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Economic Theory

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QUALITY OF INSTITUTIONS AND DEVIATION OF THE EXCHANGE RATES FROM THE PURCHASING POWER PARITY: IMPACT ON ECONOMIC GROWTH

Abstract

It is stressed, that the global monetary relations are distorting the global competitiveness. Economic growth maintaining under the middle and low income countries competitive pressure is possible with the deviating down of the nominal exchange rate from PPP or with high graded institutions developing that can encourage innovations, business opportunities, and capital inflows. Basing on the data of 82 countries it is empirically confirmed direct and statistically meaningful relations between quality of institutions and exchange rate deviations from PPP. It is found that five clusters of the countries joined by the principle of quality of institutions and exchange rate deviations from PPP. The highest economic growth is observed in the countries with strong institutions and little undervalued exchange rates. The countries with low graded institutions may maintain economic growth only under the strong undervaluation of currency. Developed countries may deal with the competitive pressure due to the institutions of high quality. Quality of institutions and institutional competition are expected to be the most important forms of the global economy fragmentation.

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Key words:

Quality of institutions, purchasing power parity, exchange rate, global competitiveness, real convergence, global monetary relations.

JEL: F33, E42.

Emergence of the tendencies of the unprecedented growth of the currency reserves volumes in the countries with emerging markets caused the range of the issues and discussions concerning the adequateness of the traditional models of the international monetary economics in the interpretation of the mechanisms of interaction among the payment balances, economic growth and financial stability. So called «Asian syndrome», as an impulse to the accumulation of the enormous sovereign external assets exceeded the scopes of the issues, connected with the functioning of the global financial architecture. The global monetary relationships, based on the ability of the continuous support of the financial imbalances, cause the range of challenging problems, which change the basic modality of ability to support the global competitiveness in the world, where the monetary mechanisms of the payment positions improvement are almost obsolete and the external demand on the assets of the certain country can contradict to its ability to support the effective export.

According to the dilemmas of the world monetary models dysfunction, the issues concerning the emergence of the asymmetrical manipulation capabilities of support the rapid economic growth based on the global competitiveness, expressed by the undervaluation of the exchange rates concerning the purchasing power parity (PPP) are raised.

The abstention from the exchange rate upward movement began to perform a specific role: it created the absolute benefits and promote the export-oriented growth in conjunction with the accumulation of reserves to maintain the macrofinancial stability. As a result of the Asian countries' policy escalation into the systemic phenomenon the global economy is faced with the problem of adaptation to the new challenges in the sphere of competitiveness and survival support under conditions where the individual countries are able to underevaluate the rate and avoid its movement towards the PPP even in the process of the real convergence while the others are limited in this choice.

Under conditions of the global competition and growing of share of countries with the low labor costs in the global GDP, the macroeconomic leverages of creating of the incentives for the economic growth appear quite limited. It was proved by the rapid post-crisis exhaustion of the demand stimulation programs to stimulate demand. However, one of the criteria of the world heterogeneity intensification is the quality of institutes which synergistically reflect the current and localized benefits of the business placement, likewise developments and innovations, dissemination of creative solutions in the field of economic life, the rising cost of the human capital. Possibilities of transfer of the institutional capacity to compete into the institutional plane are still poorly examined, especially in the case of institutions as opposed to politics acceleration of export growth based on undervalued rates, which makes this study currently important.

Thus, the identification of the basic monetary points in the global economy transformation under the influence of the prolonged accumulation policy of sovereign external assets (Aizenman and Lee, 2005; Aizenman, 2007) sufficiently points out on the preconditions for the transformation of the principles and possibilities of the external balance and competitiveness maintaining in the countries which are targeting the payments surplus, and in the countries which find themselves under the influence of the effects of unilateral actions of the first mentioned (Blanchard, 2011; Blachard and Milesi-Ferretti, 2009). However, some researchers suggest indirectly that the policy of reserves accumulating is the result of preventing of the upward movement rate in order to maintain the competitiveness. Moreover, a special emphasis on the fact that the undervalued exchange rate is a part of the mechanism of stimulation of the export-oriented growth is not only in the context of the Asian crisis, but considering the significant changes in the policies of the 1980s, when the association with the «Dutch disease» precondition was consolidated by the actual appreciation. The abstention from the exchange rate upward movement, in spite the expected benefits and advantages for the paying capacity increase and economic agents welfare, provides the essential advantages for the export growth and support of its competitiveness in the long term (Magud and Sosa, 2011). Another aspect concerning the mentioned advantages of abstention from the actual appreciation is well theorized issue concerning the constructing of the system of early indicators of the exchange crisis impending. The experience of the permanent currency disruptions in 1970-1990 laid the clear understanding of the fact that the rapid actual appreciation indicates the worsening of the payments balance, throwing the doubt upon the country's ability to maintain the current exchange rate, which is associated with the nominal anchor of the macroeconomic stability (Sachs et al., 1996; Popov, 1999; IMF, 2001). However, the most significant here is that the countries with the low and middle-income should take into account the specificity of their equilibrium undervalued rate in relation to PPP, which should be rised in the process of the actual convergence (Balas – Samuelson effect) and avoidance of crises is possible only due to the productivity growth in the export sector based on the investments into the improving of the technological level of production. That is the deterioration of the balance of payments and vulnerability to the monetary and financial destabilization is rised exactly where there is no actual appreciation but an approximation to PPP rate.

Increase in the value of the capital flows into the countries with emerging markets, and the corresponding response in the form of abstention from the actual appreciation by accumulating of the reserves to some extent reduced the tension in the discussions that the undervaluation of rate is a means of the export promotion. Maintaining of the macrofinancial stability based on the ownership of the large reserves and compensation in accordance with such a way of impossibility of flexible exchange to restore their competitiveness without losses in the financial sector began to be seen as a key factor of reproduction of the differences between the developed countries and the rest of the world (Aghion et al., 2006; Aizenman and Riera-Crichton, 2006).

However, the policy of reserves accumulating on the basis of the undervalued rates has a tradition of the alternative analysis. Institutional reasons are the basis of the policy of reserves undervaluation and accumulation. The impossibility to ensure the effective collection of taxes, or the significant institutional costs from the taxation leads to the selection of the tax rates, lower than the equilibrium and higher foreign debt, where the reserves act as the insurance against the default (Aizenman and Marion, 2004). Analogically, the undervaluation and accumulation of reserves becomes a rather simple way to avoid the structural reforms which could be focused on the economic growth, increase of the economic flexibility, its adaptability to the global competitive pressure (Rato, 2006).

Although the discussions about the role of the actual exchange rate as an indicator of the economy competitiveness are far from complete, the emphasis on the fact that it is not endogenous, so it can become an instrument of the economic policy, it is made to explain the success of many Asian countries, in particular China. In view of the growing wave concerning the discussion about the role of institutions in generating of productivity, innovation and incentives for growth, exogeneity of the undervalued actual exchange rates is presented as a counterbalance to the endogenous formal and informal barriers of the economic development in the countries with the medium and low incomes (Bhalla, 2012).

The intensification of interest towards the institutional factors of the global competitiveness took place on the basis of the discussions about the development of the economy after the global financial crisis. On the one hand, the quality of institutions is currently considered as an integral part of an innovative economic growth within the framework of the economic flexibility and adaptability support. As a rule, the leading role of the quality of institutions in generating of the preconditions for the «high-quality» growth is confirmed by a huge number of the literary sources (World Development Report, 2002; Zhuang et al., 2010). On the other hand, the fragmentation of the developed countries and their distinct asymmetrical global competitiveness as of today is not limited only by the issue of the real convergence. Failures in the structural policy, institutional rigidity, and incentives to innovations are more understood by the gap drivers between the innovative «Protestant North» and «traditional South» than in fact, the gap at the initial income level, although the most studies tend to the abstract interpretation of these problems in terms of analysis of the labor markets centralization degree (Pelagidis, 2009). The unique institutional characteristics of Scandinavian countries are shown from the perspective of the quality of institutions' formation of the global competitiveness even under conditions of the significant tax burden (Eklund, 2011; Berggren and Tragardh, 2011).

Hence the following issue arises: even if the developed countries lose their homogeneity on grounds of the institutions quality and maintaining of competitiveness on its basis, is not a manifestation of a more general trend, when the policy of the undervalued rates in the same group of countries changes the pattern of the global competitiveness in the world and requires the institutional adaptation. In economics there is the lack of studies aimed at identifying of the correspondence between the quality of institutions and the real exchange rate. Hence, the main objective of the paper is to show the fragmentation of the global economy on these criteria and to identify the clusters of the countries where the economic growth rates reflect a combination of the quality institutions with degree of deviations from PPP.

The basic PPP doctrine provides the fact that the countries with the higher per capita income should always have the deviations of the nominal exchange rate from PPP upwards, thus reflecting the higher cost of goods which are not the subject of the international trade. In its turn, in the countries with the lower incomes the opposite ratio between the nominal exchange rate and purchasing power parity is observed. Also the basic theory predicts that such deviation is equilibrium, but on the limited time horizons. It should be noted, at the time when in the world the relatively tight relationships between the domestic inflation and the nominal exchange rate was observed, the real exchange rate actually looked endogenous, as the consequence of which the degree of development of the country produced a significant impact on its level.

Under conditions of the payment surpluses targeting by the group of countries with the low PPP and increasing of the trend to the disconnection between the domestic inflation and the nominal exchange rate, the standard macroeconomic model of the multilateral balance of payments adjustment does not reflect the situation which has developed. Possibilities of the long-term payment surpluses maintaining without the significant changes of the real exchange rate, which in the traditional macro-models of the open economy are not realistic, change the configuration of not only the mechanisms of the balance of payments adjustment but also the conditions of the global competitiveness maintaining, within the framework of which one or another country can be in a state of no external balance for a long period of time under the simultaneous maintaining of the acceptable rates of economic growth. Due to the fact that under conditions of the global competitive pressure intensification the possibilities of economic increase support more and more depends on innovation, productivity and creativization of economy, the role of quality of institutions increases sharply.

The quality of institutions in the global competitiveness maintaining comes to the fore is that for the countries which do not conduct the policy of payments surpluses targeting, especially since the all countries at the same time can not conduct it, they faced with the problem of the exchange rate exogenous preconception. The situation is even more dramatic in light of the fact that the currencies of most developed countries are increasingly seen as the variants of diversifying of the large reserves of the world's leading exporting countries with the average incomes and undervalued rates concerning PPP. If the external demand for the country's currency exchange rate neutralizes the ability to perform as an elastic mechanism competitiveness recovery, equalization of payments and, consequently, achievement of the inner equilibrium and maintaining of the competitiveness and the inner balance should be ensured by the increasing of the factor productivity and the creation of the unique benefits, which is impossible without the creativization of economy and permanent innovation.

In light of the fact that the achievement of the permanently high levels of creativity and innovation depends on a set of formal and informal controls of the social and economic behavior, the possibilities to compete in the world begin to shift in the institutional plane. It defines the motivation for investment into the human and social capital and its application in the innovative sectors. It also determines the easiness with the help of which the radically new ideas are converted into the business projects. Not less important is the fact that the quality of institutions is associated with the ability to compete for the capital attracting and minimization of the transaction costs, property rights protection, regulation and transparency and fulfillment of contracts are converted into the cumulative advantage within the framework of the competition between the different types of economic systems.

Taking into account the above noted, we can make a conclusion that that the rate overvaluation concerning the PPP, which is regarded as equilibrium on a certain length of time, in a format of the global competition changes create such a competitive pressure which should generate the compensatory reactions. Creating and maintaining of the quality of institutions should be considered as one of the reactions. For the countries with the undervalued concerning PPP, depending on the level of the development and institutional maturity and they can go by two ways. Creating of the high-quality institutions within the framework of which the coexistence of the policy avoidance of approach to PPP exchange rate would act as an additional leverage of the economic growth acceleration. Another way will provide the fact that the unwillingness or inability to create and sustain the high-quality institutions should correspond to the same undervalued exchange rate in relation to PPP in order to carry out the minimum requirements for the economic growth. The undervalued rate will compensate the lack of the quality institutions, so that for a long time period the economy can be developed by the algorithm of the «exploitation» of traditional country's comparative advantages.

In the light of this theoretical position it can be assumed that in the countries with a deviation from the nominal rate upwards PPP the quality institutions should take place, while in the countries with a rate deviation downwards PPP the weak institutions may exist. In this case, «may» means that the certain countries may combine the quality of institutions with the undervalued rate, but after that the high rate of economic growth should be observed in them. From an empirical point of view this assumption means that it should be the direct link between the quality of institutions and deviation rate from the PPP.

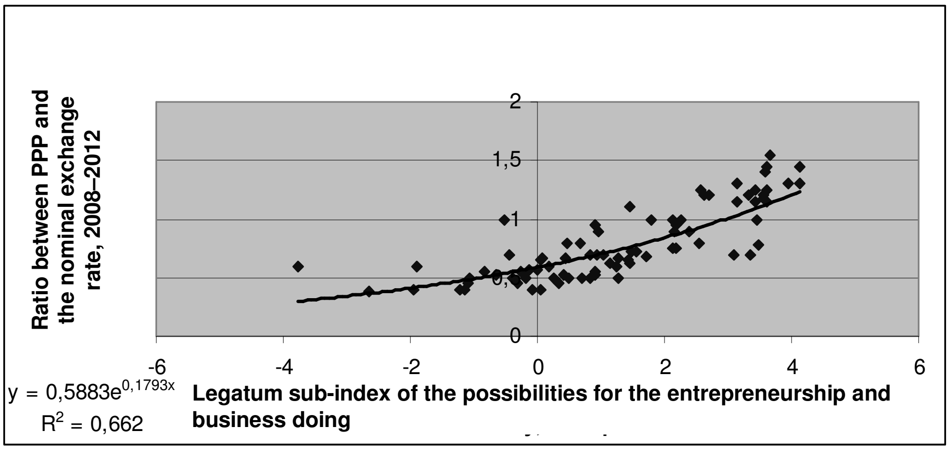
For an empirical test of this hypothesis the nominal exchange rate deviations from PPP are elected as the ratio of PPP conversion factor to the nominal rate, which is calculated by the World Bank, and three indicators by means of which the quality of institutions is evaluated, especially those which determine the degree of the loyalty environment for the business doing and innovation development. These indictors are the following: Legatum sub-index of opportunities for the entrepreneurship and business doing; Legatum sub-index as governance[1], sub-index of the quality of institutions the Global Competitiveness Index of the World Economic Forum. The first indicator somewhat biased towards the assessing of the ability of the country to combine the business opportunities with the innovative potential of the country. The second indicator shows the quality of the government policy in the sphere of the ownership rights, sectoral regulation, judicial system effectiveness provision etc.

The sub- index of the quality of Davos Forum institutions is a more general indicator. To some extent, the three indixes duplicate each other, but are used for the additional confirmation of the initial assumption concerning the direct relationship between the institutions and the deviation rate from PPP. That is, if at the empirical level the theoretically predicted relationship is confirmed in one case, it should be confirmed in all three cases. Figures 1-3. show that at the example of 82 (all developed countries, all post- communist countries, the biggest countries in Asia, Africa and Latin America) countries we can see the entire adequacy of the initial hypothesis.

[1] Legatum index is calculated by the Legatum Institute within the framework of the examination of the quality of institutions influence on the well-being of the nation.

Figure 1

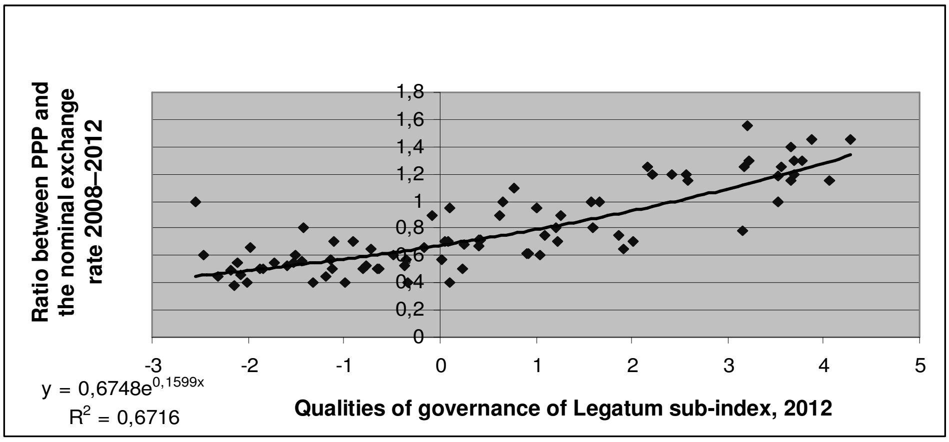
The ratio of the exchange rate to PPP and quality of institutions, exchange rate to PPP and



Note 1. Based on the data of Legatum Institute Index, 2012 (www.li.com) and World Development Indicators of the World Bank statistical basis (www.world.bank.org).

Figure 2

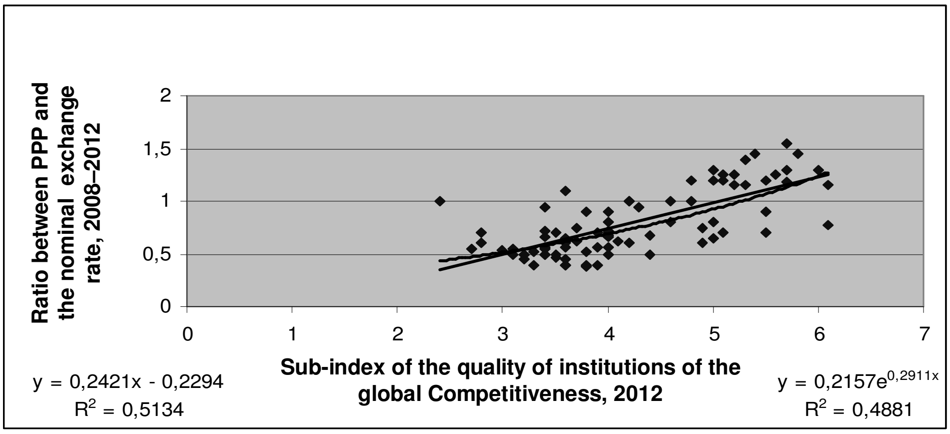
The ratio of the exchange rate to PPP and quality of institutions, 82 countries of the world



Note1. Based on the data of Legatum Institute Index, 2012 (www.li.com) and World Development Indicators of the World Bank statistical basis (www.world.bank.org).

Figure 3

The ratio of the exchange rate to PPP and quality of institutions, 82 countries of the world



Note 1. On the basis of the World Economic Forum Global Competitiveness Report, 2012 and World Development Indicators of the World Bank statistical basis (www.world.bank.org).

Figures 1–2 show that between the deviation of the rate from PPP and the corresponding sub-indexes not only linear, but exponential dependence is observed, which has a high level of accuracy of approximation. The exponential nature of the dependence indicates that maintaining of the overvalued exchange rate needs much better institutions than in comparison with their quality in cases where the rate is undervalued. The competitive pressure by means of institutions is much more compensated whereon there is already a lack of competitiveness associated with the overvalued exchange rate.

Figure 3 also fully confirms the stated theoretical hypothesis. The nature of the relationship between the exchange rate deviation from PPP and sub- index of the quality of institutions of the global competitiveness index follows the cases of the relevant sub-index Legatum. However, the density of connection in the approximation by means of the exponential function is somewhat lower. In the linear approximation, the R2 value increases, reaching a statistically significant level. You can see that in the case of the sub -index indicator of the quality of institutions of the global competitiveness index the dispersion of is clearly higher and the degree of dispersion of values within the entire sample below. That is to say, that indicator in the Fig. 3 is less variable in the whole sample, which should be explained from the perspective of the index methodological features.

Taking into account that countries with the emerging markets, are at the different stages of the economic development, they have an excellent vision of the policy of the institutions quality provision, and that even the developed countries are not a homogeneous group and may be essentially different from the point of view of the quality of institution and the degree of comprehension by the process of the real convergence, the simple division on the principle of «the developed countries and the rest» does not give the desired result while the assessing of the economic substance of the correspondence between the institutions and the rate of deviation from PPP. To define the clusters which bring together these countries, the data from Fig. 3 is selected. It is for the third case, the lowest density of connection is observed. This will enable avoiding the revaluation of the results of the cluster division when applying the data, between which the density of connection is higher.

According to the variation of the quality of institutions under of Davos Forum sub-index and the degree of deviation of exchange rate from the PPP five clusters are identified.

The first cluster involves the group of the developed countries with the most overvalued rate (the ratio of PPP to the value of the nominal exchange rate exceeds 1.3), (Australia, Austria, Denmark, Finland, Sweden, Switzerland and Norway). The average value of deviation from the PPP is 1.39 with an average sub-index index of the global competitiveness – 5.56.

The second cluster represents the countries with the moderate overvaluation (respectively 1-1,29). These countries are: Belgium, Canada, France, Germany, Iceland, Ireland, Italy, Spain, Israel, Japan, New Zealand, Netherlands, United Kingdom, USA, and Luxembourg. The corresponding average values are 1.2 and 5.1.

The third cluster involves the developed countries with the undervalued rate concerning PPP, likewise the countries – new EU members of the first wave. The specificity of this group of countries is that they all are about at the same level of GDP per capita and the within the last period of time they are strongly influenced by the process of the real convergence. The average values of the relevant indicators are 0.8 and 3.95.

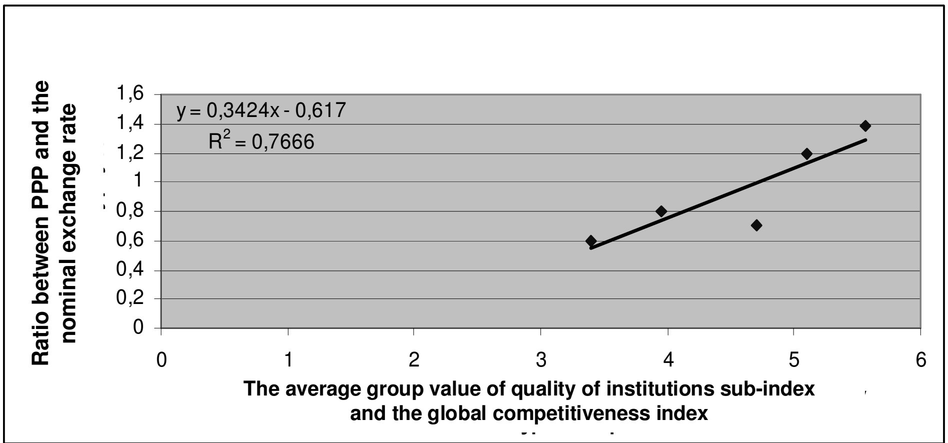
The fourth cluster connects the countries with the emerging markets in which the undervalued exchange rate concerning PPP is observed, but which are characterized by the relatively strong institutions whose quality exceeds the similar characteristics of the developed countries like Italy and Greece. This group includes the traditional Asian and Latin American leaders on the implementation of the high standards of the institutional economics organization, as well as the range of countries which actively introduce the structural reforms. This group includes Singapore, Hong Kong, Taiwan, Malaysia, Korea, Turkey, South Africa, Chile, China, Uruguay, Montenegro, Georgia, Azerbaijan, Kuwait, UAE, and Saudi Arabia. The average values of the indicators are 0.7 and 4.7.

