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International Finance Actual Research Problems in Eastern Europe

editors

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Introduction

Post-crisis conditions of world economic development are a serious challenge for financial management at macro- and microeconomic levels. In particular, problems of the European Union market development are aggravated by gradual integration of countries of Eastern Europe and the competitive enterprises of BRICS countries. Therefore, problems of timely implementation of financial innovations such as the strategic value-based financial management and the effective approaches to financial resources management, are the most urgent in nowadays corporate finance.

The presented monograph is devoted to innovations in financial management of activity of economic subjects of the European countries. As any phenomenon, financial innovations are often connected with some risks, and sometimes even provoke financial crises. Therefore, problems of innovative development demand in-depth scientific studies, especially in such difficult sphere as finance.

This monograph can be useful for financial specialties teachers, graduate students and other financial experts.

We would like to thank all authors for their valuable contribution. We are also grateful to the reviewers for their valuable ideas and insightful comments. We wish to thank everyone who contributed to this monograph during its development.

We hope for continuation of our successful collaboration.

Roman Igorevich Zavorotniy
Małgorzata Plechawska-Wojcik
Editors

1

PROBLEMS OF FORMATION OF STRATEGIC FINANCIAL VALUE-BASED MANAGEMENT SYSTEM

The author studies essence of system of strategic financial value-based management of the enterprise and considers features of creation of such system by using the example of organizational structure of oil refinery as "mature" enterprise with developed client base and with a stable source of raw materials. Also the author compares functional obligations of separate divisions during strategic and tactical business management.

1.1. INTRODUCTION

The role of system of strategic financial value-based management is very important for development of the enterprise, because correctly constructed system of administration of all economic processes provides the coordinated development of the enterprise not only for short-term, but also for long-term prospect, to achieve the approved long-term goals and to perform market mission. The effective strategic financial value-based management system allows to avoid the conflicts of responsibilities among some organizational departments of the enterprise; coordination of actions for achievement of specific goals by using of limited resources allows to avoid production idle times, also allows to establish financial balance and to minimize negative influence of environment.

1.2. ANALYSIS OF RECENT RESEARCH

Urgency of problem of introduction of strategic financial value-based management system into activity of the Ukrainian enterprises confirms the historical analysis made by Staryuk P. Y. So, the scientist allocates four stages of evolution of corporate owners’ main goals in a modern history of Russia [23]: stage 1 – destruction of the Soviet system of property, start of mass privatization by organization of the mortgage auctions (1987–1997); stage 2 – redistribution of property and its restructuring (1997–2002); stage 3 – property separates from management (2002–2007); stage 4 – shifting to value-based management system (2007 and until now). Today the Ukrainian stock market is the least developed in comparison with Russian and Polish. Urgency of introduction of value-based management depends on opportunities of shareholders to quickly sell their shares (i.e. is defined by a level of development of sovereign stock market), that's why in Ukraine the value-based management system has no experience of practical introduction yet. However, with the gradual restoration of the financial market from consequences of global financial crisis such management will become more important.

Thus, all arguments confirm urgency of introduction of value-based management system into activity of the Ukrainian enterprises.

1.3. STRATEGIC VALUE-BASED MANAGEMENT SYSTEM

It is necessary to define essence of strategic value-based management system (particularly, a specification of types and of sequence of administrative processes which make this system, differentiation of powers of separate organizational departments) for correct creation of a theoretical basis of its organization

In the encyclopedia the term "strategy" is characterized as "the general plan of activity which is defined by reality at the current stage of development of the subject" [8]. The essence of strategy is defined by many authors; also in each work it has some differences. So, among all authors it is, in our opinion, the most great group of scientists who consider strategy as the consolidating plan of development of the enterprise (see Table 1.1).

Table 1.1 Definition of the strategy as enterprise development plan in works of different authors

Authors	Definitions
A. Thompson, A. Strikland Jr.	In a general sense, strategy is a management plan of a firm which is directed on strengthening of its market positions, satisfaction of consumers and achievement of main goals [24]
M. Meskon, F. Khedoury, M. Albert	Strategy is the detailed comprehensive complex plan which requires all actions for making the corporate mission and main goals [13]
P. Lynch	Corporate strategy is characterized as definition of a main goal of the enterprise and of a complex of plans and actions to achieve this goal [29]
R. Fathutdinov	Strategy is a program, the plan, a general course of the subject of management for achievement of strategic objectives by it in any sphere of economic activity [26]

K. Redchenko	Strategy is a comprehensive plan of activity of the enterprise which is developed by using creative, scientific reasonable approach and is intended to achieve the long-term global goals of the enterprise [19]
B. Henderson	Strategy is a careful research of the plan of actions to develop a competitive superiority in business and to increase it [28]
H. Mintzberg	Strategy characterizes the plan, dexterous reception, the principle of behavior or the steady scheme of actions, a position of the enterprise and prospect of its development, and also their interrelations [14]
V. Sladkevich	Strategy is future activity for the long-term period, it is directed on achievement of some goal [21]
B. Karloff	Strategy is the generalized model of actions which are necessary for achievement of specific goals by coordination and distribution of resources of the company [9]
A. Mishenko	Strategy is a business concept of the enterprise for a certain strategic prospect, which has a form of the long-term program of specific actions to implement this concept and to create competitive advantages [15]
S. Levicki	Strategy is a set of documents and of concepts which form the plan of the organization for the future [11]
A. Chundler Jr.	Strategy could be defined as creating the main long-term goals of the enterprise, and also formation of the plans about its actions and distribution of resources which are necessary to achieve the goals [27]

On a basis of the definitions specified in Table 1, and of the different positions of other authors (such as D. van Maurik [30], P. Doyle [6], I. Ansoff [2], Y. Malenkov [12], M. Porter [18], K. Omae [16] and O. Dunaev [7]) we can formulate own definition of essence of the concept "strategy of the enterprise": *strategy of the enterprise is the generalized plan or a complex of the basic principles of its economic activity, developed by using of scientific reasonable creative approach, to achieve the main medium-term and long-term goals of perspective economic development by using of certain resource, stochastic or other limits*.

At the process of creation of corporate strategy of the development it is necessary to understand its essence and certain characteristics. Let's define them:

1. According to its essence, strategy is a plan with accurately certain actions or the principles of behaviour of some subject (of the enterprise, for example).
2. Strategy of the enterprise is the highest-level plan which covers management of the enterprise as a whole and generalizes plans of development of separate organizational units and the business directions.
3. Strategy is a plan or a complex of the principles of behaviour which is developed by using of reasonable scientific creative approach.

4. The main task of strategy is to achieve the target condition of the subject (enterprise) in the future.
5. Strategy as the plan of achievement of certain goal is a set of limits in: a) resources which are given to achieve this goal, b) some under-targets. In case of lack of any limits strategy doesn't exist because then the enterprise by any actions reach all goals.
6. Main goals which are in a strategy basis, don't contradict market mission of the enterprise.
7. Strategy provides not only achievement of the final result, but also strategy provides the list of the main methods to achieve this result (that is, formation of strategy is carried out by association structural functional and process approaches).
8. Strategy covers the medium-term or long-term period, also strategy can't be accurately minimum limited in time (because it isn't known, upon termination of what maximum term tactical actions become strategic).
9. Strategy has some stability during the medium-term or long-term period, because any enterprise can't be absolutely flexible relatively to environment changes. Also strategy includes two elements: the detailed purposeful actions and adaptive reaction to not predicted changes of environment [24]. So, the first element of strategy is responsible for its stability in time.
10. Strategy is directed to medium-term and long-term prospect, therefore to create strategy, it is necessary to make the approximate forecast of the main most expected changes of environment. In other words, strategy as the plan doesn't provide opportunity accurately to predict the future; strategy is created by using of very approximate indicators. When action of strategy comes to an end, often the actual results differ from planned in strategy.

However, the most part of the characteristics (which are specified on top) of the concept "strategy" completely corresponds to characteristics of "tactics" term. To differentiate obligations of structural departments of the enterprise in systems of strategic and tactical management, we should characterize distinctions among the concepts "strategy" and "tactics".

The encyclopedia claims that tactics is receptions, ways of achievement of some goal, a way of behavior of some subject [5]; also economic tactics is a short-term economic behavior, the way of economic actions of the subject during rather short-term period [5, 8]. Therefore, strategy and tactics of the enterprise have the same next characteristics:

- are set of corporate economic actions or principles of behavior;
- economic actions or the principles of behavior which are caused by the main long-term goals of corporate development and market mission;
- process of development and realization of strategic and tactical actions has a creative component (corporate tactics has a bigger weight of templates);
- responsibility of the same organizational departments for creation and realization of strategic and tactical actions.

The last point of this list needs to be confirmed by creation of graphic model of responsibility system during realization of strategic and tactical actions of the enterprise. For this purpose in Figure 1.1 we illustrate top of the organizational structure of PJSC "Lukoil – the Odessa Oil Refinery" for 2011 (full scheme of the structure is very wide).

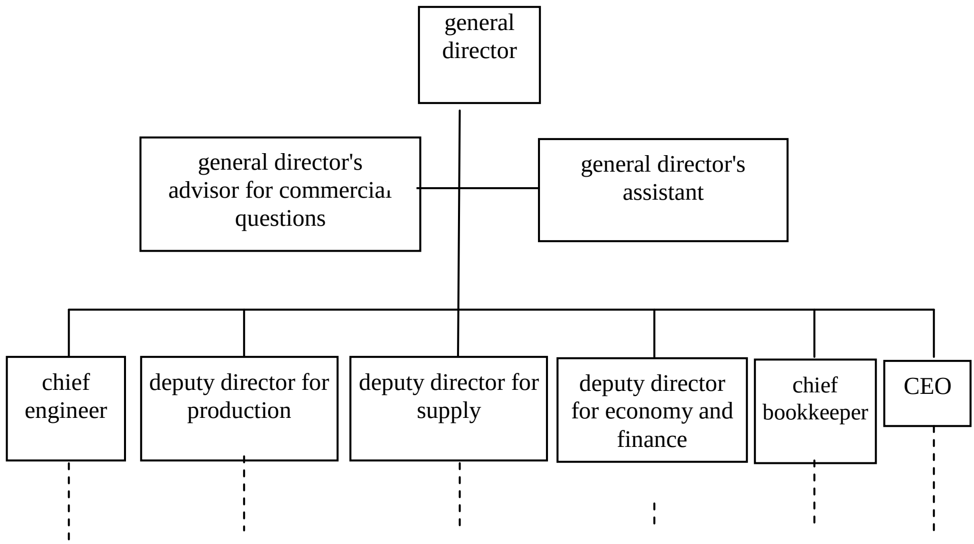

Fig. 1.1. Top of the organizational structure of PJSC "Lukoil-Odessa oil refinery" for 2011 [17]

The enterprise has 50 departments therefore for simplification we united some groups of departments into consolidated economic services (divisions) by such their similar responsibilities: chief engineer – technological service, deputy director for production – production service, deputy director for supply – supply service, deputy director for economy and finance – financial planning service, chief bookkeeper – financial accounting and audit service, CEO – HR and administration service.

To make model, it is necessary to know that the supply service is responsible for purchase of raw materials and equipment, and also is responsible for sale of the made oil products. With the purpose to formalize the economic operations at the enterprise and to order mutual submission of departments, in Figure 2 we should design functional model of business processes by using the IDEF0 standard.

Cells A01, A02 and A03 specified in Figure 1.2 characterize sequence of an operational cycle of oil refinery, which begins by process of transportation of raw materials to the store and then – to technological shops № 1 and № 2 (A01 cell) and terminates when supply service sells made oil products (A03 cell).

M. Scott tells, that activity of these three services corresponds to key links of the "value creation chain" (see Figure 1.3) [22].

Also, as well as in Figure 1.2, activity of services of planning, the personnel and accounting and audit (A0, A04 and A05 cells) it is possible to place both in top lefts, and in rights bottom corners of the IDEF0 model. This may be described by the fact that functional obligations of these services include administration by continuous working of the main value creation chain.

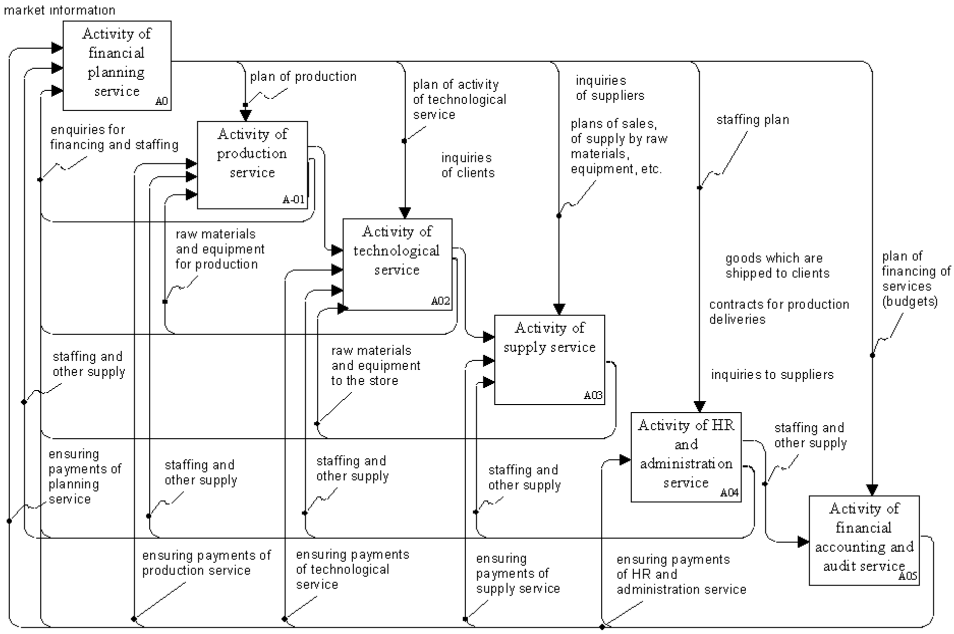

Fig. 1.2. Model of economic activity at the PJSC "Lukoil – the Odessa Oil Refinery", constructed by using IDEF0 model on the basis of organizational structure of the enterprise

Many authors have an opinion that creation and control of strategy execution take place at the highest level of organizational structure of the enterprise. However, on a basis of Figure 1.2 it becomes impossible to claim unambiguously that these functions are executed at the level of Board of directors or of planning service (A0 cell). It can be described by that M. Scott and I. Blank in structure of the enterprise allocate separate strategic economic units (further – SEU) which characterize some business directions [3, 22]. It means that activity of each component of the “value creation chain” (A01, A02 and A03 cells) can cover functioning of one or several SEUs, because, for example, control of execution of strategy by these services can take place not only at the level of financial planning service (A0 cell). For example, the technological service of the enterprise (design department or department of medium-term and perspective development which both form the technological service) can cause creation of new perspective directions of business (SEUs). In other words, the technological service can create preconditions for correction of corporate strategy and for supervising efficiency of observance of some strategic reference points by other economic services.

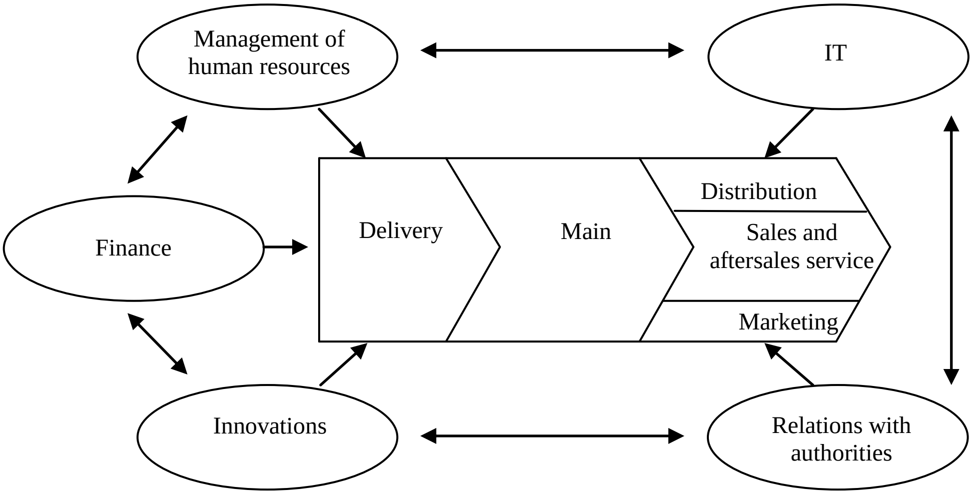

Fig. 1.3. The value creation chain of touristic airline [22]

The functional model (see Figure 1.2) confirms conclusion by Akoff R. [1] about relativity among strategic and tactical management for some organizational divisions of the enterprise. For example, the strategic plan of department of methodology and automation of business processes which provides gradual integration of systems of automation of economic and registration operations, can be tactical in relation to the whole division of the enterprise. In other words, gradual introduction of automation of economic and registration processes is the tactical method in relation to achievement of a strategic goal to minimize the production expenses.

The viable system model (further – VSM) by Beer S. [4], confirms a hypothesis that development of strategy has to be made at the highest level of organizational structure. The scientist presented system of interaction of corporate divisions which is similar to functioning of system of neurophysiological management by human body (see Figure 1.4).

On the lefts fragment there is circles which are marked "A", "B", "C" and "D". These circles characterize some SEUs of the enterprise, i.e. they are its subsidiaries (some business directions). The model provides that the part of production of each SEU is goods in the market (thus there is an interaction of each SEU to environment), and the rest of production is consumed by operational cycles of other SEUs.

Each of corporate structures which is marked "1A", "1B", "1C" and "1D", carries out functions of control and operational planning to each SEU which corresponds to it. By analogies to human neurophysiological system, set of these control structures (in the lefts fragment it is marked as "2") carries out functions of sympathetic system (sympathetic system processes signals which arise at process of interaction among muscular, cardiovascular and of other systems of the organism at process of human activity in environment).

