the United Nations, covering human rights, work, environmental issues and opposition to any form of corruption.

For economic development, it is crucial to adequate and quality education, which, in turn, affects not only the level of development but also the state of employment. Thus, people with higher education- it is 2.5% for workers with complete professional education – 6.6 percent and people without professional education reaches 21.9 percent.(9)

An example would be the so-called dual system, which is now showing interest in Ukraine. We know that universities combine academic research on teaching and learning. However, for example, in Germany, this form of learning is not limited to professional academies and high schools, but also of the universities. However, a prerequisite dual training is signing labour agreements with some of the student enterprises that will pay for his work and practical training at a company that has to be done before accession. Similar conditions exist for training skilled workers who combine school lessons and professional practice.

Thus, a social disparity not only distorts and reduce the level of economic development but, according to our foreign partners, the greatest danger from external aggression. This significant role for state regulation of social and economic processes, the combination of transparency and verifiability, democratisation and high discipline and organisation. It requires a constant search for opportunities to influence the impact on the state of the individual groups of society and broad social control over the implementation of the decisions and political statements.

To overcome social disparities it is necessary for the Ukrainian society to have the economic and social community about «united values of human dignity, solidarity, justice, equality and active incompatibility of

corruption. A significant factor in favour of improving working conditions, welfare, medical care, recreation areas, environmental and social protection. The new decision on a combination of personal responsibility and solidarity, education and economic innovation, public security and public activity of private wealth and the use of public funds are required.

Social innovation is important to society, manifested in different forms and exercise some influence on various spheres of life, changing lifestyles, work, consumption, distribution of wealth, labour crisis, cooperation between people and organisations. Thus, social innovation should be understood as a new practice for social reform and social development. After all, modern education, social inclusion and the need to work primarily are the new ways of thinking. New technologies are revealed only when they are integrated into social practice (10).

The European Union defines three central approaches to social innovation (11): First, this cover needs that are not satisfied with the market and other institutions. The second approach includes social development as a whole, as a stable economic, social and environmental development. Thirdly, the EU considers this activity at subobjects as «a process of organisational development and changes in relations between institutions and stakeholders» (12).

### **Conclusion**

Thus, the so-called economic system transformation or transition economy is characterised by many disparities and contradictions. In particular, it should include social inequality, including gender inequality, social injustice, corruption, shadow economy, poverty. Overcoming social disparities, as exemplified in Ukraine, stretched to a decade. Necessary measures in this direction issued such as: optimisation of sustainable development, including economic, social and environmental development; Links of society in power; improving the management of socio-economic development; combining the benefits of industrial and agricultural production methods; consolidation of Ukrainian society, and social innovation in economic and social sphere.

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**VITALIY KUDLAY**

PhD., assistant professor

**VICTORIYA KHMUROVA**

PhD., assistant professor

**KLAVDIYA YATSYSHYNA**

PhD., lecturer

Kyiv National University of Trade and Economics, Management Department,  
Ukraine, 02156, Kyiv, 19, Kyoto str.

e-mail: [yatsyshyna\\_kv@ukr.net](mailto:yatsyshyna_kv@ukr.net)

## **MODERN ASPECTS OF ASSESSING ECONOMIC POTENTIAL OF UKRAINIAN ENTERPRISES**

### **Abstract**

In the article the actual problems of improving methods for assessing the economic potential and the factors that can improve it are described.

### **Objects and methods of investigation**

A significant contribution to the development of a systematic approach to the evaluation methods of economic potential, including general research methodology was made by fundamental scientific works of Russian and Ukrainian scientists: S.V. Valdaytsev [1], M.D. Dvortsyn [6], V.A. Trapeznikov [4, 11] P.L. Kuchin, E.V. Yakusheva [11] and others.

There are lots of scientific papers concerning strategic development of the economic potential [1-4]. However, it should be specified certain strategic goals of this sector with the need to strengthen the global competitiveness [2-12].

### **Setting objectives**

The development of the state, reformation of economic relations, structural transformation at strategic level in enterprises of Ukraine should be harmoniously developed and adapted to highly variable situation in the economy of our country.

Model system for controlling potential will be enhanced in the article.

### **Results and discussion**

Technological development model of M.D. Dvortsyn is improved. Rethink role of this model in justifying trends and rates of technical upgrading in scale of a single company.

One of the most significant differences between most domestic companies and foreign competitors at present is the lack of strategic orientation in the management of the enterprise. All the efforts of management on the Ukrainian companies are focused primarily today on

the survival of the businesses, which tend to optimization of suspects, but in the short term perspective. The main reasons for this trend are low value of resource potential on the enterprises of Ukraine and imperfect methodical base of forecasting prospects for technological development of specific production with the real rate of technological progress.

The strategic planning of the company should take into account the actual rates of scientific and technological progress, due to the fact that it can make a decisive influence on the modernization process of production in competitors: updating of production can significantly strengthen the market position of competitors due to the productivity growth, increasing technical and economic level of production, product quality and so on.

The dynamics of science and technology progress determines the rate and nature of development of individual enterprises and their associations. Understanding the objective laws of developing engineering and technology today is the key to successful long-term planning and effective operation of the business in the long term perspective.

In this connection formation of adapted forecasting mechanism at micro level and accounting of possible options of development the technological base of production, depending on the dynamics of scientific progress plays a special importance.

Forecasting trends and rates of technological progress was important and interesting question for many scientists and researchers. S.V. Valdaytsev in his paper [1] classifies and organizes approaches to study the rate of scientific and technological progress, highlighting two main areas: descriptive and economic-analytical. The main representatives of descriptive trend in justification rates of scientific and technical progress are Ishikawa T., David P., Saha D., Right T., Solow R., Kimberly J., Mensh G., Hill T. and others. The greater scientific interest plays for us the economic and analytical trend. The main representatives of this trend are Mansfield E., Eppler R. (theory of production functions), Boddi M., Gort L., Dali H., Kerts H., Freeman Ch. (theories of combination production factors), Hicks J., Kennedy K., Finer V. (theory of forced innovation). A variety of perspectives on the issue indicates a lack of consensus among scientists about the mechanism used to define the rate of technological progress and study about the motivations of the last one.

A bit of a different perspective on the dynamics of scientific and technological progress and regularities of recovery of technological production base is represented a view in the works of local researchers [2, 3, 4, 5, 6, 7] involved in problems of finding regularities of technological development of technical systems.

So in the Dvortsyn M.D. paper [6] currently existing methods for evaluating the quality and extent of production development are combined into three main groups. A similar classification is given in paper [8]: 1) economic approach, 2) technocratic (Pythagorean), 3) system (technology). The original algorithm for evaluating the economic potential of technology formulated within a systematic approach deserves detailed study.

Systematic approach to the description of the manufacturing process comes from the claim that this development is subject to their domestic regularities, the identification and formulation of which will set the main directions of development. Baseline of system approach is that the manufacturing process as the research object exists independently of the researcher ideas about it, that means objectively [9, 10]. The problem of production development is solved by improving the manufacturing process within the established regularities.

As part of a systematic approach it can be mentioned several development models of technological processes. Model of technological development of Trapeznikova V.A. [11, 4] connects productivity of human labor with the parameters of volume of past work and level of knowledge embodied in technical and organizational solutions:

$$y = \alpha \xi [1 - \exp(-\frac{\beta k}{\xi})], \quad (1)$$

where  $y$  – productivity ( $Y/L$ );  $k$  – capital-labor ratio;  $\alpha$  – elasticity of production function by capital;  $\beta$  – elasticity of labor productivity by terms of development;  $\xi$  – complex indicator of knowledge.

A distinctive feature of the proposed model is the consideration of the impact on productivity growth simultaneously two different production factors: the level of organizational and technical decisions embodied in production (technology level) and the value of expenditures on industrial equipment workplace (capital-labor ratio).

Model of technological development by A.I. Katz [2] aims at solving the problem of dynamic optimization of economic production development. It is proposed to make on the basis of common criteria of optimum dynamic:

$$Y = \frac{Z^2}{V \times C}, \quad (2)$$

where  $Z$  – the final volume (pure shareware) products;  $V$  – the number of employees;  $C$  – investments;  $Y$  – comparative criterion of dynamic efficiency investments.

The main content of the dynamic optimum criterion is reduced to determining the economic efficiency of capital investments as the main source of productivity growth and the resulting increase in social product. In this sense the approach of A.I. Katz differs from approach V.A. Trapeznikova, who focused attention on the side of immaterial production process, the high role of knowledge and skills. Summarizing approaches of Trapeznikova V.A. and Katz A.I., it should be noted that both of them were able to see the most important aspects of technological (manufacturing) processes and deserves special attention of their common position regarding the priority use of dynamic criteria of assessment processes. The peculiarity of these models can be formulated with one thesis: just knowing the internal mechanism of functioning of industrial and technological processes, we can understand the reasons for the formation of a specific value of manufacturing process parameters and learn to change its value. The logical continuation of scientific research in the study of the influence of scientific and technical progress on the performance of technology systems was the developments of M.D. Dvortsyna [12, 7]. In his writings, M.D. Dvortsyn proves provision that changing economic parameters of the process is the result of changes in its structure. Development of the process consists of the stages of the revolutionary and evolutionary development. Evolutionary development is limited in terms of economic benefits and is characterized by the following mathematical model:

$$L = \sqrt{U \times B}, \quad (3)$$

where  $L$  – the productivity of human labor:  $L = Q / n$ ;  $U$  – technology level;  $B$  – technological installation:  $B = F / n$ ;  $Q$  – release, the annual net product (revenue less material costs);  $n$  – the number of workers employed in the process;  $F$  – annual costs of past labor costs excluding work items.

The technology is considered by supporters of this theory as a central element of any production. However, in the works of M.D. Dvortsyna attention focuses on the installation target to reduce labor costs, but not the means to achieve it during the formulation of development laws process. At the same time M.D. Dvortsyn does not clearly distinguish the structure elements of the process. As the manufacturing process is a developing subject, then its dynamic assessment [2, 4]. Under the dynamic assessment scientists understand the above criterion / criteria group, taking into account the evolution of the internal mechanism of functioning of the

process. For static objects that do not evolve and which do not increase their functional performance for the entire period of «life», there is no need for a similar assessment.

There are a number of formal models and descriptive models. This showed that the problem of assessing the level of technology and keeping the rate of technological progress is the focus of many scientists. But we must note the fact that most of the proposed accounting methods science and technology factor in the planning of technological renovation of production at the enterprise level have little practical value because of their complete unsuitability or for microlevel or there are objective difficulties in calculating the specific parameters of existing relationships.

The greatest practical importance for determining the line of technological development within each individual company, in our view, has a model proposed by Dvortsyn M.D. [6]. In favor of this model can be cited the following arguments:

1) the versatility of this model. The observed relationship is equally applicable to both the lowest link of the production process – technological operation, and global technology systems, such as multinational corporations and entire industries;

2) simplicity and ease of calculation. The model is not burdened by excessively detailed components that allow its use even in the absence of high-quality staff and limited IT resources;

3) model predicts the emergence of a new more advanced technology: exhaustion of technical process by initially laid down principles shows rapid emergence of a qualitatively new type of technology.

Making a bold assumption that the rate of economic technology (*RET*), as a generalized indicator of the potential of this particular mode of production, allows us to compare the effectiveness of production technologies. Dvortsyn M.D. specifies the condition of technology choice: the most progressive technology which has the largest value of *RET*.

Even here, in this reasons iteration the methodological shortcomings of the author of the above approach become apparent: if the rate of productivity of human labor hypothetically can be considered as the quotient of the result of labor (that in this case refers to the added value) by the number of workers employed in manufacturing, it being part of the integral index and should be different:  $Q / Tg$ , where  $Tg$  – the annual cost of living labor in cash.

Within scientific and technological progress highly qualified work is becoming more demanded, and therefore more highly paid staff. To compare in this regard, making for one person, not per one UAH of staff

payroll, would be fundamentally wrong. Despite the fact that Dvortsyn M.D. declares the performance of the model as at the macrolevel and the microlevels doubt the right choice of «resultant» indicator at the enterprise level. At first glance, requirement of maximum growth of value added per unit spent of living and past labor is not entirely correct. This requirement may implicitly traceable national economic rather than microeconomic approach. This becomes evident after ascertaining the nature and content of the indicator «added value». It should be noted, it cannot be based only on the *RET* indicator to judge the degree of perfection of various technologies when it comes to make heterogeneous products. Valid comparisons can relate only alternative technological methods of producing identical products within the economic systems comparable scale of prices for inputs. The foregoing leads to rethink this model role in justifying direction and pace of revamping the scale of a single company. Needs rethinking of all components formula of *RET* indicator: from the index output (value added) to the mechanism for determining annual cost of living and past labor.

Rate of return technology to remain unbiased should have a number of properties:

- the impact of technology should be associated with specific targets of certain company and not society as a whole;
- should choose such description, which would had the least sensitivity to changing phases of product life cycle;
- returns should reflect the impact of many factors on performance, both technological and non-technological nature;
- structure and mechanism of calculating the index should be able to identify separate impact of scientific and technological progress on the result of the company along with other factors (pricing strategy behavior in the market, production discipline, management level, etc.).

There are two possible modifications of existing indicators: first – an adjustment in the calculation algorithm without replacing key variables and the second – a radical alternative search features that best account for the impact factor of scientific and technological progress.

In the first approach we suggest adjusting value added at factor correction  $T_1$ , which is determined by an expert and takes into account the change in value added depending on the stage of the product life cycle and adjusting the value of past labor in the denominator of the formula:

$$\frac{(Q_i \times T_1)^2}{\sum_{j=1}^m Tg_{ij} \times \sum_{j=1}^m Tp_{ij}} \quad (4)$$

The costs of past labor in the above formula are totally different from meaning at the beginning:

$$Tp_{ij} = D^{II}_{Mij} + D_{Fij}, \quad (5)$$

where  $D^{II}_{Mij}$ ,  $D_{Fij}$  – accordingly, the annual value of the second kind obsolescence and physical depreciation of equipment (technological and other material costs excluding costs for work items) in  $j$ -th technology that is allocated to the  $i$ -th production.

In the second approach to modifying the indicator «economic level of technology» as the integral index that meets all listed earlier requirements may be used «economic value added» indicator (EVA) [13, 14, 15, 16].

EVA growth may well reflect the target installation of the company in the long run. The essence of this approach is that a single business process is seen as a project with an initial capital, which has a certain value. The difference between the profitability of the project (process) and capital cost involved is the economic value added (EVA).

Thus, EVA is an indicator of the economic profit of a particular business process for its owners (not society as a whole) and reflects the effect of business process based by profits that the company's management wipe due to the inability of capital alternative method. This figure is interesting to assess the potential ability of a particular business process to generate value for shareholders, targeted linking costs to specific results of the business. The choice of EVA index as a criterion «impact» of technology is not accidental. And, among other things, it sets the task of finding indicator that displays the greatest extent dynamic rate of technological progress and EVA suitable for this purpose, as well as possible. According to K. Marks, the additional cost (in some sense an analogue EVA), is the result of improving production technologies and methods of organization work. «... additional value disappears as soon as a new mode of production becomes widespread dissemination and yet disappear difference between the individual value of cheaper manufactured goods and its social value» [17]. In this regard, we believe, that the use of EVA instead added value and annual cost of living labour in monetary terms instead of the number of staff involved would receive a new integrated economic indicator of technology (IEPT):

$$IEPT = \frac{EVA}{Tg} + \frac{EVA}{Tp} = \frac{EVA^2}{Tg \times Tp} \quad (6)$$

As has been shown before, technology is driving the sustained development of the enterprise in the long run. Although the source of innovation that can serve both external and internal environment becomes evident thesis according to which it is impossible to have a competitive advantage over time if in its base is not a new principle of production. In this regard, especially important is to find and improve existing tools that allows signal the feasibility of the technologies to replace more progressive due to the fact that they are morally obsolete.

### **Conclusion**

The proposed mechanism for updating models of technological by M.D. Dvortsyn promotes a holistic view of system factors that influence the competitiveness of enterprises with a realistic assessment of economic level of used technology.

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## NATALIIA LATYGINA

Doctor of political sciences, professor, head of the department of philosophic and social sciences of the Kyiv National University of Trade and Economics

Kioto, 21 St., Building D, Kyiv, Ukraine, tel. +380445314708  
e-mail: Latygina@ukr.net

### THE SOCIAL CONTRACT AS A PRINCIPLE OF JUSTICE

#### Abstract

This article is devoted to the basic theories of the social contract as a principle of justice. The main characteristics of the social contract are analyzed.

#### Introduction

We can recast the structural critique of transactional views of freedom by saying that they are myopic: procedural conceptions that lack attention to the contexts within which transactions, such as the exchange of labor-power for a wage, occur. One reason why there has been a revival of interest in the social contract tradition in recent decades is that it seems more satisfying on this front. As one influential theorist in this tradition, Robert Nozick, puts it, any fully adequate theory of justice must comprise a theory of justice in acquisition, a theory of justice in transfer, and a theory of the rectification of past injustices [1]. In developing his theory of justice, John Rawls insists that the focus of the social contract should be on the major institutions that make up the «basic structure» of society. He defines these expansively to include fundamental constitutional protections of political, religious, and personal freedoms, the systems of economic organization and property ownership, including ownership of the means of production, and such major social institutions as the family. Rawls conceives of the basic structure as the primary subject of justice, «because its effects are so profound and present from the start» [2]. Whatever their other shortcomings, expansive conceptions of this sort cannot be faulted for myopia.

**For there to be a contract there must be contractors, so the first question for any theory of politics as a social contract is: Who are the parties to it?** The seventeenth- and twentieth-century theorists gave very different answers. Hobbes and Locke both thought of it as an actual agreement. Hobbes believed that England had been plunged into a state of nature during the civil war, and he conceived of his argument in *Leviathan* as a recipe for avoiding that result in the future [3]. Locke thought that

much of the world of his day existed in a state of nature, and that returning to it was sometimes to be preferred over living under political tyranny.

Rawls has been the most consequential social contract theorist of our generation. He developed a framework of principles for assessing the justice of political arrangements and a set of institutional and distributive arrangements which, he contended, could be shown by his principles to be superior to the going alternatives. Most expositions of his argument, including Rawls's own, start with the thought experiment of a veil of ignorance. We are asked to imagine what principles of governance people would choose if kept in ignorance of particular facts about themselves such as their race, gender, intelligence, disabilities or lack of them, their particular life plan and proclivities, and all other particular facts about their aspirations and circumstances. In this original position people would be permitted to have knowledge only of «general facts» about their societies, such as that a condition of moderate scarcity obtains, and widely accepted laws of psychology and economics. The suggestion is not, as some commentators have said, that we should suppose people could exist independently of their particular attributes and interests. Rather it is like being asked to agree on the rules for playing a game before you know whether they will work to your advantage, or a Congressman being bound in advance by the findings of a military base – closing commission before knowing whether the commission will recommend closing the base in his district. The idea is to rule out «rigged definite descriptions» that permit people to bias outcomes in their own favor, forcing deliberations to focus on what is desirable for society as a whole [2].

Recognizing that moral disagreement is endemic to human social arrangements is scarcely innovative in itself.

Rawls's novelty, then, lies not in his recognition of enduring moral disagreement, but rather in his account of how to think about its political implications. In particular he concluded that we must be even less demanding than earlier theorists in what we can reasonably expect people to agree on. For example, Hobbes recognized differences in individual conceptions of the good life, but he thought that every rational person must nonetheless accept his account of human beings as motivated by fear of death. He deployed the alleged existence of this overpowering fear to justify obedience to an absolute power whose job is to enforce a *modus vivendi* among subjects – preventing what would otherwise be their irresistible impulse to attack one another.

Rawls's «political, not metaphysical» intuition is that people might agree on a set of principles without agreeing on the reasons for their agreement. Instead of the idea that it is easiest to get people to agree on

general principles and that the devil is in the details, Rawls proceeds from the notion that it is generally impossible, and, more important, politically unnecessary, to get people to agree on general principles, comprehensive doctrines, or metaphysical commitments.

Nonetheless, Rawls does not give up entirely on the Enlightenment aspiration to come up with right answers to questions about politics, answers that depend on a dispassionate assessment of the human condition rather than this or that theology or contentious metaphysics.

Moving from the mode to the substance of Rawls's argument, his most fundamental innovation concerns the way in which he deals with the differences among people. The self-ownership scheme is strongly egalitarian in one sense: everyone is equally a locus of moral autonomy and creative agency, whether because God is said to have made us that way in Locke's formulation or by assumption in secular renditions such as Marx's or Mill's.

There is another sense, however, in which the self-ownership postulate is inequalitarian. Locke himself had no objection to inequalities deriving from human work so long as the provisos against waste and exclusion of others from the common were not violated.

For much of the twentieth century, debates about this question have been caught up in the nature / nurture controversy. Egalitarians have tended to point to environmental factors in accounting for variations in income and achievement, inequalitarians to differences that are said to be innate. Rawls argues powerfully, however, that from the standpoint of justice these debates are beside the point.

The initial distribution of assets for any period of time is strongly influenced by natural and social contingencies. The existing distribution of income and wealth, say, is the cumulative effect of prior distributions of natural assets – that is, natural talents and abilities – as these have been developed or left unrealized, and their use favored or disfavored over time by social circumstances and such chance contingencies as accident and good fortune. Intuitively, the most obvious injustice of the system of natural liberty is that it permits distributive shares to be improperly influenced by these factors so arbitrary from a moral point of view [4].

Whether the differences among people stem from their genes or their upbringing, or – as is likely – some combination of the two, on Rawls's account they do not supply defensible grounds for distributive outcomes. Perhaps a justification can be supplied for the gains and losses that result from differences in ability to «lie where they fall,» to use Judge Learned Hand's memorable phrase from a different context [3]. But Rawls's point is that we cannot start by assuming that people are entitled to what they get

as a result of their moral luck in the genetic pool or cultural milieu and then worry only about the justification for redistribution. First we must concern ourselves with the justice of initial endowments. Self-ownership and its inegalitarian implications might be defensible, but Rawls's point is that for any satisfying account the defense must be supplied.

Now we are in a position to see why Rawls structures the choice in the original position as he does. His assumptions about enduring pluralism suggest that principles of justice must be acceptable to people who have fundamentally different conceptions of the good. Indeed, they might well be unable to agree on what counts as a justification for adhering to one conception rather than another – as when those whose fundamental convictions are rooted in a religious faith confront unbridgeable gulfs between themselves and adherents to other religions or nonbelievers. The assumption of enduring pluralism leads Rawls to affirm what he describes as a deontological over a teleological approach to thinking about justice. A teleological conception, he explains, is one in which the good is specified independently of the right, and then rights are distributed so as to maximize the good. In a deontological conception, by contrast, rights are distributed independently of any particular conception of the good [5].

This style of thinking exemplifies Rawls's comparative approach. His initial formulation of his «general conception» of distributive justice is that social goods should always be distributed so as to work to everyone's advantage, but, as he develops and refines it in the first half of *A Theory of justice*, he comes to the formulation that they should be distributed so as to work to the greatest benefit of the least advantaged in society. Rawls's shift to identifying the standpoint of justice as the standpoint of the least advantaged reflects his Kantian impulse to come up with universalizable principles. The intuition here is that if you would agree to a principle when you were the person most adversely affected by it, then it is reasonable to suppose that you would agree to it in every other circumstance as well.

Rawls locates the matter of differences in skills and capacities in a broader discussion of the distribution of social goods. One way to assess his contribution here is to see that he offers a way out of the stalemated debate between objective and subjective utilitarians, both of whom were concerned with the measurement of welfare. Rather than argue over which utilitometer will get their welfare temperatures right, Rawls contends that it makes better sense to focus on a few basic resources that are likely to be important to people regardless of their particular conceptions of the good. In addition to the formidable technical and normative difficulties associated with assigning governments the task of measuring and adjusting the distribution of welfare, it is well to remember that governments

notoriously act with blunt instruments. One reason to focus on a few basic resources that will be valuable to people regardless of their particular conceptions of the good, then, is that it is realistic to imagine governments influencing their distribution. Rawls has in mind such goods as basic political and civil liberties, the legal structure of opportunities for advancement in the society, income and wealth, and other goods that contribute to the «social bases of self-respect» [2]. With the possible exception of the last, these are all things that we can imagine governments regularly influencing.

But Rawls's principal reason for focusing on primary goods is normative, not practical. Wanting not to bias the distribution of goods in favor of particular conceptions of the good life more than necessary leads him to focus on the multipurpose instrumental goods just mentioned. Whatever your particular conception of the good life turns out to be, the reasoning goes, you are likely to want more rather than fewer in the way of political and civil liberties, opportunities, income and wealth, and the social bases for self-respect. As soon as this is stated one can hear the objection that it loads the dice in favor of some conceptions of the good. The ascetic will insist, for instance, that having more rather than less income and wealth is an evil not a good.