The fifth cluster shows the similarity between the rests of the 82 countries, which includes countries with the different GDP level per capita. They are: Romania, Bulgaria, Serbia, Macedonia, Croatia, Ukraine, Belarus, Russia, Kazakhstan, Uzbekistan, Armenia, Moldova, Mexico, Peru, Argentina, Colombia, Brazil, Ecuador, Paraguay, Venezuela, Thailand, Indonesia, Philippines, Vietnam, India, Algeria, Tunisia, Egypt, Ethiopia, Central African Republic, Kenya, Tanzania, Senegal, Pakistan. This group is the most homogeneous in economic, social or political positions. These countries are combined by the most undervalued rate concerning PPP and by the lowest institutional quality, which is reflected in the average group values of the relevant indicators: 0.6 and 3.4.

Introduction of the average group values into the regression model speaks about the direct and close connection between the quality of institutions and the degree of the exchange rate deviation from PPP (Fig. 4).

Figure 4

Quality of institutions and the ratio between PPP and exchange rate, Average data for the group of countries



Note1. On the basis of the Figures 1–3.

As it is evident from the nature of the data dispersion (Fig. 4), only the countries of the fourth cluster fall beyond the borders of the explicit dependence, which can be summarized as follows: the higher quality of the institutions is, the more countries are able to maintain the overvalued exchange rate concerning PPP, reaching the high standards of living; the lower the quality of institutions is, the more countries are ready to compensate the undervalued exchange rate concerning PPP, limiting the possibilities of the progress in the sphere of social standards by means of considerations concerning the global competitiveness maintaining.

The comparison of the previously analyzed indicators with the average rates of the economic growth in 1995–2004 and 2012 within the framework of each cluster (such a time period excludes the distortion of the results, potentially provided by the influence of the pre-crisis overheating of the global economy and after the crisis and rapid recovery in response to the stimulating action) also points to the conclusion that the impact of the quality of institutions and the exchange rate deviation from PPP on the GDP growth dynamics can be considered the same according to the direction but different in nature. Data in the Table 1 confirm this fact.

Table 1

The average value of the quality of institutions sub-index of global competitiveness, deviation from PPP and economic growth in term of 5 cluster's

	GDP growth, %		Indicator of the quality of institutions	Indicator of exchange rate deviation from PPP
	1995–2004	2012		
First cluster	2,8	1,3	5,56	1,39
Second cluster	3,3	0,7	5,1	1,2
Third cluster	4,3	0,2	3,95	0,8
Fourth cluster	4,6	3,6	4,7	0,7
Fifth cluster	3,5	3,2	3,4	0,6

Note 1. On the basis of:quality of institutions sub-index and the global competitiveness index – World Economic Forum Global Competitiveness Report, 2012; ratio between PPP and the nominal exchange rate – World Development Indicators of the World Bank statistical basis (www.world.bank.org); GDP growth – IMF World Economic Outlook for the corresponding period (www.imf.org).

Analyzing the data from the Table 1 you can identify the following regularities. First. The highest rates of the economic growth both in 1995–2004 and in the year marked by the emergence of the features of the global recession, is observed in the group of countries with emerging markets (4 cluster), which are the most advanced in the area of the structural reforms and the formation of the high-quality institutions. For the noted group of countries the institutional quality is specific, it is higher than in the countries covered by the process of the real convergence within the integration process in the EU. For the fourth cluster countries the most undervalued nominal exchange rate concerning PPP is not observed. So it is for the countries of the fifth cluster. This confirms the assumption that maintaining of the high rates of economic growth in the new global environment can not be based only on the manipulation of the exchange rate. The monetary incentives of growth might be enough vulnerable to the endogeneity of the real exchange rate behavior. In contrast, the institutional quality is an inherent component of strengthening of the competitiveness on the permanent but not transitive basis.

Second. The countries combined by the fifth cluster show clearly stable growth rates than before the crisis, even under the lowest institutional quality. To some extent, this reflects the standard assumption of the neoclassical models that countries with the lower GDP per capita should increase faster. However, to achieve the above mentioned it should be attributed to the most undervalued rate concerning PPP. Despite the fact that the group average growth rates of these countries is somewhat higher than in the developed countries, they are inferior to those that occur in the countries with high quality institutions. This means that the failure to achieve the economic growth, supported by the leaders in economic development is associated with the lack of institutional quality. Similarly, a diminished rate leads to the development of the traditional sectors with the comparative advantage, which makes exports vulnerable to the fluctuations in the global market conditions, restraining the development of the internal market due to the lack of demand, limiting the investment into the human capital and weakening the incentives to innovations. The combination of the weak institutions with the low income per capita is cemented by the incentives for the economic growth sideways the undervalued rate that slows the economic development even under the GDP growth.

Third. Group of countries covered by the third cluster showed relatively high rates of economic growth in the pre-crisis period. The average value of GDP growth for 1995–2004 ceded only the countries with emerging markets with high-quality institutions. However, after the crisis, the growth rate slowed rapidly and this group shows the worst result, despite the fact that the level of the institutional development on the average exceeds that one which occurs in middle and low income (fifth cluster) countries. Such regularity is possible to explain on the problem of the combination of the real convergence process with the loss of competitiveness. Even under the slight underevaluation rate concerning PPP, the rapid convergence of income promoted the economic growth in an environment of the rapidly growing global economy. But as soon after the crisis, the global GDP rate slowed down, the real convergence of the preliminary stage began to push aside the loss of the competitiveness. Quite limited possibilities of the exchange rates reduction (Portugal, Greece, Slovenia, Slovakia, Estonia – Euro zone members, the EU countries of the first wave face with the continued flow of capital (the specifics of this fact, compared with the other countries of the similar levels of development is presented in (Abiad et al., 2007)) does not compensate for the loss of competitiveness caused by the growth of real income at the stage of the rapid development. At the same time, the structural reforms in this group of countries, inspired by the aspirations for the deeper integration with the EU economies and flexibility increase in order to improve the effectiveness of membership in the euro area, show that the restoration and permanent maintenance of the global competitiveness is found not so much in the underevaluation of the exchange rate concerning PPP, as in the development of the appropriate institutions that would guarantee a high propensity to innovation, human capital and minimize the cumulative transaction costs in the economy.

Fourth. The most developed countries (cluster 1–2), as predicted by the neoclassical theory of increase, during the analyzed periods showed the slower rates of GDP growth. This is hardly a surprise, despite the high quality of institutions. But given the fact that the majority of them has a certain preconceived exchange rate (the payment surpluses are targeted by many countries with the emerging markets that directs capital on the financial markets of the developed countries) the overvalued exchange rate concerning PPP did not stop growth. The quality of institutions was the fundamental basis of the innovative development, which compensates the pressure on the global competitiveness by the overvalued exchange rate concerning PPP. This is especially peculiar to those countries where there is the greatest deviation upside of purchasing power parity.

Despite of the significant rate overvaluation the growth rates prior to the crisis in the first cluster are not significantly worse than in the developed countries of the second cluster, and after the crisis – tended to be higher. This regularity can be explained by the fact that perhaps the quality institutions restrained the procyclicality, being an additional factor of flexibility and investment involvement into the innovative sectors after the crisis. The analysis of the structural reforms in the Nordic countries (Eklund, 2011; Berggren et al., 2011) argues that the creation of the high-quality institutions oriented on the incentives for innovation development, human capital, economy's flexibility and adaptability to shocks fully offset the overvaluation of the rate concerning PPP and a high level per capita income, the monetary impacts on the global competitiveness head for back.

Fifth. The grouping of the world countries concerning the quality of institutions demonstrates the lack of the regional homogeneity. The established view on the combination of the globalization and regionalization is rather a continuation line of the analysis of the integration processes political economics when the geographically close communities demonstrate the formal commitments to deepen the multilateral cooperation. However, the significant intraregional differences are increasingly inspired by the fact how the institutional quality becomes an incentive for economic development and the attraction of the global capital. The advantages and benefits of the regional integration, in spite of the their equal distribution between the participants, will be made actual where will take place not only where the price competitive advantage occurs, supported by an undervalued exchange rate concerning PPP but also where there will be a benefit on the side of the quality of institutions. That means that the strengthening of the asymmetries within the frames of the formalized integration associations is not limited only to the centrifugal forces within the axis of the «center-periphery» and evolves towards the institutional competition. In terms of the global economy it means that in the world the fragmentation not on the geographically but by an institutional basis will not prevail. The leaders in the institutional competition will form the new centers surrounded by the geographically close periphery of the institutional outsiders.

Conclusions. The global monetary relations within the frames of which some countries target the payment surpluses while others adapt to the external demand for their assets transformed the system of the global competition. The limited capacity of the balance of payments adjustment based on the monetary approaches require the creation of a new model of the global competitiveness maintaining. The traditional division of countries into the developed countries with the over evaluated or close to PPP rates, and countries with the low and middle-income with the low rates does not account the striking differences in the degree of the deviation and that endogeneity of the real exchange rate is not always confirmed. The quality of institutions as an expression of the capital attracting, incentives for innovation, growth in the value of the human capital and minimization of the cumulative transaction costs should offset the competitive pressure generated by the countries with the low and middle incomes which conduct the monetary policy of mercantilism. At the empirical level it is revealed that the quality of institutions is in the directly exponential / linear dependence of the degree of deviation from PPP rate.

Differences in the quality of institutions in the context of the similar levels of economic development has revealed five clusters which bring together countries concerning the quality of institutions and the degree of deviation from PPP rates. The undervalued rate corresponds to the low quality of institutions, compensating for the lack of the latter to stimulate the economic growth, while the excessive rates correspond to the high quality institutions that compensate for the competitive pressure and help to sustain the global competitiveness based on innovation. The highest rates of the economic growth are observed in the countries with quality of institutions, but with somewhat undervalued rates. The countries covered by the strong real convergence, are faced with the challenge of competitiveness maintaining, and therefore undertake the reforms aimed at improving of the quality of institutions. The developed countries are able to sustain the growth even in the unfavorable global monetary surrounding by means of capital attracting in the innovative sectors sensitive to the institutional quality. The significant intraregional differences are formed by means of the gaps in the quality of institutions. This means that the fragmentation of the global economy will be under the institutional principle. The institutional competition will become the basis for the formation of a new «center-periphery».

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European Economy

Sergii VOITKO

EXTERNAL DEBT OF THE EUROPEAN UNION COUNTRIES AND UKRAINE WITHIN THE SUSTAINABLE DEVELOPMENT COORDINATES

Abstract

Existing scientific research works regarding external debt had been analyzed. Analysis of the positions of Ukraine and European Union countries on the coordinates of the Quality of life index, Safety of life index, and Sustainable development index grids has been conducted based on the 2012 data with consideration of the external debt of the respected countries. It has been proved that the European Union countries with substantial amount of external debt present somewhat better results in Quality of life index than they do in Safety of life index. A high level of Quality of life index has been noted among the majority of the EU countries along with significant amount of the external debt per citizen. The presence of the the «gravity» effect has been proved for the neighboring countries, which has been reflected by similar values of the complex indicators, quality of life and safety indexes. High value of the correlation coefficient between the Economic dimension index and Sustainable development index has been revealed; this also proved external loans as influence on better performance of the values of both of the indexes.

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Key words:

European Union, external debt, Quality of life index, Safety of life index, Economic dimension index, Sustainable development index.

JEL: H81, F50.

General formulation of the problem and its connection to important scientific or practical objectives. External loans are a worldwide-accepted means of support and development of national economics National debt is formed by the emergence of the liabilities that follow taking out credit from foreign countries, international organizations and financial banking institutions, carrying out state loans on international financial markets and national external securities regarding private entities' debts coming into effect (Oparina, 2009). Gross external debt also acts as one of the mechanisms of increasing the level of quality of life of the people of a country. Its level (gross value and per capita value) and the expediency of its use are defined by the significant current macroeconomic indices though. On the other hand, the consequences of the «debt loop» can turn out as unexpected for the country.

The topicality of stated problem for national economy is precisely confirmed by the fact that as on the July the 1st, 2013, gross external debt has been estimated as 134,4 billion USD (National Bank of Ukraine), and the GDP of the first half-year of the 2013 (National Bank of Ukraine) was estimated as 653,5 billion UAH. Through the extrapolation onto the current year, we get GDP of 2 x 653,5 = 1307,0 billion UAH. The GDP may gain the value of over 160 billion USD if presented in dollars equivalent. In this case we get the gross external debt of approximately 80% to GDP (under condition that these indicators stay unchanged during the current year).

The analysis of the latest research and publications, which initiated the resolution of this problem and which the author is taking as a basis, determination of the previously unsolved elements of the entire problem, to which this article is being dedicated. National debt is formed by the emergence of the liabilities that follow taking out credit from foreign countries, international organizations and financial banking institutions, carrying out state loans on international financial markets and national external securities regarding private entities' debts coming into effect (Oparina, 2009). External debt obligations within the system of world finance and economic relations are duly described in (Vakhnenko, 2006). Ukrainian Budget Code states that «debt promissory – is a borrower's liability to the lender for a credit (loan), that emerged as a result of loan securities emission and/or loan agreement settlement» (Budget Code of Ukraine, 2010).

Systematic research in the external loans domain has been in the active scientific pursuit since the 1998 economic crisis. This resulted in the Russian monograph (Golovachev, 1998) appearing in the early 2000, Ukrainian works (Kozyuk, 2000; Zaverukha, 2006) of the latter period, modern scientific studies having been developed based on the Eurozone crisis (for example, in Greece (Petrakis, 2012)).

In short-term perspective, engaging financial resources may be regarded as rather effective means of temporary cover of the budget deficit, balance of payments and as a solution to other prevailing present problems of national economy (Helpman, p. 24). In long-term perspective, «living in debt» usually proves itself as an unfavorable means of supporting countries' economies and, a fortiori, the aforementioned shall not contribute to their development, to wit, shall interfere with the GDP growth, realization of the export potential etc. At the worst, it may cause negative consequences such as default of a country.

Note, that a tendency to a growing dependence of debtor countries from external loans is being monitored since new loans are being given out in line with the presence of the previous unpaid credit obligations; cases of debt restructuring are being observed. That is, ineffective application of the external loans mechanism may lead to so called «promissory development», which implies the necessity to constantly «pour in external loans» in order to continuously uphold the economies of the countries with funds, that are directed on solving short-term problems.

One of these problems is debt repayment for the credit «body» payment and its interest. In some cases the funds are engaged in the form of a credit in order to repay that very credit. And this, in the first place, settles current liabilities of a specific country, while the matters of strategic tasks funding remain unresolved. That is, the amount of future debt shall exceed the country's ability to maintain it. And the due debt service expenses shall be in the way of the ensuing national and foreign investments (Paul R. Krugman, 1988; Sachs, 1989), which, hence, further hampers the economic growth and the debt liabilities repayment feasibility.

The unresolved part of the problem is that engaging external loans is, on one hand, means of the country's development, raising its certain macroeconomic indices and as a result, the quality of life of its people, and, on the other hand, a possibility of acquiring negative consequences under specific circumstances of irrational utilization of the funds engaged.

Formulating the aims of the article (mission definition). The hypothesis is being proposed that there is a solid connection between the debt obligations and indexes and indicators of sustainable development, which hence has caused the statement of the corresponding missions.

The mission of the given article is: investigation of the location of Ukraine and the countries of the European Union within the coordinates of the Quality of life index, Economic dimension index, Sustainable development index and External debt index (gross and per capita). The statements expressed have been based on the analysis of the countries' positions in the coordinates of the forenamed index and indices and the mutual positions of the countries. The array for the study was formed built upon the databases of the World data centre of geo informatics and sustainable development (World data centre of geoinformatics and sustainable development), World Bank (World Bank official website) (for the EU countries) and (National Bank of Ukraine) (for Ukraine).

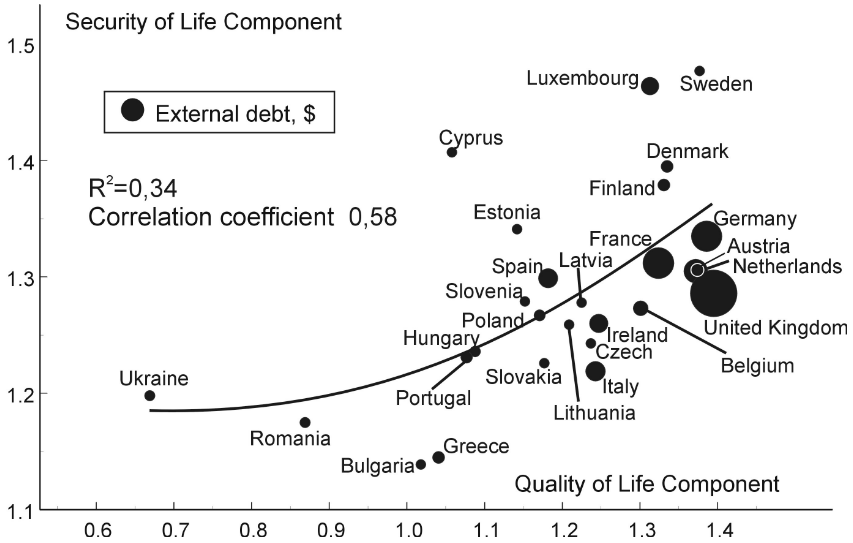
The methodological basis of the research is a complex approach to aggregation of macroeconomic and integral indexes that characterize objects such as countries in order to collate their positions according to the chosen indices and index. In order to determine the level of similarity of the countries the method of determining the distance between the points through the $S_{ab} = \sqrt{(I_{QLa} - I_{QLb})^2 - (I_{SLa} - I_{SLb})^2}$ formula has been chosen. With the smaller values of S_{ab} one gets a higher similarity between the *a* and *b* countries within certain coordinates of the sustainable development indexes and indicators.

Systematic approach is used to determine the regularities in the allocation of the countries according to the chosen indices in the determined coordinates. The core conditions are provided in (Sustainable development analysis – global and regional contexts, 2010, pp. 9–11), in which the methodology of the sustainable development evaluation in context of the quality and safety of human life is duly stated.

The prime research material statement along with full justification of the acquired scientific results. The allocation of the European Union countries and Ukraine on the coordinate planes of the Quality of life index and the Safety of life index according to the year 2012 data is presented on figure 1. Graphic circle space additionally denotes the amount of the external debt for the countries hereinafter.

Figure 1

Visualization of the allocation of the European Union countries on the coordinate grid of the Quality of life index, Safety of life index and the amount of the external debt (according to the year 2012 data)
(World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)



Based on the results of the countries' position analysis within the coordinates determined above, we get somewhat divergent groups. Note, that Ukraine is significantly distant from other European Union countries in the matter of Quality of life index. On the other hand, it outranges Bulgaria, Greece and Romania in regards of the Safety of life index. It is worth mentioning that the countries with significant amounts of external debt obtain much better positions within the Quality of life index in comparison to the Safety of life index. It is explained by the fact that external loans are directed towards providing the needs of infrastructure, which raises the level of quality of life of the people of the country. Thereafter, external liabilities are responsible for a certain downturn of the economic safety level, hence the Safety of life index.

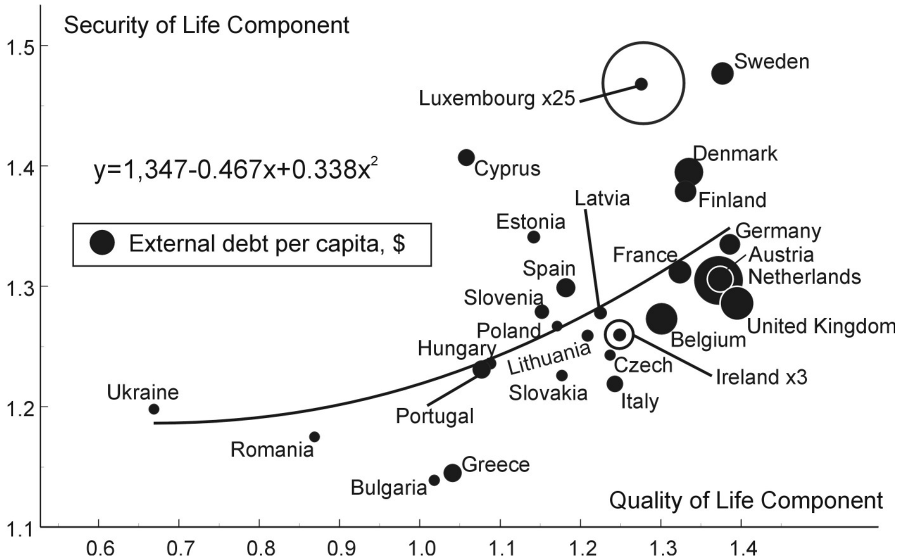
Note that Greece and Cyprus are on the same level in terms of the Quality of life index. However, the Safety of life index distances the two on a significant scale (according to the index value – it is approximately 0, 25). In this case in has to be taken into consideration that the data is collected for the year 2012 and in that period Greece has already been in the state of a crisis for quite some time, while Cyprus has experienced this crisis state only after March 2013. It is worth mentioning that Greece is neighboring Bulgaria, which already lives an ongoing crisis that took its expansion in rallies of March and July 2013.

It has to be noted that the Benelux (Belgium, Netherlands, Luxemburg) and the Baltic (Latvia, Lithuania, Estonia) countries are densely situated on a narrow value section within the Quality of life index. European countries, that constitute the G7 (Great Britain, Italy, Germany, France) are also densely grouped within the two given indexes. These exact G7 countries are the ones with significant amounts of external debt.

For a more meticulous examination of the consistent patterns of the countries' allocations within the coordinates of the Quality of life index and the Safety of life index, a visualization (figure 2) including the composite indicator – external debt per capita – has been elaborated.

Figure 2

Visualization of the European Union countries' positions on the coordinate grid of the Quality of life index, Safety of life index, and the amount of the external debt per capita (according to the year 2012 data)
(World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)



According to the analysis of the allocation specifics of the countries in the coordinates chosen (given the composite indicator per capita) one should outline certain consistent patterns. Thus, it is distinctly signified that the majority of the countries with substantial external debt per capita possess a high Quality of life index level. Over 1,24 in Italy with max of 1,48 in Switzerland (the latter is extracted from the visualization since it is not a European Union member). This being said, it has to be added that this countries also comprise a group of high level Safety of life index (from 1,22 for Italy to Sweden – 1,48, with a maximum of 1,53 for Australia).

