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NATIONAL LOUIS UNIVERSITY**

**ECONOMY AND EDUCATION OF  
UKRAINE: ON THE ROAD TO EU**

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## INTRODUCTION

European integration is a civilized choice of Ukraine and one of the key demands of the Revolution of dignity. It occupies a special place in the system of foreign policy priorities of Ukraine.

European integration for Ukraine is the way of economic modernization, overcoming of technological backwardness, attraction of foreign investments and new technologies, new jobs creation, increasing the competitiveness of domestic producers, access to world markets and particularly to the EU market. As an inalienable part of Europe, Ukraine is oriented on the socio-economic development model operating in leading European countries.

The advantages of integration into the EU are related to the creation of reliable mechanisms for political and economic stability, democracy and security. Rapprochement with the EU is the guarantee, and the implementation of its requirements is a tool to build democratic institutions in the country. In addition, EU membership will open the way to the European Union common security collective structures, will ensure more effective coordination with the European countries, in particular in the field of export control.

A moment comes in the European integration process of every country, when the foreign policy issues turn on a number of specific and highly complex internal policy objectives.

For this reason, the presented monograph is concentrated on the disclosure of some main problems in the internal policy of Ukraine in achieving European integration level of development.

The collective monograph consists of three major structural sections. The first section is devoted to management and marketing actual aspects solving. The second section reveals modern aspects of producing powers transformations and modern features of territory development. The authors of the third section dedicated their work to the problems of providing national security investigation.

In the monograph scientists share their views as to the most difficult and most important stage that Ukraine experiences in its modern history. The publication is intended for a wide circle of readers.

The authors will be grateful for comments and suggestions made and will consider them in their future work.

**I.**  
**ACTUAL ASPECTS OF MANAGEMENT  
AND MARKETING IN THE CONDITIONS  
OF EUROPEAN INTEGRATION**





# **THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF INNOVATION RISKS MANAGEMENT**

***Tatyana Plysyuk,  
Igor Britchenko***

The main criterion of economic development is the use of scientific and technological progress in the production of new products and services to meet the growing needs and demands of man. The problem of risk and income is a key to innovation, because the question of risk is not separated from the economic mechanism and various factors. Implementing innovations there is a relationship between profit and risk in which a high level of risk can be an offset by a significant level of income.

One of the main causes of risk is the lack of comprehensive and reliable information. Innovation risks analysis is the identification of risk factors and assessment of their importance, i.e. analysis of the probability that some adverse events will occur and negatively affect the achievement of the goals of innovation activity. To reduce the riskiness in carrying out innovation activity by businesses it is necessary to form effective management of innovation risks management. Each version of the risk management system meets certain efficiency criteria value, and the task of management is to find a management option, where appropriate criterion would have the most favorable value.

Problems of innovation risk management are represented in a significant amount of scientific papers of various researchers, including L. Donets, Y. Zavadzki, S. Illyashenko, M. Yohno, N. Krasnokutskaya, M. Meskon, T. Skrypko, V. Stadnik, J. Schumpeter. In modern scientific literature different approaches to understanding the concept of “innovation risks”, their analysis, assessment, prevention and specific impact on innovation processes are suggested.

The purpose is to study the existing problems affecting the level of innovation risks, ways to prevent, reduce them or compensate possible negative effects when taken of innovation activity through effective innovation risks management.

The modern market environment is inseparable from the risk that exists in all sectors the market regardless the fact it is taken into account or ignored. Therefore it is necessary not to ignore the risk acting on the basis of fictitious reduction of uncertainty but duly consider it.

The risk is extremely complex and multifaceted phenomenon, not only in economy but also in any other sphere of life. The cause of the risk and creation of basis for uncertainty and ambiguity between entities are such sources of risk (Donets, Shepelenko, Barantseva and oth., 2012):

- spontaneity of natural processes and phenomena, natural disasters;
- accident of events;
- existence of different tendencies, clash of conflicting interests;
- probabilistic nature of scientific progress;
- unreliability and incompleteness of information about the object, phenomenon;
- scarcity and lack of resources to overcome the random factors;
- inability to clear cognition of the object, process, phenomenon;
- relative limitations of mind activity of the entrepreneur, differences in socio-psychological installations, evaluations, stereotypes behavior;
- imbalance of the main components of economic mechanism.

In practice, the risks do not exist in isolation, but occur together. The relationship of risks is a key aspect, because risks can strengthen or weaken each other. It all depends on what risk is considered in a specific analysis. That is, as a result of the relationship of risks there is a synergistic effect. In the work of innovative structures synergistic effects can appear in such a way (Baranovska, 2008):

- by interaction of the risks of another new risk occurrence;
- strengthening of intensity of risk as a result of another risk affecting it;
- increase in losses due to increased risk;
- increase in intensity of actions of several or all the risks associated with cause-effect relationships;
- increase in probability of new risks appearance.

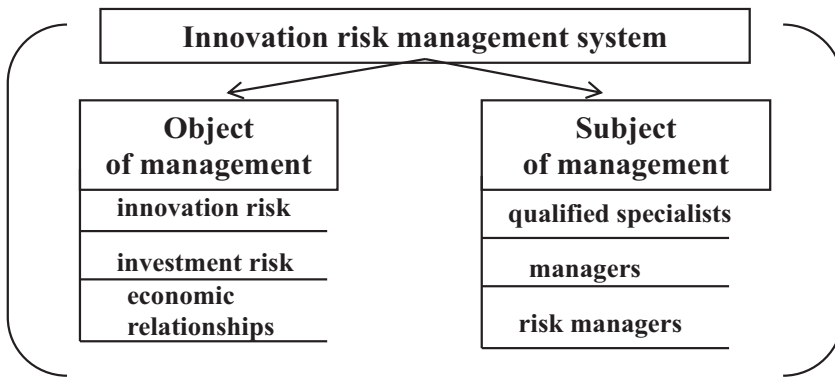
Innovation risk - a type of economic risk, which has the objective-subjective dialectic structure and describes the probability of deviation of actual results of innovation activity from the planned as a result of variability and uncertainty of the economic environment. On the one hand, it acts constraint on innovation enterprise development, as carries a likelihood of a negative result of innovation activity. On the other hand, it is a powerful incentive for advancing competitors and taking advantages on the market (Illyashenko, 2010).

Innovative development significantly than other activities is associated with risk. As a result of adverse events of innovation risk, usually of 10 innovation 5 are at a loss. The other five developments allow only 3 to "go to zero", and two innovations make a profit; it is distributed to all 10 developments that are not less than 40%. However, the prospects of high

returns from innovations negate the increased risk of innovation activity (Okhrimenko, 2013).

Innovation risks management is series of practical measures which are formed on the basis of principles, methods and tools for management decisions taking into account defined performance criteria, allowing to reduce the uncertainty of innovation, improve the implementation of innovative projects to reduce the cost of achieving the objectives of innovation (Pokotylova, 2009).

In general, innovative risk management system can be represented as the interaction of the object and the subject of risk management (Fig. 1). Object Management directly serves innovative risk, risky investments and economic relations between actors in the process of entrepreneurship. The subject of management is qualified managers, providing risk management of innovation activity by using various methods and mechanisms of administrative influence.



**Fig. 1. The innovation risk management system**

*Source: based on generalized (Donets, Shepelenko, Barantseva and oth., 2012), (Illyashenko, 2010), (Pokotylova, 2009)*

Ensuring full predictability in innovation is one of the challenges because the quite significant costs could give zero result after a considerable risk, because the risk is defined as the state of knowledge where one or more options for each alternative are known and when the probability of realization of each outcome is known for the decision maker. Based on the fact that the essential feature of innovation is the increased risk, the primary objective of any innovation-active enterprise is risk management (Karpun, 2009).

The objective function of risk management of innovation activity is the development and implementation of management decisions aimed at preventing or solving effective risk situations that arise in the process of innovation, i.e. the restoration of the original state of the innovation process

and its positive development trends in the environment at the lowest possible losses (Pokotylova, 2009).

It is important not only to manage risk, but also periodically review the measures and tools of such management. Summary of the literature allows offering the following main stages of the innovation risk management process:

- 1) identification of risks involves the classification and characterization, as well as factors that give rise to risky situations;
- 2) analysis of risk events includes an assessment of quantitative parameters and qualitative characteristics of innovation risks, value of potential losses and determine the variability of methods to influence the risk;
- 3) response to the risks that involves determining the rules and approaches, indicators and limits to risks and implementation of planned methods of the impact on risk;
- 4) control and monitoring of innovative risks, reporting on risk management.

Enumeration of stages shows that risk management is the cyclical process. In fact, the last stage is the operator of the end of the cycle, that assigns back to the beginning. Risks must be monitored constantly, periodically reevaluating their spending. It is worth noting that faithfully executed and carefully documented first estimate may simplify future activities.

Risk management is not line process, almost all its stages are interrelated, and at the end of any of them the need to return to the previous one may occur. Thus, the identification of innovation risks may be that the selected boundaries of the analysis should be expanded, and the degree of detail - increased. Especially primary analysis is difficult when multiple returns to the beginning are inevitable.

There are several interrelated factors that affect the success of innovation risk management as innovation in a separate project, and the whole of innovation activity: the organization of risk management; level of development tools, methods and availability of funds for risk management; quality of risk management measures. The absence or insufficient expression of one of these factors destroys the entire system of risk management (Pokotylova, 2009).

The process of innovation risk management must be based on the following basic principles (Goncharov and Martynov, 2013):

- awareness of risk-taking;
- adopted risks control;
- correlation between accepted risks level and profitability of business operations;

- correlation between of accepted risks and possible losses of the company;
- accounting of time factor;
- accounting of enterprise strategy in the process of risk management;
- accounting of the possibility of transferring risks to third parties.

Effective management of innovation risks implies a plan of sequential actions in case of adverse events, which involves the use of certain methods and measures to minimize negative effects.

Usually innovation risk arises in such cases:

- introduction of a cheaper method of production or services that has already been used, and the manufacturer or user of innovative products faces only on kind of risk – the possibility of wrong assessment of demand for this product or service;
- in the creation of innovative products on operating equipment - in this case, the risk of incorrect assessment of the demand for a new product or service joins the risk of inconsistency of quality of goods or services in connection with the use of obsolete equipment;
- the manufacture of innovative products based on new techniques or technology - an innovative risk includes the following risks: the risk that new product or service cannot find a buyer, the risk of non-compliance of the new equipment and technology to necessary requirements for the production of new goods or services, the risk of inability to sell set up equipment because it is not suitable for the production of other products, in case of failure of the implementation of innovative products for which that production equipment was created.

At the first stage of the management of innovation risk process is important to identify them, and within selected species to spend most detailed analysis and identify the factors contributing to their occurrence. Identification of risk - a continuous process of identifying varieties, sources and risk factors which the company meets in its activities.

Thus, innovative risk management is a continuous process, since it implies indefinite duration in time and a set of standard elements, which are the basis for specific risk management techniques depending on the scope of business, industry and the economy as a whole.

There can be a significant amount of causes for specific risk situations, so to ensure the effective management of innovation risks there must defined the diversity of their species. Analysis of factors affecting the emergence of innovation risks is associated with the identification of the type of risk, because the various risks inherent to various causes. However, one and the same reason may be the fact of occurrence of several risks.

Variety of risks affects the complexity of risk classification, because there are certain risks, actions of which without exceptions are subjected to organization, but along with general there are specific types of risk related to the business activities of the individual entrepreneur and lack of information about the state of the environment (Donets, Shepelenko, Barantseva and oth., 2012). To classify risk in the most complex and correct way is possible considering different criteria. Selection criteria depend on the purpose and characteristics of risk analysis.

Classification of risks is a division of risks into separate groups according to certain characteristics to achieve certain goals. Scientifically grounded classification of innovation risks allows to clearly identify place of every risk in the overall system. It creates opportunities for the effective implementation of appropriate methods and techniques of innovation risk (Skripko, 2011).

Types of risks help to better to understand the essence and trends of risk, ensuring the effectiveness of management, that is correct decision-making. Innovation risk by its nature is a kind of business risk, which occurs at different stages of advancement of innovations influenced by both external and internal factors.

Classification of risks of innovation activities is developed for the formation of its analysis methodology and development of possibilities of their application and practical use. On the one hand, the general classification is determined by formal rules that ensure the correctness of the method of investigation and adequacy of received classification system.

On the other hand, the classification has always to subject to purposes of research, perform scientific analytical tasks. As a result, generated classification system can and should vary considerably in its specific content, but rather to have the same type of solid (typically hierarchical) structure. Depending on the problems arising in innovation it may classify risks in the following areas (Pokotylova, 2009):

- developing methods for predicting risk situations - classification group are formed by the following two criteria: general input data for the development of forecasting of risky situations and their consequences, common methods and models of forecasts;

- formation of methods of analysis and evaluation of risky situations, in this case, the classification is performed by three criteria: the overall directions of use of the analysis and risk assessment, common methods of obtaining initial data for analysis and risk assessment, and general methods and models of risk assessment;

- modeling of risky situations - formation of classification groups is performing by two criteria: the overall directions of modeling of risky

situations and their consequences, general consumers of the results of modeling;

- development of solutions for risk management, in this case classification group is formed by three aggregated criteria: overall objectives of risk management – strategic (before risky situations) or tactical (after the risky situations), common functional subsystems providing control and risk management, general resources involved in risk management.

The result of innovation risk identification phase is to determine the list of sources, which should be the fullest for effective analysis and impact on the risk situation that emerged.

At different stages of the innovation process, starting from applied scientific research projects and completing the implementation of an innovative product, there may be different types of innovation risks (table 1).

**Table 1**  
***Types of innovation risks depending on the stage of the innovation process***

<i>Stages of innovation process</i>	<i>Characteristics of stages</i>	<i>Factors of risk</i>
Stage of creation	a negative result in general or in a timely manner; inability to obtain patents and certificates; negative effects for the ecology;	- incorrect choice of innovation activity direction; - the choice of unacceptable ideas for further development; - errors in the calculations; - inability of implementation of technological level; - breach of confidentiality, licensing terms, standards and certification; - wrong choice of realization way;
Stage of implementation and bringing to market	rejection by the market	- availability of analogues; - discrepancy with needs of consumers; - development of marketing innovations strategy for inadequate market situation; - lack of innovation support;
Stage of growth	insufficient development, which does not implement all the strengths of the product	- the development of innovation, which is not in the interests of consumers; - underestimation of competitors; - incorrect determination of prices; - poor organization of marketing policy;
Stage of slowing growth	lower sales volumes compared with the planned	- rapid aging of innovation; - analogues appearance;
Stage of decline	decline in sales, possible losses	- the emergence of cheaper analogues; - the possibility of improving the quality parameters; - inability to reduce the cost, and therefore the price of goods (services)

*Source: based on generalized (Illyashenko, 2010), (Pokotylova, 2009), (Skripko, 2011)*

As each stage of the life cycle of the innovation process has certain characteristics, then this classification of innovation risks regarding the life cycle of innovation makes it possible to more fully identify and specify innovation risk to prevent double counting in the analysis.

At each stage of the life cycle of the innovation process risk is different. The greatest risk is inherent the early stages of the innovation life cycle: idea generation, development of test sample, test market product – that is at the stage of product development (Semenchenko and Moroz, 2013).

The enterprise should determine the appropriateness of risk criteria of which may be different depending on the specific areas and strategies of the company, the terms of commercial contracts etc.

The ratio between the possible profit, the cost of obtaining it and the degree of innovation risk can be differentiated in such a way so that its feasibility or unreasonableness could be concluded with a certain probability (Denisenko, Grechan and Chigirik, 2005).

Since risk has an objective basis because of the uncertainty of the environment and subjective, because of decision-making by a certain person, the successes and failures in innovation should be seen as the interaction of a number of factors. Some of them are external to the entity, and others – internal (Urodovskih, 2010).

A detailed definition of the causes and types of manifestations of innovation risk enables them to classify risks caused by external (macro-level) and internal environment. To identify a priority of one or another factor is impossible, because they are linked, a change in one factor may result in changes in the other, so their impact on risk is correlated.

The degree of risk depends on the characteristics of the innovation process. Great risk may mark a fundamentally new innovation of science and technology that radically alter the technical and technological basis of production and management. They need to change the way of thinking and quick adaptation of staff to new production schemes, which favorably affect the productivity of labor and capital. Different partial modernization of equipment, production technology, updating of products, reduction of production costs, increase of material interest, etc. are of the less risk (Lytyuga, 2013).

The impact of macro level factors on innovation risk appears as a threat of adverse conditions for innovation in general. The main macro factors that have a significant impact on the innovation activity are presented in table 2.

For innovation activity one of the main environmental factors is the development of scientific and technological process, low degree of which can lead to obsolescence of technologies and equipment, management and marketing, production, and so on. As a result there is a significant risk in the implementation of innovations.



**Table 2*****Classification of factors influencing innovation activity at macro level***

<b>Factors</b>	<b>Elements</b>
Technological	<ul style="list-style-type: none"> <li>- pace scientific progress;</li> <li>- development of science and technology;</li> <li>- technological and technical orientation of the economy;</li> <li>- technology transfer;</li> <li>- innovation activity;</li> <li>- mechanization and automation of the production process;</li> <li>- availability of developed infrastructure;</li> <li>- information support;</li> </ul>
Economic	<ul style="list-style-type: none"> <li>- pace of economic development;</li> <li>- structure of the economy;</li> <li>- level of business activity;</li> <li>- inflation level;</li> <li>- investment climate;</li> <li>- currency exchange rate;</li> <li>- level of unemployment;</li> <li>- household income level;</li> <li>- property;</li> </ul>
Political and legal	<ul style="list-style-type: none"> <li>- political situation;</li> <li>- economic legislation;</li> <li>- labor legislation;</li> <li>- customs legislation;</li> <li>- tax system;</li> <li>- impact of public organizations;</li> <li>- degree of government corruption;</li> <li>- degree of integration into the world economy;</li> <li>- forms of lobbying;</li> </ul>
Social	<ul style="list-style-type: none"> <li>- population density;</li> <li>- population movement;</li> <li>- fertility and mortality rates;</li> <li>- level of morbidity;</li> <li>- share of the working age population;</li> <li>- distribution of population by age and sex;</li> <li>- national composition;</li> <li>- standard of living;</li> <li>- income distribution;</li> <li>- social security;</li> <li>- consumer protection;</li> </ul>
Ecological	<ul style="list-style-type: none"> <li>- state of the environment;</li> <li>- climate conditions;</li> <li>- geographical location conditions;</li> <li>- provision of resources;</li> <li>- ecological legislation.</li> </ul>

*Source: based on generalized (Volkov and Deviatkin, 2008), (Ilyashenko, 2010), (Stadnik, and Yohna, 2011), (Starostina, 2004)*

One of the factors of the external uncertainty is distortion of information on stages of its collection. In particular, the problem can be caused technically - because of limited analytical capabilities and precision equipment. In this area the theory of measurement is actively developing; it is applied whereby further information is considered with errors that limit the range of uncertainty. The emergence of uncertainty in data collection may also be associated with methodological support features. This problem is most clearly manifested in the sociological and marketing research, when the fact of collecting information may cause its distortion (Kravchenko, 2008).

The state of innovation is affected by economic processes taking place in the country and the world. Unfavorable changes in economic conditions at local, regional, sectoral, national, international markets, falling purchasing power of consumers, rising prices, inflation, devaluation and so on cause a significant level of risk, as well as its long-term nature. Significant impact on innovation risk is the economic situation in the chosen field of activity, so it is obligatory to take into account the changes that occur in it.

Imperfection of political and legal environment: legislative, executive and judicial systems, credit and financial system, political rights and guarantees increases the level of innovation risk.

Influence of governmental bodies and laws on the level of innovation risk is contradictory. On the one hand, they regulate innovation, but on the other hand, the legislation regulating the activities of companies is characterized by mobility, and sometimes uncertainty. And this can lead to unexpected changes in investment conditions that create a hostile environment in the innovation of enterprises (Gracheva and Lyapina, 2010).

Constant changes and amendments that are made by legislative bodies, deprive businesses of confidence in the reliability of their activities. High tax rates increase the innovation risk. But the innovation risk is also increased because due to the instability of tax legislation, the likelihood that tax rates may change, usually in the direction of growth (Karpun, 2009).

Social factors, such as the conflict in the interests of different social groups, worsening demographic and social situation: significant differentiation of the population by income, the decline in quality of life, social insecurity, the proportion of people of working age, etc., affect change in the level of innovation risk.

Degree of innovation risk increases with possible negative impact on the environment of innovation production or of an innovative product. Factors macro level are almost unmanageable, can be caused by a mass of random phenomena and events of probabilistic nature, have a direct or indirect impact on the level of innovation risk and can only be minimized with effective management.

The negative impact of macro factors is manifested as a complication of conditions of carrying out innovation activity. Main micro factors that determine the level of innovation risk are shown in table 3.

**Table 3**

***Classification of factors influencing the implementation of innovative activity at the micro level***

<b>Factors</b>	<b>Elements</b>
Investment	<ul style="list-style-type: none"> <li>- types and characteristics of investors;</li> <li>- investment attractiveness of the region, industry;</li> <li>- terms of cooperation;</li> <li>- state of investments portfolio</li> </ul>
Competitive	<ul style="list-style-type: none"> <li>- types and characteristics of competitors;</li> <li>- direction of activity;</li> <li>- main types of products;</li> <li>- market share;</li> <li>- level and stability of competition;</li> <li>- competition strategies</li> </ul>
Consumer	<ul style="list-style-type: none"> <li>- target group of consumers;</li> <li>- purchasing power;</li> <li>- degree of commodity availability;</li> <li>- system of requests;</li> </ul>
Intermediary	<ul style="list-style-type: none"> <li>- types and characteristics of intermediaries;</li> <li>- terms of cooperation;</li> <li>- main types and characteristics of products;</li> </ul>
Supply	<ul style="list-style-type: none"> <li>- types and characteristics of suppliers;</li> <li>- conditions and the supply;</li> <li>- main types and characteristics of products</li> </ul>

*Source: based on generalized (Denisenko, Grechan and Chigirik, 2005), (Illyashenko, 2010), (Maramohina, 2013), (Starostina, 2004)*

Active opposition of competitors, especially in high-yield markets and industries that intensively develops, increases innovation risk. As a result of competitive pressure unstable and weak producers will be forced to leave the market. Success in the competition contributes only to those who define the new requirements, produce new products and introduce new technologies. Thus, the competition creates mechanism of economic competition, forcing entrepreneurs to analyze their economic strategy. The more competitors are represented in the market, the more new strategic initiatives occur. Competitive struggle also increases if demand for goods and services is growing slowly because enterprises need to fight for a market niche. This struggle stimulates the growth of new strategic ideas aimed at the conquest of

consumers of goods and services. Competition will grow when the rejection of the activity that is the exit from the business, for the entity costs more than the continuation of the competition. To survive in the competition, the market competition must be studied, strengths and weaknesses of all competitors must be identified.

Consumers may not adopt new products, especially if they are very different from traditional as well as possible changes in consumer needs and preferences may occur for the period from market research to product launch. This causes changes in the level of innovation risk.

Degree of innovation risk increases when there are possible changes in the terms of cooperation between innovator and trade marketing intermediaries, because the new product may need to change the existing or building a new marketing system that may cause resistance of suppliers, especially if consumer response to innovation is not defined.

Changing conditions of supply and activity profile suppliers increases the risk of innovation. Also significant is the fact that traditional raw materials and components may be unsuitable for product innovation, so it is needed to change suppliers or provide extra motivation for existing ones.

Factors of external and internal environment affect both the likelihood of innovation risk, its level and duration in time.

The influence of external factors on the risk is determined by internal features of management and operation. The main internal factors affecting the level of innovation risk include the status and availability of resources such as (Starostina, 2004):

- ✓ technical and technological state;
- ✓ staffing;
- ✓ form of organization;
- ✓ information availability;
- ✓ financial position.

To assess internal resources, identification of objective conditions that give rise to the risk and conditions that are directly dependent on the quality of collective enterprises, the question of control of factors is considerably important. Usually such classification is used in the analysis of factors (Stadnik and Yohna, 2011):

- factors which are amenable to management (adjustable) - the factors that characterize the quality of the team, the level of production and labor, quality of management, the level of resources, the effectiveness of the economic process;

- conventionally adjustable (adjustable difficult) – the factors and conditions that depend on the previous history of functioning of the object in the research period, are only partially subjected to actions from the side of

subject of considered organization (in the company, they are the scope and structure of fixed assets technical characteristics of the production structure of production staff, etc.);

- factors that are not amenable to management (unregulated) – the factors and conditions that cannot be changed by subject of control (climate, geological, political, terms of sales and so on).

The effectiveness of innovation is determined by their specific ability to conserve resources per unit of generated products and the effectiveness of innovation is characterized by the following types of effects, such as: scientific, technical, economic, resource, social, environmental on the basis of comparison of results obtained through the use of innovation to the cost of their design, production and consumption.

Also, it is necessary to emphasize the specificity of determining effects depending on the scope of innovation (the production of goods and services, improvement of technical and technological support, decision-making, creating conditions of life).

Referring the factor to one or another group depends on a certain level of control and duration of the period of implementation of the decision.

Also, there can be identified the main risk factors common to all stages of the innovation process, because the risk is a subjective value:

- experience and qualification of people who make decisions;
- motivation of people who make decisions;
- coordination of actions and interests of those who make decisions;
- extent of providing information to people who make decisions about the characteristics of the external and internal environment.

A number of interrelated factors affect the success of innovation risk management, among which include (Gracheva and Lyapina, 2010):

- organization of of risk management;
- level of development of tools, methods and means for the risk management;
- quality of implementation of the innovative risk management.

The absence or insufficient expression of one of these factors destroys the entire system of risk management.

The organization of effective risk management includes innovative informational and methodological support, system of distribution of rights and duties, powers and responsibilities.

Effective risk management organization is focused on the rational combination of all elements of the management system in a single process, which could create synergy effect.

Tools of innovation risk management are based on a combination of objective and subjective methods and means for risk management. In the

absence of formal ways to identify “weak signals” an experience, common sense and intuition of all participants play a major role in the effectiveness of risk management. At the same time focus on subjective methods of innovative risk management can lead to erroneous decisions, become an additional source of risk. It is no less important is the development and formal means of risk management innovation, which include the creation of a knowledge base in the field of risk innovation, staff training on the prevention, detection and mitigation of risk situations, analysis of the effectiveness of measures for of risk management innovation, etc. (Pokotylova, 2009).

In addition, in the organizational context innovation can lead to unintended negative consequences both on the external and the domestic levels.

Also, a significant impact on innovation risk is not so much the low level of material support as its inefficient use, low qualification of specialists taking and implementing decisions regarding the development of innovation. According to the World Bank, the national wealth of the developed countries only 5% are natural resources, 18% is financial and industrial capital, and 77% is the knowledge and skills to manage it.

Therefore, the foundation of effective innovation risk management is to create conditions for as most harmonious combination of its elements:

- selection of experienced team;
- preparation of special documentation for innovation risk analysis;
- choice of means for risk analysis;
- analysis of the distribution between the parties;
- preparation of reports.

Analyzing the risks of innovation activity it is also necessary to take into account consequences of risky situations. Risk situation is the process of changing the state of individual elements of the internal and external environment of the organization. This process takes place in space and time. The dynamics of the risk situation in space determines the scale of the risk and therefore the level of decision-making. In terms of spatial development risk situation can be characterized as an area of competence, in which there are negative deviations (primary risk centers) or in which the effects of these negative deviations are felt or negative combinations of deviations (secondary centers risk). The spatial dimension can also be seen as involving different levels of risk management. From this position, risk situation can be attributed to the bottom, middle and top-level decision-making (Kravchenko, 2008):

1) risky situations on a lower level are local, as a rule, they are concentrated in certain departments or business units; adopt typical activities that are related directly to the area of competence of the structural unit and have a typical (standard) solution;

2) risky situation at the intermediate level decisions arise in primary centers of risk controlled by different departments, or their consequences - risk secondary centers - spread to certain departments or business units; risky situations at this level require collective decision-making, taking into account the interests and motivations of the various structural units; decision-making require additional development of methods of coordination and harmonization; system of communication and organization of knowledge management in the organization are particularly important at this level for successful of risk management, or decisions made by a unit excluding other structural units, can be a source of new risks;

3) risky situations at the highest level of decision-making affect the majority or all departments or business units and are strategic, as are related to the overall level of competitiveness and are designed for the long term; the focus of decision-making at this level is concentrated at the primary centers for the formation of risk and measures to exclude risk situations; risk management at this level is implemented as a subsystem in the strategic management of the organization.

The level of uncertainty in innovation activity, caused by the lack of information, is largely determined by the quality of forecasting and risk analysis. However, along with the objective uncertainty regarding the future, uncertainty can arise at the inaccessibility of information sources (if information has limited access, such as the system of national security or trade secret of competitor). In this case, special attention should be paid to the expansion of information sources to justify decisions in the sphere of innovations.

In practice, innovation risk management is often carried out unsystematically and intuitively, and that affects the results of implementing the chosen strategy (Starostina, 2004).

The effectiveness of innovation activity depends on how accurately assessment and expertise of risk are made, as well as how adequately methods of risk management are defined.

Methods of risk management of innovation activity classified depending on the nature of risk. If the risk does not depend on the actions of the team managing the project (net risk), risk management is focused on mitigating of occurrence of risk situations. In other cases, the innovation risk management is aimed at full exemption or reduction of the possibility of risk situations (prevention of risks, training, forming a system of risk management, etc.). Monitoring of the innovation process and decision-making to reduce the risks are necessary to adjust innovation activity and achievement of the organizational goals in unstable environment. The impact

on the degree of innovation risk is carried out in the following directions: prevention, acceptance, reduction, avoidance.

One of the most effective means of risk management is to prevent it, but, in practice, this method works only in some cases.

Risk acceptance is a decision to leave the risky event which entails losses which are acceptable and do not threaten the financial condition of the organization.

Avoiding risk, that is avoidance of certain actions, is often connected with refusal of the profits, that is the risk of unused capacity.

To reduce the risk of possible by optimization of it using formal and informal methods. The main methods of impact on risk is insurance, redundancy, diversification, limitation, aimed at minimizing the risk of innovations (Stadnik and Yohna, 2011).

The most common method to minimize risk is insurance which is essentially the transfer of certain risks. Insurance in the broader sense means protection against adverse events that may occur. Insurance as a method of prevention and reduction of is a combination of economic and legal relations between the parties to form a certain insurance fund and use it for damages and payment of insurance premiums. Generally there are three directions of insurance: personal, property and liability insurance (Kovalchuk and Kovalchuk, 2012).

Reserving of funds as a way to reduce the negative consequences of risk events lies in the creation of special funds to cover losses with the help of working capital. Creation of resource reserves for unforeseen expenses allows to compensate the risk occurred in the project, and thus compensate failure in the implementation of the project. This is a way of dealing with risk, which involves setting the ratio between potential risks, that affect innovation, and the amount of expenditure required to overcome the failures in the implementation of innovations (Krasnokutska, 2003).

Risk limitation is limiting the amounts of potential losses. Innovation activities is carried out by three types of limited resources (setting limits with a significant degree of uncertainty of innovation activity is rather arbitrary notion).

Diversification is the most reasonable and relatively less expensive way to reduce the risk and provides defining of the kind of activity, which can most effectively realize the competitive advantages of the company. The process of diversification of risks for any company is challenging, because in each case both positive and negative aspects of this strategy must be considered.

So innovation activity is characterized by high uncertainty of dynamics of the main factors that affect its results. Maximizing the positive and



minimizing the negative consequences of the occurrence of risky events is a major challenge in the management of innovation risk, which is a purposeful process, associated with the identification, analysis, risk assessment and effective management decisions.

Innovation, in contrast to the stable processes, can result in complete failure. However, a growing number of entrepreneurs starting the implementation of innovations prefer to calculate their risks and chances, predict bottlenecks and try to reduce the possible negative consequences. These problems are solved with the creation of an effective system of innovation risk that should structurally and functionally combine research, production, financial, human resources, create a harmonious mechanism for management of all subjects of the system.

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# **STRATEGIC ANALYSIS AS A PRIORITY METHOD OF ENSURING THE DEVELOPMENT OF THE TRADE**

***Radmila Pidlypna,  
Yuriy Pidlypnyi***

The stabilization of the economic situation in Ukraine and gradual progress in the development of market relations in recent years has created the conditions of doing business to achieve long-term success in the competition managers have to plan their activities for the long term. This trend applies to many sectors of the national economy, but the most notable is manifested in trade, where competition and fight for the consumer have recently become especially intense and acute. In modern terms a major commercial enterprises management tasks is to develop sound long-term development plans based on setting clear priorities and targets. To solve this problem the analytical management function is needed like never before aimed at providing a full strategic decisions.

Leading commercial enterprises and companies are increasingly using administrative methods and approaches, which are defined as methods of strategic management for the ensuring their strategic development. This is facilitated by objective reasons, increased competition, structural changes and transformation in the industry, the use of new technologies - all these changes require from management companies and commercial enterprises, foresight and rationality in decision-making, on the one hand, efficiency and instant response on customer's requests and market needs, on the other.

In transition and market conditions every commercial enterprise builds its future independently and it can potentially expect as a success and bankruptcy. In these circumstances, the task of the enterprise is market research and identification of customer needs and thereby the ensuring of a long-term existence; defining the objectives of the company; determining the scale and specialization; establishment of the effective relationships with suppliers; ensuring the competitiveness of enterprises by means of balanced strategies and achievement of the competitive advantages; the ability to manage their own finances and the effective use of investments; determining the required staffing and its high professional level; effective management of innovation, technological and social orientation.

The practical problems solvent, related to the need for long-term operation and sustainable development of commercial enterprises, depend on manager's perception and their use of methods of the strategic management.

The leading experts in the theory and practice of management believe, that an important and dominant phenomenon in strategic management is the strategic thinking (Fatkhutdynov, 1998). Its essence lies in the awareness of purpose of the enterprise, ways to achieve it, necessarily and rapid response to changes occurring in the external and internal environment, in the formation and implementation of strategies.

Strategic thinking involves the study of consumer needs, opening new opportunities for the organization; creating the favorable conditions for its activities, and the ability to see the long-term challenges that may arise in its path in the future.

Strategic thinking is based on a sense of responsibility for the success of the chosen strategy, competitiveness and investment attractiveness of the company that should be a characteristic of managers and leading specialists of business. The strategic thinking is characterized by the ability to consistently set priorities for the development of the enterprise, focus on recognition and timely response to changes, which occur in the environment. Strategic thinking is embodied in life through specific management function that is a strategic management.

Strategic management is seen primarily as a dynamic set of interrelated management processes. In its structure, the main stages or objectives are distinguished, including environmental analysis, which is considered as the starting process, because it provides a basis for the next stage, the definition of the mission of the company. In the next stages of strategic management the objectives are defined, a strategy as a tool to achieve goals is developed, strategies are implemented and finally the business activity is evaluated, new trends are examined and adjustments are made.

Regarding the analysis of the environment, it provides analysis of the situation both in the external and internal environment. Today, the attention of senior management of the commercial companies should be more focused on the strategic aspects of business than the management of operational processes and middle managers can be completely responsible for it.

Unfortunately, the domestic management had not yet reached a level where each level of management hierarchy clearly knows and performs its duties implementing in practice the benefits of delegation of authority and freeing to senior management a valuable time to work with the strategy.

Meanwhile, in the West, according to the annual survey of world famous consulting firm Bain & Company, the most popular and effective management tool is recognized a strategic planning (Rigby and Bilodeau,

2006). This study, which covers nearly 7.3 thousand of companies from 70 countries, allows to see that the leadership of the majority of western foreign companies (79%) giving the priority to strategic planning. In addition, the list of the most popular management tools includes the customer relationship management (CRM), benchmarking, the analysis of key competencies, growth strategy, balanced scorecard (Balanced Scorecard) and a number of other tools that are usually related to the field of strategic management.

Strategic analysis as practical scope of activity is the informational basis for strategic planning and strategic management decisions. Updating of strategic planning at the same time provides for increased attention to strategic analysis, which is responsible for providing the necessary information and analytical support of the optimal strategies.

Methodical and organizational aspects of strategic analysis are still not well studied and applied in practice, trade companies and enterprises. A partial explanation for this fact is that strategic analysis is not governed by any regulations and insufficiently secured methodically - today in Ukraine, a few manuals on strategic analysis are issued.

However, in the second half of the last century the foundations of the strategic analysis of the science were laid by such prominent scientists as: M.I. Bakanov, O.P. Zudilin, V.V. Kovalov, M.I. Kovalchuk, M.N. Kreinina, Ie.V. Mnykh, M.S. Pushkar, B. Raian, K. Uord, A.D. Sheremet, S.I. Shkaraban, and in recent years a significant contribution to the development of strategic analysis made O.V. Aliksieieva, V. Baranchieiev, V.H. Herasymchuk, T.V. Holovko, P.L. Hordiienko, R.M. Hrant, O.Ie. Nikolaieva, K.I. Redchenko, S.V. Sahova, Kh. Sedlachkova, A.N. Khorin. Scientific and methodological developments of these authors allow to describe the subject matter and the scope of strategic analysis, to develop and deepen its methodological component. However, despite these studies, many theoretical, methodological and organizational aspects of strategic analysis require additional attention and scientific study.