Without disputing the ascetic's claim, the Rawlsian would ask: Would you rather turn out to be a nonascetic in a world in which denial of inessential income and wealth was the reigning principle, or an ascetic in a world in which it was assumed that people generally want more rather than less income and wealth? The latter regime would be preferred because the ascetic would always be free to give away her assets in the income and wealth-friendly regime, but there is no corresponding freedom for the nonascetic in the ascetic regime. The example again underscores that the early Rawls was wrong to claim his view is neutral among rational conceptions of the good life. The operative notion is the most attractive conception when viewed from the standpoint of the worst off under the relevant conditions of ignorance. A corollary of the fact that Rawls's deontological conception of justice rests on a conception of the good, albeit a thin one, is thus that his resourcism rests on some assumptions about welfare, however minimal [6]. Conceding this should not obscure the distinctive Rawlsian aspiration to have these assumptions be as friendly as possible to the disadvantaged in every conceivable regime.

The bulk of Rawls's attention in *A Theory of Justice* is devoted to developing and exploring the implications of appropriate principles for the distribution of different primary goods. Thus liberties are distributed

according to the principle: «each person is to have an equal right to the most extensive total system of equal liberties compatible with a similar system of liberty for all» [2].

Opportunities are thought about differently in the Rawlsian scheme. Ignorant of their religion, race, ethnicity, gender, or social status behind the veil of ignorance, people would resist any caste, apartheid, or gender-biased regimes, as well as systems with religious tests for office. Assuming that they would always be in the group disadvantaged by the denial of equality of access to advancement, they would instead embrace a principle of equality of opportunity. As Rawls puts it: «social and economic inequalities are to be arranged so that they are both (a) to the greatest benefit of the least advantaged . . . and (b) attached to offices and positions open to all under conditions of fair equality of opportunity» [3]. This would presumably be a sufficiently robust principle to support equal pay for equal work, and rule out the kinds of systematic gender inequalities we see on this front in the contemporary United States.

Rawls's most discussed principle, for the distribution of income and wealth, is called the difference principle, though he in fact re-christened an older principle of welfare economics called maximin – short for «maximize the minimum share.» In line with the general conception of distributive justice, it requires inequalities to operate in the interests of the least advantaged.

The difference principle can permit massive redistribution, but this need not be egalitarian. Moreover, in a world of perfect equality the difference principle becomes identical to the Pareto principle, permitting market transactions that lead to increased inequality. Other types of regressive redistribution are also consistent with the difference principle, such as a tax cut that gives millions of dollars to top income earners at the relative expense of the middle classes with a nominal increase for those at the bottom. So long as the middle classes do not actually become worse off than those at the bottom, the difference principle will be satisfied. This is not, strictly, a fair way to evaluate the principle because Rawls insists that it is intended for thinking about the basic structure rather than the evaluation of particular policies such as a tax cut.

Rawls has sometimes been criticized for advocating such an underdetermined principle, which is compatible, for instance, with a heavily interventionist state, a pure market system, or some version of a mixed economy. But Rawls has a double-barreled response. His concern, first, is with fundamental principles – we might think of them as entrenched constitutional constraints – governing economic policy-making

in the society. They set the outer limits on what can be done by insisting that the basic requirement is that distributive arrangements work to benefit those at the bottom.

Second, Rawls might reasonably respond that the choices among different mixes of market and nonmarket institutions are issues of political economy, not political philosophy. If laissez-faire really did, as its proponents claim, lead more benefits to trickle down to the poor than any other workable system, then Rawls would say we should endorse it. If, on the other hand, a command or mixed economy would do a better job, then we should support that.

Rawls's ranking and application of his principles suggest that he is uncomfortable with some of the more radical implications of his argument. It has been pointed out, for example, that if his «grave risks» assumption is sufficiently powerful to get people to reject utilitarianism in the original position in favor of the difference principle, then surely it is also sufficiently strong to justify assigning the economic protections of the worst off a higher lexical ranking than Rawls assigns them. What good is the protection of freedom of speech to someone on the verge of starvation?

This difficulty could be addressed by rearranging his lexical rankings to assign economic guarantees for the worst off a better protection in his overall scheme, but raising the issue brings up the more general question: Who is Rawls's argument really intended to persuade? His answer is that «reflective equilibrium» is intended to be a process in which the reader moves back and forth between her moral intuitions and the choice problem as Rawls depicts it in the original position.

By going back and forth, sometimes altering the conditions of the contractual circumstances, at others withdrawing our judgments and conforming to them in principle, we assume that eventually we shall find a description of the initial situation that both expresses reasonable conditions and yields principles which match our considered judgments duly primed and adjusted. This state of affairs we refer to as reflective equilibrium.

Rawls also recognizes that human capacities, like other resources, should be regarded as social goods for certain purposes. We might describe this as a socialization of capacities strategy, thinking of it as a mirror image of the classical Marxian one. For Marx, non-human resources are of no independent moral interest, reducible to the capacities necessarily expended in their creation or their separation from nature. On the socialization of capacities view, by contrast, human capacities cease to be of independent moral interest; they are treated as social resources like any other. This follows naturally from Rawls's moral arbitrariness argument; as such it is subversive of the workmanship ideal in all its forms.

Rawls is not alone in realizing that, once the moral arbitrariness argument is granted, the burden of justification falls to those who would deny that human capacities are potentially up for grabs as objects of distributive justice. In a like spirit, Ronald Dworkin treats human capacities and external material resources as moral equivalents. He argues that there may be good reasons for resisting the redistribution of physical and mental resources, but that a case might nonetheless be made for compensating those with inferior physical and mental resources for their relative incapacities.

Yet both theorists are evidently uncomfortable with the full implications of this line of thinking, as many of us would be. Our reluctance has, we think, to do with the psychological side of the workmanship ideal, with the sense of subjective satisfaction that attaches to the idea of making something that one can subsequently call one's own. We all know the feeling, and it is not easily argued that we can either give it up or apply it to a generalized notion that there is a sense in which we, along with everyone else, own everything that everyone appears at a given time and place to make.

The strength of psychological attachments to workmanship may also account for why Rawls and Dworkin both evade the implications of the moral arbitrariness argument. Rawls does this when he holds that the effectiveness with which people are able to use resources, or choose to use them, is not a relevant consideration in deciding how those resources should be distributed.

Dworkin also balks at the implications of the moral arbitrariness argument that he otherwise endorses. He invites us to speculate on how resources might in principle be equalized by use of a hypothetical auction in which all parties begin with the same finite number of bargaining chips. As part of this he assumes that human capacities should be thought of as resources, yet there are two ways in which he dodges the full implications of this. He claims, first, that although capacities (his term is «physical and mental powers») are resources and therefore legitimate objects of a theory of distributive justice, they should nonetheless be treated differently from «independent material resources.» With physical and mental powers, the goal should not be to strive to distribute them justly (which, for Dworkin, means equally). Instead the problem is construed as one of discovering «how far the ownership of independent external resources should be affected by differences that exist in physical and mental powers, and the response of our theory should speak in that vocabulary» [7]. For this reason he argues that people should be compensated by reference to a

standard arrived at by our speculations concerning whether and to what extent they would, on average, have insured against the particular handicap or disability or lack of talent *ex ante*, assuming that insurance rates would be set in a competitive market. Insuring against the possibility of not having an extremely rare skill would be far more expensive than insuring against the possibility of not having a widely shared capacity such as sight. In this way Dworkin hopes to come up with a theory of equality of resources that does not itself make implicit judgments about welfare and avoids the «slavery of the talented» problem which any theory that permits compensation for differences in capacities must confront [3].

### **Conclusion**

To sum up: like Rawls, Dworkin is unable to live with the implications of the socialization of capacities strategy that flow from the moral arbitrariness argument. This is at least partly because, when taken to its logical conclusion, this strategy undermines what is attractive in the workmanship ideal. This is the notion of the sovereign agent that lies at the core of the Enlightenment conception of individual rights. Yet reluctant as Rawls and Dworkin both are to abandon their intuitive commitments to the idea of moral agency that informs the workmanship ideal, neither has supplied an account of how this can be rendered consistent with the moral arbitrariness argument that both feel compelled to endorse. This reflects deep tensions within the secular variant of the workmanship ideal itself: it presses relentlessly toward a kind of moral determinism that its very terms suggest we ought to be able to deny.

One might take the view that Rawls's «political, not metaphysical» argument opens up a possible way out of this tension. If there is overlapping consensus that the workmanship ideal should be endorsed up to a point so that individuals should be held responsible for certain types of choices, but not for others, then we need not get into the question why people hold this belief or whether their reasons for holding it make any sense. Making this case would, however, take us more deeply into democratic theory than is achieved by Rawls's brief remarks about overlapping consensus. For one thing, although a wide consensus might be possible on the principle that there should be a zone of individual responsibility in which gains and losses lie where they fall, it seems inevitable that there would be an equally wide dissensus over what this entails in practice. At a minimum, mechanisms would be needed to settle disagreements over what should be included and excluded from the zone. One only has to think of debates in the United States about the obligation to provide health insurance for all, the right to abortion, or the extent of

criminal responsibility among adolescents, battered spouses, and the retarded to be reminded that there are stark limits to the overlapping consensus about the appropriate scope of individual rights and responsibilities.

Moreover, if a variant of the workmanship ideal is embraced on «political, not metaphysical» grounds, questions are bound to arise concerning its inevitable conflict with other justice values. If the rights of human workmanship have no natural status or special trumping moral power, then there is bound to be controversy about where they fit into governing distributive schemes that must cope with multiple demands on scarce resources – from redressing the effects of historical disadvantage, to caring for the sick and elderly, to supporting just causes in other countries. It seems even less likely that an «overlapping consensus» could be developed about these tradeoffs than about what to include in the zone of individual rights and responsibilities. Once it is conceded, in a world of endemic scarcity, that there is neither an uncontroversial theological model nor a calculus of contribution from which correct distributive injunctions can be scientifically «read off,» we are bound to come to grips with the primacy of politics to arguments about distributive justice.

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### **ANATOLII MAZARAKI**

Doctor of Sciences (Economics), Professor, Kyiv National University  
of Trade and Economics, Rector  
Kyoto str., 19, Kyiv, Ukraine, tel. +380445314949,  
e-mail: rektor@knteu.kiev.ua

### **SERHIY BAY**

Doctor of Sciences (Economics), Professor, Kyiv National University  
of Trade and Economics, Department of management,  
Kyoto str., 19, Kyiv, Ukraine, tel. +380445314776,  
e-mail: bay@knteu.kiev.ua

### **ANNA HATS**

Assistant Professor, Chernivtsi Institute of Trade and Economics of Kyiv  
National University of Trade and Economics,  
Department of Management and Tourism,  
Holovna str., 91, Chernivtsi, Ukraine, tel. +380 0372522110,  
e-mail: annarozman15@gmail.com

## **PRECONDITIONS FOR ESTABLISHMENT OF VALUE-BASED MANAGEMENT IN UKRAINIAN RETAILING**

### **Abstract**

Retailers face transformations of their value priorities in adverse macroeconomic conditions, in particular due to the fall of effective demand of consumers, the growing gap between the interests of producers of goods, retailers and end-users that leads to destabilization of the consumer market. Analysis of preconditions for establishment of value-based management in retailing has allowed to reveal the following key trends that determine development vector of Ukrainian trade enterprises: growing demands of consumers, strengthening the social role of trade, active development of Private Label segment, growing importance of social responsibility, enhancing the role of company reputation, technology development. This allowed to prove the need for applying new management approaches aimed at ensuring the growth of retailers' value in the long run.

### **Introduction**

Research of trends in the development of retail and preconditions that contribute to its reorientation towards value-based model is an extremely important task of modern economic science. The reason is that trade is one of the areas that form the foundation for stability of the Ukrainian economy. Through development of trade relations it is possible

to keep the balance between production and consumption. Retail forms significant part of GDP (about 20% in 2013–2015 [1]) and creates working places for economically active population (16-22% of the total number of employed in 2013–2015 [1]). Development of retail trade in Ukraine is influenced by the variety of economic, social and legal factors, whose variability is causing changes in the market environment of trade enterprises' functioning that requires search for adequate approaches to management. Nowadays retail trade in Ukraine is in a state of quantitative and qualitative transformations accompanied by reduction in the growth rate of retail trade turnover at constant prices and worsening of consumer confidence.

### Trends contributing to reorientation of Ukrainian retailing towards value-based models

Development directions of Ukrainian trade enterprises in modern conditions are determined by the following major trends:

#### 1. Growing consumer demands.

A modern buyer is well educated, skeptical and rational in decision-making. Analysis of changes that have occurred in retail trade in 2011–2015, shows that the turnover of retail trade in Ukraine demonstrates an upward trend. However, since 2013, this increase has been taking place due to inflation processes in the economy of Ukraine (Fig. 1).

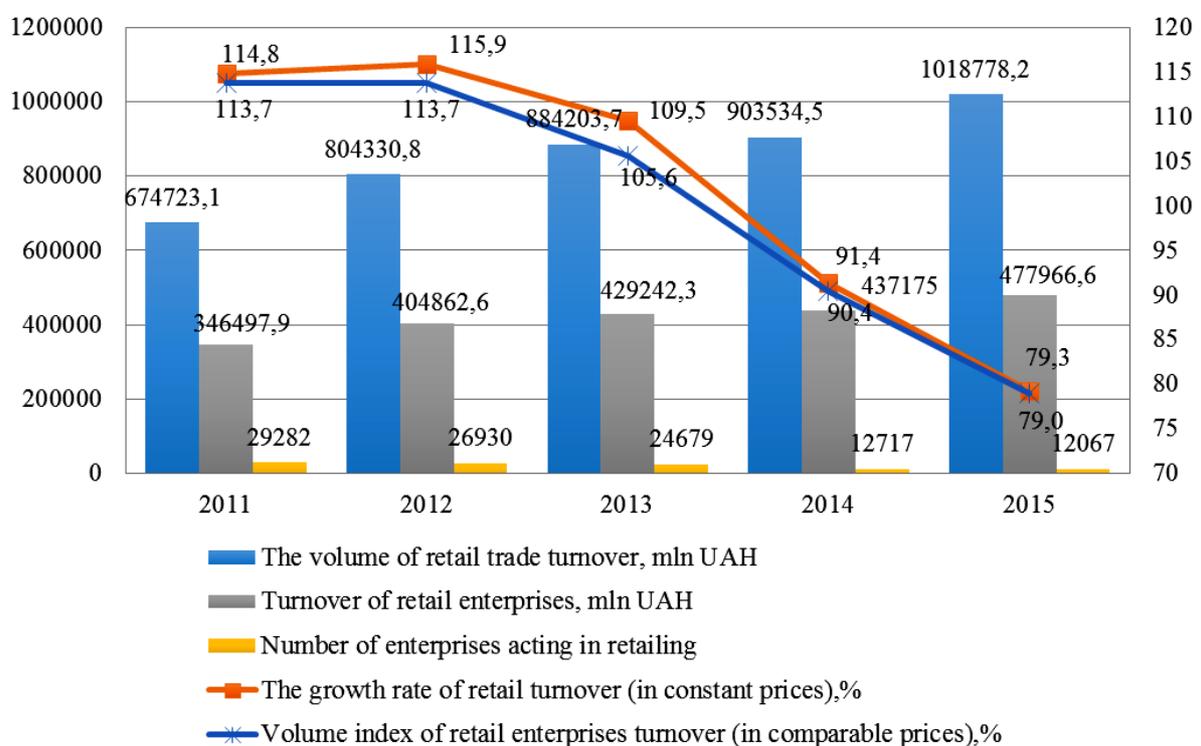


Figure 1. Turnover of retail trade in Ukraine in 2009–2015  
Source: [1]

2013–2015 years are characterized by rapid deterioration of Ukrainian consumer confidence, indicating predominance of negative assessments of the economic situation and potential decrease in consumer demand (Fig. 2).

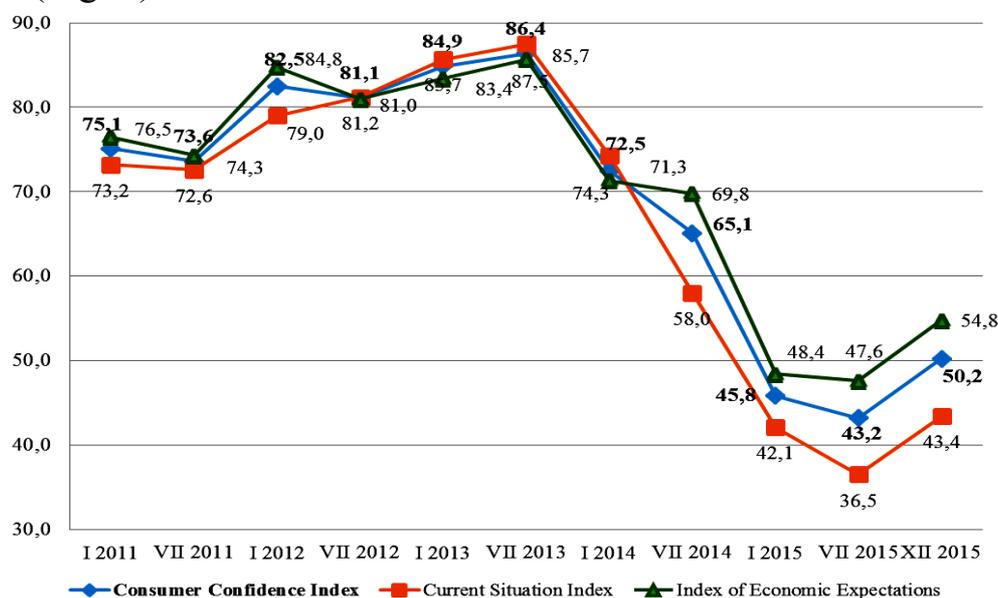


Figure 2. Dynamics of Consumer Confidence Index, Index of Current Situation and Index of Economic Expectations in Ukraine

Source: [2]

Shown in Fig., 2 dynamics of changes in Ukrainian consumer attitudes indicates that modern consumers feel insecure, try to behave rationally and carefully. The index less than 100 means that the financial position of buyers is worsening and they are not inclined to make large purchases.

Modern consumers believe that most of retailers do not understand and do not meet their needs (Fig. 3).

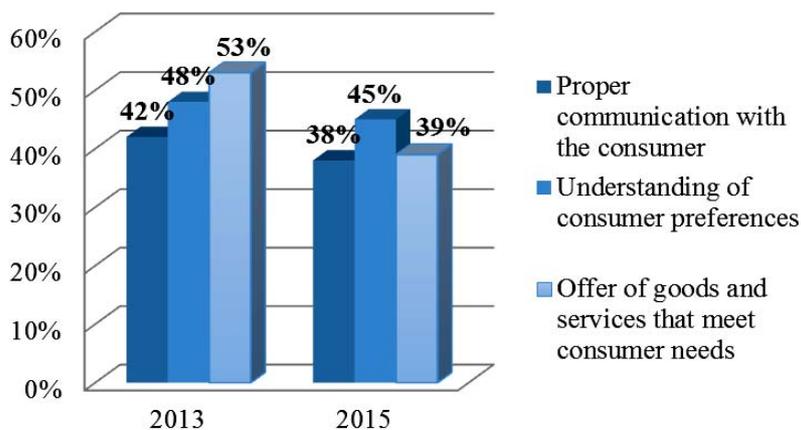


Figure 3. Results of assessment of retailers' interaction with consumers

Source: [3]

Thus, only 38% of consumers believe that their usual shop has chosen the right communication strategy, less than half of shoppers (45%) agree that retailers understand consumer preferences and only 39% like offers of trade enterprises [3].

## 2. Strengthening the social role of commerce.

Trade holds one of the leading places on the number of created workplaces (Tab. 1).

Table 1

### Employment and wages of the population in 2013-2015 years

	In Ukrainian Retailing			In Ukraine		
	2013	2014	2015	2013	2014	2015
Employed population, thsd.	4269,5	3965,7	3510,7	19314,2	18073,3	16443,2
The need for workers, thsd.	6,2	4,7	4,1	47,5	35,3	25,9
Employed, thsd.	85,4	81,5	71,4	541,9	494,6	444,7
The average monthly wage per one full-time employee, UAH	3010	3439	4692	3265	3480	4195

Source: [1]

One-fifth of the population of Ukraine is employed in trade, every year about 16% of registered unemployed persons are employed in trade enterprises. In 2013-2015 a negative tendency of decrease in demand for workers and the number of employed persons is observed (Fig. 4).

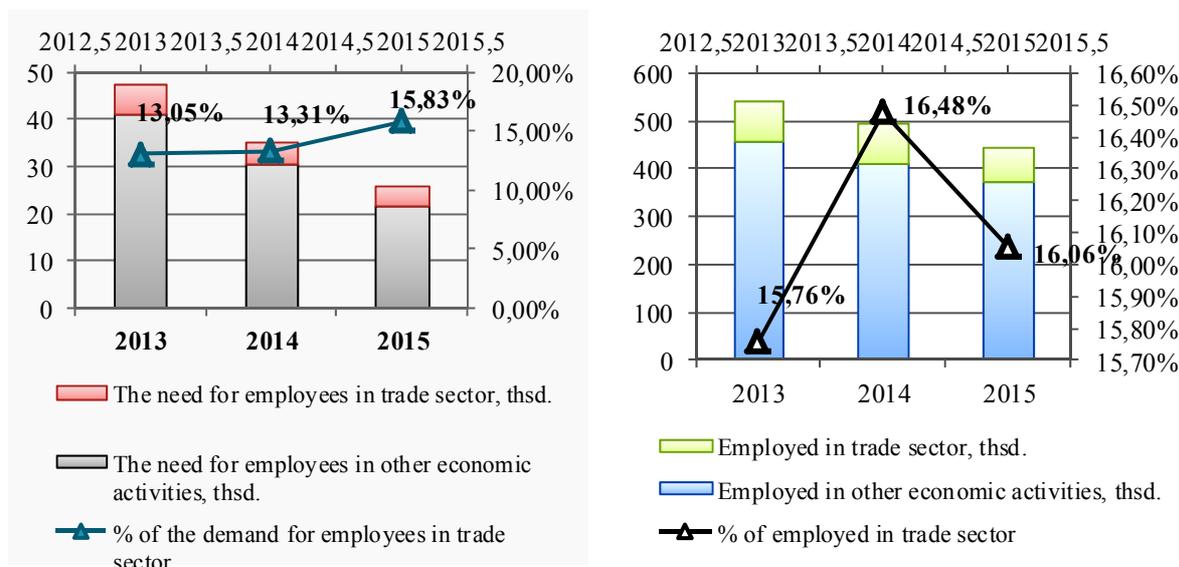


Figure 4. Need for workers and number of people employed in trade in 2013–2015 years

Source: [1]

### 3. Development of Private Label segment.

In complicated economic conditions, consumers are more careful and rational in selection of goods and pay more attention to trade enterprises' own brands, which have a price advantage over products of famous trademarks. According to research [3] in 2015 52% of Ukrainians are ready to prefer products of less known brands. However, the level of Private Label segment development on the Ukrainian market is much lower than in the European countries (Fig. 5).

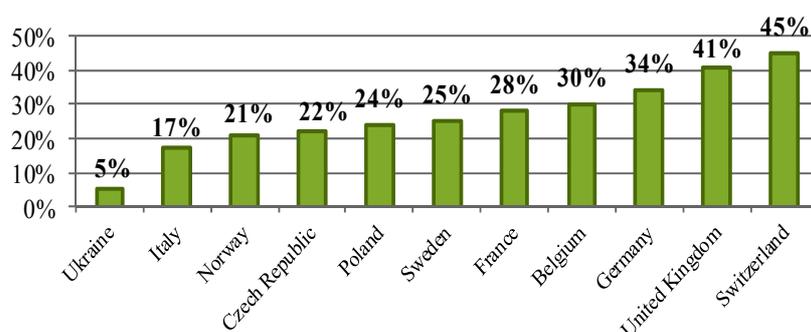


Figure 5. The share of Private Label products in the markets of the European countries in 2015

Source: [1]

Main reasons for reorientation of consumers to Private Label brands are lower commercial price and the ratio of «price / quality» products offered (Fig. 6).