Thus, according to the results of the analysis, it has to be noted that: external loans have enabled the majority of the European Union countries to acquire high levels of both quality and safety of life. However, certain countries, possessing mediocre external debt per capita values (Cyprus and Greece), have chiefly entered a state of crisis, which has been reflected on socio-economic stability of these countries. Countries which possess relatively low external debt per capita values are mainly located in the «centre» of the given coordinate grid. These include Latvia, Lithuania, Estonia, Slovenia, Poland, Czech Republic, Slovakia, and Hungary. Somewhat «remote» positions are held by countries such as Romania, Bulgaria and Ukraine. By the way, Romania and Bulgaria have entered the European Union only in 2007. Approximately the same level of the Safety of life index does Ukraine hold with these countries.

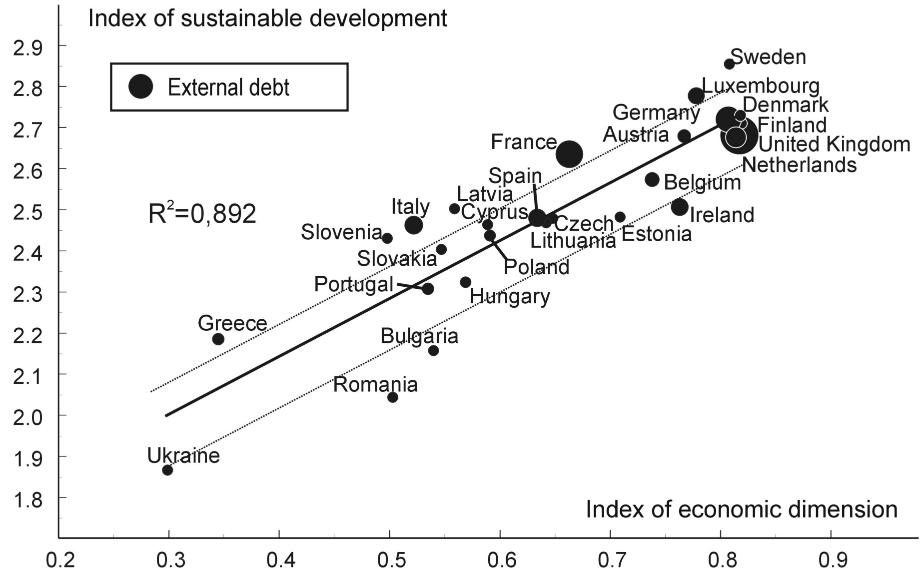
Note, that the obvious «gravity effect» can be observed, which proves that the neighboring countries are close to each other not just through geographical aspects and sharing the same borders, but also through similar values of the composite indicators: Quality of life index and Safety of life index. For Ukraine, indices values-wise neighboring countries are Bulgaria and Romania, for Czech Republic and Slovakia – Poland, Germany is close to France, Sweden and Finland hold Denmark in between index coordinates-wise etc. The Benelux and Baltic countries have already been discussed above.

The generalization of the economic, social and ecological elements, which reflect the components of quality and safety of life, is conducted with the help of sustainable development methodology. This kind of generalization is reflected in the value of the Sustainable development index. For the European Union countries and Ukraine the allocation of the countries within the coordinated of the Sustainable development index is presented on Figure 3.

Analyzing the allocation of the countries on the given coordinates used in the study, it has to be noted that all the points are «built» in the narrow corridor (±0,5 from the min/max of the trend) towards the ascending indexes. Thus the countries possess a significant level of influence of the economic element on the Sustainable development index; the correlation coefficient for these countries within given indicators is estimated 0,892. As for the amount of the external debt, notice that the countries with the substantial debt amount can boast better values of both indexes. The aforementioned is further manifested when presenting the amount of the external debt per capita, figure 4.

Figure 3

The allocation of the European Union countries and Ukraine on the coordinate grid of the Economic dimension index, Sustainable development index, and the amount of the external debt (according to the year 2012 data) (World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)

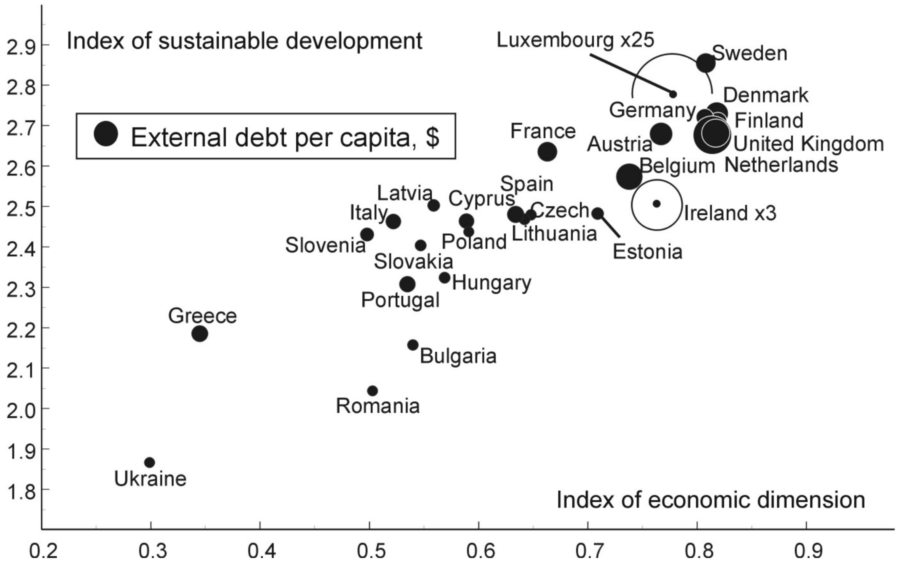


Regarding the Economic dimension index, all of the countries, starting with France and except for Estonia, show higher values of the index indicator. They also present a significant amount of external debt per capita. However, France appears to be the «central» state among the biggest debtors of the European Union according to the Sustainable development index.

In order to define the peculiarities in regards to the amount of the external debt per capita and the Sustainable development index, fig. 5 presents the visualization that shows the absence of any significant relation of the amount of the external debt per capita to the Sustainable development index among the stated countries.

Figure 4

The allocation of the European Union countries and Ukraine on the coordinate grid of the Economic dimension index, Sustainable development index, and the amount of the external debt per capita (according to the year 2012 data)
(World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)

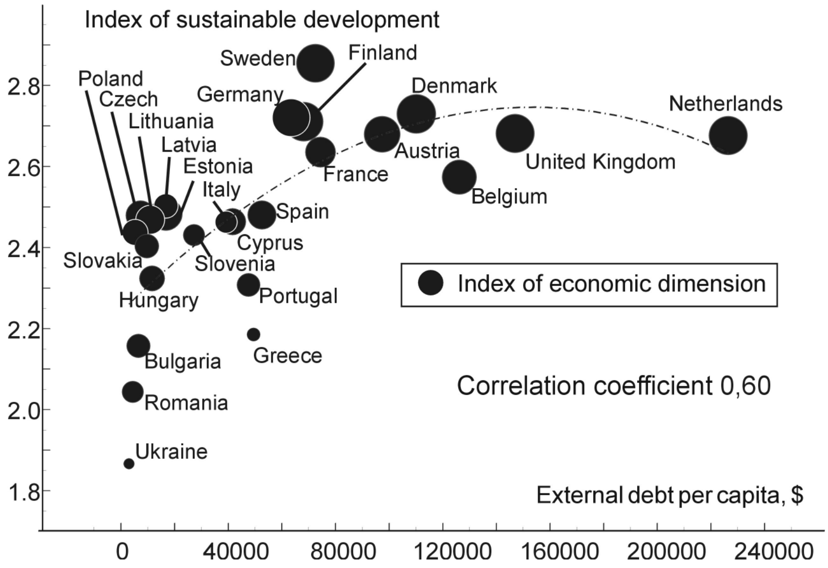


But, according to the «density» of the big circles in the top section (the significant level of Sustainable development), it can be once again confirmed that the economic component in particular defines the sustainability of the countries' development, and the fact that the bigger circles are allocated in the top center and top right section reflects that significant amounts of external debt per capita provide the country with economic development.

Fig. 6 visualizes the allocation of the European Union countries and Ukraine on the coordinate grid of the Sustainable development index. The external debt scale is presented in the logarithmic caliber for visibility purposes.

Figure 5

The allocation of the European Union countries and Ukraine on the coordinate grid of the Sustainable development index, and the amount of the external debt per capita, the Economic dimension index has been additionally provided (according to the year 2012 data)
(World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)

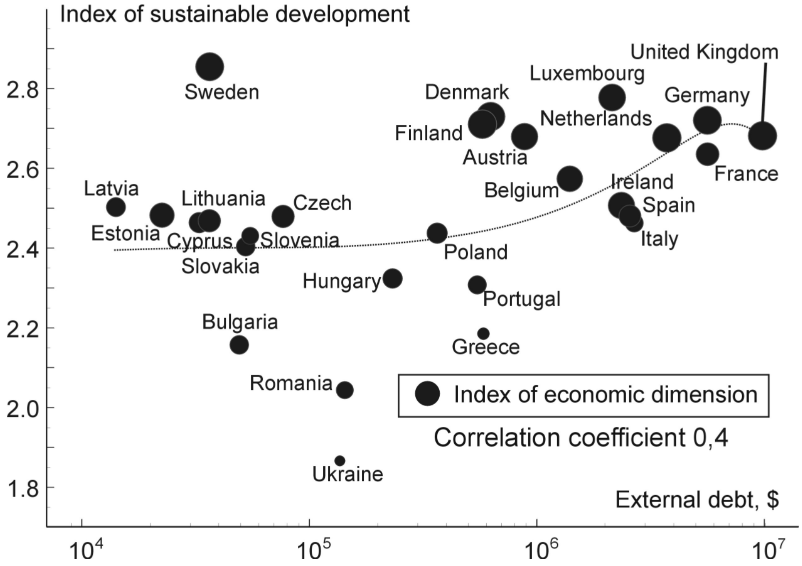


Exactly through the analysis of such an allocation of the countries in the expanse of external debt (absolute value per country) and the Sustainable development index, the possibility to evaluate, with minor correlation coefficient level, the impact on the development of foreign loans of the European Union countries, which specifically belong to the «Great Seven»: Great Britain, Germany, France and Italy. The aforementioned countries possess the highest levels of external debt.

Thus, for the dynamically developing on a global scale union of countries, the European Union, it is worth noting that, for this group, external loans are the key to success in economic development and in Sustainable development index development.

Figure 6

The allocation of the European Union countries and Ukraine on the coordinate grid of the Sustainable development index, and the amount of the external debt, the Economic dimension index has been additionally provided (according to the year 2012 data)
(World data centre of geoinformatics and sustainable development; World Bank official website; National Bank of Ukraine)



Conclusions from this study and perspectives for further research in the area. So, abstracting the aforementioned, let us outline the following:

1. Based on the 2012 values of Safety and Quality of life indexes it has been proved, that the countries of the European Union with significant amount of external loans have had much better indicators of the Quality of life index compared to the Safety of life index. The aforementioned is explained by the fact that the borrowed funds are directed towards the quality of life enhancement, with subsequent recession of the economic safety and hence – the value of the Safety of life index.

2. Under the use of the given indicator it is noted that the majority of the European Union countries with significant amount of external debt per capita possess a high level of the Quality of life index.

3. Based on the review of the mutual allocation of the countries within the given coordinates, «gravity» effect has been proved present and has subse-

quently confirmed that the neighboring countries have similar values of the composite indicators, quality and safety of life indexes.

4. During application of the complex composite indicator that comprises economic, social and ecological components (Sustainable development index), a rather high correlation coefficient (0,892) of the index mentioned with the Economic dimension index has been determined and it has been proved that external loans benefit the upturn of both indexes.

5. Based on the results of the allocation of the European Union countries and Ukraine on the coordinate grid of the Sustainable development index and the amount of the external debt it has been proved that the countries of the European Union that belong to the «Great Seven» possess the highest levels of external loans in absolute values and are simultaneously characterized by a high Sustainable development index.

Scientific innovation: methodical approach to determining the influence of external loans (gross external debt) on the allocation of the countries within the coordinated of the Quality of life index, Safety of life index, Economic dimension index, Sustainable development index and the amount of the given debt (gross value and per capita) in order to compare the positions of the countries with regard to the indicators and indexes above.

Practical significance of the research results: the application of the results obtained reveals the potential of utilizing external loans in order to increase the Quality of life, Economic dimension and Sustainable development indexes and, possibly, decrease the safety of life index for the European Union countries and Ukraine.

Areas for further research: it is important to determine the functional relations of the amount of external debt influence on the characteristics of the dynamic effects, that are possible for the values of Quality of life index, Safety of life index, Economic dimension index and Sustainable development index given the stability of the economies of these countries.

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Regionalization

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SMART SPECIALISATIONS IN REGIONAL INNOVATION ECOSYSTEM

Abstract

In times of economic crisis creating new kinds of advantages remains a key task which determines a quick recovery from economic difficulties as well as whether the fast socio – economic development of the country is achieved. These advantages should be based on the use of knowledge, intellectual capital and abilities of the state and local self governments' structures to support and establish conditions for the innovative development of the country and its regions. RIS is a public policy instrument whose guidelines are directed at a priority of the innovative development. The paper presents both the methodical foundation for building the regional innovation strategy and vision for the development of an innovation ecosystem in Region.

Key words:

National innovation system, regional innovation strategy, innovation ecosystem.

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JEL: O31, O32.

The global economic crisis have led to a situation in which Europe in order not to lose its political and economics position in the world has to face up to such challenges as globalization, growing demand for limited resources, aging societies, dynamic development of competitiveness of emerging countries. To cope with them United Europe accepted the Flagship Initiative Innovation Union, which is a part of Europe 2020 strategy. It involves a broad strategy for development of innovations. Thanks to them priorities of intelligent and sustainable development, which were set in Europe 2020 document, will be accomplished. The role of smart innovations, which is included in Europe 2020 strategic framework, was also emphasized in document summing up the Flagship Initiative Innovation Union that was prepared by the Council of the European Union. The Council stresses smart specializations concept and an arising state of affairs when given Regions take an advantage of their strong points. The idea of smart specializations lays foundations of fixing national priorities and regional innovation strategies as well as transnational cooperation in accordance with circumstances (Bondaruk, 2013). As a consequence, smart specializations become a key element determining future economic status of European countries in the world.

Modern and effective innovation policy is of great importance for building of innovation system that is an element of knowledge-based economy. The innovation policy is one of the youngest fields of economic policy. It is a tool of a state that serves to influence processes of socio-economic development in a sphere of broadly defined supporting and developing of innovations. It manifests itself in different kind of innovation strategies and policies that are made and implemented actually in all developed countries in the world. They are being prepared and accomplished at the different levels of management, which is why they have different forms as well as contain a wide range of topics. The term was introduced by Ch. Freeman who defined National Innovation System as «network of cooperating institutions in public and private sector whose activities and interactions initiate import, modification and diffusion of new technologies» (Bendyk, 2010). Both the term «National Innovation system» and approach towards these systems have evolved for 20 years. However, the necessity of analyzing of environment (herein an issue of innovation policy is included) that has an impact on innovativeness of enterprises was being emphasized all the time. Nowadays Ch. Edquist approach is used to define national innovation system (Brzóska, 2010). He proposes a more open definition. It includes all important economic, social, political, organizational and institutional factors as well as some others that influence development, diffusion and making use of innovations. In this context innovation policy should support and initiate activities that involve innovation management in enterprises by means of different instruments, e. g. consulting or training.

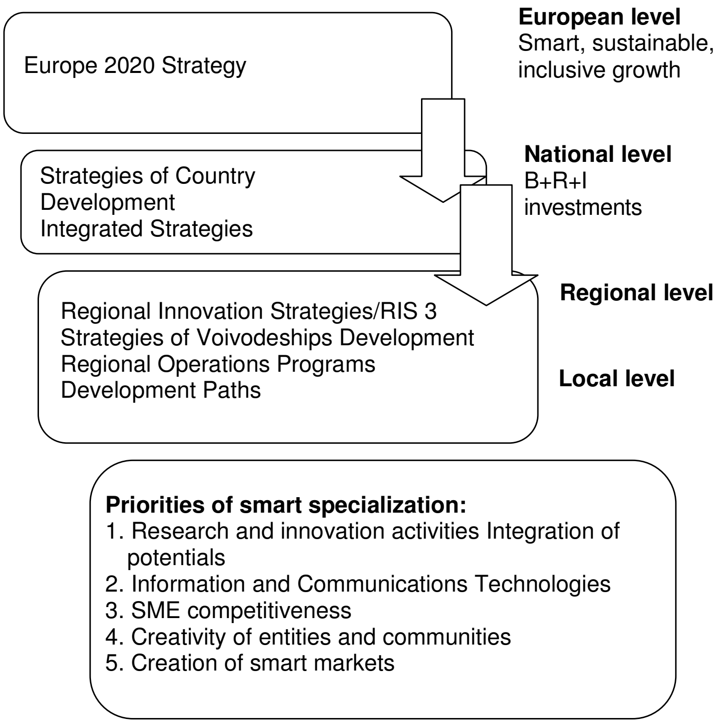
Innovation policy may also be defined as a set of activities which aim at supporting an implementation of results of scientific research, new knowledge achievements, inventions and other improvements into economic practice. In addition to this it comprises governmental programs, tools, mechanisms and measures – all of them are used by a state in order to directly or indirectly influence the level of innovativeness of given entities, sectors as well as they have an impact on shaping innovative economic structure (Brzóska and Pyka, 2012). The tools, which are used while innovation policy is carried out, can be divided on following categories:

- demand categories – they comprise government buying and contracts concerning new products, processes, services and research works;
- supply categories – they comprise technical and financial support for companies that make an effort to innovate, herein such elements like creating of scientific and technical infrastructure, education system, credits system and subsidies;
- environment shaping categories – they comprise such elements having an impact on enterprises as taxes, patents regulations, antitrust law, regulations concerning environment protection;
- institutional categories – they involve setting up as well as supporting institutions of technology and innovation transfer, science parks.

The abovementioned tools of innovation policy are used by a state to influence innovativeness of enterprises. It is justified to say about four levels of conducting research on both innovation policy and pursuing of it in European Union countries. These are policies led on union, national, regional and local level (Figure 1).

Figure 1

Current priorities of scientific, development and innovation policies



Source: Prepared on the basis of (Bondaruk, 2013).

1. European outlook on innovative development

The key document that sets mid-term European Union strategic outlook is «EUROPE 2020. A strategy for smart, sustainable and inclusive growth» (David, 2007). Europe 2020 puts forward three mutually reinforcing priorities:

- smart growth: developing an economy based on knowledge and innovation;
- sustainable growth: promoting a more resource efficient, greener and more competitive economy;

- inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.
- Focus on these priorities should let achieve by 2020 following targets:
- 75 % of the population aged 20–64 should be employed;
- 3% of the EU's GDP should be invested in R&D;
- the «20/20/20» climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right);
- the share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree;
- 20 million less people should be at risk of poverty.

Having analyzed priorities and targets more thoroughly, one can show that they are mutually reinforcing. The development of economy repleted with innovative solutions leads to savings of resources. Consequently, competitiveness and environmental protection are improved. An increase in employment rate causes the improvement in life quality and decrease in poverty rate. In the document it is emphasized that «country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response». In the light of these arrangements, a statement saying that «at national level, Member States will need to reform national (and regional) R&D and innovation systems to foster excellence and smart specialization» proves that European Commission is highly determined to create conditions suitable for innovative development of European Union. The economic crisis makes evident structural weaknesses of Europe. Low growth rate, weak financial conditions of states and economic system, aging society as well as weak inclination to bear costs of crisis can be regarded as sufficient impulses to changes. In order to recover from the crisis Europe needs distinctly outlined development strategy based on innovativeness.

Each country and region is obliged to indicate domains, branches and fields of its specialization in the scope of created development strategies. Their preparation determines access to structural funds in European Union financial framework 2014–2020. European Union expects national and regional authorities to elaborate research and innovation strategies for the benefit of smart specializations and in order to take an advantage of structural funds in a way that will be more effective. Additionally authorities should aim at improving synergies among different union, national and regional policies as well as investment projects with foreign capital and public funds.

2. National innovation system – structure and weaknesses

A competition that is becoming more and more intensified and often has global scope leads to increasing importance of knowledge-based economy, the important constituent element of which is innovation system. It comprises broadly defined innovativeness of enterprises, research centers, universities, consultants, other pro-innovative organisations, as well as innovation policy that makes it possible to tap into growing global knowledge resources and next to assimilate them and adapt to local needs. Thanks to it new technologies can be devised. Nobody undermines the importance of the growth (or even of growth imperative) of innovativeness of Polish economy.