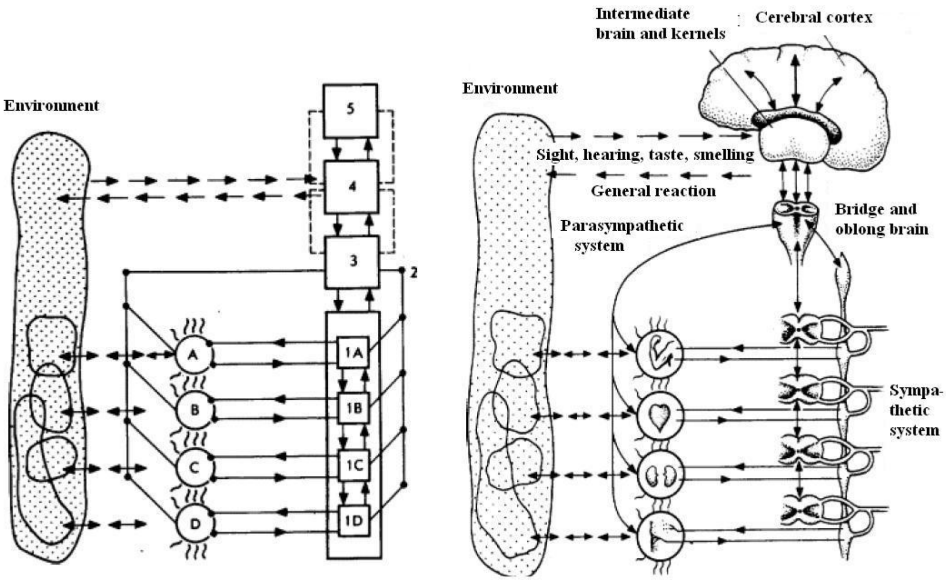

Fig. 1.4. Comparison of two-dimensional system of neurophysiological management by human body (on the right) and the automated control system for the enterprise with four subsidiaries (at the left) [4]

The system "2" has to stabilize production conditions when some changes could happen (for example, when changes the plan of orders of a certain SEU that will affect production of other SEUs). Also the system "2" has to adjust feedback which means delivery of information about some changes to higher levels of organizational structure.

Activity of system "3" (see the lefts fragment of Figure 4) includes a control (audit) and regulation of expeditious development of the business directions. The purpose of this activity – balancing of further economic development of all enterprise and, particularly, this activity consists in updating of operating financial plans (budgets) of each SEU's activity according to certain environment changes. In human body the system "3" corresponds to the bridge and an oblong brain. Thus, in the lefts fragment of Figure 4 the communication of systems 3-2-1 is identified with the central (somatic) system of human body (see the rights fragment of Figure 1.4).

The system "4" of the enterprise is responsible for research of the current and perspective changes of environment. For example, it corresponds to activity of marketing department and R&D department. Thus, economic information arrives from system "3" through the system "4" prism to the highest level of organizational structure, that is a system "5". There the strategic development plan of the enterprise is developed. Beer S. identifies system "5" as Board of directors which uses information on changes of the internal and external environment (by the same way the human brain operates with information from internal and external receptors of the organism) and then makes the decision about expediency of change the initial strategic plan of corporate development.

If the positive decision is made, the Board of directors makes some adjustments and lowers the changed strategic plan to the bottom levels of organizational structure.

The viable system model proves a hypothesis that strategic decisions cover completely development of every economic system. The model has, at least, one more important advantage because explains creation of system of informational exchange and explains differentiation of administrative competences among the corporate divisions, which are similar to responsibility distribution among elements of neurophysiologic system of human body. By using this advantage we can make the conclusion about impossibility to accept the decisions on change of economic development strategy at the bottom levels of corporate structure. Only preconditions for revision of strategy by Board of directors (Beer S. uses the term "a firm brain") can be created at the bottom levels. Also this opinion is supported by Fayol H. who allocates five functions of management: *"to operate" means to expect, to organize, to dispose, to coordinate and to supervise* [25].

Administrative position	Total shareholder's return (TSR), market value added (MVA)	Economic value (EV)	Operational profit, return of the invested capital (ROIC)	Operational factors of value
General director	√			
Chief of division (department)		√	√	
Functional manager			√	√
Manager of an average link / operational manager				√

Fig. 1.5. Comparison of valuable criteria of corporate development with management levels [10]

Through comparison of viable system model (see Figure 1.4) with model of economic activity by PJSC "Lukoil – the Odessa oil refinery" (see Figure 1.2) it becomes possible to make the conclusion that the Board of directors carries out function of "cerebral cortex" of corporate structure. The Board of directors creates strategy of development of the enterprise and supervises efficiency of its performance. Also, service of planning and technological service function as "the intermediate brain with kernels", because these divisions are responsible for market and technological researches. These and other divisions of the enterprise are responsible for execution of economic development strategy, for expeditious control of efficiency of performance; sometimes these services can create preconditions for strategy revision at the highest level of organizational structure.

We said that strategic decisions cover all economic processes, so degree of complexity of target financial indicators decreases with the same decrease in level of organizational divisions which are responsible for performance of these indicators (see Figure 1.5).

On the basis of all specified theories we can to definite the main differences among strategic and tactical operations of the enterprise:

- the period of realization of strategy of the enterprise covers the medium-term or long-term horizon;
- change of stages of life cycle of separate business directions (SEUs) can be considered only during creation of strategy of corporate development; when tactical operations are developed and there are no strategic reference points of corporate development, it is impossible to consider change of stages of life cycle;
- tactics of the enterprise covers the short-term horizon therefore it can't cover results of long-term operations of the enterprise, such as initiation of corporate merger & acquisition, initial public offering or secondary public offering realization, and other;
- strategic operations are developed at the highest level of organizational structure; tactical operations are seldom developed at the same level. In case, when the enterprise has many levels, levels of divisions which develop tactical operations of SEUs will be lower located;
- target financial indicators of strategic corporate development are more comprehensive and have more complex contents as target tactical indicators;
- strategy and tactics of economic development characterize relationship of cause and effect, i.e. at beginning corporate strategy defines nature of tactical operations of the enterprise. However, further business management becomes the systematic balanced process; all elements of this process are equal by influence at each other and function at the same time (see Figure 1.6).

Figure 1.6 shows that the system of management accounting receives broader functions (from account functions to management) which cover monitoring of key performance indicators and providing feedback (i.e. checking of compliance of the current indicators according to the planned intermediate tactical and strategic reference points). If the system of management accounting found the great difference among the current indicators and intermediate reference points, in that case this system develops offers on change of a configuration of system of an economic management with the purpose to reach development reference points.

Thus, on the basis of essence of strategy of the enterprise, on the basis of its characteristics, and also on the basis of general distinctions among strategic and tactical operations, it become possible to define essence of strategic business management as *process which covers creative development and acceptance at the highest organizational level of the enterprise of comprehensive medium-term or long-term plan of economic development (as system of the most effective actions to achieve the approved goals by using certain limited resources), and also periodic control of distinctions among the current indicators and the planned reference points, with the correction of expeditious, tactical and strategic operations*.

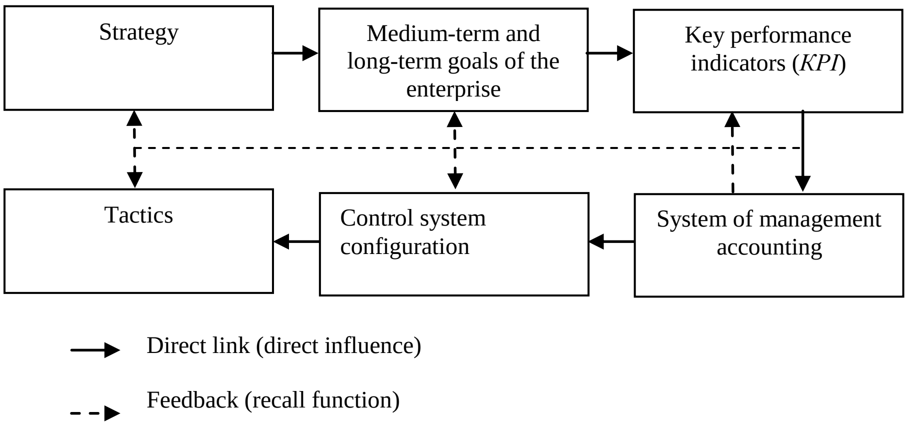

Fig. 1.6. System of administrative communications and information streams at the enterprise [20]

Process of strategic management includes activity of the supreme division of the enterprise (Board of directors, the director general) on development of the plan and control of its performance. Also definition specified on top excludes operations of the plan execution by the supreme division because the plan execution is carried out at the bottom levels of organizational structure. For example, according to VSM, the human brain can only accept and change the made decisions, but for performance of the decisions are responsible muscular, respiratory and other physiological systems.

1.4. CHANGES OF THE EXTERNAL ECONOMIC ENVIRONMENT

The main target of strategic management is a forecasting of probable changes of the external economic environment and preparation of the internal environment of business for these changes; also possibility of mutual influence of internal business environment on external isn't excluded. Also, strategic management is impossible at the initial stages of life cycle of business, because then the enterprise slightly influences the target market and there is great information uncertainty. At such stages the simplest administrative technologies are used and focused on ensuring market stability of the enterprise in short-term and medium-term prospect. Introduction of strategic management becomes possible at later stages of development of business (see Table 1.2).

Table 2 shows evolution of approaches for management of business development depending on the current stage of its life cycle. Also we don't exclude possibility of using of some approaches for the stages of a cycle specified in Table 1.2, which are inappropriate to approaches. In that case, management efficiency would significantly decrease and as result, the profit would decrease.

Table 1.2 Change of approaches to management of business development depending on the current stage of its life cycle

Stages of life cycle	Approaches to management of future business development	Content
Formation	The current management "by deviations"	Activity characterizes timely reaction to the nearest changes of the market environment. During the planning some separate financial plans can be created
Growth	Management "from reached"	Simple approaches are applied to forecasting of the closest changes of the market environment (extrapolation) and simple approaches for control of separate aspects of corporate economic activity (for example, of fixed costs, of financial balance, etc.)
	Management "by the goals"	Management is focused on external environment. It causes formation of "strategic thinking" which is characterized by creation of some separate scenarios of marketing policy of the enterprise (as the answer to possible actions of competitors)
Maturity	Management "by the goals"	Management is focused on external environment. It causes formation of "strategic thinking" which is characterized by creation of some separate scenarios of marketing policy of the enterprise (as the answer to possible actions of competitors)
	Strategic management	The system of strategic planning is approved and covers all economic processes; the system is aimed for formation of internal potential of influence on the external economic environment of business. Formation of strategic management system considers experience of using of all previous approaches
Decline	Management "by the goals"	Management is focused on external environment. It causes formation of "strategic thinking" which is characterized by creation of some separate scenarios of marketing policy of the enterprise (as the answer to possible actions of competitors)
	Management "from reached"	Simple approaches are applied to forecasting of the closest changes of the market environment (extrapolation) and simple approaches for control of separate aspects of corporate economic activity (for example, of fixed costs, of financial balance, etc.)

1.5. CONCLUSIONS

Now, at the result of made research of essence and of features of strategic business management we can formulate definition of strategic financial management by corporate value: it is process which covers 1) creative development and acceptance at the highest organizational level of the general medium-term or long-term plan of management of financial resources with the main goal to achieve the planned level of value of the mature enterprise (or its separate SEUs), 2) intermediate control of results of performance of planned operations 3) and their timely correction according to economic reality.

Thus, our research caused the following conclusions:

- we defined essence of the concepts "strategy" and "enterprise strategy", specified their features;
- differentiation of the concepts "enterprise strategy" and "enterprise tactics" is carried out. It allows to define accurately the set of administrative actions which can be carried out during creation and performance of strategy of corporate development;
- creation of functional model of economic activity of oil refinery and its comparison with VSM allows us to prove creation of effective system of distribution of responsibility among organizational divisions during strategic business management;
- we proved possibility of the most effective approbation of strategic management system into activity of mature business (the enterprises with stable client base and stable suppliers);
- by creation of the scheme of administrative communications and information streams at the enterprise we showed equal influence of all processes during strategic business management and the simultaneity of their realization;
- all realized researches allowed us to determine essence of system of strategic management by the corporate market (or investment) value which is the only objective and comprehensive indicator of efficiency of economic development of the mature enterprise.

Thus, strategic actions on economic development have to be timely and accurately coordinated by distribution of certain competences among separate functional services of the enterprise. Coordination of their actions has to be similar to the mechanism of functioning of neurophysiological system of human body.

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INTEGRATION OF THE FINANCIAL INFRASTRUCTURE OF THE EUROPEAN UNION: PAST AND FUTURE

Free movement of capital is a crucial element of European integration, which has to rely on the political will of countries on the one hand, and their respective infrastructure – on the other. Reasoning of the assessment methods to evaluate the progress on integration of securities market infrastructure is one of the most pressing issues facing the European Commission today. The paper puts forward a task to analyse the past and on this basis outline the future of integration of the financial infrastructure of the European Union.

2.1. INTRODUCTION

Yet in 2006 the European Commission anticipated that the consolidation of the stock infrastructure within EU would allow savings of 2 to 5 billion EUR, being spent on trading, clearing and payments. Transaction costs were also reduced due to stock exchanges mergers. These factors, in turn, would increase trading volumes [22]. As a result of active capital consolidation process only in European securities market infrastructure companies the total value of transactions in 2007-2008 ranged at 40 trillion EUR per year and slightly less in the following 2-3 years.

Why should we take a close look at financial infrastructure? The answer is simple and complex as well. In fact a great share of EU funds coming from its budget is spent on projects and directions that in general may be characterized as infrastructure – roads between countries, telecommunications and other IT and media, development of market infrastructure and sea ports etc. In many ways it leads to creation of common market as basement for next steps of integration of economies within EU. Well-developed infrastructure lets companies to have less transaction costs, better access to a cheaper capital and makes them more competitive within global economy and global markets.

2.2. ANALYSIS OF RECENT RESEARCH

Unfortunately at the moment there is no paper where one may find steps of evolution of financial markets infrastructure and we have made an effort to combine it in one document. In this paper we shall look at the consolidation of stock market infrastructure and its integration from the point of view of regulation, convergence of clearing and settlements, settlement systems integration.

However, one can find a range of publications concerning different aspects of financial markets infrastructure. Report on the Recovery of financial market infrastructures [6] provides guidance for financial market infrastructures regarding standards, recovery plans and tools. Another report, Principles for financial market infrastructures [7] contains new demanding international standards for payment, clearing and settlement systems. Presented principles might be applied to all systemically important payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories. It is believed that principles reflect the lessons learned from the recent financial crisis and the experience of more normal operation and assessments. T. Koeppl [19] presents a link between investment in financial market infrastructure and its governance structure as either a user-oriented or a for-profit organization. The paper discusses efficiency of a user-oriented infrastructure. It also interprets the consequences of both, user-oriented and for profit developments for efficiency in financial markets. Necessary and sufficient conditions for efficient level of such infrastructure are also provided. Research are also conducted on benefit of different financial framework application [20] discussing limited enforcement hinders the exchange of capital among people or, equivalently, investors. Governance structures and their consequences in investment are also often discussed [5]. However, empirical studies are focused mostly on the role of governance for operational efficiency such as transaction costs, but not on the investment side [21, 27].

There are also papers dealing with elements of financial markets' infrastructure and presenting cases chosen for analysis, such as ease services, business valuation and appraisal, unit investment trusts, banking [30]. Cases are studies in a separate industrial market using different types of such infrastructure elements.

There are also papers discussing financial markets infrastructure and capital under the current financial crisis conditions [28]. New regulatory regime and framework for gathering and disseminating financial market information are proposed and discussed. Also the overview of Principles for Financial Market Infrastructures is presented. It might regard such areas as general organization, credit and liquidity risk management, settlement, default management, general business and operational risk management, efficiency and transparency [26].

There is also extensive literature regarding market regulations and its consequences, like different forms of association between the public and private sectors [23, 4, 1, 2]. Those regulations and concepts are used worldwide to procure economic and social infrastructures [24].

2.3. STAGES OF CONSOLIDATION OF STOCK MARKET INFRASTRUCTURE

The official interpretation of the purpose of financial infrastructure integration in the EU is the following – access for all users to the same services under the same conditions, regardless of the location of the user or vendor [10]. However, its interpretation given by L.Bayelye [3] is wider: the market of financial instruments is considered fully integrated if all potential market participants with similar relevant characteristics: a) meet harmonized regulatory requirements governing the particular segment of the financial market; b) have equal access to financial services; c) share the same status if they are subjects of a particular segment of the financial market. Thus, an expanded definition of financial integration is based on three important principles:

- harmonized system of regulation;
- equality of market access opportunities for business;
- the same status of market participants, i.e. the absence of discrimination on the criterion of the country of origin or any other basis.

Given the above criteria in the development of EU market it may be divided into four stages of consolidation of stock market infrastructure [18]:

The first stage – horizontal consolidation within national markets. The first phase of the consolidation of the EU securities market infrastructure characterized by horizontal consolidation of national stock exchanges and clearing and settlement systems. The first steps in this phase are merging of stock exchanges with derivatives exchanges in all the Nordic countries and in some countries of continental Europe in the mid-1990s. Another trend in horizontal consolidation was the consolidation of settlement systems, specializing in operations with government debt securities, which were led by central banks, with similar systems, specializing in the corporate and private equity and debt instruments. The dominant principle was transfer of systems operated by central banks to stock exchanges, which managed private settlement and payment systems. These processes took place in France, Scandinavia and the UK. However, Spain introduced an alternative model that included the creation of a new independent body to manage the two aforementioned systems.

The second stage – vertical consolidation at the national level. This stage was based on the achievements of horizontal consolidation, resulting in creation monopoly organization to perform certain functions of infrastructure of on national markets. In some countries this stage manifested itself in a merger of stock exchanges, clearing and settlement, and payment systems for the obligations in securities. Thus, at this stage the complex national infrastructure operators for transactions in shares, debt instruments and derivatives formed. In Germany in the 1990s, for the first time all the functions to execution of transactions with securities were incorporated in a single company – Deutsche Burse, which became the dominant shareholder of the subsidiary companies to provide services, engaged in post-trading activity in the stock market. All market participants due to the technical features were automatically forced to use the services of this company when trading on stock exchanges. Later in 2000's similar transformations occurred in Italy (*Borsa Italiana*) and Spain (*Bolsas in Mercados Espanoles*).

The third stage was characterized by cross-border horizontal mergers, especially in the segment of stock exchanges. The most striking example is the creation of Euronext in 2000, which was the result of merger of the Paris, Brussels and Amsterdam stock exchanges, and later joined his assets the Lisbon Stock Exchange. The most significant cross-border mergers in the field of payment systems from securities exchanges have been combining *Euroclear Bank* – International CSDs– with Sicovam (France), Necigef (Netherlands), CrestCo (UK) and CIK (Belgium). Later Euroclear Bank absorbed CSD of Ireland. Another important step was the union Deutsche Burse Clearing (Germany) Cedel (Luxembourg) to create *Clearstream International*. In clearing segment most notable cross-border merger was an agreement between the London Clearing House and the company Clearnet (France) to form *LCH.Clearnet*, which now serves the markets of France, Britain, Belgium, the Netherlands and Portugal. A similar process took place in Germany and Switzerland, where the Eurex clearing company was formed.

The fourth phase of consolidation is connected with the creation of supranational markets that cover the full range of stages of securities transactions. Its classic examples may be the merger of Stockholm (OMX) and Helsinki (HIX) stock exchanges followed by absorption of Vilnius and Tallinn stock exchanges and clearing houses in Sweden and Finland, as well as payment systems for the obligations in securities of Finland, Estonia and Latvia. The most striking events in 2007 were merger of the New York Stock Exchange and the Stock Exchange Euronext, which formed *NYSE Euronext*, and NASDAQ acquisition of OMX, created *NASDAQ OMX Group*.

