

Edited by Borisz A. Szegál and István András

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CONFLICT IN A SOCIETY
IN TRANSITION



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Borisz A. Szegál
and
István András

CONFLIGO: Conflict in a Society in Transition

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CONFLICTS OF INTEREST OF COMPANIES AND REGIONAL GOVERNMENTS IN UKRAINE

Yelena Nedobega

Dynamic changes that occurred at the end of the twentieth century in economic, political, scientific, technical, socio-cultural facets of life led to global problems and many economic, political, ideological, social, cultural and ethnic conflicts, at international, national and regional levels. For young states, countries like Ukraine with economy in transition, problems of adoption to new realities are particularly acute.

Following collapse of the Soviet Union, Ukraine had emerged as an independent state in 1991. Ukraine – the second largest state in Europe - is composed of 24 counties, the Autonomous Republic of the Crimea, and two cities with special, so called republican status - Kiev and Sevastopol.

Dynamics of social and economic development of any state is closely related to the development of the society as a whole and largely depends on political structure. Ukraine is almost permanently in political turmoil, caused by major unresolved issues of political (partisan) structure. Socio-economic development of Ukraine is far from desirable: Ukraine is a poor state. According to IMF estimate (2010), Ukraine's GDP is ranked 102 (\$6,712 pp.) Political uncertainty has become the main reason for a protracted "strategic pause", which is associated with failures of the executive and legislative branches to make strategic decisions needed for effective reforming of economy.

With key strategic political issues unsolved, subordination of economic policy to the decision of tactical political problems, regular practice of decision-making under political influence rather than economic realities, have led to recent controversies of the socio-economic development in Ukraine.

Ukraine still has an insufficient level of development of economic relations and is significantly behind the developed countries. Accordingly it cannot provide decent living for most of population, and to solve social problems. Local problems are aggravated by the crisis in global economy.

There are several major reasons of adverse trends in national economy.

1. The restorative-inertial model of economic development of Ukraine has completely exhausted itself. The need for structural and innovative shifts requires an appropriate macro and micro socio-economic regulation. These mechanisms should be flexible enough, weighted, and suitable for the stability of the development processes, i.e. the motivational mechanisms of development economics, management, working relations between state agencies and enterprises.

2. Fiscal management of economy aggravates its failures, including inability to solve social problems. Implementation of excessive social standards and programs without taking into account real capacities of national economy determines the deformation and even degradation of the socio-economic management system, both at the state and enterprise level. Fiscal tricks take the monetary funds from commodities market, cut jobs, worsen the crisis up to shock situations, distort the currency regulation and complicate the fight against inflation. Finally fiscal actions disrupt the international trade, both its export and import components.

Thirdly, political instability in the country generates catastrophic state of human resource management on all levels of government. Current government is unable to apply any effective tool of economic management, and by trying to realize its populist targets breaks the balance between economic and social components.

Among these erroneous actions are the processes of re-privatization. Due to political motives related to privatized companies, former state owned companies fall apart; lose their value, thus making the investors to avoid them. As the end there is outflow of capital, devaluation of stocks and drop to a negative mark of already achieved progress in the socio-economic development. As a result there is violation of natural cycles of the state's economy and private businesses.

It is necessary to reform the Ukrainian economy according to the European integration landmarks for national development, requirements and needs of society development. Therefore, in order to ensure the socio-economic development of Ukraine, such basic problems as political stability, reducing the imbalances in regional development and stable, socially oriented development of the national economy must be solved.

Social stability and prosperity of the state's population is largely dependent on the level of economic development and self-sufficiency of the regions of the country. The main economic entity is an enterprise. It is an enterprise that defines the business activity of the national economy, since here a product is created; there is a direct link of the workers with the capital, effective employment of the population and its participation in social programs. Most qualified human resource is concentrated in enterprises, where the questions of utilisation of economic resources, application of highly productive equipment and modern technologies are solved.