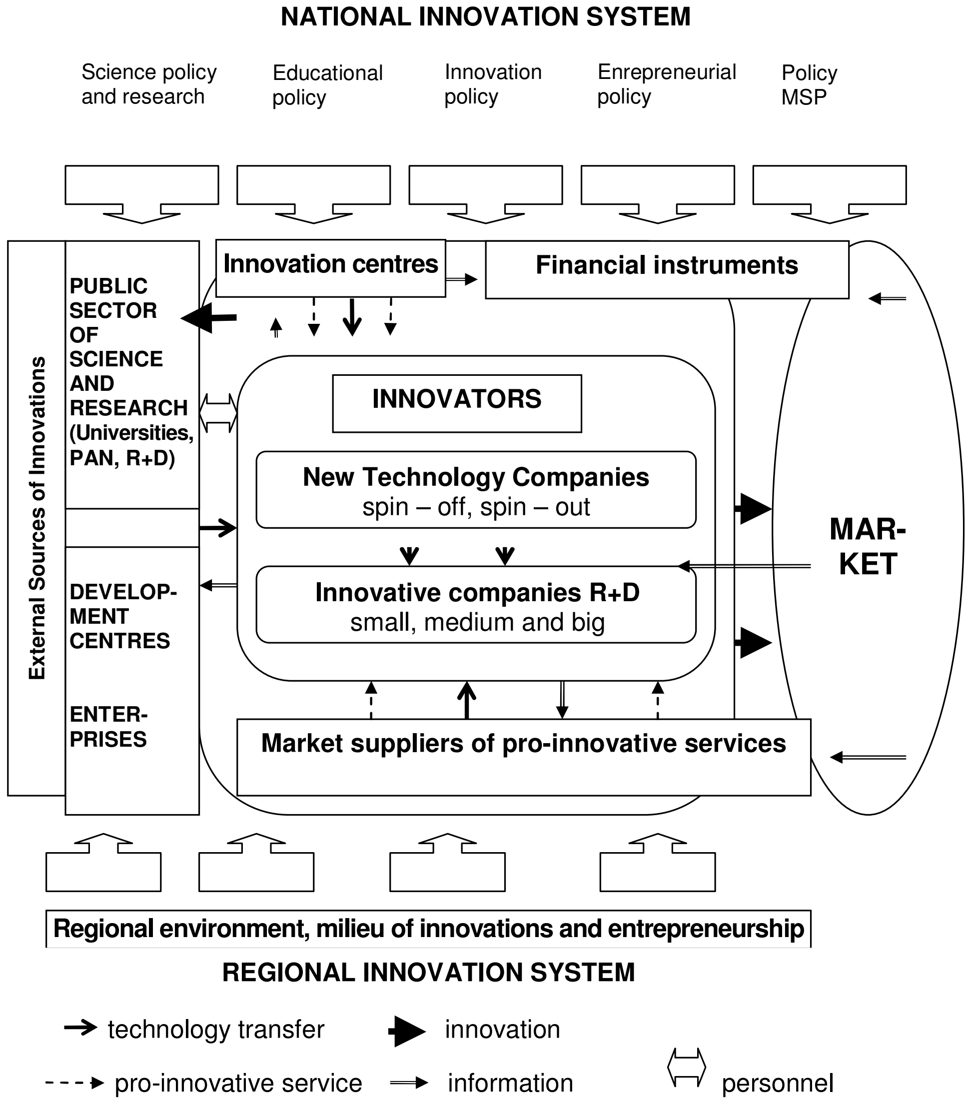
«Terminology of innovations» is almost ubiquitous and has become one of these words that are used in many spheres of economic and social life. It seems that much more difficult than accepting a need for growth is to stimulate to search for effective methods and instruments by means of which it will be possible to actuate innovations. A fact that our country falls behind not only European leaders but also European Union average results proves a need for making use of active methods of creating and supporting innovations on the national, regional and local level. An effective and modern innovation policy is of great importance for building innovation system that constitutes a part of knowledge-based economy (Figure 2).

Although an effort is put into building efficient innovation system in the state, Poland still falls behind countries possessing innovative economies that offer high – technology products or services. In European Union ranking Poland is placed on 24th position and is ranked among group of countries that are described as modest innovators. It is presented on Figure 3.

In comparison with 2008 and 2009 results position of Poland deteriorated, because it shift from group of moderate innovators to group of modest innovators that is the one, the position of which is the lowest in the ranking. Table 1 presents collected indicators that are used to assess innovation system in Poland that is compared to European Union leader (Sweden), European leader (Switzerland) and average UE-27 performance.

Figure 2

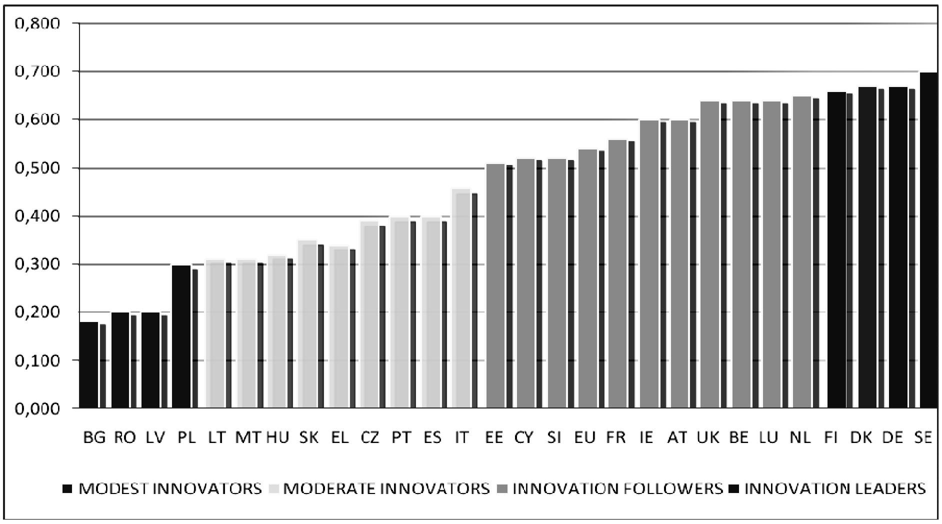
Structure of national innovation system



Source: (Edquist, 2005) cited from: (Europa 2020).

Figure 3

EU Member States' innovation performance



Average performance is measured using a composite indicator building on data for 24 indicators going from a lowest possible performance of 0 to a maximum possible performance of 1. Average performance reflects performance in 2010/2011 due to a lag in data availability. The performance of Innovation leaders is 20% or more above that of the EU27; of Innovation followers it is less than 20% above but more than 10% below that of the EU27; of Moderate innovators it is less than 10% below but more than 50% below that of the EU27; and for Modest innovators it is below 50% that of the EU27

Source: (Freeman, 1987)

Table 1

Indicators and dimensions of assessment of Polish, Swedish, Swiss and UE-27 innovation system

	Innovation Union Scoreboard – indicators and dimensions	Poland	Switzerland	Sweden	EU - 27
ENABLERS					
Human Resources					
1.1.1	New doctorate graduates per 1000 population aged 25–34	0,50	3,10	2,90*	1,50
1.1.2	Percentage population aged 30–34 having completed tertiary education	36,90	44,00	47,50	34,60

	Innovation Union Scoreboard – indicators and dimensions	Poland	Switzer-land	Swe-den	EU - 27
1.1.3	Percentage youth aged 20–24 having attained at least upper secondary education	90,00	83,00	88,70	79,50
	Open, excellent and attractive research systems				
1.2.1	International scientific co-publications per million population	213	1692	1604	300
1.2.2	Scientific publications among the top-10% most cited publications worldwide as % of total scientific publications of the country	3,52	15,84	12,28	10,90
1.2.3	Non-EU doctorate students as a % of all doctorate holders	1,91	31,56	19,99	20,02
	Finance and support				
1.3.1	R&D expenditure in the public sector (% of GDP)	0,53	0,79	1,03	0,75
1.3.2	Venture capital (% of GDP)	0,051	0,094	0,156	0,094
	FIRM ACTIVITIES				
	Firm investments				
2.1.1	R&D expenditure in the business sector (% of GDP)	0,23	2,11	2,34	1,27
2.1.2	Non-R&D innovation expendi-tures (% of turnover)	1,02	1,16	0,64	0,56
	Linkages & entrepreneurship				
2.2.1	SMEs innovating in-house (% of SMEs)	11,34	28,20	37,68	31,83
2.2.2	Innovative SMEs collaborating with others (% of SMEs)	4,15	9,40	17,47	11,69
2.2.3	Public-private co-publications per million population	5,30	179,90	147,00	52,80
	Intellectual Assets				
2.3.1	PCT patent applications per bil-lion GDP (in PPP€)	0,45	8,12	8,93	3,90
2.3.2	PCT patent applications in socie-tal challenges per billion GDP (in PPP€)	0,12	2,30	2,01	0,96
2.3.3	Community trademarks per billion GDP (in PPP€)	3,16	12,98	7,81	5,86
2.3.4	Community designs per billion GDP (in PPP€)	4, 51	8,56	5,09	4,8

	Innovation Union Scoreboard – indicators and dimensions	Poland	Switzer-land	Swe-den	EU - 27
OUTPUTS					
Innovators					
3.1.1	SMEs introducing product or process innovations (% of SMEs)	14,36	57,00	47,38	38,44
3.1.2	SMEs introducing marketing or organizational innovations (% of SMEs)	19,95	–	42,15	40,30
3.1.3	High-growth innovative firms	–	–	–	–
Economic effects					
3.2.1	Employment in knowledge-intensive activities as % of total employment	9,30	20,00	17,40	13,60
3.2.2	Contribution of medium and high-tech products exports to the trade balance **	0, 88	8,44	2,02	1,28
3.2.3	Knowledge-intensive services exports as % of total services exports	26,14	26,51	38,7	45,14
3.2.4	Sales of new-to-market and new-to-firm innovations as % of turnover	8,00	19,23	8,37	14,37
3.2.5	License and patent revenues from abroad as % of GDP	0,05	1,80	1,16	0,58

* Data for Sweden captures also non-PhD degrees leading to an award of an advanced research qualification. Source: (Iinnovation Union Scoreboard, 2013).
**The contribution to the trade balance is calculated as follows:

$$(X_{MHT} - M_{MHT}) - (X - M) \times [(X_{MHT} + M_{MHT} / (X + M))],$$

where $(X_{MHT} - M_{MHT})$ is the observed trade balance for medium and high-tech products and $(X - M) \times [(X_{MHT} + M_{MHT} / (X + M))]$ is the theoretical trade balance (where X denotes exports and M denotes imports of resp. MHT products and all products).

Source: (Freeman, 1987)

Not only must one feel anxious about the position of Poland in the ranking but also (and mainly) about the scale of differences between Poland and Sweden or Switzerland. While maintaining on so low level, the indicators should be interpreted as a threat of loss by Poland its international competitiveness. Hence, improvements of systems on national and regional level should be regarded as imperative.

3. Concept of smart specialization

The term «smart specialization» was coined in the period of functioning of European Group «Knowledge for Growth». The Group was called into being by European Commissioner for Science and Research Janez Potočnik in 2005. Smart specialization is a concept (and a tool at the same time) that is used to build new position of European Union countries and regions in knowledge-based economy (Innovation Union Scoreboard). The concept involves identifying of unique characteristics and assets of each country and region that aims at building competitive advantage and concentrating assets under the vision of achieving targets effectively. The concept is not a new one. It is innovative way of thinking about the future of European Union. In the context of dynamic changes in global distribution of economic potentials European Union search for new developmental impulses. In the light of fiasco of Lisbonian Strategy European Union infers from experiences connected with planning and functioning structural funds. In published handbook European Commission formulate recommendations that are a part of Smart Specialization Platform initiative. They relate to creating strategies of innovations in Regions. They should be based on «4 C» concept:

- choices – involves indicating few investments priorities that have entrepreneurial potential and promising fields of specialization,
- competitive advantage – involves building on current economic specializations of Region and mobilizing talents by means of associating of needs as well as potentials of R + D sector and business,
- critical mass – involves directing towards development of world class clusters and creation spaces for diverse inter-sectoral linkages that propels processes of diversification taking place under conditions of participating in supraregional networks on a larger scale,
- collaborative leadership – involves inclusiveness in pro-innovative processes not only science institutions, enterprises, public authorities, but also consumers, users of innovations.

In accordance with European Union guidelines each Region should prepare regional innovation strategy for Smart Specialization. The strategy should be based on SWOT analysis and includes systems of monitoring, self-evaluation, and verification. In recommendations of European Union innovation policy it is assumed that besides making use of scientific achievements it is also recommended that practical innovations (others than those technological) are supported and the advantage of global sources of knowledge and innovations is taken (Korenik, 2000).

4. Regional innovation ecosystem

4.1 Methodical foundations for creating regional innovation strategies-RIS 3 in Europe 2020 strategy

Smart specialization is expected to play a key role in creating and pursuing policies of innovative development of countries and regions. National and regional strategies of research and innovations, which are created with intent to implement the concept of smart specialization, should fulfill following criterions:

- they let concentrate support stemming from curried out policy and investments on key national/regional priorities, challenges and needs concerning development based on knowledge (including activities connected with ICT);
- they take an advantage of strong points and competitive advantages of given country/region as well as its potential to achieving excellence;
- they support technological and practical innovations, stimulate private investments;
- they encourage stakeholders in complete commitment and to innovate and experiment as well;
- they are evidence-based and include solid systems of monitoring and assessment (Matusiak and Guliński, 2010).

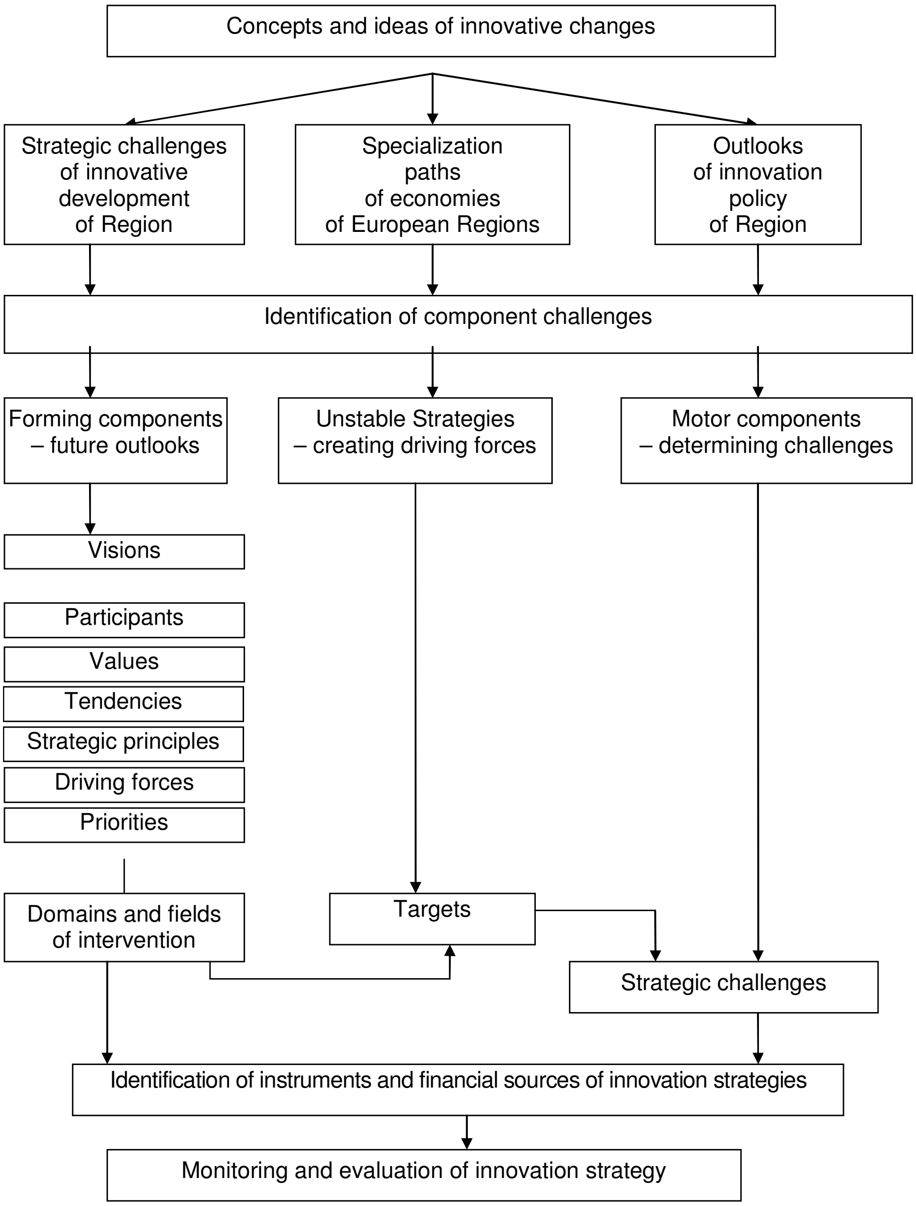
Recommendations that concern regional innovation strategies refer to all priorities included in Europe 2020 strategy. The also directly correspond with targets and instruments of European Union Cohesion Policy that is aimed at growth and creation of new work places in European Union countries and regions. There is a proposition in New Cohesion Policy that smart specialization could be a condition «ex ante». This means that making a strategy determines obtaining European Union financial support in the field of interest. It is also emphasized the importance of process of defining and choosing leading, smart specializations in innovation strategies. A quality and effectiveness of implementing of regional innovation strategies are determined by main actors and stakeholders.

4.2 Methods of building Regional Innovation Strategies

Methodical assumptions of projects of building regional innovation strategy are presented on Diagram 1 and Figure 4.

Diagram 1

Methods of building regional innovation strategy



Source: (Own).

As a result of study works components of identified strategic challenges became defined in a following way (Table 2).

Table 2

Strategic challenges of development of Region

Strategic Challenges	Component challenges
Risk management in financing of innovative activity	Financing of innovative activity
	Diversification, transfer and limitation of risk of financing innovative activity
	Absorption of financial instrument strengthening innovative capacity of enterprises
Stimulation of innovative potential of capital groups and industrial corporations	Innovative potential of big enterprises
	Scope and scale of innovative activities of big enterprises
	Scope and scale of cooperation of SME in networks of big enterprises and capital groups
	Participation in a network as a source of increasing innovative capacity of SME
Elimination of information asymmetries in regional innovation system – knowledge management in system of public support of innovation	Learning and flows of applicative knowledge in networks
	Development of competences of creation and implementation of innovation in enterprises and institutions
	Integration of knowledge and information about development of innovations in Region
Diffusion of innovations in sector of public services	Acceleration of technological change of rendering public services
	Acceptance of technologically advanced standards of public services
	Creation of demonstrative effects
	Networking of participants of process of innovative rendering public services
Development of infrastructure of knowledge-based economy	Creation of new infrastructural investments of knowledge-based economy
	Restructuring of using of existing infrastructure of knowledge-based economy
	Competences and cooperation of research groups
	System of pro – innovative education

Strategic Challenges	Component challenges
Creation smarts markets for technology of the future	Innovative partnerships in milieu of entrepreneur-ship
	Smart distributive networks
	Digitalization of innovative networks and single digital market
	Gospodarka niskoemisyjna Low-emission economy
Shaping of innovative culture	Innovative strategies of enterprises
	New business models
	New management models

Source: (Unia Europejska, 2012).

A detailed analysis of abovementioned strategic challenges of innovative development of Region was based on crossing methodology that involves analyzing influences among components of strategic challenges. It became a foundation on which identification of functions (these are functions of given components in formulating strategic challenges of development of innovative Region) was made as well as for a reduction of a number of components (in order to recognize ones that are the most important and have the most powerfully impact on dynamics of innovative changes in Region).

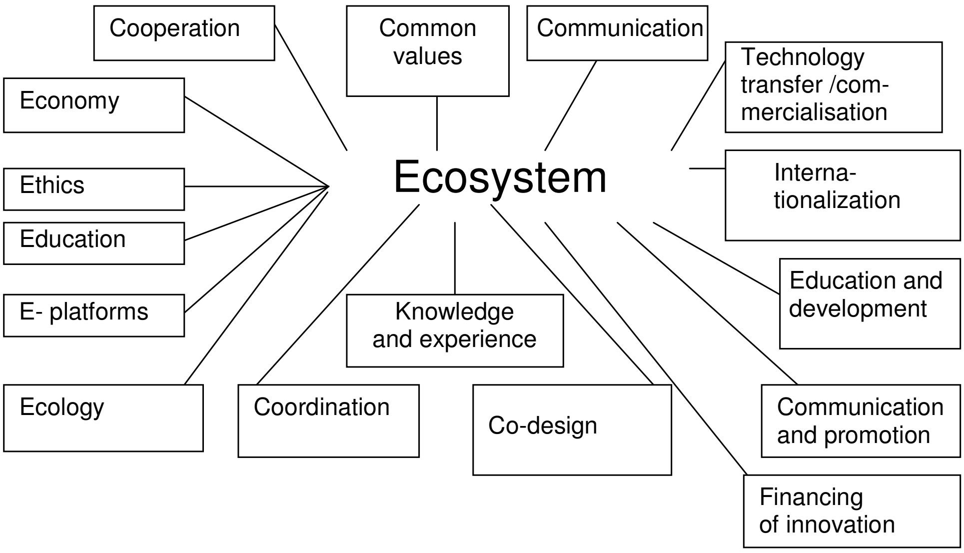
Revealing of dynamics of innovative changes that take place or could happen in the future was a basis for formulating the vision of innovative development of Region. An awareness of accessibility of global resources, limitation of the importance of possessing resources as well as their localization – all of them influence a perception of the role of actors in innovative development of business milieu as well as science and economic environment.

As a decisive factor determining development of economic entities or Regions can be considered an ability of achieving resources (and not necessarily their possession). Hence, it seems justified to transform regional innovation system in innovation ecosystem that is characterized by mutual processes shaping, generation of solutions naturally permeating themselves in thematic structures. In addition to this climate and conditions for creation of innovations are other characteristics of ecosystem. Foundation of ecosystem is built on relations and endogenous elements of Region, whereas external orientation of actors of innovative development tends to gain exogenously resources and as a result of this advantage in supraregional scale is built. Consequently, the vision of innovation ecosystem as a driving force based on dynamically changing innovative milieus (additionally the force should be able to ensure synergistic effects of market operating and innovation policy of Region) was created.

The innovation ecosystem category enters in European Union concept of creation so called strategies of innovation of third generation aimed at implementing of the idea of smart specialization.

Figure 4

Innovation ecosystem

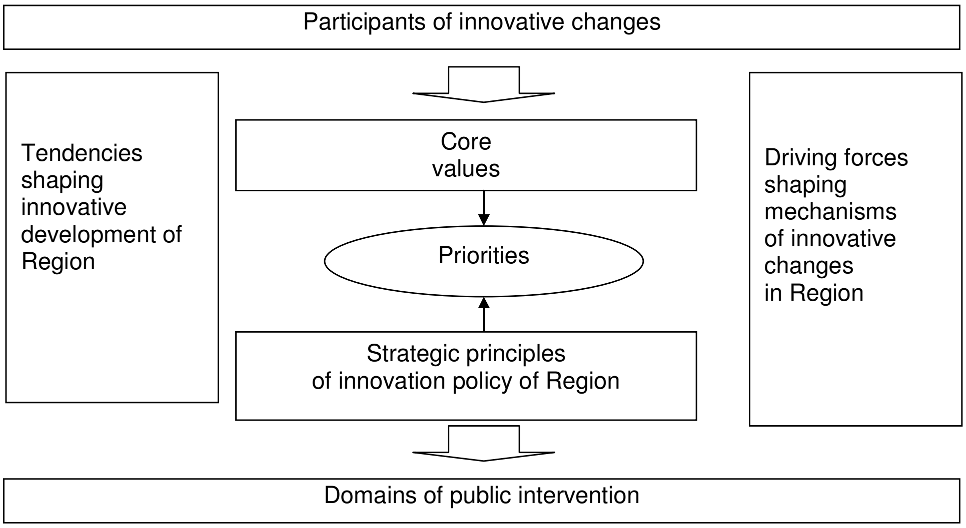


Source: (Own).

Establishing priorities for development of innovation ecosystem in Region was a core for a formulation of vision in a complete way. Two kinds of approaches were combined then – subjective approach (connected with identification of core values of main entities of innovative changes in Region) and objective approach (connected with tendencies and driving forces that shape innovative development of Region). While creating the vision, decisions concerning concepts of innovation policy of local authorities were made. Both strategic principles of policy and a choice of domains of public intervention for shaping innovative challenges are components of this policy (Figure 5).