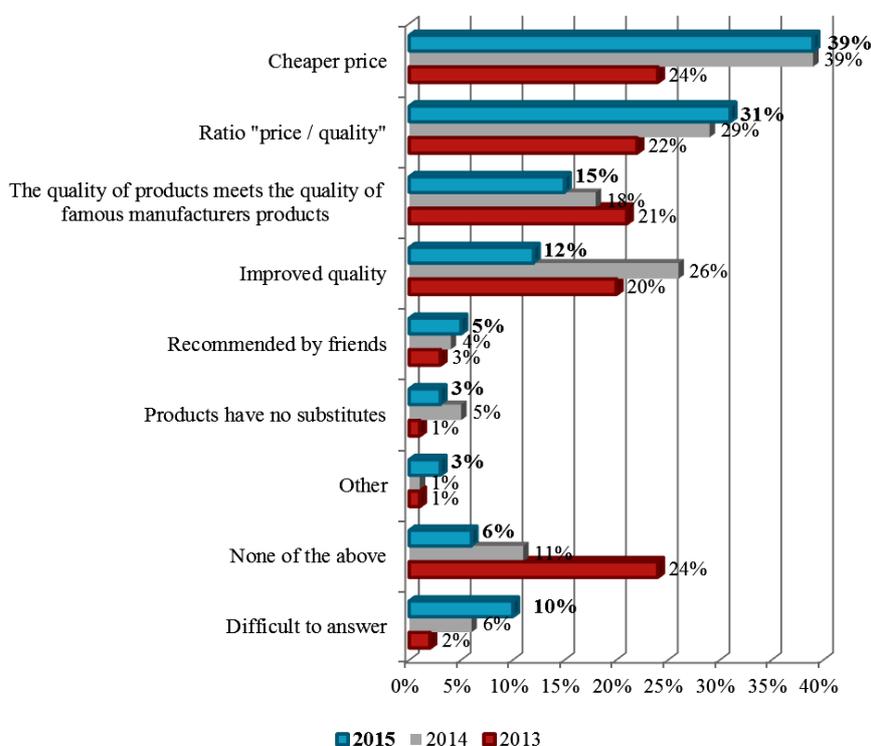


Figure 6. Reasons for choosing Private Label products by Ukrainian consumers

Source: [1]

#### 4. Growing importance of social responsibility.

Social responsibility, charity, care for the environment is more important for the Ukrainians in recent years, including choosing a place to make purchases. According to the global report on corporate social responsibility in 2015, 70% of consumers in Ukraine are ready to pay more for products sold by retailers with responsible attitude towards society and the environment. This figure was only 44% in 2014. The data of retail audit confirm the contribution of social responsibility in sales growth: sales of products of companies that promote their programs of sustainable development increased by 4% on average worldwide in 2014, in manufacturers without such campaigns – less than 1% [3].

Fig. 7 shows the results of a survey of consumers about their expectations from businesses for social responsibility, conducted in 2015 by consulting company GFK in 22 countries.

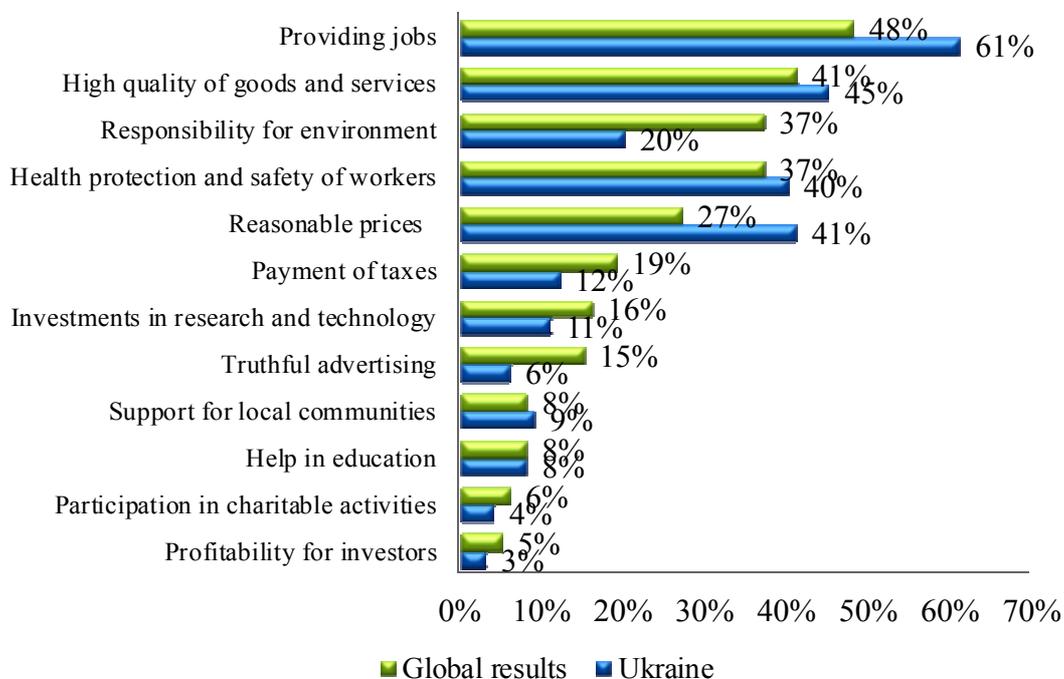


Figure 7. The most important obligations of socially responsible companies

Source: [2]

Supplying the population with jobs, offering qualitative products and responsible attitude to the environment, according to the consumers, are the most important obligations for any business today.

#### 5. Strengthening the role of business reputation.

In today's highly competitive environment individual advantages of trade enterprises depend heavily on intangible assets. Such important components like management ideology, values, expectations create a real basis for a positive perception and appropriate market evaluation of

enterprise. The most common method of company reputation evaluation is reputation ranking. Active work in this direction is carried out by national analytical agencies. In particular, the rating of quality corporate reputation management has been established in 2015 that allows assessing business reputation of enterprises by such criteria as reputational stability, media activity, innovation, brand capital, anti-crisis program [4]. Among trading companies, which led the rating in 2015, it is worth noting LLC «Rozetka.ua», LLC «Zarina», LLC «Watsons», SE «Adidas Ukraine» and LLC «Auchan Ukraine» (Fig. 8).

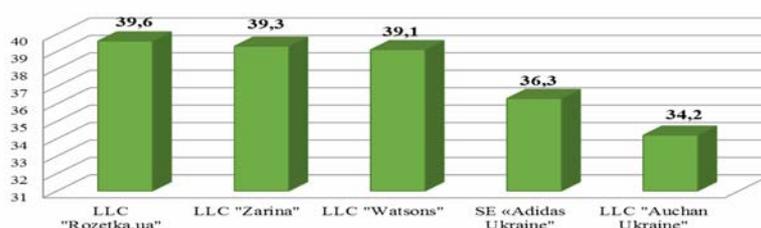


Figure 8. Trade enterprises which led the rating of reputation management in 2015

Source: [4]

These companies have demonstrated awareness of the reputation brand value and were the first in Ukraine to start implementing an effective system of reputation management.

#### 6. Technology development

Retail market develops dynamically. Modern technology and growing competition led to revolutionary changes. E-commerce market in Ukraine is in its infancy and has potential for further growth. Internet penetration rate has increased by 3% in the period 2013–2015. Internet commerce turnover in 2015 has increased by 11.7% compared to 2014 and amounted to 18.8 billion USD (Fig. 9).

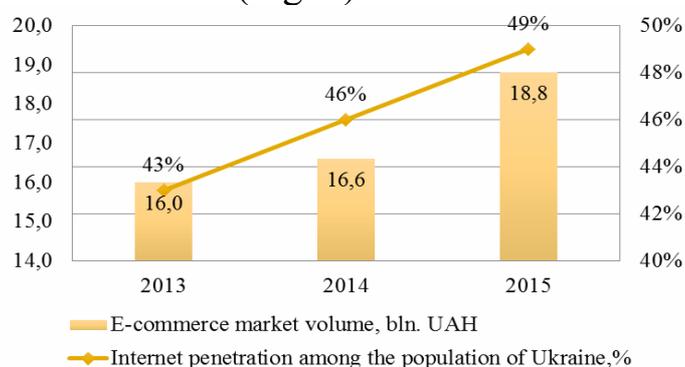


Figure 9. Turnover of E-commerce and Internet penetration in Ukraine in the 2013–2015

Source: [5, p. 9]

Today, most retailers are converted into multichannel companies that actively interact with customers in various ways (dissemination of information via the Internet, radio, television or print media; online sales, selling in-store or at market; establishing feedback through questionnaires, phone calls, e-mail, etc.).

### **Conclusion**

Summarizing the tendencies of retail trade functioning in Ukraine, we can say that the current economic conditions trigger emergence of a number of the following managerial tasks: ensuring sustainable development of retailers; fulfilment of their actual and potential competitive advantages; coordination of interests of market players who enter economic relationships to satisfy their needs. Solving these problems actualizes the need for researching problems of value-based management. The ability of trade enterprise to develop effectively depends on its capacity to identify and meet customers' needs, adapt to changing environmental conditions, which imposes entirely new requirements on management systems. Under the following conditions, designing of all functional management directions should be done from the standpoint of finding unique competencies which can ensure competitiveness of the enterprise and increase its value.

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## **TETYANA MELNYK**

Doctor of Science (Economics), Professor, Kyiv National University of Trade and Economics, Head of International Economic Relations Department, Kioto 19 St., 02156, Kyiv, Ukraine, tel. +380445314746  
e-mail: [melniknteu99@gmail.com](mailto:melniknteu99@gmail.com)

## **KATERYNA PUGACHEVSKA**

Candidate of Science (Economics), Senior Lecturer, Kyiv National University of Trade and Economics, International Economic Relations Department, Kioto 19 St., 02156, Kyiv, Ukraine, tel. +380445314872  
[kpugachevska@gmail.com](mailto:kpugachevska@gmail.com)

## **PROBLEMS OF UKRAINE'S EXPORT TO THE EU**

### **Abstract**

It has been analyzed the dynamics of Ukraine's export, its commodity and geographical structure are estimated. The share of export in total production and import dependence of certain types of economic activity on the basis of «input-output» tables are calculated. The scope of Ukrainian legislation unification in the sphere of technical regulation, standardization and metrology with European requirements is reaserched. The main problem of Ukraine's exporters entering the EU market are formulated.

### **Introduction**

The Association Agreement between the EU and Ukraine is a comprehensive agreement that covers political and economic relations between the countries. The trade part of this Agreement is reflected in the creation of a Deep and Comprehensive Free Trade Area (DCFTA), which provisionally entered in force on January, 2016. Economic goal of a signed document of strategic and geopolitical significance in the history of Ukraine is to contribute to the modernization of the Ukrainian economy by increasing the volume of trade with the EU and other countries and to improve the mechanism of economic regulation in accordance with the European practice.

DCFTA almost completely liberalize trade between Ukraine and the EU, and with a rather high level of asymmetry as the EU implements tariff liberalization to full extent and without delay for most goods, while Ukraine is given a period of three to seven years. Such a delay will give additional time for Ukrainian exporters for preparation to a highly competitive European market.

According to the European Commission data, Ukraine and the EU will cancel 99.1% and 98.1% duties respectively. According to preliminary estimates, the Ukrainian exporters will save EUR 487 million annually by reducing import duties of the EU, while Ukraine will eliminate tariffs on imports from the EU totaling to EUR 391 million [2, p.24]. So for Ukraine, the level of external openness of which in 2015 was nearly 84%, the effective strategy for export development should be a bifurcation point in enhancing international competitiveness and thus the modernization of the national development strategy.

Taking into account the abovementioned, the article is aimed at estimation the problems of Ukrainian producers entering the EU market.

**Results.** After proclamation of independence, Ukraine's export was comparable with a number of European countries. For more than 20 years each of these countries has managed to increase export significantly, particularly Poland in 14.1 times, Hungary – 11.1 times, Turkey – 9.4 times. Instead, in Ukraine this figure is only 4.7 times [5]. Taking into account the tremendous pace of exports decline in 2015 (30.14%), its volume totaled USD 37.8 billion, what is USD 1.9 billion less than in a crisis 2009, when the rate of decline in export (40.6%) had been unprecedented since Ukraine's independence [6]. In terms of macroeconomics during the years of independence Ukraine has achieved limited success in reforming economic policies, representing mostly unsatisfactory results, except the years that were characterized by positive commodity conjuncture – key positions of Ukrainian export. However, in 2014-2015 Ukraine was experiencing economic crisis and noted infrastructure losses due to the Russian aggression, which has even more exacerbated the negative effects of the global economic crisis.

Ukraine's economy is characterized by quite huge openness according to the ratio of goods and services exports to GDP compared with the EU. During 2005–2015, except 2013, the export quota of Ukraine compared with the EU is exceeding in average of 6.4 percentage points [6]. This allows to claim a high level of dependence of Ukraine's economy on the economic situation in the world markets and trends in the global economy.

The relatively high level of integration of Ukraine necessitates the formation of regulatory policy, which would be appropriate to contemporary challenges of globalization. Its mechanism should provide interaction between the development of the national economy and export as a kind of «channel» of cooperation between countries with the world economy. Such an interaction is considered in framework of cause-effect link between exports and economic growth (export-led growth), as well as export and dynamics and structure of GDP [1].

The leading long-term trend of Ukrainian exports is reducing the share of the CIS countries since 2011 (from 38.27% in 2012 to 20.47% in 2015) and a simultaneous increase in the share of the EU-28 and countries of Asia and Africa (Table .1). This shift is associated with exacerbation of commercial and political contradictions between Ukraine and Russia and the need to find new markets.

*Table 1*

**Geographic structure of Ukraine's exports in 2005-2015,%**

Year	CIS	Europe	EU-28	Asia	Africa	America	Australia and Oceania
<b>2005</b>	30,77	31,79	30,07	25,06	6,99	5,35	0,04
<b>2006</b>	32,19	32,91	31,71	22,01	6,19	6,65	0,05
<b>2007</b>	36,69	29,97	28,44	22,07	5,66	5,45	0,03
<b>2008</b>	34,59	29,47	27,28	23,72	5,83	6,19	0,10
<b>2009</b>	33,94	25,86	23,97	30,56	6,62	2,83	0,05
<b>2010</b>	36,46	26,90	25,46	26,68	5,87	3,89	0,06
<b>2011</b>	38,27	26,96	26,35	25,93	4,89	3,73	0,04
<b>2012</b>	36,78	25,31	24,88	25,69	8,19	3,79	0,07
<b>2013</b>	34,87	26,95	26,47	26,55	8,05	3,42	0,06
<b>2014</b>	27,61	31,77	31,54	28,48	9,46	2,55	0,04
<b>2015</b>	20,47	34,75	34,14	32,47	9,98	2,06	0,04

Source: calculated on the basis of [6]

The largest share in the geographical structure of exports to the EU takes Italy – 15.21% (particularly in the export structure in 2015 49.4% held steel, 16.0% – grains, 7.6% – fats and oils) ; Poland – 15.19% (17.9% – ferrous metals, 14.1% – electrical machinery, 11.0% – mineral fuels); Germany – 10.1% (22.7% – electrical machinery, 9.6% – textile goods, 6.7% – mineral fuels, 6.1 – grains); Spain – 8.02% (56.8% – grains, 15.2% – fats and oils) [6].

Despite statistics show the increase in export share to the EU market during 2012-2015, in monetary value 2015 was characterized by a reduction in exports of goods to USD 3.98 billion or 23.5% (Table. 2). This is partly due to the suspension of production in the occupied territories as since the beginning of military conflict Donetsk and Luhansk regions provided nearly 27% of national exports. 2014-2015 were characterized by a decrease in exports of services in dollar equivalent to 4.9% and 26.6% respectively. In the structure of services to the EU in 2015 transport services were dominated with the figure of 39.8% (including

30.2% – services of air transport, 25.5% – railway transport, 19.2% – sea transport, 15.3% – road transport), services in processing of material resources – 20.9%, services in the field of telecommunications and information and computer services – 18.8%, business services – 11.9%. For comparison the importance of exports of goods and services of Ukraine to the EU market, the share of Ukraine’s exports in total EU imports was calculated and the results showed that this figure is within the 0.27%–0.36%. This indicates a low level of Ukrainian goods and services presence in the EU and non priority of Ukrainian goods for the EU market.

*Table 2*

**Indicators of goods and services export to the EU**

<b>Indicator</b>	<b>2005</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Export of goods to the EU, mln. USD	10233	18130	9499	13052	17970	17081	16759	17003	13015
In % to preceding year	92,9	130,3	52,4	137,4	137,7	95,1	97,8	102,6	76,5
Export of services to the EU, mln. USD	1766	4066	3021	3117	3525	3745	4196	3992	2928
In % to preceding year	113,4	136,5	74,3	105,6	113,2	106,4	111,9	95,1	73,4
Import of goods and services, bln. USD	4152	6224	4711	5325	6235	5864	5913	6032	5213
Share of goods and services export to the EU in EU import, %	0,29	0,36	0,27	0,30	0,34	0,36	0,35	0,35	0,31

Source: calculated on the basis of [5; 6]

The structure of exports to the EU (Table. 3) shifted towards growth in machinery, vehicles and equipment, foodstuffs and agricultural products, as well as wood and paper products. In general, Ukrainian export is characterized by relatively lower share of industrial products with high level of processing and a higher share of iron and steel products (23.54%). Ukraine, occupying leading positions in the markets of agricultural products, ores and metals (so-called «exchanges» goods, that are characterized by a volatile of prices), is substantially exposed to the negative impact of global fluctuations. While increasing the share of products with high level of processing leads to the stable increasing of export earnings.

### Commodity structure of Ukraine's exports to the EU, %

Code UCCFEA	Commodity group	2007	2010	2012	2014	2015
1–24	Food industry and agriculture products	11,95	14,91	28,83	28,03	31,11
25–27	Mineral products	17,01	18,68	17,05	16,24	11,35
28–40	Products of chemical and allied industries	9,61	5,89	5,45	4,52	3,92
41–43	Raw leather and fur	2,65	1,15	0,68	0,83	0,82
44–49	Wood, articles of wood and other fibrous cellulosic materials	4,83	4,50	3,71	4,71	5,95
50–67	Textiles and articles of textiles, footwear	6,40	5,43	3,91	4,36	4,82
72–83	Metals	33,01	33,19	23,58	25,95	23,54
84–90	Machines, transport equipment and mechanisms	12,02	13,90	14,70	12,89	15,03
68–70, 71, 90–99	Other goods	2,51	2,35	2,09	2,46	3,45

Source: calculated on the basis of [6]

In the process of justification the benefits from integration between trading partners it's important to investigate the intra-industry trade, which characterizes the comparability of their economies. Within the framework of intra-industry trade between the countries the exchange of parts, components of products, differentiated products of industries producing industrial products take place. Intra-trade comprises a large part of world trade flows. Its volume between the two countries is determined by the Grubel-Lloyd index. If G-L index = 1, the volume of exports and imports are matching and intra-industry trade is performed to the maximum extent. Thus, the closer the index is to 1, the greater the volume of intra-industry trade.

In Table 4 the dynamics of the overall index of intra-industry trade between Ukraine and EU-27 is analyzed (Table. 4). For certain commodity groups the G-L index has a high level (0.99 – finished food industry products; 0.92 – raw leather and fur; 0.81 – machines, equipment and mechanisms; 0,75 – live animals and livestock products). The lowest figure of G-L index belongs to animal or plant fats and oils (0,13) and polymeric materials, plastics and rubber (0,14).

**Dynamics of Grubel-Lloyd index between Ukraine  
and the EU by commodity group**

Commodity group	2012	2013	2014	2015
Live animals and livestock products	0,09	0,15	0,46	0,75
Plant products	0,43	0,44	0,41	0,28
Animal or plant fats and oils	0,26	0,35	0,17	0,13
Finished food industry products	0,74	0,71	0,86	0,99
Mineral products	0,83	0,97	0,83	0,60
Products of chemical and allied industries	0,30	0,24	0,30	0,27
Polymeric materials, plastics and rubber	0,09	0,09	0,11	0,14
Raw leather and fur	0,80	0,87	0,87	0,92
Wood and articles of wood	0,63	0,66	0,45	0,25
Wood pulp or other fibrous cellulosic materials	0,12	0,12	0,13	0,19
Textiles and articles of textiles	0,91	0,89	0,97	0,98
Footwear, hats, umbrellas	0,63	0,67	0,60	0,51
Products from stone, gyps, cement, asbestos, glass	0,24	0,22	0,45	0,72
Precious stones and metals	0,46	0,26	0,25	0,54
Base metals	0,56	0,51	0,41	0,41
Machines, equipment and mechanisms	0,50	0,53	0,72	0,81
Ground, air and water transport	0,32	0,12	0,17	0,31

Source: calculated on the basis of [6].

Among most export-oriented types of economic activity are manufacture of basic metals (71.4%), manufacture of chemicals (59.9%), manufacture of electrical equipment (59.0%), mining of metal ores (50.4%) (Table 5). The lowest level of export orientation is demonstrated in manufacture of coke (11%), extraction of crude oil and natural gas (6%). The level of import dependence of manufacture of computers is 86.7%, chemical industry – 80.0%, transport equipment – 78,7, production of crude oil and natural gas –71.3%, According to the table «input-output» at basic prices, 11.7% of value added is formed in agriculture, 4.1% – food industry, 2.5% – manufacture of basic metals.

Table 5

**Impact of external factors on certain types of economic activity in 2014**

Type of economic activity	Import dependence of production, %	Export orientation of production, %	Share of import in:			Value added, %
			intermediate consumption, %	final consumption, %	gross formation, %	
Agriculture, forestry and fishing	8,34	28,1	50,7	46,6	2,7	11,7
Mining of coal and lignite	49,9	20,3	99,9	0,1	0,0	0,9
Extraction of crude petroleum and natural gas	71,3	6,0	97,1	7,5	-4,6	1,8
Mining of metal ores	15,6	50,4	100,0	0,0	0,0	3,0
Manufacture of food products, beverages and tobacco products	14,8	30,8	22,0	78,0	-0,1	4,1
Manufacture of wood and paper products, and printing	42,8	35,0	92,2	7,4	0,4	0,9
Manufacture of coke, and refined petroleum products	16,5	11,0	100,0	0,0	0,0	0,2
Manufacture of chemicals and chemical products	80,0	59,9	97,5	4,0	-1,5	0,4
Manufacture of basic metals and fabricated metal products	29,4	71,4	100,2	0,0	-0,2	2,5
Manufacture of computer, electronic and optical products	86,7	64,2	26,4	34,4	39,2	0,2
Manufacture of electrical equipment	69,2	59,0	41,2	22,9	36,0	0,5
Manufacture of transport equipment	78,7	49,8	29,8	31,1	39,1	0,2

Source: calculated on the basis of «input-output» tables [6].

As the result of signing the Association Agreement, Ukraine has received tariff quotas for some goods, mostly agricultural products. Experience of using the tariff quotas in 2014-2015 by Ukraine indicates a failure in use of its own capacity for export. In particular, in 2015 only 9 of 36 quotas were used (for comparison, in 2014 only 6 quotas) on such commodity groups as natural honey, cereals, tomato, grape and apple juice, wheat, corn, oats, sugar and poultry) [2, c.44]. The main reasons of failure in tariff quotas use include problems with the safety of food, non-compliance of quality requirements, insufficient domestic production, focus on contracting with countries outside the EU, low demand for Ukrainian goods, lack of trading partners from the EU.

Ukraine gained the right to export to the EU without paying any duties up to 12 ths. tons of beef, 20 ths. tons of pork, 1.5 ths. tons of mutton, 250 ths. tons of barley, 8 tons of milk, cream, condensed milk, 1.5 tons of butter oil [4], but the results of 2015 showed that these quotas were not used by the country. Moreover, exports of the abovementioned headings to the EU, according to the European statistics in 2015, wasn't, stated indicating, that the list of goods which has a tariff quota consist mostly of items, export of which is impossible due to their low quality and high requirements product safety when accessing the European market. Instead, a different situation with such commodities as corn, honey, oats, where tariff quota is substantially lower than the exports to the EU in 2015. In Ukraine much more of agricultural products is made than the domestic market requires (for example, while the production of 60.1 mln. tons of grain and leguminous crops, the actual consumption is 25.2 million tons) and thus export is the only way of sales. Under these circumstances, the geographical diversification of exports allows to make the EU tariff quotas less burdensome. For example, wheat and corn are actively exported to Asia and Africa.

Taking into account the fact that tariffs between Ukraine and the EU will be almost completely eliminated, non-tariff barriers remains a major obstacle to trade. In order to overcome it Ukraine began the long and difficult, but necessary path of harmonization with EU legislation, which includes transposition of EU standards, strengthening institutional capacity etc. In August 2016 Strategy for the development of technical regulations for 2020 was approved, which is aimed at removing technical barriers to trade between Ukraine and the EU and the expected result of it is the export of Ukrainian goods to the EU market without undergoing additional testing and conformity assessment procedures.

Ukraine greatly accelerated reforms in the technical regulations after accession the WTO. During this time, more than 40 technical regulations were taken, which are based on EU directives. At the end of 2016, 49 technical regulations were adopted. Along with the coordination of sectoral legislation with EU directives government revokes other legislation, including health standards and regulations regarding safety that duplicate the requirements of technical regulations. In January 2017 came into force cancellation of a number of regulations adopted before 1991.

As of January 1, 2016 the fund of national standards consists of 17 889 documents (which is 40% less than in 2014), 61.3% of which are harmonized with international and European norms (which is 24% more than in 2013 ).

Reducing the total number of national standards has been achieved through the abolition by the Ministry of Economic Development and Trade

outdated GOST standards, that have been adopted by 1992 (including canceled more than 14 thousand of these standards in 2015).

In accordance with the Law of Ukraine on standardization, the functions related to standardization transferred to an independent non-governmental National Authority for Standardization (State Enterprise «Ukrainian Research and Training Center of Standardization, Certification and Quality»), which has already received confirmation its membership in the International organization for standardization (ISO) and International electrotechnical Commission, which is analogous to CENELEC.

According to international experience, potential positive economic effects of globalization can not be implemented automatically. The key prerequisites for success in world markets is a proactive business stance and adequate public policy.