Operation of the enterprises is closely related to vital functions of their external environment - regions where they are located, as enterprises in most cases perform important social functions of providing vital conditions for the cities and maintenance of social infrastructure. This function is especially important for enterprises that are located far from big cities. Therefore, closing a business is a social tragedy not only for employees. Liquidation of enterprises results in severe suffering or complete destruction of the infrastructure of towns and villages. Tens of thousands of people lose their jobs or livelihoods; income taxes and taxes in

local budgets are sharply reduced, which makes the population of the region poorer, because social services, provided by the regions are frequently financed from regional budgets.

During the period of reforms, social and economic differentiation of regions of Ukraine has significantly increased. Accordingly, regional policy should be directed to the solution and smoothing the conflicts of interests of enterprises and regions of Ukraine, and consist of a differential approach applied by the state to the regions with different social and economic problems.

Conflicts in the economy of Ukraine arise frequently from the confrontations between political parties when their interests do not coincide. The conflicts may be observed in any facets of economy, from production to distribution, consumption and exchange of resources (material, funding, human resource, technology, innovation, information etc.). These conflicts are related to market competition, to ties between enterprises and various governmental structures, conflicts within enterprises and organizations, too.

Interests are the real driving forces behind activity aimed at satisfaction of needs. Interests underlie the motives and ideas; they are determined by the status and role of actors in the system of social relations. In our case the actors are enterprises and regions, where businesses are located. Table.1 demonstrates main interests of these actors.

Interests of enterprises and regions of Ukraine may cross each other, what in many cases causes conflicts of interests due to the principal difference in the targets: enterprises target maximization of profits, while regional governments try to increase tax revenues.

During the years of Ukrainian independence local governments have taken countless decisions that hinder normal functioning of enterprises. These are decisions regarding local taxes and fees, issuing permits for trade objects, rules of settlements construction, tariff setting, outdoor advertising etc. These decisions create administrative barriers which lead to constant and unimpeded "pumping" of money from the enterprises. Some examples:

In Sevastopol, the Leninsky District Council in 2010 had adopted a decision concerning the approval of tripartite contract or layout of trade facilities in the district. According to this contract the District Council and the district administration gave their consent to construction of new kiosks. Under the current legislation they were not entitled to sign such a contract. In this case, the entrepreneurs at the specially organized "contests" were forced to pay up to 45 thousand UAH (\$ 5,625) for one year permission.

In Poltava, the City Council in 2007 had adopted similar decision: when applying for rent of communal property, the tenant must pay for the property technical certificate and independent assessment. Only after that the administration of public property of the city will decide, to let a premise for rent or not. However, according to the law, the technical certificate and the assessment of the property is paid only after signing the contract.

INTERESTS OF ENTERPRISES	INTERESTS OF REGIONAL GOVERNMENTS
Economic	
increase of the competitiveness of enterprises; financial independence; profit increase; growth of the market share; productivity and solvency; turnover increase; production quality improvement etc.	real income increase; increase of the competitiveness of the region; the improvement of the economic situation; optimization of export and import operations; stimulation of new business development; stable prices; the increase of tax revenue; the effective use of natural resources etc.
Social	
stable salary; safe working conditions; social and medical insurance; personnel qualification development; favourable psychological environment in the company	the increase of standard of living; the creation of new jobs and reduction of unemployment; the creation and maintenance of social infrastructure objects etc.
Innovative-investment	
implementation of sophisticated technologies and improvement of the existing ones; new products development; attraction of investment resources etc.	activation of innovative and investment activity; development and implementation of the new products etc.
Miscellaneous	
increase of the enterprise value; enterprise image improvement; tax reliefs; application of modern information technologies; compliance with the international environmental standards etc.	development of underdeveloped regions; development of new sources of raw materials; formation of new industrial centres; solution of environmental problems; introduction of energy saving technologies; improvement of transport and communication links in the region etc.

Table 1. Interests of enterprises and regions of Ukraine

There is a lot of red tape while registering new businesses. Too many public services are supposed to issue permits for companies (fire service, water utility, environmental service etc.). Additional capital is required to address all these services and obtain their consent. Ukrainian entrepreneurs have to spend months in different institutions to get their permission to

open a business. Before starting a new business good knowledge of the system of illegal payments is required, sometimes bribes exceed the start-up capital.