Figure 5

Structure of the process of formulating the vision of ecosystem



Source: (Unia Europejska, 2012).

As a result of outlined above procedure leading to formulation the vision of innovative development of Region, a reference structure for setting targets of strategies was developed.

The identification and description of targets were made a next stage. For each of targets, by means of methods of workshops and as a result of consultancies with actors of innovative development, desirable strategic challenge was ascribed to. Given strategic challenges were aggregated because of strategy requirements to meta challenges that have horizontal character. This means that mutual linkages in processes of achieving strategic targets were taken into consideration. A final stage assumptions relating to monitoring and evaluation were formulated for all strategic structure. Needless to say, these assumptions are in accordance with national and regional system of monitoring of processes of regional development as well as assumptions that relate to financing of innovations.

Conclusions

A strategy for smart, sustainable and inclusive growth accepted by European Commission Union in 2010 defines frames for activities that when undertaken by EU members should shorten the time needed to recover from the crisis. In order to do it European Union needs smart and sustainable development based on effects caused by implementing of innovative solutions and entrepreneurship (Regionalne Strategie Innowacji Województwa Śl ąskiego na lata 2013–2020).

Method of creation of strategy of innovation ecosystem development that is presented in this paper is a trial to cope with requirements of building regional innovation strategies of third generation/ RIS3 as part of «Smart Specialisation Platform» initiatives that is recommended by European Commission (Regionalne Strategie Innowacji Województwa Śl ąskiego na lata 2013–2020).

Being capable of meet these requirements is acknowledged to be of special importance. This is because the requirements are point of departure to build strategy of regional development in the field of innovations. A number of outlined priorities are very limited due to experiences of ineffectiveness of agreeing on too many strategic targets and priorities. Transforming regional innovation system into ecosystem is the foundation of strategic thinking. Ecosystem is multilevel, multimodal and multilinked system that comprises elements and internal relations, simultaneously being open on new actors and new resources, searching for new solutions and domains that distinct Region building its competitive potential (Regionalne Strategie Innowacji Województwa Śl ąskiego na lata 2013–2020).

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Regionalization

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LABOUR MARKET REGULATION TOOLS AND INSTRUMENTS FOR THE BORDER DISTRICTS OF THE WESTERN REGIONS OF UKRAINE

Abstract

There was determined the necessity to increase the efficiency of labour market regulation in the border districts of the western regions of Ukraine. There were identified the drawbacks of the labour market regulation mechanism and the irrationality of social and demographic development of the border districts. There were substantiated the measures aimed to increase the regulation efficiency and provide the labour market development in the border districts.

Key words:

Labour market, border districts, labour market operation efficiency, shuttle trade, population employment, labour market regulation mechanism.

JEL: J10, J88, J58.

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Introduction

The drawbacks of the labour market regulation mechanism emerge themselves in the irrationality of social and demographic development of the border districts, insufficient fulfilment of the population educational potential, low labour, professional and territorial mobility of population, absence of the initial conditions for extensive formation of quality and competitive manpower, presence of the significant unofficial employment segment, low efficiency of the labour migration regulation policy in the border districts.

The labour market in the border districts of the western regions of Ukraine is studied in the works of such renowned scientists as M. Belenkyy, Y. Viznyak, Y. Mihuschenko, N. Mikula, A. Pozniak, U.Sadova, etc. It should be noted that the domestic and foreign scholars mainly discuss the key issues of quality and competitive manpower reproduction. However, the attention is not paid enough to the studying of the complex mechanism of labour market regulation, as well as the social and demographic development of the border districts.

Therefore, it becomes necessary to solve the scientific and applied tasks of rationalizing of the general regulation efficiency increasing as well as ensuring the labour market development in the border districts. Such research should be based on a comprehensive study of both the labour market regulation mechanism and irrationality in the social and demographic development of the border districts, what is the main goal of the paper.

1. Delineation of the key labour market operation and development problems in the border districts of the western regions of Ukraine

The preventive and proactive regulation measures, aimed to establish the efficient economic and organizational-and-legal mechanisms of productive population employment, employment provision, shuttle trade legalization, increase of manpower competitiveness, establishment of the efficient dialog concerning the increase of labour market operation efficiency in the border districts, are not typical features of the State labour market regulation in the border districts of the western regions of Ukraine.

The necessity to increase the efficiency of labour market regulation in the border districts of the western regions of Ukraine is conditioned by:

1. The destructive changes in the labour market conjuncture, in particular:

- population economic activity decrease, that caused the priority manpower reduction rates comparing to the resident population decline rates. So, for example, the official quantity of economically active population in the age group 15–70 years in 2012 was 1,4% down in Zhovtkivsky, Mostysky, Sokalsky and Starosambirsky border districts of Lviv region; 1,8% down in Volodymyr-Volynsky, Liubeshivsky and Liubomylsky districts of Volyn region; 2,6% down in Vyzhnytsky, Storozhynetsky, Glybotsky, Gertsayivsky and Novoselytsky districts of Chernivtsi region; 1,5% down in Berezhansky, Velykoberezniansky and Vynogradivsky districts of Zakarpattya region when the working-age population was in average 1,2–1,6% down in Lviv, Volyn, Chernivtsi, Ivano-Frankivsk and Zakarpattya regions. Simultaneously, the actual economically active population was 3,5% up, considering the shadow economy employment (the quantity of economically inactive working-age population doesn't change from 2010 and is over 20% of the working-age population, the economic activity level of the population ranges in average from 57,8 to 59,9%). The natural reason of the market system inefficiency and, as a consequence, the problem of the labour market formation is the deterioration of the national demographic situation: in 2011–2012 the most border districts of the western regions of Ukraine lost over 7,8 thousand persons because of depopulation (the population was 2,5% down, despite the birthrate increase of 7,8%); there was a mortality rate increase (in average 1,5% up, when the standard of living was 12,5% up) (Online Resources Central Statistical Office in Lviv, p.25).
- low development level and deformation of the internal labour market, significant sectoral and regional unemployment, that are accompanied by the employers' economic interests domination over the employees' interests and the insufficiency of economically demanded job positions. It is well-known, that there was the significant employees' reduction during 2012, despite the employment rate increase. So, for example, in 2012 – early 2013 the population employment was in average 2,8% up in Pustomytivsky and Sokalsky districts of Lviv region; 1,3% up in Volodymyr-Volynsky district of Volyn region; 2,1% up in Putylsky, Vyzhnytsky and Storozhynetsky districts of Chernivtsi region. But, at the same time, the quantity of employees of the enterprises, bodies and organizations in the border districts of the western regions of Ukraine was in average 3,0% down and made up about 41,0 – 55% of the employed. The employees' reduction occurred in almost all the economic sectors, that caused the unemployment rate increase from 7,5 to 8,7% in the most border districts of the western regions of Ukraine.

- aggravation of the problem with employment of the unemployed population, registered at the regional and district employment bureaus, requiring the provision of the feedback between the state bureaus and the unemployed, intended to serve their interests by way of these bureaus. During to the I quarter of 2013 the employment bureau in the border districts of the western regions of Ukraine employed in average 16,7% of the total unemployed, among them almost a half were women and the same quantity – the youth up to 35 years old. The most of unemployed were employed in Starosambirsky district of Lviv region (19,8%) and Uzhgorodsky district of Zakarpattya region – 38%, and much less of them – in Kelmenetsky (Chernivtsi region), Ratnivsky (Volyn region), Mostysky (Lviv region) districts (10,8–12,4%). At the same time, the registered unemployment rate was in average 0,75% down, the employment rate was 1,2–1,7% up in Lviv, Volyn, Chernivtsi, Ivano-Frankivsk and Zakarpattya regions. At the end of the I quarter of 2013 the manpower supply was 13 times more than the demand. The quantity of the registered unemployed was 1,5–2,1% of the working-age population, 40–42% of them were the town dwellers and the rest were the rural dwellers. The unemployed, who obtained the financial assistance from Obligatory State Social Insurance Fund for Unemployment Cases during 2012, made up 68–78% of the registered unemployed population. The average amount of financial assistance was UAH 940, which is 82% of the minimum legal wage (UAH 1147).

2. The increase of imbalance between the manpower demand and supply, structural changes in the labour market in the rural territories of the border districts, emerged in:

- mechanical overrating of agricultural employment and low education level of the labour potential development of the rural population, that decreases the average labour market efficiency of the certain economic sector in the border districts. It is worth mentioning, that the mechanical overrating of agricultural employment in the border districts is a risk for the efficient labour market operation, because of the record of the employed in personal agricultural economies. The employment rate in the rural area in the border districts of the western regions of Ukraine (the rural dwellers make up in average 60–65% of the unemployed) is still low. There exist significant problems with formation of high-quality labour potential in the agricultural sector of the border districts of Zakarpattya and Chernivtsi regions: the specialists with the undergraduate and basic higher education make up 18,9% of the registered staff (total by sectors – 24,7%), the specialists with the complete higher education – 8,7 and 27,3% respectively, that proves the nonconformity of the actual quantity of job positions to the professional level of the rural manpower;

- increase of the registered unemployed rural dwellers, and small town dwellers in the border districts. In particular, the agricultural sector included 56-58% of households in agricultural border districts of Chernivtsi, Ivano-Frankivsk, Volyn, Lviv and Zakarpattya regions in 2012 – I quarter of 2013. However, these districts present the prevailing percentage of rural unemployment. So, for example, in early 2013 the rural unemployment rate in Lviv region made up 58,4%, among them – 28,5% of the registered unemployed youth up to 35 years old; the rural dwellers made up 75,1% of the total registered unemployed in Chernivtsi region, while 33,7% of them were the youth up to 35 years old. Zakarpattya region presented 70,3% of the unemployed rural dwellers with 34,7% of the rural youth; among the mentioned category of population in Kelmenetsky district of Chernivtsi region, 95,3% were officially unemployed, 41,3% of them being women and 34,9% being the youth up to 35 years old. The registered unemployment rate in early 2013 was 3,4% of the working-age population.
- stability of the wage gap tendency and formation of the manpower deficiency conjuncture in the labour market in rural areas and towns of the border districts, that emerge in the unregistered population employment at the enterprises and the nominal employment increase. The most negative factor of the labour market development in towns and rural areas in the border districts is a presence of manpower deficiency conjuncture, often used by the employers when actually employing the full-time staff, but officially registering just part-time employment with the partial or low wage (the average monthly wage in towns in the border areas of Ivano-Frankivsk, Volyn and Chernivtsi regions is much lower than the average one in the Regional centre (from 13,8% to 47,7%), and in the districts (from 3,9% to 41,7%)).
- unregistered shuttle trade increase in the border districts, causing the rapid shadow labour markets development, illegal trade activation. Let's notice that, according to the data by Lviv regional custom office, there are about 200 thous. Persons employed in small-scale and better-arranged shuttle trade with Poland in the border districts of Lviv region, and their turnover is over USD 10 mln. per year. The data of labour migrants' inspection in the border districts of Chernivtsi and Lviv regions showed that the correlation of shuttle traders and the labour migrants was 1:5,7. In 24 border districts of the western regions of Ukraine, the correlation of the unregistered employed was 1 : 4, while the quantity of shuttle traders was from 350 to 675 thous. persons. The rural area presents about twice bigger percentage of the persons, employed at the border trade, of the age from 61 years and older; the biggest percentage of youth, employed at the border trade, was found in the border cities; over 70% of the employed at the border trade have

complete and undergraduate higher education; in case of the persons with the principal income of up to UAH 2500, the border trade incomes are the additional money to the family budget, and as for the persons with the principal income of over UAH 2500 – they are the businessmen, whose principal income source being the border trade, officially registered as another type of economic activity (Belenky, 2005, p. 25). The increased motivation to augmentation of the border trade volumes is conditioned by the fact, that the border trade income in towns and rural areas is much higher than the principal income.

- shadow remuneration scheme popularity, that causes cash deficiency, labour market deformation, unfair competition development and decrease of employees' social security level. We would like to notice, that the shadow income schemes are popular in the border districts among the businessmen (they go abroad several times a month and stay there for several days, buy the products for the amount from USD 500 to 2000 and have the average monthly income from USD 400 to 600. This group includes the «professional» shuttle traders); representatives of trade companies (they go abroad from several times a month to few times a year for several days in order to meet the partners and buy the products, make the purchase for the amount from USD 1000 to 10000 and have the average monthly income from USD 200 to 500); representatives of small production companies (they visit Poland pretty rarely (several times a year) and stay there from a day to a week, buy the products for amount from USD 200 (for personal use) or for up to USD 10000 (for productive purpose) and have the average monthly income from USD 100 to 500); representatives of service industry (they visit Poland several times a month, stay there for one-two days to meet the business partners, almost don't buy the products, but if do – it may be an amount of up to USD 1000. Their average monthly income is USD 200-500); customer officers (they visit Poland several times a year for several days, buy the products for amount of up to USD 200 for personal use and have the average monthly income from USD 70 to 150); unemployed people (they go abroad several times a month for one-two days; 55% of them consider the illegal trade in the border districts of Poland to be their principal income source, their average monthly income is a little bit bigger than that of the customer officers and amounts to from USD 150 to 300) (Mikula).
- absence of the single approach to understanding of the term «border trade» among the population of the border areas (Mikula); this moment considerably deteriorates the negative consequences of such trade and increases the employment at the unofficial labour market sector. So, for example, 27% of the interviewed persons think that the border trade is an illegal trade with the aim of getting income, 23% consider it

to be the shuttle trade, 21% think it is the purchase of products in the neighbouring territory within the legally allowed limits, 17% answer that it is the foreign-economic activity and 13% of the interviewed consider it to be the purchase of products during the work trip, seasonal work etc., while the town dwellers consider the border trade to be the purchase of the products abroad for personal use, personal reasons within the allowed limits or the shuttle trade, and the rural dwellers think that it is an illegal trade with the aim of getting income (Mikula).

3. The imperfection of the mechanisms of government support to the private incentive in small and medium business sector and creation of the favourable business environment that influence:

- the unemployment increase, caused by the closure of the enterprises, that lose the competitive struggles. So, for example, the part of the lossmaking small-scale enterprises in 2012 – the I quarter of 2013 is over 35% in the border districts of the western regions of Ukraine. There was also considerable percentage of the lossmaking small-scale enterprises in trade sector (34,5%), hotel and restaurant business (39,9%), estate property operations; leasing, engineering and provision of services to businessmen (39,4%), industry (37,9%), transport and communication (36,5%), in construction sector (34,1%), provision of public utilities and individual services; activity in sphere of culture and sports (33,2%), that in total influenced the negative labour market development tendencies and unemployment rate increase. There was foreseen the deterioration of the situation because of bug quantity of enterprises, working in trade, estate property operations and agricultural sectors.
- decrease of quantity of retail trade objects, in particular markets, the presence of which favours the formation of additional job positions in rural area and and helps decreasing the poverty level among the low-income sectors of the population in the border districts. It is widely known, that the markets fulfill the critical social and economic functions, as the bigger part of the wholesale and retail trade in the border areas is implemented by way of market networks; they are the source of supply of cheap products, affordable for the low-income sectors of population, create the job positions (it considers not only the people, who work directly at markets, but also the providers of services, local producers, for which the market is the unique way of sale of their services and products). The direct employment at the inspected key border markets in average is up to 6% of the total employment in areas of their location (Mikula).
- gradual decrease of population business activity level in the border districts in small and medium business sector because of the difficul-

ties with the business start-up and business structures' functioning, incapacity of the entrepreneurs – sole proprietors to pay the unified social tax. Note, that, despite the small enterprises quantity rise during 2002–2011 all over Ukraine (in average 4,6% per year for the legal entities and 7,8% per year for the entrepreneurs), their quantity was reduced (in average by 12,2%) in the most border districts of the western regions of Ukraine in 2012 – the I quarter of 2013, in particular the quantity of small enterprises per 10 thous. population was reduced by 5,8%, the average annual quantity of employees at the small enterprises in the border districts of Chernivtsi region was reduced by 5,2%, Lviv region – by 2,3%, in particular the quantity of the registered entrepreneurs was reduced by 8,4% in 2012 comparing to 2011 and respectively, Zakarpattya region – by 1,7%. The business activity of the population in border districts is still high only in the trade sector (over 33,4% of the total quantity of small enterprises, construction sector – 55,1%, hotel and restaurant business – 60,1% of the total quantity of the employees at the legal entities (Program for small and medium businesses in the Transcarpathian region in 2013; Program of small and medium enterprises in Lviv Oblast in 2013 – 2015; Regional program for small and medium businesses in the Chernivtsi region in 2013).

4. The absence of the initial conditions for increase of highly qualified manpower supply in the labour market because of the inefficient mechanisms of formation and implementation of national career guidance and educational strategies, low communication level and nonconformity of staff training and professional development systems to the labour market requirements:

- despite the border districts labour market activation, there were no significant changes in the licensed specialists training structure (the specialties, oriented at the servicing of financial and economic sector, supersede the specialties from the productive sector). So, for example, the establishment of the tourism sector in the mountainous areas of the western regions of Ukraine requires the initiative specialists with the particular specialties, which are almost not trained in Ukraine. At the moment, there are 130 educational institutions in Ukraine, which train the staff for the tourism and recreation sector. At the same time, the most higher education institutions and colleges, as a rule, haven't the basis for practical and working training of the students and graduates, and the quantity of tourism sector specialties is quite limited. Thus, there are no specialties related to the development of «green» tourism, cultural tourism, organizational and financial management in tourism and recreation sector in Ukraine. In the border districts of Poland, the higher education institutions have the list of specialties which is quite different from the specialties in the Ukrainian higher education institutions, in particular: «Agricultural tourism», «Eco-tourism», «Hotel economy and gastronomy», «Tourist services», «Health tourism», «Health tourism and recreation», «Transboundary tourism», «Tourism Management in the region», «Economy and organization of tourism enterprise», «Tourist travel servicing methodology», «Touristic geography», «Cultural studies of the Carpathian region», «Culture of touristic region», «Tourism economy and hotel business», «Cultural heritage», «Leisure Management», «International tourism», «Active tourism», «Tourist travel servicing and recreation» etc. (Mihuschenko).

- decrease of demand for the qualified specialists in the border districts causes the increase of demand for the low-qualified manpower and the manpower deficiency in some economic activity sectors, in particular in sector of construction, agriculture, service sector related to particular manual labour professions. Under such conditions, the youth are the most vulnerable group concerning the employment: the level of their education gets depreciated because of high competition level, and the youth with the complete higher education have to work at the jobs, requiring much lower qualification level. Besides that, according to the data of the last years, the qualified staff from the border districts of Lviv region and from some other western regions of Ukraine is quite tending to work in the cities. For example, the population of rural area in the border districts of Lviv region was reduced by 1,3%; the rural area presents mostly the elementary occupations. During 2000–2010 the quantity of employees in the economy sector in the border districts was reduced by 1,4 times. At the moment the demographic ageing appears to be a quite clear tendency, especially it concerns the working-age population. The manpower potential is localized in cities and it is systematically replenished by the ex-rural dwellers. There is still the tendency of rising percentage of self-employed people and staff reduction with the further reallocation between the service and production sectors. The main types of activity among the self-employed are the agricultural production, trade and construction. In 2011 in border districts, the small enterprises occupied about 13% of total employees of the small enterprises in the region (Viznyak, 2013). The border districts mostly require the establishment of an adequate employment policy, aimed to define and eliminate the discriminatory working conditions in the unregulated employment sector. In case this tendency doesn't change, the low-qualified labour market segment in Ukraine may be invaded by the manpower from the countries of Asia, Africa, neighbor Moldavia, other CIS countries.
- the percentage of specialists with undergraduate and complete higher education rises among the shuttle traders and labour migrants of the border districts. So, for example, if 13,9% of the population of Ukraine

have the higher education, this percentage is much higher among the shuttle traders and labour migrants and makes up 19,8% and 18,8% respectively. The percentage of Ukrainian population with elementary education and without it makes up 4,6%, while only 0,9% of persons with such education level was found among the labour migrants. According to the results of examination of external labour migrants in the border districts of Chernivtsi and Volyn regions, 61% of labour migrants from Chernivtsi region and 53% from Volyn region have complete or undergraduate higher education. According to the results of «Examination of labour migration of population in Zakarpattya region», the education level of migrants was quite high – in average 11,2 years of study. Therefore, the educational level of Ukrainian labour migrants in Poland is characterized by majority of persons with secondary and specialized secondary (construction, mining industry, transport) education, secondary or incomplete secondary (trade sector) education, and higher (science, small and medium business) education (Poznyaka, 2007).

5. Imperfection of labour migration regulation policy in the border districts of the western regions of Ukraine, in particular the incompleteness of state migration policy formation process in the border districts, causing the irreversible labour market deterioration processes:

- stability of negative tendencies of balance between the youth and the older persons in the composition of manpower, caused by the absence of regional labour market development programs aimed to employ the returned long-term migrants at the national labour market. The families of successful long-term migrants are tend to migrate abroad and the youth migrate more intensively too, that causes the irreversible losses of (first of all) young employees in the labour market; the quantity of immigrants from EU countries (foreign companies representatives) is going up, and there exist a growing tendency of reunification of families of labour migrants in recipient countries;
- growing migration risks due to change of migration intensity and growth of migration flows abroad among theз population of border districts. They promote the illegal migration growth, as the migrants want to continue their work abroad. The society gets more criminalized and the living standards and quality get worse because of the large-scale immigration to the border districts. Besides that, most border districts of the western regions of Ukraine in 2012 had the population migration flows intensity changed, in particular the migration flows abroad grew; the human trafficking and migrants smuggling grew, that increased the number of persons who suffered from human trafficking per 1000 emigrants (by 3 times); there appeared a social tension among the economic active population; the number of illegal migrants grew

due to continuing practicing of short-term quotas by EU countries. Simultaneously, there was identified that the interregional population migration intensity factor was reduced twice; most border districts presented the interregional population migration intensity reduction by 25%.

- the growth of international labour migration due to a low employment level in the internal markets of the border districts. Lately, the governments of the neighbor border districts and EU countries encourage the drift of relatively cheap and qualified manpower from the border districts. So, for example, during the last two years there were about 100 thousand emigrants to the EU member countries, 78% of them went to Polant, the rest moved to Hungary and a small part – to Slovakia, Lithuania and Latvia. Considering the different migrant flow intensity, we can estimate that the Ukrainian citizens go abroad about 1,4 mln. times a year with work purposes and about 3 mln. times – with commercial purposes. The danger consists in the moment that Ukraine loses the next generation representatives due to the labour migration (and the migration of families of labour migrants that considerably contributes to the problem, as they are the potential migrants at the very moment) and the long-term migrants don't return back. Besides that, there exists a growing tendency of migration abroad of families of successful long-term labour migrants with the aim of family reunification (Pozniak, 2012). The border districts with the high emigration level present such phenomenon as «social orphanage». The countries with the partial access to the labour markets present the manpower deficiency in some sectors. So, for example, Poland has the deficiency of teachers, medical staff, specialists with specialized secondary education and personnel for construction and agricultural sectors.