In particular, the problem of implementing a comprehensive strategic analysis based on financial and management accounting, analysis of core competency and efficiency of intangible assets of commercial enterprises and companies are still unresolved. The need to address the above and other important methodological and organizational problems of the strategic analysis has led to the choice of the theme of the thesis.

The content of the strategic analysis is treated differently in the scientific literature. Most foreign authors define strategic analysis of both the preparation and evaluation of information necessary to make strategic decisions (Grant, 1998; Fry and Killing, 2000; Sedláčková, 2000), or as a method of evaluating the strategic position of the business and its ability to

use this position for development (Meagher, 2002). Another view holds prof. R.A.Fatkhutdinov who believes that the strategic analysis is the implementation of appropriate management function, focused on the perspective and one that has a high uncertainty (Fatkhutdinov, 1998; Khasys, 2004). In our view, this definition does not understand the essence of strategic analysis and does not determine its characteristics.

We agree with the opinion of prof. K.I.Redchenko, who considers the strategic analysis as the complex research of positive and negative factors that may affect the economic situation of the company in the future and how to achieve the strategic goals of the company. With strategic analysis, a comprehensive strategic plan for the company is prepared; the scientifically based, comprehensive and timely support strategic decision-making is carried out (Redchenko, 2002). We agree that strategic analysis is a comprehensive research for the future, and its primary task is to support the strategic management decisions. However, it is important to emphasize the focus of strategic analysis to choose the optimal development strategy among many possible. Therefore, we propose to define the strategic analysis as a comprehensive study of external and internal information for developing the business strategy and strategic management decisions (Pidlypna, 2010).

Strategic analysis plays an important role in the strategic management, or as it is often called, strategic process is one of the most important management business processes of any organization.

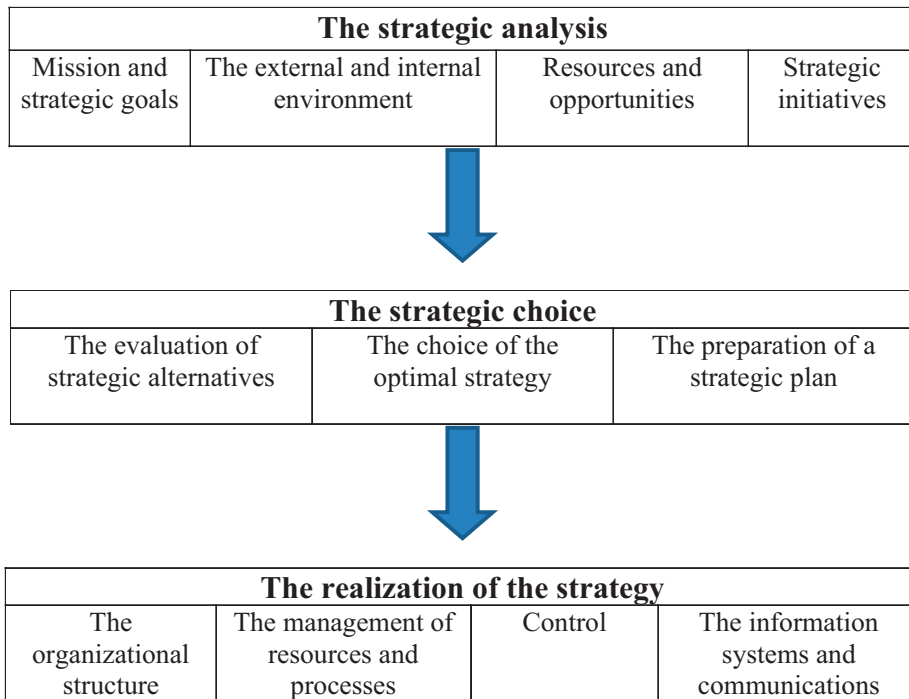
There are many models of strategic process, which differ by names and by the degrees of detailing, but almost every one of them includes three main phases:

- 1) strategic analysis;
- 2) strategic choice;
- 3) strategy implementation (Fig. 1).

The strategic analysis as part of the strategic process ensures the formation of the mission and strategic goals of the company, the study of external and internal environment, the assessment of the available resources and opportunities and the development of the strategic initiatives that are the basis for the selection of strategic management. To provide the strategic analysis, as noted above, managers and specialists of different levels are involved. The next stage (strategic choice) is to study the information provided by the strategic analysis, and determining the optimal option strategy that is fixed in the strategic plan. The strategic choice is the prerogative of the senior management of the company; other employees can only perform auxiliary functions.

At the final stage of the strategic process is the implementation of the strategy. Besides, the appropriate changes in the organizational structure of

the company should be provided, an effective management of resources and processes was established, a reliable system of controls was created, a supportive information system and the system of internal communications was introduced.



**Fig. 1. The process of the strategic management (general model)**

The strategic management of any company starts with a mission. Mission is a synonymous with the main overall objective of the company, on the bases of which a set of strategic goals is built. As it is noticed by leading experts in management: M. Meskon, M. Albert i F. Khedouri, "The value of the mission, which is formally expressed and effectively presented to employees of the organization cannot be overstated. Developed on its basis targets are used as criteria for the subsequent decision-making. If managers do not know what are the main purpose of their organization, they will not have the logical reference point for choosing the best alternative. Without a mission statement, as a guide, leaders would have as a basis for decision-making only their individual values" (Meskon, Albert and Khedoury, 1992). Let us note, that for the diversified companies, which combine more than one activity for each business unit, it is recommended to formulate their own mission that is different from the broader problems of the company.

On the bases on the mission, the company defines its strategic goals, allowing management to formalize the idea of the main targets of their company in the future. The strategic goals should be specific, realistic and well-defined at the time. In addition, an important feature of the strategic goals is consistency: management decisions and actions to achieve a specific goal should not prevent the achievement of other goals. As a rule, strategic goals are reviewed annually, although some of them may remain unchanged for several years.

In the scientific literature, many different groups of strategic objectives can be met. During the last century the concept of management by objectives (management by objectives) was quite common, under which about a dozen groups of strategic objectives was allocated. The most common of them gives in his monograph Anthony Ryan: 1) profitability; 2) markets; 3) performance; 4) products; 5) financial resources; 6) production facilities and buildings; 7) research and development; 8) the organizational structure of the company; 9) human resources; 10) Social Responsibility (Raia, 1974). Later, at the beginning and in the middle of the 1990s, the strategic goals of most group started four or five groups: finance, customers, internal business processes, learning and development (Kaplan and Norton, 1992); sometimes indicators of social responsibility to this list are added. We believe that a specific list of strategic objectives and their grouping should be determined individually for each company, as shown in the literature recommendations should not limit the creativity of managers.

After defining the mission and strategic goals of the company, the diagnostic procedures of the strategic analysis are performed, particularly various factors and opportunities are studied that the company can use for the development.

The above-mentioned factors are comprehensively studied, with the expectation in the long-term perspective. Thus, the subject of strategic analysis is conceptual directions of functioning and development of the company, its organizational, economic and informational resources and opportunities, which are considered in terms of potential increase of the company and strengthening its market position in the long term (Redchenko, 2002).

Each decision that is made on the basis of the strategic analysis has a non-standard (innovative) character. The quality of this administrative decision is almost impossible to assess until it will be implemented; so the preparation of the strategic management decisions should always be very careful, and all proposals, which are often called strategic initiatives should be sensible and reasonable. The performing of a strategic choice and strategy



implementation can be explained by the quality of strategic initiatives that are generated during the strategic analysis.

We believe, that it is necessary to note such characteristic of the strategic analysis as focusing on the solving the key issues of the strategic management. We agree with the professor. Markova V.D. and Kuznetsova S.A. who notice that “during the strategic analysis, the top management monitors the most important factors for the future of the corporation that is called strategic factors” (Markova and Kuznetsova, 2000).

With regard to commercial enterprises and companies, the task of strategic analysis can vary considerably, depending on the size, type, specialization and other factors. Strategic analysis of the company that owns a chain of supermarkets or specialty stores will differ in scope and depth from the strategic analysis of the company that owns a store or shopping mall.

It should be understood that retailers and independent shops are in a very specific environment that is a well-known expert in the international trade L. A Khasis calls "a commercial space" (Khasys, 2004).

This space has its "geometry" which is defined by the presence of the relevant trade infrastructure in a particular place. From a geographical point of view, we distinguish a local, regional and global trade environment. The first of these (local shopping area) in the strategic analysis is usually seen first through the lens of choice for the location of the new store retail chain. It must take into account three key factors: accessibility, visibility and availability of target customers. If at least one of these parameters in the analysis gets a negative assessment, the success of the new project will cause significant doubts and the risk to get an unprofitable store will grow to a critical point. An important factor is also the internal trading space, namely the organization and format of the commercial enterprise.

The practice shows that the magnitude of analytical work at the strategic management level increases in the geometric regression with the expansion of trade and enterprise networking. In fact, the director of the independent store can solve the problems of the strategic analysis without the use of special techniques and programs. Another thing, when the director manages a network of trading companies that includes many shops.

The building of network retailers usually starts in three cases:

- 1) in the construction of a new store;
- 2) in the expansion of the wholesale business by opening retail stores;
- 3) in the business diversification of wholesale, investment, industrial and oil companies.

Retail Network has a number of advantages over stand-alone stores, better conditions of suppliers, reducing costs, popularizing the brand and so on. However, the construction of a retail chain needs the creating of

competitive advantages over other network retailers. The effective functioning of retail stores has:

- to ensure the availability of a centralized purchasing policy;
- to reduce overhead costs, including management apparatus for the establishing of competitive retail prices;
- to increase the turnover of funds through a set of measures, the main is high-tech logistics;
- to provide a high effectiveness of the management at the lowest possible number of managerial staff;
- to provide an effective assortment policy;
- to automate technological processes by providing a single information space and relevance of the information in real time.

The solution to the above problems requires from management of trading company responses to a number of issues that are principle for building a retail network. It is necessary to determine:

1. What network to create regional or national?
2. What formats of stores will network include?
3. What method of retail management network to choose centralized or decentralized?
4. What management model to use?

Answers to these questions without the strategic analysis are impossible, as the following management decisions are impossible as well, when we will have to solve the problems of the localization of stores, the selection of target segments, product policy formation, dealing with the transfer of certain processes to outsource etc.

After some investigation of practice of the strategic management in trading companies of different formats, we have concluded that there are four directions of the methodology and techniques of strategic analysis (Fig. 2).

	<b>Regulatory activity</b>	<b>Project activity</b>
<b>Corporate management level network trading company</b>	The strategic analysis of the corporation	The strategic analysis of corporate development projects
<b>Level control of a separate trading company or division (store) of Network Company</b>	The strategic analysis of the company (unit)	The strategic analysis of the development projects of the company (unit)

**Fig. 2. The main areas of the strategic analysis in trading companies and enterprises**

The selection of these areas is due to the differences in objectives and instruments of the strategic analysis:

1) depending on the level at which the analysis of the organizational structure is performed;

2) depending on what kind of management was the customer for the analysis regular or project.

The task of the strategic analysis at trading network management company is much more complex than the tasks at independent shop or supermarket network. At the level of network management, the strategic analysis has to solve problems that are associated with portfolio analysis, evaluation of innovative strategies etc. As for the project activities, in trade networks, it occupies an important place alongside regular. Regional expansion and expansion of the activity is the only way to preserve independence in the long term for retailers. Small network, as shows the experience of Central and Eastern Europe is uncompetitive to powerful Western operators like «Metro» or «Tesco». Therefore, any domestic network company strives to reach the top in their business. Strategic analysis of corporate development projects should ensure the information about the best ways of network expansion and future retail channels, to determine the optimal structure of raising funds and so on. Analytical calculations made by using the tools of strategic analysis are the most important basis for decision-making on development.

Regarding strategic analysis projects at the level of an independent store or supermarket, in this case it is a much narrower range of tasks. First, the projects at individual stores require competent business planning, risk assessment of investments and proper positioning when changing strategic vision of leadership.

Note that the differences in methodology and teaching methods of strategic analysis that are performed at the level of corporation and at the store level are significantly different (Table 1). Differences are also in those teaching techniques that are performed in a regular and project activities. There is a common part - SWOT-analysis (study of internal and external environment) and external benchmarking techniques are universal.

Let's note, that from the interviewed representatives of 45 trading companies and businesses in Western Ukraine only 8.9% reported that they are using an integrated approach to the strategic analysis. Another 40% of respondents answered that they use the strategic analysis partly. Consequently, more than half of commercial enterprises do not use the strategic analysis at all.

Among those who answered positively to the question: "Does your company apply the strategic analysis it its activity?" (22 companies) the most

respondents indicated that they are analyzing the industry and competition (14 companies), and analysis of investment projects (12 companies). One of the main barriers to the use of strategic analysis in the trade area is a special specificity of the information space, in which the strategic analysis finds the incoming information. The information that the strategic analysis uses is characterized by varying degrees of uncertainty that must be taken into account. However, in practice, it is not always used and it leads to the not optimal methods of financial evaluation and forecasting.

**Table 1**

***The differences in methodology of the strategic analysis of regular and project activities of trading companies***

Areas of instructional techniques and strategic analysis	Regulatory activity		Project activity	
	Corporate	Store	Corporate	Store
The analysis of macro-environment	Yes	Yes	No	No
The analysis of the industry and competition	Yes	Yes	No	No
Strategic positioning	Yes	Yes	No	No
The analysis of the economic portfolio	Yes	No	Yes	No
SWOT-analysis	Yes	Yes	Yes	Yes
External benchmarking	Yes	Yes	Yes	Yes
Internal benchmarking	Yes	No	Yes	No
The analysis of key competencies	Yes	Yes	No	No
The analysis of investment projects	No	No	Yes	Yes

Apart from the fact that the future is always uncertain, and try to make strategic decisions based on the opposite assumption, such an approach is dangerous, underestimation of uncertainty leads to the selection of strategies that will not protect the company from external threats, and will not use the opportunities (Redchenko, 2002). The traditional approach to the strategy selection and its justification requires precise predictions and often directs managers to the underestimation of uncertainty. In order not to make it happen, it is necessary to understand the essence and the nature of uncertainty.

Consultants of the firm MakKinsi Hiu H. Kourtni, Jein Kirkland and S. Patrik Vihueri point out four levels of uncertainty (Courtney, Kirkland and Viguerie, 2000):

- 1) sufficiently clear future;
- 2) future in the form of a number of alternatives;
- 3) future as a "range";
- 4) complete uncertainty of the future.

According to this theory, before spending a strategic analysis to determine the most optimal strategy the nature of uncertainty should be defined, as its each level requires a different strategy.

Ukrainian commercial enterprises are often in a situation of third level where the future (in 3-5 years term) can provide only a certain range. This contributes to the unstable political situation in the country, uncertainty and half-heartedness integration processes, inadequate legislation, and numerous bureaucratic obstacles that often arise in "bare" place. Part of the uncertainty is related to the lack of sufficient information of foreign operators of retailers; active expansion can undermine the status quo in the domestic market.

Unfortunately, to prevent the risks associated with the environment is not always possible. However, better informing and operative management at the strategic level management could reduce much of the risk. In order to have the necessary input information, strategic analysis should take it as a reliable source within the company and outside. The structuring of this information is advisable to put on the system of strategic management accounting.

In order to determine the place and the role of strategic management accounting in the management of the company and to determine its relationship with strategic analysis, you must first understand the definition of the term, since economic literature can meet very different views and approaches. To begin with, at the beginning of the 2000s, the term "strategic management accounting" was missing in the majority of authoritative textbooks on management accounting. Today, the global accounting science formed two major trends; each of them has its own view of the nature and the essence of strategic management accounting.

Representatives of the first flow Bromwich, Bkhimani, Symmonds, Shenk and Hovindaraian advocate the so-called "expensive" strategic direction of accounting. This approach consists in, that the main object of the study is the costs that should be considered on a "higher", i.e. the strategic level, compared to the cost of competitors. For example, Bromwich defines MSA as a means of delivery and analysis of financial information on food markets, cost competitors and structure cost (Bromwich, 1990).

Another group of scientists professes a much broader approach. Its representatives Kaplan, Norton, Hawk consider the strategic management accounting not only through the prism of financial performance, but also through the prism of intangible factors of value creation. They believe that the strategic management accounting should be seen as an accounting system

designed to support the implementation of the strategy and ensuring the competitiveness of the company. Australian scientist Zahirul Hawk writes about it, that the strategic management accounting should "help the management team to make strategic decisions and to evaluate the effectiveness of the organization" (Horngren, Foster and Datar, 2000). Now, these tasks are realized with the use of strategic performance measurement, facilities management competencies and process-oriented Cost Management (ABM).

We are more inclined to the view of the members of the second flow and believe that the strategic management accounting is a system of accounting designed primarily to support the implementation of the strategy. If the traditional management accounting provides information and analytical support of financial and operational management, the strategic management accounting will eliminate the information "gap" in providing strategic management.

In the scientific economic literature, several economic approaches to the appointment and functions of the strategic management accounting can be met. In particular, the Russian economists Nikolaieva O.E. and Alieksieieva O.V. believe that "the main function of the strategic management accounting is to provide the conditions for the most objective analysis of the effectiveness of the company and to take into account the wishes of all stakeholder groups while making strategic management decisions. In other words, the strategic management accounting should allow determining how well the organization is in terms of different interest groups" (Nikolaeva and Alekseeva, 2003).

With the help of MSA, the management of enterprises and companies have the opportunity to get rid of the traditional imbalance between financial and non-financial components of information support of business management. Unfortunately, as scholars as practitioners still do not fully realize the importance of MSA and its capabilities. However, in the West, the situation is reverse.

Let's take the example of Hawks, Fowler and Tana study which is dedicated to the problems of teaching management accounting, which was attended by representatives of 300 companies and leading academics (professors, lecturers) 23 universities and university polytechnic-type (Hawkes, Fowler and Tan, 2003).

Among the various issues that were included in the questionnaire, the survey was about the importance of ownership of the key tools and methods of management accounting. Respondents were asked to rank the importance for a number of tools and problematic management accounting topics that are considered the most relevant for today (Table 2).

**Table 2*****The importance of basic tools and methods of management accounting \****

<b>№</b>	<b>Practice accountants</b>	<b>Evaluation points</b>	<b>№</b>	<b>Lecturers</b>	<b>Evaluation points</b>
1	Cash Management	4,29	1	Behavioral aspects	4,45
2	Operational Budgeting	4,24	2	Calculation by the types of activities	4,35
3	Analysis by disabilities	4,14	3	Estimation of effectiveness	4,35
4	Estimation of effectiveness	4,06	4	Calculation of production costs	4,27
5	Investment budgeting	3,97	5	Operational Budgeting	3,83
6	Strategic Management Accounting	3,94	6	Management by the types of activity	3,83
7	Consumers Profitability	3,91	7	Accounting responsibility centers	3,70
8	Calculation of production costs	3,88	8	Strategic Management Accounting	3,65
9	Calculation by the types of activity	3,68	9	Consumers Profitability	3,64
10	CVP-analysis ("cost-amount-profit")	3,61	10	Analysis by disabilities	3,59
11	Standard-cost	3,48	11	Calculation of costs for quality assurance	3,48
12	ERP-systems (Enterprise Resource Planning)	3,48	12	Ethical issues	3,46
13	Calculation of processes	3,35	13	CVP-analysis ("cost-amount-profit")	3,36
14	Ethical issues	3,32	14	Calculation for variable costs	3,35
15	Transfer pricing	3,31	15	Standard-cost	3,23
16	Management by the types of activity	3,30	16	Transfer pricing	3,18
17	Calculation of technological operations	3,28	17	Calculation of technological operations	3,00
18	Calculating the cost of quality assurance	3,28	18	Calculation of processes	2,64
19	Behavioral aspects	3,19	19	Cash Management	2,60
20	Calculation for variable costs	3,18	20	Investment budgeting	2,55
21	Accounting responsibility centers	3,18	21	ERP-systems (Enterprise Resource Planning)	2,43

*Source: compiled from (Hawkes, Fowler and Tan, L. M. (2003))*

As you can see, strategic management practitioners put in sixth place and scientists in the eighth. In addition, in the rating important tools of management accounting are located that most authors refer to the field of strategic management accounting, calculation by the types of activity and assessment of effectiveness. Besides, a substantial difference in opinions of practitioners and lecturers has become significant. For example, cash management practitioners put in the first place, while lecturers put it only in nineteenth place. The same applies to the behavioral aspects of accounting analyst. For teachers this issue has the highest priority, and for practitioners it is not important in education, they believe that behavioral skills are better acquired not in the classroom, but directly at the workplace.

These studies indicate that the Western system of training in accounting not only includes teaching methodologies of the strategic management accounting, but also gives it a fair attention.

In recent years in academic writings on management and management accounting, which were published in the West, the criticism of the financial performance of recording and reporting as a basis for management decisions was often heard (Emmanuel and Otley, 1995). These retrospective indicators are focused on mapping the situation that occurred in the past, but in terms of the strategic management future is the most important. In addition, the indicators that are formed among the traditional accounting does not allow to form a complete picture for assessing intangible (intangible) assets such as incomplete research and development, intellectual capacity, goodwill, etc. Many times, it was observed that the leaders refuse to invest in long-term development of the company, as it worsens the current results. Certainly, such a policy cannot ensure a long-term company growth and stability. Therefore, in addition to the traditional accounting the strategic management accounting has to come, which creates all the necessary conditions for comprehensive performance measurement and business activity of Ukrainian companies.

Our study of scientific literature sources has shown that a double development of measurement system of the effectiveness of the business has been recently observed. First, the use of non-financial indicators combined with traditional financial is gradually becoming a common practice. Second, the relationship between strategic process and measurement of the effectiveness is defined at each level of company management. On the basis of reasons for the success that were achieved by such famous companies as "Southwest Airlines", "ServiceMaster", "Taco Bell" and other American scientists John. Heskett, T. Jones, G. Lavmen, William L. Sasser and Schlesinger concluded that "indicators affecting the activities as they related so that provide managers with the instructions for action. Only when the individual values form a comprehensive picture the chain "services - income"



will provide the basis for unprecedented profits and growth" (Heskett, Jones, Loveman et al.,1994).

J.H. Lingle and W.A. Schiemann, comparing the results of 58 companies with business balanced measurements and 64 companies from the financial-oriented systems of measurement report that the most significant conclusion reached by them on the basis of the study is that "measurement plays a crucial role in the transfer strategy results. In fact, we found that organizations, which are the first in their fields, are different from other by such characteristics: using agreed metrics that managers well understand; balancing financial and non-financial indicators; a combination of strategic and operational performance; regular updating of strategic indicators; availability and performance of their acquaintance of all employees" (Lingle and Schiemann, 1996).

Thus, the defining features of the strategic management accounting, built on a balanced strategic measurement system are:

- 1) well-matched combination of financial and non-financial indicators in the strategic management;
- 2) close relationship between the strategy and measurement of effectiveness.

We believe that the system of the strategic management accounting should organically complement the system of accounting and management accounting by elimination of the "gaps" in the formation of strategic information. To ensure the consistency and regularity forming of this information, the company must be established and implemented in accordance with "key" structure.

In our view, the examples of structures on which a system of strategic management accounting is built are the impact of the pyramid (Performance Pyramid) and balanced system of indicators (Balanced Scorecard).

We have come to the conclusion that the strategic analysis cannot be fully regulated and devoid of subjective creative element. Thus, the preparation of strategic management decisions should always be very careful that imposes an additional responsibility on the officials whose duties are to conduct the strategic analysis.

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# **PHYSICAL ABILITY OF THE INDIVIDUAL AS A NEEDED MARKET FACTOR IN THE EUROPEAN UNION**

***Volodymyr Saienko,  
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According to the criterion of physical ability any state considers a person as a source of wealth and economic growth, industry and economic sector – as a personification of productive power and profit, and business – as a resource for productive activities and super income. Such a perception of an individual implies the existence of his three constituents, namely: the function of movement, the means of exchange activity, and, finally, the complex of motives to join the interaction environment and the development environment. These constituents also define the motion trajectory of an individual who is involved in the reproductive process, and the result of such a movement expected by the society. At all stages of movement of an individual there are different environments which have leading value for him, such as education, family growth and bringing up, physical training and sport, communication and interaction which develop desire for learning, curiosity, inquisitiveness and other qualities. To trace the emergence of an individual as the product of bringing up, education, and activities, we have to examine the overall situation and the target system environment, which contributes to the development of physical abilities. The systems of physical education and development of physical abilities take the leading part in this environment; more and more people in post industrial society of our planet pay attention to these issues. However, many of the conceptual basics and the position of the perception of these systems and their significance for the individual, who has his own spiritual and cultural values, their role in providing vital activities are not studied enough yet. For example, a person's entering into the environment of sports activities, which is based on his physical abilities, at any age transfers him into a group of factors of productive forces of the society and an individual becomes a business object.

The transformations in the world are fulfilled by human efforts by driving into a motion the complex of personal spiritual, intellectual and physical qualities and abilities that fill the model of motion «an individual – nature – activity object». The movement in this model materializes the interaction of natural and artificial structures, systems, and energy, and as a result provides goods and benefits. This movement brings the person to the

level of a substance of a leader, ruler, producer or creator. At the concurrence of objective circumstances, an individual becomes a physical medium of productive forces of the society. The sought-for physical productive power is enhanced by features and usefulness of a number of materialized labor factors such as forms of industrial relations, scientific and technological progress and industrialization, regulation and control systems, etc., which are systematized, created and involved in activity environment, yet again by human will, intelligence and physical abilities. Such combination, according to (Брітченко, 2010), generally forms a set of personal and material factors, which are always brought into a motion by the person with the ability to work. All in all, such an interaction movement results in providing the fulfillment of all personal and social needs. In order to retain the function of the driving force (in the economy environment it is also the productive force of the society), an individual needs to continually and purposefully develop his personal physical and mental abilities. Taking into consideration the above-mentioned, the subject of the research of this article is the condition of development of the physical abilities.

To be involved in the processes of labor and exchange activities consciously and in a professional manner, the physical ability should be developed to the standard level of perfection. This is the first requirement for an individual that allows you to begin the organization of quality interaction, and it is a standard, material, and objectively existing reality. The second quality of interaction is connected with the fact that the development of man, whatever it may be – general, physical or mental – is caused by objective and qualitative content of the habitat that is by specifically outlined processes that surround a person, are perceived and reproduced by an individual in the environment of household and industrial activity. The environment of productive activities dominates regarding family environment and motivates a person's ability to work «in the outer environment, in objectively existing space and time» (Леонтьев, 1975, p. 59) and consumes it according to the model «the influence on the receptor systems of the individual → the appearance of the response objective and subjective phenomena which are caused by this influence» (Леонтьев, 1975, p. 75). Connecting an individual with material activity the researcher (Леонтьев, 1975, p. 77) introduces into circulation «the idea of «cultural determination» of the phenomena in the society and in the behavior of the individuals», he primarily uses the trinomial formula of human behavior suggested by L. White: «human body × cultural stimuli → behavior». The provisions of this formula are the starting point for the construction of the scheme of the development of human abilities because they allow to involve the mechanisms of the development of many events that

have a probabilistic nature, and also they allow to take into account both linear and non-linear effects of the action.

The development of human physical ability comes to the fore because of the objective reasons which require to: a) ensure the physiological and carrier bases of organism and b) to protect an individual from external attacks and preserve life in the physical sense. There are also other reasons but two above mentioned are the main.

A lot of characteristics and conditions, factors and dominants and later instruments, motives and reasons determine an individual's development from childhood to old age in the trajectory of physical development and improvement orienting on short term or long term life and professional plans and aspirations. Having joined cultural and ethical qualities of a human, social and economic conditions and life factors, psychological and pedagogical methods and approaches to the development, anthropological and physiological dominants and approval tools, medical and biological motives and life-support causes into scientific and methodical groups, we can define the needed set of characteristics which include moral, mental, and physical groups of an individual's qualities. These groups of personality traits become valuable and needed in the case when they are formed and introduced depending on the selected kind of activity in which the person intends to enter. An individual may enter this environment from two positions of movement: 1) at the stage of training and physical development being influenced by the environment motion and imitating it, and 2) being already adult, educated, and physically developed, consciously selecting activities. It means that on the way of education, development and choosing the kind of activity an individual is a) at the same time involved into social and entertaining activities, sportive and competitive activities, socially useful activity, and if the activity is appropriate, b) an individual starts motion on the way of self-sufficiency and becomes the personification of relations. Further, with the entry in the working age an individual c) enters the rights of a citizen and, having experience and skills, tries to effectively use time and abilities. This means that when an individual reaches adulthood he is considered 1) to have rights and 2) to be fit for work and that is why he is completely involved into activity; nevertheless an individual should develop and improve physical abilities furthermore because the provisions of scientific and technological progress introduce new, more difficult and changeable requirements to the worker's physical abilities.

All the above mentioned describes theoretical provisions which allow us to formulate the methodological basics of the research. The methodological approach can be represented as a block scheme of interaction between an individual and environment (Fig. 1).

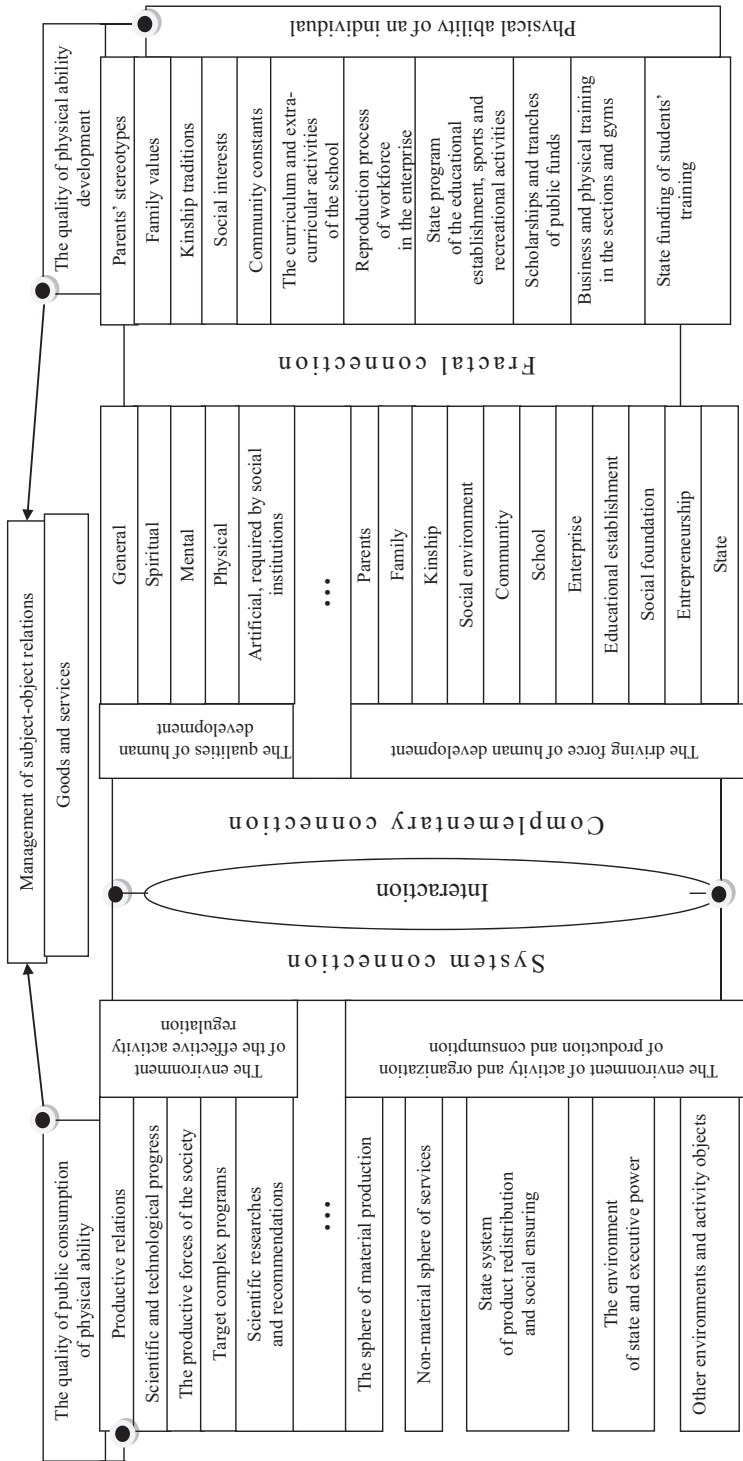


Fig. 1. The block scheme of interaction between an individual and environment

Classification indicators include a variety of factors, namely: the person himself, his age and experience, the potential possibilities of the family and kinship, educational system, the spiritual environment and enterprises within the territory. Moreover, these factors necessarily include wealth, interests, climate and political situation in the state. Such an approach allows defining the scheme of the physical development of an individual and the consecutive improvement of general abilities. To stimulate and impel an individual to action the society should 1) have the effective system of physical training and development; 2) have the access to the multi-branch educational and bringing-up system in the state; 3) have the ability to choose the kind of physical training and type of activity; 4) have the proper inner culture of a personality which provides complex control over individual's development and motions, life events and results. We need to consider these conditions further.

In European countries the above-mentioned combination of elements operates, and the problem is only in its completion with outside systems of development which belong to the most efficient categories; they allow expanding the range of choices and supplementing the available categories on the complementary basis.

The meaning of the term «complementary» can be explained more exactly in the descriptive way. So, in philosophy we call «complementary» different or even opposing in their methodological basis concepts, models, theories and perspectives that reflect different views regarding reality, as well as those that work together to create a more complete picture than either of them alone; in economic theory the term designates laws and rules, for example, a change in demand for one commodity creates correlative changes in the demand for the other commodities in the same sphere; in economic theory we call «complementary» goods and services which consists of some constituents, two or more, and they have consumer value as a complete set, complement each other are used synchronously; in complementary medicine there is a combination of non-drug and non-surgical methods of treatment which include aromatherapy, massage, bioenergetics practices and so on.

There are also complementary kinds of sports; martial arts and combat sports make the most representative group among them. The list of the most efficient systems of physical development, muscles training and body strengthening, which are wide-spread in many countries of the world and complement each other, includes 142 kinds of martial arts and combat sports. The most popular of them are the following (Саєнко, 2012): aikido, viet-vo-dao, jiu-jitsu, jeet-kun-do, judo, karate, kung fu, taekwondo, wushu, hapkido. Each country cultivates the national martial art for military servicemen and the types of combat sports, health and fitness systems for the population and individual athletes. These martial arts and sports actually are the schemes of

physical development and health promotion; they are helpful not only in sports but also in social and professional activities. The above-mentioned represents the activity of the development of physical abilities as a separate sector of the economy which is provided by classification indicators in most economies of the European countries.

A factor of «physical culture» is a fundamental parameter of the development of individual's physical abilities which provides the proper motion of the person on the path of knowledge. The content of this factor is filled with data of different branches of human knowledge which have cognitive character. Among them there are three branches which systematize our knowledge on the empiric level – archeology, ethnography and social studies, the other two – philosophy and cultural studies – make researches and give base for conceptual and educational connections, relations and actions. There is also an influence of a number of other sciences, but finding the essence of culture, cultural identity, physical training of the person even with the tools of the above-mentioned five sciences gives the incredible number of their definitions. There is a wide totality of indicators but primarily we can single out the following indicators: a) culture is the phenomenon of the objectively existing reality; b) culture is the integral system which includes things, norms, values, symbolic forms as well as processes; c) culture is a functional mechanism which is aimed at changing both outer environment and inner nature of an individual; d) culture is a functional environment which is directly connected with the social activities of the human society; e) culture is a socially recognized means of traditional and innovative life support system; f) culture is a formal way of organizing communication.

Guided by a set of definitions, the concept of culture in this study is limited by the usefulness of human society structure, where moral and physical perfection of an individual occupies a leading place. Science in this regard developed approaches that are positively perceived by the society and expect their application on the basis that culture:

1) covers vital activity within the separate area, and then it actually resembles a subculture because it correlates with the reproductive economic subsystem;

2) describes any separately taken side of public life, and in fact is its characteristic, because at its core culture is the object of the social subsystem development;

3) penetrates the societies similarly to other areas of knowledge, in fact, culture is implicitly present in all social and economic spheres and objects, for at its core it is the kind of exchange activities.

Guided by this essence, it looks rational to appeal to the following methodological position: according to the criteria of utility and similarity the



second and third approaches can be combined because social subsystems, in which culture is incorporated, are distinguished by analytical systemic evidence, complementary and fractal indicators. But none of the subsystems exists in the reality as an integral whole and there is no approach yet to perceive or reflect them. It is known that according to the dialectical method of interaction all these subsystems are interconnected and present in one another.