The problem of obtaining land for a construction of an enterprise is also not an easy one. Leasing a premise is not an effective alternative in most cases. Lease is issued on annual basis only. It is very difficult to achieve profitable state in such short period. There are often problems with the landlord, who breaks a lease before its expiration. There are about twenty government bodies which have powers over the activity of the enterprises, and it rather hinders their work.

One develops an impression that local authorities are called to complicate the existence of the Ukrainian enterprises. Under such circumstances the enterprises cannot work legally and transparently, because in addition to paying taxes they have to bribe officials, to make a contribution to the "welfare fund" and pay other "mandatory" fees.

Resolution of the conflicts of interests of enterprises and regions require bilateral interests, i.e. the local authorities must encourage and support their local businesses, while the enterprises should observe the principles of corporate social responsibility (CSR). However, frequently the opposite situation is observed. Time and money are wasted due to the lack of effective tools for resolving this conflict. These failures lead to disability of both enterprises and regions to make any changes, and as a result all the processes of social and economic development are slowed down.

System of relations of an enterprise, environment, interests, and ways of realisation are shown in Figure 1.

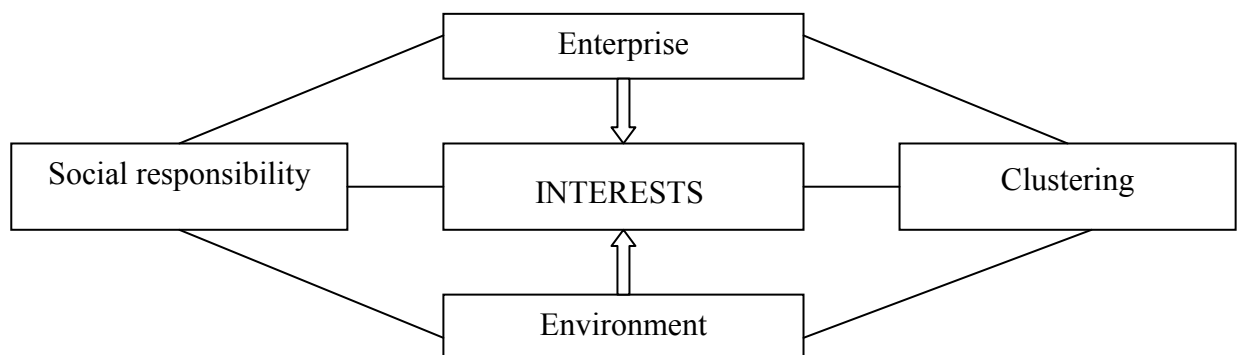


Figure 1. A model of meeting interests of an enterprise and environment

Corporate Social Responsibility (CSR)

There are various approaches to definition of CSR. For example, M. Friedman gives the following definition: the social responsibility of business is to use the existing resources and implement the activity aimed at generating profit as long as it (business) adheres to the established rules of the game and has an open fair competition. Friedman (and others) has argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people

can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole.

According to Daft (2011) social responsibility means that the management of an organization makes decisions and takes actions that increase the level of welfare and meet the interests of both society and the company itself. Kalinesku and Zelenko consider social responsibility as a contribution of business into the social and economic development of society, which can be fulfilled according to the minimum declared by the law or beyond this minimum. M.H. Meskon and co-authors suggest that social responsibility implies a certain measure of voluntary reaction of organization to social problems.