According to WEF experts, the main problems of export are related with: insufficient production technologies and skills of personnel, difficulties in identifying promising markets, goods which are not appropriate to international specifications and standards, desire of quick return on investment that is not aimed at long-term extension markets, but occupying only the domestic market. A huge bureaucracy (11 documents required for export operations), difficulties in the VAT refund and exchange control, instable economic situation in Ukraine does not contribute to the development of export. At the same time, these problems are perceived differently by enterprises and depends on their size. In particular, the greatest difficulties for small and medium-sized enterprises are the lack of foreign partners, lack of information provision process of entering new markets. Therefore, in the case of «export breakthrough» implementation the focus should be on removing barriers for small and medium businesses.

### **Conclusion**

National foreign policy of Ukraine should be based, taking into account the challenges of globalization on the basis of adequate understanding of the opportunities and risks associated with the high level of openness of the national economy in exports. Under such conditions, one of the key prerequisites for the success of countries in the global market are proactive business attitude, the key element of which is involvement of exporters and professional associations in the discussion of laws and regulations, initiated both by Ukraine and the EU and international organizations.

Ultimately competitiveness on the international market in general and Europe in particular, is determined by the ability of domestic enterprises to produce goods for foreign consumers acceptable quality and

at an affordable price. Therefore, meeting the requirements and standards of the EU by the goods and services is a necessary component of industrial and commercial activity of any exports entity and its costs is a sort of investment in improving its competitiveness. The strategy for export development requires the formation of a number of preconditions for political, economic and institutional directions, without which selective trade policy measures may not provide the expected economic effect. Regulatory policy in the sphere of export should take into account the need to reduce barriers to the internal procedure of export operations, which is a significant barrier to enter the European markets, particularly for small and medium businesses.

Results of studies have concluded that among the key issues in the field of foreign trade with EU countries, particularly in terms of its export component, are mainly raw material export orientation of Ukraine with simultaneous import of highly processed items and, consequently, inefficient structure of foreign trade; lack of integration of Ukraine into the system of international technology cooperation; dependence of export production on imported goods for intermediate consumption; low level of support of small and medium businesses in foreign economic activity; insufficient export promotion of Ukraine in the European markets.

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## **BOGUSZ MIKUŁA**

PhD, Professor of Cracow University of Economics,  
Department of Organizational Behavior,  
Rakowicka 27 St., 31-510 Cracow, Poland, tel. + 48122935180,  
e-mail: [mikulab@uek.krakow.pl](mailto:mikulab@uek.krakow.pl)

### **CREATING A LEARNING ENTERPRISE**

#### **Abstract**

A learning organization is a model of enterprise depicting the mechanisms of operation enabling to adjust business activity to the conditions of the knowledge-based economy and develop it further. The article characterizes selected but significant directions of changes in an enterprise which must be made to implement the learning organization concept. The discussed issues concern: the organizational structure, the motivation system, human capital, the access to knowledge and information resources, organizational climate, organizational learning processes, modern technologies, networks and virtual teams, knowledge management.

#### **Introduction**

Within the knowledge-based economy there are specific conditionings of conducting business activity with which enterprises have not dealt so far. It makes it necessary for firms to adjust to operating in the conditions of globalization, high level of competition increased by cooperation systems, turbulences, unexpected occurrence of ground-breaking innovations, fast flow of a great deal of information and development of knowledge resources. The theory of management points out to a few models of knowledge-based organizations which, after practical implementation, may help enterprises stay on the market and develop in this new situation. The key model of an enterprise adjusted to the conditions of the new economy is a learning organization. By means of the learning organization model, a new picture of the internal organization of an enterprise, particularly important processes which must be conducted to achieve goals, and sets of mental models and values which should be adopted by people and steer their behaviors are presented. The aim of the paper is to indicate selected directions of changes which must be made in an enterprise to practically implement the concept of a learning organization.

#### **The essence of a learning organization**

It is pointed out that the knowledge-based economy is embodied by learning organizations. Such organizations are generally defined as

organizations which owing to knowledge are able to continuously cross boundaries when creating value, and thus to continuously create their own future more perfectly than traditional firms [1]. In addition to anticipating the future, the significance of the development of knowledge resources, constant learning of employees, as well as flexibility in operation are strongly emphasized in definitions of learning organizations:

- these are organizations acquiring and implementing knowledge in structures, products, processes and organizational practices (and wherever it is possible) [2],
- it is a form of organization enabling learning of its members in such a way that in effect they create valuable results in the form of innovations, efficiency, a better position in the environment and competitive advantage [3],
- these are maximally flexible organizations in which routine, habits and stereotypes do not replace the dynamic reality [4].

In a learning organization [5]:

- all employees see themselves as individuals learning on behalf of the firm and take responsibility for their personal development to keep up with the speed of change, at the same time they feel responsible for maintaining the enterprise in the state matching the requirements of the effectiveness of functioning and development;
- it aims at the replacement of traditional superior – subordinate relations with self-management, and employees are proactive and undertake activities at their own initiative, top-down management is limited and the scope of supervision is reduced;
- there is spirit of self-development, employees taking responsibility for personal learning and improving work have space for improvement, they are treated as people mentally mature and they have influence on the conducted business activity;
- the enterprise functions like a consortium of small businesses, everybody treats their jobs as their own business with characteristic vigor, energy and effort, the whole organization resembles a common market placed in the strategic load bearing structure, where people exchange and trade with users, suppliers and recipients, the success of the enterprise understood in this way is in everybody's interest;
- the enterprise as a whole creates, accumulates, disseminates and uses new knowledge, as well as it maintains and develops key competences owing to which it positively stands out in the environment.

Additional features of learning organizations in comparison with traditional principles of the functioning of enterprises prevailing in the industrial era are presented in Table 1.

*Table 1*

### **Traditional organization versus learning organization**

Characteristics of organizations	
Traditional organization	Learning organization
sending employees to training courses,	constant training of the personnel and planned trainings,
acting on the basis of constant labor procedures,	action each time adjusted to the situation,
punishing for mistakes made,	learning from mistakes,
giving instructions, supervision over the staff and inspection of the completion of tasks,	delegating powers, full decentralization of management, broad autonomy of employees in action,
discouraging from experimenting,	encouraging experimenting,
discouraging employees from questioning the effectiveness of work and suggesting solutions.	encouraging employees to question the effectiveness of work and suggest solutions.

Source: study based on [6].

### **The first steps in reaching the level of a learning organization**

In order to implement the learning organization model it is necessary to create proper initial conditions which will become the basis for the implementation of crucial initiatives concerning learning of an organization. They primarily include: the organizational structure, the motivation system, human capital, unlimited access to knowledge and information resources, organizational climate.

Taking into consideration the fact that that enterprises function in the network economy, they should create internal organizational structures adequate to these conditions. Thus, it should be recommended to adopt flat structures, with the prevalence of network solutions based on cooperating teams, self-managing their activities. The hypertext structure, proposed by I. Nonak (see, e.g.: [7]) is an example of such a structure. Another example of a structure based on teams of knowledge workers is presented by S. Walczak (see: [8]).

The motivation system must give up traditional solutions. One of the conditions is to isolate a motivation fund within the payroll fund for

creative behaviors and initiation of changes. And financial remunerations for employees must reach such a level so that it could be possible to use immaterial incentives to motivate people.

Human capital is another area of necessary changes. On the one hand, it is about enhancing human resources via broader involvement of knowledge workers. On the other hand, it is necessary to protect the human capital the firm has. Being aware of such a necessity, firms apply such instruments as [9]: high base remunerations, high motivation bonuses for innovative workers, multiannual contracts, lifelong employment (mainly Japanese companies), non-material motivation, horizontal promotion (expanding decision-making and operation field), participation in interesting projects, etc. However, in spite of this, they often lose the best employees and with their departure they lose valuable resources of tacit knowledge. Therefore, it is necessary to apply activities in talent management, the aim of which is to retain workers in the organization and not to allow them to leave.

Unlimited access to information and knowledge resources is the basic condition for initiating the processes of organizational learning and generating knowledge in an enterprise. Meanwhile, it turns out that most often it is not fulfilled and quite often workers have limited access to these resources, especially when their information needs go beyond operating activities ordered for the implementation [10]. A great importance of information redundancy is emphasized by I. Nonaka, R. Toyama and N. Konno: «Redundancy of information speeds up the knowledge-creating process in two ways. Firstly, sharing redundant information promotes the sharing of tacit knowledge, because individuals can sense what others are trying to articulate. Redundant information enables individuals to transcend functional boundaries to offer advice or provide new information from different perspectives. Secondly, redundancy of information helps organisational members understand their role in the organisation, which in turn functions to control their direction of thinking and action» [11]. Open access to information and knowledge must be realized by introducing unlimited access to specialists (knowledge workers). The «common space» systems are supportive solutions within this scope (see: [12]).

Creating organizational climate which will favor the generation of knowledge, namely the atmosphere among people, is the first step to create the learning organization culture. The climate and the organizational culture must be based on preferring trust, collaboration, constant learning and improving the organization, sharing knowledge by people and their creativeness.

### **Key schemes in creating a learning organization**

The key step in creating a learning organization is the commencement of the implementation of organizational learning processes and this in a conscious, coordinated and properly controlled way. Altogether, organizational learning processes must be properly managed.

Organizational learning is a process with the use of information and knowledge, it leads to a change in knowledge resources and may cause changes in human behaviors, it can create adaptation capabilities of an organization leading to the accomplishment of the state of high reactivity, and then pro-activeness of changes undergoing in the environment. Organizational learning processes therefore become the basis for changes in organizational behaviors and processes on which knowledge management in an organization should focus [13].

Organizational learning consists of three sub-processes: traditional learning, empirical learning and cybernetic learning. Traditional (educational) learning is the process of increasing competences of workers via their active participation in training courses, seminars, trainings, conferences, etc. When it is implemented, it is also a method of self-education and mutual passing of knowledge by employees (e.g. with the use of coaching). Empirical learning is the process of gaining new experiences through practical actions. Cybernetic learning consists in discovering new ways of perceiving and understanding standards governing the functioning of organizations, their questioning and changing [14], [15]. It also comprises learning how to learn, thus, the improvement of organizational learning processes.

The goals of the implementation of organizational learning processes in an enterprise should include, among others:

- adaptation to changes undergoing in the environment by increasing the speed of reaction to the occurring turbulence,
- the development of the enterprise knowledge resources,
- creating innovations,
- improving various areas and functions of the enterprise activities,
- improvement of economic performance.

Organizational learning processes are implemented through the introduction and uninterrupted continuation of numerous ventures, initiatives and programs. The basic ones are presented in Table 2.

Table 2

### Levels and basic methods of implementing organizational learning

Type Level	Traditional	Empirical	Cybernetic
of the employee	<ul style="list-style-type: none"> <li>•implementation of individual plans of continuous development of competences via self-education,</li> <li>•participation in courses and trainings,</li> </ul>	<ul style="list-style-type: none"> <li>•gaining experiences via practical actions,</li> <li>•staff turnover,</li> <li>•learning from mistakes,</li> <li>•direct contacts with customers,</li> <li>•indirect contacts with employees of other firms,</li> </ul>	<ul style="list-style-type: none"> <li>•analysis and assessment of own behaviors and an attempt to question the assumptions concerning work at the position,</li> <li>•individual discovery of internal assumptions concerning the operations of the organization, their analysis and assessment,</li> <li>•passing information flowing from the environment to the data bank,</li> <li>•working on one's own projects,</li> </ul>
of the team	<ul style="list-style-type: none"> <li>•training of worker team focused on the growth of team work skills (including communication) and the integrity of the group,</li> <li>•trainings conducted by superiors and external specialists,</li> <li>•team learning – among others through mutual passing of knowledge,</li> </ul>	<ul style="list-style-type: none"> <li>•gaining experiences through team actions,</li> <li>•practicing dialogue,</li> <li>•learning from experiences of others: internal benchmarking, contacts with customers, suppliers, employees of other organizations, discussing mistakes and irregularities,</li> <li>•learning from mistakes – team comparison and discussion of effective and ineffective actions, drawing conclusions,</li> <li>•introducing changes,</li> </ul>	<ul style="list-style-type: none"> <li>•overview of crisis and dangerous situations,</li> <li>•questioning assumptions concerning the functioning of the team and its cooperation with other teams,</li> <li>•modification of internal assumptions of the tea members via subjecting them to team evaluation,</li> <li>•explaining, creating and deepening the vision of future,</li> <li>•creating the redundancy of ideas through the application of the techniques of creating solutions to problems,</li> <li>•team work over new solutions,</li> </ul>
of the organization	<ul style="list-style-type: none"> <li>•systematic collection of information from professional literature,</li> <li>•management of continuous training process,</li> </ul>	<ul style="list-style-type: none"> <li>•functional and external benchmarking,</li> <li>•recognizing customer needs,</li> <li>•analyzing developmental trends of phenomena,</li> </ul>	<ul style="list-style-type: none"> <li>•constant collection of information flowing from the environment in one data bank, selection and distribution of data inside the organization,</li> <li>•questioning assumptions concerning the functioning of the whole organization (mission and strategy in particular),</li> <li>•using external consultants.</li> </ul>

Source: [15].

## **Factors worth considering during the implementation of organizational learning processes**

When implementing organizational learning processes and then improving them, attention should be paid to several factors. These are: modern technologies, networks and virtual teams, knowledge management.

Fast development of information and communication technology (ICT) and teambuilding technologies may facilitate innovative processes, owing to better creativeness and cooperation among people. However, technologies cannot replace human creativeness due to complexity and uncertainty in respect of innovations [16]. ICT is a means to an end, and not the end in itself. It is to enable and strengthen human interactions, and not to replace them. In the virtual world created by technology, the main function of the virtual team leader is to identify how to use available possibilities best. There are numerous factors influencing the choice of a technology – for example, the type of the job done, synchronic or asynchronic actions, virtuality level, compatibility of software, etc. This choice is often made on the basis of «What is available and permitted?», and not on «What is needed?». Research has shown that if the formal provision of a technology does not meet a team's need, the team simply stops using a given system [17].

However, ICT can significantly support people in creating new solutions and improving the implementation of ongoing tasks, among others via the improvement of the transfer of knowledge and the acceleration of the analysis of expanded data and information sets. Therefore, enterprises in their strategies of operations should consider the necessity to introduce internal tools facilitating cooperation and communication and knowledge management. Among such tools, we can distinguish [18]:

- «common thinking» boards,
- electronic mail,
- newsletters,
- the Intranet, which combines the elements of an announcement page with more and more sophisticated communication tools, such as: mini-forums, mini-blogs, chat rooms, video-chats, forums, virtual conference rooms, company repositories, company social website, metadata and tags, archiving, document management systems, knowledge map systems, corporate websites, wiki, podcasts, social software, document circulation applications, e-learning.

People working for enterprises have to understand the essence and significance of organizational learning processes and managing them in

order to achieve benefits and have efficient tools of adaptation to changeable conditions of the environment. In such conditions, the dominant role seems to be taken over by network organizations. The dynamics of the new economy to a greater and greater extent consists in the logic of network which ensures the survival and enhancement of the competitive position to a business entity owing to multilateral cooperation relations [19]. Cooperation is a reaction to the growing requirements of the environment. In the conditions of the intensifying competition and pressure on the use modern technologies, cooperation enables to maximize capital expenditure, accumulate information resources, complete and develop employees' skills. Permanent cooperation in the long run gives effects in the form of new products and technologies and allows to solve problems and learn together [20]. It is not without reason that contemporary enterprises enter into network arrangements.

Virtual teams are the completion of network solutions. They are regarded one of the most flexible forms of the organization of labor. It enables to increase the number of people involved in the implementation of a project without introducing changes in the organizational structure or the organization of labor. It also allows the better use of the personnel which can work on the implementation of several ventures at the same time. Virtual teams can perfectly support work of stationary teams, make their knowledge available, and thus support innovative processes. Finally, this form of the organization of labor enables to involve in the implementation of tasks people located in different corners of the world, thus involve in the work human capital which with the use of traditional solutions concerning hiring workforce would never work for the enterprise. In addition, talented workers can be won for work, coming from the areas where there is large supply of them and their salary expectations are much lower than in the place of the localization of the company headquarters [21].

Knowledge management is the «heart» of a learning organization. The concept enables to direct the functioning of an enterprise in respect of knowledge resources, rational steering of processes with the participation of knowledge, proper use of knowledge resources. It is a solution which cannot be omitted by enterprises which want to develop in the conditions of the knowledge-based economy.

### **Conclusion**

Creativity is regarded the quality of exceptional or talented people. Since 1950s it has been believed that creativity can be learnt. It requires regularity and diligence. In 95% creativity consists of hard work, and only in 5% of creative sparkle [22]. Therefore, the implementation of the learning organization concept, and particularly the actual implementation

of organizational learning processes may become the basis for the success of an enterprise. The exceptionality of learning of an organization consists in the fact that every firm can work out its own individual and unique methods of achieving success. It is important, however, to make learning of people working for an organization an element of everyday work.

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## **ANDREW MOROZOV**

Dr. phil, prof., KNUTE, Department of philosophical and social sciences,  
Kioto 21 str., Kyiv, tel. 096 2712088, e-mail: insearch2007@yandex.ru

### **THE INTERRELATION OF THE ECONOMY, POLITICS AND WAR**

#### **Abstract**

Knowing the laws of interconnection between economy, politics and war it would be able to define correctly the requirements of the strategy for the economy on theoretical level and to determine the main directions for their implementation on practical level of governing the country.

#### **Introduction**

The relationship between war and the economy is one of the fundamental theoretical and practical problems in science and politics. The course and outcome of the war, victories and defeats of states are determined by various factors, among which the economic one is crucial. The economy of states has a decisive influence on the course of social progress and determines its development. Sometimes it is much stronger than any other political or ideological factors.

When we are trying to answer such questions as: «where are the hidden causes of the war?», «Can wars be prevented?», we ought to observe this relationship between war and economics because it has outstanding methodological importance.

#### **The main characteristic features of interconnection between war and economy.**

In modern times, the interrelations of the economy, politics and war are becoming more and more complex. Henderson D.R. suggests that there are at least three factors that have a significant impact on these interrelations: 1) the global geopolitical situation that is being changed radically nowadays; 2) improving the means of armed struggle (nuclear weapons and missile technology, precision weapons, remote control weapons, drones etc.); 3) shifts in the essence of modern wars and military conflicts (net war, hybrid war) [1].

It should be noted that the hierarchy of world rivalry has a multipolar character. It means that the major role of centers of economic and military force, centers of influence on the system of international relations, is claimed by a dozen of states. However, the real influence of them is mainly of a regional nature. The role of the sole leader actually is played by the United States, the largest economic and financial leader, the

focus of military power and advanced technology. In fact, the USA surpasses any other state by the size of the social product, by its ability quickly adapt to the ongoing changes, and by the degree of influence in international institutions. The United States try to play a leading role in all major regional entities, in political, economic, military forces – in the North Atlantic Alliance, in the World Bank, the North American Free Trade Area, in the Asia- Cooperation, etc.

The configuration of regional centers of power and its subordination to the American chief geopolitical Centre, will be constantly changing, and we see how politics of American president Donald Trump affirms it. At the same time, it may not always be possible to neutralize the clash of political and economic interests of different countries and regions at the negotiating table, or through the intervention of international institutions. World historical experience shows that «between the most powerful centers inevitably arises a bundle of contradictions, the resolution of which is sometimes possible only with the use of military force» [2]. The use of military force, therefore, can't be excluded today from the arsenal of methods for resolving political and economic contradictions, protecting political and economic interests, as well as satisfaction of economic needs.

It is obvious that knowledge of the laws of the interconnection between war, politics and economy should form a theoretical basis to the development of the armed forces of the state, the use of military force to ensure the economic security of their country. As a result, the scientific requirements of the strategy for the national economy should be formed, and the main directions for their implementation should be determined.

### **The correlation of war, politics and economics in XXI c.**

The beginning of 21st century is characterized by the formation of a new geopolitical, economic and strategic picture of the world. «Transformation of the bipolar world into a multipolar system is associated with increasing of political, economic, social, environmental, information and military threats» [3].

Today we observe that there is an intensification of international competition for the possession of natural, technological, human, information and other resources, sales markets, strategic areas. The economy influences on the development of the armed forces, on the forms and methods of armed struggle, on the nature of the war, the possibility of its localization, its duration, course and outcome. Economics is the material and technical basis of war. The level of development of the national economy determines the production of weapons, technical means of armed struggle, the organization of transport, supply systems, the

improvement of the infrastructure which is necessary for the actions of the armed forces, the level of labor productivity and professionalism at enterprises of the military-industrial complex.

Modern weapons are a rather complex type of products, usually requiring further improvements and additional costs. Modernization of military-technical means is conditioned by a constant obsolescence of the next generation of military equipment. The inevitable complication of constructions leads to an increase in labor intensity and cost of samples. According to experts, the change in the generations of products of military engineering (airplanes, armored vehicles, engines, military vehicles) is about five to ten years, the production of military electronics (electronic computing equipment, radio engineering devices) is two or three years. At the same time, their development requires longer terms. For instance, the development of the main components of on-board radio electronic communications equipment (the fourth generation) takes five to eight years, which significantly exceeds the service life of the new sample. Thus, the obsolescence is the main problem in military production.

It should be stressed that the most important component of military force and simultaneously the main parameter of the military-industrial potential is the possession of nuclear weapons, as well as a complex of enterprises that ensure its production. Despite the prohibition of nuclear testing and production of nuclear weapons, the «nuclear club» included a lot of countries, such as Israel, Pakistan, India, USA, Russia etc. Nuclear weapons are considered to be the main parameter of military force. At the same time, in modern conditions, as M. Olson claims, «it is regarded to be the most important restraint of possible military aggression and strategic stability factor in region» [4]. Improving the means of armed struggle, the economy thereby determines the development of military affairs and military art.

The superiority in the field of weapons and military equipment is based on leadership in the production of delivery vehicles and weapons, combined with the availability of a scientific and production base for the creation of management, intelligence, communications and informatics tools. The military applications of science and technology thus expand the capabilities of the armed forces and increase their power. However, the necessary prerequisite for the introduction of new technical means is the transition from the experimental to their mass production, which is completely determined by the economic capabilities of the country, the development of appropriate technology. The economy is one of the factors that contain the sources of contradictions leading to clashes between social groups, states and their coalitions.

At the same time, the direct causes of wars and military conflicts are rooted in politics, while the roots of conflicts and antagonisms are ultimately determined by economic motives. Politics penetrates the entire content of the war, which finds expression in the political aims and nature of the war. Politics imposes a decisive imprint on the content, nature, forms and methods of armed struggle. But it, in turn, depends on the alignment of the military-political forces, the economic capabilities of the opposing sides, the state of arms and military equipment, and so on. In fact, power aspirations and actions represent a kind of synthesis of military power, technological development, economic resources, geographical location.

It is well-known, that the struggle for economic resources was the cause of two world wars. The relationship between economics and war, with the mediating role of politics, is still evident today. Today, after events in Syria and battles around Aleppo, revolutions in Egypt and civil war in Libya, we observe that one of the centers of contradictions and military conflicts is the Middle East region. It is here that huge natural reserves of oil and gas are concentrated. The struggle for the most important economic resource – oil in Iraq and Kuwait – has led to a series of military conflicts in this region that have not ended up to this day.

The economic interests of the oil giant – Saudi Arabia, its economic welfare are largely based on natural oil and gas fields. At the same time, Arab oil enters the world market, largely through Anglo-American brokers. This largely determines the policy and military aspirations of the leadership of the United States, Britain and Saudi Arabia in this region. Thus, «the most important economic resource – oil – is becoming one of the main causes of modern military conflicts and instability» [3].

Let's note one more aspect. The economic factor has turned into one of the constituent elements of the war, as a special state of society, a complex socio-political phenomenon. The economic capabilities of the state have a decisive influence on its military doctrine, strategic concepts and plans. However, the preparation of the country to repel possible aggression affects the strategy of economic development, preparation of the economy for functioning in wartime conditions, plans for equipping and providing the armed forces of the state. In this regard, military confrontation is increasingly being transferred to the military-economic field and affects the development of the national economy of the opposing sides.

Thus, in analyzing the interrelationship of war, politics and economy, one must take into account not only the determining influence of economic conditions on the politics and nature of war, but also the influence of

military doctrinal attitudes on the economic needs of the armed forces. The future war can be the hardest test of all the material and spiritual forces of the state. On the military-technical level, this will be the war of science and technology.

Today, even in peacetime, the struggle of states for military-technical superiority has acquired unprecedented proportions, which manifests itself in the constant maintenance of mass armed forces, the improvement of existing and production of new models of weapons and military equipment. The national economy must ensure the production of increasingly complex and, therefore, more expensive weapons, equipping them, and provide opportunities for its combat use.

The large science-intensive production of weapons and military equipment, its sharp rise in price, as well as the high cost of operation and operation, limit the economy's ability to mass equip armies and fleets in accordance with modern requirements. The mobilization of economic resources for military needs has become one of the most difficult problems for all countries today. The degree of the country's readiness for war is determined by the state of not only the armed forces, but, first of all, the state of its economy, the military-economic potential of the state.

The increase in the influence of war on the economy is also manifested in the expansion of the scale of the enemy's direct armed influence on economic objects. The experience of wars and armed conflicts shows that the opposing sides have always tried to undermine the economic potential of the enemy. The means of armed violence were used to destroy the enemy's economic base. However, if in previous wars, due to the relatively limited capabilities of the weapons of destruction used, «the scale of direct armed influence on economic objects and areas was insignificant» [5], in modern conditions, due to the presence of nuclear weapons and powerful means of their delivery, the possibility of armed influence on the economy is immeasurably large.