Depending on the elements and parameters, filling the culture system, attention should be paid to the subjective direction, which is comparing with the other three – the substantial, institutional and procedural (Саєнко, 2011, p. 12) the most fully reflects the content. The motive for paying attention to the subjective direction is that it involves the study of a person from many sides: as a creator, as a consumer of culture, and as a bearer of interests, attitudes, motives and values. In addition, this area is a component of the system of administrative and volitional regulation of social and group relations. For this reason, the substantial, institutional and procedural directions are excluded from this research as not sufficiently informative, and the subjective direction is discussed in more detail.

We should also primarily pay attention to the fact that «physical culture of a personality» may have a wide range of content, because from childhood it is filled with concepts «motion», «spiritual values», «social and cultural activity» and other analogical notions in different spheres of interaction with the environment: in the family they are parents, brothers and sisters, other relatives; at school – teachers and educators; in the sport club – coaches, instructors and older members. These concepts are linked, but they make the integrity of the content after entering the environment of social and economic activity and appearance of the interest to the strength and abilities of the person. In such an environment we may observe the developed behavioral traits. Here we have to give some intermediate clarification. Such a task is assigned here for the reason that one or another concept alternately pushes a person to act, to the implementation of some of his abilities in real behavioral environment.

In the result cultural activity of the integrity content is primarily associated with the cultural environment that is with an intermediary link which is located between the components of the society culture and personal culture. According to Fig. 1, such an environment is a stable set of elements with which an individual interacts, becomes a cultural and professional. Parents, family, kinship, community, social sector, social class, society, and state have their own positions in this environment. The last two elements – the state and the society – legalize the legislative framework of interaction

and make the most significant impact on human culture through the structure of the regulated cultural, industrial and social activities.

The cultural environment is perceived by a number of characteristics. This research includes a cultural phenomenon as an essential characteristic that allows us to reproduce events, phenomena or their general outlines, exercise differentiation and ordering of events on the basis of their indicators and characteristic manifestations, and then to report the registered changes. The above-mentioned becomes clear when the culture is viewed as a collection of interacting subcultures, including the one can be always represented as dominant and a variety of marginal subcultures. Among these subcultures there are the branches which are in the process of strengthening.

Subculture in the strengthening stage is usually in the acute interaction with the host environment, and at this time it is considered as the counterculture. We pay attention to such a motive here for the reason that the studied in this research object – the system of martial arts (system of Oriental martial arts and combat sports proper) – also conventionally belongs to countercultures. In the western countries a lot of such martial systems have just started the trajectory of movement and strengthening; those which have been existing for a long time right now are in the transitional process and stage, their position is also considered as unstable. In the Oriental states martial arts are developed in families everywhere, while in western countries such interest of the families to the martial arts is not observed; it means that the family and clan support and development factors are present on the introduced basis. There are the benefits of such promotion because the family has the qualities of a small social group, it is based on the marriage connections, blood relations, kinship responsibilities, family members are also connected on the territory basis, by common property and everyday life, mutual aid and mutual morality.

We should also pay attention to the fact that the behavioral forms and relations in any territory are based on mutual influence of 1) personal and specific powers; 2) group's inner powers and 3) consistency in the education and training systems. These education and training systems have social functions and on the state level provide:

- a) preservation and transfer of knowledge from generation to generation;
- b) the formation of the working and professional level of the population;
- c) transformation of the social structure of the society and local communities.

It means that an individual must enter into the public space as a full-fledged personality with appropriate mental and physical properties and set in motion there a number of personal factors of self-sufficiency. During the

process of physical development in the family and at school, socialization in the society and in the productive relations he should realize the value of the physiological and spiritual life and be guided by a set of factors, which since the days of childhood influenced the education and training for the future activity and the present reality allow for fruitful activity. These factors are the following:

1) subjective factor which includes the traits of character of the process participants, information and knowledge are transferred with the help of this factor;

2) objective factor which includes content and quality of values, skills, traditions transferred from generation to generation;

3) procedural factor which includes different means selected for organizing, setting and execution of the action or socially useful activity;

4) institutional factor which includes requirements, standards and commitments of the government and social institutions of governance developed with the aim to personalize interaction;

5) situational and historic factor which includes benefits, materialized labor and other resource capabilities of the historical developed society, which are assessed on the content of the agreements, codes and arrangements.

According to this integrity which involves five factors, as it follows from the induced list, we form the emotional and evaluative nature of the perception of information, moral and ethical attitudes, and re-evaluation of the family, society and state orientations. There are two constituents which have their place in this integrity, namely: a) family control of getting an individual ready for independent activity and b) education. Their content's value is determined by the settings of the state, and the emotional value – by the procedure adopted in the family and inner circle as the requirements for the intellectual development of an individual as well as the requirements for his physical qualities. So far as both constituents of the interaction are important they both should be analyzed in the integrity of thought and purpose.

The state's attitude to the problem of the general physical education and human development is totally realized through the education system. It should be noted that the system adapts to certain characteristics inherent in the function of physical education and human development. These features are based on the differences that are connected with the age characteristics of the individual, social and economic, psychological and pedagogical, medical and biological causes of the formation of human behavior, but otherwise the system gives the citizens of the state equal rights of exercise physical training. The state can only hope that the person in training at the right time will go into productive activity system, will take a proactive approach, will mobilize

himself and make all the necessary efforts for this purpose, i.e., will master the sciences, will receive the necessary skills and will be ready for a free orientation in everyday life and the public space. On this basis, he will turn into a full-fledged personality, a fractal unit. We involve into the analysis the opinions of the analysts (Воробьев, 2006; Кочеткова, 2003; Кочеткова, 2006; Толчева, 2006), who warn of a strategic risk for that nation, where the youth ignore the acquisition of knowledge from the professional training. Thus, in the states of the former USSR negative role is played by the economic and law higher educational establishments, which, despite the fact that the employment resource in the enterprises for their graduates is exhausted, still continue filling classrooms with students who, in turn, respond to it with the lack of desire to study the sciences. These students could become fractal in the post-graduate period, but still they do not take efforts to catch-up with the situation.

The passive attitude, in addition, and mainly due to the lack of funds, is taken by the family environment of training people to work. Although it is the subject of the order in the family that is known in advance and is usually conservative. Moreover, in the period of change such order poorly orients in the situation. Therefore, at this moment the sense of the critical assessment of the situation and actions again shifts to the physical education component of getting an individual ready to life activities. In this combination sport and physical education take their separate place; in the environment of a market economy they have limited target funding in most countries. Let us consider the features that are associated with the perception of the essence of human and his environment in the totality of the mentioned constituents.

Each state and each nation pays attention to the issues of nation's peculiarities, the meaning of human life, the environment and needs for the development, means of the disclosure of personal qualities in the society, because any state manifests strong interest to the circumstances and conditions that allow a human being to stand out from among the animals. This issue is the subject of philosophical reflections and thoughts, pragmatic conclusions and decisions; this connection of thoughts allows developing the concept of movement, to adapt to the most popular and mass areas of the organization of the population employment and meeting its needs. Thus, according to the anthropological doctrine two general tendencies of understanding human nature were formed – the idealistic and the naturalistic ones, which are the product of the ancient philosophy. But, in spite of the centuries-long knowledge, the essence and mystery of man is not discovered yet. For example, philosophical approaches (Аргайл, 2003; Гуревич, 2001; Севиндж, 2010) defend the conclusion that human nature on the subject of self-similarity is manifested in a variety of capacities, such as humanity,

kindness, intelligence, ability to love, and the like. It means that such reasoning «in general» does not explain a particular element of the maintenance of life and its security – it is believed that the soul is immortal and will find refuge in reality objects. As a rule, when particular sciences consider a human being from «outside» they have to understand his connections with nature (space), society, God and with himself; the understanding of the human nature from the «inside» is associated with the enrichment of the energy of his bodily and emotional, moral and spiritual existence. Despite the variety of opinions given in (Апанасенко, 1992; Орлова, 2009; Саєнко, 2014, Сафронов, 2008) about the production of matter and energy, these opinions do not explain what is needed to fulfill this purpose. Arguments about the motives of fragmentation, likeness, similarity, imperfection, etc., are conducted only within the limits of the integrity. According to the purpose of this research, the study of an individual is made in the interrelated environment model «human – human», even rather in the environment «human –management – physical development of an individual»; that is why most of these provisions have a limited manifestation. It means that this research becomes useful in case it is close to the reality and has a certain degree of concreteness.

Let us consider the methods of reflection of such a property as «concreteness». There are two of them: 1) idealistic, which absolutizes the spiritual principle in human being, and 2) naturalistic, which pays a paramount importance to a human being with his natural and biological features (Кальной, 2002). These methods combine the dual nature of soul and body, inner and outer factors which define the essence of a human being, form the way of thinking and peculiar experience of a personality which is transferred from generation to generation. These issues include both common and different features.

According to the idealistic method, the ancient Indian civilization (Сафронов, 2008) paid attention to the two positions: 1) soul, which is eternal and immortal substance, and at the same time 2) body, which is only soul's outer shell. A man is in a constant flow of earthly incarnations, during which the soul receives a shell, which a human deserves due to his actions in a previous life. When the soul interrupts the connection with the world, it is released then.

According to the naturalistic method, human beings make a try to realize the world around, namely: a) living and inanimate nature; b) space; c) to understand the human being himself. This makes it possible for the human beings to differentiate the nature of a habitat, gradually separating themselves from it. It is due to the fact that people began to perceive flora and fauna as something different and counter standing to them; they have demonstrated the

formation of abilities for understanding the reality. Having formed the ability to comprehend, the human being began to philosophize about this, that is, to draw conclusions, create opinions and put forward ideas about the essence of the environment. There is a row of opinions (Алексеев, Панин, 2005; Ильин, 2006; Нижников, 2013), according to which antique philosophy considered a human being as a part of nature and Universe (Heraclitus), or as an essence which appeared from the objective existence of eternal ideas (Plato), or as something self-sufficient and basic (Protagoras). This ensured the development of the person primarily on systemic conditions of spirituality. Consistency as a form of interaction, in this study is also perceived as a form of scientific knowledge, which is based on the consideration of the object as a system: a) a comprehensive set of interrelated elements and b) a plurality of interacting objects with an agreed set of entities and their relationships (Блауберг, Садовским, Юдин, 1978; Таратута, Шорохов, 1985; Холл, Фейджин, 1969).

Modern philosophy considers an individual and develops the theory of integral and valuable spiritual man on two conditions – complementarity and materiality. Complementarity is understood in the research as the methodology of interaction on the complementary basis. It combines together the ontological, epistemological, social and humanistic human problems: «In the system of different connections a human being is considered as a living natural creature. He has plasticity, bears the traces of biogenetic and cultural evolution, as the philosophers say, ... human nature is susceptible to endless transformations, its internal stable nucleus can be split, broken, and the primary nature can be transformed in accordance with a given program» (Фролов, Буева, Григорьян, 1991). Such generalization confirms the nature of modern thought and its foundation.

Not overloading the research with further interpretations of human nature which are present in the works of other scholars, here we want to express the opinion that the interest and variety of scientific approaches to the study of the essence of human social development is caused by many human phenomena. A human being is represented as a «kind» *Homo sapiens*, and as an «individual», and as «mankind», and as a «subject» in his surrounding, and as «individuality», and as a «personality». Communications are established between these entities in the environment of material production, where a person is trained as a worker and skillfully operates in it. The environment there belongs to the causal, structural and functional classes or other dependencies which unite the society and the nature emotionally. In order to take a stable position in this environment it is required initially to solve the problem of occurrence on the basis of the following ancient teachings which

include: 1) search, 2) decision and 3) overcoming. We have to explain their meanings.

1. *Search* of ways to build a harmonious relationship between nature and man as an active subject, when the spiritual and behavioral patterns of life are embodied in the selected ideal of the individual. Then, the inner content of the essence of the movement areas of the natural environment and human existence receives the external aesthetic and sensory reflection in the character traits of the individual. The society and nature are represented as «home – family» or as «space – state», which co-exist according to the laws of natural and human «reciprocity» and «systemacy», «justice» and «duty», «respect» and «love», «older» and «younger», which are united together by «ritual» and «etiquette»;

2. The *decision* of the problem of an individual with the orientation to the natural examples has stable movement when a human being as the natural «essence» becomes the ideal of the society development. In this case the essence of human life is structured in harmony with live (natural) rhythms of the nature. The connections which bring to the decision making are always innovative;

3. The *overcoming* of contradictions is possible when we combine the possibilities of the first and second vectors of movement. Then the idea of a public entity of development is formed, in fact, in the mind of the person. Its essence is to harmonize the natural and social rhythms, material and spiritual balancing of space and nature. Natural and human harmony of senses and thoughts becomes the law of life.

If we complement this perception of reality with the peculiarities of social and economic processes and the physical essence of human development, which is associated with the idea of materialistic basis of life and livelihood, they can also be included in the study. It remains to justify the rules of behavior and the relationships between people on the conditions of the scientific development of a human being as a natural subject. A human being is under natural pressure, but at the same time and is able to resist, because fits into the universe as a creator. Forming a unity, a human being takes in the universe an own unique place, because he has a proper social status and fractal properties. As we used the notion «fractal» above, now, when we develop this idea, we have to give proper explanations.

The studied property is connected with the notion «fractal» (from Latin «fractus» – fractional, separate), which was introduced by B. Mandelbrot (Мандельброт, 2004; Мандельброт, Хадсон, 2006). He was able to penetrate into the deeper processes of scientific communication and proposed a method of scientific descriptions of objects that appear asymmetrical, unconventional, sketchy, angular and fractured. In these objects his attention

was drawn to the following properties: the contours, the surfaces and volumes of the surrounding objects in reality are not smooth, they are rough and far from perfect, as it is common to perceive them. He suggested taking them as they exist in real life and to consider them in details according to the criterion of non-idealness. That is, at a closer and a more detailed examination these objects equally manifest themselves as irregular and rough, filled with a plurality of pores and holes, cracks and scratches of bizarre form and, finally, they are covered with a layer of bumps and wrinkles. Using for the formalization the mathematical apparatus, B. Mandelbrot introduced a quantitative measure of the «non-idealness of objects», which is based on the description of the contour tortuosity, surface wrinkles, fracturing of the material and the volume porosity. It means that if we use the theory of B. Mandelbrot the fractal property provides a suitable quantitative measure of the object's non-idealness that is why we introduce it into the research because the status of an individual is dependent on a number of spiritual, moral, ethical, professional, intellectual and physical qualities which are located on the numerical values axis sketchy and fragmentary; they are received from entities with different cultures. These sets of qualities, in turn, consist of the subsets, which also have differences, different origin and their own sources. Among them we can mention:

A. Spiritual qualities of a human being. They are based on the richness of the education of a personality who has developed a speed and wide range of the thoughts, force of feelings and beliefs, a broad common vision, embracing science and technology horizons, high culture of feelings, and became a fractal one. Such personality concentrates the ideals of justice, noble and exalted perception of the reality and scientific bases to thinking and creation, understanding of the origin of the phenomena and processes. Spiritual qualities allow an individual to be harmonically developed.

B. Moral qualities of a human being. They are produced on the basis of the formation of a number of artificially invented qualities, including duty, responsibility, humanity, justice, honor, and nobility in individual's attitude to the society, motherland, and people around him. These universal moral values have been and remain the main measure of individual's dignity. They allow an individual to be understood and to receive the sympathy with the surrounding people.

C. Ethical qualities of a human being. Different states, social environments and organizations have different ethical values which fact makes it difficult to formulate a single approach to their classification. Nevertheless we should explain some key points. In this research it is sufficient to adhere to the position that their implementation allows a person to provide a safe and comfortable life in the organization of civil society on



the condition of compliance with a number of standards with which he should co-exist. According to this approach in our physical development we should move «from ignorance to knowledge», and further «from knowledge – to the virtue, to the ideal man and respectable relations» between people where peace, state, society, subculture, family, a human being, justice, equality etc., are the leading values. Public life is formed by the state, which is the highest form of the establishment of communication between people, and, due to its harmony, all other forms of human relations reach perfection and completeness. The origin of thoughts is associated with the fact that nature has endowed the human with intellectual, moral and physical strength, each of them can be used for good and for evil. According to the philosophy of the 19<sup>th</sup> century (Hegel, Kant, Fichte) the spiritual foundation in a human being is structured rationally (Hegel), or morally (Kant) because a human being is always a holistic biological creature, which applies to the natural world, and to the moral sphere and the freedom in the community (Fichte). Only a man as a thinking being defines with his mind the purpose and plan of action; he could be an ideal of beauty, a model of perfection and be the subject of the solutions of modern problems. It means that a human being –Homo Faber – is skillful and can create. The last thought connects him with 1) the environment, 2) production of tools and 3) self-education. It also means the development of an individual's body.

D. Professional qualities of a human being. They are characterized by the most direct connection with the number of the operation parameters, a set of leading professionally important qualities and which significantly correlate with the parameters of activity. There is no need to define their structure here but we should consider the professional orientation of an individual because the object of the research (oriental martial arts) and the method of the research (management of organizations and innovational management of processes) indicate that an athlete may finish his sport career at a relatively early age and he will have to decide the problems of employment. Secondly, the sphere of physical culture and sport gives him a lot of knowledge, skills and abilities which should be considered, systematized, improved and specifically develop regarding the future.

E. Intellectual qualities of a human being. They are connected with individual's ability to mobilize the process of materialization of the psyche, motility of natural sensitivity and the sense of the reflected in the brain object or phenomena in brain structure which are held by consciousness. In this research, understanding of the nature of this kind is sufficient to successfully solve the problem and to develop scientific advice.

F. Physical qualities of a human being. They are defined as a type of human abilities, based on the mental, physiological and morphological

characteristics of the organism that allow it to perform the movements, activities and exercises, operations, and work-related physical activity. We can single out some physical qualities: rapidity, endurance, flexibility, agility, power, strength, speed. The process of physical development is associated with the physical characteristics of man, endowed originally by nature. They are systemically perceived as inclinations and predisposition to work and physical development, and they are specifically developed by the exercises. There is no other way of the physical development for a human being.

Thus, initially important for the man and his environment in all public media are the two groups of human qualities – mental and physical, and all the others – spiritual, ideological, psychological, moral – are a group of acquired qualities or derivatives, special restrictions and requirements artificially put forward in the society and the state.

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# **RISK MANAGEMENT ACTIVITY OF COMMERCIAL BANKS OF UKRAINE IN THE CONTEXT OF INTEGRATION TO EU**

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The category of risk is dominant in the banking business, based on the specifics of the activity of the banks as intermediaries on the financial market. The level of bank risk largely influences the efficiency of banking business, the potential of financial institutions in the maintaining of economic processes, the market value of capital and confidence in the bank by the regulators, partners and customers.

The level of risk in banking institutions is affected by the financial conditions of customers, partners and borrowers, so avoiding the risk in the banking business is impossible. Banks are successful when the risks they have taken are rational, controlled, and are within the scope of their competence and control. Professor Leo Schuster, director of the Swiss Institute of Banking and Finance at the University of St. Gallen (Switzerland), emphasizes: “A banker who lost the ability to take risks can no longer be a banker. This old wisdom reminds us that risks are immanent to the banking system” (Tsybko, 2003).

In determining the nature of the economic category of risk the researchers note that it is associated with conflict, uncertainty and effectiveness. Conflict arises from the subjective-objective nature of the risk, the presence of some of the contradictions between the objectively existing risky situations and their subjective evaluation. The uncertainty is associated with the inability to estimate the probability of occurrence of certain events and the extent of their manifestation. The need for economic decision-making under the conditions of uncertainty contributes to the emergence of risk. The difference between risk and uncertainty is the fact that risk involves the ability to estimate the probability of occurrence of events and the consequences of their implementation. The effectiveness of risk is manifested in the probability of deviation from the planned (expected) performance indicators of economic agents. (Luk'yanova, 2007).

In financial theory, risk is most often considered as the possibility of deviation of the final result from the planned one. However, it is usually identified with possible financial losses, which can arise as a result of some of the organizational, managerial and technical tasks or the negative influence

of the environment, including due to the changes in market conditions or force majeure circumstances (Desyatnyuk, 2007).

We agree with some scholars who believe that “... risk in all aspects of economic activity must be considered in conjunction with the category of “income”, that is, to distinguish in the formation of entrepreneurial income a specific component, the nature of occurrence of which is associated with risk” (Epifanov and Vasylyeva, 2012). This component, by the suggestion of John Mill (Mill, 2007), was named payment for risk and F. Knight (Knight, 2003) noted that profit can be considered the reward from risky situations.

Based on the above mentioned, the following characteristics of the category of “risk” can be determined:

- ✓ objective and subjective nature;
- ✓ the probabilistic nature of risky economic activity is incorporated in the basis of risk;
- ✓ risk is inherent to all the processes and forms of economic relations, regardless of whether they are active or passive;
- ✓ negative consequences of risk, which are expressed in the growth of expenses and the deficiency of revenue, can be partially liquidated by administrative measures;
- ✓ most situations, which are subject to risks, are very difficult to predict and control, therefore it is nearly impossible to eliminate risk completely;
- ✓ the absence of risk inhibits the development of each system, as it reduces its dynamism and efficiency.

The study of the concept of “bank risk” has shown that the majority of scientists are trying to adapt the features of the concept of “risk” to the specific conditions of its occurrence in the banking activities. At the same time, the focus is on its financial nature, which is expressed in the form of possible outcomes from the implementation of the risk.

The National Bank of Ukraine (the NBU), in accordance with the Methodical instructions for bank inspection “Risk assessment system”, determines the bank risk in terms of its impact on the capital and the flow of funds, namely, as “the probability that events, expected or unexpected, may have a negative impact on the capital and / or the flow of funds”. Thus, such understanding is not limited only to the financial aspects of its appearance, but it is defined as the possibility of losses in the case of appearance of negative circumstances for the bank.

In practice, the difference between the different types of bank risks is very important, as “... the value of the qualitative classification of bank risks lies inadvisability of its usage for the search for internal reserves for the increase of bank risk management efficiency. The qualitative classification of

bank risks shall be justified taking into account the impact of external and internal factors that lead to risk” (Epifanov and Vasylyeva, 2012).

In the scientific literature the scientists have offered different options for the classification of bank risk according to certain criteria (Table 1):

**Table 1**  
*Examples of classification of bank risks by the ukrainian scientists*

Author	Classification of bank risks
I. Burdenko, O. Pozhar (Burdenko and Pozhar, 2006).	According to the place of formation: external (political, economic and legislative risk) and internal (credit risk, interest rate risk, fund risk, currency exchange risk, market risk, the risk of early withdrawal of deposits, the risk associated with new activities, liquidity risk). According to the size: acceptable, critical and catastrophic risk. According to the distribution in time: past, present and future risk.
A. Epifanov, T. Vasilyeva (Epifanov and Vasylyeva, 2012)	External: the risks of natural disasters, country risk, political, legislative, economic and competitive risks. Internal: management risks (fraud, inefficient organization risk, management's inability to make rational decisions, the inefficient system of stimulation of employees). The risk of the organization of bank transactions: technological, strategic, the risk of the introduction of new products and technologies. Financial risks: credit, interest rate, liquidity risk, investment and currency risk, the risk of insolvency.
S. Kozmenko, I. Voloshko, F. Shpyh (Koz'menko, Shpyh and Voloshko,2003)	Risks associated with the features of customers. The risks of bank transactions: the risks of active transactions (credit, portfolio and liquidity risk) and the risks of passive transactions (emission, deposit, risks arising from the type of the bank).
O. Khmelenko (Khmelenko,2004)	According to the type of commercial bank: the risk of a specialized bank, the risk of a branch bank, the risk of a universal bank. According to the area of occurrence: internal and external. According to the composition of the bank clients: the risk of working with big and small clients. According to the distribution of risk in time: past, present, future. According to the level of bank risk: full, moderate and low. According to the nature of accounting: the risk of balance sheet and off-balance transactions. According to the possibility of management: open and closed.

*Source: composed by the authors*

A detailed classification of bank risks has been proposed by the Global Association of Risk Professionals (GARP). This classification includes 6 classes of risk (credit risk, market risk, portfolio concentration risk, liquidity risk, operational risk, business environment risk), 23 types and 36 varieties of financial risks of commercial bank. We believe that the use of such cumbersome classification complicates the risk management process. Some researchers note that “the complication of the hierarchy of bank risks leads to the impossibility of the classification performing its main function – creating the conditions for effective risk management” (Shvets and Yushkalyuk, 2015).

It should be noted that the NBU, for the purpose of supervision, on the basis of bank risk assessment has adopted the Methodical instructions for bank inspection “Risk assessment system” № 104 from 15.03.2004, where the following risk categories are identified: credit risk, interest rate risk, currency risk, liquidity risk, market risk, operational and technological risk, legal risk, reputation risk and strategic risk. These categories are not mutually exclusive, that is, any product or service may expose the bank to several types of risks.

Credit risk is the actual or potential risk to earnings and capital, arising due to the inability of the party, which has assumed the obligations, to fulfill the terms of any financial agreement with the bank (its unit) or otherwise fulfill the undertaken obligations. Credit risk is present in all the activities where the outcome depends on the activity of the counterparty, issuer or borrower. It occurs every time a bank lends fund, undertakes the obligation to provide them, invests funds or otherwise risks them under the terms of actual or contingent arrangements, regardless of where the operation is displayed - on the balance sheet or off the balance sheet.

Liquidity risk is defined as the actual or potential risk to earnings and capital arising due to the inability of the bank to meet its obligations in due time without suffering unacceptable losses. Liquidity risk arises from the inability to manage unplanned outflows of funds, changes in sources of funding and / or to perform off-balance sheet obligations.

Interest rate risk is the actual or potential risk to earnings or capital arising from adverse changes in interest rates. This risk affects both the profitability of the bank and the economic value of its assets, liabilities and off-balance sheet instruments.

Market risk is the actual or potential risk to earnings and capital arising from unfavorable fluctuations in the value of securities and commodities, as well as foreign exchange rates on the instruments that are in a trading portfolio. This risk derives from market-making, dealing, taking positions

from debt and equity securities, currencies, commodities and derived securities (derivatives).

Currency exchange risk is the actual or potential risk to earnings and capital arising from unfavorable fluctuations in foreign currency rates and prices of precious metals. Currency exchange risk can be divided into: transaction risk, translational risk and economic currency exchange risk.

Operational and technological risk is a potential risk to the existence of the bank arising from the deficiencies of corporate governance, the system of internal control or inadequate information technology and the processes of handling information in terms of manageability, universality, reliability, controllability and continuity of work.

Reputation risk is the actual or potential risk to earnings and capital that arises from adverse perception of the image of a financial institution by clients, counterparties, shareholders (participants) or supervisors. This affects the ability of the bank to establish new relationships with contractors, to provide new services and to maintain existing relationships.

Legal risk is the actual or potential risk to earnings and capital arising due to the violation or non-compliance of the bank with the requirements of laws, regulations, agreements, accepted practices or ethical standards, as well as due to the possibility of their ambiguous interpretation. Bank institutions are faced with legal risk because they have relationships with a large number of stakeholders, such as customers, counterparties, intermediaries, etc., supervisors, tax bodies and other authorities.

Strategic risk is the actual or potential risk to earnings and capital arising due to incorrect management decisions, improper implementation of decisions and inadequate response to changes in the business environment. This risk arises from incompatibility: the strategic objectives of the bank; business strategies designed to achieve these goals; the resources applied for the achievement of these goals; the quality of their implementation.

Different types of risks in bank activities are caused by different factors, have different effects on bank activities and are determined and controlled in different ways. For this reason it is necessary to develop different methods of their assessment as well as their management mechanisms.

The NBU does not give a definition of the concept “risk management”, but it notes that any risk management system should include the following elements:

- risk identification. A proper identification of risk is, first of all, the recognition and understanding of existing risks or risks that may arise from new business initiatives. Risk identification should be an ongoing process carried out both at the level of individual transactions and portfolio level;



- risk measurement. An accurate and timely measurement of risk is an essential component of effective risk management. The bank, which has no system of risk measurement has a limited ability to control risks or monitor them. In addition, the development of risk management instruments, used by the bank, should be adequate to the complexity and the level of risks that it has undertaken. The bank has to check periodically the reliability of measurement instruments that it uses. An appropriate risk measurement system includes the evaluation of individual operations and portfolios;

- risk control. The bank has to set limits and bring them to the executors using regulations, standards and / or procedures that define the duties and powers of employees. These control limits should be effective management tools that can be specified in the case of changes in conditions or the level of risk tolerance. The bank shall determine the sequence of the process of granting permits for the exclusion or change of risk limitations if it is reasonable;

- risk monitoring. Banks should monitor risks in order to ensure a timely tracking of risk levels and exceptions to certain rules. Monitoring reports should be regular, timely, accurate and informative and provided to corresponding officials for taking necessary measures.

As market conditions and bank structure are different, there is no single risk management system acceptable for all banks. Each institution should develop its own program and system of risk management, according to its needs and circumstances. For example, a larger bank with more complex transactions and which has offices in different geographical areas should have a more developed and more advanced risk management system.

Most often in order to refer to the activity of business entities, including that of banks, aimed at resolving crisis and risk situations, the term “risk management” is also used. On this occasion V. Klyoba (Klyoba, 2009) notes: “Risk management of a commercial bank can be defined as one of the main trends of modern bank management, which studies the management problems of a bank establishment as a whole or of its individual units, taking into account risk factors, and which includes the creation of an effective risk management system, the elements of which interact according to approved rules and in an agreed sequence, based on some of the concepts, laws, principles and methods”.

This approach is justified by the fact that any finance and credit institution, as an object of management activity, is a collection of complex socio-technical systems, the operation of which is influenced by external and internal factors.

For the purpose of the organization and functioning of risk management systems in commercial banks and in order to ensure that the banks carry out

their transactions within acceptable risk parameters and use a method which will protect the interests of depositors, creditors and owners of the banks, the National Bank of Ukraine has developed and approved “Methodical guidelines for the organization and operation of risk management systems in the banks of Ukraine”.

These guidelines have been developed on the basis of the Laws of Ukraine “On the National Bank of Ukraine”, “On banks and banking activity”, as well as taking into account the leading international documents that regulate the principles of corporate governance and risk management in banks. This will allow to avoid irrational decisions and mistakes, as well as to use the resources of the bank more efficiently. According to the guidelines of the National Bank of Ukraine risk management is determined “as the risk management system, which includes the strategy and tactics of management, aimed at achieving the key business objectives of the bank. Effective risk management includes: management system, identification system, measurement system and maintenance system (monitoring and control)”.

As the international practice proves, an effective risk management system brings to the bank a number of advantages, namely:

- ✓ improves the quality of strategic planning;
- ✓ allows to avoid sudden changes in value;
- ✓ increases the efficiency of the bank activity;
- ✓ enables the optimal use of the resources of the bank;
- ✓ contributes to greater transparency of management activities and improves communication;
- ✓ improves accounting in banks;
- ✓ provides the senior management with information on main risks as well as regarding the resources that are allocated for the influence of the risks of high level;
- ✓ provides the managers with an efficient and coherent methodology for the study of the risks;
- ✓ directs the top management towards the use of factors of risk opportunities in order to improve the value of the bank.

In terms of risk management, banking activity comes down to risk taking and receiving appropriate compensation for it, that is, economic gain. In other words, risk management is generally not intended to eliminate the risk, but instead it aims to ensure that the bank will receive the appropriate compensation for taking the risk. The exceptions are some risks for which there is no relationship between their level and the size of the compensation for the bank (for example, in Methodological guidelines for inspection of

banks “System of Risk Assessment” of the NBU, such risks include legal risk, reputation risk, strategic and operational-technological risk). The purpose of risk management is to enhance the value of the bank equity capital, while ensuring the achievement of the objectives of many stakeholders, namely:

- ✓ clients and counterparties;
- ✓ managers;
- ✓ employees;
- ✓ Supervisory Board and shareholders (owners);
- ✓ bank supervisory authorities;
- ✓ rating agencies, investors and creditors;
- ✓ other parties.

Risk management is an iterative, sequential process with clearly defined stages through which managers can clearly imagine the risks that commercial banks are faced with.

The process of risk management is a systematic use of available techniques, ways and methods of solving problems related to risks.

In world practice it is accepted to distinguish four interrelated stages of risk management:

- identification (detection) of the risk;
- quantitative and qualitative evaluation (measurement) of the risk;
- risk control;
- monitoring of the risk.

Risk management activity is carried out through the organizational structure of the bank. It is subject to periodic refinement and improvement, taking into consideration the changing situation and environment. The organizational structure is defined by the organization's culture, the size and complexity of the respective business transactions, the types of risks taken, and the significance of possible negative consequences. Thus, in different banks the practical implementation of risk management techniques may vary.

The process of risk management at the bank must cover all its structural levels - from management (Supervisory Board and Administration Board) to the level where the risks are directly received and / or generated.

The process of risk management should involve such functional and structural subdivisions of the bank as:

- ✓ Supervisory Board - within its functions and responsibilities towards the owners of the bank, investors / contractors and bank supervisory authorities;
- ✓ Administration Board - within its powers and responsibilities towards the Supervisory Board of the bank, investors / contractors and bank supervisory authorities;

✓ The subdivision of risk management - within its functions of identification, quantitative and qualitative assessment, control and monitoring of risks;

✓ back offices - within their control functions of compliance with the set requirements;

✓ front offices - within their functions of the bank accepting the risks within the proven credentials.

The functions of all the aforementioned departments should be clearly defined and documented, and the bank must do everything possible in order to avoid conflicts of interest between them.

Based on the characteristics of building an organizational structure, it is recommended for the banks:

- to create individual profiled committees at the level of higher collective bodies of the bank;

- to involve independent experts and other professionals in order to build internal control systems and to assess their adequacy. Such a recommendation can be made through the involvement of internal auditors of the bank as consultants on the design of internal control systems, concluding agreements about the outsourcing of advisory or audit services, as well as by engaging external auditors to the testing of internal control systems;

- depending on the chosen organizational structure of the bank and the amount and complexity of operations to perform the allocation of subdivisions and to carry out the distribution of functions between them at various local subdivisions (branches, divisions, departments, offices, etc.).

It is recommended for each bank to develop a system of internal regulations regarding risk management. It is necessary to ensure the timely update of internal regulatory requirements of the bank in case of changes of legal, regulatory or normative character, the organizational structure of the bank and the changes in the level of bank tolerance to risk. The bank must inform all the responsible persons about the internal normative base of the bank, including through periodic training and professional development.

In order to rise the efficiency of creating internal normative base of the bank it is encouraged to involve the members of the Supervisory Council in the key stages of creating regulatory documents of the bank, those that need to be approved at the level of the Supervisory Board.

In particular, the main strategic areas of risk management are worked on through the program of risk management, which is approved by the Administration and agreed by the Board of the bank. This document contains relevant risk management policy regarding: liquidity, credit, interest, currency, market, operational, strategic, reputation risk, etc., which the bank produces (evaluates, supervises, controls) in the process of its activity.

The program includes the following methods of risk management:

- maintaining capital adequacy;
- identification, analysis and risk assessment;
- developing procedures for carrying out transactions;
- the limitation of transactions (based on the requirements of the NBU, world practice, indicators of the business plan, budget, computation);
- hedging of the risks;
- the procedures of decision making and the functions of structural subdivisions of the bank in the management of the relevant risks.

The program should meet the requirements of the effective legislation and regulatory requirements of the National Bank of Ukraine, be consistent with the internal regulatory documents of the bank, include the identification of risks, methods and the procedures of evaluation, analysis and risk management, the procedures for risk management by the Administration Board, special committees, the subdivision of risk management and structural bank units.

The program of evaluation and risk management must include the possibility of preventing their occurrence and introduction of a system of early response to risks. For this purpose, at the planning of the institution as a whole, particularly at carrying out each transaction significant in terms of volume, it is expedient to introduce the forecast system, at the project assessment stage of which the extensive research is conducted and the complex of risks that may arise is revealed. The identification of risks at the stage of forecast of transactions makes it possible to develop a set of actions for the prevention of risks and their management.

It should be noted that the bank must have a scheme of actions (provisions) in case of emergencies (known as the procedures of anti-crisis management) so that the management authorities can make operative administrative decisions in the case of emergency situations and circumstances that can have potentially dangerous consequences for financial stability and profitability of the bank and the liquidity of its balance sheet. The provisions should include the procedures for anti-crisis management in the event of a systemic or close to a systemic liquidity crisis, of ultrahigh level of interest rate, market, currency risk or reputation risk, information technology, the procedures of decision making and actions of the Administration Board, special committees, structural departments of the bank, in the case of emergency situations (Demchuk, 2014).

The mere understanding of the economic nature of bank risks and its quantitative assessment do not allow managers to manage the bank effectively. It is necessary to apply the techniques and methods of a direct

impact on the level of risk with the aim of its maximal reduction, the increase of security and financial stability of the commercial bank.

In the system of bank risk management techniques the main role belongs to internal mechanisms of their neutralization.