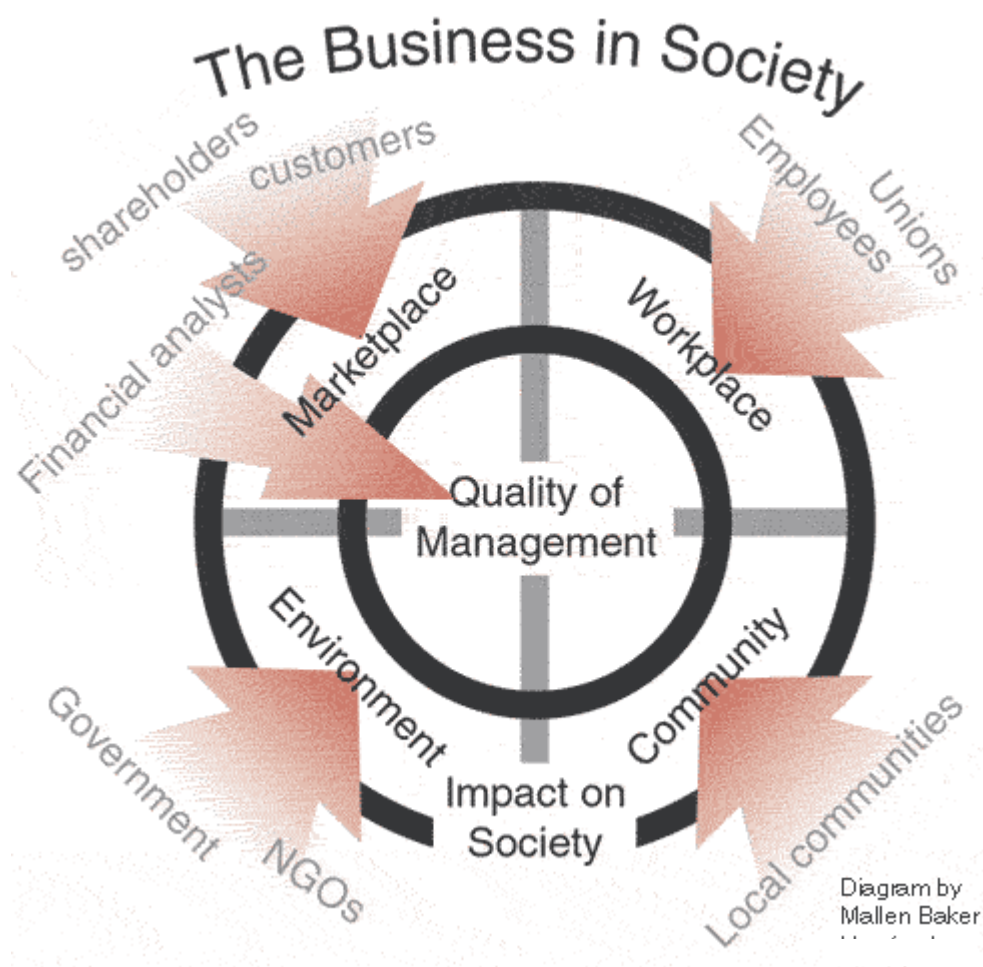


Figure 2. Corporate Social Responsibility (Diagram by M. Baker)

Corporate social responsibility of an enterprise is considered as a system of obligations to its own workforce, contracting parties, and the community, which contributes to effective social and economic development and manages the conflicts of interests of enterprises and regions. If consider an enterprise is considered as a system that operates in environment, one can distinguish the social responsibility aimed at the internal activity of an enterprise, and the external environment.

Internal social responsibility includes stable wages at socially acceptable level, secure business activity, social and medical insurance, training and career development programs for the personnel of an enterprise, assistance to employees in critical cases.

External social responsibility includes production of goods and services of high quality (the responsibility for quality to consumers), interaction with local authorities and local communities, assistance to environmental protection, sponsorship and charity activity; willingness to participate and manage crisis situations in local society.

Attitude to corporate social responsibility in Ukrainian society is controversial. During the period of transition the majority of citizens has mostly adapted to the conditions of private property, market relations, but do not trust businesses, support re-privatization of large assets which had been privatized with violations of the principles of social justice, believe that business does not fulfil social obligations and works only according to its own interests.

Such attitudes would change only if business in Ukraine will demonstrate its participation in public life, and will not use the society as just another source of acquiring wealth. Business practices of major states testify that active integration of business into public life is possible. Business integration stimulates economic growth, contributes to management of social conflicts, creates favourable environment for innovative development.

At present however business in Ukraine doesn't take into account the experience of the market economies of Western Europe, where there is a steady tendency towards fusion of industrial and local business associations and the creation of nationwide associations that often take the functions of the social partners all over the country as well as on the both regional and global scale.

The main document which points out major trends of corporate social responsibility is the UN Global Compact. It contains 10 principles, mentioning the key spheres of corporate social responsibility of a businessman:

Human rights principles stress the need to protect and respect the human rights recognized by the world community;

Principles of work aimed at supporting the freedom of association and the right to collective agreement, the elimination of all forms of forced, compulsory, and child labour, and preventing any employment and professional discrimination;

Ecological principles are about careful approach to environmental problems and the need for initiatives concerning the strengthening of environmental responsibility, promoting the development and use of environmentally safe technologies;

Anti-corruption principle characterizes the need to combat all forms of corruption.