Thus the following stages of stock market infrastructure consolidation may be named:

1. Horizontal consolidation within national markets;
2. Vertical consolidation on national level;
3. Transnational mergers and acquisitions;
4. Emergence of supranational markets;

But what is to be next we may add, and in fact is already underway are:

5. Transatlantic consolidation.
6. Global consolidation.

The last two stages may be named due to real steps in this direction taken within previous period. We shall also consider that processes of globalization sooner or later will lead to emergence of global stock market infrastructure as well as real functioning of global capital markets operators, namely banks.

2.4. STOCK MARKET INFRASTRUCTURE CONSOLIDATION: STATE REGULATION

It is also important to look at development of stock market infrastructure (SMI) from the point of view of regulation. Analyzing the importance of regulation of infrastructure in the dynamics of U.S. foreign direct investment, which can be considered by far the largest global investor Globerman and Shapiro [16] found that well-developed regulation infrastructure is an important determinant in investment, but only on condition that the country has and develops free and transparent markets, has effective governments. So here, thanks to the works of Matskailova E. and Russkova E. [25], we may name the following three stages.

1. spontaneous overtaking development (XII century – 1957);
2. period of transition (1957-1989);
3. stimulated priority development (1989 till now).

In the **first period** SMI had spontaneous overtaking development as an element of the economy, which appeared as a result of the deepening social division of labour, and the feasibility of its development over time caused the market entities resistance. This SMI elements appear in some cities, even places, serving a very limited local capital market that is not wore massive. Slow infrastructure development constrained the development of the capital market. Over time, SMI elements began to outgrow the scale of individual cities and serve specific regions, and eventually the whole country. At this time the global monetary system (Paris in 1867 and Genoa in 1922.) stars its development, without which international trade with securities could not take place today. Development SMI relied solely on private capital without any government capital.

In the activity and development of exchanges and other SMI elements interfered several wars that often took place in Europe before the end of World War II. Sometimes there even were periods during which the individual exchanges did not work. The first phase was completed worsening problems from the beginning of World War II and the emergence of the first post-war international stock exchanges in London, Paris, New York, who occupied a secondary place in comparison with currency exchanges, as well as the introduction in 1944 the Bretton Woods monetary system.

Beginning of **period of transition** symbolized by the signing in 1957 in Rome Treaty establishing the European Economic Community. In the postwar period exchanges tried to establish an international securities trading, however, it was mainly limited to servicing foreign clients by local brokers. Since the early 1980s there was the rise of the international movement of capital (which is primarily due to the formation on the global arena of such powerful players as transnational corporations and banks), the needs of which went far beyond that of the currency exchange, but also needed to attract capital from the world in form of long-term investments and loans.

During this period various documents had been adopted that would facilitate the convergence and integration of capital markets, but their practical implementation blocked not only the lack of technical solutions, but also the processes taking place within the Union itself, which was growing primarily due to the adoption of the new EU members rather than by eliminating internal contradictions. In the intervening years it has become quite apparent the existence of barriers that have been through various SMI national models. These obstacles hindered the rapid development of internationalization and globalization of world capital markets in general and the EU in particular.

This situation has led to the emergence in 1989 of the report of the Group-of-30, work on which started long before [17]. The report pushed the world's major players to address pressing issues of mass stock market. Thus began the current stage of SMI development not only in the EU, but also globally. Since its beginning in the EU a number of key documents that regulate and stimulate its development were adopted. First of all, thanks to a breakthrough in the development and liberalization of telecommunications and computerization of SMI gained momentum to accelerate the bidding, turning them into massive real-time acceleration of clearance on securities and cash settlement and accounting. Solving technical issues made massive trade real, but putting on issues of information disclosure and regulation of SMI in the same real time.

The **stimulated priority development** can also be associated with a more clear definition of objectives in the founding documents of forming a single market for services components of EU SMI, which by this time was not vital. Maastricht Treaty in 1992 introduced a single market, which is freedom of movement of goods, **capital**, people and **services**. It then began active steps towards the integration of the EU financial services market, the implementation of which relies on SMI. In 1998-1999, the European Commission adopted an Action Plan for the formation of a single financial market, with main focus on SMI [8]. The key motive was the desire to minimize transaction costs in interstate movement of capital within SMI and reduce the cost of capital, which should enhance the competitiveness of companies and the economy of the EU (which was established by the Lisbon strategy for 2000-2010).

2.5. CONVERGENCE OF CLEARING AND SETTLEMENTS

In 2004, the EC has identified as the main priority the formation of environment of clearance and settlement of securities across the EU, which should be effective and safe [13]. Federation of European Securities Exchanges, the European Association of Central Counterparty clearing houses and the European Association of Central Securities Depositories in November 2006 to improve the efficiency and integration have adopted the Code of Conduct on clearing and settlement to be applied for post-trade services in trade of ordinary shares [15]. Although the EU Directive on markets in financial instruments [14] provides a right of access to post-trade space of regulated markets and investment firms in the EU, later in June 2007 the above-mentioned organizations issued a Directive on access and interoperability of systems [9], which does not contradict the first and complements MIFID. The main areas that are defined in the Code of Conduct on clearing and settlement, transparency of prices and services, access and mutual operability, unbundling of services and accounting separation. The main stages (while we are interested in determining the sequence of priority of rules in practice) in the implementation of the Code of Conduct on clearing and settlement were the following:

1. price transparency (till end of 2006);
2. access and interoperability (mid 2007);
3. separation of services and accounting (end 2008).

Therefore it is considered that the provisions of the Code of Conduct on clearing and settlement fully implemented in the EU.

2.6. SETTLEMENT SYSTEMS INTEGRATION

May be the last, but not the least is integration of settlement systems. It was rational to implement the settlement systems integration as it is being used by all sectors of economy, but not only securities or other financial actives trading.

Before the introduction of the euro there were a large number of settlement systems, while in each EU country they are usually managed by the central bank. Priority, that was identified at the base of the Eurosystem, was to ensure financial stability, followed by the formation of an integrated European stock market. To this end, the TARGET project was launched, the implementation of which was carried out in three stages [29]:

1. combination into a single network of systems for wholesale interbank payments real time for the Eurosystem TARGET (1999);
2. creation of a single common platform for cash payments within the Eurosystem (TARGET-2-CASH) (2007);
3. creation of a single common platform for trading in securities for the subjects of the European stock market (TARGET-2-SECURITIES) (2014).

The main factor behind rapid integration of financial markets in EU was development and reliable operation of large-scale money transfers in real time TARGET. In order to minimize the technical requirements it was created simply as a network of mutual exchange of financial information between the settlement and payment systems of the euro area on the basis of the harmonized protocol SWIFT. In November 2007 the payment system “TARGET 2”, which replaced the TARGET, was introduced in EU.

The next step in the evolution of the project was the creation of TARGET-2-CASH (T2C) – technological platform that allows participants of financial markets operate with only single virtual bank account that integrates all operations. Modern T2C new system holds the largest market share both in volume and number of remittances: 91% of the total in 2011 (89% in 2009) and 60% of total payments, going through all the large-scale payment system [11]. In 2011 the annual payments amounted to 612.9 trillion. euros, which is 3.3% lower than in the previous year. Pretty slow going recovery after falling 19% in 2009. In 2006 there was also a launch of the design f settlement system of trade of all stocks and bonds in Europe TARGET-2-SECURITIES, which should take effect in approximately 2014.

2.7. THE RESULTS OF FINANCIAL MARKET INFRASTRUCTURE INTEGRATION

Efforts takes for financial market infrastructure integration in the EU for the last 5-6 decades have brought about results that may be measured and analysed. One of the best ways to see it in a short paper like this one is to use the table that has been offered by European Central Bank experts for the in the euro area (Table 2.1). It also may give us the picture of the total results financial market integration in the EU at that moment.

Table 2.1 State of financial integration in the euro area: overview of the main financial segments in 2008 [12]

Market	State of integration	Related infrastructures
Money markets		
Unsecured money market	"Near perfect"	Uncollateralised money market: fully integrated
Collateralised money market	Advanced	Collateralised money market: cash leg fully integrated; collateral leg hampered by fragmentation
Bond markets		
Government bond markets	Very well advanced	Fragmented
Corporate bond markets	Fair	Fragmented
Equity markets	Low	Highly fragmented
Banking markets		
Wholesale activities	Well advanced	Fully integrated
Capital-market related activities	Advanced	Fragmented
Retail banking	Very low	Highly fragmented

Thus some financial markets are advanced or near perfect in integration and tend to have integrated infrastructures, but many are still low in integration with fragmented infrastructures. Unfortunately there is a lack for data for EU in total. Anyway the UK and other economies do stand in line with most global trends and in some cases may be the leaders. So the group of EU countries outside the euro area may bring some more fragmentation to the financial markets as transaction costs and the need for the infrastructure for these transactions is a bit more complicated.

In one of our next research papers we'll try to investigate the fragmentation of stock market operations on the basics of the following picture. This analysis may change the view on the state of integration of bond and equity markets.

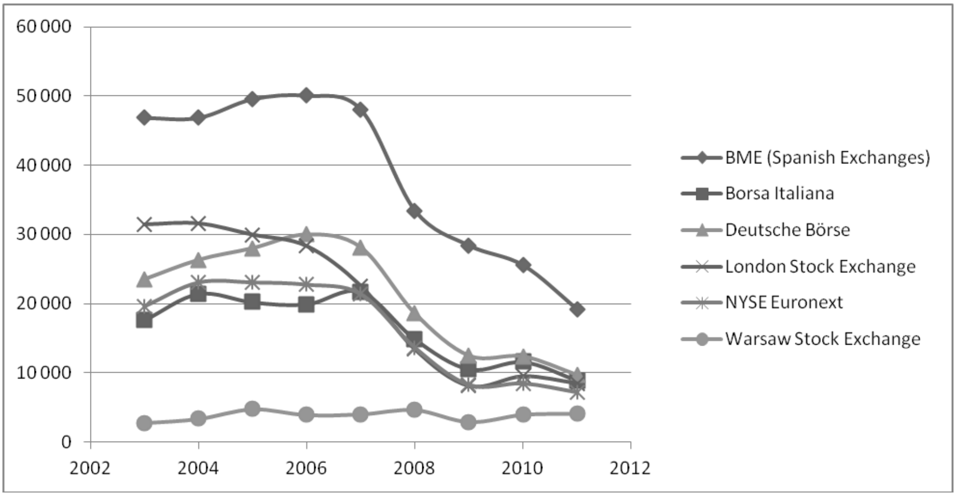

Fig. 2.1. The dynamics of the average transaction values since 2003 to 2011 on the largest EU stock exchanges, EUR

The picture gives us the view that there is some active processes within organized equity and bond markets. Different approaches to test the presence of convergence of stock exchanges by the average transaction size indicator shell be used for that research.

2.8. CONCLUSIONS

Finally we may name the following steps of stock market infrastructure consolidation: 1) horizontal consolidation within national markets; 2) vertical consolidation on national level; 3) transnational mergers and acquisitions; 4) emergence of supranational markets; 5) transatlantic consolidation; 5) global consolidation. Looking at stock market infrastructure consolidation from the point of view of state regulation we find the following 3 basic steps: 1) spontaneous overtaking development (XII century – 1957); 2) period of transition (1957-1989); 3). Stimulated priority development (1989 till now).

Clearing and settlement systems consolidation was really prompt but well-prepared in the steps: 1) price transparency (till end of 2006); 2) access and interoperability (mid 2007); 3) separation of services and accounting (end 2008). Settlement systems integration started from 1) combination into a single network of systems for wholesale interbank payments real time for the Eurosystem TARGET (1999); then deepened into 2) creation of a single common platform for cash payments within the Eurosystem (TARGET-2-CASH) (2007); and now expects 3) creation of a single common platform for trading in securities for the subjects of the European stock market (TARGET-2-SECURITIES) (2014).

At the moment infrastructures for unsecured money market, collateralised money market and wholesale banking markets activities are considered to have high level of integration. However, government and corporate bond markets, equity markets, capital-market related banking activities and retail banking still expect fragmented infrastructures to consolidate and integrate within EU.

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3

COMPETITIVENESS OF THE FINANCIAL SYSTEM AS A CONDITION FOR EFFICIENT FUNCTIONING OF ECONOMIC SYSTEM

Based on the results of statistical analysis we highlight the crisis financial condition of Ukrainian enterprises. The necessity, timeliness, and problems of implementation new Conceptions of Crisis Financial Management for the theory and practice of Ukrainian enterprises are substantiated. Among such concepts are: Preventive Financial Management; Determination of Corporate Finance as the Object of Crisis Financial Management; Behavioural Finance. The author's view of the Corporate Finance, consequences of the crisis, the content of the Crisis Management and Preventive Financial Management of the Enterprises are presented.

3.1. INTRODUCTION

The dominant feature of contemporary world development is the increasing interdependence of national economies, the uncertainty of general patterns and trends in the movement of the economic system on a global scale, increasing globalization. Deepening of international economic relations intensifies the competition between entities appearing in increasing its intensity, the emergence of new forms and methods of competition, modification of the mechanism of competition. Providing high competitive status of the national economy under such conditions requires favourable framework conditions for doing business, which provides a systematic development of the competitive environment and competition on domestic and foreign markets.

For this reason global competitiveness leaders pay priority attention to one of the most dynamic sectors of the economy – the financial system. However, the condition of the individual segments of the financial system is not yet fully consistent with the principles of competitive national economy. Thus, in developed countries the number of banks reduces, the banks are on mergers and acquisitions, which increase the concentration of the market. In most countries the banking market is dominated by an oligopoly. For example, in Europe the market shares of the five largest banks, usually up to 50% (Table 3.1). With this trend banking oligopoly will only strengthen.

Table 3.1 Concentration in the banking sector of some European countries [11]

Country	Herfindahl-Hirschman Index of market concentration	The share of the five largest banks in the total assets of the banking system, %
Finland	2420	81
Belgium	2065	83
Holland	1744	84
Greece	1130	67
Denmark	1114	67
Portugal	1044	63
Sweden	740	54
France	597	47
Austria	557	44
Spain	521	44

However, despite the relatively high level of concentration in the banking sector in some countries, all financial sectors of the European Union have the highest degree of competition in the financial sector, as indicated by the results of a study conducted by the World Bank [1, 2].

3.2. BANKING SERVICES IN UKRAINE

Unfortunately, over the years of independence the Ukrainian state has not created conditions for the development of effective competition in the financial sector, serving internal mechanism that flexibly responds to the slightest change, forcing market players continually improve productivity, use the latest technology to introduce the production of scientific technical innovations. Moreover, an empirical analysis of the causes of inhibition of competitive relations in Ukraine showed no automatic action of competition even in the face of the competitive environment. For example, consider the banking system of Ukraine in the context of regional policy, as regional banks, knowing the peculiarities of local economy and the needs of customers can provide personalized and tailored banking products. Watching the trends of banking services and taking into account the requirements put forward by the regulator on the permanent tightening rules on statutory fund or interest rates, it is worth noting that the regional banks rather difficult to maintain their market positions and opportunities for continued existence.

Based on the results of the National Bank of Ukraine, at the end of the first quarter of 2012 the largest concentration of banks observed in Kyiv and Kyiv (2880 or 14.2% of the total), Donetsk (1725 or 8.5% total), Dnipropetrovsk (1559 or 7.7% of the total), Crimea (1299 or 6.4% of the total), Kharkov (1280 or 6.29% of total), Odessa (1251 or

6.5% of the total number) and Lviv (1162 or 5.7% of total) regions. It is worth noting that the share of local service banking facilities in these regions is low: Kyiv and Kyiv (1469 or 51.0% of the total), Donetsk (162 or 9.4% of the total), Dnipropetrovsk (485 or 31.1% of the total), Crimea (19 or 1.5% of the total), Kharkiv (298 or 22.9% of the total), Odessa (20 or 1.6% of the total) and Lviv (99 or 8.5% of total) regions. It should also indicate the uneven distribution of banks according to their place of direct registration: Kyiv and Kyiv (114 or 65.1% of the total), Donetsk (10 or 5.7% of the total), Dnipropetrovsk (14 or 8.0% of the total number) field [6, 7]. We can mention that Vinnytsia, Zhytomyr, Ivano-Frankivsk, Kirovohrad, Mykolaiv, Rivne, Ternopil, Kherson, Khmelnytsky, Cherkasy and Chernivtsi regions do not have officially registered banks in their territory and use the services of other regions` banks. In our opinion, situation when local banking institutions are supplanted by metropolitan banks is quite negative phenomenon, because regional banks are designed to ensure stable operation of the regional economy and protect it from shocks.

A high concentration of largest banks in Group I (17 banks) in terms of assets is also confirmed by calculate indices of concentration in terms of assets and liabilities, accounting for 66.3% and 66.7% respectively, and a regional network has 69.0% units throughout the banking system. This capture of the majority of the banking market threatens to other banks, because the potential consumers of banking services more often prefer the largest banking institutions as they consider them to be stable and those that can offer more funding on favourable terms.

Sometimes it is argued that the task of ensuring of adequate level of competition in the banking sector should make a function of the NBU [14]. Now, as far as we know, the functions of antitrust regulation in all economic sectors including banking, are entrusted to the Antimonopoly Committee of Ukraine. This proposal is considered to be inappropriate, because it does not ensure the achievement of the system efficiency of the banking sector in Ukraine.

Revealed disparities in the development of regional financial infrastructure cause the increased economic struggle between local banks and regional divisions of banks in other regions for customers, resources, opportunity to maintenance budget and pension accounts, etc. It should be mentioned also that in case of untimely application of strategic management tools in order to achieve competitive advantages and to occupate their own decent niche in the banking market may intensify consolidation of regional banks due to their vertical integration, expansion of larger banks, liquidation and reorganization of small banks into non-bank credit institutions. Banking institutions can choose the necessary competitive strategy based on the diagnostics data starting position of the bank (external, internal and SWOT analysis, competitive position), a mission statement, goals and objectives of the institution.

As I. Ansoff emphasized, one of the main rules of choice of strategy is its correspondention to the accumulated potential institutions, and therefore one of the first steps of developing the strategy is to analyze potential institution in terms of its strengths and weaknesses [3]. Also analyzing the results of S. Shofler`s research on the impact of market strategies on profitability, H. Kroksford identified ten strategic factors that significantly affect the performance of the bank and are recommended for inclusion in the development of strategies, namely the intensity of investment, productivity, market position, the quality of the offered products and services, innovations, vertical integration, rising costs, quality of management, the current strategy work [8].

Taking into consideration that regional banks act as intermediaries, partners and borrowers in interregional relations, the development strategy should also take into account the transparency of institutions, a clear strategy, effective and efficient risk management system, extensive banking network, streamlined decision-making and organizational structure, which is able to operate according to specified guidelines and parameters [9].