2. Milestones of the state labour market regulation policy in the border districts of the western regions of Ukraine

Considering the negative moments of labour market regulation in the border districts of the western regions of Ukraine, there exists a grounded necessity to create an efficient system of institutional, administrative, organizational and financial and informational provision of labour market regulation, that considerably condition the adaptation of border districts to the European labour market and reduction of its operating risks due to European integration and transboundary cooperation, in particular in the following directions:

1. Increase of institutionalization of labour market development in the border districts, reduction of volumes of unregulated activity and number of unofficial job positions. It requires the following measures:

- introduce the special state grants for the wage of the employed young specialists, the unemployed people or the people of preretirement age in amount of 50% of the employer's expenditures during 3-6 months, which may be issued directly to the citizens with the purpose of professional education or tart of personal business; it is appropriate to introduce the European experience of introduction of Job quotas for noncompetitive categories of employees by way of development of Joint Plan on issuing the quotas for employment of dwellers to the border districts within the implementation of programs projects of transboundary cooperation;
- promote the legalization of unofficial job positions by way of reduction of financial and non-financial expenditures of the employers related to hiring and firing, favour the introduction of innovational types of «social contracts», development of the new kinds of atypical employment, which is popular in the neighbor countries, – manpower leasing, «as needed» basis jobs, distant jobs, flexible employment types;
- Main Department of Labour and Social Protection of the population of the District State Administration shall monitor the wage indices in the border districts: monthly – according to the economic activity types; quarterly – according to the administrative and territorial units, delivering the results to the parties of social dialog in order to take the measures on the increasing of wage rates and ensuring of state wage guaranties;
- District State Administrations, city counsil executive committees of the cities of regional importance shall take the measures on quality reservation of job positions for vulnerable groups for 2013-2014 and provide the job quoting for every vulnerable category of the unemployed proportionally with the demand of the local border labour markets.

2. Diversification of the rural area economy in order to provide the efficient employment, increase the labour efficiency and population incomes, arrange the self-employment and systemize the shuttle trade in the border districts. These goals may be reached by way of:

- promotion of development of small and medium business in non-agricultural sector as a main direction of rural area economy diversification. With this purpose, it is appropriate to develop the concept and implement (during 2013–2014) the micro projects «Start your own business in countryside. Non-agricultural business activity for welfare of Ukrainian rural dwellers (rural tourism)» in the border districts of the western regions of Ukraine, that may be partially financed by means of the Ministry of Foreign Affairs of the Republic of Poland within the framework of the Development co-operation program;

- activation of development of tourism and its infrastructure, activation of work of District State Administrations in the border districts concerning the participation in EuroGites project and Federation of Union for Promotion of Rural Green Tourism Development in Ukraine, Ukrainian Fund of Business Support and Association «European Cooperation Centre» (the city of Dzierżoniów, the Republic of Poland) with the aim of creation of rural tourism business objects;
- systematization of shuttle trade, its legalization by way of creation of specialized markets for sale of products, agri-industrial agglomerations for production, harvesting, processing and sale of agricultural and other products in small towns and border districts.

3. Introduction of organizational mechanisms for improvement of business environment in order to increase the efficiency of micro labour markets operation and increase the business activity of population by way of:

- development of business support infrastructure in the border districts, creation of institutions for provision of information and consulting services (consulting and audit companies, technological parks, business centers, business incubators, leasing centers, non-banking finance and credit institutions, investment and innovation funds);
- joint activity of governmental bodies and public associations of young businessmen, directed on creation of new job positions for the youth, development of institutional and informational support for the youth business activity, educational and social-and-psychological support to the youth, reading of Fundamentals of Entrepreneurship course to the unemployed population, arrangement of training, retraining and professional development for business structures' staff.

4. Creation of the efficient system of administrative and information-and-communication environment for extensive formation of quality and competitive supply in the labour market. It requires:

- development and implementation of staff qualification program, increase of volumes of governmental order for training of academic teaching i and qualified manpower, development of methodology for determination of prospective labour market needs (in the border districts) in the specialists with different qualification level and volumes of their training at the professional and higher educational institutions of the region;

- harmonization of functioning of training and consulting centers on the basis of the higher and specialized secondary educational institutions for training and professional development of the owners and staff of the enterprises, working in rural, green, agricultural and craft tourism sector;
- development of joint border universities network, including the higher educational institutions of Poland, Hungary, Ukraine, and providing the creation of joint educational offer (including the obtaining of joint diplomas), development of scientific cooperation, joint implementation of international grants and research projects for development of border districts and their labour markets;
- more efficient activity of the Representatives of District State Administrations in the border districts related to participation of district organizations and enterprises in «InWent» (by Federal Republic of Germany government) program, which provides the practical trainings and retraining for the national specialists in Germany.

5. Improvement of regulatory and organizational-and-economic provisioning for the labour migration regulation system and increase of employment within the internal markets in the border districts of the western regions by way of:

- creation of specialized employment agencies in the border districts in order to provide the employment and cooperation development among the Ukrainian and European employers in employment and staff provisioning sector;
- development and adoption of state and regional programs for return and reintegration of national labour migrants, whose main activity shall be the promotion of business activity and creation of new job positions in the border districts of Ukraine; improvement of legal protection and provisioning of social guarantees, provision of help to the national labour migrants with protection of their interests during solving of labour disputes with foreign employers while abroad (under the condition of their return to Ukraine), opening of consulting centers on the basis of diplomatic missions for this purpose, interaction with Ukrainian expat communities; development of plan of measures on implementation of migration policy with special attention to possibilities and advantages of population employment in the border districts of Ukraine.

Conclusions

The labour market regulation policy in the border districts of the western regions of Ukraine is inefficient due to insufficient efficiency of use of labour resources of the economic active population in rural areas and towns, uncontrolled influence of employers towards the employees caused by the insufficient activity of local authorities, domination of economic interests of the employers over the interests of employees, depreciation of rural manpower, mechanical overrating of agricultural employment due to employment at personal agricultural economies, nonconformity of the actual quantity of economically grounded job positions to the professional level of the rural manpower, unsettled problem with the employment and business activity of the youth in the labour market, absence of the mechanism for registration of the employed in shuttle trade, limited flexibility of the labour market institutes and asymmetry of migration flows in the border districts. As a consequence, the rate of sectoral and regional unemployment in the labour market in the border districts is still high, the quality of labour living of population gets worse and the internal labour market becomes more and more deformed.

Therefore, there exists the grounded necessity to develop and implement the measures to increase the efficiency of labour market regulation in the border districts of the western regions of Ukraine in short-term and long-term prospective. The milestones of the mentioned direction shall be: creation of an efficient system of institutional, administrative, organizational and financial and informational provision of labour market regulation, more efficient participation of local executive bodies and local self-government bodies in decision-making process concerning the implementation of joint international measures for increasing of efficiency of labour market regulation in the border districts, systematization of shuttle trade, activation of state policy for its legalization by way of creation of specialized markets in rural areas and towns of the border districts, development of information and communication competence of specialists in order to provide their competitiveness in the regional labour market, institutionalization of employment relationsi, reinforcement of social partnership, income police and wage system, regulatory arrangement of migration space in the border districts.

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THE EXISTENCE OF AN AUTONOMOUS DEPARTMENT OF CSR (CORPORATE SOCIAL RESPONSIBILITY) AND ITS IMPACT ON MANAGER'S PERCEPTIONS ABOUT CSR

Abstract

This study examines whether a separate – autonomous or not – CSR department within the company, affects the opinions of managers of Greek enterprises about practices and activities of CSR. The findings suggest that managers of companies operating in Greece, without a special CSR department, accept a greater degree of institutionalization of CSR, since it offers financial and tax advantages in contrast to the companies with a specialized department. In other, we found that the way a company manages its activities and practices of CSR is

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not largely affect the perceptions of managers or directors, in connection to whether a company has a separate CSR department, or not.

Key words:

Corporate Social Responsibility (CSR), Social Responsibility, CSR institutionalization, internal- Autonomous CSR department, society, environment, employees.

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1. Introduction

In another article on CSR issue, entitled «Managers' Perceptions and Opinions towards Corporate Social Responsibility (CSR) in Greece», we explored, surveyed and evaluated the opinions of managers on various issues and perceptions of CSR, as:

1. What factors influence the desire of managers for the institutionalization of CSR?

2. What are the perceptions of Greek managers regarding CSR issues?

3. How Greek companies manage CSR activities?

In this article we investigate whether an autonomous or separate department in a company, is affecting the CSR activities. Before we mention the results of the survey we are going to see in summary and generally refer to the issue of CSR, stating:

In management, the term Corporate Social Responsibility is used to describe the obligation of an organization, to operate in ways that serve their own interests and the interests of society as well. Some describe this commitment to social responsibility, as a double gain, the economic profit and the impact on society. Others go even further by referring to a triple profit, economic, social and environmental performance (Schermerhorn, 2011, p. 151).

2. Definition of CSR

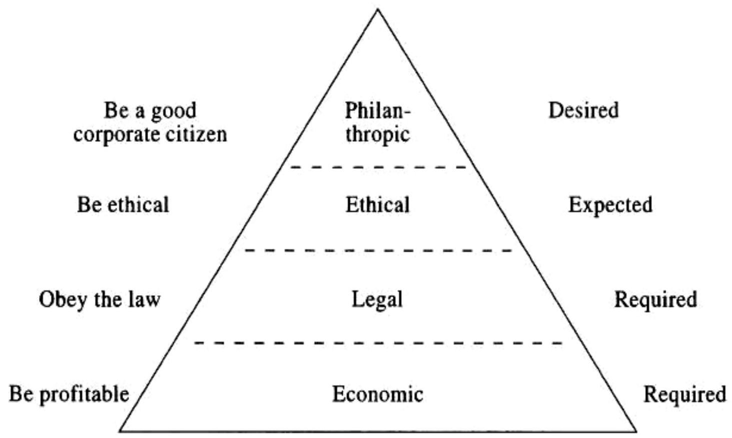
Corporate social responsibility has many definitions, but according to the Green Paper, which was released in 2001, the European Commission states that, CSR is the voluntary integration of business, social and environmental practices in their business activities and relationships with all the stakeholders (staff – society – shareholders). Although at European level there is an agreement for the definition of the concept, as well as to actions that includes, however the exact nature and characteristics vary, depending on the national, social and cultural environment in which it is grown and developed.

The definitions of CSR fell into two broad schools of thought, those who argue that the company is obliged only to maximize profits within the limits of the law and with few ethical constraints (Friedman 1970, Levitt 1958), and those who have proposed a broader range of obligations to the society (Andrews 1973, Carroll 1979, Davis and Blomstrom 1975, Epstein 1987, McGuire 1963) (Carrol, Schwartz, 2003, p. 503).

A significant effort to bridge the gap, between economic and other expectations, had been offered by Archie Carroll (1979). His efforts resulted in the following definition of corporate social responsibility. The CSR includes the economic, legal, ethical and discretionary expectations that society demands from the companies in a given time. So, in the light of the above definition, we can format the levels of CSR with the following chart.

Figure 1

Carroll's (1991) Pyramid of Corporate Social Responsibility



Source: Carroll A. B. The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders // Business Horizons. – 1991. – July–August. – 39–48; Business Ethics Quarterly, Vol. 13, No. 4 (Oct., 2003), pp. 503–530. Published by: Philosophy Documentation Center Stable URL: http://www.jstor.org/stable/3857969.

Carroll (1979) reported that: «The first and foremost social responsibility of businesses is economic. Before anything else, the company is the basic economic unit of society» (p. 500). Carroll then classifies the other corporate responsibilities in the following descending order of importance: (1) legal, (2) ethical, and (3) charitable responsibility. Someone may wonder if the classification proposed by Carroll under very limited normative argument, is also shared by consumers. (Maignan, 2001, p. 60). The four categories of Carroll or the CSR areas have been used by many theorists and empirical researchers. Many studies of business ethics have incorporated the scale of Carroll.

3. The timelessness of CSR

The term CSR may be modern, but as a philosophy, comes from ancient times still, it suffices to look at the sponsorship of the Olympic Games in ancient Greece. The CSR was pervasive throughout the centuries and took various names and forms, such as sponsorship, benevolence, charity, etc.

In the 19th century, where the transition occurs from agricultural to industrial society, different social models developed in Europe and America as well, by which businesses in a variety of ways applied their social responsibility, by offering housing to their workers, or caring for their families.

In the early 20th century begins the establishment of the legal framework for the operation of enterprises and the development of the welfare state. Especially, after the financial crisis of 1929, the spirit of charity transformed into the legal, contractual and organizational structures, that evolved today in the so called social obligation.

After the Second World War, the emergence of multinational corporations increased their influence in the global economy and the adoption of the business model. Companies have the sole responsibility to its shareholders to increase profits and wealth, with the famous slogan "the business of business is business", raising the question for the relationship between business and society. In 1987, UN published its famous report Brundland, which declared that the long-term economic growth, the war on poverty and the effective management of the environment, often go hand in hand. In this report first appeared and the concept of sustainable development, that soon connected with the concept of Corporate Social Responsibility (CSR Guide for SMEs, Greek Network for Corporate Social Responsibility, 2008, p. 4).

Historically, the term social responsibility, as well as the term social responsiveness, had been presented in various books of business administration from the early 70s. Peter Drucker was one of the first to use the term social responsibility in his book. He cites the term social responsibility as one of the eight areas where the company needs to have objectives.

In 1999 at the World Economic Forum in Davos, it was formalized for the first time, corporate social responsibility as a social necessity. Then General Secretary of U.N. asked the major companies to create a basic plan of the Social Responsibility, so to guarantee the good will of companies for a humanistic global economy. In the same time there were formulating the business principles of the UN in November 1999, known as the Sullivan Principles, by which the signatories agreed to the following:

- Support the economic, social and political justice wherever they do business.
- Protect human rights and encourage the implementation of equal rights.
- They train and employ disabled employees.
- Help to create greater tolerance and understanding between people, helping to improve the life quality of the business environment. (Thanopoulos, 2003, pp. 165–166)

What is and what is not CSR

IS NOT

- Not only the compliance with the law.
- Charity and commercial sponsorship.
- It is not public relations. Some limits of CSR can be approached by P. R, but a company do not incorporates into its strategy objectives of CSR, just to make public relations.
- There is no inconsistency with the main business objective, which is the profit.
- It is not words but deeds.

IS

- Is a social dialogue platform. Invests in credibility and trust created between the stakeholders after a fair, transparent and ongoing dialogue.
- Creates a level of mutual trust and respect, provides opportunities for synergies and continuous improvement, and understands the needs of all stakeholders for implementing actions.
- It is an investment that pays long-term results and cannot be measured directly.
- It is a source of innovation. Provides solutions and innovations for a company, a region, an industry or even society in general (CSR Guide for SMEs, Greek Network for Corporate Social Responsibility, 2008, pp. 5–6).

So, some companies that primarily engage in full-page listings in newspapers, to publicize their social activity, should be more careful as for the content of such actions. Corporate Social Responsibility is not the level of investment indefinitely, or the number of workers employed by a company, or the taxes paid. But is the money spent or collected for charitable purposes, the investments for antifouling purposes, the resulting reduction in water consumption of paper energy etc.

4. Marketing and CSR

We all know that marketing is under criticism. Partly is justified, but perhaps in a specific degree is unjust. Social critics claim that certain marketing practices harming individual consumers, society and other enterprises as well. Surveys usually show that consumers have mixed or even negative attitudes regarding marketing practices. Consumer advocates, government agencies and other critics blame marketing that harms consumers through high prices, deceptive practices, pressing sales, shoddy or unsafe products, deliberate uselessness and poor service to disabled customers. (Armstrong and Kotler, 2003, p. 706)

For these reasons and many others, consumers through various initiatives, organizations and movements are forcing companies to become socially responsible. And in this case, skepticism arises, whether the social responsiveness of a company is voluntary, forced, imposed or a self-obligation to society on which it depends and survives every company.

It is important to have complete separation of CSR from philanthropy and much more from marketing. CSR should not be used as a communication trick which will affect the consciousness of socially and environmentally conscious consumers – potential customers. Instead, the companies and their executives should see it as a holistic approach of the term business, from the perspective of how well integrated is a business organization in society. Since the company is licensed by the society and profits because of society. For these reasons, many states in the U.S., offering tax breaks and no rewards in the socially responsible companies.

Most consumers, especially in Greece, even if they accept, welcome and enjoy the CSR actions, they do not easily believe in the selflessness of these goals, referring these acts to the demon of Marketing. So there is a danger not only to confuse social responsibility with the functions of marketing, but also to cancel the beneficial effects it may have had the company of this initiative. This probably happens because in the minds of the consumer these practice is an indirect advertising, against which, they feel the need to defend.

5. Objectives of the Study

The present study attempts to address the following research questions:

1. How CSR is managed by the Greek Companies?

2. What are the perceptions of Greek managers about (a) how companies should implement CSR initiatives, (b) what are the benefits from CSR activities and (c) whether CSR should be institutionalized?

3. Does the way a company manages CSR activities impacts on managers' perceptions regarding (a) CSR initiatives implementation by companies, (b) the benefits of CSR initiatives and the (c) need for the institutionalization of CSR.

6. Methodology and Results

A structured questionnaire was designed and distributed via e-mail to 90 companies that are members of the Hellenic Network for Corporate Social Responsibility. The questionnaire contained several statements regarding perceptions of respondents about the way CSR activities should be managed, the benefits of CSR practices and the need for the institutionalization of CSR. These statements were rated on a five-point likert scale ranging from strongly disagree (1) to strongly agree (5). Moreover, the questionnaire included several questions regarding the way CSR activities are managed internally by the company and general questions about the size and the industry in which the company operates.

Sixty one questionnaires were returned. However, due to incomplete data two questionnaires were dropped from further analysis. Thus, the sample consisted of 59 companies. Statistical package for Social Sciences (SPSS) 17.0 was utilized for analyzing the data. Most of the companies came from sectors such as retail, health care, bank, telecommunication and energy sector. The average number of employees was 1.489,11.

Regarding the first research question it should be noted that 69.5 percent of the companies managed their CSR activities internally through a special department. For the majority of the Greek companies decisions regarding CSR initiatives were made both by the top management and the employees (69.5%). On the contrary, in eighteen companies of the sample, decision making process about CSR was made only by top managers. The majority of the companies implemented CSR initiatives regarding the society (89.8%), the environment (89.8% percent) and the employees (84.7%).

Table 1 shows the mean values and standard deviations of the statements that measure Greek managers' perceptions about CSR issues. Regarding the second research question results indicate that Greek managers strongly agree that companies should try to implement social and environmental objectives in conjunction with financial goals (M = 4.91, SD = 0.28). Moreover, they strongly believe that companies are obliged to implement socially responsible activities (M = 4.62, SD = 0.74).

In regards to the benefits associated with the implementation of CSR activities, most of the respondents believe that CSR practices increases a company's goodwill (M = 4.61, SD = 0.66) while they feel that public sector should support socially responsible companies (M = 4.66, SD = 0.60).

On the contrary, respondents moderately agreed that there is a need for the institutionalization of CSR (M = 3.88, SD = 1.31) and for the establishment of a national agency for the evaluation of CSR initiatives taken by Greek companies (M = 3.66, SD = 1.26).

Table 1

Mean and Standard Deviations of Managers' Responses about their CSR Perceptions

Items	Mean	Standard Deviation
Perceptions about companies and CSR initiatives		
Companies should not only set financial goals but also goals about their social and environmental performance.	4.915	0.280
Companies should be obliged to adopt CSR initiatives.	4.627	0.740
CSR activities should be managed by an organized department in a company.	3.966	1.144
CSR activities of companies should be published.	4.457	0.624
Perceptions about the benefits of CSR		
Implementation of a holistic CSR program increases a company's goodwill.	4.610	0.669
Implementation of CSR practices offers a competitive advantage.	4.339	0.733
Consumers should reward and support social responsible companies.	3.932	0.806
Public sector should prefer to cooperate with socially responsible companies.	4.661	0.604

Items	Mean	Standard Deviation
Socially responsible companies should be publicly rewarded with an «ethics awards».	4.305	0.969
Perceptions about the Institutionalization of CSR		
Institutionalization of CSR is imperative.	3.881	1.314
A national agency should be established to evaluate CSR activities of companies.	3.661	1.267
Institutionalization of CSR, should offer companies with financial and tax benefits.	3.661	1.281

In order to address the third research question and to test whether the existence of a CSR department in a company differentiates managers' perceptions about CSR issues a series of independent samples t-test were performed. The sample was divided in two groups based on whether the company had an internal CSR department or not. Table 2 shows the results of the t-tests.

Table 2

Results of Independent Samples T-Tests

Items	Existence of a CSR department		T-value	P-value
	Yes	No		
Companies should not only set financial goals but also goals about their social and environmental performance.	4.92	4.88	0.47	0.63
Companies should be obliged to adopt CSR initiatives.	4.60	4.66	–0.27	0.78
CSR activities should be managed by an organized department in a company.	4.29	3.22	3.64	0.00*
CSR activities of companies should be published.	4.46	4.44	0.10	0.91
Implementation of a holistic CSR program increases a company's goodwill.	4.73	4.33	2.16	0.03*
Implementation of CSR practices offers a competitive advantage.	4.43	4.11	1.60	0.11
Consumers should reward and support social responsible companies.	3.95	3.88	0.27	0.78

Items	Existence of a CSR department		T-value	P-value
	Yes	No		
Public sector should prefer to cooperate with socially responsible companies.	4.65	4.66	–0.04	0.96
Socially responsible companies should be publicly rewarded with an «ethics awards».	4.29	4.33	–0.14	0.88
Institutionalization of CSR is imperative.	3.90	3.83	0.18	0.85
A national agency should be established to evaluate CSR activities of companies.	3.60	3.77	–0.46	0.64
Institutionalization of CSR, should offer companies with financial and tax benefits.	3.41	4.22	–2.31	0.02*

*Significant at $p < 0.05$.

Significant differences at the 0.05 level were found between perceptions of managers who work in companies with an internal CSR department and those who work in companies which did not manage their CSR activities internally regarding the need of companies to manage their CSR activities through an organized CSR department ($t = 3.64$, $p = 0.000$). As expected, managers in companies with a CSR department believe more strongly ($M = 4.29$) than managers in companies without a CSR department ($M = 3.22$) that it is necessary for companies to have a CSR department.