Internal mechanisms of neutralization of bank risks represent the system of methods of the minimization of their negative effects, elected and implemented within the proper bank. The system of internal neutralizing mechanisms of bank risks provides for the use of the following basic methods:

1. *Risk avoidance*. This direction of risk neutralization is the most radical one. It lies in the development of such activities of an internal character, which completely exclude a particular kind of bank risk. Therefore, in the system of internal neutralizing mechanisms their avoidance should be carried out very carefully and under the following basic conditions:

- if the refusal from one bank risk does not lead to the occurrence of another risk of the same or higher level;
- if the risk level is not comparable with the level of profitability of bank transaction on the scale of "profitability - risk";
- if the bank losses from this risk exceed the capacity of their compensation from the proper funds of the bank;
- if the amount of income from the transaction, generating certain types of risks, is insignificant, that is, it occupies the imperceptible proportion in the generated positive cash flow of the bank;
- if bank transactions are not typical for the bank activities, are innovative or there is a lack of information base needed in order to determine the level of bank risks and to make appropriate management decisions.

2. *Risk limitation*. The mechanism of limiting bank risks is usually used for those types which go beyond their acceptable level, that is, regarding bank transactions carried out in the area of critical or catastrophic risk.

3. *Hedging*. This mechanism represents a balancing transaction aimed at minimizing risk. The transactions hedging individual balance sheet items are called micro-hedging, and those that immunize the entire bank balance are called macro-hedging. In the cases where the selection of hedging instruments is carried out in the framework of the balance sheet items (for example, the selection of assets and liabilities in terms of duration) the hedging method is considered to be natural.

4. *Diversification*. Diversification mechanism is used, primarily, to neutralize the negative bank effects of non-systematic (internal) types of risks. The principle of the operation of diversification mechanism is based on risk-sharing that prevents its concentration. Diversification is a dispersion of bank risk.

5. *Risk allocation.* This mechanism is based on their partial transmission to partners of individual bank transactions in such a manner that each participant's losses are relatively small.

6. *Self-insurance.* The mechanism of this direction of bank risk neutralization is based on the bank reserving a part of its resources, which allows to overcome the negative effects from certain bank transactions. The main forms of this direction are the formation of the reserve, insurance and other funds. The main objective of self-insurance is to overcome temporary difficulties of bank activity in efficient manner.

The basic internal mechanisms of neutralization of bank risks mentioned above can be significantly supplemented by taking into account the specifics of bank activity and the particular composition of its risk portfolio.

External sources of neutralization of bank risks imply insurance. The insurance of bank risks represents the protection of the property interests of the bank in case of insured event by the special insurance companies (insurers) through money funds generated by them by receiving insurance premiums from insurers. The essence of insurance is expressed in the fact that the bank is ready to give up part of its income to avoid the risk, that is, it is willing to pay for the reduction of risk degree to zero.

In order to coordinate bank objectives and control the risk level it is advisable to prepare a written memorandum of risk control policy and set up a committee consisting of senior staff from concerned departments. In most banks an effective risk control program includes the following provisions:

- the protection of the bank and general safety issues;
- ensuring the safety of people - protection against accidents, kidnapping and hostage-taking, the development of procedures for various cases of force majeure circumstances;
- the preservation of property - measures to protect the bank property from physical damage;
- control of information processing and operational center - ensuring the confidentiality, speed and error-free operation;
- prevention and detection of potential losses from internal and external crimes;
- control of contractual and agreement obligations - legal advice on the terms of the contract (including changing conditions), systematic monitoring of contracts;
- development of procedures for overcoming all kinds of crisis situations, including the area of information processing;
- control of other risks.

The implementation of systematic monitoring of the effectiveness of various risk control programs, in addition to the development of standards for these programs, should also include the collection and analysis of information about the cases of their unsatisfactory efficiency. The system of performance indicators of neutralization of the negative effects of certain types of bank risks includes:

- the level of potential bank losses that are being neutralized;
- the efficiency of neutralization (the ratio of the costs of its implementation to the size of potential losses);
- the assessment of the overall risk of the bank activities taking into account the measures to neutralize them, and others.

For the effective use of bank resources allocated for monitoring, risks should be categorized according to the degree of their relevance for a particular bank and only the main types of risks should be introduced to the tracking system. All those risks which are outside of the established value limits are displayed off the formulation of detailed reporting in the monitoring system. Control function is carried out selectively and detailed analysis - only in the case of receiving danger signals such as violation of terms of payment, violation of norms, limits, etc. This approach guarantees that the money will be used to identify and carefully monitor the risks that are relevant for the bank.

Risk monitoring system helps to correct the current activity in accordance with the warning signals that it generates using a feedback mechanism. The effectiveness of the risk management system as a whole strongly depends on the effectiveness of the monitoring system. Within this approach to the organization of the management process the managers of the middle level are responsible for the reliability of the local system and for implementing the strategic objectives set out at the level of the senior management.

A successful activity of banks as a whole is largely dependent on the bank risk management. The purpose of this process is to limit or minimize them as it is impossible to avoid risks completely. Among the scientists there is no consensus regarding the understanding of the concept of "bank risk management" but the National Bank of Ukraine stipulates that risk management system includes the following elements: risk identification, risk measurement, control and monitoring of risks.

One of the main directions of modern bank management is risk management, the main task of which is to ensure an efficient risk management system. The National Bank of Ukraine defines risk management as the risk management system, which includes the strategy and tactics of management, aimed at achieving key business objectives of the bank.



The process of risk management is a systematic use of available management techniques, ways and methods for solving problems related to risks. This process includes the following stages: identification of bank risks; risk analysis; risk assessment; ways to prevent or reduce them; monitoring and control of bank risks; evaluation of the results. Risk management activities are carried out through organizational structure. The process of risk management at the bank must cover all its structural levels - from managerial one to the level where risks are directly received and generated.

In order to prevent risks and minimize them, a holistic system of monitoring, diagnostics and overcoming of risk should be established. The development of effective measures and the combination of management at macro-level with the effective anti-crisis management within the bank will help, as soon as possible, to minimize the threat to the banking system and the state as a whole.

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**II.**  
**PRODUCING POWERS**  
**TRANSFORMATIONS AND MODERN**  
**FEATURES OF TERRITORY**  
**DEVELOPMENT**



# **PROSPECTS OF DEVELOPMENT OF RURAL TOURISM OF THE CARPATHIAN REGION IN THE CONTEXT OF EUROINTEGRATION**

***Serhii Voloshenko,  
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Despite the fact that the problems of rural areas are studied by scientists in many countries for decades, there is no standardized agreed common definition, and no clear regional typology essence of rural areas. The most appropriate definition as for rural areas in each case for different countries depends on the aspect of social, economic and natural resource component of the environment (Lane, Weston, Davies et al., 2013).

Rural tourism - is the provision of (obtaining) services of tourist attractions associated with relaxation, on the use of ecosystem potential of agriculture and local infrastructure of a certain region in the countryside or its characteristic colorful features (cultural, architectural, ethnic, economic, etc.) (Voloshenko, 2015). According to the authors, linking of the rural tourism activities only in the rural areas will not fully reflect the essential definition, and therefore would raise a contradiction in implementing the concept of the normative legal acts of Ukraine. It in turn would have impacts in adapting to the norms of EU law within the national strategy of European integration on legal issues. Although the term "rural tourism" assigned by the European Commission to the appropriate type of tourism as a means to describe and explain all tourist activities in rural areas, there are differences in ethnic definitions not only in terms of types and forms of tourism but also the territorial size of the administrative units, their determination in terms of population and other derivatives of the function definitions and objects. Klyap M.P, Shandor F.F. were engaged in the detailed description of concepts and varieties of tourism in their book "Modern varieties of tourism".

In the study of scientific papers of the numerous Ukrainian scientists such an opinion is observed, that one of the key points for the development of rural tourism in the Carpathian region and the country as a whole is to meet the challenges of regulatory support.

Today in Ukraine, there are a number of laws (Table 1), which are directly or indirectly related to an economic activity of the tourist service sector in agricultural ecosystems, which are listed in Table 1:

**Table 1*****The legislative and regulatory framework for the development of rural tourism in Ukraine***

1	The Constitution of Ukraine	The basic Law of Ukraine. Guarantees of business, free choice of work areas, economic freedom.
2	The Law of Ukraine "About Tourism" of 15.09.1995 number 324 / 95-	This Law determines the general legal, organizational and social and economic basis of sale of the state policy of Ukraine in the field of tourism and is directed on providing fixed by the Constitution of Ukraine of the rights of citizens on rest, freedom of travel, health protection, on safe for life and health environment, satisfaction of spiritual needs and other rights when implementing tourist travel. It establishes bases of rational use of tourist resources and regulates the relations connected with the organization and implementation of tourism in the territory of Ukraine.
3	The Law of Ukraine "About the farm" of 19.06.2003 № 973-IV	This Law determines the legal, economic and social basis of building and activities of farms as progressive form of business activity of citizens in the industry of agricultural industry of Ukraine. The law is directed on the conditioning for implementation of the initiative of citizens on production of commodity agricultural products, its conversion and implementation in the domestic and foreign markets, and for ensuring rational utilization and preservation of lands of farms, legal and social protection of farmers of Ukraine.
4	The Law of Ukraine "On a personal peasant economy" of 15.05.2003 number 742-IV	The Law defines the legal, organizational, economic and social basis of a personal peasant economy.
5	The Law of Ukraine "On Agricultural Advisory Activities" of 17.06.2004 number 1807-IV	The Law determines the legal basis of agricultural advisory activities in Ukraine regulates relations in this field and is aimed at improving the welfare of the rural population and rural development.
6	Terms of institutions (establishments) catering. Approved by the Ministry of Economy and European Integration of Ukraine of 24 July 2002 r. №219.	The basic requirements of business entities (institutions, enterprises) of all forms of ownership are regulated, which exercise their activity in the territory of Ukraine in the field of catering.

7	The Law of Ukraine "On Protection of Consumers' Rights" of 12.05.1991 number 1023-XII	Regulates relations between consumers of goods and services and the manufacturers and sellers of goods, performers of work and service providers of different ownership, establish consumers' rights, and defines mechanisms for their protection and the basis of state policy in the field of consumers' rights protection
8	The Resolution of the Cabinet of Ministers of Ukraine "On Approval criteria for assessing the risk of economic activities, which is subject to the state veterinary and sanitary control and supervision" of 24.09.2008 number 848	Assessment of risk from business activities subject to the state veterinary and sanitary control and supervision and inspections. Agriculture belongs to business entities with a high degree of risk.
9	The Resolution of the Cabinet of Ministers of Ukraine dated March 15, 2006 N 297 "Procedure for the provision of temporary accommodation (accommodation)"	Adjusts the issue of providing services of temporary accommodation for legal and physical entities.
10	The Law of Ukraine "On State Registration of Legal Entities and Individual Businessmen" № 755 of 15.05.2003.	Regulates relations arising in state registration of legal entities and individuals - entrepreneurs
11	Annex 6 to the Regulations on income tax number 12 from 21.04.1993	Instruction on personal income tax on business activity
12	The Law of Ukraine "On tax on individuals"	Defines the legal basis of personal income taxation in Ukraine.
13	Article 793 of the Civil Code of Ukraine	The form of contract of employment a building or other capital structure
14	Rules of hotels and similar accommodation and hotel services The Order of the State Tourism Administration of Ukraine № 19 dated 16.03.2004	Regulates the basic requirements of hotels and similar accommodation all forms of ownership operating in the territory Ukraine in the provision of accommodation (hotel services) consumers and regulate the relationship between consumers (individuals living in hotels or intend to use hotel services) and hotels executing these services.
15	The Labor Code	Regulates labor relations of employees

Currently, the Government of Ukraine has still not taken a direct law on rural tourism. Clearly, current and comprehensive regulatory framework

serves as a guarantee of rights and freedoms of entities and consumers of tourism services.

In 1998, Ukraine had become a full member of the World Tourism Organization, which positively affected the credibility and the image of our country in the tourism community, opened up new opportunities and prospects for the development and improvement of work in a single global travel space. One of the most important tasks is to develop and improve business relationships with well-known foreign travel companies, the implementation of the principle of fair competition, based on quality and a full service public (Lendiel and Studeniak, 2009).

The international image of rural recreation in Ukraine is ambiguous as well.

On the one hand, our country is traditionally seen as an agricultural country, one of the European barns with preserved rural way of life, rich cultural heritage, an uncompensated nature and hospitable hosts. On the other hand, low standard of housing and its lack of technical security and unsettled villages and a very limited choice of leisure opportunities and recreation don't attract foreign tourists.

In the last decade, the great interest in the development of tourism in the Carpathian regions found by international economic structures that initiate, finance and carry out the socio-economic research. The development of rural tourism in Ukraine is partly supported by the European funds "Yevrozhits", "Eurasia", International Fund "Renaissance".

However, the trends of recent years show that Western countries see the prospects of the Ukrainian rural recreation and tourism on the international tourist market. The evidence of this can be the organizational and technical assistance from international funds, Fund for Development of the Carpathian Euro region, programs TACIS, through which projects were implemented to support rural recreation and tourism in the Carpathian region (Prospects for the development of green tourism in Ukraine).

The project TACIS "Support for local development and tourism in the Carpathian region" in Lviv, Zakarpattia, Ivano-Frankivsk, and Chernivtsi regions studied the situation in the tourism sector of the region and Ukraine, conducted researches and offered practical advices in the following areas (Bodnar, 2009):

1. Institutional (assistance to the regional state administrations and the tourism sector): forming different structures such as the Council on Carpathian Tourism, associations, working groups that had to take over the implementation of the ideas of the project after its completion. The support to NGOs was provided in order to enhance the impact of these organizations on regional and national legislative and executive authorities; consultations and



training were carried out for those involved in this work; research and analysis of the state tourism policy and legal framework was conducted; consulting support to regional administrations was provided to strengthen their role in carrying out the state policy on tourism development (including financial, tax, visa policies, etc.) suggestions for the formation of regional tourism policy have been developed.

2. Marketing (creating a positive image of the region and its promotion on the markets of Ukraine and Europe): the website is designed, brochures are printed, a new logo of the Carpathian region as a tourist destination is created, the advertising tours for tour operators from the UK and Germany are conducted.

3. Educational: the current state of training is studied, suggestions for the development of tourism education are prepared; projects designed to create hotel schools in the region are developed; consultative workshops for persons employed in tourism are organized; a resource center with books and video materials for teachers of tourism disciplines is created.

4. Support of the small businesses (through concessional loans) the project operated micro credit line for entrepreneurs wishing to start their own business or develop existing.

In its tourist and recreational potential the Transcarpathian region is one of the leading places in Ukraine. In terms of income from recreation industry – the second place (22% of the total figure in Ukraine) (Luzhanska, Makhlynets, & Tebliashkina).

The inventory of tourism infrastructure in the Carpathian region (Ivano-Frankivsk, Lviv, and Transcarpathia) that was completed in 2002 as a part of the Polish-Ukrainian project "Tourism potential of Western Ukraine" has showed the presence of a strong tourist potential and resources of the Carpathian region in terms of foreign consumer interests (Zinko, Lozynskyi, Malska et al., 2004). For instance, Transcarpathian region possesses three large natural protected areas suitable for eco-tourism. The largest is the Carpathian Biosphere Reserve (CBR). It covers almost 2.5% of the Carpathian region. Its ecosystems referred to the most valuable on our planet and from 1993 they are the members of the World Network of Biosphere Reserves by UNESCO. The total area of the reserve – 53, 63 thousand hectare. The CBR has six separate arrays and botanical reserves of national importance "Black Mountain" and "Yuliyivska Mountain" (Vynohradiv region). They are located on the territory of Rakhiv, Tyachiv, Khust and Vynohradiv regions (Shandor, 2014).

According to the last census of Ukraine in 2012, the population of Transcarpathian region in the city was 466 327 people, whereas in rural areas - 787 813 people, that is, in the ratio 37/63% of the total. As of January 1,

Ukraine charge 28,450 villages, 885 townships, in the Transcarpathian region - 579 villages, 19 townships (State Statistics Service of Ukraine; Rutynskiy & Zinko, 2006). The village is not only farms but also private farms that produce over 60% of gross agricultural production (Ostashko, 2005).

The border regions of Western Ukraine in modern conditions are considered as promising areas of tourism, which involved not only the inhabitants of our country, but the citizens of neighboring countries as well. This particular concept is defined in Cross-Border Tourist Networks (CTN) Region HU-SK-RO-UA (Hungary-Slovakia-Romania-Ukraine). It states that the competitive advantages of the cross-border region is advantageous economic and geographical position in the heart of the Carpathian region, the 5th corridor Lisbon - Kyiv, natural, recreational, historic and cultural resources are available, as well as proximity to the international airports in Budapest, Vienna, Lions (Koval, 2015).

Carpathian tourist region, due to its unique recreation and geographic location on the eastern border of the European Union is developing a large-scale marketing, information, and infrastructure and investment strategies to transform the land into one of the main centers of sustainable tourism and preservation of natural and ethno-cultural heritage on the European continent (Background and stages of development of green tourism in the Carpathian region of Ukraine).

In accordance with the provisions of Council Regulation (EC) No. 1698/2005, rural development policy focuses on three topics, known as "thematic axis":

1. Improving the competitiveness of agriculture and forestry
2. Improving the environment and countryside
3. Improving the quality of life in rural areas and encouraging of the diversification of the rural economy (Rural development in the European Union, 2013).

Since Ukraine has sent a clear position on European integration, the further development of the rural economy associated with the embodiment initiatives and programs to improve productivity encourage private sector investment in research of new tourist market processes and the development of new business ideas that are cultivated in the system of European space.

The priority of Rural Green Tourism in Ukraine and in particular in the Transcarpathian region is predetermined by the necessity of solving urgent social and economic problems of the modern village.

Since independence, Ukraine's rural population has decreased, while unemployment and migration increased.

All the variety and diversity of resource natural recreational potential, which is so often mentioned by scientists, is not well developed and not

adapted to the needs of potential users of rural tourism, and reminds essentially funds that are not in circulation and does not bring dividends.

The important element of rural tourism is the problem of rational, efficient and safe use of ecosystems.

Worldwide demand for ecosystem services is so great that the replacement of some other ecosystem services is the rule. A country can increase food supply, converting forest area in agricultural land, but providing of the other services is reduced such as, for example, clean water, timber, place for ecotourism or regulation and flood control and waterlogging. There are many signs that people's demand on ecosystem services will further increase in the next decade. Everyday 180 000 people move to the city. In developing countries, 60 million people replenish the urban population annually. Such level of urban population growth will continue over the next 30 years. According to current estimates, by 2050 the world population will grow by another 3 billion people and the world economy will grow 4 times, which implies a significant increase in demand and the consumption of biological and natural resources, as well as the strengthening effects on ecosystems and the services they provide. From the point of view of such a tendency, we can make a conclusion that the demand for the basic of human needs, such as vacation, will grow proportionally with population growth. As the population increases, the demand for urban outdoor recreation will have a similar tendency to growth. The value and the importance of agricultural land will gradually acquire not only source features of food needs but also more and more characteristics of recreation zones. Every year, the wildlife is displaced by the expansion of farmland. The task of this generation is the saving of the planet's biodiversity and search techniques of environmental resources to meet people's needs without disturbing the stability of ecosystems, that is the ability of the ecosystem to maintain its structure and functional features of the action of an external factors. Degradation of ecosystems usually does more harm to the rural population rather than urban residents, and provides the most direct and brutal impact on the poor (Rates of urbanization in the world are increasing; Ecosystems and human well-being, 2003).

According to monitoring 2014, there are about 400 estates on the territory of Transcarpathia included to the annual catalog "Rural tourism of Transcarpathia. Farmsteads sincerely invite." In Beregovo, where the priority kind is rural tourism, in 2014 the number of farms, which offer tourist services, has dramatically reduced. In such villages as Borzhava, Vary, Ben, Muzhievo and Yanoshi there are only 30 such estates, while in 2013 there were 121. The owners of rural households report that the number of tourist flows in villages has fallen sharply. If 2 years ago foreign tourists visited rural

estates, now Ukrainian tourists are dominated (In Transcarpathia the reviving of rural tourism is planned, 2015). The greatest connoisseurs of the Transcarpathian part of the Carpathians are residents of central and eastern regions of Ukraine. Inbound tourism (foreign) in Transcarpathia has from 10 to 20%, the residents of Hungary, Belarus, Slovakia, Czech Republic, Switzerland and Germany visit our region uttermost (Shandor, 2014).

However, according to statistics in Ukraine, only 6.6% of cash household expenditures are spent to improve their material well-being (deposits in banks, construction, holding, etc.), 90% of the cost are spent on consumer spending, 56.2% of which goes to food (Regions of Ukraine 2013: Statistical Yearbook, 2014). To improve their standard of living in such conditions is almost impossible. It is known that at a certain dynamic of the increase in tourists, there is question to meet a large number of different queries, and this, in turn, stimulates the development of the entire services sector: communications, trade, residential, recreational, entertainment, transport and others. As for the infrastructure of the environment even speech cannot be, because people are on the brink of survival, spending almost all of their income on consumer shopping and necessities. Again, we can talk about the diversification of income and rural tourism can be an additional source of income to the family budget but this situation will not change.

The main barrier to the development of tourism in the Carpathian Euroregion is insufficient funding of programs and projects of the historical and cultural attractions, nature reserves, through which the phenomenon of neglect and insufficient quality service to historical, cultural and natural recreational resources of the region is observed (Cherleniak and Talapa, 2015).

The main service of green tourism is providing temporary accommodation for tourists. According to the investigation of price lag, living in rural estates in Ukraine per person is from 600 to 2100 UAN per day (Andrushko, 2015), or from 21 to 73 € in exchange rates as of 23/04/2016. The prices for accommodation of one person a day are also different: the highest – near the sea, the lowest in Vynnytsia and Ivano-Frankivsk regions. Three meals a day is also the most expensive near the seas cost, the cheapest - in Vinnytsia and Ivano-Frankivsk regions (Mykhailiuk, 2013). Thus, according to the poll (Malyshev and Kolesnykova, 2013), 42% of respondents travel two to three times a year, 28% - once a year, 23% - four times or more and 7% don't travel. The majority of respondents (68%) prefer to travel in couple, 15% - with a family and 17% - alone. The duration for 48% of respondents is 5-7 days, for 36% - 8-14 days, 16% - 15-30 days.

In our opinion, such a low number of days allocated for the rest is due to the price tariffs on tourist services for the majority of country's population (Table. 2).

**Table 2*****Prices of rural tourism in Ukraine (€)***

The number of people	1 per year					
	5 days of rest		10 days of rest		15 days of rest	
	Min/day	Max/day	Min/day	Max/day	Min/day	Max/day
	21 €	73€	21 €	73€	21 €	73€
1 person	105 €	367 €	210 €	735 €	315 €	1103 €
2 people	210 €	735 €	420 €	1471 €	630 €	2207 €
3 people	315 €	1103 €	630 €	2207 €	945 €	3310 €

*Compiled by the author based on sources: (Andrushko, 2015; Malyshev and Kolesnykova, 2013)*

On average, a family of 2-3 people on holiday in the countryside in ten-day period once or twice a year should be close to 420-1471 €.

It should be noted, that in 2013 about 43% of Ukraine's population had equivalent levels of average total income in the range of € 42 to € 67 per month (on exchange rates as of 23.04.2016 g.). There is a similar tendency in respect of previous years, and from 67 € to 92 € income - had 26% of the population (The distribution of population in terms of average total income equivalent 2005-2013). Given the above statistics and subsistence level (38-45 € / month) and minimum wages within 42-48 € (On State Budget of Ukraine for 2015, 2014), it can be argued that the current rising prices for services provided in rural tourism are not available for the most of the population of Ukraine. Inflation 2016, which is mainly related to the change of the hryvnia against major foreign currencies as well as incompetent and destructive financial and social policies of the government in the country during the military aggression of Russia against Ukraine and criminal aggressor occupation of the sovereign territory of our country, only worsened the financial condition of the Ukrainians.

In general, the problem of the tourism industry in Ukraine is high cost services when they are low quality. This applies to both high prices to stay in temporary accommodation vehicles and in transport services. These problems skillfully use foreign tour operators entering the Ukrainian market offers a huge number of relatively inexpensive vacation in Greece, Turkey, Italy, Bulgaria, Austria and the Czech Republic. This is rightly insisting that the level of service of such offers is usually higher than the one that can offer the tourist destinations of our country. We can overcome these gaps by the way

of partnerships between Ukraine and neighboring countries, especially the Carpathian euro region (Cherleniak and Talapa, 2015).

In general, rural tourism and tourist industry in Transcarpathia has seasons of the tourism activity. Its peak falls between Christmas and New Year Winter and Oriental cherry blossom in spring. The period of business activity in the tourism market and the duration of the highest rates for tourism product and services is January for ski areas and July-August for spa facilities. The most unfavorable season for the organization of recreational activities in Transcarpathia is March and November (Shandor, 2014).

A significant number of areas of Ukraine do not reflect the desired performance of the rural tourism. Those areas that have significant tourism and recreational resource potential should effectively implement tourism impact. Since independence, a number of thematic tourist routes, have been created in the Transcarpathian region. These are "Transcarpathian tourist way" (the concept of eco-tourist hiking routes with a total length of about 380 km.), "Carpathian tourist gastronomic route" (representing culinary skill and flavor range of nine people's national cuisines, living in the Transcarpathian region), "Carpathian tourist wine route" (representing the traditions of the Carpathian domestic viticulture and winemaking), military way "Carpathian Ukraine" (dedicated to the 70th anniversary of the proclamation of Carpathian Ukraine), military tourist route "Arpad line", tourist route "Hutsul paths", tour route "Mineral Way," "Transcarpathian salt way", thematic routes - "Sweet Road", "Honey Path", "Ways of Carpathian Opryshku," "Castles of Transcarpathia", "Palaces of Transcarpathia", "Wooden Churches of Transcarpathia", "ancient stone churches of Transcarpathia", "Monasteries of Transcarpathia ". Approximately 110 tourist destinations were developed in our region (Shandor, 2014). It shouldn't be forgotten, that the scenarios of world experience, in which the presence of large tourist flows to some regions does not improve the welfare of local people living in appalling conditions and because of such terrible conditions the residents cannot receive tourists as temporary residents. Providing conditions for the provision of services form the prerequisites for creating growth product offerings on the market. This statement is logical to the rural tourism in Ukraine as well.

Rural areas face a number of new opportunities and challenges, which require appropriate policies for rural development and more effective use of limited resources (Investment priorities for rural development, 2006).

When small farmers are the subjects of the tourism industry, they often need an external support. Namely from credit and financial experts to improve their ability to comply with standards of living of urban visitors. Farmers may need new skills in management and service to make their visitors happy during the stay and not willing to return. They may also need help in

advertising and publicity to attract tourists from faraway cities. The main directions of tourism development trends aimed at forming region mobility infrastructure, especially for existing public transport, new information and communication technologies, and sufficient resources for quality education and training, they also include healthcare and care for the elderly. Thus, there is a need for innovative approaches to provide services in rural areas.

Innovations are closely associated with social processes such as networking, strengthening of the local identity and the creation and dissemination of knowledge. By investing in human capital, more opportunities for the creation and assimilation of these innovations are formed which are generated by research and development in this field. Economic management based on knowledge creates new economic opportunities (Investment priorities for rural development, 2006).

As rural areas experiencing environmental changes, investment priorities in agriculture reflect similar trends. Today, to achieve higher levels of quality, efficiency and profitability of green tourism, a parallel development of all types of domestic tourism and all domestic areas of hospitality is required, where infrastructure and level of comfort offered by different income consumers are growing for all groups and improve the whole value "quality / price" (Cherleniak and Talapa, 2015).

The importance of adapting investment solutions to the problem of demographic change should be mentioned. Focusing on empowering young people, new projects have been developed in the field of forestry and tourism that could facilitate young people to access the land and slow the outflow of rural population to urban areas and abroad.

The international experience illustrates examples of efficiency of the investment projects towards rural development. For example, Japan (local investment initiatives on job creation and income-oriented elements of rural identity preservation), Canada (a new investment fund and a lot of ideas, incentives from the government generates intellectual mobilization of almost 30,000 people, including 7,000 volunteers in developing and implementing long-term vision for the development of rural communities) (Investment priorities for rural development, 2006) and others. The European Union also made a significant progress in this direction. Suffice it to mention the development of rural tourism, for example, in Poland. Such an experience of implementing successful projects is needed for Ukraine in the context of scientific and innovative cross-border cooperation.

In the context of cross-border tourism within the Transcarpathian region for the potential complications are: visa requirements, the low capacity of border crossings, underdeveloped road network and related infrastructure, unsatisfactory information and advertising level to ensure the development of

rural tourism and tourism in general, insufficient number of specialists of tourism services, poor range of travel services, including hotel ones.

For example, UK, Germany, Austria, Switzerland and France have a dense network of footpaths and other routes in rural areas that are generally well defined and specified in its functional activity of relatively clear legal framework (Lane, Weston, Davies et al., 2013). In Ukraine, the issue of infrastructure development is a painful topic that requires special attention and approaches to solutions.

Regarding border advantageous location, the maximum efficiency geolocation of tourism is worth talking in the case of a visa free travel for tourists. Moreover, this is a very complicated issue, because countries must have a high degree of confidence in terms of international relations. The international relations acquire new characteristics and features.

Global computer networks have a great value. Thanks to information technologies, the efficiency in tourism marketing is increasing; the consumer can quickly obtain the necessary qualitative information about the tourism product from home (Kvartalnov, 2004). The main tool for promoting tourism products and services are the Internet resources. In each region there are Internet portals containing large amounts of information on tourist resources of Trans boundary areas and inform on the activities of the tourism industry (Koval, 2015).

At all stages of the period the importance of the role of the state is clearly felt, namely controlling and regulating, because insufficient attention by the public authorities able to complicate the existing situation in the environmental section.

The state must work out a number of issues such as monitoring, training, consulting, development of scientifically based suggestions and business ideas in accordance with the concepts of ecosystem security, legal counseling and social support entities that provide services to rural tourism. The international experience of ecological approach to rational, scientifically proven entity in the field of rural tourism is a step towards the internationalization processes of positive environmental policies at all levels of social development: local, regional and global.

In this regard, the development strategies of tourism development and preservation of the environment, should (Mykhailiuk, 2014): specify the territory with special ecological, recreational and health, scientific, aesthetic, historical and cultural value, conduct their zoning, set limits, using the legislative tools at their development and other use, create measures for their protection and rational use; define permissible recreational loading on natural systems in each case; optimize the use of recreational areas and objects of natural reserve fund.



Those who make decisions in the private and public sectors are designed to balance economic growth and social development with the need of environmental protection as our health and well-being depends on the use of services provided by ecosystems and their components: water, soil, nutrients and organisms (Ecosystems and human well-being, 2003; Ecosystem Services, 2006). The rural tourism has serious harmful effects on the natural and cultural environment, as opposed to mass, and at the same time is making a significant contribution to the regional development. The most successful business in rural tourism is a product of effective planning in a suitable place. As for the green tourism, the most popular areas for recreation in Transcarpathia are Lakeside and riverine zones: Santa, Tereblya, tract Vojevoduno, Andrijivka, beach area on the Tisza, Uzhi, Latorytsia and Borzhava, Kolochava (Shandor, 2014).

In Ukraine, a number of private, public, commercial organizations and institutions deal with the development of rural tourism, whose capacity is small, the functional link between them is weak and it leads to a lack of management industry. From this point of view an effective cluster development entities of the rural tourism with local communities is seen (Yeremenko, 2007).

The main directions of improving the condition of rural tourism are as follows (Lane, Weston, Davies et al., 2013):

1. Improved cooperation and coordination between interested parties and key players
2. Raising awareness among suppliers of travel services of nature, culture, resources and tools product development.
3. Recognition of the importance of cultural heritage, which does not get enough protection, interpretation or marketing.
4. Allocation of funds for the development of tourism infrastructure and improvement of the most popular areas
5. Market research and marketing strategy, based on a scientific approach.
6. The current system of tourism information
7. Measures to reduce youth migration from rural to urban
8. Measures to preserve traditional architecture and suburban special atmosphere.
9. Creating a series of integrated tourism products. Brand development connected with tourism services in rural areas.
10. To create new national parks and special areas of tourism and to reduce the environmental load from a large number of tourists.
11. Strong involvement of local authorities in the development of the agricultural tourism.

12. An independent management structure of tourism, based on the economic freedom of entrepreneurs and owners of rural houses by reducing the tax burden and bureaucratic formalities related with the activities of Rural Tourism.

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# DOES IT POSSIBLE TO REDISTRIBUTE THE RENTAL INCOME FROM THE EXTRACTING COMPANIES IN TERMS OF COOPETITION IN UKRAINE?

*Yuliia Halynska*

## **Coopetition - multifaceted concept**

The etymology of the cooperation refers to competition and cooperation appearing in the same time between the same actors. The literature widely locates its origins in the 1990 when R. Noorda a former CEO of Novell (Padula & Dagnino, 2007) used it to grasp the nature of relationships between competitors.

Coopetition, «cooperation» and «competition» (Brandenburger & Nalebuff, 1996) describe inter 0 firm relationships that include convergent and divergents interests. The co-existence of convergent and divergent interests as partially convergent and partially diverging interests shape contradictory demands in coopetition (Park & Gnyawali, 2009).

In the management literature (Brandenburger & Nalebuff, 1996) have popularized coopetition. They claimed it to be more than a linguistic blend of cooperation and competition. Inversely, coopetition is to be seen as a new mindset, a process, or a phenomenon combining cooperation in order to create a bigger business pie, while competing to divide it up.

Importantly the term coopetition has been coined by managers, which indicates an empirically grounded need to grasp the complexity of real life relationships between firms in an comprehensive way, beyond competition or collaboration alone.

A fundamental feature of coopetition is the simultaneity of competitive and cooperative relations between actors (Luo, 2007).

The authors identify the horizontal and vertical coopetition as a form of cooperation between the actors. According to the studies, among 96 studied papers (136 authors), the horizontal relations between coopetitors dominate in number of papers, achieving 74% of the total. Just 14 % deal with vertical relations. But, this stands in contradiction that «most research and theory building on coopetition has focused on vertical relationships among firms (that is, channel relationships), ignoring horizontal relationships (that is, direct competitors)».

Cooperative relationships between vertical actors, i.e. buyers and sellers, are more easy to grasp as they are built on a distribution of activities

and resources among actors in a supply chain. Horizontal relationships, on the other hand, are more informal and invisible. Vertical relationships often contain economic exchange which seldom is the case in horizontal relationships as these relationships are built mainly on information and social exchanges. The differences are significant, although horizontal relationships can be as important as vertical relationships for a focal firm when carrying out activities in a network context (Bengtsson & Kock, 2000).

Extant research suggests that the competitive and collaborative behaviors strongly impact each other. For instance, the upsurge of competition within a collaborative agreement alters the relationship and hampers its performance. Similarly, fostering collaboration within competitive relationships alters market structure and provides advantages to competitors. These influence follow each other. Coopetition emphasizes the mixed-motive nature of relationships in which two or more parties can create value by complementing each other's activity.

Strategic behaviour of competing firms is focused on competitive advantages of each firm, as well as on gaining access to each other's resources through the cooperation (Fernandez, Le Roy & Gnyawali, 2014).

Coopetition relationships are constantly evolving by nature and are generating considerable interest in the dynamics of coopetition. This also applies to the intensity of coopetition relationships and to the duration of the period during which they are made. The market environment in which the firms work has a significant impact on the dynamics of coopetition (Luo, 2007).

In this paper, we consider the impact of coopetition on the natural resources extracting sector and try to understand how the collaboration between the extracting companies and the state will affect harmonization of their interests and redistribution of rental income from the extraction of natural resources.

In this case, cooperative partnership is a certain alliance between the stakeholders, cooperating within the distribution of public goods.

Through cooperation a company can gain competence, market knowledge, reputation, access to other products, and other resources of importance for its business (Bengtsson & Kock, 2000).

Thus, by participating in the cooperation, the modern companies and corporations are increasingly acquiring the features of the global network organizations with a strong corporate culture and corporate social responsibility, gain significant competitive advantages in relation to other companies, minimize risks, create innovative products and develop new markets.

**Is the coopetition of the extracting companies possible in Ukraine in the current economic realities?**

As mentioned above, the coopetition means the relationships between the competitors, arising in the course of cooperation on the creation of innovative product, entering new markets, training, etc. In other words, it means the cooperation of competitors in order to agree common interests and join efforts to achieve a specific goal.

By considering the rent forming and rent distributing mechanism at the extracting companies, today, we can distinguish two participants: there are natural resources extracting company and state. At that the state receives 100% of rental income. Given that the income arises as a result of economic activity and is associated with the use of public means of production, and taking into account the environmental consequences for the region, where the natural resources are extracted, we can conclude that the single-vector rental income distribution system «state - company» shall be improved. In our opinion, one of the options may be expressed as introduction of the social responsibility for the seizure and redistribution of the rental income for the benefit of all society through the cooperation of interests of the participants. At the same time creation of the social responsibility mechanism is possible upon the cooperation of interests of the alliance members, both at horizontal and vertical levels.