Another aspect of the interrelation between the war of politics and the economy is determined by the fact that the economic struggle in modern warfare is increasingly combined and intertwined with other forms of struggle – organizational, diplomatic, informational, ideological, ethnic, and forms and methods of economic struggle are increasingly intertwined with forms and methods of armed struggle. Generally, the main directions of economic struggle are: economic intelligence; struggle for the markets of strategic products, strategic raw materials, food, arms and military equipment and military-industrial technologies, as well as other goods, services and technologies; rivalry in the sphere of military-economic preparations (production and purchase of arms and military equipment,

mobilization preparation of the economy, etc.); undermining the enemy's economic potential and protecting its own economic base and infrastructure.

### **Requirements of the strategy for the economy and its harmonization.**

The main problem of war is the problem of managing the national economy. Expansion of powers and control by the state (prices, wages, location of resources) is usually combined with stimulation of private economic activity, encouraging entrepreneurial initiative, introducing new management methods that promote the growth of military production. The problem arises: how to ensure the correspondence between military and political objectives and economic opportunities? Resolution of this problem involves the implementation of various options.

First option requires the development and application of such methods of armed struggle, which will allow to some extent «neutralize» economic and organizational weaknesses. For example, during the Iran-Iraq war, the parties used long pauses in military operations, which allowed them to accumulate missing resources, purchase weapons and ammunition.

The second option is based on the search for allies, the use of external assistance. An important role in this is played by diplomatic activities, preservation and development of external relations. During the Second World War, agreements were reached between the Allies – Great Britain, the United States and the Soviet Union – on deliveries of weapons and military equipment and the supply of strategic raw materials, which largely affected the course and outcome of the war.

The third option may include misleading the enemy about the purposes of the war, intentions, ways of fighting, and the timing of operations. Returning to the last world war, it should be noted that Germany's military-political leadership managed to mislead the leadership of the United States, Britain, France and Poland before the war, which predetermined the success of the Wehrmacht in 1939-1941, although Germany's military and economic capabilities before the war were inferior to the total military-economic potential of the Allies. Germany's unexpected attack on the USSR also affected the timing of the mobilization of the economy of the Soviet Union, the growth of its military-economic capabilities. And only thanks to the courage of Soviet people it was managed to disrupt the intent of the enemy.

The fourth option uses pulling the other side into a distracting conflict. Germany twice, during the two world wars, was in the position of fighting on two fronts, which in both cases had a decisive influence on the

outcome of these wars. Despite the country's considerable economic potential, the US military and political leadership feared that their troops would not be involved in a military operation, from which it was extremely difficult to get out. (Examples are the unsuccessful intervention in the conflict in Somalia, the war in Afghanistan).

Thus, the coordination of the strategic intentions of the parties in modern war with their economic capabilities can be achieved through a sober assessment of the balance of forces and the implementation of a set of measures aimed at both increasing the combat readiness of the armed forces and making fuller and more effective use of economic potential.

### **Conclusion**

In postmodern times, the relationship between war, politics and the economy has become more solid. The economy became a direct participant in the preparation and conduct of war. Therefore, the national economy must be fully prepared for war, for the economic provision of its armed forces.

A profound knowledge of the laws inherent in the military economy, the correct use of the mechanism of their action, the consideration of patterns that affect the sphere of the military economy, greatly contribute to the optimal development of this particular part of the economy. The basic principles of military-economic activity allow satisfy material and financial needs of the state, provide the armed defense of the country.

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## GIOVANNI MOSCHELLA

Prof., Director of Department of Legal Sciences and History of  
Institutions of University of Messina  
e-mail: moschel@unime.it

### **PUBLIC ADMINISTRATION AND ANTICORRUPTION LAW: THE ITALIAN EXPERIENCE**

#### **Introduction memos for administrative action and corruption phenomena.**

In the Italian legal order, the corruption phenomenon began to be faced as a problem in the last years<sup>8</sup> and a series of measures have been taken to prevent and punish, more efficiently than in the past, the illegal use of the power associated with the activity of a public function<sup>9</sup>. In fact, the legislator has focussed on the prevention not only as a theoretical notion but as a «daily activity»<sup>10</sup>.

In this direction, the references are, first of all, the principle of proper conduct<sup>11</sup> and impartiality<sup>12</sup> of administration, referring to the article 97,

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<sup>8</sup> For a large reconstruction of factors that, from a historical point of view, have influenced the development of corruption in Italy, see A. Vannucci, «La corruzione in Italia: cause, dimensioni, effetti», in B.G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, Torino, 2013, 25 ss.

<sup>9</sup> For an approach to the corruption phenomena, from comparative point of view, see *ex plurimis*: G. Acquaviva, «La legislazione statunitense in materia di lotta alla corruzione di fronte agli ultimi sviluppi internazionali», in *Dir. comm. internaz.*, 2001, 03, 625 ss.; P.T. Persio, *Il reato di corruzione tra privati nell'esperienza italiana e francese: modelli di tutela a confronto*, in *Cass. Pen.*, 2015, 11, 4250 ss.

<sup>10</sup> For the development of the prevention system and the fight against the corruption phenomena, see *ex multis*: G. M. Flick, «Governance e prevenzione della corruzione: dal pubblico al privato o viceversa?», in *Cass. Pen.*, 2015, 09, 2980 ss.; A. Pajno, «La nuova disciplina dei contratti pubblici tra esigenze di semplificazione, rilancio dell'economia e contrasto alla corruzione», in *Riv. It. di Dir. Pubbl. Com.*, 2015, 05, 1135 ss.

<sup>11</sup> Compare, *ex multis*, T.A.R. Lazio Roma, sez. II, 25/07/2011, n. 6673; T.A.R. Piemonte Torino, sez. II, 09/07/2011, n. 749; T.A.R. Basilicata Potenza, sez. I, 07/07/2011, n. 387; Consiglio di Stato, sez. VI, 30/06/2011, n. 3902; Consiglio di Stato, sez. VI, 30/06/2011, n. 3882; T.A.R. Calabria Catanzaro, sez. I, 20/06/2011, n. 907. For a detailed study, you also read, L. Iannuccilli e A. de Tura, *Il principio di buon andamento dell'amministrazione nella giurisprudenza della Corte Costituzionale*, in [http://www.cortecostituzionale.it/documenti/convegni\\_seminari/STU\\_212.pdf](http://www.cortecostituzionale.it/documenti/convegni_seminari/STU_212.pdf).

<sup>12</sup> Compare, *ex multis*, as regards the tenders, Consiglio di Stato, sez. III, 25/08/2011, n. 4809; Consiglio di Stato, sez. V, 25/08/2011, n. 4806; Consiglio di Stato, sez. V, 05/08/2011, n. 4713; Consiglio di Stato, A.P., 28/07/2011, n. 13. For the application of the principle of impartiality as regards the public selection, you read, *ex multis*, T.A.R. Lazio Roma, sez. II, 06/06/2011, n. 5028; Consiglio di Stato, sez. V, 12/05/2011, n. 2826; T.A.R. Lazio Roma, sez. III, 01/04/2011, n. 2881; T.A.R. Campania Napoli, sez. V, 01/04/2011, n. 1907.

paragraph 1 of the Italian Constitution, that specifies in the criteria of economy, efficiency and efficacy mentioned in the introduction of Law 241/1990 on Administrative Procedure.

This norms provide that the administration shall act in accordance with the criteria of **economy** (obtaining the essential resources with the minimum amount of waste); **effectiveness** (reaching the prearranged aims); **efficiency** (using the minimum quantity of possible resources to reach the aims).

In this context, the simplification of the public administration becomes, at the same time, a leading aim for its reorganization and an essential factor to fight the corruption. Therefore, a preliminary condition of efficacy/efficiency of the prevention system is characterized by the simplification of the norms of prevention and its simple accessibility and knowledge<sup>13</sup>.

### **The recent developments for the prevention and the repression of the corruption according to the law 190/2012.**

The corruption in the public administration, related to the Italian economic crisis<sup>14</sup> and the incompetence of the public authority to help citizens and economic operators<sup>15</sup>, has been representing a strong social plague for more than ten years<sup>16</sup>. In the last years, it became an important

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<sup>13</sup> As regards the process of simplification, legal and administrative, started for too long time in the legal system, see *ex plurimis*: F. Liguori, «Le incertezze degli strumenti di semplificazione: lo strano caso della D.I.A. – S.C.I.A.», in *Dir. Proc. Amm.*, 2015, 04, 1223 ss.; C. Pinelli, «Liberalizzazione delle attività produttive e semplificazione amministrativa. Possibilità e limiti di un approccio giuridico», in *Dir. Amm.*, 2014, 01-02, 355 ss.; U. G. Zingales, «L'indagine conoscitiva parlamentare sulla semplificazione legislativa e amministrativa», in *Riv. trim. dir. pubbl.*, 2014, 02, 552 ss.; D. Messineo, «Livelli essenziali di semplificazione»: un ossimoro costituzionale?», in *Giur. Cost.*, 2012, 06, 4856 ss.; M. R. Spasiano, «La semplificazione amministrativa e la garanzia di effettività dell'esercizio del potere pubblico», in *Foro amm. TAR*, 2010, 09, 3041 ss.; G. Sciallo, «La semplificazione dell'organizzazione», in *Dir. amm.*, 2009, 02, 413 ss.; A. Cacciari, «L'incidenza della semplificazione normativa sulla costituzione materiale», in *Foro amm. TAR*, 2005, 12, 4193 ss.; V. Cerulli Irelli, F. Luciani, la semplificazione dell'azione amministrativa, in *Dir. amm.*, 2000, 3-4, 617 ss.

<sup>14</sup> For an analysis of the negative economic impact determined by the corruption phenomena, according to an international and comparative perspective, see E. Dolcini, «Appunti su corruzione e legge anti-corruzione», in *Riv. it. dir. e proc. pen.*, 2013, 02, 527 ss.; S. R. Ackerman, *Corruption and Government*, Cambridge University Press, 1999, 9 ss.; M. G. Vivarelli, «Il fenomeno della corruzione», in *Foro amm. TAR*, 2008, 10, 2930 ss.

<sup>15</sup> For a discussion of the contribution given by private traders in relation to the implementation of the effectiveness of law enforcement measures against corruption, see *ex plurimis*: E. Guido, «Il valore della legalità nell'impresa a partire dalla normativa sulla responsabilità degli enti per l'illecito derivante da reato», in *Riv. it. dir. e proc. pen.*, 2015, 01, 280 ss.; M. Mantovani, «Il ruolo delle aziende nella lotta alla corruzione», in *Riv. dottori comm.*, 2013, 01, 115 ss.; F. Bonelli, ««Collaborazione» tra autorità pubbliche e società private per un'efficace lotta alla corruzione», in *Dir. comm. internaz.*, 2012, 03, 675 ss.

<sup>16</sup> About the relationship between moral purpose and proclivity to commit a crime relating to the corruption phenomena, with particular reference to emphasize the «social evil»

topic for the international debate with clear consequences in our system that have led to the adoption of the Law 190/2012.<sup>17</sup>

The expected aims for these provisions refer to the themes of prevention and repression of corruption phenomena and in general, the promotion of a culture of legality.

The law of 2012 introduces a large concept of corruption, that in addition to the criminal one, refers to the administrative dimension that materializes in measures of conducts that even if they do not have criminal value, result unpleasant to the legal system.

In particular, they are the situations of conflict of interest, clientelism, wastefulness in the management of public resources and so on, that have to be prevented not with repressive tools but with organizational and procedural mechanisms. They also have an effect on the transparency and reinforce the public ethics even through the implementation of training courses and updating personnels<sup>18</sup>.

A strategy that can prevent behaviours whose actions produce private advantages and not a common wealth.

In this framework, the Law 190 of 2012 acquires a wider original dimension going beyond the introduction of new anti-corruption norms and measures that consider the context of the general theory of the organization and the public action.

In an ideal situation that starts with the approval of the Law 241 of 1990 on the administrative action, showing a step-by-step development towards themes of the efficiency of the public action and the control of the performances reached by the public offices, the norm analyzed seems to perform an additional step that moves (*rectius*, connects) the attention from the result – measured to the process through which it has been reached – to the awareness reached recently thanks to the norms of european and international law, that the theoretical organization and planning of the

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coming from the prejudicial acts to fundamental public interests, see F. Palazzo, «Le norme penali contro la corruzione tra presupposti criminologici e finalità etico-sociali», in Cass. Pen., 2015, 10, 3389 ss.

<sup>17</sup> For a comment, see *ex plurimis*: F. Di Mascio, «Il primo anno di attuazione delle politiche di prevenzione della corruzione», in Riv. Trim. di Dir. Pubbl., 2014, 01, 273 ss.; G. Viglietta, «La L. 6 novembre 2012, n. 190 e la lotta alla corruzione», in Cass. pen., 2013, 01, 17 ss.; G. M. Flick, Governance e prevenzione della corruzione, cit., 2982 ss.; F. Di Mascio, Una relazione, 550 ss.

<sup>18</sup> G. Sciuillo, «L'organizzazione amministrativa della prevenzione della corruzione», in B. G. Mattarella, M. Pelissero (a cura di), La legge anticorruzione, cit., 71 ss.

public action influence inevitably and significantly the value of the results really followed.<sup>19</sup>

In brief, in this context of corruption, prevention and repression are important<sup>20</sup>. The prevention should aim not only to discover committed crimes or to find proves about them, but to create a context well organized whose transparency tries to prevent and/or obstruct the crime, making more difficult and dangerous<sup>21</sup>.

The government gave the national authority (A.N.A.C.)<sup>22</sup> the power to prevent and counteract corruption and a programmatic tool also «national» (P.N.A.)<sup>23</sup> a role for combating corruption and the pursuit of measurable objectives established with Law 190/2012.

The National Anti-corruption Plan approved by the Authority for 3-year period 2013-2016 introduces a larger definition of corruption than in the legal field considering – for the prevention – «*the different situations in which, during the administrative activity, there is an abuse of untrusted power for personal gain*».

The Plan also clarifies that a corrupted behaviour is any conduct, regardless of its legal relevance, that shows «*a malfunctioning of the administration for abuse of functions in order to obtain a personal economic benefit in other words manipulation of the administrative action «ab externo», either this action can have success or it can remain an attempts*».

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<sup>19</sup> For an approach to the consideration of corruption phenomena in the light of experience in international and European level, see *ex multis*: F. Di Mascio, «Una relazione della commissione europea sulle politiche anti-corruzione», in Riv. trim. dir. pubbl., 2014, 02, 548 ss.; F. Manganaro, «La corruzione in Italia», in Foro Amm., II, 2014, 06, 1861 ss.; F. Di Cristina, «La corruzione negli appalti pubblici», in Riv. trim. dir. pubbl., 2012, 01, 179 ss.; L. Borlini, P. Magrini, «La lotta alla corruzione internazionale dall'ambito Oece alla dimensione Onu», in Dir. comm. internaz., 2007, 01, 15 ss.; E. Dolcini, Appunti su corruzione, cit., 535 ss.; P.T. Persio, *Il reato di corruzione*, cit., 4248 ss.; S. R. Ackerman, *Corruption*, cit., 177 ss.

<sup>20</sup> M. Pelissero, «La nuova disciplina della corruzione tra repressione e prevenzione», in B. G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 347 ss.

<sup>21</sup> As regards the relationship between measures of administrative transparency and prevention of corruption, see M. C. Cavallaro, «Garanzie della trasparenza amministrativa e tutela dei privati», in Dir. Amm., 2015, 01, 121 ss.; G. Viglietta, *La L. 6 novembre 2012, n. 190*, cit., 19 ss. In general, as regards the transparency of administrative action, see *ex plurimis*: A. Simonati, «La trasparenza amministrativa e il legislatore: un caso di entropia normativa?», in Dir. Amm., 2013, 04, 749 ss.

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<sup>23</sup> F. Di Cristina, «I piani per la prevenzione della corruzione», in B.G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 91 ss.

Then, it is a new approach in combating the corruption phenomena and it has also characterized for the arrangement of tools available in order to operate in a perspective of the prevention and repression.

### **The fight against corruption through the new code of conduct for public employees.**

The Law 190/12 gives a further push in the direction of good practice of public employees through the adoption of the new national code of conduct and the codes of conduct introduced in each administration<sup>24</sup>.

Implementing the article 54 of Legislative decree no. 165/2001 in place of the unique article, paragraph 44 of Law 190/2012, the new Code of conduct of public employees (Presidential decree no. 62/2013) has the aim to reinforce the constitutional norms for the administrative field and the protection of citizens in the Public Administration, with more tightened dispositions on how the public employee has to follow his/her own conduct in carrying out tasks and functions.. It defines the minimum duties of **perseverance**, **loyalty**, **impartiality** and **good conduct** that public employees are required to observe both in the workplace and extra-work environment in order to translate general principles into concrete rules of behaviour, easily applied, integrating official duties and the other assumptions of disciplinary responsibility envisaged by the law, rules and collective agreements<sup>25</sup>.

The Code refers to a number of general principles of behaviour for the public employees (article 3 of the Code) considering the compliance with the Constitution, the duty to conform the own conduct to the principles of good tendency and impartiality of administrative action.

The employee, in particular, has to follow the principles of integrity, honesty, good faith, proportionality, impartiality, openness, justice, rationality and to act in independent and impartial way, abstaining in case of conflict of interest. The employee has to perform the tasks in full compliance with the law, following the public interest, without abusing of position and powers and directing the administrative action to the greatest economy, efficiency and effectiveness. In the management of public resources, he/she has to follow a cost control policy that does not

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<sup>24</sup> About the issue of responsibility of public employees in relation to the practices of prevention and combating corruption phenomena, see M- Clarich, B. G. Mattarella, «La prevenzione della corruzione», in B. G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 64 ss.

<sup>25</sup> Compare C. Galbiati, «Il codice di comportamento dei dipendenti pubblici», in Dir. Rel. Industr., 2013, 04, 1181 ss.; U. Gargiulo, «Il codice di comportamento dei dipendenti pubblici: atto terzo», in Lav. nelle p.a., 2012, 05, 751 ss.; E. D'Alterio, «I codici di comportamento e la responsabilità disciplinare», in B. G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 211 ss.

compromise the quality of the results. The employee should not use the information about the office for private purposes and he should avoid situations and behaviours that could prevent the right fulfilment of tasks or damage the interests or the image of the public administration. Prerogatives and public powers shall be employed solely for purposes of general interests for which they were conferred. The employee has to show the greatest availability and collaboration with the other public administrations, ensuring the exchange and the transmission of the information and data in any form, even electronically, respecting the current regulations.

Particular attention has to be given to the relationships with the subjects of the administrative action: as regards the management, the employee needs to ensure the full equality of treatment on equal terms by abstaining, also, from arbitrary actions that may have negative effects on them or which involve discrimination based on gender, nationality, ethnic origin, genetic features, language, religion or belief, personal or political beliefs, membership of a national minority, disability, social or health conditions, age and sexual orientation, or other various factors.

The Code, respecting the primary law, forbids asking acceptance and request of gifts or other benefits for themselves and for others (Article 4 of the Code). The only exception, limited to the acceptance, is considered in having gifts of modest value and performed occasionally ‘as part of the normal courtesy and international custom’<sup>26</sup>.

Considering the freedom of association ratified in the Article 18 of the Constitution, the public employee is obliged to promptly communicate his/her attendance or membership to the associations or organizations whose areas of interest could interfere with the development of the office activity (Article 5). The obligation does not apply in the case of membership in political parties or trade unions. Simultaneously it is forbidden for the public employee to force (or pressure) other employees to join associations or organizations, promising advantages or prospecting disadvantages in the career.

Moreover, the public employee, when assigned to the office, is obliged to communicate all the relationships, direct or indirect, in any way remunerated, that he/she has or has had in the last three years, with private entities. It is foreseen the obligation to refrain from taking decisions or developing activities about tasks in situations of conflict, even potential, with personal interests, of the spouse, the cohabitants, the relatives and

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<sup>26</sup> For an approach to the topic according to an international and comparative perspective, see S. R. Ackerman, *Corruption*, cit., 91 ss.

second-degree relatives. The conflict may concern the interests of any nature, including non-pecuniary ones.

An element of novelty and great significance is the inclusion, among the employee's public behavior obligations, of the compliance with the measures necessary for the prevention of offenses in the administration, in particular, the provisions contained in the Plan for the Prevention of Corruption (Article 8 of the code). It is the strengthening of the cogency of the Anti-Corruption Plan, the violation of which can lead to the application of disciplinary penalties. The same employee has to give his/her collaboration to the Head of the Prevention of Corruption and, subject to the requirement of judicial proceedings, he/she has to report to their supervisor any illegal situations in the administration of which he has knowledge. The direct collaboration of the employee appears an indispensable tool for the aforementioned responsible who, according the law no. 190/2012 has tasks of security and supervision on the implementation of the National Plan and the supplementary ones adopted by each administration<sup>27</sup>.

In private relationships (Article 10 of the Code), including non-working relationships with public officials, the public employee shall not exploit or quote his/her positions in the administration in order to obtain undue benefit. Moreover, he/she can not take any other conduct that could damage the image of the administration. As part of the working activity (Article 11 of the Code), he/she must not delay the administrative action or to adopt any conducts to fall back on other employees the fulfillment of activities or the adoption of his/her own decisions. In direct relationships with users (Article 12 of the Code), the public employee, in addition to being recognized by the visible display of the badge made available by the administration or other identifier support (unless other service arrangements that may take into account also the safety of the employee himself), must operate with a spirit of service, honesty, courtesy and helpfulness. The employee must work in order to ensure continuity of service, allowing users to choose between different providers and provide them with information on the procedure of the service performance and quality levels.

In the conclusion of agreements and transactions and the conclusion of contracts on behalf of the administration as well as in the phase of

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<sup>27</sup> In the framework of P.N.A. stands out the central of role of the head of the corruption prevention. About it, see *ex multis*: D. Bolognino, «Per una risposta corale dell'amministrazione etica al fenomeno corruttivo: compiti e responsabilità del responsabile della prevenzione e l'auspicabile task force della prevenzione», in Lav. nelle Pubbl. Amm., II, 2013, 05, 811ss.

execution of the same, the employee can not use mediators, except for cases in which the administration has decided to resort to the activity of professional brokerage (Article 14 of the Code). He can not also conclude contracts with companies with whom, in the previous two years, has finalised onerous contracts, except those stipulated with forms or questionnaires according to the Article 1342 of the Civil Code, or from which he/she has received other utilities<sup>28</sup>.

Special duties of conduct are placed, then, on our managers (Article 13 of the Code) as well as the individuals performing equivalent functions to managers operating in the offices of direct collaboration and to officials, responsible for organizational position in institutions without leadership<sup>29</sup>.

Before assuming the role, the manager must report their financial condition as well as the shareholding and the financial interests, that may place him in a conflict of interest with the acquired public function; he/she must declare whether the spouse or close relatives practice activities that put them in recurring contacts with the office that will lead or they are involved in decisions and activities related to the office. Finally, each year, he/she must register a copy of his/her own annual tax return.

The managers have the following duties:

1) the pursuit of the objectives assigned and the adoption of an adequate organizational conduct for performing the assignment;

2) the assumption of fair and transparent attitudes and the adoption of a model and impartial behaviour with the colleagues, the coworkers and the recipients of administrative action;

3) the attention that the resources assigned to their offices are only used for institutional purposes and never for personal needs;

4) the attention, within the available resources, of the organizational wealth in the structure where they are responsible and the assumption of initiatives for the training and retraining of personnel;

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<sup>28</sup> For a specific assessment of the relevance of corruption phenomena within the open public tender procedures, see *ex plurimis*: F. Di Cristina, «La corruzione negli appalti pubblici», in Riv. trim. dir. pubbl., 2012, 01, 177 ss.; F. Manganaro, *La corruzione*, cit., 1867 ss.; A. Pajno, *La nuova disciplina dei contratti pubblici*, cit., 1140 ss.

<sup>29</sup> About the latest developments in the field of public management, see *ex multis*: G. D'Alessio, «La nuova disciplina della dirigenza nel disegno di legge sulla riorganizzazione delle amministrazioni pubbliche», in Lav. nelle p.a., II, 2015, 01, 1 ss.; F. Borgogelli, «Valutazione e responsabilità della dirigenza pubblica: ancora una riforma», in Lav. nelle p.a., II, 2014, 05, 689 ss.; R. Cavallo Perin, B. Gagliardi, «La dirigenza pubblica al servizio degli amministrati», in Riv. trim. dir. pubbl., 2014, 02, 309 ss.; G. Barbetta, «La selezione e la formazione della dirigenza pubblica in ottica comparata e lo sviluppo delle competenze manageriali», in Lav. nelle p.a., II, 2013, 05, 875 ss.; G. Gardini, «L'autonomia della dirigenza nella (contro) riforma Brunetta», in Lav. nelle p.a., 2010, 3-4, 579 ss.