We note that the condition status and trends of the financial system of Ukraine are inseparable from the complex globalization processes taking place in the international financial market. Terms of efficient competitive activity of the financial sector in Ukraine at the international level require the presence not only of correspondent relations with foreign financial institutions, but also its own rather developed network of foreign offices. Lack of practical experience in overseas markets through a network of offices does not allow domestic financial intermediaries to join the global trends of internationalization fully. This not only weakens their position relatively to international institutions, but also to some extent isolating activity within the national scale.

The academician of NAS of Ukraine V. Geets believes that increase of share of foreign capital in the domestic banking system should be based on the creation of favorable conditions for the development of the banking sector and competitiveness of the national banking capital. Admission branches of foreign banks should be made not earlier than five years after WTO accession with the possibility of differentiation of this norm for some individual activities [4].

Similar positions the Association of Ukrainian Banks (AUB) assets. In particular, AUB believes that under the registration of branches of foreign banks should be provided additional precautions to prevent the entrance to Ukraine of banks with disreputable or those that focus on holding risky money lenders and depositors. AUB has set a minimum capital of a foreign bank in the amount of 500 million Euros, and its credit rating on the classification of one of the leading international agencies should not be lower than "A". Regulation of these branches must exercise NBU in accordance with national legislation. In addition, foreign banks can get permission to open their branches in Ukraine only ten years after Ukraine's accession to the WTO, and also subject to obtaining sovereign rating by our country not lower than the "A" one. It should be mentioned here that this figure of rating may be unavailable for Ukraine for a very long period of time, so this condition becomes an actual closing access of foreign banks to the domestic banking market. The validity of the proposed regulations on prohibition to affiliates for certain types of operations seems to be questionable, including attracting deposits, transactions in the stock market, etc [16].

That means that the competition in the financial sector is not only linked to the economy, but also affects both the internal and the external policy of the state, so the institutional components of the financial sector tend to be competitive at regional, national and global levels. Above all, it is necessary to consider the basic macroeconomic indicators that have closely interdependent relation to financial systems creating competition policy in the financial sector.

Firstly, it is a state of the real economy, which, in fact, characterizes economic growth, determines inflation in the country, the unemployment rate, export-import policy, etc. Secondly, it is the development of the public sector, which determines the level of the budget deficit, public debt financing, especially social life. Thirdly, they are endogenous factors which primarily include global trends, foreign direct investment, global commodity and stock markets, international capital flows and so on.

It should be mentioned that modern financial sector of the economy compared with the moment of its inception has become incredibly complicated and virtually detached from its material basis – capital turnover in the manufacturing sector. Some researchers in general call a modern capital virtual: "Virtual fictitious capital compared with that functioned in the XIX century and being internally combined with the industrial monopoly capital simultaneously is more detached from the sales of real capital (industrial, commercial and even loan) because they can be sold instead, traded at the market as a commodity and generate revenue" [5]. If at origin the financial capital was a source of funds for industrial capital, today it has become independent from the real economy: "From the service level of the economy, designed to meet the interests of the manufacturing sector, fictitious capital becomes autonomous region that is poorly integrated with the real economy and largely impedes sustainable development forward" [10]. In proof of this position a number of macroeconomic indicators of the national economy is given (Table 3.2).

Analyzing these indicators, it is necessary to note the presence of correlation between the macroeconomic indicators of the real economy and finance. In particular, we note that in 2009 there is a decline in nominal GDP from the previous year by 3.7%. Futhemore, comparing this indicator with the rate of inflation (112.3%) we have seen a significant drop in real GDP. However, already in 2009, using the levers of monetary impact (decrease NBU discount rate by almost 2%, a gradual increase in deposit rates, reduce to zero of the required reserve ratio) leads to a positive result – an increase of nominal and real GDP during 2010-2011, which in turn has a positive effect on reducing unemployment and reducing the negative foreign trade balance of the country. We note also that the government uses fiscal methods, which resulted in increasing of the budget deficit.

Special attention is given to an analysis of the dynamics of UAH deposit rates for individuals in Ukraine. Under the influence of the global crisis, the situation in the banking sector of Ukraine's financial system makes competitors look for common ways out of this situation. In Fig. 3.1 we can observe the dynamics of deposit rates for individuals in Ukraine from 2005 to 2011.

Table 3.2 Key macroeconomic indicators that determine the level of development of the national economy [18]

№	Indicators	Years						
		2005	2006	2007	2008	2009	2010	2011
1	Gross domestic product, bln. UAH	441,4	537,7	712,9	949,9	914,7	1082,6	1316,6
2	Rate of inflation, %	110,3	111,6	116,6	122,3	112,3	109,1	104,6
3	Unemployment, %	7,2	6,8	6,4	6,5	8,8	9,1	9,5
4	Trade balance, $ bln. USA	1,3	-3,1	-8,2	-12,2	-1,9	-0,8	-1,2
5	Deficit / surplus of the consolidated budget, bln. UAH	-7,8	-3,7	-7,7	-14,2	-21,6	-64,4	-19,1
6	FDI, bln. UAH	16,4	21,2	29,5	35,7	40,0	44,7	49,4
7	Discount rate, % *	9,5	8,5	8,0	12,0	10,25	7,75	7,75
8	The rate for deposits in UAH, % *	6,2	6,2	8,7	10,9	11,5	12,8	15,6
9	The required reserve in the national	6	2	0,5	0	0	0	0

* at the end of year

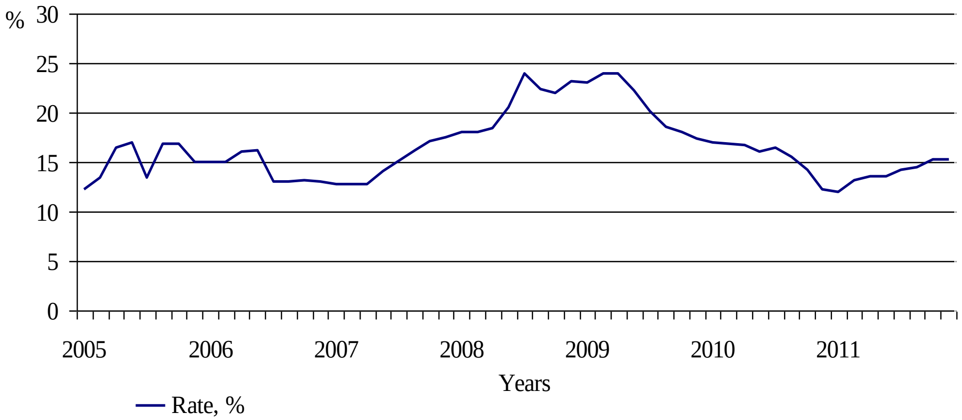

Fig. 3.1. Dynamics of UAH deposit rates for individuals in Ukraine in 2005-2011 [17]

3.3. FINANCIAL SYSTEM SUPPORTING TOOLS

During 2008-2009 growth of deposit rates because of the global financial and economic crisis is clearly seen. During this period there has been government intervention in support of the financial system of Ukraine through the National Bank of Ukraine, which played the role of lender of last resort and provided loans for the financial rehabilitation of banks which held a strong outflow of deposits and played an important role in reproducing the functioning of the payment system in order to prevent adverse effects of systemic crisis. Thus, in late 2008, 88 banks in Ukraine were refinanced by the NBU totaling 36.937 billion. The largest volume of refinancing received such banks as JSCB "Nadra", JSC "Prominvestbank", PJSC CB "Private Bank", OJSC "Bank Finance", CB "Financial Initiative", state OJSC "Sberbank", JSC "Rodovidbank" and others [13]. The main tasks during the recession were to create adequate conditions for survival for themselves and their clients, return shot depositors deposits, restoring confidence in the banking system, weakening its internal contradictions.

During this period particularly the rise in deposit rates and reduction of the required reserve in the national currency is observed, because the banks feel the urgent need to attract additional financial resources. However, it should be mentioned that already in 2010, the situation on the financial market becomes stabilized and the crisis does not influence so much at the activity of the banking market and competition between banks, that have managed to survive, becomes much tougher.

Thus, to enhance the competitive position of the financial system in the country conditions that would ensure the promotion of the development and convergence with international standards activities regarding capital adequacy, asset quality, management level, accumulation and transfer of information should be established as well. Furthermore, it is worth improving relevant legal framework and introducing structural reforms and sustained efforts to implement international standards.

The issue of the formation and development of an effective competition policy in the financial system to meet the requirements of globalization and internationalization is extremely versatile and requires detailed study. Competition leads to better use of resources and all other features of the economic system, and it is a way of farming, and the mode of existence of capital. For becoming a full-fledged competitive financial system of Ukraine should be used a number of tools (Fig. 3.2) [12].

We mention that the competition is an essential feature of the market that provides maximum concentration of effort in any activity. It is a system of relations which has a dynamic, sometimes even destructive character, inseparable from risk as aimed at detecting previously unknown knowledge. The other side of the competition, its driving force for each participant a personal motive, is an interest in achieving a positive outcome for themselves. Countering opponents can not and should not be an end in itself of competition in the financial sector. This is a secondary consequence of efforts to achieve favourable results for themselves.

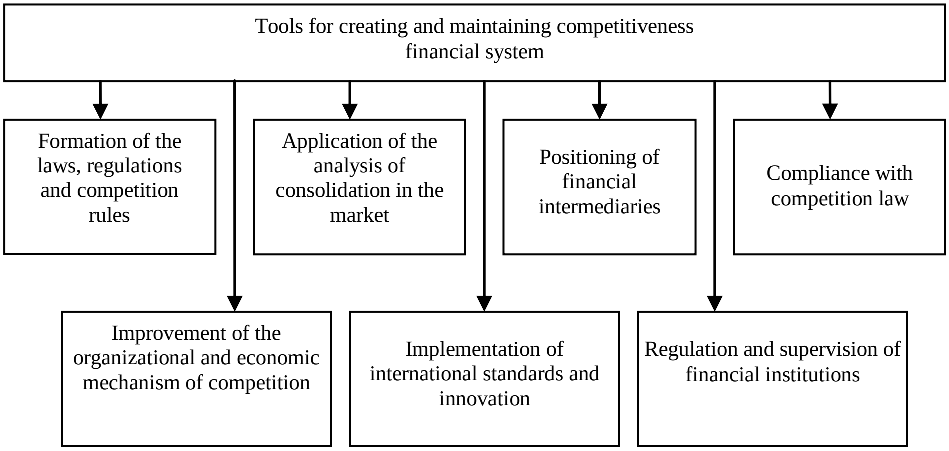

Fig. 3.2. Tools for creating and maintaining competitiveness financial system

It should be mentioned that the financial system is an important indicator of intra-industry competition as a factor in the flow of capital. However, for the flow of capital there are certain restrictions – incoming and outgoing barriers. Entry barriers include restrictions on introduction of new competitors. It should be mentioned that as such limitations for the financial system, primarily are: legal restrictions (a minimum share capital of financial sector, banking license, etc.), limited access to sources of financial resources; differentiation of banking products (only universal banks which are able to provide a wide range of services can keep the stable state of market), the need for significant investment to change adherence consumers (due to consumer preferences each financial institution faces with the need for significant investment in development and stimulate demand). The obstacles on the way of financial institutions in their quest to keep a certain segment of the market (loss of potential investments, fighting the government, trade unions, customers, etc.) belong to the initial barriers [15].

It should also be noted that the disclosure of the nature of competition in the financial sector requires three important points: availability of personal motive to work, waiting for a positive result, the existence of the necessary conditions in a particular market structure; competition, opportunity and ability to resist rivals. The purpose of competition is, firstly, in finding, identifying, initiating of new, previously unknown in life, and secondly, in showing qualitatively different ways of solving of previously established problems of development. The existence of a duality of practical and theoretical study of competition should be also mentioned. The value of the competition is the ability to practice economic activities ensure adaptation to the continuous changes that occur in real life, while in theoretical terms, all solutions are compared with the ideal situation of perfect competition, which is considered to be a model in the national economy.

3.4. CONCLUSIONS

The need for the formation of such a separation of competition as an independent theoretical system of knowledge due to the fact that, in particular, there are many concepts that should be used more clearly in this system. To effectively implement the theoretical foundations and tenets of competition and competitiveness in practice, a rational and reasonable competition policy, which includes a set of targeted measures aimed at creating and protecting of the competitive environment, prevention and immediate termination of violations of antitrust laws, promotion of the fair competition should be implemented.

Certainly, in recent years the development of the domestic financial system showed great dynamism, improved its quantitative and qualitative characteristics. However, the functioning of the Ukrainian financial sector is still associated with a number of problems and shortcomings. Among them: the lack of long-term vision of the financial system; small by world standards level of capitalization of the banking system; excessive concentration of financial resources in a small number of financial institutions; financial instability of a large number of banks and short-term resource base; lack of effective corporate governance; not fully recovered trust depositors of banks; creation of a large number of captive (called pocket) commercial banks; inadequate procedures and in accordance lack of protection of interests of creditors; usage of imperfect financial technology; inefficiency and high expendability of Ukrainian banks [14].

Thus, the internationalization processes necessitate the development of a long-term strategy of Ukraine's financial system based on the principles of protecting national interests and enhance of its competitiveness. An important component of this strategy is increasing of the capitalization of the financial market and the problem of insufficient capital. The solution to these problems can be achieved through the introduction of a unified state policy in the financial services market.

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4

INSTRUMENTS OF VALUE-BASED MANAGEMENT

The paper specifies the role and the relevance of value assessment methods within the value-oriented management concept. Classification of value-based indicators depending on their assessment basis is also presented. What is more, the assessment methods of value an enterprise´s added are analyzed.

The article elicits also key advantages and disadvantages of using value-based performance indices within a management system. Comparative criteria of financial value-based indicators are proposed and a comparative characteristic of outlined indicators is described.

4.1. INTRODUCTION

The relevance of enterprises' value management is increasing because of the strengthening competition of enterprises for investors' and shareholders' capital.

The concept of value-based management is defined in current economic conditions as construction of performance assessment system based on value and creating levers of management through this integrated indicator. Today companies focus on searching opportunities for the effective functioning. This causes the necessity of evaluation process paradigm shift – from statistical to dynamically-prognostic, aimed at formation of a high-quality information system in the area of enterprises' decision-making and financial forecasting.

4.2. ANALYSIS OF RECENT RESEARCH

This scientific problematic is considered by many authors among which are the fundamental works of foreign scientists in the field of evaluation and value management: M. Miller, T. Copeland and J. Murrin [7], A. Rappaport [20, 21], C. Walsh [28],

A. Domodaran. In domestic practice the problematic is examined in works of O. Mendrul, A. Nesterenko [16], T. Momotov [15], P. Cruz [9] and others. Despite numerous publications on this theme, valuation and enterprises' value management issues remain open in domestic economic literature.

Value Based Management (VBM) concept was started in the late 1980s and early 1990s [21, 25, 7]. Initially the main intention of VBM was to increase the value of the company [28].

VBM and its usefulness among large companies has been widely discussed in the scientific literature. Krol [14] discussed concept of VBM applied for Small and Medium-Sized Enterprises (SMEs). Its usefulness and necessity supports unstructured and intuitive decision making [17]. Literature presents also basic principles of VBM meeting the specific requirements of SMEs.

Crucial aspect of the VBM, like integrated risk-return-perspective, cash flow and the cost of debt or credit [11, 19] as well as capital cost rates, profit concepts and the capital value-method [4, 10] were excessively discussed.

Many authors convince the constantly growing influence of companies investors is the main reason for the increasing necessity of a value based corporate management [18, 7, 13].

There are also papers [8, 31, 32] considering motivations and sufficient conditions for the adoption or non-adoption of VBM for managing a business as well as experiences of importing and adopting VBM techniques between companies.

Appropriate governance mechanisms [1], risk sharing and interest of the organization [2] has been also discussed. There are also works complementing research on Customer Value [26] and the ability of sellers to target customers [5, 22, 6, 23) and to target advertising [30].

In [29] a value-based management framework to critically review empirical research in managerial accounting was proposed including methodological and econometric problems, gaps and inconsistencies.

4.3. PROBLEM DEFINITION

The main problems in developing and conducting value-based management concern the methodology of practical value measurement and calculation, as well as defining a set of specific performance indicators that can serve as instruments of current and strategic management.

The purpose of this study was to examine valuation methods and to define specific value-based indicators, which can be used as instruments of enterprise's management, highlight their main advantages and disadvantages and provide their comparative analysis in order for their further selection and implementation.

4.4. DISCUSSION AND RESULTS

In an unstable market environment, adverse conjuncture conditions and intense competition there is an increasing importance of determining methodological and epistemological foundations of promising enterprise management concepts [3]. They would simultaneously minimize conflicts between functional goals of economic agents and socio-economic trends of social development, as well as reflect globalization and intellectualization processes in the economy and its innovative direction as a whole.

Generalization of economic content of management technologies allowed us to conclude that the theory of value management (shareholder value concept, value-based management, VBM) is fundamentally different from previously adopted management criteria and is characterized by a more efficient concept of shareholders' equity management [12] than other systems. This can be explained by the fact that the basis of VBM is operation with an integrated financial indicator – firm's value, which focuses not only on the individual components of financial management – liquidity management, risk management and profitability, but also on their simultaneous balanced combination that is ultimately developed in the added value of an enterprise.

Recognizing the importance of accounting indicators including gross profit we should mention that obtaining and increasing it is a necessary but not sufficient condition of shareholders' value growth. It should be outlined that the main difference between value-based indicators and traditional accounting absolute and relative metrics is that their purpose is to signal the need for a change in the cost of capital for its suppliers (owners, shareholders).

Value-oriented indicators can distinguish a primary task for management that will allow to maximize shareholder value and establish an interrelation between strategy and organization of the company and its capital market value. The modern concept of enterprise value management and evaluation methods are focused on the entity's market value estimation and management.

The value of an enterprise is determined by its discounted future cash flows, and new value is created only when enterprises get such a return on invested capital that exceeds the cost of capital. In order to manage value, it is necessary to measure it. This means, in the context of VBM, that an instrument to evaluate company's return on capital invested is required. Thus, we can identify the main factors affecting enterprise's value, that must be taken into account in the index, which reflects value – cost of equity and debt capital and income generated by existing assets (herein income can be expressed in different forms: earnings, cash flow, etc.).

The methods used in financial and economic practice for enterprise evaluation are summarized on the figure 4.1.

Traditional methods of evaluating the effectiveness of business give mostly isolated results, snatched from the overall management context and do not assume its monitoring. None of the goals of traditional business valuation (privatization, property tax, credit, etc.) provide a direct and systematic application of operational or strategic management [7].

According to value-based approach to financial management, the main criteria of enterprise's effectiveness and management operation is the quantity of added value created in the corresponding period for the owners (Shareholder Value Added = SVA). Accordingly, valuation methods that can be placed in two groups which are in widespread use in the practice of financial management and controlling:

1. methods based on discounted cash flow;
2. methods based on the analysis of extra profits.