Horizontal coopetition – can exist in vertical relationships as well due to the multi-faceted roles and relationships organizations can share each other and with the present future competitive tensions among sellers and buyers (Bengtsson and Kock, 2000; Padula and Dagnino, 2007).

Vertical coopetition – vertical alliances include different intensities of competition – diverging interests – because of the risk of opportunism associated with multiple threats from the use of knowledge and technology.

That is the mechanism of redistribution of the rental income from the extraction of natural resources may involve three parties «state - company - society». At that the society will play a controlling role upon the allocation of public goods from the extraction of natural resources, receiving dividends in the form of social programs, regional support after extraction of natural resources, etc.

Given that one of the main directions, which not only helps the economic growth of the country, achievement of the strategic and tactical tasks concerning development of the social and economic systems of different hierarchical levels, is the coordination of interests of the state, society and business, then this trend is not only promising but also mutually beneficial for all the participants of cooperation.

The effectiveness of the triad interaction (state, society and business in various fields) is increasingly seen in the conditions of a modern market economy as an effective mechanism of interaction of various structures.

So at the beginning of the XXI century in Holland and in England there was established the Triple Helix Theory by Henry Etzkowitz, professor of the University of Newcastle, and by Loyet Leidesdorf, professor of the University of Amsterdam.

The hypothesis of the «triple helix» is based on generation of knowledge by the universities through the cooperation with the government and its support, and the subsequent transfer of technologies through the cooperation between the universities and business. The helix outline leads to the entrance of the results of intellectual activity to the market, and the partnership between government, business and universities are key elements of the innovation system of any country (Etzkowitz & Ranga, 2010).

At the same time business is one of the main factors of development of the country. Its effective functioning is dependent on many factors, among which the forms and methods of interaction with the state are basic. The state sets the rules for the functioning of a market economy, determines the level of freedom and independence of the participants in the business process, as well as forms and methods of public participation in solving of possible conflicts.

By regulating and restricting the interests of business participants and by encouraging an effective cooperation, the state carries out one of its main functions and responsibilities - coordination of the interests of all communities to achieve the common goals (Berzhanir, 2015).

However, an excessive state intervention in the affairs of business structures adversely affects the interests of society. Business reaction to undue government interference in the sphere of economic activity, as a rule, is expressed in a decline in business activity, an increase in shady business, withdrawal of capital abroad, which leads to a decrease in the pace of economic development.

Thus, coordination of interests and joining efforts of all participants in the cooperation (state - society - extraction companies, enterprise - enterprise) is necessary in order to achieve the common goals, to benefit from the integrated use of mechanisms for the redistribution of social wealth and to improve the welfare of citizens of the country through the introduction of social responsibility of all the cooperation participants.

By cooperation of interests of the competitors the nature is reflected in considerable managerial challenges that cocompetitions have to face in order to succeed. Researchers underline that adequate competence and ambidexterity of the management team are key factors in the success of a cocompetition

strategy. Co-opetition involves two different logics of interaction. On the one hand? There is a hostility due to conflicting interest and, one the other hand, it is necessary to develop trust and mutual commitment to achieve common aim».

The main advantages of cooperation between the enterprises are:

- The advantage of cooperation is related to development, but the function of cooperation is rather the access to resources than a driving force or pressure to develop (Bengtsson and Kock, 2000).

- Through cooperation a company can gain competence, market, knowledge, reputation, access to other products, and other resources of importance for its business.

- Due to the cooperation the companies can minimize the risks associated with access to the new markets due to the redistribution of responsibility and obtaining of new resources, including information.

- This relationship comprise both cooperation and competition and must be regarded as the most useful one, as the companies in some respect help and extent force each other to develop (Bengtsson and Kock, 2000).

- Cooperation build on convergent interests while competition is dominated by divergent interests. In co-opetition, firm have partially convergent interests, a self – interests overlap (Padula and Dagnino, 2007).

- Co-opetition is improve innovation because partners achieve increased market power, resource complementarity, risk sharing (Gnyawali and Park, 2011; Ritala, and Hurmelinna-Laukkaren, 2009).

- The right choice of governance mechanisms allows better coordination of activities and resource contributions among allying firms and provides safeguards against opportunism.

- Adequate governance mechanisms can ensure both value creation and appropriation among firms involved in partially convergent interests.

- The development of trust, reciprocity and the social embeddedness of actions that, through mutuality and ongoing information exchange, prevent opportunism and coordination problems.

However, along with the visible benefits the co-opetition participants may face tensions.

Tensions arise from the combination of two opposite dimensions of cooperation and competition. Tension is often multidimensional and multi-level, and dealing with tension requires an implicit recognition and management of the inherent contradictions. Fernandez, Le Roy and Gnyawali (2014) have distinguished sources of co-opetitive tensions at three levels: inter-organizational, intra-organizational and inter-individual.

At the inter-organizational level, the first tension arises out of the dilemma between the creation of common value and the appropriation of



private value (Gnyawali et al., 2012; Ritala, 2009). After the knowledge creation phase, tension arise between the distributive and integrative elements of knowledge appropriation (Oliver, 2004). Another type of cooperative tension arise out of the risks of transferring confidential information and the risk of technological imitation. Partners pool strategic resources to achieve their goals (Gnyawali and Park, 2009) but at the same time they need to protect their core competences because they remain strong competitors (Fernandez, Le Roy and Gnyawali, 2014).

- Tensions stem from behavioral uncertainty role conflicts and different perceptions of diverging and convergent interests among the partnering firms (Gnyawali and Park, 2011).

- The more divergent the alliance partners interests, the more tensions merge between the firms to capture a certain share of the innovations' value (Fernandez, Le Roy and Gnyawali, 2014).

- Competitive tensions arise when partners have diverging interests about the value generation and appropriation.

The some scholars have stressed need for more research into how the tension between value creation and value appropriation can be managed within cooperation setting (Bengtsson and Kock, 2000). During the past decades, collaboration implies a fundamental tension between value creation and value appropriation (Ritala, and Hurmelinna-Laukkaren, 2009). Despite its popularity, cooperation implies a fundamental tension between value creation and value appropriation (Bengtsson and Kock, 2000; Fernandez, Le Roy and Gnyawali, 2014). In order to realize joint value creation opportunities, the competitors have to engage in close interaction that allows for synergistic recombination of knowledge (Gnyawali and Park, 2011). According to the capability – based view, recombination is a key organizational process underlying the firm's dynamic capabilities. Scholars also stress that innovation typically emerges out the recombination of complementary knowledge which often implies knowledge exchange between different sources. In this regard, it is important that competing firm share interests and positions in strategic, market, technology and business domains (Luo et al., 2006).

In this paper, we focus our attention on the extracting companies concerning redistribution of public goods in the form of natural resource rent, which means that we need to define a clear and uniform methodology for determining the rental income.

### **The methodology for determining of the rental income of the extracting companies in a competitive environment**

The rent (rental income) as an economic category describes any income, which is received regularly (from capital, land, property, etc.) and does not depend directly on the results of economic activity.

Natural resource rent is a category of rental income arising from the economic activity associated with the use of natural resources in the social production as the means of production (the resources are limited, they may be characterized by completeness or recoverability) (The Law of Ukraine «On Rental Payments», 2004).

The components of the natural resource rental income may be:

a) the fraction of income of the economic entities that is independent of the immediate results of activities of such economic entities and that is determined by limitation of the natural resources (absolute rent);

b) the fraction of income of the economic entities derived from the use of natural resources as a factor of production depending on the quality of such resources (differential rent);

c) the fraction of income of the economic entities obtained through the use of common or unique (in one or another area) natural resources (monopoly rent).

The natural resource rent is the mechanism that can increase the efficiency of use of human, industrial and natural potential, provide an increase in the competitiveness of the national economy, achieve stable sustainable development and improve the welfare of the citizens of Ukraine.

The basic methodological approaches of seizure and redistribution of the differential rent of the first kind are laid down in the papers of Ukrainian and foreign economists, including studies of Amosha O.I., Balatskyi O.F., Vytvytskyi Y.S., Heits V.M., Danylyshyn B.M., Danyliuk M.O., Diiak I.O., Dolishnii M.I., Kvasniuk B.E., Koval Y.V., Kravtsiv V.S., Lysetskyi A.S., Lukinov I.I., Malyi I.Y., Melnyk L.H., Mishchenko V.S., Paskhaver B.I., Stadnytskyi Y.I., Starychenko L.L., Stepanov V.M., Tunytsia Y.Y., Harichkov S.K., Hvesyk M.A. Among the foreign scientists, the following dedicated their studies to the economic evaluations and methods of the natural resources regulation, including subsurface resources use: Belov Y., Brever K., Buzdalov I., Velmer F., Golub A., Hoffmann K., Eysmont O., Ivanovskyi S., Kymelman S., Komarov M., Linnik L., Markandiia A., Mckenzie V., Nikolaev I., Orlov V., Panskov V., Parson R., Scott A., Reimers R., Shmoilov S., Chukaieva I., Yakovets Y. Hlazier S.Y., Danilov-Danylian V.I., Kozlowski E.A., Menshykov S.M., Volkonskyi V.A., Kuzovkin A.I., Lvov D.S., Makarov V.L., Hranberh A.H.

Under the current theoretical concepts, the differential rent of the first kind - is a part of unearned income (surplus income) arising from the differences in the conditions of subsurface resources use.

The classic definition of the differential rent is the difference between the actual profit of the natural resources exploiting company received from the sale of the extracted mineral resources (the income from other types of activity is not included) and the normal profit that ensures the development of production.

However, many authors point out that it is almost impossible to divide the differential rent of the first and second kind, in this context, it is impossible to determine the size of rental income that are excluded from the rent of the first kind, and it is impossible to calculate the arithmetic sum of the differential rent of the first and second kind (Komarov and Belov, 2000).

Other authors state that there are no obstacles to a reasonable division of the total mining rent. That part of the mining rent, which is defined by the climatic characteristics of the field, belongs to the state by the right of ownership. Another part received as a result of business activities shall belong to the investor.

Daniel Johnston in his book states that in the law «On Mineral Resources» 1991, the Ministry of Commerce of Wellington (New Zealand) determines the economic rent as a residual value, which is determined when all other factors of production, including capital, have already received their fraction of the cost. Thus, the Ministry of Commerce of Wellington agrees that upon implementation of the right of ownership to the resources it is necessary to take into account the business income that the user of subsurface resources earns from the production factors - capital.

Having no uniform mechanism for determining and withdrawal of the rental income in Ukraine in 2003, there are developed some methods to regulate the rental relationships by which it is proposed to reform the tax system by switching to a single rental tax on mining. According to this method both rent forming and rent non-forming factors affect obtaining of extra income by the enterprise. The entire amount of extra income, according to the authors, shall be considered as the rental field evaluation.

Similarly, there is developed the method in which, in addition to the differential rent of the second kind, which belongs to the user of natural resources, it is proposed to give both some part of the differential rent of the first kind as risk compensation and incentive to investment.

The Tax Code of Ukraine, which entered into force on January 1, 2011, also specified the rent payment for oil, natural gas and gas condensate produced in Ukraine, and the rent payment for the transportation of oil and oil products by the oil pipelines and oil products pipelines, transit pipeline

transportation of natural gas and ammonia through the territory of Ukraine (The Tax Code of Ukraine, which entered into force on January 1, 2011).

In January 2014 the Cabinet of Ministers of Ukraine with an aim of budgetary replenishment approved the Law «On Amendments to the Tax Code of Ukraine and some Laws of Ukraine on Tax Reforms», where there were specified the new rent rates on mining (The Law of Ukraine «On Amendments to the Tax Code of Ukraine», 2014).

For the extraction of iron ore - from 5% to 8%, oil - from 39% to 45%, gas from deposits up to 5 km - from 28% to 55%, with deposits of more than 5 km - from 15% to 28%. In this regard, most extracting companies reduced production at the existing deposits and ceased new exploration.

In 2015 there were established the following rates for the use of mineral resources:

The rate of payment for the extraction of hydrocarbons (according to para. 252.20 of Art. 252 of the Code) remained at the rates established by the Law of Ukraine of 31.07.2014 No. 1621-VII «On Amendments to the Tax Code of Ukraine and some other legislative acts of Ukraine» as temporary rates in subsection 9 of section XX of the Code.

- from January 1 to March 31, 2015 (inclusive) - 60 percent;
- from April 1 to June 30, 2015 (inclusive) - 65 percent;
- from July 1, 2015 - 70 percent (para. 252.20 of Art.252 of the Code)

(The Law of Ukraine «On Amendments to the Tax Code of Ukraine», 2014).

By analysing the facts mentioned above, we can make a conclusion that the rental income is now shared between the owner of a natural resource - the state (its institutions) or any entity, which has a natural resource in its right of ownership, and user of this resource - economic entity, which is the owner of the product produced during the use of natural resources under the legislation.

However, currently there is no right decision or effective mechanism concerning withdrawal of the rental income. All these constant changes scare away the investors and creditors, the domestic companies cease extracting of the natural resources, the shady schemes of payment will be distributed, because it is impossible to pay 70% of the volume of the natural resources extraction. The rental policy shall provide revenues to the budget by regulating the economic sphere of the natural resources exploiting industries, and shall not destroy this area.

An experience of Norway, UK, USA, and France showed that the flexible mechanisms of withdrawal of the rental income could continue the terms of profitability and exploitation of the deposits and thus get extra amounts of energy resources. The properly chosen set of tools can reduce the risks of the user of natural resources in the initial and final stages of the field development, as well as minimize the risks, associated with rising or falling

of prices on the world markets of raw materials. At that the extracting companies always interact with their country in the conditions of competition and cooperation.

By analysing the experience of previous years concerning formation of different mechanisms of determination and withdrawal of the rental income at the extracting companies, we concluded that the best mechanism is the mechanism formed by the extracting companies under cooperation with the simultaneous collaboration with the state. At the same time there will be reconciled not only the interests of all participants, but there will be formed an effective rent forming mechanism, which is profitable in the system «state - region - company».

**Is the collaboration of the extracting companies and state, and withdrawal of the rental income possible under cooperation?**

The modern rules of business are increasingly force us to look for the new forms of cooperation. Joining of efforts in order to achieve a certain goal becomes not only productive, competitively profitable and fashionable, but also an effective form of cooperation.

The main factors of development of the knowledge economy include tangible and intangible intellectual investment goods produced and exploited at the micro level by the high quality human capital that has an innovative character. The process of development of such an economy based on a combination of its production factors according to the meta-production function theory (Inshakov, 2013) involves not only creation and use of adequate equipment and materials, connecting with the human factor in the advanced technologies, but also establishment of appropriate relations between the business entities on different and in different scales for the effective implementation of its specific properties. Adequate knowledge economy forms of institutions, organizations of information become the factors of its structuring, functioning and progressive evolution (Inshakov, 2013).

Whereas previously the cooperation has been only considered at the horizontal level, now we are talking about the vertical form of cooperation «state - business - society».

Under the horizontal collaboration of the natural resources extracting companies, we understand the union of interests of two or more enterprises in which there is a mutual influence of the collaboration participants on the results of each other through the mutual learning of the participants and their common product with a new intelligent component obtained due to a special form of cooperation of the employees and their teams.

Under the vertical collaboration of the natural resources extracting companies we understand the cooperation between the state and extracting

companies in the process of creation and redistribution of public goods in the form of natural resource rent. At the same time the extracting companies interact with each other in a competitive environment, and combine their interests in the process of withdrawal and redistribution of the rental income.

Collaboration is defined as the process of joint labour, production and economic activity of two or more business entities (individual or group) in order to achieve the common goals, in which there is (on the principles of consent and trust) a mutually beneficial exchange of knowledge, training of the participants to enhance their competence, production of innovative products with the significant intellectual component for the market promotion and achievement of the significant cumulative effects (Inshakov, 2013). Collaboration involves significant investment, adjustments in the way partners operate in response to one another, and the risk of lost autonomy. Collaboration is a type of inter-organizational relationship where partners work toward a common goal. Collaboration is a mutually beneficial relationship between two or more individuals in organizations who work toward common goals by sharing responsibility, authority and accountability for achieving results.

The priority in the context of globalization is acquired by the international collaboration, because it reflects the relations of the international social division of labour and targeted capital cooperation of its entities for solution of their common problems in the economy (Inshakov, 2013).

At the micro level the collaboration embodies the convergence of interests of the most advanced entities of the global economic system, looking for the innovative solutions concerning modernization or transformation of the composition and structure of the goods produced or concerning shift to the fundamentally new products by means of taking the innovative solutions (Inshakov, 2013).

Analysis of the globalization processes clearly marked the trend of change of the traditional distribution of the administrative relations between the state and business. The natural resources extracting business is gradually turning from the state-controlled object into a subject that begins to affect the interstate relations, social and economic processes, international and regional policy, etc., using for these purposes its own advantages. Therefore, given the ever-increasing complexity of the relationships between the society, state and business, we need to look for approaches to the construction of the mechanism of their interaction on the basis of creation of the interests convergence system of all the participants. Alignment of interests in the system «state - society - extracting companies» may form the social responsibility at the distribution of rental income.

Today, in the market economy conditions, 100% of the rental payment for the use of mineral resources is credited to the general fund of the state budget. Further, taking into account the common interests, the state redistributes some part of the rental income to the regional budgets. At that the interests of the region where the extraction has been made may not be considered at all. There are also not taken into account: environmental and economic losses of the region after extraction; scope of financial resources for restoration of the territories after the end of extracting operations; financial resources for the social programs, which shall be returned to the regions as the rental income, etc. Such redistribution does not contribute to the environmental and social and economic situation in the territories of extraction, and also causes some resistance of local communities, because they are not interested in these activities. Therefore, the extracting companies are constantly faced with the special permits coordination problems with the local authorities on the use of mineral resources and the acquisition of land rights. There is no interest in the efficient withdrawal and redistribution of the rental income from the use of mineral resources, as all financial resources are directed to the general fund of the state budget. The existing mechanism for determining the rental payment taking into account the ever-increasing payments, withdrawal and redistribution of the rental income, does not contribute to the effective regulation of rental relations, and on the contrary destroys the existing extracting industry. Given such economic and political situation, the potential investors are in no hurry to invest resources in the extraction sphere and the economy of Ukraine as a whole.

Constant changes of the rental payments and the lack of an effective mechanism for rental income negate the importance of this economic instrument of public policy. Therefore, in terms of overcoming deformation and incomplete structure of the market regulation mechanisms, which cause distribution and unreasonable rent-seeking in the present conditions, it is necessary to create the collaboration mechanism in the system «state - extracting companies» upon the redistribution of public goods together with the alignment of interests of all participants. This mechanism will contribute to the formation and implementation of the own development strategies and economic and social policy of the regions, as well as the alignment of interests of the state and extracting enterprises. The process of collaboration of the state and extracting companies will promote the introduction of the personal and social responsibility system of the region to the quality of life and the preservation and protection of the environment.

Under the social and personal responsibility, we understand a certain concept that encourages companies and local authorities to take into account

the interests of society, placing the responsibility for the impact of activity of the companies in the environmental, economic and social space.

Thus it can be concluded that the collaboration of the state and extracting companies is not only possible, but necessary for an effective functioning of the ecological and economic system of the state. At the same time the extracting companies can operate in the conditions of cooperation, creating the additional incentives for the development of enterprises, while minimizing the risks and generating the innovative ideas.

The collaboration also is becoming increasingly important not only in the economy, but also in the social life, where there are formed the social clusters, territorial self-government organizations and volunteer initiatives.

At that the collaboration helps to solve the problems of shortage of creative ideas and effective solutions of the governments. There are required the new intellectual resources, effective methods for their innovative mobilization to support the state authorities by the civil society in the search for promising paths of development of the countries and regions, strategies and economic evolution. Also in the context of increasing internationalization of the production of goods and services, it is difficult to obtain the mutually beneficial investment and build a long-term cooperation policy without a corresponding image of a socially responsible behaviour. Therefore the alignment of interests of the extracting companies and the state allow us to catch a number of issues of political opposition, and it will also help to strengthen the responsibility of local and regional communities for the development of their own territories and increase in more efficient use of local resources that may eventually strengthen the intrastate integration and economic integrity of Ukraine.

Thus, by answering to the main question of this paper «Does it possible to redistribute the rental income from the extracting companies in terms of cooperation in Ukraine?» we assume that it is possible to get an experience of cooperative cooperation of the extracting companies upon occurrence of a number of conditions. Firstly - to identify clear and uniform methodology for determining the rental income from extraction of the natural resources. Secondly - to identify the standards that shall be met by products of each of the companies. Thirdly - each company shall define a strategy of behaviour at the collaboration cooperation and the tension minimization mechanisms.

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The Tax Code of Ukraine, which entered into force on January 1, 2011, specified the rent payment for oil, natural gas and gas condensate produced in Ukraine (para. 9.1.8 of the Tax Code of Ukraine), and the rent payment for the transportation of oil and oil products by the oil pipelines and oil products pipelines, transit pipeline transportation of natural gas and ammonia through the territory of Ukraine (para. 9.1.7 of the Tax Code of Ukraine).

# **ROLE OF STRATEGIC MARKETING IN THE MANAGEMENT SYSTEM OF TOURISM ENTERPRISES: UKRAINE EXPERIENCE**

***Natalia Vasylykha,  
Alla Domysche – Medianik,  
Petro Gavrylko***

In the current economic instability, more attention is paid to those areas of life that can serve as a catalyst for economic development. According to the study, tourism at all stages of its development advocated as a factor that promotes activation of foreign economic, trade and cultural relations between states, regions and nations. Socio-economic development can be realized through the development of multifunctional tourist market, which largely takes into account the historical, economic, social, environmental, natural resource and other features of the regions. In this regard this development concerns both as the tourist area (destination) and the tourism industry. At the heart of multifunctional tourist market there has been laid the conception, according to which in addition to tourism, the market has a number of other functions, such as establishing cultural relations, health care, employment and so on.

Ukraine is one of the states which successfully combines rich natural resources which can be efficiently used to preserve and improve public health. With the level of recreational resort medical resources Ukraine occupies one of the leading positions in Europe. Among the most valuable are mineral waters and therapeutic mud of almost all balneological types. Nowadays, the development of market relations in the tourism industry is accompanied by various problematic aspects of socio-economic nature; therefore successful tourism activity requires knowledge of the specifics of the tourism market, on time and proper management of situations using modern methods, tools and techniques, providing effective activities of tourism enterprises and management of customer needs. The relevance of research in strategic marketing of tourism enterprise is determined by the fact, that in the market competition conditions a travel agency must be provided with information, skillfully analyze the market situation, compare and plan its activities with competitors, develop measures for its improvement, that means mastering the theory and practice of marketing, taking into consideration specific characteristics of the tourism industry and plan for the future. Thus, the problem of improving the efficiency of tourism business organizations finds

its solution in the strategic planning of marketing activities that provides the formation of a new qualitative level of development of their enterprise activities. The foregoing determines the relevance and importance of the chosen topic of research, represented in the article.

In the scientific literature deeply covered problems of strategic planning of marketing activities were within the sight of many researchers: F. Kotler, R. Ackoff, Zh.-Zh. Lamben, I. Ansoff, M. Porter, D. Aaker, J. Quinn, M. Strickland, H. Mintzberg, A. Meskon, A. Thompson, Y. Uilson, J. Atkinson, F. Hedouri, J. R. Evans, M. McDonald and others. However, the main aspects of strategic marketing planning in the system of organization management of tourist business are the matter of debate and need to find additional answers.

The aim of the article is to deepen a theoretical justification, presentation of generalization and investigation results of research on methodological and scientific and practical aspects of strategic marketing planning in the management of tourist business. To achieve this aim it was necessary to solve the following problems: - to examine theoretical aspects of strategic planning in marketing activities of a travel agency; - to justify the role and importance of marketing strategy in the system of tourism enterprise management; - to analyze the stages of strategic planning of marketing activities by a travel agency; - to identify the main challenging strategic marketing issues and to offer solutions, which are relevant to the management of a tourism enterprise.

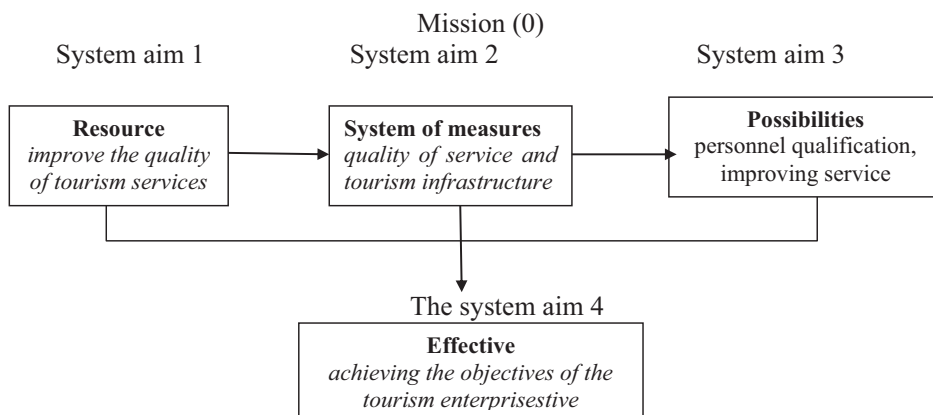
In modern conditions of the tourism market economy in Ukraine, a tourism enterprise must possess a high level of efficiency and effectiveness in order to survive, have a long lasting success and achieve its goals. This task can be implemented by integrating the mechanism of effective strategic planning of marketing activities of a tourism enterprise into its management system.

Note that according to the statements of prominent theorists and practitioners, the main purpose of planning as a management function is to consider early the entire spectrum of internal and external factors, which provide favorable conditions for a normal functioning and development of tourism enterprises (Tkeshelashvili, 2010). It involves the development of activities which provide the sequencing of achievement of specific goals, taking into account possible the most efficient use of resources by a tourism enterprise. Therefore, planning should ensure relationships among individual business units of a tourism organization and its partners that participate in the entire process chain of establishment and implementation of a tourism product. This activity is based on the detection and prediction of consumer demand, analysis and evaluation of existing resources and prospects for

further development of market conditions. Based on the above statements there is a need to coordinate planning with marketing in order to constantly balance the indexes after the fluctuations of the tourist market. However, to become a really successful tourism organization, the directors and leading experts of a tourism enterprise need to focus not only on the operational marketing planning, but on the strategic planning as well (Kormishkin, 2010). Strategic marketing planning is an active marketing process with a long-term planning horizon, aimed at increasing the average market trading multiple through a systematic policy of creating tourism products and services that provide tourists with tourism products of a higher value than the competitors (Fatkhutdinov, 2000).

The main objective of strategic marketing in the tourism industry is clarifying the company's mission, setting goals, strategy development and ensuring a balanced structure of the portfolio of tourism services. The need to implement targeted marketing activities, reasoning strategies and effective use of resources determines the need for usage of the most essential marketing functions - planning.

We believe that the development of tourism enterprises must have a clear mission and purpose of the activity, which can be presented as a conceptual model goals, which is given in Fig. 1 and more specifically in Fig. 2.



**Fig. 1. Conceptual model development aims of tourism enterprises**

The mission of the tourism enterprises development should be:

- the creation of modern, highly developed and competitive tourism market in Ukraine;
- the impact on the development of representative and executive authorities of the region of tourism policy that meets the professional interests of tourism enterprises and facilitate their effective operation and combating monopoly in tourism;

- the promotion of tourism enterprises, tourism market and civilized market relations in Ukraine;
- the protection of producers of tourist services.

From the data in Fig. 1 and 2, we see that the system of goals of the development of enterprise tourism service market of Ukraine is four-level and there are no inconsistencies and contrasting features there. Also, it is clear that the larger goals of the fourth level are associated with the qualification and training of the staff of tourism industry.

1. Improving the quality of tourism services	1.1. Improving the quality of service	1.1.1. Staff training	1.1.1.1. Improving the professional level of employees of tourism industry
			1.1.1.2. Implementation of educational programmes for tourism industry staff
		1.1.2. Improving information services for tourists	1.1.2.1. Implementation of customer-oriented information systems
			1.1.2.2. Increased information volume in the Internet
		1.1.3. Improving the quality standards	1.1.3.1. Improving the standards of quality of staff training
			1.1.3.2. Improving the service quality standards
	1.2. Improving the quality of tourism infrastructure	1.2.1. Improving hotel chain	1.2.1.1. Increasing the number of hotels
			1.2.1.2. Improving the quality component of Hospitality Management
		1.2.2. Improving transport infrastructure	1.2.2.1. Improving the technical base
			1.2.2.2. Improving training transport staff in infrastructure of tourism

**Fig. 2. The goals of the development of enterprise tourism service market of Ukraine**

Based on the above mentioned goals, the main tasks of coordination and management system are:

- involving of intellectual, financial and organizational resources for the best implementation of their professional interests;
- legal protection of the interests of tourism enterprises;
- organization of providing information, advice and technical support of tourism enterprises;
- creation of databases and other information systems that contribute to the efficiency of tourism enterprises;
- implementation of advertising and editorial and publishing activities;

- organization of conferences, seminars, workshops, exhibitions, fairs for the exchange and implementation achievements, both individual companies and the complex as a whole;

- training of highly qualified staff of tourism industry.

To the very implementation of the last task should, in our view, be given the most attention in this study because its limited scope does not allow to fully consider the implementation of the entire complex tasks.

In the conditions of modern business the activities of the objects of tourism market of Ukraine are focused on creating services, financial management, marketing activities, evaluation of investment attractiveness; at the same time the improvement of such essential component of tourism management as human resources, continues to be the weakest link in the overall system management.

In the absence of reasonable approaches to evaluating the performance of tourism enterprises the main factor constraining investment in human resource development and improving the efficiency of their use – is the a doubt of investors in efficiency of costs in the implementation of the staff decisions.

In our view, the functional relationship between the qualified personnel of the tourist service market, quality and efficiency of their work is particularly important at the present stage of development of Ukraine.

It has been proved by the study that the activity of the objects of tourist market has a dual object of labor. First, the subject of labor is the so-called tourist product – tour – the usage value, which is a "package", that aims to meet the needs of tourists. On the other hand – that is a tourist himself. This subject duality of labor in tourism activities is conditioned by the system of tourism and its structure, which highlights specific features of the tourist market, where the staff functional features are clearly divided.

Of course, the tourist companies, whose services will benefit tourists, now face quite realistic tasks related to logistics, reconstruction and modernization of infrastructure, but the question of training, improve their skills, rotation and recovery remain unaddressed.

We believe that the policy of regional administrations of Ukraine in the field of tourism, based on the implementation of regional and national programmes, will lead to the creation of job places and the demand for professionally trained workers in the tourism industry will be high. Of course, a completely different meaning and importance in the new environment is acquired by organization and support of training, retraining and advanced training of specialists of tourism industry. Hence, there is a positive constant



increase in the number of schools that specialize in training for the tourism industry. On the one hand, this is due to the general trend of increasing the number of higher education institutions, on the other hand, there is an urgent need for the tourist market in the highly skilled personnel.

Maintenance of customers today require the employee professionalism, discipline, clarity, impeccable politeness and endurance. Training of modern specialist of tourism should include not only the most detailed study of the technology of guests services at different areas of tourism enterprises and knowledge of financial mechanisms of business tourism. Studies show that the development of the market of tourist services, the level of competition led to increased requirements for all categories of staff of tourism enterprises, because the quality of tourism services is primarily determined by the work of all services that have direct contact with consumers. This factor is reinforced by globalization and the growth of markets.

Permanent and objectively justified increase to personnel requirements causes the need the implementation of modern human resources policy. We believe that the creation of an effective system of training, retraining and advanced training of specialists of the tourist market should be the part of a long-term and perspective programme of the development of the market of tourist services both at the regional and national scale. This system will allow focusing on the human resources of the tourism market and its main elements, in our view, should be:

- forecasting and planning of structures and human resources;
- designing the remuneration system;
- organizing and providing sustainable labour conditions;
- development of the system of motivation and protection of human resources.

Socio-economic foundations of human resource management in the market economy consist of the results of activities of many enterprises and their experience shows that the formation of professional teams, providing high quality human resources are decisive factors for the competitiveness and efficiency of services. Thus, socio-economic basis of human resources management, focused on the future involves measures such as continuous, consistent, quantitative and qualitative workforce planning; professional marketing personnel in universities and other higher education institutions; staff training, etc.

An important aspect of solving human problems is timely certification of personnel, the tasks of which are to improve the efficiency of regulation of employment, career planning; individual planning of work improvement;

staff motivation. For this purpose the creative groups should be established that will analyze the qualification level and work on the development of training programmes for the staff.

We consider it appropriate to recommend in order to ensure effective personnel management in the tourism market of Ukraine the creation on regional (oblast) level the specialized element of education – Educational Consulting Center (hereinafter ECC), whose mission should be to create a research environment, designed to help reveal the talent of the individual, to develop his skills and abilities which can be needed to work in a changing world of market economy. ECC is positioned as Ukrainian business school that offers a full cycle of continuing education on the basis of unique programmes that combine the diversity, richness and complexity of national and international realities. ECC is an educational institution able to establish reliable and stable relations with travel companies and major government agencies as part of retraining and advanced training of managerial personnel, technicians and managers in various fields. The main activities of ECC should be:

- ✓ consulting on registration of the subjects of the market of tourist services;
- ✓ conducting the training seminars on the most pressing problems of the market;
- ✓ conducting the market research;
- ✓ assistance in the selection of qualified professionals;
- ✓ short-term and long-term advanced training for personnel of tourism enterprises;
- ✓ development of business plans, marketing and advertising strategies for the enterprises of tourism market services;
- ✓ development of web-sites, their support and market research;
- ✓ consulting on issues of information technology;
- ✓ development of regional tourism development programmes;
- ✓ organizing language courses for the staff of companies with a focus on tourism terminology.

Formation of knowledge, skills and professional experience to such multifaceted field as tourism, should be based on basic standards of professional educational system of concepts, ideas, united in a single entity – a system of continuous professional education in the field of tourism. The study will promote the further establishment and development of vocational tourism education. We believe that the concept of an effective educational system should be based on the following basic principles (Fig. 3):

✓ perspective – consideration when forming the system of tourism education the specificity, the regional aspects and prospects of the market of tourism services;

✓ complexity – in the formation of training, retraining and advanced training for the tourism industry all the factors that affect this system and on the activity of the tourism enterprise should be taken into account;

✓ profitability – mass profit increase by organizing the system of training of the personnel of the tourism enterprise aimed at the creation of qualitative tourism services;

✓ the optimum ratio of educational orientations – dictates the need for anticipatory guidance for educational functions of the development of human factor in comparison with the functions designed to ensure the operation of the enterprise;

✓ stipulation of the system of usage of human resources by the aims of the enterprise – forming a system of usage of human resources by the aims of the enterprise is not arbitrary, but in accordance with the aims and objectives of the effective functioning of enterprises of the market of tourism services;

✓ scientificity – development of the approaches to effectiveness of tourism enterprise should be based on scientific achievements in the field of human factors development and consider the change of laws of tourism development in market conditions;

✓ service progressiveness – appropriateness of the system of management, control and maintenance on tourism market enterprises to advanced domestic and foreign counterparts;

✓ productivity – the ratio of the achieved results to the amount of used inputs of tourist services or the increase of the impact of human factors through its intensive use;

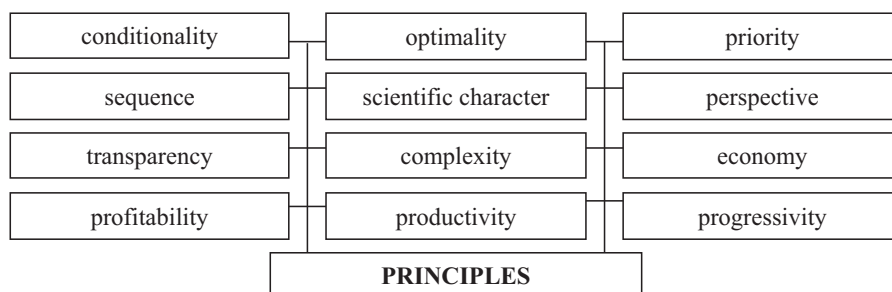
✓ developing the optimal strategy – activity of the tourist services market should be formed in accordance with the appropriate strategy for human resource development;

✓ profitability – building a functioning system of tourist enterprise and choice of economic task with the greatest economic benefit, that is of cutting expenses for risky ineffective programmes;

✓ transparency - activity of the market of tourist services should have conceptual integrity across the economic content of the processes.

Consequently, the impact of enterprise development programmes of the tourism market will be high in case if on the basis of the detected dominant human factor, which includes skilled labor and human capital, the ways of raising the efficiency of the market will be specified. Analysis of the tourism

market allows building long-term plans for the development of the human factor, to assess the situation arising in the labor market and, ultimately, predict the development of the industry.