5) the allocation of cases to the personnel in charge of the office based on a fair distribution of the workload and considering skills, attitudes and professionalism of everyone;

6) the prompt warning to the disciplinary authority of any possible wrongdoings they have knowledge, or if they have jurisdiction, the activation and the conclusion of the disciplinary proceedings, protecting in any case the identity of the reporting according to the Article 54-bis of the legislative decree no. 165/2001;

7) the attention of avoiding, within their possibilities, that news not true, the organization, the activity can spread among the public employee and encouraging the dissemination of knowledge of good practice and good examples in order to strengthen the confidence in the administration.

The set of tasks briefly described, as you can imagine, is justified in relation to the particular delicacy of the role performed by managing staff in the public administration.

In the same direction, supported by the same *ratio*, there are, in particular, the institutions of incompatibility and ineligibility of appointments.

#### **Guidelines for incompatibility and ineligibility of appointments.**

One of the structural problems, highlighted over the time as regards the discipline of management, has been identified in the fragmented regulation of conflict of interest and in the allocation of executive assignments. It can certainly say that, according to the regulatory framework, a lot of things has been done in this last period, especially with reference to the institutions of incompatibility and ineligibility of appointments<sup>30</sup>.

The discipline of the issue is in the paragraphs 49 and 50 of Article 1 of Law no. 190 of November 6, 2012, in the Legislative Decree no. 39 of April 8, 2013, with which the Government has implemented the act issued with the aforementioned paragraphs 49 and 50, and in Presidential Decree no. 62 April 16, 2013 which introduced the new Code of Conduct for public employees.

Considering the issue of the **incompatibility**, the Law no. 190/2012 and the Legislative Decree no. 39/2013 radically innovate the previous rules, following three main areas: a) the review of the authorization system of external mandates; b) the discipline of the so-called «Subsequent incompatibility» (*pantouflage*); c) the rewriting of incompatibilities no

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<sup>30</sup> About the topic, see *ex plurimis*: In merito v. F. Merloni, «Nuovi strumenti di garanzia dell'imparzialità delle amministrazioni pubbliche: l'inconferibilità e incompatibilità degli incarichi», in B. G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 191 ss.

longer, as in the past, referring to the general condition of the public employee, but also to executive assignments.

The Law no. 190/2012 and the Legislative Decree. N. 39/2013 also introduce new rules on **ineligibility** intended to affect the original possibility of giving the mandate to people who come from positions that may compromise the expectation to the neutral practice of the same mandate.

Compared to the previous regulations (related only to the hypothesis of the emergence of a conflict between the private interests of the employee and the general interest connected to the performance of the public service), the new rules introduce **additional grounds for exclusion** of the eligibility for the audit assignment linked to the improper conduct of the official (for example, under Article 3 of Legislative Decree no. 39/2013, having reported a criminal conviction for crimes against public administration, even if not definitive), and to provenance from positions in political bodies which may compromise the impartiality of the custody of the officer who has held political office.

The individual causes of incompatibility and ineligibility of management positions and apical administrative responsibility, introduced by the new provisions in an evolutionary perspective, derive from the principles contained in the Constitution (in particular, Article 54 and 97 of the Constitution) and in Article 60 of Consolidate Act n. 3/1957, through the study of the previous legislation referred to, in Law 215/2004 (Rules on conflict of interest resolution) and Legislative Decree no. 267/2000 (in particular, Art. 55 et seq.), leading to recent landings reached by the reform contained in Law 124/2015 (the so-called «Madia» Law) and the related government decrees in the process of being approved.

**The new regime of ineligibility fully expresses the preventive approach and not just repressive, with which the Law no. 190/2012 has addressed the contrast issue of corruption in public administration<sup>31</sup>.**

In recent years, moreover, because of the economic crisis, there has been a significant production of rules in relation to the issues in question (and in particular on the side of local authorities, Legislative decree 174/2012 which became Law 213 in 2012) with the aim, on the one hand, to contain and control the use of public resources and, secondly, fighting corruption (Law no. 190/2012), which had an impact on the system making it more complex and articulated

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<sup>31</sup> For a discussion of the extension of the rules about smaller local governments, see V. Antonelli, «L'applicazione della legge anticorruzione alle autonomie territoriali», in B. G. Mattarella, M. Pelissero (a cura di), *La legge anticorruzione*, cit., 261 ss.

It is a common opinion, therefore, that the issue of the controls requires a systematic and general re-examination, also considering the introduction of procedures for measuring and evaluation of organizational and individual performance that necessarily intersect with the internal control system ( for an overview of the controls they are subjected to especially local authorities)<sup>32</sup>.

This, in order to implement the means of prevention and contrast of crime phenomena able to force the administrative action to illicit utility achievement and, consequently, to become a source of a serious harm to main public interests.

### **Legality versus organized criminality in the economic field and Public Administration.**

There is no doubt that the growth of public services constitutes one of the essential and characteristic features of the economic and social development of European urban areas since the beginning of the second industrial revolution. In particular, the development of such services can be read in the first part of the twentieth century, as a further extension of the sphere of administrative functions carried out by the National State for enlargement effect of the social base (the masses entered the political life). In some national contexts, such as the Italian one, however, the growth of the administrative apparatus, beside representing a response to the plan of the constitution of political institutions (the constitution of the administrative State), results in an excessive expansion of the class of bureaucrats and excessive bureaucratic procedures<sup>33</sup>. This, if on the one hand, corresponds to the need to establish an efficient network of controls, on the other hand, it increases the growth of a corruptive system that, with greater precision, it assumes the outline of a large interpenetration of interests between the political-administrative class and the financial-business class, in which a fundamental role also assumes the development

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<sup>32</sup> About the topic, see *ex plurimis*: P. Monda, «Obbligazione lavorativa e «performance» individuale del dipendente pubblico», in Riv. it. dir. lav., 2013, 03, 669 ss.; A. De Luca, «Il sistema di controllo di gestione in Inps: la misurazione e la valutazione delle performance», in Lav. nelle p.a., 2013, 01, 83 ss.; G. Pastorello, «Il sistema di misurazione e valutazione della performance dell'agenzia delle entrate; indicatori di governo, modelli di competenze e sistemi incentivanti», in Lav. nelle p.a., 2013, 01, 65 ss.; D. Preiete, «I principi contabili per la misurazione della performance negli enti locali», in Riv. dottori comm., 2011, 02, 303 ss.; D. Bolognino, «L'attuazione del sistema di valutazione delle performance nel comparto regioni ed autonomie locali: profili giuridici», in Lav. nelle p.a., 2010, 06, 1091 ss.; E. Villa, «L'attualità il sistema di misurazione/valutazione della performance dei dipendenti pubblici nel d.lgs. n. 150/2009», in Lav. nelle p.a., 2009, 05, 773 ss.

<sup>33</sup> A. Pajno, *La nuova disciplina dei contratti pubblici*, cit., 1129 ss.

of several mafia-type criminal organizations (Mafia, 'Ndrangheta, Camorra)<sup>34</sup>.

In this direction, it was noted the mafia-type criminal organization is proposed, usually, as a parallel and alternative institution to the State of which undermines the prominence and also, sometimes, the exclusivity in the exercise of certain public powers, establishing itself for the peculiar «mimicry» that allows you to act, for the most part, not militarily against democratic institutions, but trying to influence their work, bending it to their own interests and thus increasing, in this way, their subversive capacity and criminal control of the territory.

It is well known, then, that the organized crime uses resources from illicit trafficking in economic activities (seemingly) legitimate by both the direct exercise of business activities, either through the infiltration in companies not originally adjacent to the gangs, thus giving life to phenomena of acclaimed, illegal «occupation mafia».

The penetration of organized crime into the economy, according to procedures that allow clans to move outside the rules of the market, prompted the legislator, first, to provide for a complex control system designed to prevent the «mafia enterprises» to be recipients of public subsidies and/or they become successful tenderers for public contracts.

At the same time, it was necessary of preparing appropriate tools in order to restore the violated law and suitable to allow the defense of the legal order, institutions and the community from the dangers related to the mafia influence in the civil society, in the economic life and in the public administration activities.

That, through not only the prosecution, but also through structured measures of protection both preventative and aimed at mitigating the distorting effects caused by the criminal arrogance within the economic and social fabric of a given community<sup>35</sup>.

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<sup>34</sup> For a discussion of the prevention deeds about the corruption phenomena as regards the public services, see G. Iudica, «Le misure di integrità nell'affidamento di servizi pubblici», in *Foro Amm.*, II, 2015, 05, 1601 ss.

<sup>35</sup> About it, for example, shows 'prefectural anti-mafia information' which represents a valuable instruments in order to verify the presence of forms of infiltration and/or mafia-type conditioning within a company that participates in a public auction. You read, *ex plurimis*: Minniti F., Minniti M., *Le mire dei clan sulle imprese pulite Così lo Stato combatte le infiltrazioni*, in *Dir. e giust.*, 06, 37, 107 s.; Cacace S., *Tutela antimafia e grandi opere. Contenzioso e giurisprudenza*, in [www.giustizia-amministrativa.it](http://www.giustizia-amministrativa.it); Neri V., *Informativa antimafia e contrasto alla criminalità organizzata*, in *Corr. Merito*, 8-9/2010, 804 ss.; Gribaudo M.N., *L'informativa prefettizia relativa ai tentativi di infiltrazione mafiosa: caratteri ed effetti*, in *Corr. Merito*, 2/2010, 214 ss.; Caringella F., *Giunge in porto il regolamento in materia di semplificazione antimafia*, in *Urb. e App.*, 1998, 1058 ss.; Caringella F., *La normativa antimafia*, in De Nictolis R., (a cura di), *I contratti pubblici di lavori, servizi e*

As a result, in this context the State has matured the interest to deprive the mafia organisation of illicitly acquired goods designing them to social purposes.

The return to local authorities – which bear the highest cost of “mafia crisis»- of the economic resources acquired illegally by criminal organizations is, in fact, a key tool to combat the activity, aiming to weaken the social roots of such organizations and to foster a wider and widespread public support to the repressive intervention of the State or the restoration of legality.

In this direction, the ultimate aim pursued by the regulatory instruments introduced over time was that to «**definitely steal the goods of illicit origin to the economic circuit in order to insert them into another, exempt from criminal influences**»<sup>36</sup>.

Consequently, due to the birth of the **public-purpose bonds to public purposes** (which is the core of confiscation even before the adoption of the measure identifying the actual destination chosen by the Administration for the individual asset in question), it is believed that the legal regime of the assets liable to confiscation is comparable to that of state property or to that of the assets included in the assets unavailable.

In this direction, in order to pursue the goal of efficient and effective values confiscated from organized criminals, there has been, in recent years, the introduction of coordinated rules within a unitary *corpus* which, however, at present, demonstrates probably perfectible.

The major criticisms raised *de jure seasoned*, indeed, relate to the practical difficulties that, often affect the delay of the process, to the detriment of the purpose, even ideal, related to the management of assets confiscated from mafia factions.

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*forniture. Esecuzione e contenzioso*, Milano, 2007, 67 ss.; Infante A., *Semplificazione dei procedimenti relativi al rilascio di documenti antimafia*, in *Dir. Pen. E Proc.*, 1998, 1208 ss.; Masini M. S., *Antimafia*, in Rota G., Rusconi G., (a cura di), *Codice dei contratti pubblici relativi a lavori, servizi e forniture, Tomo I*, Torino, 2007, 252 ss.; Buscema L., *L'informativa prefettizia antimafia tra esigenze di prevenzione e libertà d'iniziativa economica privata*, in [www.giustamm.it](http://www.giustamm.it).

<sup>36</sup> About it, see *ex plurimis*: A. Mangiaracina, «Cooperazione giudiziaria e forme di confisca», in *Dir. Pen.e Proc.*, 2013, 3, 369 ss.; M. Auriemma, «Sequestro preventivo ai fini della confisca nella responsabilità da reato degli enti collettivi», in *Giur. It.*, 2013, 3, 661 ss.; M. Mazzamuto, «Gestione e destinazione dei beni sequestrati e confiscati tra giurisdizione e amministrazione», in *Giur. It.*, 2013, 2, 485 ss.; G. Merola, «La destinazione dei beni confiscati tra evoluzione normativa e incerte prospettive future (d.lgs. 6.9.2011 n.159: artt.4551, 110, 120)», in *Leg. Pen.*, 2012, 2, 267 ss.; M. Lepera, «L'ambito di applicazione della confisca per equivalente di cui all'art. 322 ter, comma 1, c.p.», in *Giust. Pen.*, 2011, 3, 186 ss.; F. Menditto, *Quale futuro per le aziende sequestrate e confiscate (e per l'Agenzia Nazionale)?*, in [http://www.questionegiustizia.it/doc/Quale\\_futuro\\_per\\_le\\_aziende\\_sequestrate\\_e\\_per\\_l-Agenzia\\_Nazionale.pdf](http://www.questionegiustizia.it/doc/Quale_futuro_per_le_aziende_sequestrate_e_per_l-Agenzia_Nazionale.pdf).

There is no doubt, in fact, that a rational administration of the confiscated assets to the criminality may constitute an appreciable factor of development, especially in reference to the territories where insist the productive goods acquired to the assets of the State. This, even under the symbolic profile, since a company, well managed by the institutions, allows to instill confidence in civil society, becoming an emblem of a transparent market system and be able to maintain an untouched efficiency and effectiveness of the economic undertaken initiative supporting «the legality of the costs» too.

In this way, it is clear that the *ratio* underlying the regulations issued on the subject of acquisition by the State of criminal assets consists, ultimately, in the better use, even for social purposes, of confiscated property. If, on the one hand, in fact, the judicial administration pursues, *prima facie*, the aim to ensure profitability and it increases if possible, the economic value of the goods, at the same time, within the continuity of the production cycle, it performs the function to promote disintegration of the consensus enjoyed by criminal organizations precisely through a re-use, often directed to social purposes, of the managed assets.

In this direction, through the establishment of the **National Agency of confiscated property**, it has pursued the objective of concentrating within the new public body a number of functions previously hinged within the jurisdiction<sup>37</sup>.

Then we had, first of all, a process of centralisation of powers that underlies, in truth, the will to transcend purely local interests to focus on an overview related to the procedures that may invest goods located in different areas of the country that is also located within foreign countries.

The basic assumption was represented by the «natural» devolution to the exclusive legislative competencies of the State to such a provision, likely to be placed within the matters of public order<sup>38</sup> and public security<sup>39</sup>

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<sup>37</sup> About it, see *ex multis*: A. Scaglione, «L'agenzia nazionale per l'amministrazione e la destinazione dei beni sequestrati e confiscati alla criminalità organizzata (d.l. 4.2.2010 n.4, conv., con modif., in l. 31.3.2010 n.50)», in *Leg. Pen.*, 2010, 3, 277 ss.; M. Mazzamuto, *L'agenzia nazionale per l'amministrazione e la gestione dei beni sequestrati e confiscati alla criminalità organizzata*, in [www.dirittopenalecontemporaneo.it](http://www.dirittopenalecontemporaneo.it).

<sup>38</sup> G. CORSO, *Ordine pubblico nel diritto amministrativo*, in *Dig. Disc. Pubbl.*, X Vol., Torino, 1995, 437 ss.; A. CERRI, «Ordine Pubblico (Diritto Costituzionale)», in *Enc. Giur. Treccani*, XXV Vol., Roma, 1991, 1 ss.; G. PANZA, «Ordine Pubblico (Teoria Generale)», in *Enc. Giur. Treccani*, XXV Vol., Roma, 1991, 1 ss.; L. PALADIN, *Ordine pubblico*, in *N.ss. Dig. Disc. Pubbl.*, XII Vol., Torino, 1965, 130 ss. Indeed, the notion of public policy detects, within the legal system, under different profiles and, consequentially, performs several functions. So, in the private law, you can consider a double role of this institution. According to a first meaning, in fact, the public order is identified «nell'insieme dei principi di natura politica ed economica della società, immanenti nell'ordinamento giuridico vigente»

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(F. CARINGELLA, G. DE MARZO, *Manuale di diritto civile III. Il Contratto*, Milano, 2007, 195) and, in this context, it constitutes a parameter on which to bring the illegality of some constituent elements of the legal transaction (cause and object) *previous* articles 1343 e 1346 c.c. In particular, we talk about the contrary to public policy "*when the contract is in contrast with that set of principles that are the basis of fair and balanced legal system operation*". About the *topico*, you read, F. CARINGELLA, G. DE MARZO, *Manuale di diritto civile, cit.*, 222. You also read, *Corte Costituzionale*, 16 marzo 2005, n. 95; *Corte Costituzionale*, 09 giugno 2004, n. 162. Referring to the civil law, then, the public policy assumes a particular consistency as an entry limit, within the national law, of foreign laws under the rules dictated by the private international law. In this sense, the concept of public policy includes "*the complex of principles, including those extrapolated from the Constitution, which form the cornerstone of the social-economic structure of the national community in a given historical moment, giving it a well-defined and unmistakable appearance, as well as the inviolable and fundamental rules inherent to the most important national legal institutions*". So, for a detailed study, see G. NOVELLI, *Compendio di diritto internazionale privato e processuale*, Napoli, Edizioni Simone, 2000, 53 ss. In public law, then, traditionally we see the dichotomy of ideal/material public order. According to the first option, to the ideal public order should be recognised the nature of << *the principle, or set of principles that, according to a criterion of prevalence, are opposed to the practice of rights or to the achievement of other principles recognized by the law. In the second direction, on the contrary, they have been attributed to the public order the characteristics of a more specific and concrete situation that, being in relation to other situation, determines the limits in which it can perform freely and legitimately. The main doctrine was commonly aimed to avoid giving an ideal connotation to the concept of public order... In short, imagining a concept of public order as a kind of «super principle»law (on the top and influenced in relation to the other principles guaranteed by the Constitution) would give the administrative authority – in particular to the public security – with wide discretion, the power to affirm the essential contents of the legal values: power that, on the contrary, should be the prerogative of other powers expression of popular sovereignty*>>. For a detailed study, see M. PIANTEDOSI, *Il nuovo sistema dell'ordine pubblico e della sicurezza dopo la riforma del titolo V, Parte seconda della Costituzione*, in *Giust. Amm.*, 2004, 6, 1235 ss. Sul punto v. anche R. GAROFOLI, *Manuale di diritto penale. Parte Speciale I*, Milano, 2005, 403 s.; S. MOCCIA, *Ordine Pubblico (Disposizioni a tutela dell')*, in *Enc. Giur. Treccani*, XXV Vol., Roma, 1991, 1 ss.

<sup>39</sup> According to a first approach *«the public policy and the public security does not materialize two different, though correlated, concepts. They do not express different aspects or values to be protected, as shows the most recent administrative law that systematically quotes the two definitions jointly, but they try to express a single concept through two coordinated terms that, therefore, constitute a «hendiadys» – even if, over the time, they do not miss – expressions recognizing a distinction between the two concepts in order to consider them elements of a dichotomy. – So – traditionally, the term security refers to, first of all, a general principle of preservation and protection of the physical integrity of the person and physical/legal integrity of their goods. Therefore, the term safety is based on the logic juxtaposition between the concept of the public policy, on the one hand, considered as something that conforms to a principle or a set of principles, and the public safety, on the other hand, considered as something that conforms to the material protection of the peaceful cohabitation and the co-existence of citizens*». Then for a detailed study, see M. PIANTEDOSI, *Il nuovo sistema dell'ordine pubblico e della sicurezza, cit.*, 1241 ss. You also read, S. FOÀ, *Sicurezza pubblica*, in *Dig. Disc. Pubbl.*, XVII Vol., Torino, 1999, 127 ss. For the purpose of configuring the relationship between the public policy and the public safety as the hendiadys that is the dichotomy, you also read, *Corte Costituzionale*, 10-26 luglio 2002, n.

which would imply the unconstitutionality of regional law provisions oriented towards the direction of overlapping the regulation of national origin. In this sense, as part of the territorial offices of the Government it is possible to find the headquarters coordinating the various initiatives able to involve local interests; otherwise, with respect to such material areas, as mentioned before, reserved to the exclusive state legislative power, it is not required to establish consultation mechanisms between the State and the Region. From another perspective, however, the local authorities assume a vital role in the correct management of their goods assigned through the contribution to their assets in order to pursue the institutional and/or social objectives through the direct administration that is entrustment, for free concession, to legal exponential associations of interests deserving of protection, expression of the principle of horizontal subsidiarity<sup>40</sup>.

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<sup>40</sup> On this topic, see *ex multis*: A. LAZZARO, *Volontariato e pubblica amministrazione*, Milano, 2006; C. RANCI, *Il volontariato. I volti della solidarietà*, Bologna 2006; E. ROSSI, *Sfide per il volontariato attore dello sviluppo locale*, in *Studi Zancan*, 6/2004, 51 ss.; L. BRUSCUGLIA, E. ROSSI (a cura di), *Terzo settore e organizzazioni non lucrative di utilità sociale*, Roma, 1998; V. ITALIA, A. ZUCCHETTI, *Le organizzazioni di volontariato. Teoria e pratica del diritto*, Milano, 1998; E. FERRARI, *Volontariato e formazioni sociali*, Lucca, 1994; E. ROSSI *Principio di solidarietà e legge quadro sul volontariato*, in *Giur. cost.*, 3/1992, 2348 ss.; ID, *Le formazioni sociali nella Costituzione italiana*, Padova, 1989, 240 ss.; G. PONZANELLI, *Le non profit organizations*, Milano, 1985.

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## **OLENA NAHORNIUK**

PhD, assoc. prof. Kyiv National University of Trade and Economics,  
Economics and Finance of Enterprise Department  
Kioto 12 str., Kyiv, Ukraine, tel. +380952720078, e-mail: [elena\\_kk@i.ua](mailto:elena_kk@i.ua)

## **LILIIA STASIUK**

PhD, assoc. prof. Kyiv National University of Trade and Economics,  
Economics and Finance of Enterprise Department  
Kioto 12 str., Kyiv, Ukraine, tel. +380503127739, e-mail: [stasuk.l@ukr.net](mailto:stasuk.l@ukr.net)

## **CORRELATION OF INDICATORS OF TRADE COMPANY'S FINANCIAL POTENTIAL AND VALUE FORMATION**

### **Abstract**

The nature of financial potential is being discussed in the article. The correlation between main indicators which characterize financial potential and company's value is being founded. The current state of indicators of Ukrainian trade companies' financial potential and value formation is being studied.

### **Introduction**

The key strategic goal of company's activity is its market value maximization as says modern paradigm of financial management. Being oriented on provision of this target function scientists and practices propose to reorient managerial activity, first on the strategic level, on the implementation of key postulates of Value-Based Management conception (VBM). According to this conception the growth of company's value as an integral strategic indicator is provided during influence to the key levers of its formation. One of these key levels according to the authors is financial potential of the enterprise.

The current stage of trade companies' economic activity is characterized with increasing of the level of actualization of this problem because of its unprofitableness and loss of equity. In such conditions not only possibilities to finance of its' activity with own resources are loosed but its' market value and possibility of restore of equity is constantly decreasing.

### **Recent research and publications**

The essence of definitions «potential», «financial potential» where studied by such domestic and foreign scientists as: N. Krasnokutska, G. Goldshtain, I.Merzlov, P. Niven, R. Norton, O. Fedonin, B. Bachevski.

Methodic of analysis and evaluation of financial potential of the company was directly studied by V. Kuncевич, V. Bykova, R. Ruda, K. Ilyina and others.

The most significant contribution to the development of the theory of company value management made by the following foreign scientists: Dj. Andersen, V. Andreff, S. Valdaitsev, V. Grigoriev, A. Griaznova, A. Damodaran, P. James, G. Eshworth, I. Egerev, I. Ivashkivska, J. Kozyr, T. Koller, T. Kopeland, A. Marshall, J. Murrin, A. Rappoport, G. Roshe, M. Scott, J. Stuart, K. Walsh, M. Fedotova, W. Sharp and others.

Different aspects of company's value and financial potential evaluation and management are disclosed in researches of named scientists. But no study does not disclose sufficiently today interdependencies of these categories.

**The goal** of this article is rationale for consideration of the financial potential of the enterprise as a key factor of the trade company value formation and evaluation of provision of trade enterprises of Ukraine by financial resources from the point of their financial potential and value formation abilities.

In the context of company's investment attractiveness providing in strategic perspective the essence of «value» and «potential» is considered like two inalienable economic characteristics. The dynamic of value of their estimated economic indicators serves as complex measurers of success of selection and implementation of strategy of company's development. But there is no unified approach to characteristic of correlation of named definitions at the current stage of strategic management development.

There are two key approaches to characteristic of correlation between value and financial potential of the enterprise in numerous publications on issues of research: from the point of resource conception of the definition of potential of the enterprise interpretation (value is a complex estimated indicator of its potential); from the point of competence and result approach (potential is necessary determinant of value formation and growth).

The company's value is a relatively new economic characteristic, which actively began to be used in practice and in frames of research of the enterprise as an object of investment in 80 years of the XX century in US. In this period the VBM conception was created in frames of consultant activity first of all as a mechanism for combating of corporate raiding. The economic basis of the last one was exceeding internal value of enterprise of its market value (market capitalization). That provided acquisition of the company with high potential of development for its less valuation. Genesis of VBM development confirms the need to deepen investigation of

correlation of definitions «value» and «potential of enterprise». Taking into account that fact that company's value is strategic financial indicator it is advisable to direct research first of all on characteristics of its relationship with the financial potential.