In our opinion, the advantage of the economic profit model versus discounted cash flow model is that economic profit is a very convenient metric for determining the effectiveness of investment in any particular, whereas cash flow does not have such properties.

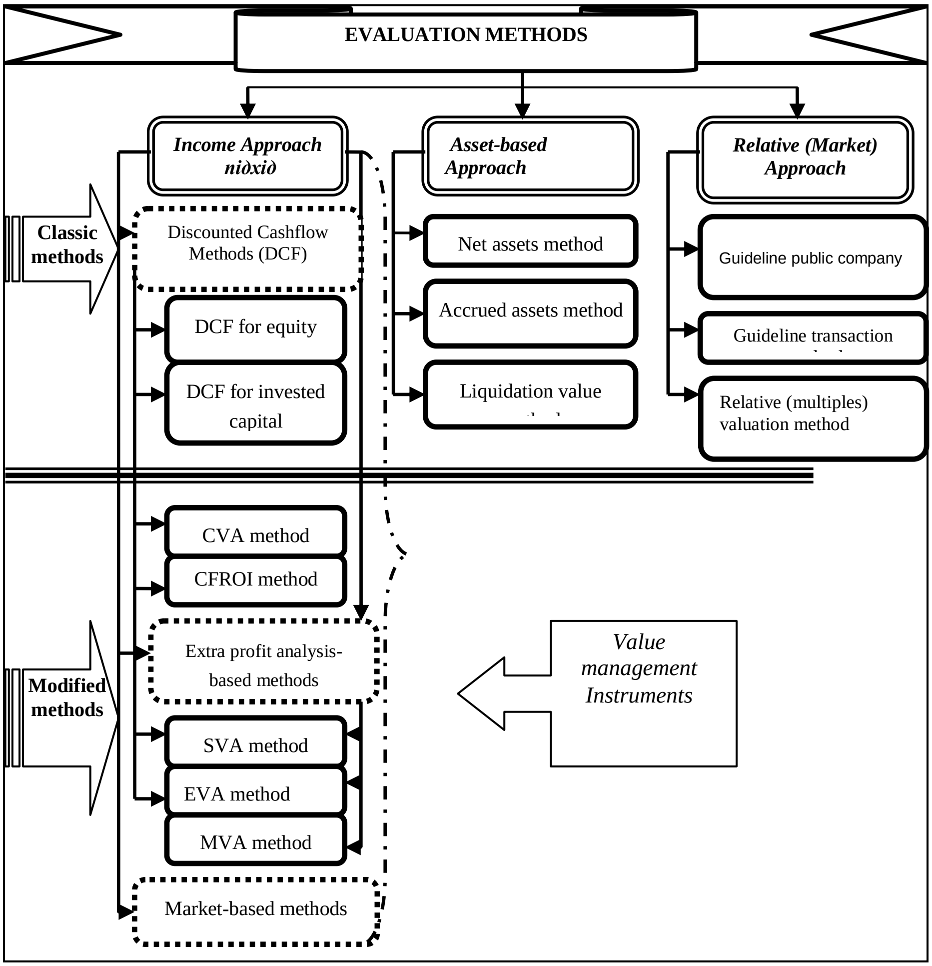

Fig. 4.1. Methods of enterprise valuation

In the 80 - 90-th a number of indicators (there followed even management systems based on some of them: for example, EVA and EVA-based management) [24], reflecting the process of value creation, emerged. EVA, MVA, SVA, CVA and CFROI are the most widespread. We will focus our attention on these indicators, their calculation methods, their advantages and disadvantages.

VBM – approach utilizes the above mentioned instruments within the methodological approaches to measuring and managing value:

- economic value added (EVA) / market value added (MVA);
- shareholder value added (SVA) / discounted free cash flow method (DCF);
- cash flow return on investment / cash value added (CFROI / CVA).

The EVA concept is frequently used by western companies as an instrument to measure the effectiveness of their departments instead of the usual net profit – for EVA takes into account not only the outcome (the amount of profit), but also the cost at which it was obtained (which amount of capital was used).

In financial and economic practice EVA index is defined as the difference between net operating profit after taxes (NOPAT) and the efficiency of financial activities (WACC). (1) So an indicator of economic value added allows to evaluate real economic profit at the required minimum rate of return that shareholders and lenders could get by investing their money in securities with the same risk level [9] (eq. 4.1).

$$EVA = NOPAT - WACC \times CI \tag{4.1}$$

where: NOPAT – net operating profit after taxes before interest; WACC-weighted average cost of capital; CI-cost of capital invested.

This indicator combines ease of calculation and possibility of determining company's value as well as allows evaluating the effectiveness of a company as whole and individual units. EVA is a management decisions quality indicator: constant positive value of the index indicates enterprise value increase, while negative – its decline.

EVA indicator is identical to the category of residual income. The important difference is that in calculating EVA a number of adjustments to the financial statements are made that enable to approximate profit to the company's cash flow, correctly display the capital invested in the creation of profits. The most significant adjustments to earnings and shareholder equity may include consideration of capitalized intangible assets, deferred tax payments, amortization of goodwill created reserves. The accuracy of calculation of economic value added makes it possible for owners and investors to make their own decisions about investing money in an enterprise, to analyze the cost and dynamics of capital, to determine the necessary level of profitability of the enterprise; evaluate how effective managers have used the capital entrusted to them, and what added value they "earned" for owners of the enterprise. Furthermore, the concept of EVA integrates with the concept of Activity-Based-Costing (ABC), which allows increasing the efficiency of cost and capital management. ABC-EVA system as an instrument of business process reengineering, prevents the adoption of executives' short-term solutions based on the profit criteria that may adversely affect the company's value size in the long term [9].

It is obvious that there are three possibilities to increase economic added value – to increase profits using the previous level of capital; reducing the amount of capital used, maintaining the same level of income, and reduce the cost of raising capital.

From a methodological point of view EVA is simply a modified and improved criterion of economic profit. Therefore, by itself, EVA indicator does not give enough understanding about the ability of an enterprise to achieve capital growth and value surplus in subsequent periods. The reasons for this inconsistency may be the following:

- an increase of the indicator may be due to an increase of risks that is expressed in the growth of the future cost of capital, so the value in the long run will decrease;
- the growth of this indicator in any period may be caused by factors that have a negative impact on the value of the enterprise in the long run.

In the final result precisely the present value of future EVA determines the market value of an enterprise. For these reasons, EVA indicator alone is unable to assess fair value of an enterprise based on accepted appraisal principles.

Another disadvantage of EVA indicator is neglecting cash flows. This demerit is eliminated when calculating indicators that show the return on investments on the basis of cash flows.

MVA (Market Value Added) – indicator that illustrates the ability of businesses to ensure the welfare of their shareholders. The difference between EVA and MVA is that MVA is market assessment of future EVA unlike a single value EVA. MVA is a rather clear indicator of the ability of enterprises to provide increasing value. However, it is not appropriate to build a system of value-based management only on the basis of this indicator, since it neither shows the effectiveness of management decisions at various levels of enterprise structure, nor fits into a motivational system in a straightforward manner, as the market capitalization of a company is affected by many factors, some of which are not controlled by management. Moreover, if the results of the company's activity will be measured by this indicator and motivational schemes will also be attached to it, it could lead to the fact that management will make decisions which will have short-term impact on market value of shares, but destroy value in the long perspective (for example, programs of cost reduction through massive budget cuts of research and development).

Thus, the approach to the development of VBM based on the MVA indicator does not completely eliminate the drawbacks and limitations that were defined when considering EVA indicator. From this perspective, instruments that take future cash flows into account appear more attractive.

SVA (Shareholder Value Added) – a gain between estimated value of equity and book value of equity. To determine the market value of equity commonly known enterprise evaluation methods – by means of cash flows discounting – are used. Enterprise value is equal to the total present value of future net cash flows (Free Cash-flow) or dividends that can be obtained as a result of business ownership, reduced by the amount of liabilities of business and increased by the value of surplus assets. Net cash flow (free cash flows) of an enterprise is equal to its cash flow from operating activities after tax excluding any additional investment made in operating assets. Estimated strategic enterprise value is equal to the present value of free cash flows, discounted at the cost of capital of the enterprise, plus the cost of non-operating assets. This figure reflects present value of current and future investments of shareholders that allows accounting development prospects of business. That can be useful for shareholders in order to make financial decisions. However, due to the complexity of calculations and difficulties associated with forecasting cash flows, SVA is not an instrument of motivation and strategic management.

There are two concepts: total shareholders return (TSR) and total business return (TBR). Operating expression of these concepts in relation to value-based management are two performance indicators: cash flow return on investment (CFROI) and cash flow value added (CVA).

CFROI is calculated as the ratio of constant cash flows to current gross capital employed (eq. 4.2) where the constant cash flow represents cash flows from enterprise's operating activities excluding depreciation compensation fund.

$$CFROI = \frac{CF}{CI}, \tag{4.2}$$

where: CFROI – cash flow return on investment CF – adjusted cash inflows (cash in) at current prices, CI – adjusted cash outflows on investments (cash out).

There is a necessity to introduce some correction to the calculated values, namely cash inflows and total assets. For example, to calculate cash inflows net income is adjusted for amounts of depreciation paid interest for borrowed capital, payments on leasing contracts etc. Book value of assets is adjusted for accumulated depreciation, the value of the property received under leasing contracts, etc.

The advantage of cash flow return indication compared to EVA is the consideration of the impact of inflation on investment and depreciation expenses.

If the CFROI ratio exceeds the average level required by investors, then the company creates value and vice versa, if CFROI is lower than the required return, the company's value will decline. The disadvantages of this indicator is the complexity of its calculation (a requirement to identify all existing and future cash flows) and a certain difficulty of its understanding on some organizational levels of the enterprise.

Underlying the indicator of cash value added (CVA) is the concept of residual income. CVA demonstrates added value of cash flows that is the difference between cash flow from operating activities and cash flow from strategic investments. It is calculated using the formula 4.3.

$$CVA = OCF - WACC \times IC = (CFROI - WACC) \times CI \tag{4.3}$$

wherein OCF – operating cash flow, WACC – weighted average cost of capital; CI – invested capital.

As a return on capital invested a current measure – cash flows – is used. As opposed to CFROI indicator, the cost of raising and maintenance of capital from various sources is taken into account in explicit form, i.e. the weighted average cost of capital. Adjustments that are made in the calculation of these values are similar to those considered in the discussion of EVA.

Strategic investments' objective is added value creation, so managers should strive to increasing rate of CVA index. The advantage of this indicator is the consideration of the actual cash flows and cost of capital. Complexity of calculating and forecasting cash flows can be identified as a disadvantage.

In order to make a decision among alternative VBM-indicators we will conduct their classification according to the calculation basis (Figure 4.2):

Group 1 – performance indicators based on accounting data;

Group 2 – performance indicators based on cash flows;

Group 3 – performance indicators on a mixed basis.

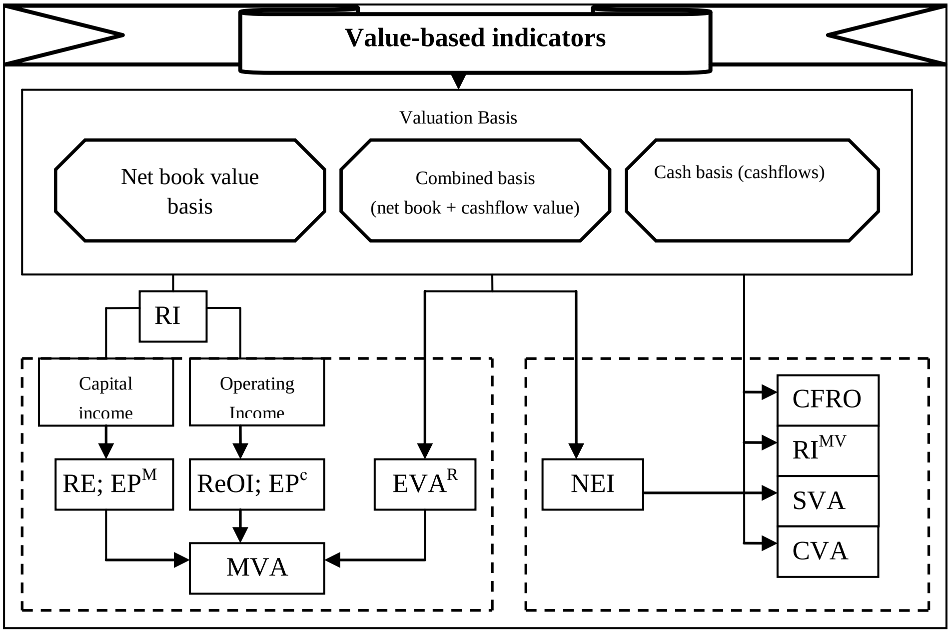

Fig. 4.2. Value-based indicators classification [27]

Legend keys:

RI – Residual Income;

RE – Residual Earnings in EBOP (Edwards, Bell, Ohlson, Penman) model version;

EPM – Economic Profit in Maracon Associates version;

ReOI – Residual Operating Income;

EPc – Economic Profit in McKinsey&Co version;

EVAR – Economic Value Added as a registered version of Stern Stweart&Co;

MVA – Market Value Added in miscellaneous versions;

CFROI – Cash Flow Return on Investments in Boston Consulting Group version;

RIMV – Residual Income (based on market values);

NEI – Net Economic Income;

SVA – Shareholder Value Added in LEC/Alcar Consulting Group version;

CVA – Cash Value Added – in Boston Consulting Group version;

TSR – Total Shareholders Return;

TBR – Total Business Return.

According to this classification attribute there may be intermediate options available when in some performance indicators both accounting basis and forecast data on cash flows are used.

Having reviewed the list of key indicators used in business practices with value-oriented management model, it is worth to conduct their comparison in order for a reasonable implementation into financial and operational management systems. For this purpose, comparative features will be segregated:

1. consideration of future changes expectations both in the discount rate and through capital base.

The more expectations of future benefits are included into a periodic performance indicator, the more correct this figure in terms of creating future value, but the less it determines the actual results. Therefore, this indicator should be used as a benchmark for comparison with budget parameters;

2. the complexity level of an indicator.
   Preference is given to those which are more accessible for the perception of managers of functional units;
3. the possibility of formation of new value creating system on the basis of the indicator i.e. the possibility to detail the final periodic indicator on individual factors that may be used accordingly in the work of each department of an enterprise.

The latter feature is particularly important in the implementation of value-based management system (Table 4.1).

It should be noted that each of the examined indicators has a number of advantages and disadvantages, but orientation on the absolute value of only one of them in decision making makes manipulation through artificial overstatement or understatement possible.

Table 4.1 Value-based management instruments comparison

Indicators	Comparative features		
	Consideration of expectations	Indicator complexity level	The possibility of forming a driver (factor) system
Residual Earnings (RE)	Not included	Low. Simple for calculating and understanding at all levels of management.	High. Simply decomposes into the system of drivers which can be used on all levels of management.
Residual Operating Income (ReOI)	Partly included due to determination of expected capital structure and, consequently, the discount rate	Low. Simple for calculating and understanding at all levels of management.	High. Simply decomposes into the system of drivers for all levels of management.

Economic Value Added (EVA)	Partly included due to determination of expected capital structure and, consequently, the discount rate.	Medium. Adjustments for "Capital equivalents" significantly complicate the indicator.	High. Simply decomposes into the system of drivers which can be used on all levels of management.
Market Value Added (MVA)	Included.	Medium. Understanding the market value as a discounted flow complicates both the calculation and understanding of the indicator.	Low. Aggregated indicator shows performance results on corporate level
Cash Flow Return on Investments (CFROI)	Included.	Very high. Complex both for calculation and understanding	Low. It is difficult to correctly decompose into the system of drivers.
Shareholder Value Added (SVA)	Included.	High. Complex both for calculation and understanding.	High. Drivers system is formed simply and can be brought to all levels of management.
Cash Value Added (CVA)	Partly included through the mechanism of economic depreciation	Average. Complexity is caused due to a proper understanding of economic depreciation	High. Drivers system is formed simply and can be brought to all levels of management
Total Shareholdres Return (TSR)	Included.	Low, as based on real market parameters	Low. Aggregated indicator shows performance results on corporate level

Thus, during the formation of the value-based approach to enterprise management, it is advisable to use a set of indicators. Most indicators should be kept in interrelation and it is advisable to evaluate the effectiveness of management solutions by their effect on the change of balance state of reference indicators set. Enterprise's management should choose the appropriate value indicator on the grounds of efficiency, benefits and costs associated with obtaining the information necessary for its calculation. A key challenge in the application of value-based management is to define a set of different performance indicators. Solving this problem can be based on the use of the Balanced Scorecard (BSC), which is a modern method of strategic management.

4.5. CONCLUSION

In market conditions dynamics of internal value estimates is one of major factors in investors' decision making for any business, as well as the priority criterion of management and business entity performance as a whole. Valuation instruments should be based on a system of drivers (factors) that directly or indirectly have an effect on the creation or modification of shareholder value, as well as can serve as specific tools of current and strategic management. The process of value creation often takes many years, it is impossible to embrace by measuring results for a single period, no matter how intuitive an evaluation method would be. It is necessary to periodically measure the intermediate results of the enterprise's and its business units' activity in order that to identify and reward those who are responsible for those results. Consequently, there is a fairly urgent need for efficiency criteria for a specific period which can measure past results in a way that accurately reflects the value created for that period. VBM instruments provide better results dealing with this problem than traditional accounting criteria, but they have also have certain limitations. At the same time, the necessity of vision for development perspectives of an enterprise, its competitiveness, requires the use of indicators that express expected income from shareholding and risks of investing in those shares. The unification of conceptual approaches to the construction of evaluation and cost-monitoring system will contribute to their practical implementation in business activities.

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5

INSTITUTIONALIZATION OF FINANCIAL AND INDUSTRIAL GROUPS WITHIN MODERN ECONOMIC SYSTEM

The article presents an attempt of analyzing the institutional foundations of the financial and industrial groups. The theoretical approaches of the economic character of this type of corporate bodies is discussed. Moreover, the article defines the formation peculiarities of the FIGs in Ukraine.

5.1. INTRODUCTION

The strategy of corporate units structural transformations is regarded as necessity of ensuring the proper level of their competitiveness. However, insufficient attention to providing arguments for positive organizational and structural changes of corporate relations is often an obstacle against applying the development strategy and has a negative impact on the financial plight and corporate structures competitiveness as well as on the national economy as the whole.

5.2. ANALYSIS OF RECENT RESEARCH

The process of establishment of the first large integrated structures of industrial and financial capital in the wake of intense industrial development has been widely analyzed by researchers. Many papers put attention to the division of labour and intensified competition at the turn of the 19th and the 20th centuries. In particular, Hilferding studied the processes of integration of bank and industrial capital. In his studies [6] he put attention especially to the form of financial capital. Historically, the organizations in the sphere of material production are regarded as the first organizational and legal forms of corporate capital concentration. The first corporate bodies constituted the basis for the merger between the bank and industrial capital [11].