**Fig.3. Principles of effective system of tourism education**

Efficiency of measures applicable to the market functioning, implementation of tourism services and the rational use of tourism potential, is one of the main directions of the development of the tourism market in Ukraine. An important component of long-term programme of the development of tourism in Ukraine is the creation of an effective system of training, retraining and advanced training of specialists of the tourism market.

An enterprise of a tourism industry tries to reduce the level of risk in the long term and the short run, developing and implementing measures of strategic and tactical planning. The marketing planning objectives are achieved through solutions of a complex of tasks, which include: the study of environmental factors and market conditions; analysis of the internal environment; risk analysis of business activities; economic assessment of concepts and strategies of functioning; marketing plan development; formation of a production plan and supply of production resources; calculation of expected financial results; development of tactical measures to track the costs and benefits which make the controlling program (Kormishkin, 2010). The marketing planning practice of leading travel companies in Ukraine proves that to solve these problems sufficient intellectual labor costs and participation of many experts in different business profiles of management activities are needed. It is believed that one of the factors of an optimization routine of a company and its marketing service can be following the sequence of stages in the process of marketing planning (Fig. 4).



**Fig. 4 The sequence of strategic planning of marketing activities**

(\*development of authors)

*Strategic marketing planning of a tourism organization* is performed in several stages, which differ both in goals and methods. Their specificity is conditioned by the field of activities of a travel agency. Now we look at each of the stages in details (Kholodnyj, Selez'n'ova, 2011):

- *Identifying key goals and objectives.* This stage is aimed at determining the goals and objectives that are key priorities in planning of a tourism organization. There are quantitative (measured in units) and qualitative (reflecting index indicator) marketing purposes. The consequence of these goals is the task of marketing activities, and the outcome depends on their solutions.

- *Strategic analysis of the tourism market.* At this stage the information about the market environment in which the travel company operates is collected. The objects of the strategic analysis can be: tourists-consumers - the study of consumer's preferences makes it possible to determine the relevant needs of customers, which is critical for the existence of a tourism organization and its further development; competitors - competitive environment analysis reveals company's competitive advantages, develop strong points and possibly reduce its weaknesses. In addition, monitoring the activities of competing travel enterprises makes it possible to monitor the developments in the tourism industry and be aware of any innovations; expenses - to improve the economic feasibility of a tourism enterprise, each kind of expenses should be carefully considered. Financing activities of a travel agency should be, above all, reasonable and thoughtful, the share of each type of costs should be thoroughly examined; opportunities - in the planning process the assessment of the correspondence of material, labor, financial and technical resources available to a tourism organization to necessary costs is made.

- *Development of complex marketing strategies.* Information, obtained at the previous stages, allows to detect problems that affect the development of a tourism organization and to develop optimal ways of their solution. The impact is made on the following field of concern of a travel agency: product, pricing, marketing, communication policies.

- *Evaluation of results.* At this stage, the evaluation of the effectiveness of the works is carried out. The comparison of the results with targets is made. The outcome determines the future development of a tourism enterprise, affecting the adjustment of marketing strategies in a particular direction.

It should be noted that in the operation process of a tourism organization *a number of problematic marketing strategic issues* occur, such as (Shkardun, 2009):

- *Definition of activity markets* of a tourism company. Perhaps these strategic marketing decisions should be based on specific strategic directions of a travel company.

- *Market segmentation and identification of target segments.* The question of strategy - which segments of the tourism market to cooperate with, which segments are the most interesting and promising for the company.

- *Positioning of tourism products and services, a travel company as a whole.* A tourism enterprise needs to determine its "market face" - that is the tourism product or service which will differ from other tourist services available in the market. Market authority of a travel company should be determined by the market and its customers to have formed in their minds "right" ("desirable") ideas about the travel agency services. Positioning in strategic terms is a matter of determining the characteristics of the tourism organization's offer in the hope that they will become really attractive for consumers.

- *Development, implementation and updating of marketing strategy is the fundamental component, which underlies the possibilities of effective combination of a tourism company with its environment.* The effectiveness of this combination is a key factor for the company, since its external environment is the only source of what she aims at.

Addressing strategic marketing issues requires some organization and making maximum efforts. Managing the strategic marketing planning involves the implementation of general management functions such as planning, organization, motivation and control. This planning is seen as a source, basic function of management. Marketing strategic planning creates the conditions, necessary for market orientation of a commercial tourism organization. This planning should serve as a basic strategy for a tourism enterprise. The range of activity of a travel company determines priority levels of marketing strategic planning. Thus, for a small business, and in many cases for an average business as well, such planning is carried out at the corporate level. For a large business it can be typical to combine strategic marketing planning at the corporate, business and functional level (Uolker,

2006). Moreover, in practice no unified approach to strategic marketing planning is used, in its components, time horizon in particular. Marketing strategic plan is a creative product of each travel agency. "Differentiation" of marketing strategic plans does not indicate a problem with the level of professional qualification of managers. The theory of strategic planning is rather a theory that describes the technology of the process and its implementation method than sets any canons, norms, absolute rule. However, it should be noted that many travel companies of Ukraine operate without officially developed strategic marketing plans. The directors of travel agencies do not want to spend time on planning in a written form. Many Ukrainian top managers of the tourism business believe that the market condition is changing too fast to benefit from strategic marketing plan. Because of this and many other reasons tourism enterprises do not use a formal strategic marketing planning. Such situation leads to a slow development of the tourism industry.

Let us consider the role of strategic marketing in an integral system of tourism industry management of Ukraine in more details. Strategic marketing in the system of tourism industry management is a systematic approach to determining the future vector of country development and comprises two complementary parts: analysis and definition of strategic positions of a tourist enterprise and its management in real time. At the present stage of society development there are many models of strategic marketing which elaborate the sequence of steps in the process to some extent, but there are three main stages which are common to all models: *Strategic analysis, Strategic choice and Implementation of marketing strategy.*

*The stage of strategic analysis* interprets the strategic position of a country through the recognition of changes that occur in the economic system of the country and identification of their effect on the socio-economic system, identification of strengths and resources of the country, depending on these changes (Rudakova, 2013, pp. 119–122). The main objective of a strategic analysis of the tourism activity management system in Ukraine is assessment of the key actions influence on the present and future situation of a country and determination of their specific impact on the strategic choice. One of the results of the strategic analysis of tourism industry management system is identification of the overall objectives of a country, which determine the scope of its tourist offer. On the basis of these objectives the tasks are set. They are used to represent the indicators of strategic planning.

Strategic analysis includes the following components:

- Component of the strategic analysis defines the purpose and basic tasks that make up the background, in which the marketing strategies for a further development of a country are formulated and the criteria by which they are measured. The main tasks determine what needs to be done for the socio-economic system of the country to achieve this goal in the medium and long term;

- Component of the strategic analysis is the study of a country's environment characteristics. The regional system is influenced by many environmental factors (political, technological, social and economic). The external situation is undergoing a profound change, that raises the most important strategic issues for the country;

- Component of the strategic analysis, the analysis of internal resources, determines the quality and amount of resources available to the country for its major tourist activity functional directions. The purpose of the analysis is to develop a common plan of internal actions subject to the limits, imposed on a strategic choice. Internal analysis focuses on two areas: discovering of strengths and weaknesses of the socio-economic system of the country and identification of opportunities to influence the process of strategic planning in the tourism industry.

*The second stage* of strategic marketing - *strategic choice* - has four components of the strategic choice process: Development of strategic options for the development of socio-economic system of the country; Assessment of developed strategic options; Choice of development strategy of socio-economic system of the country; Development of the plan of socioeconomic country system functioning.

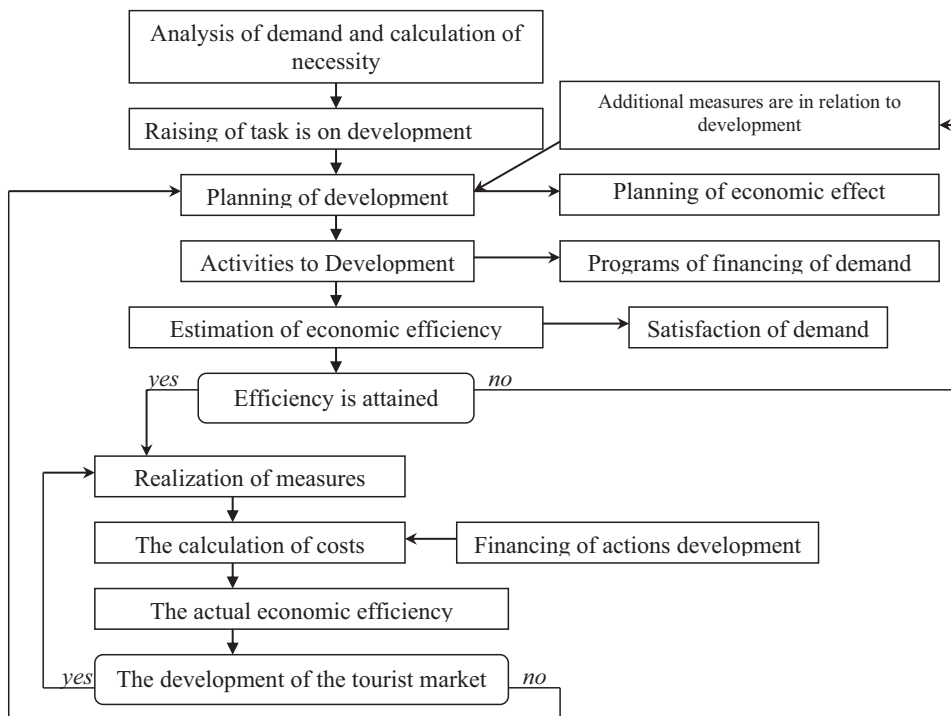
*The third key stage* of the strategic process is the realization of marketing development strategy of the socio-economic system of a country. Especially significant factor in the implementation of the strategy is working on a plan for further development of the socio-economic system of the country, which considers the use of investment resources (Rudakova, 2013, pp. 119–122). An essential element of the formation of a competitive tourism industry is implementation of state policy of Ukraine in the field of tourism, which is based on definition of the main policy directions, priority areas of tourism development, classification and evaluation of tourism resources of Ukraine, their usage and protection, allocation of budget resources for the development and implementation of tourism programs. Identification of safety fundamentals in tourism, regulation of relations in the field of tourism, licensing, standardization and certification of tourist services, issuing permits to tourist guiding, setting statistical accounting and reporting system in the



field of tourism and resort-recreational complex, organization and performance of state control over the compliance with legislation in the field of tourism are very important for the implementation of the state policy.

For the effective functioning of mechanism of market of touristservices development we are offer the correspondingalgorithim of consistently solvable tasks that expose theprocess of market development (Fig.5) .

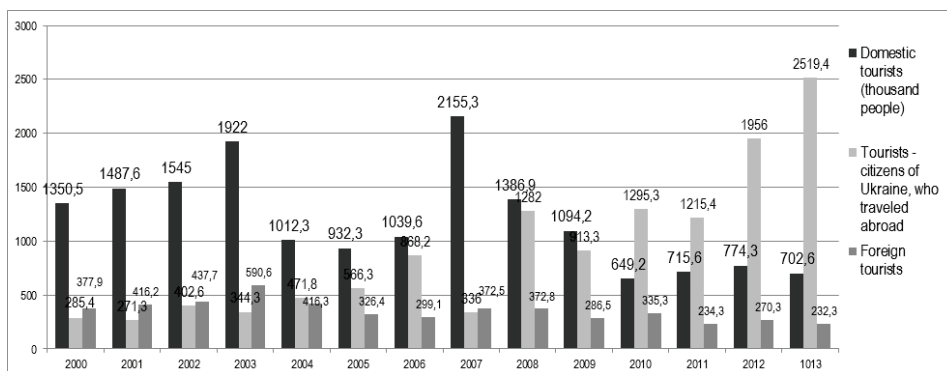
The priorities of the state policy of Ukraine in the field of tourism are: Improving the legal framework regulating relations in tourism; Ensuring the establishment of tourism as a highly profitable sector of the country’s economy; Development of inbound and domestic tourism, rural, environmental (green) tourism; Expansion of international cooperation in strengthening of Ukraine on the global tourism level; Creation of favorable conditions for tourism development by simplifying tax, currency, customs, border and other regulations; Ensuring the availability of tourism and sightseeing for children, youth, elderly, disabled and low-income citizens by introducing incentives in respect of those categories of people.



**Fig. 5 Algorithm implementation of organizational and economic development of the tourism enterprise [author project]**

At the present stage of the tourism industry development in Ukraine a clear marketing strategy of tourism development should be produced, which would give the opportunity to discover the tourist and recreational potential of the country completely and ensure pumping up the chronically deficit budget. According to the study of tourism market in Ukraine based on figures for 2004-2013, our country possesses significant natural, historical, cultural, recreational and infrastructural capacity, which leads to the formation of significant competitive advantages in the offer of tourism products and services. However, nowadays, this potential is not sufficiently disclosed, that is evidenced by the share of the tourism industry in the GDP of the country, which ranges from 2.0-2.5% in recent years. The main obstacles that hinder the development of the tourism industry in Ukraine include economic, political, environmental, administrative, social and cultural factors. The contribution of the tourism industry to GDP of the country is divided by the World Travel and Tourism Council into the following components: direct costs of inbound and domestic tourists to the organization and performance of traveling; indirect contributions to the economy of the tourism sector (investment in this industry, government spending, domestic procurement of travel products and services by the entities of a tourism sector); induced contribution – is the costs of those who derive profit in tourism directly or indirectly. The total contribution of the tourism industry to GDP of Ukraine in 2013 is 114.2 billion UAH. (8.6% of GDP): 30.8 billion UAH (2.3%) - direct costs, 61.2 billion UAH (4.8%) - indirect contributions and 22.2 billion UAH (1.5%) - induced contribution. According to the World Council in 2014 the total fee will increase by 4.6% to 119.4 billion UAH (8.8% of GDP) (Shkardun, 2009). It should be noted that tourism, as a business activity, is characterized by a multiplier effect, so its impact on the economy of Ukraine and part of the share in GDP should be considered taking into account the related industries. In recent years a tendency for tourism development in Ukraine is observed, despite a relatively large number of factors that affect it. The analysis of tourist flows dynamics in our country in 2000-2013 shows that the average annual number of tourists served by travel agencies is 6.2%, indicating a relatively stable development of the tourism industry in Ukraine (Fig. 6).

The largest number of tourists was served in 2013, which in absolute terms is 3.4 million people. If we consider the dynamics of tourist traffic in terms of its components, the average annual increase in outbound tourism is 34.2%, domestic tourism - 1.1%, inbound tourism - 38.3%. These trends indicate an increasing competitiveness of Ukraine on the international level.



**Fig. 6 Dynamics of tourist flows in Ukraine developed on the basis of [10]**

The share of organized tourism in the structure of inbound tourists flow has, unfortunately, decreased to 6% of the flow; the share of business trips is 4%. The leading position is taken by visiting Ukraine for private gain - 90% of the total tourist traffic. As for outbound tourism, the tourist flow for the motivation was distributed as follows: official trip - 5% of the flow, organized tourism - 7%, private tourism - 88% (Shkardun, 2009). State authorities and entities of the tourism industry do not do enough to promote Ukrainian tourism in the domestic and international tourism markets. This is confirmed by the statistics of dynamics of tourist flows. For tourism to become one of the most developed fields of Ukraine, the country should promote domestic tourism, systematically hold active advertising campaigns both in Ukraine and abroad, develop programs to attract foreign tourists, develop tourism infrastructure and make strategic planning in the management system of tourist enterprises.

Based on the results of the given study, it can be concluded that the strategic planning of marketing activity in the system of management of tourism enterprises in Ukraine is quite difficult and requires development of theoretically and practically feasible and effective tools which will effectively address the set goals and objectives. The use of strategic planning can create a number of advantages in operation of tourism enterprises, such as adaptation to changes in the environment; formulation and implementation of successful and effective marketing strategies; coordination of various structural units; increasing the level of control at the tourism enterprises.

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<http://www.tourism.gov.ua>

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**III.**  
**MODERN PROBLEMS OF PROVIDING**  
**NATIONAL SECURITY**



# **ENERGY SECURITY OF UKRAINE AS A KEY FACTOR OF EUROPEAN INTEGRATION: THEORETICAL APPROACHES AND METHODS OF STATE REGULATION OF THE SYSTEM OF ENERGY SUPPLY MANAGEMENT**

***Inessa Sytnik,  
Artem Stopochkin,  
Bogdan Sytnik***

The modern world is facing serious problems connected with energy security. Although the problems of energy security existed quite long time ago, the processes happening during latest decades have increased the attention of society as well as politics and economists. Huge disputes have been raised on the topics of how energy security influences natural environment and whether the long-term prospective could be seen in bright colours. Every single country in the world has more or less experienced the impact of energy security issues. Hundreds of thousands of scientists in different fields of studies are doing their best in order to find effective solutions of the global energy efficiency questions. However, one of the most controversial points is that economic interests of individuals, states and businesses, and energy security may contradict each other.

We can metaphorically compare such misunderstandings in terms of choosing strategy with choosing life priorities of an individual. In our life sometimes we have to sacrifice some of our priorities in favor of our personal strategy and achieving our aims. Choosing economic growth but forgetting about energy security on the state level is comparable to working all the time for the sake of buying new goods and services but forgetting about personal health issues such as sport activities, healthy diet and relaxation. In the short term such strategy may seem to bring good results – concentrating on one thing and forgetting about all the others may quickly bring desirable results. However, with the course of time, the person who follows such model will become less productive and will have to pay all the attention at health issues. In some cases the lack of care of personal health may lead to disastrous effects. Similarly, the lack of environmental protection and energy security during the uncontrolled economic development may result in structural imbalances in most spheres of life. Consequently, such economy development scenario may lead to social protests, losing nations' effectiveness and

potential, economic stagnation and even war crisis, which is actually happening in Ukraine.

However, we believe there is a possibility to find an effective solution of this question. If environmentalists and businessmen achieve synergy in their deals, the problem may be solved in favor of both. It is critically important to develop a strategy, which would include both environmental protection and economic growth priorities. During the centuries the understanding of environmental protection was not a serious priority for any European country. It was Pigou who finally reflected the first changes in social attitude at the beginning of the twentieth century in his famous book "Wealth and Welfare" (1912), where the author makes an assumption that there is a huge difference between personal and social expenses and benefits. For example, one part of expenses (as well as income) is included to the private balance, however another one is partially transferred to others. Therefore, wellbeing of certain individuals or social groups can be influenced by actions of other parties (Pigou, 1912). We can actually come across such a situation in the case when public wealth, such as air and clear water is not included into production expenses of goods and services. Consequently, due to such situations, the society is burdened with expenses, which are incurred by the actual producers who have caused damage. Thus, these expenses are not included to the prices and market mechanism becomes unbalanced, as demand connected with resource depletion keeps growing, and cannot be reduced with simultaneous rise in prices (Pigou, 1912). The dilemma of this environmental problem is particularly essential because natural resources are being exploited as if they are free, despite the fact that they are becoming less available. Such attitude reflected a serious shift in perceiving the usage of natural resources.

Nowadays it is undisputable that all the economically active individuals, organizations and states have to be responsible for the sustainable economic growth, which is underpinned by the concept of energy security. However, it is still unclear which actors and to what extent should care about energy issues. When this question was raised in the second part of twentieth century, Friedman took the point of view that the only responsibility of corporation is to make profits (Friedman, 1962). "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders [shareholders] as possible" (Friedman, 1962). We can see that this point of view does not deny the necessity of energy security and sustainable growth. By making higher profits, for instance, corporations pay higher taxes, which will result in new energy saving programs. The workers will receive higher salaries and will be able to spend



more money on the energy efficient products. Such approach, however, could work only in theory.

Neither state, nor its citizens can be aware about the issues to such a huge extent that could afford elimination of any responsibility of business. For example, in many cases corporations do not give access to information, which would allow regulating their energy saving activities in a proper way. Moreover, corporations have a lot of ways to influence society and government in order to find support of the deeds that cannot be called environmentally friendly (Bakan, 2004).

However, during last years the views started shifting. “Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all. Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit.” (Porter and Kramer, 2006, p. 92) This type of “win-win” strategy seems to be better applicable in modern economic conditions.

What is more, it is vitally important to take into account the fact that the world is becoming more and more globalized. In such particular situations multinational corporations may have more influence than some state governments. In addition, for the state it is very difficult to globally control the worldwide activities of the corporation. For instance, Apple Inc. may be environmentally friendly in western countries but may not care about the environmental pollution in China or other developing countries. In such conditions only international intergovernmental and non-governmental organizations may handle with such difficulties.

The incompleteness of the administrative reforms in the sphere of energy security may become an obstacle for creating a descent foreign policy of the state or particular MNC. In case of Russian Federation, for instance, despite having council presidency in Arctic Council, during last years Russia has not proposed any initiative connected with improving the energy security and responsibility.

The main principle of successful and prospective economic policy must be the principle that is underpinned by the idea that the manufacturer is bearing responsibilities for environmental pollution. Consequently, the producer is influenced by the states, intergovernmental and non-governmental organizations via the fees for natural resources such as soil, water and air, for excessive emission via higher eco-tax rates. Such type of regulations is the first step to rational combination of ecological, energy, and foreign trade policies of the state.

In addition, because the ecologic costs influence competitive positions of corporations and countries (the prime cost of national products and services

increases), various scientists state that to coordinate ecological and foreign trade policy effectively is possible only on the global level by conducting international agreements (Laxhuber et al., 1998).

Such agreements in terms of WTO, for instance, must prevent energy dumping i.e. to control the amount of export from the countries that do not conduct proper environmental protection policy, trying to economize on environmental issues. On the other hand, such agreements are aimed at limiting industrial escape of polluting technologies from developed to developing countries (Turner et al, 1994).

In the industrial sphere the analysis of effectiveness of energy saving investments assumes 3 types of measures: investing in “dirty” branches, investing in energy efficient production and analysis of ecological investments in leading companies in particular spheres of economics.

The decrease of competitiveness may be caused first of all in such spheres as power engineering, oil industry, metal production, where energy saving equipment is not so effective by far, while the maintenance costs are high.

Such industries must take part in forming new energy efficient and industrial production culture, develop non-waste technologies and new recycling methods, should understand the necessity of international production and scientific integration.

Taking into account the high eco-standards implemented in the developed countries, various non-tariff barriers are already used for preventing imports of energy inefficient products to such countries. This may be both special technical standards and special marking that makes an evidence of eco-friendliness of the product. Of course, for the developing countries this creates difficulties for developing trade relations. Sometimes it is also connected with the lack of corresponding information about the ecological requirements of particular markets. Thus, lack of information about the German program “Green point” (connected with utilization of wastes of package) made it a serious obstacle for various foreign companies in comparison with German companies.

The textile industry of developing countries became less competitive because EU set special requirements to ecological safety of cotton growing process and the ecological cleanliness of coloring materials.

This fact provoked serious debates about ecological imperialism. The policy of developed countries is perceived as relocation of dirty production to countries with developing economies. The policy of standardization, in my opinion, has been developed without taking into account real abilities of growing economies to implement the same energy efficient standards.

In principle, the requirements of WTO in terms of freedom of trade relations and requirements to the improvement of the level of environmental protection are quite compatible. The rules developed by WTO cover the special situation of less developed countries. However, the mechanism of fulfillment of such requirements needs further improvement. In particular, the reformation of the rules and conditions of the responsibility of developed countries for the improving eco-standards of their less developed partners. Such countries need financial, technological and scientific support from highly developed ones.

The conditions changing rapidly even in a conservative sphere of financial institutions. The Equator principles, signed by the leading banks of the world on July 4, 2003 implemented the free-will measures on financing the investment projects in developing countries with the energy efficient criteria that are lower than required by international financial institutions (Phillips and Pacelle, 2003). The banks that have signed these agreements altogether have 75-80% market share in project financing in the world (The Equator Principles, 2013). In addition, there is a project UNEP Financial Initiative, aimed at implementation of the principles of sustainable development; where European Bank Of Reconstruction and development takes active part as well (UNEP Financial Initiative, 2013).

The ecological and energy saving indexes are starting to incorporate with ratings of investment attractiveness of the leading agencies and consulting companies of the world (e.g. Dow Jones Sustainability Index). The MNCs that ignore these factors will start losing their financial attractiveness in the nearest years (Sustainability Indexes, 2013). In order to guarantee the fair execution of the officially proclaimed ecological and social policy of the largest companies, such NGOs as WWF and Greenpeace take active positions in these spheres.

However, even the examples of huge international corporations have shown that serious managerial problems connected with providing the common ecological standards for all the affiliate companies throughout the world can be solved. After huge international scandals that led to serious reputation expenses (Belo, 2011), Shell showed more concern about the environment and the stakeholders. As soon as IKEA came under fire for clearing ancient Russian forest (Mother Nature Network, 2012), the set of measures for improving the sustainable usage of environmental resource started to be implemented (Kelly, 2012).

The implementation of the ecologically advanced approaches by international companies recall some protests from the companies that do not want to face the global changes for the better environment. Obviously, such companies become less attractive for global players. The problem of

economic growth and increasing the investment attractiveness of developing countries has to be solved by reducing level of corruption as well as by improving the financial system within the country. The current trends show us that decreasing production costs by lowering energy saving standards in the country is starting to be perceived more like an economic disadvantage, than bonus for the competitiveness.

In this meaning the incompleteness of reforms of energy saving standards in developing countries creates a serious issue for the proactive energy security policy of these states.

Only in case of overcoming the outdated extensive way of economic growth, which is especially dangerous in terms of deficit of foreign investments, it will be favorable for the economics of the developing states and for successful “win-win” cooperation with MNCs from highly developed countries.

Consequently, taking into account fast developing global trends, we can highlight three main sources of power that may regulate energy security on the global level.

The first one represents multinational corporations. Multinational corporations have created a term of Corporate Social Responsibility (CSR). Such activity as CSR has formal mission of protecting the interests of the society by a corporation. In fact in many cases of such protection cannot be called effective as the corporation may influence the criteria of its development (Christian Aid, 2004).

Second type of key players on the world arena is intergovernmental institutions (organizations). They include WTO, IMF, World Bank, EU, UN, and International Regulatory Authorities. Potentially they may seriously impact on the global energy efficiency standards. For instance, the European Union as a union of most economically prosperous countries in Europe (and the whole world) has worked out number of norms and regulations that create common rules. These rules regulate various aspects of environmental issues. The ecological standards are relatively high. It means that EU is a good example of cooperation on energy saving issues.

The third type of actors who can represent the societies’ environmental concerns are non-governmental organisations or NGOs, such as Greenpeace and World Wild Fund. We assume that NGOs represent social point of view better than most intergovernmental organizations and MNCs.

Making a conclusion, despite economical, political and social instabilities and controversies, all the abovementioned facts prove the assumption that in the long run the economic growth will result in cleaner environment and high energy saving standards. Moreover, most of the strategic questions should be solved on the global or at least regional level. In

order to catalyze this process all the international actors such as MNCs, intergovernmental organizations and NGOs should coordinate their steps more effectively.

According to the International Energy Agency, under the existing pace of consumption found profitable oil reserves will last for 30-40 years, gas – by mid century and coal – for 300-400 years. However, there is a lack of capacity of oil production, as well as its refining and transportation. At the same time, the role of electricity as an extremely mobile source of energy will be rising. One of the advantages of electricity is that it can be produced from various types of resources. Almost half of the growth of world primary energy consumption will be devoted to producing of electricity (Checchi et al., 2009).

The growing increase in fuel and energy consumption, high rate of GDP energy consumption and dependence on imported energy stimulates the continuous implementation of energy saving technologies. The prospects for development of the energy sector are based on the presence of natural hydrocarbon resources. The development of energy saving in Ukrainian energy sector, in terms scarcity of resources, is possible only provided existence of effective regulatory policies in terms of system of energy saving management (SESM).

State regulation of SESM should be based primarily on market mechanisms, organizing national energy strategies in the context of globalization and improvement of the theoretical basis of the state energy strategy based on actual statistics of the energy sector of Ukraine.

Existing energy efficiency measures are oriented at the expected industry performance indicators, resulting in deformation of the process of creating the regulatory policy in SESM. In practice, this is reflected in the management and adjustment of the existing system of "quantity oriented" production only after such necessity appeared (Department of Energy & Climate Change, 2009). In general, this may be called a reactive approach.

An improved, proactive approach should be based on the introduction of measures and methods of influence on discovery and use of reserves of energy saving potential even before there is an urgent need to adjust the impact of quantity oriented production. This will avoid further increase in power consumption. The consequence "energy saving potential - production - energy" should be taken as a rule.

Energy saving should be viewed not as a means of achieving the goals, but as a strategy (policy) of improving energy efficiency of the national economy, ie as a set of actions towards its successful implementation.

The core idea of government regulation of energy savings of the national economy is a long-term sustainable development and efficient work of the manufacturing sector (Mabro, Robert, 2008). It is provided through the

organization of energy saving in industry as a precondition for sustainable economic development of Ukraine, improving the current state of the fuel and energy complex (FEC). Consequently, it is possible in case of support of self-sufficiency of the market mechanism, creating special economic conditions for gradual economics transformation to the energy saving type of market, replacing market mechanism in spheres where its implementation is temporary impossible.

Consequently, government regulation of SESM in the industrial sector is reflected as a set of comprehensive measures to make favorable decisions related to various aspects of production and economic activity of subjects of SESM. Among such aspects are the following: efficient use of natural resources, financial security and development of energy-saving technologies, government support for energy efficiency, strict adherence to the optimal algorithm of development of effective regulatory policies for SESM implementation (European Commission, 2008).

The effectiveness of regulatory policy is also based on monitoring and evaluation of SESM, creating a system of indicators of its development, and in the case of negative factors or threats to its functioning, improving the process of its implementation.

Energy management system of an economic entity is based on the following principles (Bohi et al., 1996):

- available strategy and unified system of production management;
- results of the research, production and organizational activities in a complex system;
- estimating the energy saving potential, which should be based on the latest achievements of science and technology in their respective fields of energy saving and take into account international experience in regulating energy saving;
- using all reserves to achieve maximum economic benefit;
- selection of energy saving projects based on domestic and foreign market trends;
- proactive adaptation to the requirements of potential users of innovative products;
- orientation to capture the defined market share according to long-term goals set by the mission of the company;
- forecasting of activity of the element of energy saving;
- fuel scheduling system, which allows to receive real-time analysis of FER consumption and to perform the operational cost management.

Apart from that, let us consider the existing conventional scientific approaches to the management of energy savings. Based on the theory of

management, SESM, like any system, can be regulated by a combination of sound approaches and methods (Mescon, Albert, Khedouri, 1988).

Development of scientific approaches to management began with the development of the classical theory of scientific management, founded by Taylor.

In his work, "The Principles of Scientific management" (Taylor, 1911), he has identified the following principles: the use of a scientific approach to each part of the organization and the search for optimal methods of production; science-based selection and training of staff; wages as the indicator of interaction between the manager and the workers.

The classical theory of scientific management had many followers, including Gilbreth, who involved the use of scientific methods to find the optimal performance (Gilbreth, 1911) Gantt who developed the means of rational planning of activities and combination of the goals of individual managed management.

An important contribution to the development of the classical school of scientific management of production made Fayol (1911), who devoted considerable attention to the study of structures of organizations. The basis of his work is an assumption, that a key aspect of a successful enterprise is its hierarchical structure.

However, representatives of the concept of rational organization March and Simon in their work indicated that organizational structure defines the rules and creates the preconditions for effective management decisions, so devoted a significant role to coordination a primary task of management.

The fundamental theoretical justification of scientific management school was made by Weber, who considered it from the standpoint of sociology processes, which became the basis of the concept of social action. The basis of this approach has been rationalizing all stages of the production process from task workers to execute the control object.

An important contribution to the practical application of methodological approaches in the management was introduced by Fathudynov (2003), who proposed his own classification of approaches, where, among others, can be found the following: a complex approach, integration approach, marketing approach, functional approach, dynamic approach, normative approach (table 1).

Thus, the study of existing scientific approaches to managing energy efficiency shows that each of them has its own advantages and disadvantages. From the standpoint of developing an effective regulatory policy to ensure SESM and identifying energy saving as an economic system, it is advisable to use a combination of several approaches. Systemic approach should be the main one in the bunch of other approaches (Figure 1).

**Table 1*****Classification of existing scientific approaches to the management of energy efficiency***

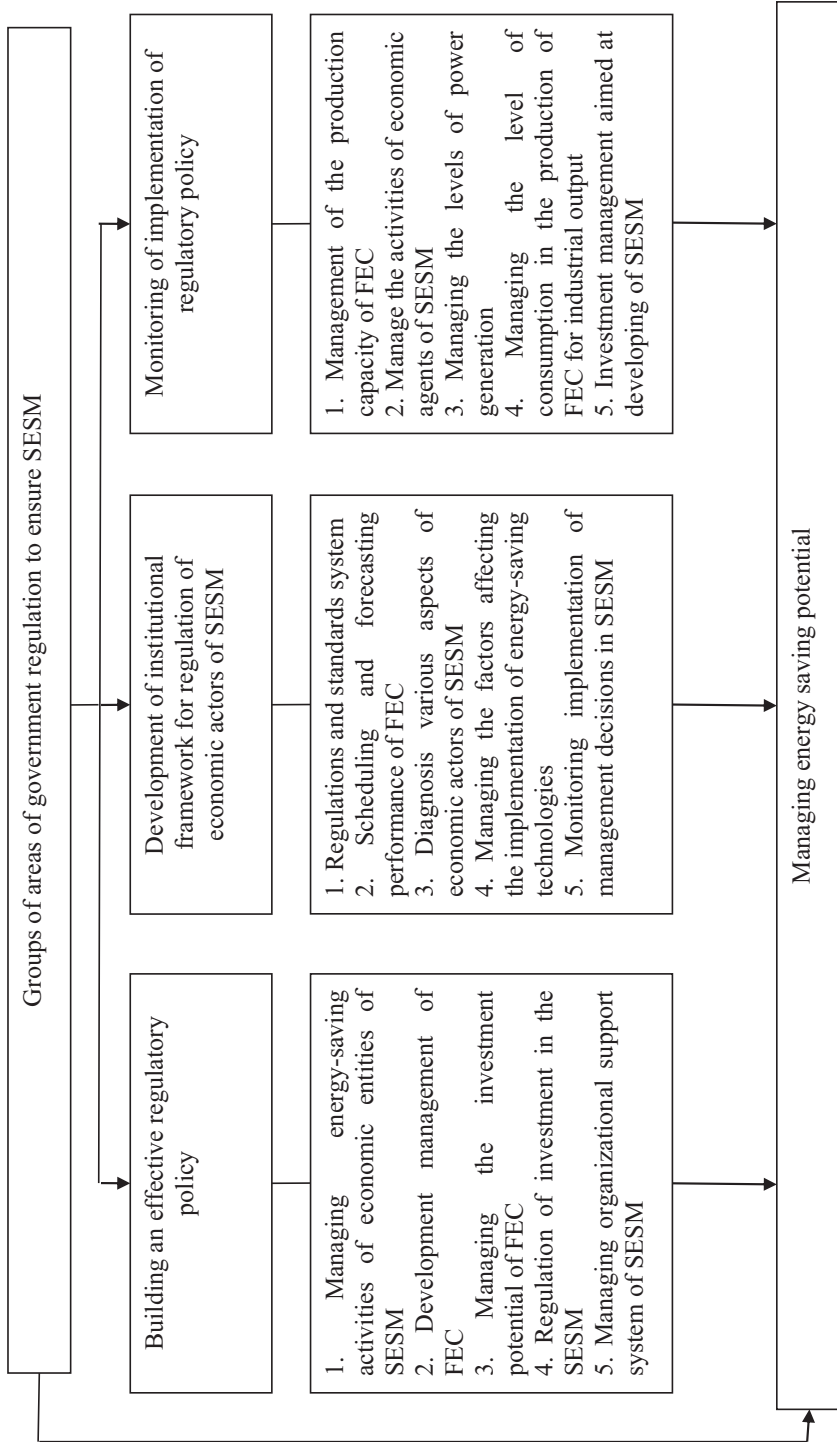
<b>Name of the Approach</b>	<b>Core idea</b>	<b>Possibility to apply for the energy-saving policy</b>
1	2	3
Administrative	functions, rights, duties, elements of control systems controlled by the regulations and laws	The legislative regulation of SESM, hierarchical structuring of SESM and the relationship of state institutions
Classic	separate consideration of work, administration, personnel, motivation, organization, control	Principles of regulatory policy of SESM
Complex	taking into account economic, technical, environmental, organizational social, psychological, demographic, political and other aspects of their relationships and	A complex approach to the development of an effective regulatory policies to implement SESM
Dynamic	review of facility management in the dialectical development of cause-effect relationships and accountability, conducting retrospective and prospective analysis	Determining the relationship between energy intensity of FEC and the national economy state
Integration	establishing the relationship between the individual subsystems and elements of the management system, and levels of control subjects	State regulation at the regional, sectoral, local and national levels
Marketing	Customer-oriented approach	Establishing market prices for fuel and energy
Name of the Approach	Core idea	Possibility to apply for the energy-saving policy
Production	focused on ensuring continuous production, given the consumer segment, and competition in the market. An important aspect is the analysis of the total costs per unit of output	Development of government programs and regulation technologies, on industry and regional levels



Normative	establishing specific standards for evaluating the effectiveness of the entire system and its components. Standards should be comprehensive, reasonable and prospective	Setting norms and standards in the field of energy; Energy labeling of appliances in the building and the residential sector
Behaviorial	Based on the creation of conditions for the human capital, i.e. the implementation of staff opportunities	Definition of consumer behavior in relation to energy efficiency; information stimuli
Process	Management seen as a set of interrelated processes and functions	Implementation of energy saving measures in the individual links of social activities
Systemic (cybernetic)	Each system is a set of interrelated elements	Setting goals and principles of regulatory policy in ensuring SESM; combining the efforts of all actors of SESM energy efficiency through energy management mechanism and management of energy efficienc
Functional	Need as a set of functions that must be satisfied	The introduction of an effective system of monitoring the implementation of regulatory policy
Situative	Defining managerial methods according to existing situation	Regulatory policy, the definition of measures for energy saving
Resource-oriented	Definition of limited resources and the appropriate type of management	The scientific grounding of concepts of state SESM in terms of scarcity of resources

Organizing existing scientific approaches to the energy saving management allows to determine the specifics of state regulation in Ukraine that should be considered when forming effective SESM:

- to make the entire system effective its particular components should be affected;
- SESM can also affect the elements that make up its structure;
- significant change of several elements may influence the overall efficiency of the system, which could result either in general simplification of making the structure more complicated;



**Figure 1. Relationship of areas of state regulation of SESM**

*Source: Ministry of Fuel and Coal Industry of Ukraine (2012)*

- as a separate system, SESM has its limits of the actual impact and its own information field;
- as SESM is a part of state economics, its internal changes adjust to the changes in macroeconomic environment.
- This data allows us to determine the principles of a systemic approach to SESM regulation:
  - hierarchy, based on the structure of state institutions, which carry out state regulation in energy efficiency;
  - interdependent elements of SESM and complexity of interaction between them;
  - arrangement of structural elements according to their properties.