Managers in companies with a CSR department also differed significantly ($p < 0.05$) from managers in companies without a CSR department regarding their perceptions about the benefits associated with the implementation of CSR programs ($t = 2.16$, $p = 0.03$). Specifically, managers who worked in companies with a CSR department believe more strongly ($M = 4.73$) that CSR practices increase a company's goodwill compared to managers in companies with no CSR department ($M = 4.33$).

Interestingly, results of the present study showed that managers also differed significantly ($p < 0.05$) in their perceptions regarding whether institutionalization of CSR should offer companies financial and tax benefits ($t = –2.31$, $p = 0.02$). Managers in companies without a CSR department supported more strongly the argument that financial and tax benefits should be offered to companies through the institutionalization of CSR ($M = 4.22$) than managers in companies with a CSR department ($M = 3.41$).

No other significant differences were found between managers in companies with CSR department and managers in companies without CSR department regarding perceptions about whether companies (a) should set social and environmental goals ($t = 0.47$, $p = 0.63$), (b) are obliged to implement CSR practices (t = –0.27, p = 0.78), and (c) should disclose information about their CSR activities (t = 0.10, p = 0.91).

Moreover, no significant differences were found between the two samples of managers in regards to their beliefs about whether: (a) CSR initiatives offer competitive advantage (t = 1.60, p = 0.11), (b) consumers should reward socially responsible companies (t=0.27, p=0.78), (c) public sector should support companies which implement CSR activities (t = –0.04, p = 0.96), and (d) socially responsible companies should be publicly rewarded with ethical awards (t = –0.14, p = 0.88).

In addition, the two samples of managers did not differ significantly in their perceptions about the institutionalization of CSR. Specifically, managers in companies with a CSR department did not differ significantly from managers in companies without a CSR department in their opinions about whether (a) it is imperative that CSR should be institutionalized (t = 0.18, p = 0.85) and (b) a national agency should be established for the evaluation of CSR activities (t = –0.46, p = 0.64).

Conclusions

The purpose of the present study was threefold. First, to investigate how Greek companies manage CSR activities, second, to explore managers' perceptions about various CSR matters, and third, to examine whether managers in companies which have formal structures for managing CSR activities, differ in their perceptions about the benefits and the institutionalization of CSR than managers in companies without a CSR department.

The findings of the present study indicate, almost 90% percent of companies in the sample engaged in some type of CSR activity (i. e. society, environment, and employees). However not all of the companies who acted responsibly had a CSR department. Results showed that almost 70% of the investigated Greek companies planned and implemented internally their CSR practices. The above finding is consistent with Pollach et al.'s (2012, pg. 204–216) study, which revealed that most companies in European countries have an internal CSR department for managing their CSR programs. Interestingly, in the majority of companies (70%) the management of CSR was made through a participatory model since companies involved employees in the decision making process regarding CSR activities. The present study also found that most of the Greek managers strongly agreed that companies should engage in CSR activities as well as promote them. Moreover, they feel that by implementing CSR activities companies can differentiate themselves and create a competitive advantage. However managers in companies with a CSR department believe more strongly that the CSR practices enhance the goodwill of the company.

Greek managers moderately believe that CSR should be institutionalized. In fact, managers in companies without a CSR department will accept in a higher extent the institutionalization of CSR as long as it offers financial and tax benefits compared to managers in companies with formal structures for the management of CSR. It seems that the way a company manages CSR activities (internally or not) does not impact in a high extent on managers' perceptions about CSR. This non existence of differences between managers in companies with CSR department and managers without a CSR department may be attributed to the homogeneity of the opinions of the majority of managers in the sample.

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TRADEMARKS MANAGEMENT: STRUGGLE AGAINST PARASITISM

Abstract

Essence and forms of ambush marketing as display of unethical competition and its effects on the authentic firm have been determined in the article. The author of the article has also defined directions of multipronged resistance to parasitism and has revealed its contents. Administrative-judicial and legal protection of trademark rights, which were outraged, have been proven in the article.

Key words:

Intellectual property, trade designations, commercial symbols, trademark, brand, unethical competition, ambush marketing, administrative and legal protection of intellectual property rights, Antimonopoly Committee of Ukraine, judicial protection of intellectual property rights.

JEL: M31, O34.

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Introduction

Each product or service we deal with in everyday life is the product of a great number of large and small innovations, which are the result of human intellectual activity. It's quite fair, that economic agents, who have created or legally bought items of intellectual property, have exclusive rights for their usage in their economic activities. In the meantime, successful completion of one's intellectual property rights, especially at the level of business structures, is impossible without working out a comprehensive strategy of managing immaterial goods.

Among the items of intellectual property, owned by the company, the management of trade designations – trademarks and other means of personalization (commercial names and geographical names), that provide identification of economic agents and/or goods, produced by them – is of great importance. The differences between trademarks and other means of personalization are to some degree conventional. Yes, trademarks can coincide with commercial names, if the manufacturer is willing to mark its goods manufactured with his name. They also have a number of similar characteristics with geographical names, which allows many countries (in accordance with national legislation or existing practice) to use geographical names as a trademark or its part.

The usage of trademarks provides advantages either for entrepreneurs or for consumers. Yes, they open up better opportunities for business agents to protect from unethical competition, provide facilities for distinguishing among the competitors, build up and solidify positive company image, allow distinct segmentation of the market (definition of one's market segment in order to influence it orderly, what provides cost cutout in comparison with marketing expenditures on development of a market), and, eventually, providing sales promotion, increase in company's profitability and competitive recovery of the firm in the market. For consumers trademarks are equally essential, in particular, they submit information about the item of goods, its quality, its manufacturers, provenance, etc., cut transaction expenses (for example, expanses on searching the necessary product and information on it, on identification of basic product characteristics). Trademarks guarantee consumers a number of assets and merit grade of particular goods, afford an opportunity to compare similar products and services. Thus, on arm's length terms, the usage of trademarks can assure congruence of manufacturers' and consumers' interests stimulate economic growth by means of competitive mechanism.

However, without legal seat, a trademark is just a marketing designation, which does not provide legal protection from its usage by competitors. In western marketing literature the process of trademark (brand name) creation, trademark registration and popularization is called «branding». Well-known status of a trademark conditions the success of a particular item of goods in the market and vice versa; conversely, the popularity of a brand is eventually converted into awareness of a producing company and its name among consumers. At the same time, successful business projects, that have built brands and have been using them, often become targets of unscrupulous competition. Such actions that, according to Ukrainian legislation, are called as «misuse of trademarks' names» (Uriadovyy kurier, 2009.), in western sources and, since recently in national research works, have been described through the concept «ambush marketing». The research of particular aspects of resistance to unethical competition in general and misuse of trademarks' names were pursued by V. Belyayev (Belyayev, 2009), N. Voronytska-Haydak (Voronytska-Haydak, 2011; Voronytska-Haydak, 2011), I. Nevinchanyi (Nevinchanyi, 2010) V. Makoda (Makoda, 2012), T. Romat (Romat, 2011), L. Rommanadze (Rommanadze, 2006), V. Solovyova and S. Tomchyshen (Solovyova and Tomchyshen, 2007) and by other researchers. However, research investigations of this problem are mainly dedicated to the analysis of judicial protection of trademarks and consider cases, when rights to trademarks have already been outraged. On the other hand, researchers overlook such problems, as preventive impact on competitors and consumers, organizational, economic and social aspects of anti-ambush marketing strategy. It puts on an agenda the need for scientific rationale of a comprehensive struggle strategy against manifestations of unethical competition either at the level of an organization or at the level of society as a whole, and systematization and generalization of national and foreign experience in settlement of disputes, related to violation of rights to trademarks. With allowance for this, the purpose of this article is to cast light on theoretic aspects of trademarks management and to work out tips for carrying out anti-ambush marketing comprehensive strategy.

The main part

As already mentioned, copying of another popular trademark for one's own trademark promotion is called «ambush marketing». Lesser-known companies can aim their efforts at imitation (counterfeiting) of a package design, its shape, company logo, its name, and the name of a particular brand. Moreover, some elements of a company's advertising image or its product are borrowed more often than not. Consequently, almost any component of a company image or its goods that, among the consumers, call up everlasting positive associations can be used by unscrupulous competitors.

As a rule, copyists give attention to forgery of text elements of the brand. For this purpose they use some fundamentals: names that sound the same (phonetic similarity), the usage of similar letters or signs (visual similarity), and the usage of similar or antonymic names (semantic similarity/semantic antithesis) (Yerkov). Except text elements, they make heavy use of design imitation. In such cases the following elements are forged: colour or colour scheme, location of details on the packaging, the packaging shape. Complex imitation is widely used, when several elements of text or graphic design are forged.

Dishonest firms can either act as direct competitors of an original trademark (for instance, toothpastes «Aquafresh» and «Aquarelle», beauty aids «Nivea» and «Livea»), or may extend another brand to the goods, uncharacteristic of this brand. In such a manner once appeared cigarettes «Baltika» and toothpaste «Orbit», that didn't belong to original manufacturers.

Ambush marketing is most common in the mass market. As large-scale goods are purchased quite often and their share in combined income of consumers is small, attention to such goods in the process of their purchase is diminished. Ambush firms (parasitic firms) hope for consumers' inattention and illiteracy in other markets also, exempli gratia, in the market of business machines. As often as not, a common buyer cannot remember all the elements of packaging design and their accurate location. It can also be difficult to remember the company name or/and the trademark name, especially if these trade names are written in a foreign language. Besides, it is not infrequent that, buying a forgery, a customer considers a certain alteration in packaging design of an article of merchandise he is familiar with, to be a version of this product or another product of the same company.

As practice shows, the number of ambush firms (parasitic firms) in the market can reach 3–5%. These are usually small companies, which do not lot upon a long stay in the market. Average life of ambush firms (parasitic firms) is 1,5 year (Kot), though there are examples of long-living clones. Imperfect legislation and ill-considered policy of brand firms can establish favorable conditions for longer continuance of ambush (parasitic) companies in the market. In the event that there is ill-considered policy of brand firms, there are two through scenarios. Firstly, in the situation, when the firm, which owns the brand, deliberately ignores the activity of the ambush (parasitic) firm, the latter is enabled to enlarge its market share and to penetrate into other spheres. Secondly, overactive judicial war against clone companies can serve them as free publicity that will make them notorious and even popular among ordinary consumers with all subsequent perspectives.

Undoubtedly, the activity of ambush (parasitic) companies damages original firms. First of all, an ambush (parasitic) company, which copies a household name, in fact, takes advantage of the resources of the original firm. In other words, not spending money on the promotion of its goods, such a company attracts a lot of customers. Secondly, due to the activity of a clone company, a brand owner loses some customers, and thus significantly cuts his revenue. Thirdly, in case that an ambush (parasitic) company makes goods in low quality, the reputation and image of the original company suffer losses, as customers, who have bought forgeries, often associate low-quality products with the well-known brand. Fourthly, it may happen so, that an ambush (parasitic) company has considerable financial resources, which enables it to enlarge its market share up to complete driving the original firm out of a market. Thus ambush marketing constitutes a menace for leading manufacturers and can render null all their perspectives in a particular fraction of market.

For this reason, in order to evade or eliminate such problems, brand owners should make a provision for the protection of their fictitious assets in the form of trade names. Economic agents yet at the stage of setting up their business and/or launching process should perform a number of acts, aimed at preventing copying or parasitism towards their trademarks and commercial names in future. So, when choosing a business name, one ought to take into account not only its possible influence on consumers, but also its ability to be judicially protected. Actually, the procedure of a trademark's official registration is intended to protect the market from identical names for identical goods and services. In the meantime, modern legislation and the practice of its appliance allows government bodies to register commercial names, which have only technical distinctions, for example, in one or several letters or numbers, what breaks a new ground for ambush marketing (parasitism). Specialists cite a number of words that are not recommended for usage in commercial names because of their constant operation in such cases. These are, particularly, combinations with letters of the Greek alphabet (alpha, beta, gamma, delta), human names (Max, Valeria), indication of an activity category (tour, trade, service, consulting, inform, market) and others. In other words, word-combinations like «prombud» (short for «industrial engineering»), «avtoservis» (short for «car service»), «copycentre» (short for «copy shop»), «alphabank», «sihmakabel», «agroproduct» are condemned to constant coexistence with clones in different fields. Moreover, one should not use class names as trademarks for goods and services. As practice shows, there have been registered such trademarks as: biscuits «Oatmeal biscuits», juice «Apple juice», bread «Rye-bread» and etc., which are completely «defenseless» in the market, as their competitors can quite legally use them as vernacular names for some goods and services (oatmeal biscuits, apple juice, rye-bread).

Choosing a product name, one must take into account legal restrictions. Thus, in accordance with Act of Ukraine №6 «About Preservation of Rights to Trademarks for Goods and Services» as amended on 05.22.2003 legal protection cannot be given to commercial names, which represent or imitate symbols of state (national emblems, flags and others); legal names of states; emblems and names of international intergovernmental organizations; official countersigns, responsibility hallmarks, standard marks, stamps; rewards and other badges of merit. According to this law, legal safeguard cannot be given to such trade names, as: the ones, that do not usually have distinguishing force and have not acquired it through usage; the ones that consist only of designations or data, that describes goods and services, referred to in the application, in particular, denote their kind, quality, mix, quantity, qualities, intended use, value, time and place of production or sale; the ones that are deceptive or may deceive as to goods, services or the personality of the manufacturer, who produces goods or renders services; the ones that consist exclusively of common symbols and terms; the ones that reflect only configuration of goods, stipulated by nature of goods or by the necessity to obtain underwriting result, or which attaches great value to the goods (Vidomosti Verhovnoi Rady Ukrainy, 2003).

Choosing a trade name it’s also advisable to take into consideration that tying in to famous words is not a ticket to success, as a lot of modern brands have been created on the basis of imagination of their authors as absolutely new words that had no parallels in most common world's languages. For example, the Swiss watch brand «Rolex» was created in 1908 and, in the opinion of its author Hans Wilsdorf, it was associated with the movement of clock hands on the clock face and was easy to remember and to pronounce. In his turn, the Dane Ole Kirk Christiansenin in 1932 called the company that produced tinker toys «Lego», basing on the fact that «Leg got» translated from Danish means «play well». The trade name «Nissan» was created in 1933 by curtailing two Japanese words «Nippon (Japan)» and «sangio (industry)». Company name «Tefal», which was set up in 1956 in France, was derived from two words – «Teflon» and «Aluminum». The name of »Sony» company was invented in 1957 by derivation from the Latin word «sonus», which means «a sound» (see: for example: Kleiner, 2004).

Before entering the market with one’s own trade name, it’s necessary to check the existence of analogous registered trademarks belonging to other economic agents. Rather common are cases when companies – undetected ambush (parasitic) companies – register the most popular trade names, and then wait for the occasion to resell them to potential manufacturers. If the trademark is really original, it is necessary to register it according to the corresponding course of law. An enterprise that invests in the development of its own original brand without its registration and legal support, risks losing vested capital with no hope of a return. Such a blunder is a real catch for competitors, as a trademark with similar characteristics can be registered by them «proactively». Par example, the fact of buying a trademark «MMCIS» from a Ukrainian businessman Anton Savchenko by a company «Forex Ememsis Group» for 100 million has become publicly known in Ukraine. This ambitious businessman recorded the trademark patent at the beginning of 2010, when the exchange market «Forex» had just began cultivating the domestic market. Two years later the public company «Forex Ememsis Group» expended its market presence in Ukrainian market and took the lead in its fraction of market, thus the company's management team decided to overcome legal obstacles to further business development and in June 2012 bought out the trademark «MMCIS» for the amount, the Ukrainian owner wanted for it.

For the firm, which launched successfully and has been working in the market for a long time, brand portfolio optimization for the purpose of finding out assets, legal protection of which makes no economic sense, plays a critical part. Taking into account one's own manufacturing and commercial interests, a company has an opportunity to refuse from usage of trademarks, unliable to legal protection, and of outdated brands, obsolete means of individualizing and etc. and can focus on the usage of original designations, what, on the one hand, will allow to mitigate risks of initialization ambush (parasitic) technologies by competitors, and on the other hand will cut losses of a firm with the perspective of market expansion and increase in a company's shareholder value. A trademark can «become redundant» in case of marketing hopelessness (phase-out) of goods it marks, registration by a firm of an analogous, but up-dated mark, that displays changed goods design, shifts in a company's strategy, according to which some lines of business are withdrawn and etc.

At the same time success and brand awareness can sometimes offend a firm-owner, especially if its output does not have substitutes, namely, a company is a monopolist for some time, e.g. is the first company to come into the market with these goods. A lot of Western firms with a well-known trademark, which is heavily used in advertisement, pay attention to the fact, that such a trademark runs a risk of transformation into a generic name, «come» into the language as a generic term. Once it happened to a lot of material names (cellophane, celluloid, nylon), names of medicine and products (aspirin, mineral butter, saccharin), and even to such names that have come into common use long ago, like hairdryer, dictaphone, kerosene stove, gramophone, escalator and thermos. All these are trade names, under which firms, which were first movers, released these inventions in the market for the first time ever. Having turned into a generic name, a trade name basically loses the owner, passing into a common command. After that the renewal of its owner's registration certificate at the patent office becomes impossible.

In judicial practice there are known cases, when the owners of trademarks under the court decision were divested of their exclusive rights to use their trade names because the trademark had lost its function of identification of particular goods and became a generic term. Let's give a cautionary example of an American company King-Seeley Thermos Co., the owner of 8 trade-mark registrations on the basis of the word «thermos». This company filed an action with the Court against the company Aladdin Industries, Inc. on grounds of threat of infringement of rights to prenominated trademarks. The litigant, in his turn, acknowledging his intention to sell containers with air-free heat guard as thermoses («thermos bottles»), claimed, that the word «thermos» or «thermos bottle» is a generic term, and asked the court to quash the record of the trademark «Thermos», which belongs to the plaintiff. As a result of the examination the court of primary jurisdiction issued decree, according to which the plaintiff's trademark registrations stand good in law, but the word «thermos» in the English language had become a descriptive generic term, and is a synonym of an air-free heat guard. Correspondingly, the bearer of responsibility may use the word «thermos» only with a small letter «t»; and may never use the words «original» or «genuine», when describing his product. The plaintiff preserves the exclusive right to all the forms of the trademark «Thermos» without alterations as well (Adroshchuk, 2004, p. 12).

Owners of the business can run into severe problems when changing the legal corporate form of their subsidiary facilities and dividing their corporate assets. Therefore, researchers insist on the importance of thorough judicial examination of intellectual property distributive mechanisms, in particular, rights to trademarks. Adjustment of proprietary interests between the founders in writing is very important, as well as identification of a trademark's appurtenance after some of the owners have left the enterprise. The fact is that rupture of partnership relations between former co-possessors is followed by their attempts to obtain the greater part of assets – from plant assets to fictitious assets and, if a trademark is a brand, the game is worth the candle. After reshaping of a business a brand holder should for some time scrutinize marketing mixes of the former partners in order to pick out attempts of ambush (parasitic) marketing in time, and also so as to assess the possibility of tackling intellectual assets after the partition of a parent enterprise.

A substantial part of an anti-ambush (anti-parasitic) strategy of the firm-brand holder is modelling of possible attacks by unscrupulous competitors. As a general rule, such jobs are put on patent agents. In reliance on careful study of the trademark's components: name, logo, packaging, colour scheme, investigation of consumers' associations with the product and elements of its design, the expert tries to model logic and modus operandi of ambush (parasitic) companies, in other words, to find text, visual or combined imitations of the product image, which can be used by unscrupulous competitors. After that all the combinations, that were found, are registered and the holder of the original trademark becomes their rights holder. For example, the firm Procter & Gamble only in Ukraine registered three word-combinations – variants of famous detergents: «MR. PROPER», «MEISTER PROPER», «MR PROPER», and the company «Astelyt» («Астеліт») took out patents for the following trademarks: «Life», «Life :)», «:)». It is rather difficult at this stage to find out fewest possible imitations, which ensure maximum protection of the brand.

It's necessary to warn some entrepreneurs with irresponsible attitude towards legal defense of the brand, who themselves induce the attacks of parasites. It happens so, that tied agents call hands to mass media concerning trademark launch and name future brands. As induction of ambush (parasitic) marketing we can consider such policy of a trademark holder, when a firm determines a price for brand goods, that is too high, and at the same time refuses to bring on the market cheaper substitutes. According to expert opinion, «it's better to attack oneself, launching product innovations and cheaper substitutes, than to allow your competitors or ambush (parasitic) companies do it» (Kot). For example, the forgoing company Procter & Gamble, producing comparatively expensive brand detergent powders Ariel, Tide, at the same time manufactures cheaper analogues Bonux, Gala, DAX. Under such conditions ambush (parasitic) businesses almost stand no chance, as the original firm mastered putting a wide range of goods on the market, each of which is aimed at a particular fraction of market.

At the same time it occurs, when anti-ambush (anti-parasitic) measures were assumed too late, incorrectly or not to the full extent, which did not allow to evade the problem of clone appearance. In that case it's very important for the damaged firm to ensure judicial protection of intellectual property rights to its trademarks in time. The legislation of Ukraine creates administrative-legislative and judicial defense of infringed rights. Administrative-legislative defense of intellectual property rights is often ensured by appealing to Antimonopoly Committee of Ukraine, which considers cases within the context of fair competition violation through designations misuse. Judicial defense of intellectual property rights makes provision for filing a claim in court for the purpose of recognition or restoration of infringed trademark rights, breach of a law termination, and reimbursement of damages, caused by a law-breaker.

As practice shows, the aforementioned defense methods can be quite effective and often supplement each other. For instance, an applicant, when appealing to Antimonopoly Committee of Ukraine, may claim recognition of unfair competition, termination of unfair competition, official denial at infringer's cost of false information, disseminated by him, of incorrect or incomplete information and imposing a fine on the infringer. If the Antimonopoly Committee of Ukraine recognizes some activities of a lawbreaker as unlawful use of designations, then an applicant has a right to file a claim in court for deletion of corresponding products with misused designations either from a manufacturer, or from a seller. Besides, based on the decisions of the Antimonopoly Committee of Ukraine an applicant can file a court action for compensation of damage, impaired by an infringer's wrong acts.

Either judicial or administrative-legislative defense of rights to trade names has unique features. Corresponding remedy mechanisms differ significantly in methods (demands, which can be made on an infringer by an applicant or a prosecutor), degree of legal investigating a case (the court, unlike the Antimonopoly Committee of Ukraine, cannot go outside the bounds of claims under the lawsuit), the level of perfection of proceedings on the reference (the procedure in court is more formal), subject matter (the Antimonopoly Committee of Ukraine reviews cases involving only agents of economic activity, who are competitors), legal efficacy of a decision (decisions of the Antimonopoly Committee of Ukraine can be challenged in court) and etc. (Zhuhevych, 2010, p. 29). Taking into consideration these peculiarities, an agent of economic activity chooses the most acceptable defense of infringed intellectual property rights to a trademark.