Value – is an equivalent of the object of assessment value. Company's value assessment is carried out using the methods of income, expenditure and comparative (market) approaches. Considering the company's potential of development including the method of discounted net cash flows is considered within the income approach. The main determinants of company's value formation within this method are: expected net cash flows, investment risk and capital cost caused by it; business growth (expansion) potential; possibilities of arising or presence of development opportunities in the future. That is, the growth of future net cash flows at a certain level of risk shows the formation of trade company's value. Based on the above list of determinants it can be argued that two first of them are the key characteristics of company's financial potential.

The understanding of definition of financial potential is the necessary basis of characteristic of correlation between company's value and its financial potential.

Financial potential can be characterized like relations which arise on the enterprise about achieving the highest possible financial result in conditions:

- the possibility of capital attraction in volumes which are sufficient for investment projects implementation;
- the availability of equity which is sufficient to satisfy the conditions of liquidity and financial stability;
- the profitability of invested capital (ROI);
- the availability of efficient system of financial management that provides transparency of current and future financial state [2].

Financial potential are company's possibilities to get and to use financial resources. This is a set of capabilities of effective attraction and spending of financial resources. [4, p. 256].

Scientists consider the nature of the financial potential of enterprise mainly in terms of resource concept – as a set of financial resources which company can attract to implement its strategic and tactical objectives. At the same time the competence approach to determining the nature of the enterprise potential has gained popularity in recent years. Key competences as defined by K. Prahalad and G. Hamel as a «core of the company» like

uncodified (organizational-specific) knowledge that cannot be rebroadcasted to another firm [4, p. 79].

Undoubtedly, the financial potential of the company is based on entirely objective conditions – the presence and opportunities to raise financial resources.

According to K. Ilyina financial potential of the company includes three aspects: financial potential of stability, financial potential of providing and financial potential of development [3, p. 258]. The author says that it is possible to use the famous methodic of financial analysis for financial potential of stability and financial potential of providing evaluation. The most widespread is coefficient approach. It is necessary to calculate financial stability ratios, liquidity and solvency ratios for financial potential of stability assessment; business activity ratios, profitability and creditability ratios – for financial potential of providing. As for financial potential of development – it is necessary to use the system of indicators of company's investment projects evaluation the set of which creates preconditions for the company's activity development.

From the point of value management the company is considered as the object of investment or a set of investment projects. The company's value formation, in turn, is provided by effective implementation of such investment projects. The company's value, as estimated quantity is recognized as an alternative to Net Present Value (NPV). The last one, in turn, is one of the key indicators of investment projects efficiency evaluation. Taking into account the said above, it is appropriate to note that the company's value as an estimated indicator reflects the financial potential of its development from the standpoint of resource approach.

The indicators of company's value formation in current perspective are classical financial indicators of profitability: return on equity (ROE), Return on Invested Capital (ROIC), Economic Value Added (EVA) and others. The dynamic of named indicators reflects the efficiency of company's invested capital use and its structure, determines the potential possibilities of financial resources attraction in future periods. Generally this dynamic is a parameter of financial potential of stability and providing according to the concept of K. Ilyina.

The conceptual model of correlation of financial potential and company's value is presented on figure 1.

According to fig.1 financial potential and company's value have direct correlation on the level of company's complex estimate indicators calculation.

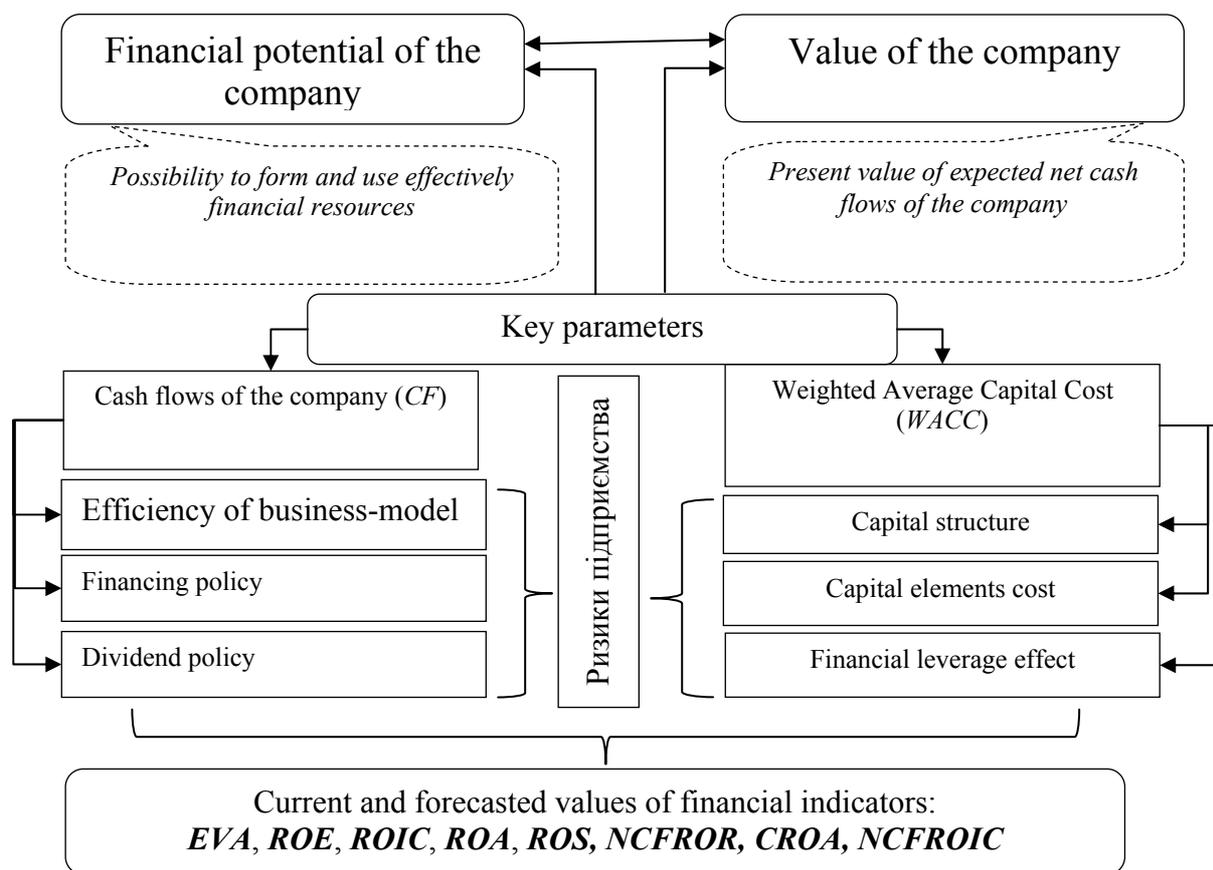


Figure 1. Conceptual model of correlation of financial potential and value of the enterprise\*

\* designed by authors

Taking into account the different approaches to the characteristic of the relationship of these definitions the value is a complex estimate indicator of financial potential. At the same time financial potential is a key factor of the company's value formation. Systems of evaluation of named complex characteristics include joint estimate indicators of the strategic and tactical levels.

The next part of this research is dedicated to evaluation of trade companies' financial potential formation with key indicators of financial potential of stability and providing.

First of all let us to analyze the trade economic activity development dynamic in recent years using main indicators.

The role of trade economic activity in economic development of Ukraine can be characterized with data in table 1. These data demonstrate a gradual growth of Ukraine's GDP at current prices which was observed for 2010-2015. The volume of GDP in trade was being increased throughout the period of study, except for 2014. The specific weight of trade in general GDP was being gradual increased for 2010-2013 (from 15,2% to

15,7 %), than it's been some reduction in 2014–2015 years compared to 2013 and the basic years (to 14.2% and 14.6%, respectively). Trade occupied the largest share in total GDP formation during period of study. For comparison, the second largest share in total GDP (about 11%) takes the processing industry.

While analyzing data of table 1 we can see that in 2015 number of business entities in Ukraine decreased compared with the base year 2010, but increased compared with 2011–2013. Such a dynamic is typical for business entities in the trade, the share of which is more than 50 % in the number of business entities in the economy of Ukraine.

*Table 1*

**The main indicators of development of the trade industry  
in Ukraine in 2010-2015**

Indicators	2010	2011	2012	2013	2014	2015
GDP (mlrd. UAH)	1082,6	1302,1	1411,2	1454,9	1566,7	1979,5
- including trade	164,8	203,8	216,7	229,1	222,7	288,1
- in % to total volume	15,2	15,6	15,4	15,7	14,2	14,6
Number of business entities, general (ths.ent.)	2183,9	1701,6	1600,1	1722,1	1932,2	1974,3
- including trade	x	x	843,1	890,7	988,7	989,1
- in % to total number	x	x	52,7	51,7	51,2	50,1
Number of enterprises (ths.ent.)	378,8	375,7	364,9	393,3	341,0	343,4
- including trade	110,2	111,6	103,8	110,4	94,0	93,8
- in % to total number	29,1	29,7	28,4	28,1	27,6	27,3
The volume of sales ( mlrd. UAH)	3596,7	4202,5	4459,8	4334,6	4170,7	4973,4
- including trade	x	1725,9	1783,7	1782,4	1629,7	1831,1
- in % to total volume	x	41,1	40,0	41,1	39,1	36,8

Source: [5]

Business entities are divided into companies and individual entrepreneurs, whose share in the number of business entities distributed approximately 20%: 80% respectively. The share of trade enterprises in total number of Ukrainian enterprises is about 30 % while in the total number of individual entrepreneurs this figure is twice more.

The share of volume of sales in trade is also significant. It is about 40-41 % in the total volume of sales in economy of Ukraine. Although the

last two years this figure is characterized by a tendency to decrease and was 36,8% in 2015.

Profit is a key indicator whose dynamic in monetary terms determines the ability of enterprises to form their own financial resources, owners' income and company's value. Then we'll analyze the dynamics of the financial performance of trade enterprises of Ukraine and compare them with those of the economy as a whole.

The dynamic of total volume of net income, expenses and net profit is demonstrated on figure 1.

The figure 1 shows that the volume of expenses was approximately equal to volume of income that caused quite insignificant volume of trade companies' net profit. The value of this indicator reached its maximum in 2011, followed by a sharp decline of it. In 2013-2014 more than 13 mlrd. UAH of loss was formed as a result of trade activity. In 2015 the volume of net loss was decreased up to 9,4 mlrd. UAH, but trade enterprises activities, as well as the economy of Ukraine in general, remains unprofitable. We can note only that fact that the volume of loses in trade in 2013-2014 was approximately equal while the volume of loses in economy of Ukraine in general was increased more than 25 times.

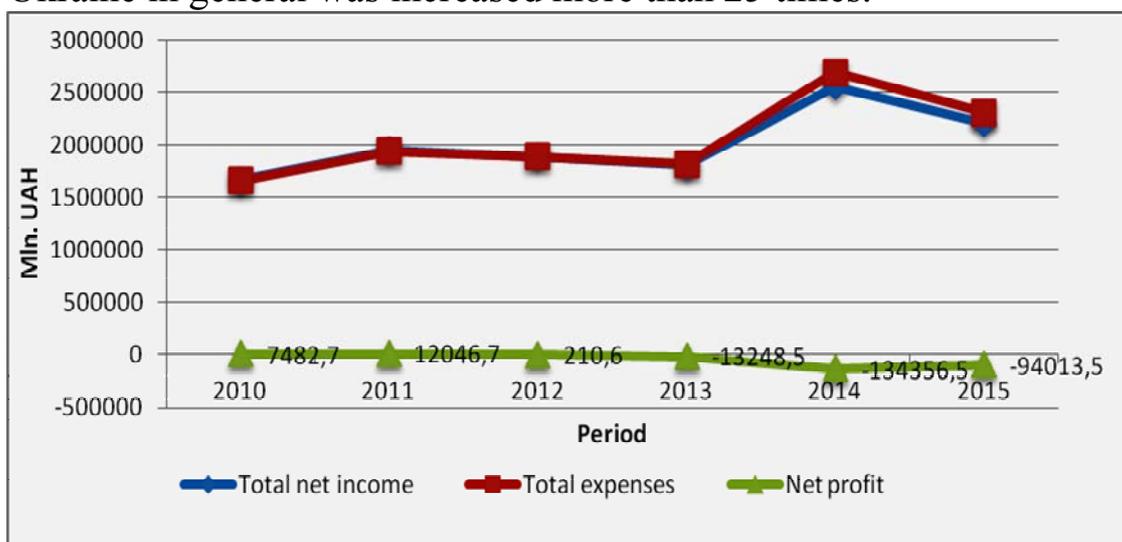
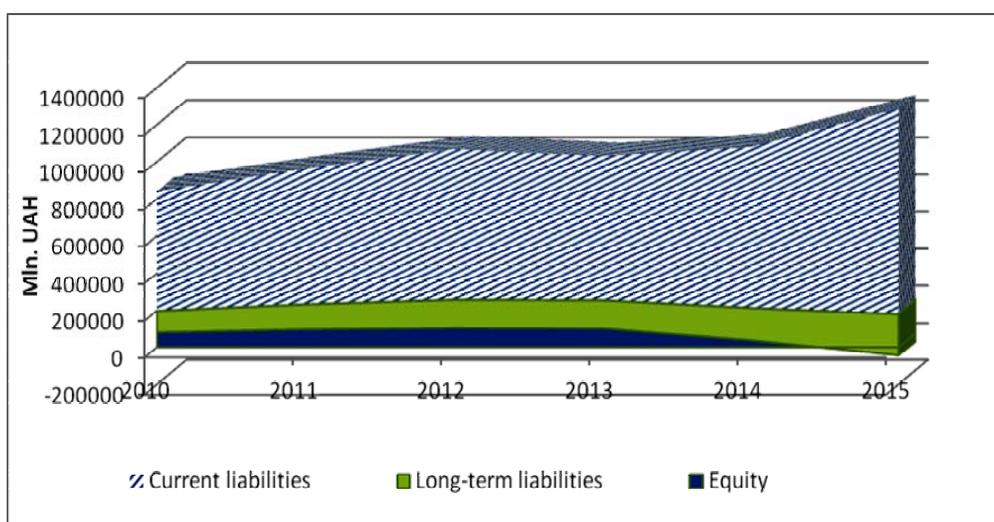


Figure 1. Main financial performance indicators dynamic of Ukrainian trade companies in 2010–2015

Source: [5]

Considering that the basis of financial potential formation is the level of availability of financial resources let's analyze the dynamic of volume and composition of Ukrainian trade companies' capital in 2010–2015 (fig. 2). The capital structure directly influences on the cost of its attraction, the risk of investment into a company and minimal return on investments from the point of company's value formation.

As fig. 2 shows, the volume of trade companies' capital was increased during 2010-2015. But the growth rate was noticeably slower than those in economy of Ukraine in general (69% and 120% respectively). This shows the increasing opportunities of trade industry financing with both equity and debts. But if the growth rate of total capital volume was 69 %, than volume of equity of trade companies grew slowly until 2013, after that trade industry began lose its equity. The volume of last one in 2015 turned into negative value and was -45,6 mlrd. UAH. Such a tendency is very dangerous for development not only trade industry but Ukrainian economy as a whole. Also we can see from the figure that the equity share in total volume of financing of trade companies was quite insignificant.



*Figure 2. Dynamic of volume and composition of Ukrainian trade companies' capital in 2010-2015*

Source: [5]

It is also should be focused on rather small share of long-term debt capital in total volume of financial resources in companies activity in economy of Ukraine as a whole and in trade industry (16 % for the last one). So the feature of business activity financing is rather big share of current liabilities (financial recourses which is raised for less than 1 year) not only for domestic trade enterprises but for all business entities of Ukraine generally. It is acceptable for those enterprises which have short-term operational cycle, but not for those that have long-term operational cycle or need recourses for financing their investment activity. In this case such resource of financing as current liabilities can be used in restricted volumes. At the same time there is a rapid growth of this source of financing of trade enterprises activity in Ukraine for last year (almost 22%).

In table 2 results of the set of structure indicators calculation are presented. These indicators characterize the state of financial resources attraction by trade enterprises of Ukraine and main indicators of their business activity effectiveness. Exactly these indicators characterize the financial potential of stability and providing of the company.

According to State Statistic Service of Ukraine equity and part of long-term credits were directed on losses covering because of unprofitable activity of trade enterprises in 2014–2015. This is confirmed by a growth of a negative value of equity concentration ratio from -2 at the end of 2014 to -4,8 at the end of 2015.

*Table 2*

### **Indicators of trade companies financial potential and value formation**

<b>Indicators</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Equity Concentration Ratio, %	17,4	14,5	9,6	8,5	-2	-4,8
Long-term Debts Concentration Ratio, %	29	28,1	14,1	14,6	17	18,1
Current Liabilities Concentration Ratio, %	53,6	57,4	76,3	76,9	85	86,7
Return On Assets (ROA), %	1,84	2,25	8,83	-0,53	-11,05	-6,27
Return On Invested Capital (ROIC), %	7,69	9,37	37,11	-2,29	-58,14	-44,65
Return On Equity (ROE), %	9,27	12,39	0,20	-12,98	-362,23	x
Profitability of Operational Activity, %	9,8	15	12,2	10,2	-12,8	-0,9
Profitability of Economic Activity, %	1,7	2,6	0	-3,6	-23,7	-13,5

Source: [5]

We can observe steady increase of current liabilities share during analytical period: from 53,6 % at the end of 2010 to 86,7% at the end of 2015. They are the main source of activity financing in trade industry. It is expedient to note that the increase of debts concentration level does not contribute to formation of positive effect of financial leverage. Equity use was not effective in 2013 and 2014 – the level of unprofitability was 12,98% and 362,23%. In 2015 trade companies lost this source of financing. The key factor of equity and part of borrowed capital loss is unprofitability of trade enterprises activity: in 2014 and 2014 the share of unprofitable enterprises was 34 % in their total number. In 2015 the share of such enterprises decreased to 23,9 %.

In general, trade companies lost their opportunities to form own financial potential from internal sources in 2013–2015. At the same time

companies that had higher level of financial potential has got higher possibility of it increasing by missed opportunities of unprofitable business entities. Also these companies have expanded opportunities for inorganic growth through acquisition of loss-making business entities at relatively low market value.

### **Conclusion**

Definitions «potential» and «value» should be considered as two inseparable economic characteristics in the context of investment attractiveness insuring in strategic perspective. The dynamic of their estimated economic indicators is a complex measurer of successful selection and implementation of enterprise development strategy. But there is no full characteristic of these economic parameters correlation in scientific literature.

Financial potential is a lever of company's value formation. All aspects of company's activity financing in current and strategic perspective have direct correlation with key determinants of company's value: net cash flows, capital cost, economic value added.

Possibilities of financial potential formation and use were investigated on the base of State Statistic Service of Ukraine data.

During 2013–2015 the worsening of financial potential characteristics of trade enterprises and possibilities of their value formation is being observed. First of all because of unprofitableness of their activity.

Further researches on the financial potential of the enterprise should be devoted to methodological and methodical bases of its complex evaluation and assessment of relationship with the company's value formation, as well as the conceptual basis of its strategic development.

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## **SALVATORE SIDOTI**

Ph.D. and contract professor in Business Administration at University  
of Messina

[ssidoti@unime.it](mailto:ssidoti@unime.it)

## **PIERFRANCESCO DONATO**

Dott. Audit Manager at University of Messina

[pidonato@unime.it](mailto:pidonato@unime.it)

# **THE INTRODUCTION OF ACCRUAL ACCOUNTING IN ITALIAN UNIVERSITIES: THE GENERAL FRAMEWORK**

### **Abstract**

In the last years, many Public organizations have adopted accrual accounting practices to replace their previous cash or modified cash accounting systems.

In particular, the Italian Academic sector has been characterized by a phase of strong changes that have had a material impact on how to work with all of the parties involved in the administration and management of universities. In light of the above, the study investigates about the introduction of Accrual Accounting in the Italian University system made by a delegated legislation n. 240/2010.

### **Introduction**

In recent years, public-sector organizations have increasingly adopted accrual accounting practices to replace their previous cash or modified cash accounting systems.

Many countries have been early adopters [1]. Although not without some opposition and challenges, the continuing adoption trend has been considered 'self-evident' [2] and demonstrated by subsequent adoptions in many other OECD countries [3].

The decision to adopt has often been justified by managerial benefits, in line with private-sector style New Public Management (NPM) practices, for example, improved efficiency and resource management [4]. However, adoption decisions are typically more complicated and influenced by political forces and a need for legitimacy [5].

It is still not well understood why some countries decided to adopt early, while others are late adopters or remain non-adopters. Therefore, it is important to study accrual accounting adoptions in different countries and contexts.

In light of the above, the study investigates into the introduction of Accrual Accounting in the Italian University system made by a delegated legislation n. 240/2010.

Starting from a brief review of institutional change in the Italian Higher Education system and the introduction of Accrual Accounting in the public administration, the paper analyzes the main changes and the impact on the University organization.

### **Background**

Since the 1980s, in the wake of widespread reforms generically known as the New Public Management paradigm, governments have attempted to apply accrual basis accounting to record transactions in the public sector based on the argument that this type of accounting provides more and better information for decision making.

However, until a few years ago, cash basis accounting has been the main accounting system in the public sector of many countries. In this type of system, revenues are not recorded until they are actually received, and expenses are recognized in the accounting records when they are actually paid. Cited among the advantages of cash basis accounting are ease of operation, a high degree of objectivity, and a limited number of choices. Disadvantages of this system include the mismatch between revenues and expenditures, which distorts actual operation costs and reflects revenue incorrectly and the fact that this type of accounting provides little information about future liabilities and assets [6].

According to Accountancy Europe [7] Accrual accounting is a method of recording financial transactions in which all transactions are recorded during the period to which they relate.

Accounting records generated by this method, however, are questioned for the same reasons that they are questioned related to private sector use, i.e., the inherent potential for improper use due to the subjective evaluations and judgments required to implement the method.

The additional information generated by accrual basis accounting and the benefits to the information user in terms of decision-making are counterbalanced by a number of issues related to definitions (e.g., asset, expense, liability, revenue), the use of subjective judgment, and uncertainties around the method.

This claim has led many discussions regarding the possible use of such information for decision-making purposes.

Some scholars say that the adoption of accrual accounting in the public sector is a natural step and it is mandatory if the goal is represented by the organizational efficiency [8].

In Italy the introduction of Accrual Accounting became mandatory for the Italian Public University with the Law number 240 of 2010, that represent the last change occurred in the Reform Process started in the 1989 with the Law 05.09 number 168.

In particular, implementation of the Law 240 of 2014 is based on three pillars [9]:

1. system recruitment;
2. accrual accounting;
3. internal organization.

The new recruitment systems define a national qualification for each scientific sector, a new accounting model based on accrual accounting and the Administrative reorganization, necessary for the application of accrual accounting logic.

The framework defined by the accounting system reform of public universities provided for the preparation of financial statements through a process of adaptation of the principles laid down for private companies.

*Table 1*

### **Comparison of usefulness of cash and accrual basis accounting systems in the public sector**

<b>Criterion</b>	<b>Cash Basis</b>	<b>Accrual Basis</b>
Understanding	Simple but not familiar to most people.	Very complex, but more familiar to most people.
Manipulation	Relatively easy to manipulate.	Easy to manipulate, depending on auditing and accounting standards.
Comprehensibility	Only cash information.	Includes information on cash as well as additional information.
Usefulness in managing cash flow	Provides only basic information.	Provides information about cash and commitments.
Management of non-financial assets	Does not provide information.	Provides information about general assets.
Comparability	Countries use a variety of forms of accounting methods that are not consistent with each other.	Countries use different accounting standards for accrual based accounting that are not consistent with each other.
Measuring the sustainability of fiscal policy	Very limited usefulness.	Useful, but must be supplemented with additional information.
Credibility	Limited	More familiar to rating agencies, creditors, and the media.
Bases for determining fiscal strategy	Limited	Good, when used together with cash information.
Accountability	Limited	Provides information.
Basis for pricing products and services	Limited	Good
Disincentive to fraud and corruption	Limited	Better than cash, depending on the control environment and other aspects.
Implementation	High cost of information systems (customization and limited availability).	Cost of information systems can be lower, but additional efforts are needed for the identification and valuation of assets and other components.
Continuity of operation	Little skill required on the part of accountants, but increased demand for personnel to operate.	Easy to retain and train operators and integrate records (payments, assets).

Source: Adapted from De Sousa et al. (2013) [6].

The Legislative Decree no. 18/2012 establishes the new accounting institute of the universities, clarifying the composition of the preliminary and final documents. In the following paragraphs, you will have the opportunity to gain insight into the issues of evaluation and accounting reporting related to the formation of such accounting documents, in the light of the implementing decisions issued later (19/2014 and 21/2014) [10]:

**A) BUDGET TOOLS:**

– Sole Annual Budget of the University, drawn up in the financial statements, consisting of:

- a) economic budget;
- b) investment budgets;

– Three-year Budget, which aims at ensuring the sustainability of all activities during the period, drawn up in the balance sheet and consisting of:

- a) three-year economic budget;
- b) three-year investment budgets.