Organizing international experience in the regulation of energy saving allows to select tools of implementing the state policy of energy saving in Ukraine.

1. Investment tools
2. Monetary tools including expanded funding of energy saving through direct government funding.
3. Tax tools - the use of tax rates depending on the energy sources, the complexity of their extraction, the level of equipment effectivity.
4. Pricing tools allow the state to regulate the market value of the fuel and energy resources (FER) and thus implement anti-inflation policy.
5. Law tools provide a set of regulations governing the implementation of energy saving policy in a by regulating various activities: from issuing grants and loans for the purchase and use of energy saving technologies, compliance with the sustainable use of resources and energy standards of production, constructions that implement the efficient use of energy resources.
6. Planning tools that provide a systemic approach to planning energy needs at the level of individual enterprises as well as at the state level.
7. Information tools provide popularization of energy-saving policies to the public, the rapid spreading of information on new ways for energy savings, control the resource spending in the country.
8. Administrative and organizational tools provide infrastructure for energy saving measures and training of highly qualified personnel.
9. Incentive instruments are implementing large-scale programs to stimulate the development and use of energy efficient technologies, aimed at modernization of social sector and activation of small business in terms of inventions, which will help to develop new energy-efficient equipment.

Achievement of strategic and operational objectives through the use of energy saving policy instruments should be in the form of energy efficiency projects (Lesbirel, 2004). By definition of the legislation of Ukraine (Law on

Power Industry, 2009) energy project is a project aimed at reducing power consumption, namely the reconstruction of networks and supply chains, management and accounting of water, gas, heat and electricity, upgrading technology production processes.

Based on the experience of the European Bank for Reconstruction and Development (in financing energy efficiency projects can be divided into six main areas (EBRD).

1. Improving energy efficiency of industrial enterprises. These projects aim to reduce power consumption and enhance the use of alternative energy sources.

2. Projects aimed at using the potential of renewable energy. Important potential resources of renewable energy in Ukraine is water, wind, solar, geothermal, biomass, waste disposal.

3. Improving the efficiency of the energy sector through the development of smart networks of energy provision.

4. Investment projects aimed at improving the energy efficiency of buildings through the use of appropriate equipment and materials (insulation of walls and roof, installing energy efficient boilers and stoves, solar water heaters, etc.)

5. Improving energy efficiency of municipal services, including heat distribution, public transport, water supply, forming the infrastructure network and traffic management systems of municipal transport.

6. Development of the carbon and biomass markets, financing green investments and managing energy demand in individual countries according to global priorities. Projects in these areas are aimed at the development of innovative technologies to produce energy, biomass market development and introduction of biomass renewable energy technologies (Lakyda, 2011).

The concept of energy saving regulation should be based on the following assumptions.

1. Creating a single SESM, the use of which would strengthen the country's energy capacity and create conditions for the realisation of energy saving potential.

2. Regulation of pricing policies in the energy sector and establishing the price of energy according to the market rules, which will increase the flow of financial resources in energy sector. Also, inflows of financial resources will enable businesses of SESM to use them for their internal purposes, which will create the effect of refinancing.

3. Improving the procedure for obtaining energy by population with low income through compensation of their cost.

4. Improving the Energy Strategy of Ukraine for the period up to 2030 in terms of estimates and enabling the implementation of mechanisms and

obtaining investments in energy projects within the Kyoto Protocol (Government of Ukraine, 2012). It is also necessary to continue selling the rights for emissions of harmful substances into the environment.

5. Considering the structure of energy consumption as an important factor for energy saving. Among instruments of implementation it is reasonable to use the restructuring of the industry based on modern scientific research.

The concept of state regulation of SESM is presented at five levels:

- theoretical level, systematization of which represents current scientific views and experience in the field of energy saving, identification of components, linkages between, steps and guidelines for its implementation. Thus, the theoretical foundations of conceptual level adjustment of SESM stand looks different scientific schools, the synthesis of which will identify the most suitable position perception and understanding of the processes in the SESM and forming a single integrated view of development of SESM and its subjects, including fuel and energy (Loschel et al. 2010);

- methodological, reflecting the proposed concept within the scientific and methodological approaches to address the main objectives of regulatory policy based on international experience of regulation of economic systems and a review of institutional arrangements and economic management of energy saving processes allowing to distinguish those, the adaptation of which into national economy will ensure the effectiveness of the energy efficiency technologies;

- tool level, which displays the practical and scientific instruments, that contribute to the implementation of effective regulatory policies to ensure SESM;

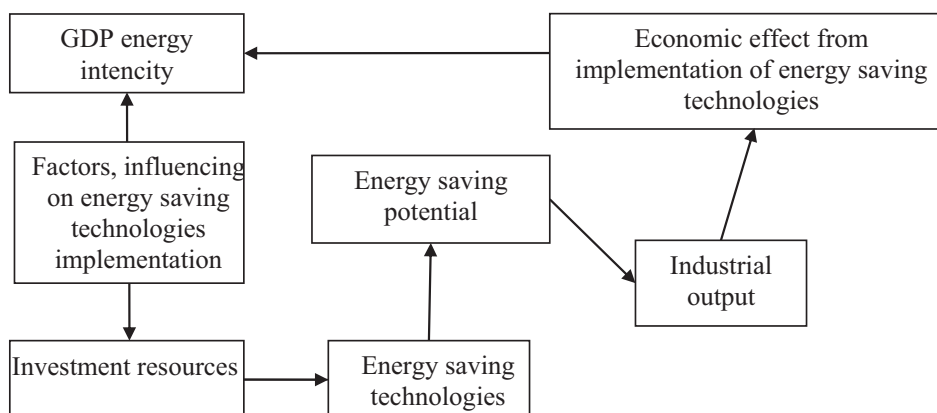
- model level, that reflects the economic, mathematical, organizational and information models that allow to provide funding through mechanisms to attract investment in energy resources;

- practice level, that reflects the end result of the proposed scientific statements in the practice of economic actors SESM.

Consequently, the core vision of the development of the SESM is achieving energy efficiency of economics on macro level and perceiving energy saving as its key element (Joskow, Paul, 2005).

According to the determined concept, the aims of business elements of SESM are formed in terms of energy saving and turn into aims of the state regulation policy. This connection is mutual. So, before highlighting main aims, tasks and tools of regulation applied to SESM elements, we should define the interrelationship of energy saving and economic subjects of SESM (Figure 2).

Thus, the implementation of the concept will allow to create a practical relationship between investment in energy efficient technologies and contribute to reducing the energy intensity of GDP. Determining factors that affect the energy-saving technologies and management allows to increase the investment attractiveness and help to increase the flow of investment resources. Analysis of these factors for economic actors of SESM is the basis of decision-making regarding the development of measures to use energy saving potential, from the position of investor such analysis determines the level of investment attractiveness (Kruyt, 2009).



**Figure 2. The relationship of energy saving in industrial production and GDP energy intensity**

*Source: author's own development*

The proposed concept requires specification, including determining the optimal combination of the structure, principles, aims and measures targeted at strategic focusing on the building of an effective regulatory policy in SESM.

Financing energy saving should be based on measures to promote the financing of investments in energy efficiency in all areas of fundraising (investment, loan, own funds and state enterprises) (Bohi et al., 1996).

Summarizing the above, the development of measures to facilitate the financing of investments in energy efficiency should be in the following areas:

- harmonization of legislation of Ukraine and the European Union in the field of energy saving;
- developing a coherent strategy for energy saving Ukraine between all authorities and power generating companies;
- development of effective organizational and legal mechanisms for fundraising;

- optimization mechanism of tax incentives for energy saving;
- facilitation of energy audit.

A combination of measures will become a strong base for the creation of a unified concept of stimulus funding for investment in energy efficiency of Ukraine that will make it possible not only to strengthen the important component of the economic power of Ukraine, but also to raise its rating as an energy efficient country.

Solving the problem of energy efficiency is possible provided greening of industrial production, which, in turn, is possible in case of funding the development and implementation of new energy efficient and ecological technologies (Mykolaychuk, 2010).

Thus, the proposed concept of state regulation of SESM allows to consider dynamics of foreign trade, investment, science and technology, integration and production processes in the national economy, the factors that influenced SESM, takes into account and coordinates the interests of members of SESM, which allows on this basis to develop a comprehensive system of building of an effective regulatory policy to maintain SESM.

The results of research have lead us to following conclusions:

1. Analysis of modern world tendencies of energy security allows us to confirm that effective systems of energy supply are the basis of energy security of the state. The energy security of the state is, in its turn, a critically improtant factor of stable development of national social and economic systems. Moreover, for Ukrainian case, it is also a necessary requirement for successful European integration.

2. The research of theoretical and methodological aspects of state regulation of the system of energy saving has allowed to find out the most improtant factors of energy security of the state. These factors are based on the state energy efficiency improvement.

3. The necessity of building the concept of state regulation of system of energy saving management has been grounded. This was done based on revealed indicators of energy security, using concepts of state regulation of economic systems, experience energy efficient economies. Using this concept will allow to create an efficient energy saving state policy as a tool for provision of energy saving of Ukraine.

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# **PROBLEMS AND PROSPECTS OF SIGNING AN ASSOCIATION AGREEMENT BETWEEN UKRAINE AND THE EUROPEAN UNION: INFORMATION SECURITY**

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A feature of the current international relations is the active process of integration that was involved almost all Europe and today is international integration as the European Union attracted particular attention of the world community not only in Ukraine.

The movement of the European Union to the East has a positive strategic significance for Europe as they open wider the opportunities for cooperation with Ukraine. However, their implementation is not yet guaranteed because each process has both positive and negative sides: in the short term there may be the difficulties associated with the transformation of the market infrastructure which can complicate the formation of a common European economic and political space. Therefore, the question of the possibility and expediency of Ukraine's accession to the European Union acquires special importance, as the experience of other countries is very diverse.

World experience shows that the economic integration between countries caused, as a rule, intensive foreign trade. In Ukraine the foreign trade is not yet created the real preconditions for integration. Over the past 16 years the foreign trade of Ukraine has developed in different ways and had no convincing trends to the specific integration groups. At the beginning of the 90s the main volumes of Ukraine's foreign trade were the countries of the Union of Independent States. But for 16 years the share of Customs Union countries in the foreign trade turnover of Ukraine decreased from 49, 3 to 36.7% (Pashkov, 2001). The decline in the trade turnover of Ukraine with the countries of Union of Independent States is only partly compensated by the growth of trade turnover between Ukraine and the European Union. This reduction mainly was offset by an increasing in trade turnover with other countries of the world. Consequently an explicit integration of dispositions in the foreign trade of Ukraine is not yet.

In this sphere Ukraine has largely retired from the Commonwealth of Independent States including the countries of the Customs Union, but come not nearer to the European Union and mainly diversified its foreign trade with

other countries. However, the effectiveness of Ukraine's external trade with the countries – potential integrators are constantly decreasing.

So, for the last 16 years the negative balance of foreign trade of Ukraine with the European Union increased at almost eight times while the growing of turnover is only by 5.4 times. During the same period the negative balance of foreign trade of Ukraine with the Customs Union grew almost fourfold; increasing trade turnover by 3.6 times. Thus the balance of Ukraine's trade with other countries of the world during this period was positive and it has increased fivefold, with growth in turnover by 6.5 times. However, the structure of foreign trade of Ukraine shows that it has alternative or competitive character. The overlap of Ukrainian exports for machinery and materials from the European Union and the Customs Union are only in groups but almost have no items. Similarly the overlap of import of Ukraine with the European Union and the Customs Union on plant and equipment, materials and industrial goods are also only in groups, but virtually have no items. Consequently, the geographical structure of foreign trade of the European Union and the Customs Union for Ukraine are not competitors among themselves. Therefore, regardless of the integration direction choice of Ukraine is very interested in other, not integration, directions of foreign trade (Pashkov, 2001).

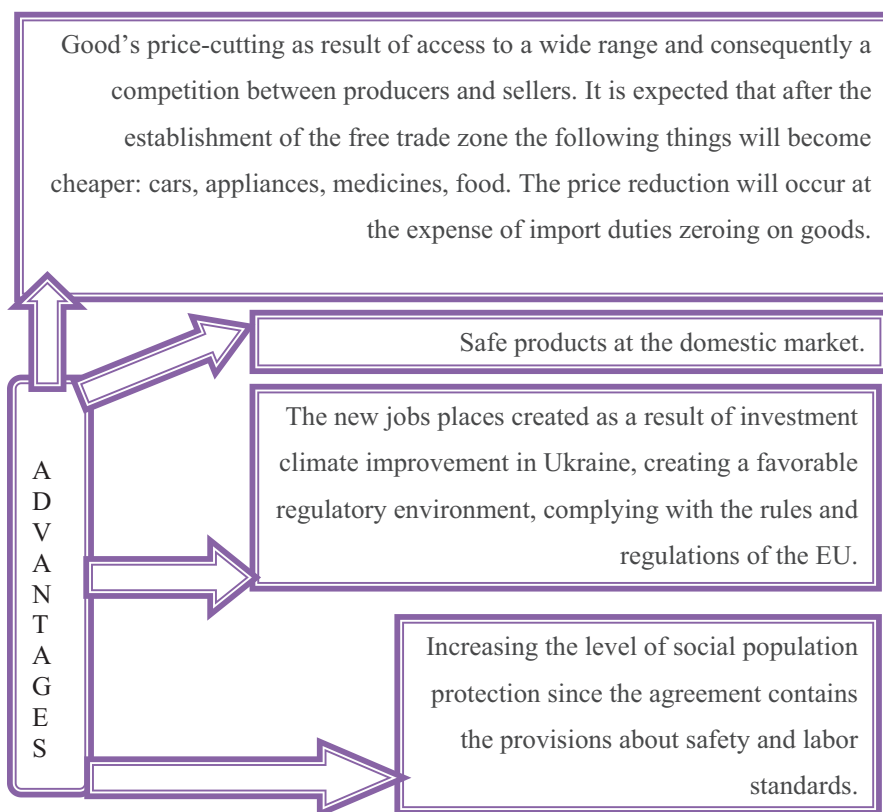
The aim of the Association Agreement between Ukraine and the European Union is deepening the integration between Ukraine and EU in the sphere of politics, trade, culture and security. Real but not declarative European integration will certainly affect on the internal development of the state and on the life of every Ukrainian. This is primarily possible through the conversion of the economy on the basis of the domestic conformity density legislation with European standards, improving the quality of products, condition of roads, and level of medical services.

According to Agreement the EU will support Ukraine in the implementation of standards more than in 30 areas: energy, environment, public-private partnership in the transport sector, education, science, youth policy, consumer protection, industry, development of small and medium business, as well as culture, sports and so on.

An integral part of the Association Agreement is the establishment of a free trade area between the EU and Ukraine. It provides the mutual opening of markets, as well as the approximation of Ukraine to the European Union. It's no secret that now the world economy is going through difficult times but in these circumstances the free trade area will give quite tangible benefits for Ukrainian business and ordinary citizens. For Ukrainians the free trade with the EU would mean the following advantages, fig.1.

Among the benefits for Ukrainian business, the Agreement provides for:

- ✓ a duty-free access for most Ukrainian products to the largest market in the world creating the large opportunities for export;
- ✓ improving an access to the markets of third countries through harmonization of Ukrainian legislation with EU legislation and, accordingly, the transition to internationally recognized standards;
- ✓ best legal protection of the intellectual property rights and the application of new norms will bring the high returns to inventors and people of creative professions;
- ✓ improved the domestic investment and business climate.]



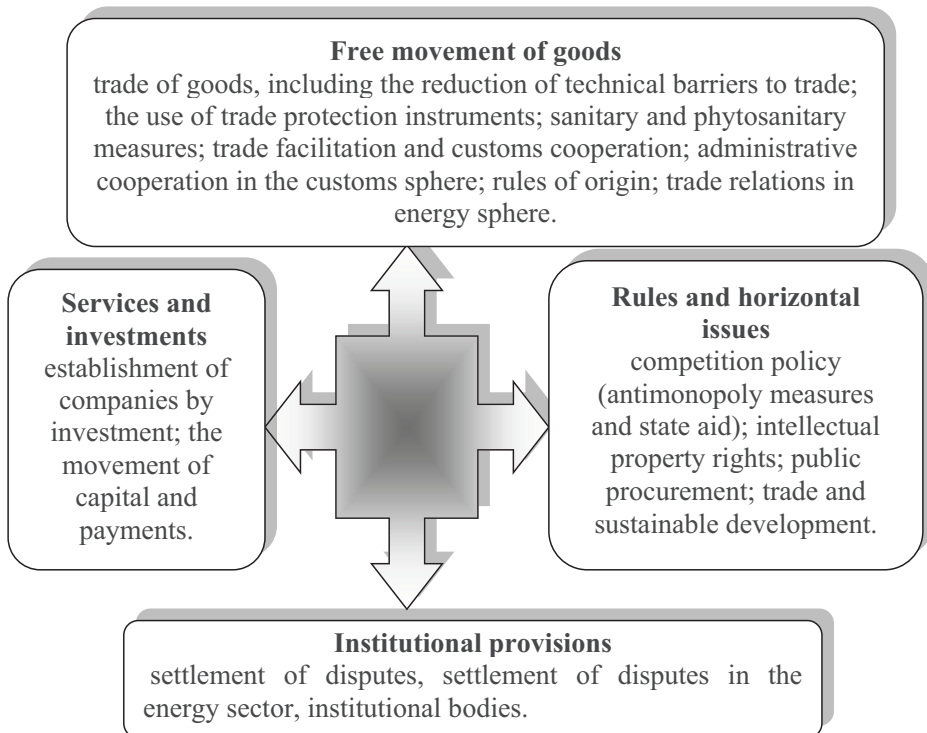
**Fig. 1. Advantages of free trade with the EU for Ukrainians**

*Source: (Single internal market of the European Union, 2014)*

The losses are certain and define in particular connection with the administrative costs or the shifting production to higher standards in the short term. But in the long term the consumers will win. In the long run Ukraine will get the chance to perform in state the institutional changes that will help improve the investment climate and thereby contribute to the economic

development of the country. The creation of the free trade zone will give obvious advantages to the state, Fig.2.

There is another fear that is associated with the fact that the influx of cheaper European goods can crowd out the domestic products. Understanding these risks, it is necessary the domestic companies of ownership modernize any production form in order to compete with European enterprises, the EU requirements for high quality while many of our enterprises cannot boast the European quality standards.



**Fig. 2. Advantages of the free trade zone**

*Source: (Single internal market of the European Union, 2014)*

The implementation of the Association Agreement between the EU and Ukraine would significantly improve a consumer protection. It will be possible in a short time to solve such problems, as it is not too transparent pricing, the availability on the market of dangerous products and poor quality control. Currently, the EU operates a number of special principles in the field of consumer protection:

- ✓ the consumer can buy what he wants and where he wants; if the product is not quality, the consumer returns it back; high safety standards for products and other consumer products;

- ✓ every consumer has a right to know what he eats; agreements with consumers must be fair;
- ✓ consumers can change their mind; the consumer provides a comparative analysis of prices;
- ✓ consumer cannot be misled;
- ✓ security during a holiday trip;
- ✓ effective reparation for international disputes.

This means that the introduction of these principles in Ukraine can be achieved by providing detailed information about the products on risks associated with a health and safety. In addition, Ukraine will need to devise a system that will quickly inform the public and withdraw from sailing the products or goods of dubious quality, and track their origin. Realization of products which are dangerous for life and health will be forbidden. Special attention will be paid to the quality of goods for children.

The signing of the Association Agreement Ukraine with the EU has already received:

- the new Criminal Procedure Code;
- the changes to the Criminal Code regarding the punishment of corrupt officials — they can't rewrite the property to relatives to avoid punishment;
- the extension of the prisoners rights;
- the legislative safeguards of the decisions courts implementation.

It should be noted that signing the Association Agreement of Ukraine with the EU has its social costs —the increased territory, population and aggregate economic potential of the Union but at the same time- economic performance in per capita terms is decreased. Expanding its socio-economic and political space the EU is sacrificing the current interests of maximizing the quality of Community member's life to achieve strategic goals.

The decision about the fifth enlargement of the EU, unlike the decisions at the previous stages, had rather a political than economic motives and remains to be a major challenge for the future of the EU. The accession of 12 new countries will increase the EU territory by 34%, population by 28%, and total GDP would increase only by 4.8%. A significant reduction in the EU average level of GDP per capita may cause the dissatisfaction of population with current EU members: the decline of living standards for the uncertain compensation in the future —is rather controversial formula for pragmatic European (Pashkov, 2001).

Interestingly, most supporters of EU expansion are mainly living in the countries with relatively low levels of economic development (Greece, Ireland, Spain, Portugal). But in the leading countries of the EU (UK, Germany, France) significantly affects on the definition of the EU strategy,

the share of expansion supporters is only slightly more than a third. Rather reluctant EU citizens regarding to the possibility of receiving membership cards in the European Union. Only a fifth share of respondents (21%) believe that the EU should be open to all comers and almost half (44%) admit such possibility only for the individual states.

Taking into account the high level of democracy development in the EU and the fact the vast majority (71%) of EU citizens were in favor of postponing the extension in case of its negative effects detection, it can be noted that the enlargement process could become unpredictable, from the point of view of its public support of EU member countries. The views of the Ukrainian people are also interesting to which borders the EU is coming. Our compatriots appreciate the process of EU expansion restrained positively. The largest part of the population (32.1%) is confident that the expansion of the EU will improve its relations with Ukraine. Only every tenth (9,6%) held the opposite point of view (Pashkov, 2001).

It is desirable that the appearance of a wealthy neighbor — with the EU— on the Ukrainian border was not a booster of the traditional aid expectations and stimulus to rebuild their own economy. Now the company has the capacity of strengthening the European orientation of the population. It may intensify the improvement of Ukraine's cooperation with the EU, the candidate countries, as well as their interest in Ukraine's integration into the European community. But that is what makes our citizens visibility for skepticism: only 18.4% of respondents believe that the EU countries treat Ukraine as a potential equal partner; the majority of the population (62,4%) convinced that the EU members are indifferent to the possible membership of Ukraine in the EU (35.4%), or are skeptical, considering that Ukraine has no prospects of joining the EU (27%).

At the same time our compatriots are aware of the significant economic lag fact, restraining the Ukrainian European integration: the largest proportion of citizens (39.8 per cent) believes the real output of our state on the economic level of the EU leading countries is only after 20 years. However, despite this, the majority of them (66%) are convinced of the Ukraine's accession need to the EU in the next 5-10 years. The approach of the EU to the Ukrainian borders does not give grounds for excessive good and dramatic scenarios of economic relations development. Obviously, should soberly admit that the current state of the Ukrainian economy and level of economic cooperation with the EU will not result in the rapid entry of Ukraine into the European Union nor its isolation in the case of the expansion. The consequences of EU expansion for Ukraine will be mainly determined, on the one hand, by the domestic institutional and structural reforms in the European Union in its extended form, the strategy for external relations of the EU in the Eastern

direction, and on the other hand by the ability of Ukraine for the effective institutional and structural change within the country. The key for Ukrainian European integration should probably be sought, not in Brussels, but in Kyiv.

The membership in the Union in the last decade has not created significant barriers to the development of trade and economic relations with other countries. The reorientation of the candidate countries on the development of trade and economic relations with the EU basically has already taken place. Consequently, there is no sufficient reason to believe that, in itself, the accession of individual countries in the EU must inevitably lead to the collapse of their trade and economic relations with Ukraine (Pashkov, 2001). Export-import operations of the countries-candidates in the accession with current EU member states are already based on the free trade and a common external customs tariff which will join the new members of the Union, in average lower than national customs levels. At the same time, in some cases, there will be an increasing of the tariff protection level. This is especially true for the Baltic States. With them Ukraine has the agreements about the free trade which should be null and void after the entry of these countries into the EU. The volume of Ukrainian exports to the countries of the region can almost reach 15-20%.

EU expansion leads to increasing competition between the Ukrainian producers and enterprises of new EU member states in the single market of the European Union. This will mainly relate to the companies of the ferrous metallurgy sector. However, this influence may be limited — in connection with the adoption of the new EU members the European social standards and norms of environmental protection. Ukraine could even strengthen their competitive advantages in the sectors which are especially sensitive to the competition by price parameters of goods because in the new member countries of the European Union the cost of production will increase. This creates the incentives to transfer some of the more simple productions at the territory of Ukraine. But hardly can it be attributed to favorable thing from the point of view of Ukraine's long-term strategy.

The position of the Ukrainian manufacturers of products with a high level of added value in the short and medium term will not significantly change — taking into account the current insignificant volume of such exports to the applicant countries. In the long run they will depend on the achievement of Ukraine's European technical standards and European quality level (Pashkov, 2001). The position of the Ukrainian agrarian producers at the enlarged EU market will depend on two factors: first, the level of their compliance with the standards of the European Union; secondly, from the changes that will occur in its Common Agricultural Policy. In this context, Ukraine should clearly define the priority directions of the Ukrainian and



European standards rapprochement and technical requirements applied in agriculture.

EU expansion will intensify the promotion of its producers on the markets of third countries; therefore, it is possible to predict the increasing pressure to open the Ukrainian market. The enlargement of the European Union will take it in the first place as a market for Ukrainian goods and the second — as a source of Ukrainian imports. It means that the dynamics of economic processes in the EU will significantly affect on economic situation in Ukraine, given the high level of its economy openness. The high degree of influence will require the new approaches to the development and implementation of economic policies, taking into account the tendencies of world economic relations development and economic environment particular in Europe.

Meanwhile, the CIS countries for the long time will continue to hold the championship in the Ukrainian import. Consequently, the foreign trade of Ukraine will be characterized by a tendency to increase the presence on the EU market, and imports in the short - and even in the medium term will continue dominance of the CIS countries (Single internal market of the European Union, 2014).

In general the roots of the absolute most problems for Ukrainian exporters which will arise due to the EU expansion, the lag of Ukraine from the candidate countries in the field of market-oriented social and economic reforms and pace of economic and technological modernization, affecting on the competitiveness in an open market environment.

Being not a member of the WTO Ukraine cannot effectively counter the influence on it in the future more anti-dumping and countervailing measures from the new EU member states. This is another argument in favor of the Ukraine's accession need to the world trade organization which will allow it to use relevant internationally accepted mechanisms to protect their interests in these matters. In connection with the EU expansion Ukraine is an urgent issue of improving the trade regime with the EU as a whole. Particularly to give the status of the country with market economy for Ukraine. In the future the means of resolving many of the problems can be the conclusion of the free trade agreement between Ukraine and the EU which is envisaged by the existing agreement on partnership and cooperation.

Thus, the benefits of creating a free trade zone are the following:

- improving access of Ukrainian goods and services to the EU market;
- improving the conditions of Ukrainian goods export in connection with the receipt of cost advantages through the elimination of import duties;
- equipping and modernization of the domestic enterprises;

- increasing investments from the countries-EU members to Ukraine's economy; increasing the volume of bilateral trade and increasing of foreign currency revenues;
- growing of sales volumes of agricultural products traditional export-oriented industries (grain, oil);
- increasing of labor resources placing efficiency;
- expanding the range of goods and services in the internal market;
- improving the competitiveness of domestic products in connection with the implementation of new standards;
- the restriction of non-tariff restrictions in agricultural products trade within the framework of cooperation in the sphere of sanitary and phytosanitary measures;
- the harmonization of the customs procedures and improving the efficiency of customs bodies activities in the context of trade facilitation;
- establishing of a harmonized legal framework for ensuring the activity of trade relations subjects by the convergence of Ukrainian legislation with EU legislation;
- encouraging the development of competition and restricting of monopolize;
- improving access to quality imported machinery, seeds, means of plant protection, etc;
- creating risks of a free trade zone:
- the need to raising the substantial financial resources for adaptation and implementation of the new legislative acts;
- increasing of the competitive pressure in the domestic market of Ukraine;
- the losses for the individual industries in Ukraine because of their low level of competitiveness;
- growing of unemployment;
- displacement of the national manufacturer from the domestic market;
- growing of negative bilateral trade balance for Ukraine due to the deterioration of the export structure in connection with reorientation of domestic exporters from the export of finished products to the export of raw materials and semi-finished products;
- the shortage of the domestic goods in the domestic market due to export re-orientation of producers;
- the lack of funds and the need to find the partners and investors for purpose of existing facilities modernization;
- the need for rearmament and change of the production technologies;

- there is a limited ability to protect "young" sectors of the economy which have not reached the proper level of competitiveness and therefore in need of the state support;
- the decline of national agricultural products competitiveness in the domestic market due to the presence of a powerful system of the EU agriculture state support;
- the reduction of the national production demand of agricultural machinery.

The movement of the EU to the East will be accompanied by the introduction of the visa regime with the neighboring candidate countries, strengthening the border's control, strengthening the fight against illegal migration which affects on the interests of millions of our compatriots.

The issue of labor migration regulation and social protection of Ukrainian citizens becomes relevant in this context. An introduction to the candidate countries of the European regulation procedure of this sector will limit the job opportunities of Ukrainian citizens (Single internal market of the European Union, 2014). On the other hand, it is no secret that most of the labor flow resources of Ukraine to the West is an illegal labor migration, causing, to put it mildly, problematic in the relations of Ukraine with EU countries and member candidates.

At the same time, only the restrictive measures by the EU and the candidate countries will not solve the problem of illegal employment eradication of Ukrainian citizens on their territories. It is clear that in the near future Ukraine will not be able to radically reduce unemployment and substantially improve living standards of the population. So, the offer of illegal labor force from Ukraine will boost demand from the informal sector of the EU countries economy.

It is also obvious that for overcoming of the illegal labor migration there is not enough efforts of Ukraine. It is necessary with the EU states and the candidate countries to solve this problem: from assistance in the creation of jobs in Ukraine to the legalization of the labor migration flows by increasing the relevant quotas. In the medium term, it is need the establishment of Ukrainian agreements with the EU on labor migration and social protection of Ukrainian workers abroad.

Strengthening the fight against illegal immigrants in an extended Euroclub, establishing on its borders the anti-immigration barriers in the form of border and visa regimes can largely shift the burden of this transnational problem on our country. Ukraine can turn into the store state for the illegal *immigrants* which will destabilize its internal situation. As a consequence, there is a zone of instability on the borders of the European Union (Single internal market of the European Union, 2014).

Fight of the EU with the illegal immigrants requires the establishment of barriers on the Western border of Ukraine and putting in order all borders in Eastern Europe and primarily Eastern and Northern borders of Ukraine, through which the main transit flow of illegal immigrants are coming to Ukraine.

The introduction of the visa regime may affect on the freedom of Ukrainian citizens movement and on their well-being.

Visa regime for border crossing, the border control procedures, and the measures to eliminate illegal migration is a common international practice. But in the situation with Ukraine the introduction of visas is combined with the internal problems of the low life citizen's level forcing them, in particular, to dumping in the labor market, participation in criminal business, etc; the lack of legal culture (the behavior of our citizens abroad is a separate issue and not a very pleasant conversation). In particular it explains the desire of EU member states and candidate countries to distance themselves from Ukraine by a barrier of visas and tough the border control procedures. It is therefore necessary to minimize the negative impact of these measures on the EU for Ukrainian citizens — primarily the alignment with the EU standards an internal socio-economic situation in Ukraine.

On the other hand, you need to implement the certain adaptation measures before introduction of a visa regime with Ukraine: to expand the network of consular offices to simplify the procedure for registration of documents, to establish the optimal cost of visas. Upon completion of the current phase of EU enlargement on Ukraine's Western borders will become the Eastern borders of the European Union. This is a qualitatively new political situation which will largely determine the nature of contacts with our European partner, and the prospects for further development of Ukraine (Single internal market of the European Union, 2014).

In the interest of the EU is to ensure a peace and stability on its borders, to have their neighbors as the stable, democratic and economically developed states with a predictable and friendly foreign policy. Therefore, we should expect increasing of the EU political pressure on Ukraine, particularly in the direction of democratic institutions strengthening, human rights, media freedom, combating organized crime and corruption in the government. Obviously, this pressure will most be felt in the coming months, given the upcoming parliamentary elections in Ukraine. From their transparency, democracy, compliance with European standards will depend on the future EU relations with Ukraine and the prospects of European integration of the country as a whole.

The movement of the EU to the Ukrainian borders in the background of a Common European security policy development and defense will allow our

state to take a more active part in strengthening security on the continent. In the field of security today in Ukraine can make a real contribution to ensuring stability in the zone of the EU interests — along the lines of peacekeeping, elimination of consequences of emergencies, strategic transport, etc.

The EU accession of the states with which Ukraine has traditionally good relations and their respective quotas in the governing bodies of the Union may contribute to the promotion of Ukrainian interests in the EU, will allow exploiting the existing mechanisms of regional cooperation for deepening contacts with the European Union (Single internal market of the European Union, 2014).

In general the approach of the EU to the Ukrainian borders objectively strengthens the influence of European community on Ukraine. In political terms, this process can be considered as positive because it contributes the implementation of the European standards in Ukraine. At the same time, the transformation of the EU may create a lot of problems for Ukraine. It is obvious that the nature and level of Ukraine's cooperation with the expanded EU, the prospect of Ukrainian EU integration will depend primarily on the internal transformations in Ukraine, and creation the conditions for stable democratic growth of the domestic economy.

External trade of Ukraine with the EU is not decisive for European integration yet, and its efficiency is quite low and unbalanced. The inadequacy of the Agreement conditions on the free trade zone between the EU and Ukraine may lead to even greater imbalance in foreign trade and negative balance growth for Ukraine. The introduction of the Customs Union of the increased import duties for Ukraine is not compensated the partial liberalization trade with the EU which may increase the total losses of Ukraine in the sphere of foreign trade.

The EU should be considered not as a "mutual aid fund" but as a school of effective innovative economy, high social standards, developed democracy and efficient management of public development. European integration is a course on the implementation of the European success recipes on Ukrainian soil. Europe, despite its current troubles, is an example of success for many countries of the world. The European integration policy of Ukraine should retain its priority status but become more mundane and pragmatic. The European integration policy should be a powerful motivator for the modernization of Ukraine.

The Association Agreement and the free trade area is an important stage of self-esteem, choice and movement forward. This is a test of self – ripening to the European standards for all major parameters — economic, social, legal, humanitarian, political, and public. If Ukraine does not pass this thorny path

"self – ripening» even brought on a silver platter the European integration may be a Pandora's Box for it, in fact, what was happened in Greece.

The economic opportunities of Ukraine's European integration are also still not fully understood and objectively evaluated. It is necessary for Europe today to combine the technological resource in the West and the energy resources in the East. The Association enables Europe to have Ukraine as a reliable partner and an outpost of European integration without formal membership but with the large implications for the individual European integration mechanisms. The key idea of this process is the convergence of Ukraine with the norms, standards and policies of the EU. It would be good for both Ukraine and the EU.