Observation of the principles of corporate social responsibility gives the enterprises a number of advantages, such as: improvement of relations between the interested parties; higher

productivity, reduction of the staff fluctuation, safe working conditions, improvement of the company reputation, stimulation of innovations, reduction of production costs, competitive advantages, reduction of business risks. It should be noted that the principles of social responsibility must be observed not only by enterprises, but also by state and local government since unilateral observation of the principles of enterprises will not give the desired results and ultimately and return to the previous level of relations is inevitable.

Principles	Advantages
1. Human rights principles	<ul style="list-style-type: none"> - Improved relations between the interested parties; - Improved procedures when employing personnel, keeping and motivating the employees; - More reliable licenses to operate; - Greater protection of investments; - Reduced risk of complaints from the consumers; - Reduced risk of having been sued for not respecting human rights; - Lower risk of any harm to reputation.
2. Labour principles	<ul style="list-style-type: none"> - Higher productivity; - Lower levels of staff turnover; - Improved reputation among consumers; - Lower training costs; - Safe working conditions; - Improved relations with government, other companies, and society.
3. Environmental principles	<ul style="list-style-type: none"> - Improved corporate reputation and image; - Increased productivity; - Innovation stimulation and the generation of ideas; - Acquisition of competitive advantage; - Reduced production costs; - Improved relations with customers and shareholders; - Establishment or improvement of the reputation among investors, banks etc.
4. Anti-corruption principle	<ul style="list-style-type: none"> - Improved corporate reputation; - Reduced legal risks; - Reduced financial cost; - Stable business.

Table 2. Advantages of utilised corporate social responsibility for enterprises

One may agree that every enterprise and organization should utilize its resources to affect positively on the environment and to improve quality of life. In Ukraine, unfortunately, the

question of "shadow business" is solved by imposing significant penalties that does not solve the problem. Fines would never make an environment polluting enterprise acceptable. Money from fines should be directed to prevention and reduction of pollution. Operating according to the principles of social responsibility means understanding of morality, culture and integrity of the work, both by enterprises and local authorities.

To implement the policy aimed at ensuring social and economic development of the enterprises based on corporate social responsibility and to resolve the conflict of interest of enterprises and regions, it is necessary to have a mechanism of interaction between government and enterprises. The main components of such a mechanism should be:

- Legal regulation designed to provide the necessary legal conditions to achieve an optimal coordination of interests of the state, enterprises, and society (organizational and legal support, product quality control, creation of a system of incentives for socially responsible enterprises etc.);
 - personnel database, i.e. to train the personnel of the enterprises and public services to work in full compliance with the principles of corporate social responsibility;
 - financial instruments necessary to maintain the non-profit projects. In addition to a variety of grants, venture financing and new credit instruments should be developed;
- infrastructure. To implement the corporate social responsibility, it is necessary to create a variety of research centres, a system for sharing information and experiences etc.

However, it should be noted that the principles of social responsibility must be observed not only by enterprises, but also by state and local government, as a unilateral adherence to these principles will not give the desired results, and eventually everything will return to their previous level of relations. We would particularly like to focus on anti-corruption principle, because Ukraine occupies 134th place on corruption scale among 178 countries in the world rankings for 2010, prepared by the global anti-corruption non-governmental organization Transparency International. Therefore, the corruption issues need to be addressed first.

In order to solve the problem of constructing rational relations and to achieve a "balance" of the interests of enterprises and regions, the cluster approach is suggested. In this case, the emphasis should be put on the cooperation of various actors, like administrative, industrial, social, political, public and private organisations, located in the territory where the enterprise is situated. This may be a solution to many social and economic problems.

A cluster is a group of interconnected and interacting enterprises and organisations, which are aimed at achieving social and economic results; an association of leading manufacturers, suppliers, economic infrastructure and state and local authorities, which realize the advantages of the competition in the region.