Integrated structures of industrial and financial capital are widely discussed in the literature. Conditions and factors of international economic success including industrial and financial capital, tax regulation, foreign corporate takeovers or saving and enterprise banks [5]. There are also papers [2] concerning methods of adjusting the corporate relations in the context of industrial and financial capital. Authors discuss also technological, political, regulatory, and economic forces [9] applied to different sectors [3, 13].

5.3. FINANCIAL AND INDUSTRIAL GROUP (FIG)

One of the most progressive types of the mergers between enterprises are financial and industrial groups. Such mergers are based on the integration of the industrial and financial capital, which significantly raises the efficiency of material, technical, financial, technological, information, management and other resources. At the same time the industrial and financial integration is defined as the merger between banks, other financial and credit institutions and industrial enterprises, strengthening interaction between them, mutual interweaving property rights in order to achieve certain economic results. This is also a process of interweaving material, human, run-the-business and other resources within the economic system and the implementation of a concerted economic policy [10]. At the same time small companies often have gone bankrupt and passed into the ownership or under the control of large corporations. The latter acquired other enterprises, gained monopoly position in definite markets and got excess profits.

It should be noticed that the most effective forms of implementation of the industrial and financial integration preconditions are the FIGs, with such backbone features as availability of functional centres of industrial and bank (financial) capital as well as availability of a dominant centre that determines the common strategy of the whole structure (holding company). This structure allows to approximate the maximum extent of the mechanism of capital migration to the movement of capital in the financial markets by using the advantages of centralized management. The FIG's core consists of economic relations and instruments, emerging as a result of interaction of its participants. Due to the establishment of the group, the usage of instruments operated by each individual participant becomes systemic, while mutually complementing and enhancing each other.

There is no term "financial and industrial group" in the scientific and legal practice of the Western countries. In foreign literature large financial and industrial pools are usually called "TNC" (TNC – transnational corporation). Sometimes the term "transnational" is replaced by equivalent, for example, "multinational" or "alliance". If it is not temporary it is called a "strategic alliance". Some scientists consider FIG to be "an organization established under the auspices of the state". This term regards an organization, where the merger between industrial enterprises and financial institutions takes place in order to pursue coordinated economic activities and to address the key challenges of economic restructuring. Others consider it to be the merger of enterprises interconnected by technology and capital from various economic sectors and spheres, when their operation is aimed at achieving a competitive advantage by improving production efficiency and product competitiveness, and by expanding outlets. The definition of FIG as “an informal pool of legally independent economic actors (large real sector companies, banks and other financial institutions, etc.), interconnected by the system of participation, personal union and other relations, which allows us to identify and implement common economic interest of all FIG participants within a common strategy” [4].

These definitions illustrate attempts to characterize the "FPG". And if the emphasis of the first approach is put on participation of the state in the creation of such associations, the second, in our opinion, does not clarify the question of difference between FPG and TNCs, since the latter can have (and usually has) in its composition financial structures along with manufacturing. In general, Russian researchers agree that FPGs, essentially – are similar to foreign multinationals. The only difference between FPGs and MNCs is that the latter have a multinational character, and FPGs operate on the territory of one state. We should also pay attention to the fact that the FPGs rank a special position in the typology of the largest organizations. Their dominance rely on less deterministic economic structure and specific factors such as:

a) the financial resources are transformed into investments through various financial institutions;
b) anufacturers focus on attraction of funds through financial institutions;
c) generation of financial resources implies the existence of the organizations able to accumulate and distribute them.

FPG implements the relationship model, which allows to accumulate financial resources for investment and manages the capital in the interest of the whole structure so that each of the participants is able to strengthen his market positions. As it was already mentioned, the specific feature of the FPG is integration of the participants not only because of the accumulation of financial resources, but also due to the overall managerial, pricing and other kinds of policies [21].

The analysis gives the ground to conclude that FPGs may have a different configurations of the composition, including:

a) mechanisms of association and the centralization of capital primarily in the main company, underpinned by the General Agreement on joint activities for the production of the final product;
b) mechanisms of association and centralization of part of capital, corporate cross-ownership rights and the existence of a General Agreement on joint activities for the production of the final product and the bilateral agreements for the supply of intermediate products;
c) on the basis of a General Agreement on joint activities to produce the final product and bilateral agreements to supply intermediates.

Transformation of industrial and banking capital into financial capital, which moves through specific channels and has specific forms of funds rotation, significantly improves the efficiency of resource use as a result of their combined functions due to synergistic effect. In addition, in FPG temporarily free financial resources may be directed from one company to another which needs them since the movement of their capital and their turnover rate is different. Due to the circulation of capital and the accumulation of resources within FPG, companies are able to switch to financial activities, so that the profit will be generated not only from production activities, but also from trade, financial and other kinds of activity as well as from interest-free loans from the bank of the group, which may significantly increase the stability of the entire FPG [1].

Combination of individual capitals during the financial-industrial integration provides the group with an opportunity to realize large-scale investment projects. Bank involvement in the management of industrial enterprises in FPG may depend not only on the property relations between the latter and the banking institution, but also on the chosen strategy of industrial expansion of the bank, since the general trend for concentration of ownership and development of financial capital is targeting a controlling stake. This is due to the low liquidity of the vast majority of corporate shares and significant risks associated with their possession.

Integration of entities in a diversified FPG enables its members to combine within the group the functions performed by financial companies (banks, insurance companies, etc.), while remaining independent economic actors. In such associations there is an opportunity to effectively use and combine the advantages of financial self-management, that actually create the preconditions for the concentration of financial resources and effective management of capital flows.

5.4. FEATURES OF FIG

The special features of FIG as a business combination include goal and initiative of its creation, compulsory conclusion of a general agreement on joint activities between the parent company and other members of FIG, which regulates the relations between them. Other functions imposed on the parent company or other participant of FIG are temporality of the association created for a certain period and the lack of specially established authorities etc. [21].

There are several key components (institutional units) in the organizational structure of most FIGs, including financial and economic, industrial, commercial, and research and developmental. The basic principle of the establishment and functioning of the group is the principle of equality of all subjects.

Mechanisms of capital consolidation in the FIG are mutual shareholding of participants that enables to conduct mergers and acquisitions with parent company having controlling stock, trust management of FIG participants shares by parent company, association of groups based on the long-term financial relationships. Scientists point the fact that for the formation of "critical mass of innovative institutional structures" it is necessary to create powerful financial-industrial groups that will implement structural changes in the economy [15].

Significantly, there are participants in the FIG, but there are no founders and no consolidated balance sheet. FIG does not emit its own securities, thus it lacks the aggregate share capital. The group is bound by common economic interests through its financial schemes. The simplest form of management of the FIG is cross shareholding among members. The participants of the group cross-owning shares of each other and having a controlling share of any party, are a group holding company for him. This creates a system of mutual loop-shaped control which prevents the penetration of a group by companies from other corporations and integration formations. After the group creation, the protection body is no longer the parent company, but the board of FIG members simultaneously serves as a board of key shareholders.

However one should also notice that the peculiarity that stimulates the proliferation of FIGs in Ukraine is the lack of legal status of person or overcompany formation with legal status. Analysis of the Ukrainian practice allows to identify main problems of formation and development of FIGs in Ukraine.

1. Existence of legislative definition for a long period of time for the group as industrial and financial rather than financial and industrial, which deprived group participants the possibility to unite around a financial center banks and insurance companies that are designed to serve as strategic investors. World experience shows that it is the FIGs that are the most effective corporate entities.
2. Lack of legal regulation of joint liability for the obligations of the parent company of FIG (consolidated accounting and reporting, implementation of banking and other types of financial transactions, etc.). For a long time the legislation of Ukraine acquitted parent company from liability for the obligations of participants of the group, and members of the FIG did not meet the obligations of the parent company.
3. Limit of the scope of FIGs by production of final products and their retail trade in Ukraine that did not contribute to the diversification of activities, which is intended to secure the group from adverse economic and political situation in the country, and also restrained the strive to enhance production efficiency and consolidation in the global markets.
4. Restriction of functioning term of FIGs by the period of the government's program of economic development, the scale and complexity of registration procedures limited the possibilities of free reorganization and transfer of capital in other industries and did not stimulate strategic investors to implement large-scale projects and establishment of such groups in Ukraine.

World practice clearly shows that national capital becomes able to compete in the world market, if largely institutionalizes in financial and industrial corporate entities whose activity is stimulated by the state. Given the fierce competition between large corporate structures, associations that have promising development programs within one or more areas and technological know-how’s will strengthen their positions. In addition, they should have well-established links between the parent company and other participants in relation to the management or coordination of group activities [12].

A significant advantage of FIGs that should be mentioned is that enterprises of one technological chain that make up the group can use the mechanism of transfer prices. They settle with each other for goods sold and services provided not at the market prices, but at lower ones. Also full or partial transfer of VAT from intermediate stages of production from one entity, which is the supplier to another entity, the consumer, up to the final stage in the technological chain of production is used. In addition, close cooperation of enterprises and banks within FIGs promotes efficiency.

Regarding the increased influence of financial industrial groups as the form of reconciling the interests of business and public sector, there are some reasonable concerns that lack of competitive mechanisms may result in intensification of monopolies in economy. It should be also taken into account that in some cases the reorganization of large monopolies can be harmful as it leads to intense competition between large companies [14].

Thus we may determine some advantages of creating financial-industrial groups:

- mobilization of financial resources within the group is accompanied by their investing and concentration which strengthen FIG's market position and facilitate its world market entry;
- financial risk diversification;
- more efficient R&D project financing;
- intersectoral and interregional capital mobility/transfers within group's companies.

FIGs also:

- facilitate access to financial resources;
- enable transfer pricing;
- promote the inflow of capital;
- increase national competitiveness and strengthen coordination of economic activities, etc.

5.5. FIG AS CORPORATION

The approach to understanding FIG as corporation, which is intended to implement only priority industries state development programs and facilitate restructuring of Ukrainian economy should also be changed. Given the relatively low financial capacities of Ukrainian banks, legal restrictions on the number of banks within a FIG (currently one banking institution) is inappropriate.

Apparently this rule significantly restraints Ukrainian companies' investment activity. In Russia, for example, there are no restrictions on the number of banks within the FIG. Instead, Russian legislation defines FIG as a complex of legal entities that function as main and subsidiary companies, consolidate all or part of their tangible and intangible assets by concluding a treaty and aim at technological and economic integration necessary for investment and other projects or programs intended to improve competitiveness and expand market share, increase efficiency and create new jobs.

The main idea expressed in the Russian law is that a FIG is formed for the purpose of integration financial and industrial capital to attract investments to the real sector. This means that Russian legislation combines the concept of "holding" and "financial-industrial group", uniting them into FIG while Ukrainian legislation distinguishes between the two concepts. Thereby Russia provides wider legal grounds for the establishment of FIG.

Taking into account the importance of financial-industrial groups in economic development, one may argue that they are intended to establish a framework for structural and institutional transformations since they provide for effective economic development and strengthen global competitiveness [16]. It is clear that "the development of global competition has resulted in the consolidation of companies and the transformation of global monopolies into financial and industrial groups as the most effective form of business organization in terms of concentration and distribution of capital" [22].

It should be noticed that in due course Ukrainian FIGs failed to exploit favourable conditions for technical re-equipment and modernization. Being export orientated Ukrainian financial-industrial groups are exposed to external shocks and global economy fluctuations. On this account, we should develop a series of measures aimed at encouraging the FIGs development in Ukraine, including:

a) diversification of activities that suggests a shift from the world market towards the national market;
b) expansion of financing programs connected with the investment and innovative renewals of technical and technological base of the Ukrainian economy;
c) strengthening of domestic producers in the Ukrainian market contributing to the implementation of the import substitution policy.

It is significant that in recent years the interest of banks to participation in the FIG is growing. This can be explained by the following reasons:

a) the reduction of basic banking profitability (decrease of interest margin, increase of the level of risk, volatility in the foreign exchange market, etc.) and the significant increase in competition within the banking market. Banks realize that without the development of industry it is impossible to provide the stable development of the banking system, and primary focus on profit impedes the development of banking institutions;
b) banks receive opportunities to strengthen their financial capacity by concentrating the FIG's assets because consolidation of capital improves the financial position of the bank. The banks are considered to be the institutions with well-developed corporate governance, hence the banking experience becomes available to other members of the group in the process of integration;
c) reduction and diversification of credit risk. Long-term industry lending remains quite risky. Immediate opportunity to monitor borrowers (including cash flow), investment decisions etc. are provided only in case of combining financial and industrial capital and formation on this basis FIG. Under these conditions the probability of repayment of loans increases significantly, so banks may change the structure of their credit portfolio, increasing the share of long-term lending to industrial enterprises;

d) expansion of foreign bank capital, which has better financial capabilities than in the Ukrainian banks, dramatically reduces the customer base of Ukrainian banks, and their participation in the FIG can not only keep their customers, but also expand their list by adding new entities that participate in the group [20]. The institutional support for establishment and regulation of FIG is especially important issue for Ukraine. The objective processes of capital concentration obviously foster creation of so-called informal or actual financial and industrial groups without official status of FIG but possessing all the essential features of such entities based on a combination of banking and industrial capital. Vague operating as well as economic power implementation lay outs are often used within such formations [7].

However, even under such conditions the development process of banking and industrial capital integration is quite dynamical in Ukraine and gradually obtains the effective form of the economic law of accumulation. The use of different methods aiming financial support for production process by means of lending, direct and portfolio investment, factoring, guarantees, payment services etc. enables banks to diversify significantly areas of their activities, to achieve a significant level of capital concentration and improve the structure of their assets. Banks participation within the FIG provides funds for its activities, and turns to be a reliable incentive for the inflow of external financial resources.

Ukrainian scientists point out that the most attractive and the most common form of maximizing FIG's profits was the assignment of "rent" by establishing control over financial and commodity flows through the following methods.

1. Trading activity by means of selling (distribution) energy resources. In regions such work was concentrated under control of traders, who are close to the regional power. Due to the fact that the most companies exchanging products at lower prices with the following reselling at higher prices (including foreign markets) lack financial resources.
2. Carrying out the banking activity via speculative banking operations in the circumstances of hyperinflation. Speculative operations result in acceleration of banking capital accumulation. That is the period of creation of those banks which were transformed into centres of today's powerful FIG.
3. Due to privatization of profitable state-owned enterprises through the use of privileged way of redemption (for example, by passing it to the labour union in the form of lease with option to purchase). Gradually the shares of the labour union members were accumulated by the management of such companies or by foreign investors.

5.6. TYPES OF FIG

It should be mentioned that, as a result, two types of Ukrainian financial and industrial groups were formed [18]. The first type means the so-called industrial groups, which were formed on the basis of trade and capital through privatization of state enterprises. This type may include management companies, around which the industrial enterprises are united. Even if such groups involve banks, they do not perform the leading role by serving members. The most powerful industrial groups of this type are *SCM*, *EastOne* (*Interpipe*), *Group DF*, *Industrial Union of Donbass*, *Ukrprominvest*. Groups of this type are more consolidated and built on clearly defined business system.

The second type includes banking groups, that were formed on the initiative of the banks and included them. The banks play a role of strategic and financial center in such FIG. The group *Privat* may be included in the list of the most powerful groups of this type. Unlike the first type, these FIGs do not have clearly defined limits of consolidation. The initial motive for establishing control over the enterprises by banks was to fix boundaries and areas of banking. Interests of financial business continue to be dominant within these groups, also, banks are in the process of active determining of the strategy for further development of the subsidiary group of companies. Scientists point to the fact that trade and financial flows, that were controlled by domestic FIG, were concentrated primarily in foreign economic activities, that gave groups a chance of gaining superprofit due to the difference in internal and external economic situation.

N. Hrazhevska [8] points out that formation of several powerful financial-industrial groups in Ukraine can be considered to be an adequate form of implementation of transformation of the Ukrainian economy. We agree with the opinion, that the most beneficial form of profit maximization of domestic FIGs under present conditions is the appropriation of rents by controlling the trade and financial flows with the help of three methods. However, analysis shows that national capital is not strong enough to form Ukrainian transnational corporations based on national economic complex [8]. At the same time it is suggested that some Ukrainian FIGs have already approached the status of transnational corporation (primarily referred to *SCM*). It is necessary to note that [8]:

a) the emergence and growth of large national capital is associated with the branches of industry, that need technology parks modernisation. The steel industry is a branch where the largest FIG of Ukraine were formed, three of them (*SKM*, *Arcelor Mittal* and *ISD*) are gaining characteristics of transnational corporation;
b) the development of powerful Ukrainian corporations is determined by political factors to a great extent;
c) the integration of leading national producer in technological chains of TNC occurs against the background of the dominance of foreign capital, that contributes to formation of the model of dependent development. An example is the sale of *Kryvorizhstal* that led to strategic losses because of the foreign TNC strengthening;
d) the staying of Ukraine at the opposite phase of evolutionary dynamics, that means progress in the direction, which potential has already been exhausted by developed countries, using the benefits of cooperative relationships with partners;
e) the deformation of the process of legal formation of TNCs in Ukraine, due to the dominance of shadow forms of withdrawal of capital through offshore jurisdictions.

It is significant that Konstantin Zhevago, the owner of the «Finance and Credit», expresses a fundamental unwillingness to create a management company for it, that distinguishes the group from *SCM*. *Finance and Credi* and *Private* are among the largest national FIGs operating without the organizational vertical, maintaining consolidated financial statements and other attributes of well-organized business model. K. Zhevago notes that the company management is an additional not profit center, but expenses one. In addition, the raider attack becomes easier if the management company hold all the group assets [19].

The attention should be paid to the fact that *SCM* calls itself the financial and industrial group. In particular, the official website states that its goal *"...consists in SCM becoming not only a leading financial and industrial group in Ukraine, but also internationally competitive and successful business"* [17]. Among the main *SCM* business areas are mining and steel business, energy business, financial business, telecommunications, real estate, clay extraction, oil products commerce, machinery, retail and others [17]. Its corporate structure reflects the change of the *SCM* concept of the transition from the operational management of individual enterprises to strategic management; companies are responsible for the development and implementation of development strategy. The new corporate structure more clearly identifies areas of responsibility at all levels of management that is to provide a more efficient and transparent solutions (Fig. 5.1).