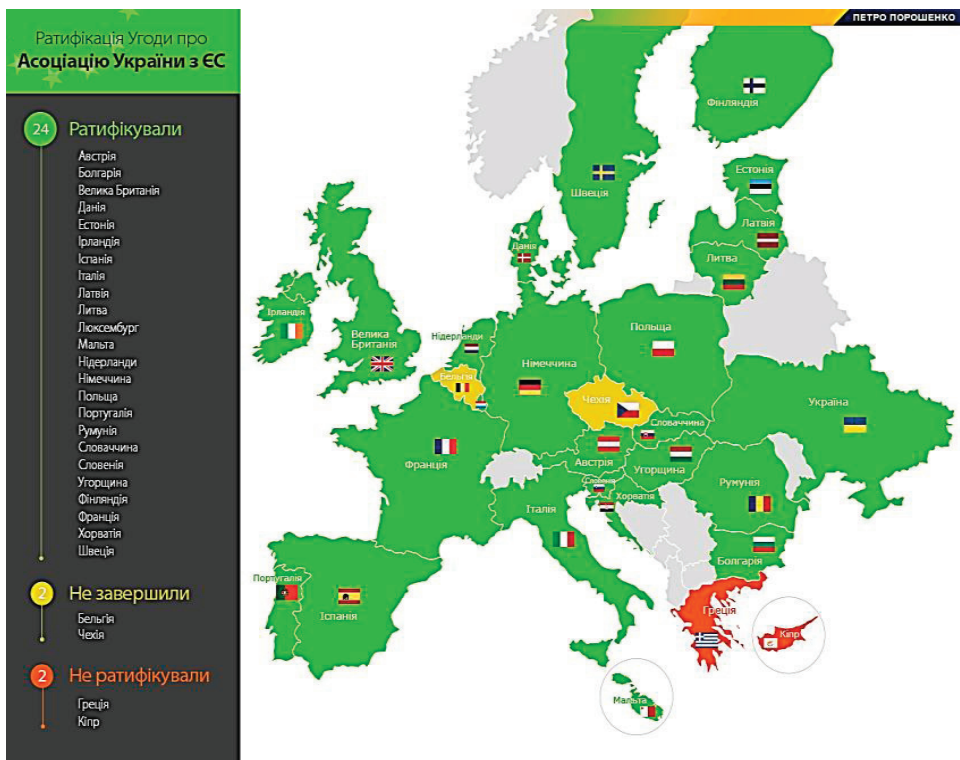
Today the EU continues changing dynamically. On the one hand, it could have a positive impact on the economy, financial and social sphere of the European community. On the other hand – it can push centrifugal, national-egoistic processes. In this situation Ukraine, apparently, do not bring such the large economic losses on the altar of purely political decisions with unknown consequences. Ukraine needs a policy and strategy worthy of the movement towards European values.

Today, one year after the signing of the agreement, it is assumed that besides of opening the new enterprises which will be accompanied by the emergence of new jobs, the agreement will also affect on the improvement of labor standards, social security and social protection. The agreement provides for the entrepreneurs a legal protection of intellectual property with the relevant provision of higher profits for those who work with it. Nowadays for most of Ukrainian goods the duty-free access to the European market is opened. Theoretically, it would lead to export growth but it grows only for some positions. However, on it is already affecting the unstable national currency. Only the hryvnia will strengthen its positions — the trade will look different. To meet the requirements of the European Union and the successful exports of industrial products to the European market Verkhovna Rada adopted three laws on the standardization, metrology and technical regulations. On the other hand, there has been no progress in combating corruption, reforming the customs, changes in the functioning of the Antimonopoly Committee, etc.

The Agreement also provides the EU will help Ukraine in the implementation of standards in more than 30 directions. Another significant result is the attempt to get rid of corruption in public procurement. It is expected that Ukraine must adapt its legislation on public procurement to the EU norms. Therefore, in the future Ukrainian suppliers and service providers will have full access to the public procurement markets in the EU and vice versa. The only exception in this point — is the purchases for the army.

However, it is only just a theory. In full measure to assess the economic consequences of the Agreement signing will be possible only after the function. It will happen not before 1 January 2016.

During the year since signing of the Association Agreement between Ukraine and EU, already 24 EU member states have completed the ratification process, Fig. 3. From 1 January 2016 will come into force the Agreement on the free trade zone between Ukraine and the EU. But a reform of the customs sector through the development of the new Customs Code has already conduct which was developed taking into account the provisions of the International Convention on the simplification and harmonization of customs procedures and Customs Code of the EU. 87% of customs declarations have been already issued electronically.



**Fig. 3. The countries signed the Agreement about the Association of Ukraine and the European Union**

*Source: State Statistics Service of Ukraine*

Also the changes were produced to the Tax Code which started the process of Tax Reform.

For protection of the domestic producers from the used clothing imports was developed a system of input prices. With the aim of reforming the public

procurement system the changes were produced in the basic law and the following road map was developed. On 20 September 2015 the new law "About the basic principles and requirements for safety and quality of food" will come into force. It is based on the principles and requirements of food safety that apply in the EU.

Moreover, in the European Union in formulating their requirements they come not only from the necessity of maximum protection of consumers but also avoid the unnecessary burden on business. The same approach was used while developing the Ukrainian law. The main difference of the new system from working one is the establishment of responsibility for violation of legislation requirements on food safety for the manufacturer of the product, not for the controller. Another difference is the input of a preventive approach to the control instead of dealing with the consequences. Also it is introduction the principle of traceability for business, i.e. the company at any time must have accurate information about the raw material or food product and where it was sent from the company.

The table shows the geographical structure of the goods foreign trade in January-February 2015.

**Table 1**  
***Geographical structure of the goods foreign trade in January-April 2015***

	Export			Import		
	mln. \$	in % for January- April 2014 year	The share in total size, %	mln. \$	in % for January- April 2014 year	The share in total size, %
Whole	12 496	65,4	100	11 898	62,9	100
EU	4 258	65,6	34,1	5 067	76,1	42,6
CIS	2 407	45,3	19,3	2 789	41,4	23,4
Russia	1475	39,4	11,8	1933	35,8	16,2

*Source: State Statistics Service of Ukraine*

Table 2 shows the main partners of Ukraine in export and import of goods in the 2015 year after the signing of the agreement. Table 3 shows a list of the main commodities of Ukrainian foreign trade with the EU in 2015 year.



**Table 2**

**Main partners of Ukraine in the export and import of goods in the 2015 year**

Countries	Export		Countries	Import	
	Share, %			Share, %	
	January-April 2015 year	January-April 2015 year		January-April 2015 year	January-April 2015 year
Germany	3,5	2,9	France	2,9	2,6
India	3,7	3,2	USA	4,0	3,9
Poland	5,1	5,3	Poland	5,6	5,0
Italy	5,4	5,0	Hungary	5,8	1,9
Egypt	6,1	5,1	Belarussia	5,9	6,0
Turkey	7,3	6,1	Chinese	11,0	9,2
Chinese	7,4	5,4	Germany	11,3	7,9
Russia	11,8	19,6	Russia	16,2	28,6

*Source: State Statistics Service of Ukraine*

**Table 3**

**List of key foreign trade goods of Ukraine with the EU in 2015 year**

	Export			Import		
	mln. \$	In % for January-April 2014 year	The share in total size, %	mln. \$	In % for January-April 2014 year	The share in total size, %
Whole	4 258	65,6	100	5 068	76,1	100
Base metals and products	1 123	67,0	26,4	204	56,1	4,0
Products of vegetable origin	731	53,9	17,2	232	49,6	4,6
Machines and mechanisms	597	88,1	14,0	726	62,5	14,3
Mineral and oil products	516	45,6	12,1	1397	207,5	27,6
Ready food products	283	84,8	6,6	251	62,7	4,9
Wood and products	220	87,6	5,2	30	44,5	0,6
Fats and oil	164	76,5	3,9	135	62,0	0,3
Textiles	158	80,2	3,7	148	74,7	2,9
Chemical products	151	53,0	3,5	931	68,2	18,4
Products of animal origin	35	151,8	0,8	82	53,4	1,6

*Source: State Statistics Service of Ukraine*

**Conclusions and future research** The signing of this Agreement brought Ukraine just only at the first level of European integration. Now the following countries are also at the same level: Algeria, Chile, Egypt, Israel, Jordan, Lebanon, Morocco, South Africa, Syria, Tunisia, Georgia, Moldova. Most of these countries, for the various reasons, will be unlikely ever the members of the European Union. Contemporary Europe has many flaws it suffers from the excessive bureaucracy and irrational political correctness. But the basic principles of it such as: enabling and regulatory role of government; market economy model; the guarantee of the private property right; equality before the law and inevitability of punishment for its violation; unconditional obligations; reliance on the developed capital market may be perceived by Ukraine in the process of Association. It is necessary for the Ukrainians to develop their country regardless of its membership in any international organization.

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# **RESISTANCE MECHANISM IN THE TRANSPORT SECURITY SYSTEM ENSURING**

***Tatyana Cherniavskaya,  
Igor Britchenko***

Multidirectional geopolitical influence on Ukraine in the context of inefficiency of its security guarantees, unleashed military aggression against it, critical external dependence of national economy require the invention of ways to identify our country as an equal independent partner on the world stage, thus describing the strategy for further development. However, our country is not a member of international systems of collective defense, and it must rely on its own forces, and ensure national security and defense. In this sense, the transport capacity is gaining particular importance, the level of which is determined not only by the efficiency of physically existing resources, but by general aggregate spatio-temporal opportunities of domestic transport system. To date, the transport and communication system is hardly the only sector of national economy, which is capable to become the catalyst for socio-economic growth without significant investment, a tool to achieve self-sustaining and safe level of Ukraine's development.

The history of many countries is an example of transport "putting back on its feet" devastated economy, providing a targeted and intensive development of its basic industries. By building car plants, the United States overcame the crisis of the great depression. Thanks to the development of transport, based on new technologies and construction of roads, Germany and Japan restored after World War II. Ukraine has every reason to rely on the unique geographical location and available transport capacity. Based on these circumstances, there is an urgent need to address the management and economic problems of realization of geostrategic transport possibilities of Ukraine as Transportation and Communication Bridge between the European Union and East Asia, the country's economic and political influence in the processes of integration into the new transcontinental and regional flows and socio-economic activity network (Cherniavskaya, Shvets, 2013).

Public request on the need to establish a coherent conceptual model of achieving economic self-sufficiency and national security by intensifying "growth points" recourse, which can be domestic transportation and communication system, actualizes in-depth research.

National security is ensured through a single state policy in all spheres of life, a system of economic measures, political and organizational measures adequate to the threat and dangers of the vital interests of an individual,

society and state. In view of the fact that the national security system (NSS) is a multi-component, logically, there is a need for a special subsystem allocation, the purpose of which would be the system functioning and development ensuring, i.e., in ensuring the viability of its backbone elements, in particular national interests of an individual, society and state. Such a system is the system of ensuring national security.

We believe that the exclusive concentration of scientific attention on the national security system itself will be superficial without deep study of NSS destabilization. Destabilization and dysfunction of the national security system reflects the other side of the operation and sustainable development of the State. Therefore, examining processes of socio-economic system threats-resistance is relevant and meaningful in this context (Lipkan, 2003).

The leitmotif of the views of the author of this publication is based on the fact that the national security system office in view of the existence in geoinformational environment continuing potency of destabilization of varying intensity should be based on a synergistic system unity: and the national security system, and the system of risks and threats, which could not be seen separately from the system itself. I.e. we underline the absolute importance and significance of effective mechanism for ensuring transport security built-in system reactivity and resistance forming, i.e. the system of response to the threats and dangers of different types and levels of scale, as well as confront the destructive influence and TCS self-preservation (Chernyavskaya, 2015).

Summing up theoretical views of domestic and foreign scientists we can offer authentic interpretation that reveals and fits into the self-sustaining development context: transportation security is security of the vital interests of a man and a citizen, society and the State (TCS service consumers), objects and subjects of transportation and communication systems, which provides a self-contained development, timely identification, prevention and neutralization of real and potential threats to the national interests.

The author's scientific research on the interpretation of the essence of resistance system and mechanism in the context of the development of complex systems study has proved that the study of this phenomenon mainly took place in biology and medicine, particularly in immunology (Lavrov, 1951; Lebedev, 1960; Avedisova, 2004; Ashmarin, Stukalov, 1996; Kazakov, 1998; Liapidevskii, Seleverstov, 2000; Kostiuk, 1977; Anohin, 1979; Lundborg, 2000; Poo, 2001; Chernyavskaya, Shvets, 2013). A Soviet scientist, pathophysiological, M.M. Sirotinin occupies the decisive role in this direction of research studies. His unfinished monograph "Resistance and Reactivity Evolution" (1966), published only after his death, is of important theoretical significance (Sirotinin, Petrov, Chernuh, 1966). For a wealth of

factual material and credibility of generalizations in the field of the evolution of different kinds of reactivity his work can hardly be overestimated. The main tasks of this problem, the scientist identified as follows: «Explore the reactivity, to be able to manage it, to successfully combat diseases, is one of the main tasks of theoretical and practical medicine " (Sirotinin, 1981). The monograph presents the results of the scientist and his disciples' research concerning the different forms and types of resistance and responsiveness in comparative evolutionary direction. It should be noted that the research in this author's plane has not lost relevance today; it is a source of ideas for scientists of modern times.

According to our vision, the phenomenon of resistance is of direct relevance to the development of complex open systems, in particular in the socio-economic system. Scientific exploration of the author found the reference to that term in the works of L.G. Melnik (Chernyavskaya, 2015). So, in his work "The Scientific Basis of Self-Organization of Economic Systems" the scientist identified the following indicators of system security:

- endurance (ability to retain functional capacity);
- tolerance (ability to perceive different environmental options);
- resistance (ability to resist environmental factors);
- stability (ability to maintain properties unchanged);
- resistance (ability to maintain viability);
- vulnerability (inability to confront various factors);
- elasticity (ability to restore functional features).

At the same time, an in-depth research of this phenomenon in the context of the development of socio-economic systems, have not yet been carried out.

The term "resistance" is derived from the Latin language and means steadiness, resistance, and ability to resist anything. Concurring with the point of view of M.M. Sirotinin, we believe that precisely because of the high level of reactivity (the ability to quickly respond to the impact of external and internal factors) and resistance (steadiness), the system is capable of ensuring the safety of its development.

To deepen theoretical and methodological bases of socio-economic system resistance we offer to explore its genesis within the national security system.

Rezistenciogenezis allows you to get closer to understanding: how in the context of rapid globalization processes, which are simultaneously threats and potency for the further development of socio-economic system, in the face of immense geo-information space to achieve a reasonable balance in providing self-sustaining and secure level of development.

According to our vision, rezistenciogenezis is a process of developing scenarios of resistance in the interaction of past, present and future states of socio-economic system. In other words, it is an evolutionary metamorphosis resistance experience gained by socio-economic systems for its self-defense and survival.

To the extent that, the more the formation of the past is left behind and the total volume of acquired knowledge on ensuring the safe development increases, a complex new area of knowledge on national security-naciobezpekoznavstvo becomes increasingly important.

The term "naciobezpekoznavstvo" has been proposed by V. Lipkan (Lipkan, 2003, p. 120-123; Lipkan, 2002, p. 142-148; Lipkan, 2002, p. 19-21; Lipkan, 2003, p. 57-60), he proved the need to introduce it as the general theory of the national security term. Actually, the term derives from the combination of the Latin word natio-tribe, the people and from the Ukrainian words safety and znavstvo-science, theory about security. Naciobezpekoznavstvo is the new integrated scientific direction, combining a number of sciences and private theories, which explores the specific theoretical and practical problems of national security in accordance with the individual spheres of life. We are confident in the apparent organic unity and knowledge of resistance socio-economic system embeddedness in general naciobezpekoznavstvo theory.

It should be noted that the current state of the national security system is characterized by practical incapacity and failure to adequately confront dangers and threats. In particular, we are talking about the NSDC low functioning efficiency and the discrepancy in all functions of momentary geopolitical realities.

In our vision, the main problems of desingression system of national management system not only in our country, but in many others are:

- inconsistencies in the current system adequately respond and resist to implementing the newest forms of dangers and threats for geo-information society;

- lack of national security studies for the development of the destabilizing factors and manage threats and risks inclusion in the system.

Specified mismatch becomes more perceptible in the political and economic crisis, deficiency of influential state image and lack of adequate methodologies for ensuring safe development realities, which is fatal for Ukraine. Today a conceptual integration with the aim of objective synthesis of the theoretical basis for the establishment of an effective system of national security, ensuring the national interests, foremost of which is economic self-sufficiency, is absolutely essential.

The transparent idea of the author of this publication is that the national security system office in view of the existence in geoinformational environment continuing potency of destabilization of varying intensity should be based on a synergistic system unity: and the national security system, and the system of risks and threats, which could not be seen separately from the system itself (Chernyavskaya, Shvets, 2013; Chernyavskaya, 2015, p. 68–75; Chernyavskaya, 2015, p. 112–121; Chernyavskaya, 2016).

And, consequently, relevance and importance of rezistenciogenezis research is obvious, owing to a number of factors on theoretical and practical levels.

Theoretically, the following factors can be identified:

- lack of a coherent system of knowledge on national security, which would describe the mechanism of the resistance of the socio-economic system;

- lack of common approaches to the formation of integrated problem creating and problem solving systems and mechanisms in the field of national security;

- lack of management resistance knowledge in the system of national security;

- lack of a common vision and approach to the specialists in the field of macro managers sistemologists in national security training.

On a practical level, it is necessary to focus on the following factors:

- escalation of threats and dangers that have become global in nature and require the invention of adequate mechanisms for confrontation (resistance);

- approaches changing to security management in the context of threats resistance in geo-information space; atypical mutation and hybrid character, an increase in the number and magnitude of such dangers and threats implementations should be considered;

- availability of real threats to national security, particularly to its constitutional order, territorial integrity and state sovereignty that should accelerate the establishment of appropriate research centers, services, communication and management formulate their rapid response mechanisms for realization of algorithms of destabilization;

- low security policy culture at all hierarchical levels, which makes inspirations to external forces intentions to destabilize national security;

- lack of informational, financial, technical and institutional resources for the establishment of an effective resistance system within the overall system of national security.

Getting started with rezistenciogenezis research we must first get a convincing answer to the question: What comes first in the resistance - a process or a system? Posing this question here is not scholastical, but

conceptual in nature, recognizing the fundamental basis for the development of a theoretical concept, namely the logic and sequence of its composition and content.

This is of particular importance because the dilemma is still an unresolved -under the rule of traditional allegations of systematization of the world the fact, as to the first system is not clearly proven. In search of the answer the scientists came to the conclusion that the manifestations of the system start, identified and defined procedurally as the first protosystem formation, in which, in turn, all subsequent processes of its formation, functioning and development can then be performed.

Within this framework, the author's position, the essence of which is that the notion of resistance is generally regarded as directly linked, including investigation of cause and effect, process and system, should be noted. This is the correlation of the two main forms of resistance that reveals its basis for resistance as a process is primary, and resistance as a system is secondary because it is the result of a process of adaptation (rehabilitation), compensation and protection.

Such logically built conclusion stipulates all further approach to the procedure and system analysis of rezistenciogenezis to build a major theoretical constructs from the standpoint of the process on the system primacy.

Procedure rezistenciogenezis analysis involves clarifying the circumstances of the resistance, its formation and development. All this leads to and updates the search for an answer to what the intrinsic nature of the process of resistance is.

Theoretically, the resistance as a process can be objective and subjective and, therefore, yields to different results. Moreover, the development of civilization, increase in the number of hazards and threats, evolution of their form and nature generates evolutionary changes of the resistance process. First of all, it is reflected in increasing human influence on dangers and threats system from microbial to outer level. It follows that resistance forms and develops dual objectively subjective nature of occurrence, formation and development process to ensure national security.

Security in the socio-economic system is achieved through the conscious and organized human activity. In fact, security activities consist of the following stages: Prevention of risks; risks containment and neutralization; termination; localization of combat; fix; threats destruction (elimination). From the standpoint of national security as a condition of protection review, it is logical that this condition must be created, evaluated and anticipated. Thus, the essence of national security support is the focused actions of the subjects in identifying, preventing and combating various

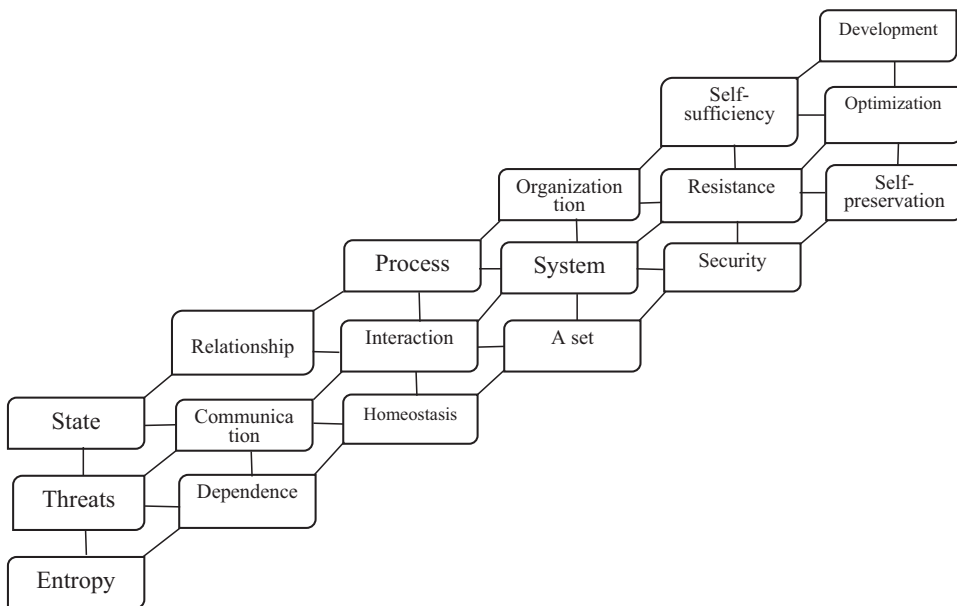


dangers and threats to socio-economic system. It is these proceedings, which are at the heart of the national security system, which the author described as a resistestentnost mechanism.

So resistance is the backbone subsystem of national security system, which performs the role of neutralizing threats of desingression and rock fluctuations in the socio-economic system.

In line with this, resistant system NSDC is a system of theoretic-methodological, regulatory, organizational and managerial information analysis, resource (financial, personnel, logistic, transport, military and other) elements and measures aimed at ensuring confrontation and protection of socio-economic system with a view to self-sufficient and safe development.

A general description of the occurrence, formation and development of processes and systems for resistance, substantive and consistent observation of rezistenciogenezis is presented in an integrated model in figure 1. This configuration model opens and positions the content of a resistance evolutionary cycle in the process and the system terms.



**Figure 1. Configuration of rezistenciogenezis integrated structural-process model**

*Source: author's own development*

Structural-process model of rezistenciogenezis combines both vertical, horizontal and diagonal ties and functionally-distributed dependencies formed in an integrated, holistic and deployed basis.

Described above allows to select two main approaches to the understanding of the resistance.

The first approach stems from an objective understanding of resistance as an expression of an objective nature desire of the system for self-preservation under a variety of negative impacts. It is in this context that the resistance is understood as a property (attribute) of the system. Appropriately resistance can be considered as a form of the system self-preservation, which allows it to maintain its integrity.

The result of the identification of resistance with self-preservation is the entropy explanation of resistance and homeostatic explanation of resistance.

Entropy explanation of the resistance is based on the understanding of entropy as a measure of internal disarray in the system. Resistance as a resistivity to the destruction of the system should be seen as a definite dependence of the resistance from orientation, dynamics and processes of entropy scale.

Homeostatic explanation of resistance is based on an understanding of homeostasis as a set of reactions to eliminate or limit the actions of various internal and external factors, violating a relative dynamic stability of the composition and properties of internal environment of the system. Resistance (survival) of the system is understood here as a steady state, resulting from the adaptation (perhaps further mutations) and harmonization. As a rule, the survival of complex open systems is determined by the internal and external environmental balance establishment. In biology, for example, establishing such a balance is achieved through proactive adaptation.

Scientific position of the author is to approve that the resistance due to the effect of systems aspiration for self-preservation to survive and to achieve this, it uses its full potential (resource) is a cross-cutting function of system development. In other words the resistance as a function of self-preservation is a cross-cutting for all phases of the system life cycle for all structural components at all stages of its reproduction.

The second approach is based on the subjective nature of the phenomenon of resistance. Subjective understanding of resistance is the basis of specific and valuable definitions of resistance.

Comprehension of the resistance nature in its entirety is determined by the withdrawal of unilateralism in the unity of form and content, the unity of the subject and nature of certainty, forming a holistic view of the resistance phenomenon.

The resistance phenomenon can get its conceptual completeness in reflecting it as a specific form of realization of natural existence in human existence that determines a reflective value of human self-determination to the need for self-preservation as genetic properties. This interpretation reflects

the duality of natural phenomenon resulting from the resistance being the unity of universality of nature and characteristics of forms of self-preservation manifestations in human activity.

Resistance can be explicated as a protective mechanism for the system. In order to realize its value, you must understand how it manages to keep the system from destruction. Dialectical relationship between self-sufficiency-resistance-safety of the system is obvious.

So, the socio-economic system self-sufficiency is treated as the target function of national security. In favour of self-sufficiency, it is necessary that from  $2/3$  to the maximum possible 1 (or 100%) of functions were implemented in the structure of the system. Therefore, the limits of self-sustaining development or "corridor of self-sufficiency" are from  $2/3$  to 1, it can be argued that the socio-economic system will be self-sufficient, if  $2/3$  of its needs would be met through domestic sources (potential).

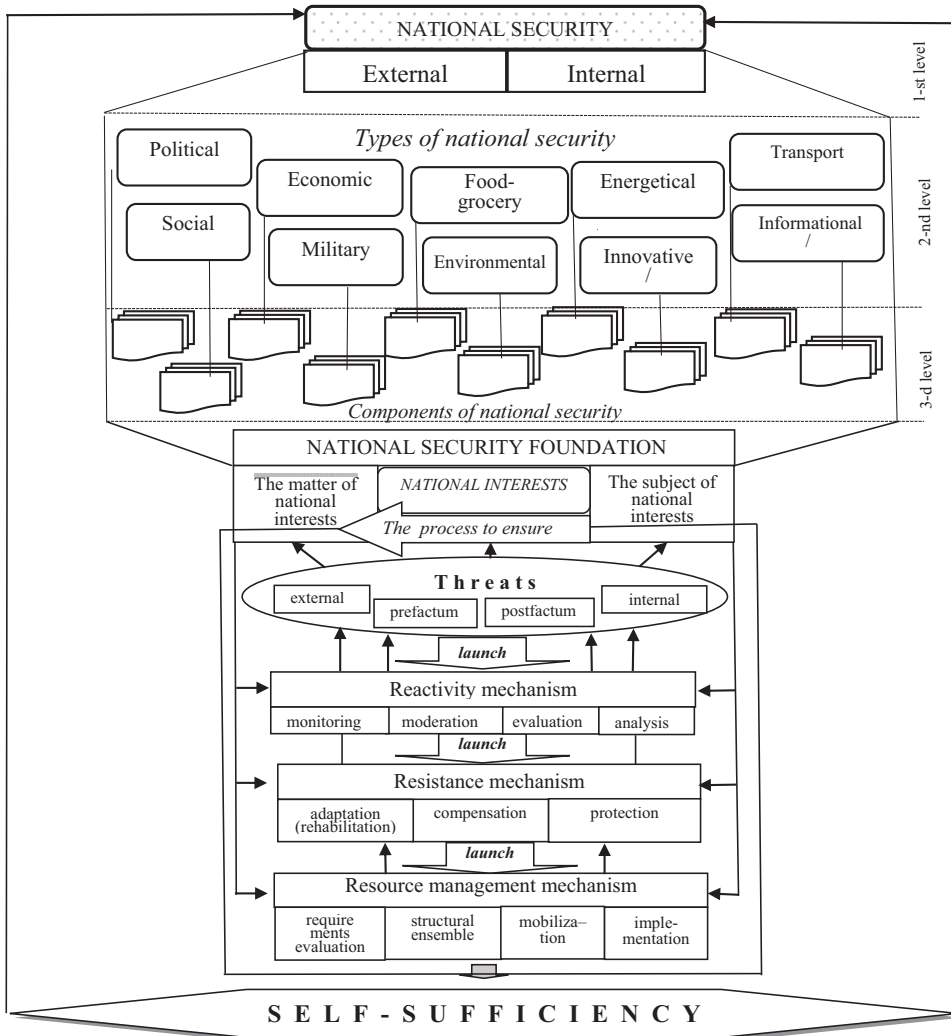
It is logical that the self-sufficiency level impacts the level of resistance in direct ratio to the system - by increasing the self-sufficiency level the level of resistance is relatively increased and vice versa.

It should be noted that resistance is the attribute property of the socio-economic system, which follows from its openness. Openness is sensitive to both external and internal impulses and, accordingly, provides feedback. Indicators of intensification of reactivity in the system are the violations of the options order as a result of the actions of the governing parameters -a priori threats (prefactum) which have a chance of negative influences and a posteriori threats (postfactum), which have already led to losses and harm due to causing adverse effects. Changing of these parameters leads to the aggravation of the system. Rebalancing of the existing order occurs in this mode. Security management should be based essentially on the reactivity mechanism. In a chain reaction reactivity mechanism "starts" the resistance mechanism, the main modules are: adaptation (reintegration), compensation, and protection (fig. 2)

It is the resource availability makes it possible for resistant resistance to security threats and its quantitative-qualitative adequacy reflects the self-sufficiency of socio-economic system ("immunity"). Indeed, the lack of self-sufficiency or almost total external resource dependency of the system will characterize immunological tolerance-a condition opposite of immunity. This will mean the loss or weakening of the system's ability to respond to threats, there is a lack of immune response. Such a system is open to external aggression.

The result or the product of the resistance is structural and/or functional updates. The resistance mechanism aims to generate the most adapted to the environment of the system structure. This task will involve a balance between

internal capabilities of the system and external requirements. In cases where the ravages of posteriori threats currently reflects the process of adaptation to the system disturbances. That is, rehabilitation is a complex of measures aimed at restoring the lost stable state, which contributes to the adaptation of the system to the new conditions, thus demonstrating its resistant plasticity.



**Figure 2. The resistance mechanism in the system of self-sufficient and safe development of the socio-economic system ensuring**

We believe that resistant plasticity is the ability of the socio-economic system to structural and functional transformation, with a view to strengthening the protective properties. It is implemented through:

-formation of new combinations of effectors and strategies for the implementation of the tasks;

-sprouting (from sprout-sprout, grow)-forming a multitude of ways and management relationships of equilibrium; the process of recovering lost channels of interaction of structural elements of the system by the emergence of new, more viable and adapted to new conditions;

-unmasking of security threats-the ability to proactively respond to approaching risk by grouping (regrouping), activating of the special operation mode that will quickly navigate in the situation and establish communication with all the structural elements of the system.

The term "plasticity" is derived from the Greek word *plasticos*, meaning "sculptural". The scientific study of plasticity is mostly engaged in medicine when exploring the nervous tissue capabilities to change structurally functional organization influenced by exogenous and endogenous factors. So, the human body as a single complex functional system is characterized by a relatively dynamic internal stability and the sustainability of major physiological functions. Compensatory processes, as the leading factor of organism's adaptation after injuries that are typical for various organs and tissues, but are most pronounced in the nervous system and are regarded as the plasticity of the nervous system (neuroplasticity).

Analysis of the scientific publications on this subject proves similarity leakage resistance mechanisms in biological and socio-economic systems.

We can approve that almost all of the structural elements of socio-economic systems have some level of resistant plasticity. We believe that the highest potential of resistant structural plasticity belong to the system segments with the highest functionality and multifaceted relationships that contributes to relatively rapid restoration of stable functioning state in cases of relationship channels damage (destruction) both within the external and internal environment.

Thus, plasticity is a versatile process aimed at system self-preservation in constantly changing internal and external environmental conditions.

In the basis of interaction effects of exogenous and endogenous factors on the socio-economic system development are its high sensitivity (responsiveness) and the ability to change its morphological and functional characteristics as a result of such influence. In this sense resistant plasticity is formed as a result of adaptive responses and presents a range of options changes structural and functional organization of the system by electoral mobilization, collaboration and integration elements resistant structures (structural ensembles, control centers).

Plastic adjustment intended to adapt the socio-economic system to the new functional criteria in response to the factors of destabilization, thus

providing the optimization of its operation. It turns out that resistant plasticity is a form of adaptation.

From the point of view of resistant plasticity as system adaptation (rehabilitation) to destructive influences of the environment in order to optimize its functioning the concept acquires a more specific sense. In this sense, resistant plasticity of the socio-economic system is the ability for flexible changes in effective targeting links between structural elements of the system in the regulation of processes of adaptation to the changing threats of the environment to optimize the performance.

Comprehensive analysis of research reports on issues of national security proves two types of security:

- 1) safety approval as the development and strengthening of the system and support of its nature;
- 2) security as the fight against specific risks, resulting in a supported system.

As a result, two strategies can be implemented to ensure security:

- approval strategy, security strengthening, based on self-sufficiency of the system;

- protection strategy (negation of avoiding threats and dangers), in which the basis for security is to identify hazards and to counteract them, and system safety approval is the result of preventing the threats and dangers.

Security in the socio-economic system is achieved through the conscious and organized human activity. In fact, security activities consist of some sequential stages: prevention of risks; risks containment and neutralization; termination; localization of combat; clearance; threats destruction (elimination). From the perspective of National security as State security research, this condition must be created, estimated, anticipated.

Thus, the essence of national security support is the focused actions of the subjects in identifying, preventing and combating various dangers and threats to socio-economic system.

It is logical to offer a working hypothesis which involves separation of units in security mechanism to identify and prevent threats, which is resistance and unit resilience to the system hazards, which manifests itself as the hazards elimination. The first administrative unit is continuing the implementation of arbitration or moderation of information about possible threats to safe development-system reactivity. The second unit is to oppose destructive influence of destabilizing factors-resistance.

The correctness of the assumptions is suggested to be studied on transport and communication system (TCS). So, we believe that, of all the structural segments of the socio-economic system one of the highest levels of reactivity is TCS through the ability to respond quickly to negative stimuli

through the well-established system of communications and relationships. Reaction to the significant influence of destructive factors triggers socio-economic system resistance in which the TCS serves as a tool for sustainability and security threats.

Instrumental quality of TCS in the self-preservation of the entire system from the destructive influence of factors of destabilization provides territorial configuration of the supporting network infrastructure, transport system, system of public administration for national security means of transport. The resistance mechanism is driven by management activities of relevant entities.

Resistance management is a deliberate moderation and coordination of resources to eliminate or modify the target of destabilizing factors. Efficiency in the resistance management depends on the rate of absorption of not absolute, but structural and functional resource ensemble in the right place and in a certain amount. Resource ensemble composition depends on the nature and scope of the threats to security.

The resistance mechanism of the socio-economic system involves the deployment and implementation of an appropriate resource to the system "pain points" to absorb the impact of the destructive security threats and enhance its self-sufficiency-"immunity".

From what has been said it follows that the security condition as such arises due to the resistance of the system, i.e. a system which provided with "immunity" is able to resist and counteract the aggressive effects and destruction.

Moreover, it is logical to assume the multiplicative nature of resistance activity.

That is, thanks to the high level of resistance, for example, in the transport sector, an increase in resistance of the other paired branches and chain reaction of the entire socio-economic system is ensured. In turn, national security is based on a resistant components platform. The peculiar process of "effect of circles on the water arises. Moreover, the more and wider becomes the process, the less intense the effect of the system perturbations.

Resistance multiplier in relation to security represents the relationship between the increase in the (reduced) system resistance and change in the security status of the socio-economic system. In an ideal form of self-sufficient socio-economic system, that is, that from 2/3 to 1 of all requirements are carried out by domestic resource potential is characterized by high resistance and high capacity to withstand the ravages of external and internal destabilizing factors, and it shows that all the security conditions and secure development. High level resistance is based on the management, driven by such institutional structure of the system, such relationships

between its components that will ensure its invulnerability to eliminate targets actions of destructive factors.

Thus, the resistance in the development of socio-economic system appears as:

- 1) "genetic property" of the system to survive (to save itself from destruction);
- 2) cross-cutting function of socio-economic system development;
- 3) socio-economic systems self-sufficiency indicator;
- 4) a form of structural elements of the system organization and interaction, ensuring its viability and resistance to the devastating effects;
- 5) a mechanism to ensure national security.

Studies have shown, the category of resistance is a multicomponent, multicomposet concept, and therefore it should be considered as the sum of individual components, combination of which forms its overall level.

In summary, it must be recognized that the category "resistance" in the context of socio-economic development is a more complex and diverse phenomenon and has not yet posted the importance of academics and practitioners.

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