A combination of the actors and their coordinated actions provide more efficient operations. Creation of such associations is very important for the development of the regions, since, unlike the solitary enterprises, clusters can provide a higher level of social and economic development and thus successfully manage the conflict of interest. Clusters give an opportunity to improve the efficiency of the enterprises and industries, encourage innovations and production, stimulate growth as well as facilitate creation of new trends in business life.

Ukraine has already some experience with clustering. Ukrainian clustering began in the Khmelnytsky Region. The program, which had introduced the concept of the cluster model of economic development in the Khmelnytsky region was developed in 1998 by the Association of 'Podillya Pershyj' to revive local production of clothing, building, food, and tourist industries. The clothing cluster was created first, then in 2000 – the construction cluster, in 2001 – tourist, food, and the cluster of rural tourism, which are fairly successful. Among the regions that have succeeded in the formation of cluster associations are the Crimea and Sevastopol, Ivano-Frankivsk, Rivne, Poltava, Sumy, Kharkiv, Kherson, Odessa and Nikolaev region. More recently (since 2008) the practice of cluster development is used in the Donetsk region and Lviv, too. In Lviv the clusters of tourism and business services were created, in Donetsk - metallurgical and agricultural clusters, initiated by the "Effective management" foundation.

Organisation of clusters requires guarantees of support by local governments and entrepreneurs. Cluster development plan cannot be imposed from outside. In order to motivate organisation of clusters in Donetsk and Lviv, working groups comprised of local businessmen and officials have been formed. In addition, the officials of local governments and representatives of local business set up councils, which deal with the issues of competitiveness. It takes into account the regional differences as well. These structures allow neutralizing the effect of possible political changes of the local government and are called to assist clusters.

Use of the clusters in facilitation of social and economic development and management of the conflicts of interests of enterprises and regional governments plays an important role. Clusters are efficient mechanisms for increasing regional and national competitiveness and are able to provide a combination of competition and cooperation in production, strengthen the processes of specialization and division of work share between firms, as well as innovation processes; encourage the attraction of domestic and foreign investment; allow to use natural resources more efficiently; stimulate the technological progress, and, consequently, reduce the costs, create favourable conditions for improving the corporate social responsibility, provide social justice.

Creation of cluster associations, paying attention to the purpose and potential of participants, but also to the particular features of the location, can become a factor in encouraging innovative development, important in developing economy. Central and local governments assist in providing the maintenance of necessary conditions and resources, such as normative support,

manufacturing infrastructure and skilled workforce. The state should also establish the rules of competition, e.g. it must protect intellectual property and strengthen the antitrust legislation so that productivity, innovation, and social responsibility would define the social and economic development of enterprises and regions. Consequently, the policy of the central and local governments regarding the creation of clusters should differ significantly from the traditional industrial policy: determination and support of priority sectors is required. The aim of cluster policy should be the increase of the level of social and economic development of the region and enterprises on the basis of creating conditions for strengthening competitiveness of economic entities, which form a cluster.

At the time of excessive politicization of the society, the lack of systemic relations, declarative attitude and much bureaucracy in relations between local governments and businesses in Ukraine, it is unlikely that any single enterprise would be able to protect its interests. The clusters would enable the enterprises, public sector (especially on the local and regional levels of management), and non-government institutions to have an effective dialogue. This dialogue is necessary for cooperation and achievement of balanced interests between the parties; to improve the quality of national and regional policies and public activities; for implementation and compliance with the principles of corporate social responsibility, both by enterprises, public service, and government. Clusters in this case can secure of influence of the enterprises on the public administration, beneficial projects development for all the parties involved in the dialogue, and the improvement of quality of life in the region. Clusters can be also considered tools for monitoring compliance with the principles of social responsibility by local government and public service, and hence as a tool against corruption in the regions. For this reason, the possibility of coordination of the activities of executive branches and cluster associations on joint projects issues in respect of anti-corruption and mechanisms of its control and monitoring of its implementation should be foreseen.

International experience shows that the efficiency of enterprises, which are a part of a cluster is by 20 to 40% higher than in the comparable enterprises not affiliated with a cluster. According to Harvard Business School account, in the U.S. economy, clusters cover more than 32% employment, apart from the budget sector. Wages in the states where clusters function is 29% higher than the national average. The U.S. GDP share produced in clusters is about 60%.