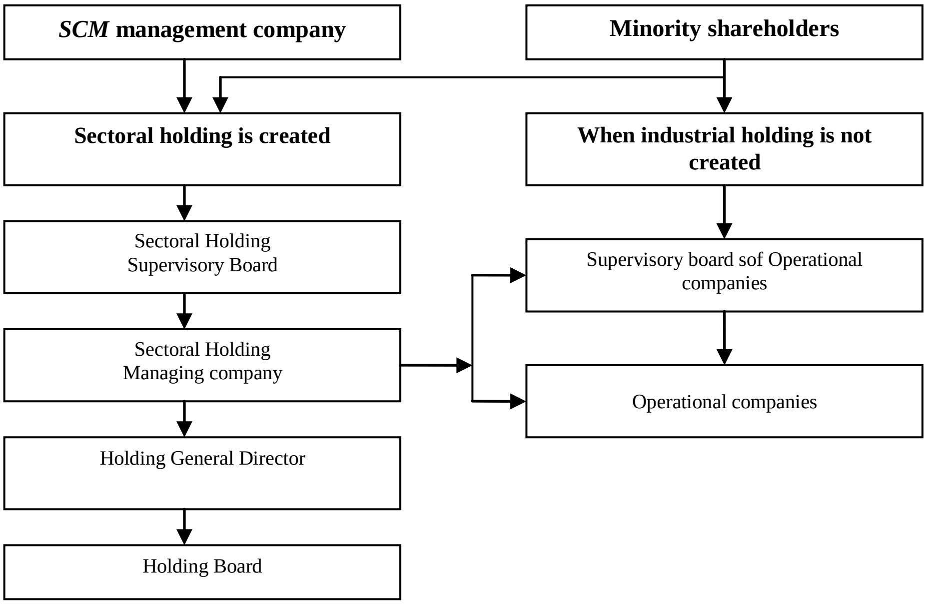

Fig. 5.1. SCM Group corporate structure
Source: based on the data from [23]

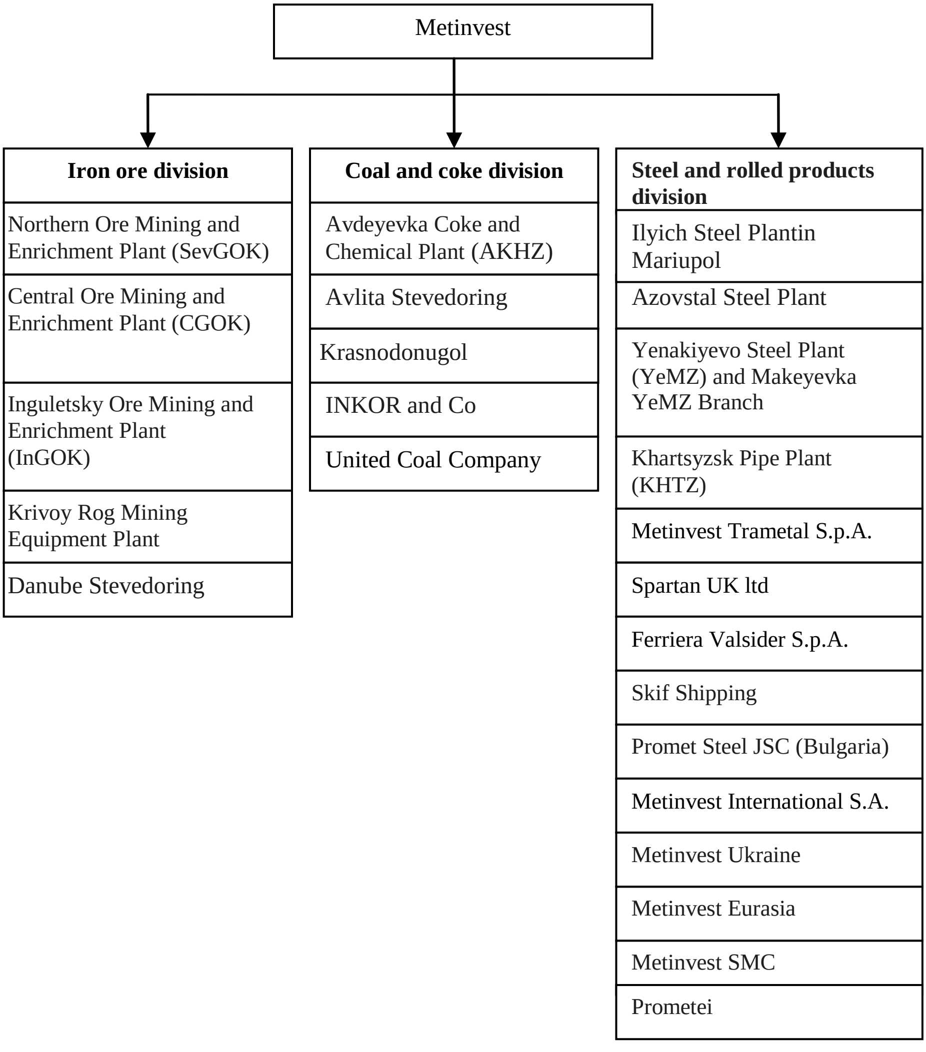

Fig. 5.2. Main Metinvest group enterprises (except of the associated companies)
Source: based on the data from [23]

The merger of mining and metals assets of SCM and Smart Holding within Metinvest began in2007and was completed in2010.Metinvest Group purchased a 100% share in United Coal Company (USA). Metinvest Group is an international vertically integrated group of metals and mining enterprises, managing each link of the production chain – from mining iron ore and coal to coke and coking coal production, to smelting steel, and producing rolled steel sections, structural shapes, large diameter pipes, and other steel products with high added value. The Group includes mining and metallurgical enterprises in Ukraine, Europe, and the USA, subdivided into the mining and the metallurgical divisions. Metinvest B.V. (Netherlands) is a holding company for Metinvest Group. Metinvest Group’s main shareholders are SCM Group (75%) and Smart Group (25%) and they manage the Group on a partnership basis. Metinvest is the largest steel producer in Ukraine. Metinvest consists of three divisions. The structure of Metinvest is shown in the Figure 5.2.

5.7. CONCLUSIONS

The world experience shows that enterprises integration in large financial-industrial groups significantly reduces the cost of transactions. This factor plays an important role when the process of integration takes place in Ukraine. The recognition of advantages of such cooperation form gave rise to a number of large corporations that have diversified their activities within the same structure. It´s obvious that in order to resist the negative trends in the Ukrainian economy and achieve growth of competitiveness we should create Ukrainian corporate structures in accordance with the international standards. In this regard, it is reasonable to note that the large corporate structures under financial and economic crisis conditions of 2008-2009 have proved to be the most perfect formations in competition and growth of external risks.

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6

FINANCIAL LEVERS IN RELATIONS BETWEEN THE AGRARIAN ENTERPRISES OF THE UKRAINIAN ECONOMICS

The article highlights problems of the financial levers influencing on the formation of effective organizational and economic interrelations between the Ukrainian agrarian enterprises. The paper substantiates approaches to solving of this problem.

6.1. PROBLEM OUTLINING

Development of the civilized market relations stresses many aspects. One of them is adjusting economic processes in the agrarian sector of economy. Complication of economic situation in agriculture of Ukraine is related to imperfection of state levers of influence on industry development. Overcoming of the negative phenomena cannot be done using self-weighted decisions. One of the most important problems which require exigent solution is providing financial resources to agrarian enterprises. Without financial resources one cannot conduct this activity in the economic scope without the providing the financial system of production, which does not exist in general.

In market environment finances acquire a qualitatively new content. They become an essential regulator of economic processes in society. World business practice proves that the financial mechanism for the agrarian sector in market environment is mainly aimed at distributive, controlling and defensive functions. The formation of the effective financial mechanism both in business environment and in the trading sector for agricultural production, raw materials and foodstuffs is important for further development of organizational and economic relations between agrarian enterprises.

Financing of agriculture is a difficult and at the same time necessary constituent for successful development of industry and maintenance of it at competition level with the comparatively developed agrarian countries. Most enterprises of agrarian sphere of Ukraine ran into the problem of failing, hardness availability to all types of resources. At divergent prices on an agricultural produce and industrial, capital goods and raw material, power mediums, hardness agrarian enterprises to be in charge and provide stable development and financial firmness of industry.

The aim of the article is to substantiate the impact of financial levers on the formation of effectual organizational and economic interrelations between the agrarian enterprises of the Ukrainian economics.

6.2. ANALYSIS OF RECENT RESEARCH

Considerable contributions to the study of financial provision for the agrarian enterprises have been made by the following Ukrainian scientists [2,3,5,8,13,14,15,16,17]: V.G. Andriychuk, V.I. Aranchiy, A.V. Chupis, M.Y. Demyanenko, O.D. Gudzynskyi, I.G. Kyrylenko, Y.O.Lupenko, O.M. Mogylnyi, M.Y. Malik, A.A. Macedonian, V.P. Martyanov, V.Y. Mesel-Veselyak, P.A. Layko, P.T. Sabluk, N.S. Tanklevska, V.G. Tkachenko, S.V. Vasulchak, T.I.Yephymenko, I.E. Shepotko, V.Y. Shiyan, A.V. Shkilev, A.M. Shpichak, V.V. Yurchishin. The analysis of these researches outcomes proves the lack of studies on the problems of the financial levers influence on the formation of effective organizational and economic interrelations between the agrarian enterprises.

The research papers discuss estimation methods of financial state of agrarian enterprises using different methods [11,12] including fuzzy-set theory [10]. There are also research conducted on financial management of agricultural enterprises [5] and catalyzing and optimizing smallholder agriculture finance [6,9,1].

6.3. THE FINANCIAL SUPPORT OF AGRARIAN ENTERPRISES

The world experience proves that if there is rapid costs distribution by means of price disparities out of agriculture into other economic fields, economic agents fail to function properly without state financial support. The lack of such support in Ukraine nowadays affects the formation of effective interrelations between agrarian enterprises [7]. It is reasonable to provide the financial support, like in other countries, on the national level on the basis of the conception of inability of proper agricultural manufacturing functioning without state financial support by means of state regulation using dotations, subsidies and subventions. In addition sponsorship must be carried out within the framework of the concrete programs and projects. In principle for every separate product (or major from them) the special programs are needed. The last must take into account the presence of difficulties with the sale of products, its competitiveness, in particular in the world market. In the programs it is necessary to fix not only financial but also price, terms, order of quota but other. The grant of sponsorship (favourable credit, grants) is accompanied establishment from the side of the state of terms. This can be the level of production efficiency, products quality, quotas implementation, part of agriculture, in profits, race of cattle.

State resources must be used with the hard observance of the having a special purpose setting, and producers which got sponsorship, to carry economic responsibility for the unproductive use of money. Therefore subsidies, grants, the sums of compensation for the favourable crediting must return at violation of grant terms of such money.

The maximal size of sponsorship is determined in every case. It is applied in calculation of economy, worker, and unit of object which is built.

Money is given on to compensative ration to basis. It means that the state compensates only part of charges and besides such which were indeed borne. Correlation of participation of the state and producer can differentiate depending on maintenance of project or program. In travelling building specific gravity of budgetary facilities, in obedience to experience of countries of Eastern and Western Europe arrives at maximal sizes.

During building state facilities on capital it is necessary to select under projects on competitive basis, bringing over to the competitions as state so non-state enterprises. Participants and managers of projects also inlay the resources on ration principles. These projects must be effective not only from the production point of view. Also demanding on products is considered by its competitiveness from positions of collision with the imported commodities taking into account possibilities of acquisition a domestic equipment but other.

In the concrete terms of Ukraine it is very important to attract enterprises for participating the money in projects. It is necessary, in particular, to create possibilities in a modern unfavourable situation for a ration participation of investor or producer. Depending on maintenance of the program these can be tax deductions to the products which is realized, favourable crediting and state guarantees at crediting, distribution of practice of the accelerated depreciation and others like that.

During the leadthrough of such policy most subsidies will take character subvention, as they have having a special purpose character, return at violation of terms of grant and make only part of charges together with an own money.

The level of agricultural production development in various regions of Ukraine is different for objective reasons. Consequently, it requires various approaches to the formation of budgetary funds. We are convinced, that the principal part of budgetary funds should be concentrated in the local budgets and should be used according to the differentiation of economic and ecologic conditions of regions.

According to the performed analysis of the main types of agrarian production in all business categories due to individual regions, one can make a conclusion that Lviv region leaves behind other regions of Ukraine selected by our research in terms of the basic types of foodstuffs (Figure 6.1).

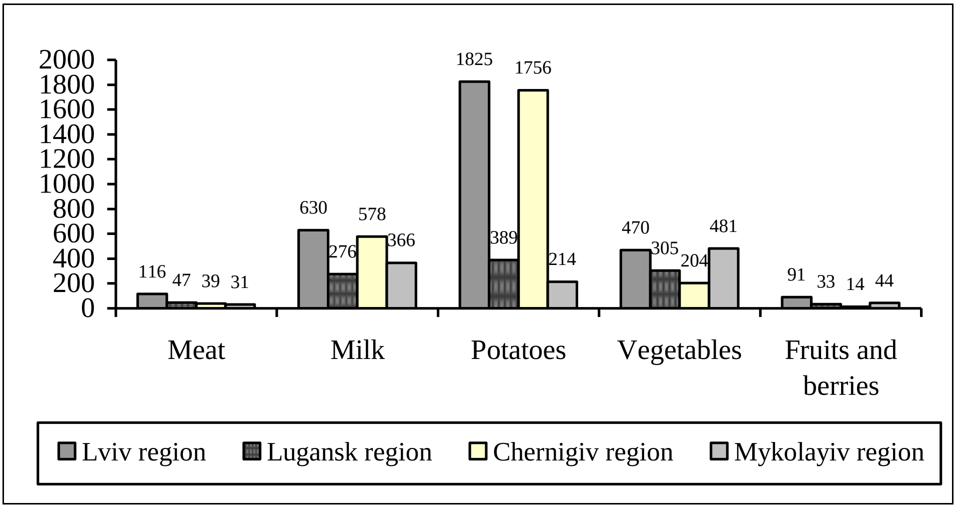

Fig. 6.1. Manufacturing of the main types of agrarian production for all business categories in certain regions of Ukraine in 2011, thousand tons

The financing problem for social sector and social programs is still of vital importance for rural areas.

Internal financial relations are increasingly applied as a new financial lever in market environment. These internal financial relations on the level of agricultural agents can emerge between:

- agrarian enterprises and their founders (owners) on the subject of the formation and using of statutory funds, distribution of income, etc.;
- agrarian enterprises and their separate structural subdivisions on the subject of assets leasing, agricultural lands leasing and financing of social measures;
- agrarian enterprises and their employees on the subject of the assets leasing, agricultural lands leasing and financing of social measures.

The above mentioned factors alter the content of financial levers essentially on the internal business level, which, in its turn, requires the improvement of manufacturing organization and appropriate peopleware.

It follows notices that among all financial leverages the special place is occupied by taxes and collections with the help of which the state mobilizes a money for implementation of the functions laid on it, and also influences on entrepreneurial activity in an agrarian sphere, instrumental in investment activity of enterprises, determines the proportions of piling up and consumption, provides the rational use of the limited natural resources and others like that.

6.4. ECONOMY CONDITIONS

Financial stimuli are assumed by applications of both financial encouragement and economic approvals. Encouraging funds which appear from an income, budgetary financing of effective directions of development of national economy, financing due to state facilities of the government programs, structural re-erecting of economy, preparation and in-plant training shots, research works, nature protection measures, belong to the stimuli. Encouraging funds from the income of agrarian enterprises create necessary stimuli for achievement of the best results of managing, because exactly these funds are the main source of money for financial stimulation of workings, satisfaction of social necessities and production development. Determination of priority of those or other directions of the use of net income is exceptionally the domestic affair of enterprises. The special financial privileges are also the instrument in creation of favourable terms for separate economic entities and used mainly as a complete or partial release from taxes, application of the differentiated rates of taxation, exception of certain sums, from taxable a tax profits, grant of right on the leadthrough of the accelerated depreciation. In financial leverages an important place is occupied by financial approvals as a special organization form of financial relations, called to strengthen property accountability of subjective managing in liabilities execution taken.

Trading enterprises which deal with marketing of the manufactured production are crucial for the financial mechanisms of agrarian enterprises provision.

Economic mechanisms of the agrarian trading enterprises are not aimed at the decrease of trading extra price. Therefore, the increase of retail goods turnover for foodstuff enterprises does not cause the stabilization of the trading agents financial state, namely, does not improve the financial state of foodstuff producers.

In general, the retail goods turnover for the foodstuffs enterprises has increased. It proves positive dynamics for the growth of manufacturing and consumption of agrarian production (Table 6.1). The analysis indicates that the highest increase in 2011 in comparison with 2005 is observed for vegetables, fruits and berries and oils, accordingly, in 5,7 times, 6,6 times and 4,8 times.

Table 6.1 Retail goods turnover of foodstuff enterprises, hryvni, mln.

Foodstuffs	2000 year	2005 year	2009 year	2010 year	2011 year	2011 year – 2005 year
Meat and meat foods	1499,0	5175,3	12112,9	13844,8	15872,9	in 3 times
Milk and dairy foods	564,2	1809,0	4055,1	5349,3	6157,3	in 3,4 times
Fish and fish products	406,8	1555,3	3728,1	4515,3	5246,4	in 3,4 times
Eggs	204,7	441,5	1117,8	1308,7	1563,3	in 3,5 times
Bread and grain products	1830,7	1699,2	2631,5	2960,2	3501,2	in 2,1 times
Potatoes	31,1	190,0	457,3	536,5	701,5	in 3,7 times

Vegetables	123,7	500,8	1590,1	2196,0	2835,5	in 5,7 times
Fruits and berries	123,0	684,6	2609,5	3567,6	4550,3	in 6,6 times
Sugar	215,9	432,2	967,7	1221,8	1374,2	in 3,2 times
Oils	92,2	416,1	1187,4	1452,5	2002,2	in 4,8 times

Source: the data are compiled and calculated by authors due to the data of the Main Statistics Management of Ukraine.

We are convinced, that effectual financial management in the sphere of agricultural production, raw materials and foodstuffs trading should provide appropriate management for goods turnover expenses. We are inclined to believe, that difficulties in organizational and economic relations can be accounted for the fact that the best conditions for the formation of effective financial management are in large trading enterprises, which can be oriented at relatively low trading extra charge and receive own economic benefits at the expense of sales expansion. Trading of agricultural production, raw materials and foodstuffs is specified by the considerable number of small suppliers and retailers. It causes numerous irrational turnover expenses. In our opinion, the development of relations between retailers and foodstuffs suppliers in agricultural sector is essential for the mechanism organization of current retail trading. In this turn, it requires the necessity of expenses optimization and logistics introduction for the whole chain of foodstuffs manufacturing, transporting, preserving and marketing.

It should be mentioned that credit relations are still the most complicated financial levers for agrarian enterprises [4]. The demand for credit resources of agricultural production and raw materials producers is rather unsatisfied. It can be accounted for excessively high price for crediting. Therefore, the crediting problem for agricultural agents, mainly, raw materials producers, is complex and requires a number of coordinated measures which should comprise the basic characteristics of crediting agents. We are convinced, that such crediting system for agricultural producers should include the following main aspects: credit infrastructure oriented at agrarian sphere service; mechanism of crediting relations with commercial banks; mechanism of non-bank crediting.