For example, the Italian company «Ferrero», a manufacturer of famous sweets «Raffaello» in Ukraine has successfully maintained its rights in the Antimonopoly Committee of Ukraine for many times. In 2005 the Antimonopoly Committee of Ukraine stopped towards its unfair competition of the SOE «Sevastopol winery» and Ltd «TD «Market Group», having prohibited these enterprises to produce and merchandise champagne «Raffaell», as the elements of its wrapping design on a compositional and graphical level coincided with the packing of the sweets «Raffaello». In 2009 the Antimonopoly Committee of Ukraine admitted one more fact of ambush (parasitic) marketing concerning the «Ferrero» company, this time on the part of Ltd «Viva» (Lutsk city). The party in fault was mulcted a sum of 300 000 hryvnas. It emerged, that Ltd «Viva» manufactured and sold the sweets «Extaza» and «Moonlit Raphael» in the package that imitated the style of sweet pellets «Raffaello». In 2010 Ltd «Viva» was again caught in unethical competition towards the corporation «Ferrero» and was fined at a rate of 30 000 hryvnas. As the Antimonopoly Committee of Ukraine determined, the Ltd «Viva» manufactured and sold chocolate sticks «Bonutti» and «Benitto» « in the package that imitated the style of the chocolate stick «Kinder Bueno», manufactured by the corporation «Ferrero». Besides the designations «Bonutti» and «Benitto» they bore similarity to the words of the Italian or Spanish languages, what evoked associations from the consumers with the trade name «Bueno». By the decision of the Antimonopoly Committee of Ukraine in 2009 and 2010 actions of the Ltd «Viva» were acknowledged as an attempt to use someone else's business reputation with the help of consumer fraud. The conspicuous fact is that in both cases of ambush (parasitic) marketing the wrongdoer firm has not advertised fabricated sweets at all.

By the way, in the same 2010 the mentioned above Ltd «Viva» was mulcted a sum of 20 000 hryvnas by the Antimonopoly Committee of Ukraine for unscrupulous competition towards the chocolate-maker «Mars Inc» (the USA). As the Antimonopoly Committee of Ukraine found out, the offender manufactured the sweets «Twist», «Success», «Bambo», «Milka» («Milla») in the packages that imitated the style of chocolate sticks «Twix», «Snickers», «Bounty» and «Milky Way», manufactured by »Mars» companies. In sweets' design they used the main graphical and compositional elements of famous confectioneries' wrapping. Thereby, the Lutsk confectionary tried to use someone else's business reputation, what contravenes honest commercial customs in entrepreneurial activity. The showed examples testify that Ltd «Viva» approved ambush (parasitic) marketing as its basic competitive strategy, but in each case original companies skilfully protected their business interests, turning to the Antimonopoly Committee of Ukraine.

As national practice shows, very often the subjects of ambush (parasitic) marketing go to the law, appealing against the decision of the Antimonopoly Committee of Ukraine or the decision of the first-instance court in all existing courts of appeal. Agreeably, while the case is being litigated, it is considered not to be solved finally. Judicial proceedings are lengthy, while all this time the ambush (parasitic) trademark is in the market, gains improper profits and continues to injure reputation of the original trademark. However, as experts claim, judicial remedy is the most effective among security arrangements against ambush (parasitic) marketing, as it allows for the most complete satisfaction of the claimant's interests, though it supposes rather complicated procedure of proving illegal actions of the imitator, necessity to engage lawyers and necessity to stand one's ground, including courts of cassation and courts of appeal.

The successful legal defense of violated rights is the litigation ««Nycomed» versus «Pharma Srart»». Norwegian company «Nycomed», the owner of the household name «Cardiomagnyl» filed an action with the economic court against Kyiv firm «Pharma Start», which in 2010 registered a trade mark «Cormagnyl» for a suchlike domestic medical drug. Having come through several judicial instances, this litigation came to Superior Economic Court of Ukraine, which affirmed the decision of previous courts to disuse in economic activity the trade name «Cormagnyl», storage and sale of this product, its import and export and other claimant's demands. Consequently, attempts of the enterprise-defendant to turn out analogous to branded, but much cheaper medical drug, using semantic similarity in the names, were stopped as a result of log-term legal investigations.

Simultaneously, there are also examples of legal proceedings, unsuccessful for the original firm. For instance, in 2008 Russian pharmaceutical company «Nizhpharm» launched into the market medicinal product from arthritis «Chondroxide», to which Ukrainian factory «Pharmak» replied with medicine, which had similar formula and name – «Chondrasil». In 2010 «Nizhpharm» filed a suit, claiming to close down manufacturing and realization of medical drug «Chondrasil» and also to render ineffective the warrant of registration by the company «Pharmak» a trade mark «Chondrasil» and hereafter not to use this trade name in marketing communication. After the two-year lawsuit Superior Economic Court of Ukraine put the matter to rest and on November 14, 2012 dismissed the plaintiff's claims and did not ban to sell medical drug «Chondrasil», produced by the company «Pharmak».

In general, the survey of homeland and world practice of adjudicatory jurisdiction, connected to trademark rights, testifies to the necessity of further improvement of Ukrainian legislation in this branch. To contemporary problems of legal regulation of trademarks, which require additional attention of scientists and law-makers, experts assign the following ones: the questions of administrative-judicial defense of rights to trademarks, legal responsibility for deeds of crime, happening at the stage of pendency of applications and expertize, the mechanism of administrative hearing of the mentioned cases, legal protection of well-known trademarks and prevention of their registration by the third party and etc. (Makoda, 2012, p. 28).

Conclusions

Ambush (parasitic) marketing as the culture of borrowing successful trademarks by less successful competitors has become profitable business in many countries of the world. The name of a particular brand or design of goods' packing that are a great draw and are sold readily, are imitated most often. Correspondingly, cases of ambush (parasitic) marketing happen mainly in consumer's markets. The activity of a clone-firm brings it large income with minimal engineering-manufacturing and merchandising efforts; at the same time it causes significant losses for an original company and dupes the public. Imperfect legislation in some countries makes the activity of clone-firms almost unpunished, what encourages unethical competition in the field of intellectual property. Simultaneously, in highly developed countries, where legal protection of trademarks and their legal defense, as well as legal consciousness of the citizens, are at rather high level, cases of ambush (parasitic) marketing are also fairly common. Significant factors that stimulate ambush (parasitic) marketing in this case, are blunders of well-known firms in management of their own trademarks. That's why the most effective remedy for ambush (parasitic) marketing is preventive actions. Every brand holder should realize that countermeasure and stopping of future infringement is more effective and profitable than struggle with ambush (parasitic) companies in operation. Anti-ambush marketing strategy ought to be shaped yet at the stage of new product development and its launching into the market. In particular, the trademark should be original (sui generis), and take into account regulatory restrictions. Trademark registration has to be ahead of its aggressive advertising. Except the main trademark, well-established companies often register analogous (similar in sounding or visualization) trademarks, what prevents any possible attacks of unscrupulous competitors. At the stage of growth and maturation the company-brand holder should wage prudent canvassing campaign of its trademark, taking into consideration the risk of brand name's turning into a generic name. It is always important for a top company to conduct cautious pricing policy in order not to allow extremely high price, what may attract competitors. Every step of the way a firm can be reorganized, what provides for its owners the necessity of scrutinous processing of intellectual property distributive mechanism. In the event that offered actions did not allow evading problems, connected with ambush (parasitic) marketing, effective means of one's defense of rights can be appeal to competition support agencies and recourse to a court. As national practice shows, proceedings in cases of unfair business practices in Antimonopoly Committee of Ukraine and courts of different jurisdiction hold judicial promise, but require considerable financial, intellectual and time expenses.

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Microeconomics

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STANDARDIZATION OF QUALITY MANAGEMENT IN CONSTRUCTION

Abstract

Quality standardization is especially important for companies that provide construction, installation and repair services. The subjects of the construction industry that ensure a high level of quality management systems and are capable of promptly passing the construction site with the best cost performance of construction works and services are characterized by competitive advantages. This article requires special attention to standardization of the quality of work and services in the sphere of the construction and development of regional building clusters.

Key words:

Standardization of construction works quality, quality management, regional building (construction) clusters.

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Statement of the problem. In developed economies, with a healthy competitive environment contractor's reputation and professional qualities are given a priority value when deciding on co-operation or ordering goods (works, services). Indeed the companies that have established the practice of maintaining high standards of business processes, and also provide good quality products (goods and services) and management outcomes, are more stable, viable, and solvent, which makes cooperation with them less risky.

It is known that standardization of quality is performed by both domestic and international organizations. But if the national standardization system is aimed mostly at ensuring the required level of quality of goods and services, the main objective of the international one is quality leveling of goods and services produced (provided) by enterprises in different countries, ensuring interoperability of products (services) elements; Aid for Trade, exchange of scientific and technical information and speed up scientific and technological progress.

Analysis of recent research and publications. The economic literature paid much attention to the problems of standardization and quality certification, bringing quality to international standards. These issues are explored many foreign scientists, including: N. Arhipova, S. Bushuyev, R. Dzhozefson, H. Vinh, I. Kondo, D. Silverman, P. Samuelson, as well as domestic, including: S. Kropelnytska, A. Petrunyak, Yu. Rebryn, I. Tkachuk, M. Shapoval and others.

As part of our research emphasis requires standardize quality management and services in the system of construction in Ukraine.

The aim of the paper is the study of building structures in the regions in terms of standards and services for establishing quality standards of practice outcomes and enhancing economic competitiveness.

Materials and findings. Quality standardization is especially important for companies that provide construction, installation and repair services, since the construction process is long, driven by a wide range of risks, costs, and being capital-intensive, depends on a number of subjects of the environment (manufacturers and suppliers of building materials, design organizations, electric utility companies, administrative bodies and regulatory agencies, subcontractors, financial, transportation, logistics, etc), institutional factors and transaction procedures. Accordingly, those construction industry entities that ensure a high level of quality management systems and are capable of promptly passing the construction site with the best cost performance of construction works and services, are thus characterized with competitive advantage, especially in the markets of other regions of Ukraine and foreign markets.

Quality aspect is also important for the cluster structures, which are often referred to in scientific studies of the analyzed problems. I. Tkachuk, S. Kropelnytska and A. Petruniak in their paper «Organization of production by cluster model» prove the importance of having within a cluster some quality samples of goods (services), with which to constantly compare results of current management[1].

It is known that standardization of quality is done by both domestic and international organizations. But if the national standardization system is aimed more at ensuring the required level of quality of goods and services, the main objective of the international one is quality leveling of goods and services produced (provided) by enterprises in different countries, ensuring interoperability of products (services) elements, trade aiding, exchanging scientific and technical information and speeding up scientific and technological progress. Accordingly, proof that the companies comply with local building standards are getting their licenses for certain types of construction works; international quality standards – certificates for certain areas of standardization.

In Ukraine State Standard of Ukraine organizes and coordinates the work of standardization and the state system of standardization, establishes the organizational and technical rules for works and provides their interdepartmental coordination, determines the order of state registration of legal documents involved in carrying out activities of international and regional standards, and Ministry of Construction and Architecture of Ukraine directly organizes standardization works in the field of construction. Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine takes part in the work on standardization and organizes these activities within their jurisdiction through the main or basic organizations for standardization. The regional level is provided by the relevant standardization technical committees. As can be concluded national standardization system is constructed by analogy to other areas of government, having both vertical and functional characteristics, which on the one hand provides a higher level of control and on the other creates additional bureaucratic obstacles, leading to complications (due to the need for coordination of activities) of its operation and is a significant burden on the state budget. Accordingly, prospective way of elimination of these shortcomings is de-monopolization and privatization of national standardization system in Ukraine's regions, appropriate expansion of non-state structures and civil society organizations competences.

Nevertheless, any specific complaints from building companies about impossibility of the standardization procedures or their excessive cost in the media or specialized academic and industry publications in regions of Ukraine are not traced, and the number of licenses issued each year is increasing. There is a

[1] Tkachuk I. G. Organization of cluster model production: manual / Tkachuk I. G., Kropelnytska S. O, Petruniak A. D. – Ivano-Frankivsk: «Play» Publishing House CIT Stefanyk Carpathian National University, 2009. – pp. 95–96.

widespread practice when the same experts are claimed as representatives of various companies to obtain building permits. This suggests that despite strict state control and regulation the license-obtaining procedure for construction works in the regions of Ukraine is quite liberal. The reason for this is objective, since authorities are interested in increasing the number of entities in the construction industry and scope of their activities, subject to the appropriate level of quality and services, safety, environment and others.

However, the procedures of the international standardization system are somewhat more complex and time consuming due to, among others, a greater number of problems to be solved. This in addition to the international convergence of quality goods and services and to promote scientific and technical cooperation, is elimination of technical barriers to trade and harmonization of regulations (which is particularly important for local construction firms in conditions of low «acquis communautaire» harmonization), safety and health guarantee as well as environment protection.

Add that UNECE has identified only 15 sectors applicable for standardization of quality including construction equipment and elements. Therefore, more attention should be paid to quality management of this component as part of the resources for regional building clusters.

International Organization for Standardization (ISO), International Electrotechnical Commission, and the International Telecommunication Union are leading international standard organizations. In addition, the recognized international organizations participating in the standardization include UNECE, World Trade Organization, the International Organization of Legal Metrology, International Organization of Consumer Unions, and quite a large number of structures that have clearly specialized (sectoral) orientation. Recognized regional standardization organizations are CIS Interstate Council, the European Standardisation Organisation, NATO and others.

Note that the most common in regions of Ukraine is the practice of certification in the International Organization of Standardization (ISO), which is understandable, because it is one of the most experienced and respected organizations in the analyzed area, while having private ownership. Although the cost of the quality standardization procedure is high (costs are primarily required for training specialists for company that wants to undergo standardization, and for the activities they have to perform) and it requires quite a long period of time, obtaining a certificate ensures the other economic participants in the construction sphere that company's services are safe, reliable and of high quality. Moreover, it is also important for the efficiency of business processes, and serves as a strategic tool to reduce costs by minimizing the time and production losses, expansion of production capacity and better meeting the needs and demands of consumers, increasing market share, getting access to foreign markets and leveling conditions of competition with leading international construction companies, improving social and environmental responsibility.

It should be noted that quality management (ISO 9000), environmental management (ISO 14000), social responsibility (ISO 26000), risk management (ISO 31000) are among the most popular ISO standardization items. This is true for domestic regional building clusters because of the importance of these aspects in construction activity and in those areas whose reinforcement their creation and development are oriented towards.

Regional building clusters management employees and regional and local authorities should pay attention to the activities of many international scientific societies and consortia participating in international standardization. In particular, they have a structure that specializes also in the construction industry. These include American Society for Materials Research (ASTM), a non-profit organization that develops standards and documents worldwide in several economic activities, including construction, and the International Council for the rules and regulations (ISS), a nonprofit organization whose function is to develop a single comprehensive and coordinated national model standards that directly relate exclusively to the construction sector.

Obviously, during creation and development of regional building clusters it is important to ensure the conditions that give priority to the construction business entities that have established a quality management system, to participate in these structures. It is important to consider several aspects. First, the construction companies that received government licenses for full-range or certain types of construction work, and carry them in compliance with the national legislation of regulatory construction support (i. e. within national norms and standards) and also identify themselves as performing activities in compliance with the standards. However, in this case, the only standardized item is quality of construction and repair work. It can not go about ensuring quality of an entity's full range of business processes and does not systematically cover all its management functions. Thus, compliance with the described approach no longer meets modern requirements for effective functioning entities. That is why as one of the targets of construction policies and programs in regions of Ukraine it is important to determine not only compliance with government regulations and standards, but also the formation of construction quality management business processes and, more promising – the interaction of participants of integrated building structures.

Secondly, the company that provides construction services can provide adequate quality control of their business processes without obtaining this evidence from leading international standardization organizations by drawing appropriate procedures in the form of intra-management documentation. This approach has both advantages and disadvantages, so it can not be characterized as sufficient or perfect. The benefits can be attributed directly to the actual implementation of quality management and business processes control as well as saving on a system standards quality conformity certificate and its annual maintenance. However, the main drawback is the lack of a document confirming compliance with the standards, which is not conducive to the strengthening of its intangible competitive advantage.

Thirdly, practices of quality control standardization of various subsidiaries, related, affiliated companies or individual construction stages of the process, such as design or construction of infrastructure facilities, counseling services and implementation process construction support, financing, or sale of completed projects should be considered positive, but still not enough.

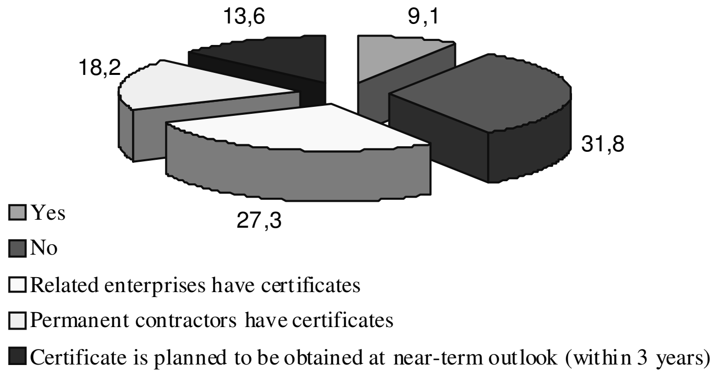
Thus, regional governmental bodies should cooperate fully with construction companies and other participants of cluster structures in their implementation of quality management systems to obtain certifications recognized by international organizations for standardization. But it is clear that this requires a clear understanding of the problems and challenges that accompany such initiatives today and view of both perspectives and specific mechanisms and appropriate assistance tools at the regional and local levels, strengthening effective factors in promoting the transition of enterprises to international quality standards. This can be achieved at cost of the regional and local budgets by financing managers and enterprises specialists training, providing services of international experts on the implementation of quality systems management with further tracking of construction companies, whose representatives have been trained or consulted, receiving the relevant international certificates.

Unfortunately, despite the mentioned feasibility and benefits, domestic enterprises in the regions of Ukraine rarely decide on the implementation of quality management systems business process followed by the procedure of international standardization (Fig. 1).

Thus, the results of the expert survey (the representatives of the leading construction companies and organizations engaged in Lviv Region namely for the period of April – June 2012 22 experts who are managers or professionals of such enterprises as «Comfortbud» Building Company, «Galbud» JSC, «Karpatbud Corporation» JSC, «Eco- Home» Holding Company, «Integral–Bud» SE, «SV» LLC, «Eurobud Plus» PE, «Lviv Engineering and Construction Company» LLC, «World of Construction and Comfort» LLC, «Frankivskmiskbud» BC, «Ars – Bud» ICC, «Skol» BIC, «Dobrobud» BC, «Ternopilbud» BC, «Creatorbud» BC were interviewed) show that only 9.1 % of the industry consider it necessary to standardize procedures and passed the quality management system of international organizations (e. g. ISO). Almost every third building company in the area (31.8 %) and their main contractors and business partners did not pay attention to standardization problems. However the practice of obtaining international quality certificates by related companies is more widespread (27.3%).

Figure 1

Structure of the respondents' answers to the question «Does the company management have international organizations certificate for standardization?»
(specified by the author on the results of the expert survey)



In order to minimize the time and cost of major construction companies of the region quality management standards are implemented at their subsidiaries or affiliates whose activities are mostly highly specialized and controlled by a limited number of employees (usually up to 10–15 people). It is therefore much easier and cheaper for such economic agents to go through all the necessary procedures. But the marketing benefits of getting international certificates of quality standards are enjoyed by the parent company as well as other related companies. In particular, the practice has spread to major construction companies in the region including «Comfortbud BC» JSC, «Galbud Company» JSC, «Eco-House» Holding Company among others. In 2003 the group of companies «Comfortbud» established «Comfortbud Institute for Design» which provides «turnkey» integrated design (new construction, reconstruction, technical re-equipment, and restoration) and the development of individual and special sections project proposals. Most of these works are performed for related companies and «Comfortbud» Institute for Design LLC has ISO 9001:2008, ISO 14001:2004 and other ISO certificates (area of certification: development of urban planning, integrated design of residential, public and industrial buildings with utilities, engineering work) (Official web site of «Comfortbud» Institute of Design. – [Electronic resource]. – Mode of access: http://www.comforfbud.ua).

Moreover, since the problem of quality management standardization has absolutely not been considered by 31.8% of the industry, we found that 63.6% of the enterprises lack systematic activity of quality management systems standardization (which includes the development of regulatory, planning and monitoring compliance with procedures). That is actually a deeper problem, since nearly two- thirds of the construction sector undertakings in the region lack not only appropriate, but any attention at all to the problems of quality management. Hence problems of construction and services quality instability arise, along with not acceptable indicators of financial and economic management efficiency.

Furthermore, in the context of proper institutional environment conducive to the development of construction quality management it is important to extend the competence of construction industry associative structures and consulting, to promote innovation and cluster connections in the field of communications, create regional and local coordination processes management standardization activities in the field of quality of business processes in construction and the formation of contractual relations between the parties.

To address the most significant barriers to the development of quality management in construction enterprises of Ukraine regional and local authorities need to create favorable conditions for improving entities resource and financial support. Therefore it is necessary to develop appropriate local and regional target programs which include these measures aiming at financing the improvement of the material and technical base and giving the entities access to information and methods of quality management systems preparation and standardization. It is important that priorities of the state financial and credit assistance (reimbursement of the interest rate or loan funds of commercial banks, extension of capital and interest rates repayment terms etc) enterprise projects in the regions of Ukraine were supplemented by funding projects to standardize the quality of real sector entities in regional economic systems.

Organizational support from the authorities should be considered an important addition to resource, financial and economic assistance to building enterprises in the introduction of modern quality management systems. It can be expressed in comprehensive care in passing the relevant process stages of standardization of quality information, support cluster members who wish to improve business process management, etc.

Obviously, experts and officials who work in construction at present lack the experience, skills and knowledge to independently organize and implement comprehensive measures to implement quality management systems, especially in large enterprises, employing a large number of employees, and technological process consists of a large number of operations. Therefore businesses need some professional support. This means full or partial payment of consultant services aimed at sharing the experience, skills, professional knowledge of the organization as integrated systems and implement there quality management systems, assistance in obtaining sufficient training and development of intellectual and staffing of regional building clusters, getting access to the necessary expertise.

Thus full-scale work of creating a favorable environment for the development of quality management systems in construction also requires the formation of positive public opinion, because its absence objectively reduces firms' incentives to implement appropriate measures which incur significant cost. Therefore, regional and local government should implement measures aimed at improving attitudes towards companies that have standardized their management system and participate in the cluster structure, awareness of all stakeholders' construction market preferences and objective necessity of integrating as well as improving management efficiency.

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