– Sole Annual Budget non-authoritative, in cash accounting, drawn up for monitoring purposes and consolidation of public accounts.

**B) ANNUAL REPORT TOOLS:**

– Sole Annual Report, drawn up with reference to the calendar year, consistent with the economic and capital accountancy system, consisting of:

- Balance Sheet;
- Income statement;
- Cash flow statement;
- Notes.

In addition to the management report and prospectuses of the SIOPE data, the report of the Board of Statutory Auditors attests the correspondence of the document to the accounting results and contains assessments and judgments on administrative-accounting regularity of the management and proposing to its approval.

– Consolidated Financial Statements, with its own companies, entities or other subsidiaries, with or without participatory securities, whatever their legal form, drawn up in economic-equity bookkeeping.

**Accounting principles for Italian Universities**

The process of reforming the accounting system of Italian universities initiated by Legislative Decree 18 of January 27, 2012 and the subsequent Ministerial Decree no. 19 of 2014 [11], in order to apply accrual basis accounting to record transactions in the public sector based on the argument that this type of accounting provides more and better information for decision making.

According to article 1 of the Ministerial Decree no. 19 of 2014, the framework for the university financial statement substantially reflects the

provisions of the Italian Civil Code and the national accounting principles issued by the Italian Accounting Organization (OIC), with particular regard to the existence of a hierarchy of standards and other references (accounting principles) [9].

In article 2 of the Ministerial Decree no. 19 of 2014 are set out the specific accounting principles for universities:

– **Usefulness** for stakeholders and completeness of the information. Financial statements is designed to be of utmost usefulness to the largest number of recipients, which, in the availability and impartiality of the data displayed therein, find the common basis for the composition of opposite interests. In order for the stakeholders (students, the scientific community, creditors, employees, local communities, investors) can use the accounting data to make predictions about the future, the information must be reliable and intelligible. Any additional information useful for this purpose must be included in the supplementary note.

– **True and fair view**. The financial statements give a true and fair view of the balance sheet and financial position and the result of the year. To that end, the notes to the financial statements contain the necessary supplementary information to support the true and fair view of the financial position as well as the financial statements.

– **Faithful representation**. Formally and substantially, it is necessary to observe the rules that govern the drafting of these documents. Since the budget formation process implies estimates and forecasts, the correctness of the budget data does not only refer to the accuracy of arithmetic, but to the economic fairness and reasonableness, or to the confidence gained from the in-depth application of the evaluation procedures adopted.

– **Neutrality (Impartiality)**. The preparation of accounting documents is based on the independent and impartial application of accounting principles to all recipients, without serving or favoring the interests or ancestry of particular groups. Such impartiality characterizes the whole process of budget formation and, in particular, the determination of the fruit of estimates. Discernment and prudence are the foundations of the procedures for the preparation of accounting documents, which must be drafted in accordance with the essential requirements of competence and technical fairness. Maintaining constant evaluation criteria over time is one of the requirements of impartiality.

– **Verifiability**. An adequate system of internal controls and authorization flows must ensure the reliability and integrity of the data to support the budget formation process. In order to be reliable, accounting information must not contain significant errors or distortions, so that users can rely on it.

– **Relevance of economic facts for the purpose of their presentation in the financial statements.** The explanatory note highlights information that has a significant and significant effect on the budget data or the decision-making process of the recipients. The information supports the economic gains of users, helping them to analyze past and present events and prospects, or confirming or corroborating previous evaluations. Errors, omissions and rounding are technically possible and they are limited in the concept of relevance, or they must not be such as to have a significant effect on the balance sheet data and their significance for the recipients.

– **Compressibility.** The operating balance must be comprehensible and analytical, providing a simple and clear classification of the balance sheet items. The supplementary note should facilitate the understanding and intelligibility of the balance sheet data.

– **Public.** According to law, Annual Report will be made public so that it can be freely consulted by all stakeholders;

– **Uniformity.** Consistency concerns both the evaluation criteria of individual posts and the structure of accounts, which must be comparable not only from a formal point of view but also homogeneous.

– **Annuity.** The accounting documents are prepared annually and relate to an administrative period (or exercise) coinciding with the calendar year.

– **Continuity.** The assessment of the items is carried out with a view to the continuation of the activity of the institution.

– **Prudence (Accounting Conservatism).** Only the positive income components realized within the financial year are shown in the single-year financial statement, while all negative components are accounted for even if not finalized.

– **Integrity.** The components of the individual budget items are recorded avoiding compensation of items and groupings of items.

– **Comparability.** The application of the general principles and the particular evaluation criteria must be constant over time for the purpose of comparing data in time and space. The exception to this principle is possible in exceptional and motivated cases, and its effectiveness should be appropriately highlighted in integration.

– **Universality.** In the budget documents all the financial, capital and economic figures should be considered in order to provide a true and complete picture of the business activity complex.

– **Unit.** The single university is a unique and unified entity, therefore it is unique in its budget (foresight and exercise). The management is united, so the whole source of income supports the total cost / cost.

– **Accrual accounting.** The effects of the various transactions and administrative activities that the university performs during the financial

year are charged regardless of the financial manifestation of the positive and negative income components. The determination of the economic outturn therefore implies a process of analyzing the economic competence of the positive and negative items relating to the year to which the financial statements refer.

In the light of what has been discussed above the financial statements framework of universities consists in [8]:

- specific legislation (essentially contained in the decree) to be contextualized with respect to an overall system similar to that provided for in the Civil Code;
- supplemented by explicit references or general referrals to civilian dispositions and OIC principles;
- In resume the OIC document, the decree will also reiterates the limits, as in art. 2 there is in fact a list of «mixed» principles without a clear logical order, in which coexist:
- the main principles forming part of the «general clause» of art. 2423 c. II («fairness», «truthfulness», «comprehensibility/clarity»);
- fundamental general principles, such as prudence and competence;
- principles that constitute the corollary of others (the prevalence of the substance on form and reliability to truthfulness, neutrality towards fairness, cost as a basis for evaluation towards prudence, etc.);
- other principles of lower rank and even simple technical rules.

### **Conclusions and implications for further research**

The study so far carried out is only of a preliminary nature and much still remains to be done in order to provide an exhaustive overview of such a wide ranging topic; however, this paper has dealt with certain critical aspects of the introduction of accrual accounting in Italian Public Sector.

In the present economic scenario, characterized by lack of State financing, by an opening towards private funds and by the demand for a growing internationalization, an European process has been activated (declaration of Bologna, 1999; declaration of Lisbon, 2000) that has the aim to allow the university institutions to formulate some management strategies that satisfy missions relating among didactics, research and technology transfer.

The analysis of sectoral legislation shows that the overall system of technical accounting reform seems satisfactory, but we reiterate that it can be further improved.

Specifically, in the light of what some scholars have pointed out, it may be appropriate to review the choices regarding the general principles or postulates of financial statement, rearranging the principles recalled in a hierarchical order of priority, clarifying at the same time interrelations and functional dependencies.

Another aspect to be highlighted is, finally, the lack of predictability of type notes and management reports. On the subject, some authors point out the need to bridge this gap, also in order to allow effective «comparability» of information between the various universities.

The theme also relies on the necessity of public companies to adequately report to their stakeholders the activities and outcomes achieved in the pursuit of their institutional goals.

Because of their specificity, public entities, and in particular universities, should promote the preparation of a university social budget, with periodic cadence, in which the administration reports, for the benefit of all its stakeholders, the made choices, the carried out activities and services, taking account of resources used for this purpose, describing its decision-making and operational processes.

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## **KATARZYNA WÓJCIK**

MSc, assistant. Cracow University of Economics, Computational Systems  
Department,  
27 Rakowicka St., 31-510 Cracow, Poland, tel. + 48122935768,  
e-mail: katarzyna.wojcik@uek.krakow.pl

## **PAWEŁ WOŁOSZYN**

PhD, assoc. prof., Cracow University of Economics, Computational  
Systems Department,  
27 Rakowicka St., 31-510 Cracow, Poland, tel. + 48122935768,  
e-mail: pawel.woloszyn@uek.krakow.pl

### **DESIGN OF OPINION MINING FRAMEWORK**

#### **Abstract**

Performing such complex task as opinion mining requires use of diverse methods and tools of natural language processing, computational linguistics and text analytics. Applying these tools can be done on different morphological and semantic levels of text and obtained data can be further used both in other stages of opinion mining and in external procedures. It is therefore important to organize the entire process in a systematic and structured form of extensible processing framework which helps to achieve modularity and reusability of processing stages. The paper describes design factors and authors' proposition of opinion mining framework that takes these issues into consideration.

#### **Introduction**

The experience of everyday use of the Internet proves that people not only enjoy expressing their opinions on every subject possible but also treat posting opinions as a good method of marking their online presence, building authority and gaining respect. Although being an interesting source of inspiration for sociological and cultural research, the realm of online opinions gains increasing attention from enterprise managers, product designers, marketing experts, salesmen and even politicians. In the digital world of information society traditional factors like price, demand or quality are no longer so important for the market as they were in the past. Instead customer opinions can shape prices, determine demand and influence quality of commodities and services, and they can do that spontaneously, unpredictably and in contradiction to efforts of product manufacturer or service provider.

On the other hand customer opinions can provide excellent feedback for business and at the same time bring new opportunities for active control of customer sentiments and needs, not known before advent of

social media and social marketing. Regardless of whether taking advantage of such opportunities is ethical and beneficial for society, contemporary managers need to acquire, process and analyze online opinions in massive amounts incomparable to the scale of market research in pre-Internet era. Such computation-intensive task, known as opinion mining, involves gathering and processing an extensive set of textual opinions for a given item, recognizing and collecting essential attributes and features, classifying and aggregating attitudes and sentiments [1].

Performing this complex task requires use of diverse methods and tools of natural language processing, computational linguistics and text analytics. Applying these tools can be done on different morphological and semantic levels of text and obtained data can be further used both in other stages of opinion mining and in external procedures. It is therefore important to organize the entire process in a systematic and structured form of extensible processing framework [10] which helps to achieve modularity and reusability of processing stages.

This paper presents the design of opinion mining framework intended as a general scheme facilitating implementation of concrete opinion mining systems as well as their integration with other systems and resources. We focus on discussing several design factors taken into consideration and then we present the framework conception along with details concerning data sources, resource types, text processing methods and utilized technologies.

### **Design factors of the framework**

Automated or semi-automated text processing is a task suited for the use of computers both as processing agents and data storage. In fact any kind of massive text analysis, or even storage and retrieval, would not be possible without information technology. On the other hand it is symptomatic that computers can perform low-level text processing with great efficiency but are still unable to imitate high-level text analysis related to human intelligence mostly because humans themselves cannot describe and explain their own intellectual abilities. This means that conceptual work on opinion mining as well as other text mining systems can be perceived to some extent as modelling and recreating chosen aspects of human intelligence.

Well-designed computer systems follow several design principles established in computer science in order to ensure clean structure, extendibility, maintainability and other desirable characteristics. Therefore it seems natural to adhere to similar principles in the design of opinion mining framework which is intended, among other goals, as a guide for implementations of concrete systems.

Perhaps the most important principle in system design is modularity: systems should consist of multiple independent modules instead of being monolithic. Modularity can also be applied to opinion mining processes and to general scheme of proposed framework which consists of multiple stages, each of them having relatively small scope and dealing with single task (gray rectangles on fig. 1). Such granular design of the framework allows to implement it as a collection of services, or even microservices, developed and operated independently. In order to ensure independency and loose coupling of processing stages their scopes should not overlap and at the same time when added together they should cover the entire workflow of opinion mining. This principle led us to expect branching in the processing chain at the point where different tasks can be carried out concurrently and by independent services.

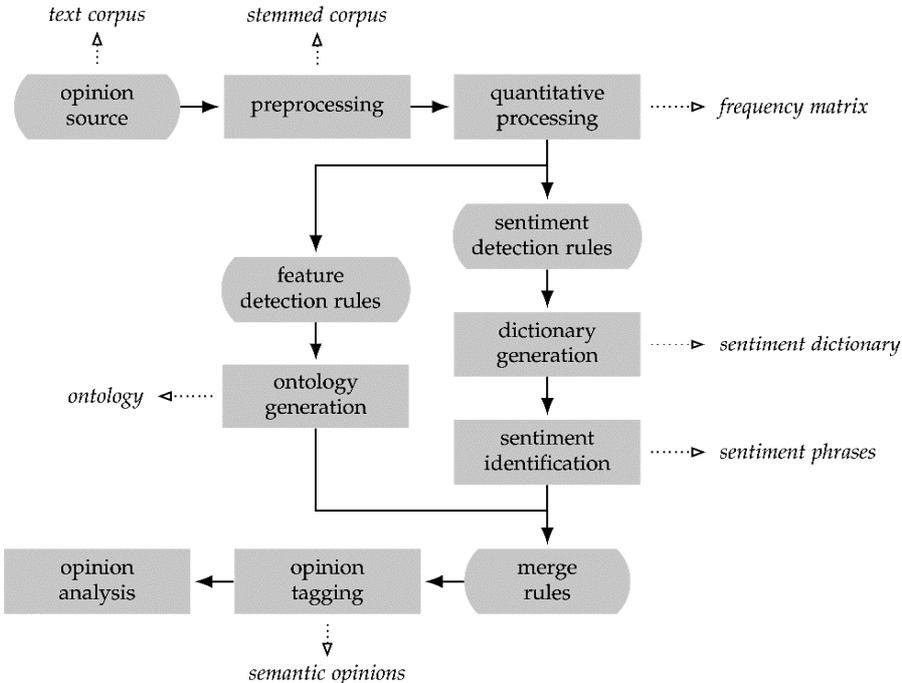


Figure 1: The general design of opinion analysis framework.

Source: own elaboration

For several modules additional input resources are required in conjunction with the data obtained by processing opinions themselves (rounded rectangles on fig. 1), for example generating an ontology of product features depends on external rules governing feature detection in preprocessed and quantitatively analyzed opinions. Design principles in computer systems suggest that such dependencies should be explicitly stated and therefore we have expressly included them in the framework. Although they can be treated as a source of rules and configuration data, they can also be implemented as entire separate services for example generating rules dynamically in an adaptive manner.

Each module/stage of the framework produces also output data which intuitively becomes input data of the next module allowing to chain them into longer processing sequence. However module outputs could also be utilized in other processes not related directly to opinion mining, for example in stylometric analysis of opinion text corpora. For this reason it is important to recognize abstract output resources generated in modules (italics on fig. 1) as potential extension points providing opportunities for integration between the framework and other processes and systems. It is worth noting that such integration can be bidirectional: external systems can consume resources produced within the framework or can provide input resources for the framework.

One specific and ubiquitous characteristics of computer systems is the presence of multiple layers. We have also taken this principle into account and worked towards layered design of the framework (horizontal sections on fig. 2) which is a logical consequence of layered structure of natural languages. Written opinions can be analyzed at the level of single letters, words, entire word patterns and sentences and finally in the context of their meaning and semantic relations to other concepts. A multi-tier design reflecting these levels allows for independent implementation of each layer and even for merging different partial implementations. Each layer requires different tools and techniques for text processing, some of them not always readily available for every language. Lower layers are more language-independent while middle ones are rather language-specific. However it is important that the highest layer of ontologies is again less dependent of the language: in fact it is the most abstract layer. Such design makes the entire framework more flexible and adaptable, especially in situations where opinions written in multiple languages are to be processed collectively.

### **Opinion mining framework layers**

#### *Characters Level*

At the base of the whole framework there is the process of opinion acquisition. It requires some kind of opinion source and extraction method. Concerning opinions sources there are two possible kinds of them in the Internet:

- structured data sources like opinion services, auction services, on-line shops and other web services allowing users to post online reviews,
- unstructured data sources like discussions forums, blogs or comments in information and social media.

The extraction of opinions is quite easy when data source is structured. Additionally along with opinions some other usefull data can also be extracted, for example overall polarity given by the users or other statistical

data. Opinions which are part of unstructured web resources are more difficult to extract. Sometimes instead of bulk extraction only opinions meeting certain criteria have to be found, for example opinions mentioning specific product. For that purpose web crawlers can be used. They search for specified keywords in given web domains while collecting addresses of matching pages, which can be further verified manually by the analyst [6]. What they have in common are web technologies used to develop the web page containing opinions and therefore the automated acquisition of opinions must be done in the way of ETL (extract-transform-load) process. Extraction is the process of getting data from the source, transformation covers the conversion of extracted data to the required form and in the load phase transformed data are saved in the target storage. This can be a database, structured file or a set of raw text files. The collection of acquired opinions forms a text corpus. ETL process can be conducted with the usage of general purpose commercial or open source web scrapers or by specialized applications designed to deal with certain data source [7].

#### *Words Level*

Acquired opinions are the input to the second level in the framework that contains two consecutive stages. Their aim is to prepare the text corpus composed of opinions for further analysis. The preparation begins with preprocessing stage which consists of such actions like punctuation removal, stripping of whitespaces and unifying transformation to lowercase. These actions are encoding-sensitive but not language-sensitive and can be performed using different text mining tools (ie. tm package for R language).

However preprocessing can also include actions in which tools designed for certain language are required, as for example in proper names identification, stemming, disambiguation and synonyms replacement. All of them require some kind of dictionaries or text corpora. For identification of proper names the dictionary of most frequently encountered names of people, places, works of art etc. can be very useful. It must be taken into consideration that in different languages the same places, buildings, people etc. can have different names. For synonyms replacement semantic dictionaries like WordNet can be used. For Polish language synonyms replacement is difficult to conduct because Słowność (Polish WordNet) by design contains as few synonymic relations as possible. Rather relations of hyperonymy and hyponymy are used. Stemming requires referenced text corpus for certain language and a set of rules and exceptions allowing to conduct morphological analysis of opinions corpus. The same tools can be also used for disambiguation (ie. Spejd for Polish language) [10].

The second stage at words level is quantitative analysis of preprocessed texts concerned with counting occurrences of stemmed and disambiguated

words. As its output this stage produces the frequency matrix in which rows represent words and columns represent opinions. At this stage word-based approach to sentiment analysis can be applied. The frequency matrix can be used for calculating similarity between opinions which is the basis for opinion classification. Also feature-based analysis using relative frequencies of occurrence calculated for words describing features in the list of product advantages and disadvantages can be performed at this stage of analysis [8]. With the use of machine learning techniques sentiment dictionaries can be created on the basis of frequency data provided that opinions are annotated with some kind of polarity measure [1]. Moreover the results of quantitative processing can be used to configure opinion-detecting classifier which in turn can support the first stage of analysis in the search for potential opinions in unstructured an unknown web sources.

If opinion corpus contains longer reviews serving as writing style samples, stylometry techniques can be used as an extension method during preprocessing and before quantitative processing. The main goal of stylometry is to compute the so called author invariant – a set of style characteristics specific for certain author. This allows to determine whether some opinions were written by the same author or not. Stylometric methods operate on original or partially preprocessed text samples with preserved punctuation, spelling and vocabulary. For example the usage of punctuation may differentiate authors and disambiguating homonyms may conceal stylistic differences [4].

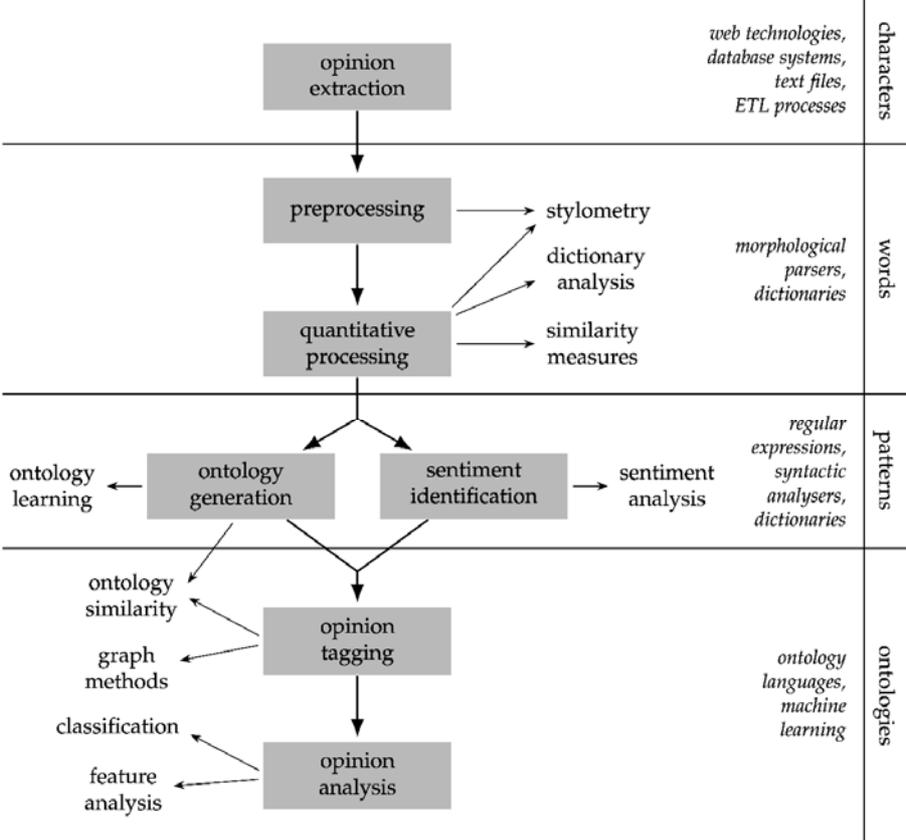


Figure 2: Framework layers, tools and techniques

Source: own elaboration

### *Patterns Level*

The third level of the framework also contains two processes however this time they are parallel. First of them is ontology generation supported by ontology learning techniques. Ontology learning is usually a semi-automated process with two major strategic approaches: ontology learning from texts and reuse of existing ontology. Pattern detection and interpretation rules allow to determine the features of examined product and relations between them. By applying pattern-matching mechanism to the collection of opinion texts one can generate ontology of given product reflecting how users perceive this particular product and its features, attributes or parts.

Unfortunately ontology learning techniques are not always efficient enough to produce ontologies fulfilling all requirements. Instead they can generate only a semi-ontology focused rather on how users see the product than what are all features and characteristics of certain product. Relations captured in such semi-ontology do not reflect the hierarchical relations between parts of product. Nevertheless that kind of ontology can still be helpful in manual creation of product ontology. It contains clues about features that are the most important for users and this information can be used for determining appropriate feature weights [5].

The other process within the third level of analysis is aimed at sentiment identification. The main part of this process is concerned with detection of phrases that express the sentiment. Specialized sentiment dictionaries may also be generated as a side effect of processing. Words from sentiment dictionary are often a part of phrase and this phrase may have different sentiment polarity or strength than single words that constitute it. Some words change the polarity of their neighbors to the opposite attitude or they strengthen or weaken the sentiment of certain words. The sentiment identification process is mainly based on regular expression style rules. As an extension pattern-based sentiment analysis can be applied [8]. Patterns detecting sentiment-related phrases can also be utilized recursively at the first stage of analysis as a search tool for key phrases identifying potential opinions in unstructured web sources.

### *Ontologies Level*

On the highest level of analysis framework both processing stages are related to product ontologies. Product features named in ontology are combined with polarized phrases detected during sentiment identification stage with the help of special merging rules in opinion tagging process. The entity resolution techniques may also be useful in distinction of products and features. The result of this process is an instantiated ontology – which is an ontology equipped with concrete product instances – and,

more importantly, the collection of semantically annotated opinions [7][2]. Both resources can be finally used in the second, final stage of the framework which is denoted on figures as opinion analysis. Certainly the entire workflow discussed so far is dedicated to opinion analysis but it is not until the last stage when all processed resources are gathered and ready for the most comprehensive study.

The two main modes of analysis are classification, involving similarity measures, and feature analysis. Ontology similarity measures are helpful in comparison of two products. Because ontology is a graph-like structure, also several graph-oriented methods are very useful in opinion mining. However the most popular type of opinion mining is sentiment analysis. Instantiated ontology can be a basis for both feature based sentiment analysis and sentiment classification. Assuming that a product is a sum of its features, by aggregating the sentiment assigned to product features the overall sentiment for the whole product can be obtained. Weights assigned to certain vertices and edges of ontology graph allow to take importance of particular features into consideration. This approach is called ontology-based sentiment analysis.

### **Conclusion**

The quality of opinion mining framework described in our work cannot be tested in the same manner as in the case of a piece of software, so it is difficult to judge whether its structure and design is flexible and advantageous. Nevertheless we can conclude that at least some aspects of framework architecture determined by adopted design principles are beneficial from the perspective of both implementation of the framework and its integration with other processes.

The purpose of designing the framework is to achieve, among other, three goals: to identify key processing stages, to indicate potential extension points of existing procedures and to provide comparison scheme for confronting different opinion mining procedures. Achieving each of these goals can be assisted by following appropriate design principle: the first goal is reached through modularity, the second involves introducing abstract dependencies and the third is related to layered polymorphism. This can be seen as an example of much more general rule that applying proven architectural principles often yields satisfactory designs.

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**МАТЕРІАЛИ СИМПОЗІУМУ**

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вул. Кіото, 19, м. Київ, Україна, 02156

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