It is very important to select priority directions of financial and credit support of the state. At the decision of this task it follows to mean important conformity to law: than greater amount of priorities, the more so loading on a budget and more difficult mechanism of adjusting. Taking into account the state of budget and unbalanced of adjusting mechanisms, the amount of such priorities must be sharply limited, it at first, and secondly – they must be maximally attractive for producers. The last must be instrumental in practical realization of a ration principle of participating in the programs and projects.

In our opinion, among priority directions of state support must be: structural re-erecting of agriculture and APK on the whole, foremost development of base of storage and processing, rural industry and trades. Other important factors are: expansion of import-needed products and export of suitable products; development of cooperative banks, credit societies, insurance co-operative companies, and others; support of reclamation base, cultural and welfare sphere, travelling and other infrastructure.

To the major terms of financial and credit grant resources for economies must become presence of plans or projects of reconstruction, modernization or development of base of storage and processing, presence of workers and foremost leaders with necessary qualification, documents about the state of enterprise and by the estimation of possibilities of effective production.

At the same time it is very important to guarantee certain stability of sponsorship. Because of practice which was folded, it is necessary legislatively to fasten the obligation of the state, including in the case of delay at calculations. The first approach foresees approvals to the state at the delay of the proper grants and subsidies. Other variant is indexation of the detained financial resources after the official index of inflation. In both cases it would follow to oblige public organs to compensate the losses of enterprises, uses of trade credits related to the necessity, with approvals for ill-timed payments, by the lost of benefit.

A considerable number of agricultural enterprises experience urgent need for using main means and other elements of technique and technological base, since it is usually impossible to acquire them due to the low level of implementation effectiveness in economic activity of a separate enterprise. Therefore, leasing is commonly applied in word practice for the following reasons: the reduction of liquid funds due to permanent difficulties on money markets; exacerbation of competition, which requires investment involvement; income reduction for enterprises, which restricts their abilities concerning necessary funds concentration for production expansion and technique provision; promoting leasing operations development by state structures intended to stimulate the economic growth of the sector.

The outcomes of our research on financial levers influence on the development of interrelations between agrarian enterprises prove to be effective to state, that current financial and economic mechanism of their functioning does not form conditions for effective expanding their equity capital, and, therefore, for increasing their market value. The financial structure of the majority of agricultural enterprises is deficient, which causes excessively low level of their financial stability and solvency in comparison with the economic agents in other fields. The determined inhibitory tendencies suppress the formation of effective organizational and economic relations between the agrarian enterprises.

Under these conditions the further increasing of financial levers impact on agrarian enterprises functioning involves the following:

- the state policy concerning supporting small business in the agrarian sector requires activation, first of all, in terms of the financing expansion and taxation reduction;
- it is indispensable to elaborate and implement measures on micro-crediting, oriented at various small enterprises, namely those intended for processing agricultural production and raw materials and marketing of foodstuffs;
- it is necessary for the National Bank of Ukraine to create conditions for considerable interest rates reduction for bank crediting by means of appropriate regulatory policy;
- the formation by agricultural enterprises of effective dividend policy (income distribution policy) aimed at the increase in refinancing of their income and accelerated expansion of equity capital by means of namely internal sources;

- accelerated formation of equity current assets by agrarian enterprises; directing them, first of all, at debit indebtedness and money assets financing, which guarantee their proper solvency;
- activation of amortization policy by agrarian enterprises using accelerated amortization, which will promote increasing of amortization flow during the formation of financial resources for investment needs;
- diversification of sources by agrarian enterprises involving borrowed capital, increasing financial leasing.

6.5. CONCLUSIONS

In modern terms, in connection with a small volume budgetary, financing can be used mainly as a mechanism of starting and correcting of those market processes, which are able to strengthen a state action in direction of firmness of agrarian sphere increase. The basic measures of fiscal policy must create the certain lever of market forces and estimated after the that effect of strengthening which creates concrete state action in economy. Providing necessary proportions of the proof economy growing of agrarian sphere in relatively short time is possible only on the basis of large production terms, high-quality update of facilities of labour and application of progressive technologies. Passing to the continuous innovative process will give possibility complex to settle the economic, social, technical, ecological problems of steady development of agrarian sphere.

Therefore, it should be mentioned, that highlighting the financial levers impact on the formation of efficient relations between agrarian enterprises provides both, the optimization of the mechanism of their management and the minimization of total expenses as well as receiving a synergic effect. We are convinced, that it is on this basis, including financial levers, the relations between agricultural agents should be grounded. The further researches will embrace the problems of logistic approaches formation as important basis for optimization of organizational and economic mechanisms for relations between agrarian enterprises.

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7

PHENOMENON OF DIRECT FOREIGN INVESTMENTS AND COMPETITIVENESS IN GLOBAL ECONOMY

The role of direct foreign investments into the countries with transitional economy and the problems of forming the competitiveness of economy as key factor of attracting flows of international capital are considered in the article. Special attention is devoted to the competitiveness of regions, to process of formation of competitive advantages of cities, and prerequisites of regional competitiveness, as the basis of competitiveness of a country on the whole have been determined.

7.1. INTRODUCTION

International capital flow as the display of global economy, comes forward today as an important factor of rise of national economies of all countries, both as exporters and importers of capital. Globalization of world economy is an objective process of formation of integrated and interdependent economy of the countries of the world. Objectivity of economic processes, as known, lies in the fact that they do not depend on the will, desires and consciousness of people. That is, regardless of the measure of realization of logic and tendencies of economic processes in development of world economy, today we are the witnesses of the newest economic phenomena, which have not yet found the proper comprehension in works of economists.

7.2. ANALYSIS OF RECENT RESEARCH

It is obvious that international division of labour, as a factor of development of world economy, diminishes total expenses of national economies. Yes, once international trade (historically, the first form of international economic relations) which is based on principles of absolute and comparative advantages, led to the rise of economies of all trading countries and to the rise of labour productivity in a global scale. According to the David Ricardo's theory of *comparative advantages* all the countries get the victory from international trade – both large and small, with high or low labour productivity, exporters and importers [8]. Countries which stood on positions of mercantilism and limited an import, suffered from losing the opportunity to use their "relative" advantages, and that resulted in ineffective allocation of resources, decrease of labour productivity and reduction of rates of economic growth of those countries. International economic integration, that is, consolidation of markets of two and more countries into single economic system, is the highest form of development of international economic relations. Quantitative phenomena transfer into qualitative. Global economic system – mega economics arise. On such conditions international movement of all factors of production becomes more intensive, including international capital which begins to play the role of an important phenomenon of the growth of economies of countries. Especially it concerns developing countries and countries with transitional economy. For small closed economies possibilities of economic growth are limited by available productive resources, and the processes of accumulation of capital require considerable time. The same concerns the quality of resources factor (technologies, innovations, human capital and etc.). In case of inflow of direct foreign investments (DFI) such limitations disappear rather quickly. Certainly, this takes place under conditions of creation of corresponding, and in the first turn, institutional and other parameters which are determined by global index of competitiveness (GIC).

7.3. FOREIGN COMPETITIVENESS AND INVESTMENT CHANGES SINCE 90S

While in till mid 90s of the 20th century annual global GFI did not reach at least US$ 0,5 trillions and it was possible to neglect such factor of economy growth as GFI because of their insignificant volumes, at the beginning of the 21st century global flows of GFI were growing very swiftly having reached US$ 1,122 trillion in 2010 [12]. According the estimations of UNCTAD in 2011, GFI flow comprised US$ 1,525 trillion [10]. The main subjects-exporters of capital traditionally are Trance National Corporations (TNC). The number of TNK and their branches is constantly growing. According to the latest data, there are more than 80 thousand and more than 800 thousand of them correspondingly. The scale of activity of modern international companies allows them to control the greater half of the world trade and production, to dominate in all spheres of economy. It is approximately determined that 60% of all TNK operate in industry, 37% – in the field of services, and only 3% falls to mining and agriculture. The volume of foreign assets of TNK grows swiftly, relative part of foreign assets in relation to the general assets of THK grows too, which illustrates the growing index of internationalization of companies (part of foreign assets in general) (Table.7.1).

Table 7.1 Internationalization statistics of the 100 largest non-financial TNCs worldwide [12]

Assets	2008	2009	%
Total	10790	11543	7,0
Foreign	6161	7141	17,0
Foreign as % of total	57	62	4,8

In modern conditions when mutual influence of economies increases and their openness for developing countries and countries with transition economies grows, the chance for rapid economic growth appears. In our view economic growth under conditions of globalization of world economy firstly will take place due to overflow of capital, and those economies, which will be able to compete for the flows of direct foreign investments (DFI) will grow quicker compared to those countries which did not create proper conditions for foreign capital raising. The rise of competitiveness of economy stimulates the inflow of DFI, and they, in their turn, activate the rise of economy through the increase of labour productivity and increase of competitiveness of the country.

As a rule, countries which attract DFI more actively have higher level of GDP per capita (Figure 7.1).

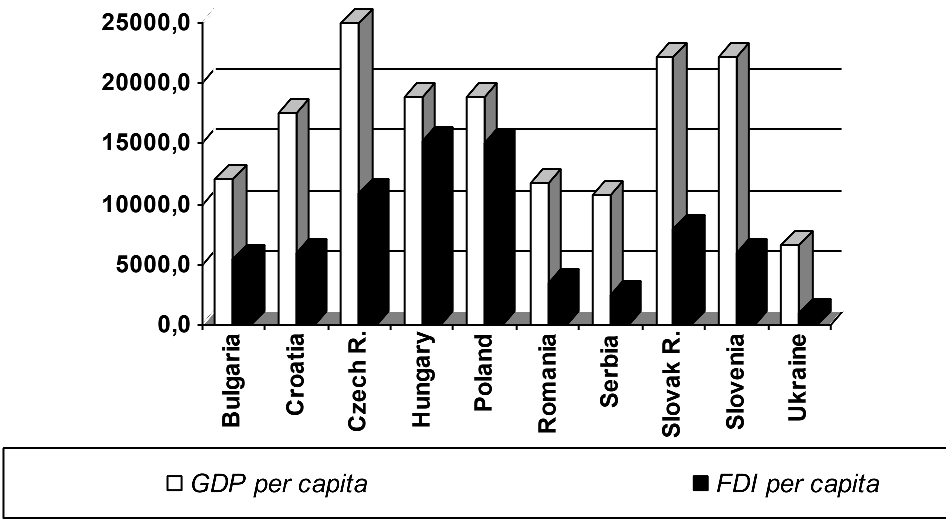

Fig. 7.1. GDP and cumulative lines of foreign investments in the countries of Eastern and Central Europe in 2010 (per capita, in US$) [12, 13].

Certainly, economic growth is not identically proportional to the volumes of the invested foreign investments: comparatively large FDI in Hungary and Poland did not create such considerable growth of economy as in Slovenia, Slovakia and Czech Republic. It can be also explained by different «quality» of FDI, that is, by ability of investments to create bigger or smaller value added for a unit of capital investments, to carry in itself high level of innovations, management, standards of production and quality of products, considerable export direction, potential of labour force development, which determines the concept *strategic foreign investments* [4].

7.4. GLOBAL INVESTMENTS

If the flow of global investments is directed to the countries with higher level of competitiveness, then the competitiveness of social and economic systems is determined by the presence of competitive advantages which under the conditions of modern globalization are formed, mostly, by the competition of resources and factors being created (educated). In market system of manage this phenomenon is shown especially distinctly, because it is the engine of development and basis of the effective use of all factors of production. If 20 ago 40% of the world GDP was formed in the countries with market economy, today this index is 70%, and the competition itself has other displays, and it is more difficult, perfect, and brightly demonstrates the presence on new levels and among new subjects. [2]. Competition is present not only at the level of individuals, subdivisions, enterprises, but also among the states, nations and regions.[1]

Competition is described through "... competition between commodity producers for the markets and gaining market segments in order to obtain greater profits" [7]. In traditional context the competition is the primary regulating force which makes market players to use new technologies, equipment, systems of management, professions, etc. In modern conditions the basis of competitiveness of economies is the so-called *soft factors of competitiveness* [11].

Large contribution into the development of theory of competitiveness of countries and regions was made by Michael Porter, who tried to connect neoclassical theory by Marshall with the theory of foreign economic activity of enterprises and created the so-called «rhombus of advantages», which is formed from the terms of factors of production, state of demand, presence of complex of basic branches industries and stable strategy of development [9]. Basic conclusions of his theories is that, at first, competitiveness is a variable category and, secondly, basis of competitiveness of nations and territories is the labour productivity. John Danning developed the theory of competitiveness and proved that the competitive advantages of regions in the conditions of globalization of economy are determined by the flow of direct foreign investments [7].

Thus, when the rise of productivity leads to the rise of competitiveness of economy, the latter in its turn, becomes the reason of influence of FDI and the growth of labour productivity. It is obvious that in this case, there exists the well-known effect of mutual influence analogous to the effect of multiplier-accelerator in the Samuelsonn-Hicks model. If in the previous period there was an increase of competitiveness of economy, then it is possible to forecast the rise of FDI during the current period. In their turn, high

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[1] Under the term region we understand in this case administrative territorial unit: region, district, town – territorial community, and also territorial cluster.

rates of the growth of economy support high volumes of DFI attraction in the next periods (effect of accelerator of investments). So, if the rate of economic growth in developed countries in 2010 comprised 1,6%, then in developing countries this index reached 7,1%, and in countries with transitional economy – 3,8% [12].

7.5. THE IMPACT OF GLOBALIZATION ON INTERNATIONAL ECONOMIC RELATIONS

Globalization foresees widening of sizes and forms of international economic relations, that leads to deepening of interdependence between regions in different countries. Forces of dispersion and force of concentration operate in the world economy simultaneously. The content and directions of those forces are able to change during the time depending on liberalization of market, favourability of business climate, scientific and technical progress, economic policy and expected prospects [1].

Globalization and localization operate simultaneously and have synchronous action and exactly that forces regions to compete for the position and gain of economic advantages in development. Exactly globalization served the driving force of flows of direct foreign investments (FDI) which began to localize in economically advantageous localities. The attractiveness of region concerning localization of FDI depends on favourability of business and entrepreneurial climate, which are determined by legal factors (regulatory acts, licensing procedures, legislation, safety), technological (transport, roads, production, municipal infrastructure, connection, telecommunications, researches, science), commercial (sales networks, individualization, reacting, location, cost), social and cultural (attitude, behaviour, traditions, social norms) [8]. All this in system aggregate determines competitiveness. Using the existing resources effectively, communities additionally have to create the so-called "educated resources" (centres of assistance to investors, business incubators, prepared areas of land, etc.) and "brand attractions" (festivals, holidays, recreation actions, contour objects, tourist and attractive food, etc.), which will give them the possibility to form the image of the territory, to position itself in relation to the others and have definite competitive advantages in attracting highly productive investments and in setting up new modern enterprises. Thus, states G. Vasylchenko, the competition of countries is shown through the competition of national regions. Separate regional markets compete for the flows of foreign capital and, as a result, grow into original highly competitive territories of increase and become powerful centres of the economic growth. [3].

Examining the state at the level of national association, it is possible to hold the analogy of essence of economic development of regions (EDR) at the level of local society as the complete competitive development of the state, as EDR is the process of strengthening of competition position of regions of a country, activation of economic growth, increase of welfare, creation of workplaces, attracting of investments and increase of welfare of all habitants of communities [6].

This problem appears especially actual during the period of world crisis, as the success of its overcoming depends foremost on the state and development of local communities, that is why the statement that an increase of productivity and welfare of population is the basis of the pyramid of competitiveness both of separate regions and national economies on the whole acquires the form of an axiom.

For estimating the competitiveness of regions in the fight for DFI it is important to compare the indexes of competitiveness of regions of Ukraine and separate countries of the world, which were worked out by the “Effective management” Fund with the support of the World Economic Forum. So, for example, if in 2011 the general estimation of the leader of the national rating (Kyiv) corresponded to the 62nd place (Iran), and outsider (Kherson region) — to the 117th place (Malawi), then, according to the 2012 results — it is already the 53rd place (Mexico) and the 99th place (Gabon) [5].

The worst situation is seen in infrastructure, innovations, technological readiness of economy and state of institutes. “Institutions determine efficiency of government in realization of reforms” — is stated in the Report. “Bad institutions is a problem which requires an immediate action, without its solving the further advancement of Ukraine up the stairs of competitiveness will be extremely heavy”. The results of the poll of business leaders in 27 regions of Ukraine (2 100 respondents) testify to the fact that according to the indexes of institutions concerning these regions of Ukraine there is substantial variation. The distance between the best region (Volyn; 4,04 point) and the worst (Kyiv; 3,32 point) according to the component of the “institution” on the whole comprises 0,72 points. In the global estimation the result of Volyn corresponded to the result of Slovenia (4,05 points; the 58th place) and Poland (4,11 points; the 55th place), at the same time the result of Kyiv according to the component of the “institution” equals to the positions of such economically poorly-developed countries as Pakistan (3,34 points; the 115th place) and Nigeria (3,33 points; the 117th place).

The biggest gap between the regions is observed in “corruption” indexes and “abuse of influence”. The difference in estimations of corruption between the best and the worst regions comprises 1,27 points. According to the results of the poll of 2012, the worst indexes of corruption are in Kyiv (the 27th place among regions; 2,55 points), that within the framework of the global rating corresponds to the indexes of such economically poorly-developed countries as Zimbabwe (2,85 points) or Uganda (2,51 points). In Chernivtsi region corruption causes the least disturbance among the respondents (the 1st place among 27 regions; 3,82 points). It corresponds the indexes of such countries as Spain (3,72 points), Turkey (3,74 points), Poland (3,78 points) [5].

7.6. CONCLUSIONS

It is necessary to take into account when we consider the questions of competitiveness of regions, that prerequisites of regional competitiveness (general macroenvironment, legal system, tax system, stimulant policy, fiscal policy etc.) is prepared at national level and has an equivalent influence on all cities or territories of a country. At the same time, regardless of only son income national conditions of a city within a country develop differently and the level of competitiveness of every region is also different.

The process of forming competitive advantages of cities is predefined by the series of factors and indexes, such as sales markets and level of export orientation of cities, satisfaction of employers, labour force quality, level of wages and sales per capita, specific investments, size of budget of development, employment of population, structure and business dynamics, satisfaction of business by the terms of enterprise environment, etc. The level of these indexes is original diagnostics of the level of development of the society and it allows to determine the position of every region among the others, inducing other territories to find out the reasons of their success or the lag, to adopt the instruments of the growth of economy, enter into competitive activity for gaining advantages for the society, to overcome obstacles. Exactly these factors predetermine the formation of pre-conditions of competitiveness of regions, which, as a result, determine the competitiveness of economy of a country on the whole.

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