The advantages of introducing the cluster model are as follows:

- for local governments: increase of competitiveness and investment attractiveness of the region, and increase of budget incomes due to increasing the tax revenues; raising proportion of the employed population and, consequently, reduced unemployment benefits;
- for enterprises: economic independence, better social and economic development rates, reduced costs, increased competitiveness of enterprises and products of their manufacture; advanced

professionalism of the staff; creation of infrastructure for research and scientific developments; technology exchange; more opportunities to get to the international markets;

- for other cluster members: an opportunity to participate in investment projects; revenues from the development of project documentation; loans for the projects; additional income etc.;

The main prerequisites to form a cluster are listed in Table 3.

Interested parties	Prerequisites
From the business part	The principal owners and enterprises that in some way are potentially interested in cooperation within the cluster
	Cooperative and other relations between enterprises that have certain traditions, sound mechanisms of interaction, a high level of mutual trust
	Innovative level of most enterprises and organizations of the potential cluster is rather high
	Export component in the cluster production can confirm its competitiveness
	The level of claims of the principal owners is high; their willingness to the subsequent innovative development is obvious
	Top managers of the enterprises are willing to work under conditions of increased cooperation and competition to gain an active development of business and territories
From the authorities and business environment part	Authorities are interested in the cluster version of the region's economy development, which promotes cooperation and collaboration between the groups of enterprises
	Authorities have experience of successful interaction with the business, including the economic sector, which provides an incubation of cluster
	Improved normative- legislation base where leaders of private business are also present
	Established infrastructure to support business, an experience of taking part in reengineering of enterprises, consulting services
	The leaders of the region are ready for a dialogue with the business on partnership terms
	The professional education system has the needed personnel and experiences of training the specialists for the relevant sectors of economy
From the public part	A need to create a cluster is realized by the public
	The leaders who generated the ideas and submitted documents, and scheduled the ways to create clusters have been determined
	The experts who are willing and able to build a dialogue between business and government to create and improve the competitiveness of the cluster are known
	There is an experience with business and government in terms of growth of cooperation and competition

Table 3. Main prerequisites to form a cluster

Implementation of the cluster model of social and economic development of enterprises and regions is realized through different trends of activity:

introduction of new technologies and innovative activity,

identification of products and product groups, which are produced by the production units of a cluster;

promotion of the enterprise restructuring, setting the priorities for enterprises development; promotion of reforms for monopolies in services sector;

establishment of competitive principles in the contracts distribution, the identification of a need of technical assistance; assistance in obtaining loans; business plans, improved products' quality, the creation of qualification requirements for workers, the introduction of training programs, retraining, educational ones;

identification of the ways to increase the added value in the trade sector.

The basic idea of creating a cluster in Ukraine is a transition of regions to the post-industrial type of development which is characterized by an increase in added value through the development of high-tech production, development of network relations, intensive participation of the regions in global processes of knowledge and skills transfer.

Thus, a balance of interests should become the basis for implementing a cluster approach in the region, which facilitate harmonisation of interests of enterprises of different types of ownership and governments, who take part in clustering. This would manage conflicts of interests and improve the social and economic development of enterprises and regions.

Formation of economic relations and business in Ukraine was going in terms of the distorted process of privatization. While in the Western Europe, the purpose of privatization was improvement of the efficiency of the economy, privatization in Ukraine had to solve the problem of monopoly ownership and creation of such an economic structure, which would correspond to the requirements of market economy. Classical privatization through the sale of state property in the property market and the stock market was impossible, and unreasonable due to the social, political, and economic situation in 1991-1992. After much discussions a model of voucher privatization, which had been considered the most appropriate under current conditions, was chosen.

Privatization in Ukraine was introduced into unstable economy, where the former management tried to create artificial market-type structures, having their power kept and strengthened. The main purpose of privatization in its first phase was the fastest creation of a "critical mass "of non-state property in the manufacturing sector in order to deprive the state of the monopoly and to transfer a part of economic power to the non-state capital. In 1992-1995 Ukraine has launched a mixed (monetary certificate) form of privatization, i.e. a balance between free and paid privatization, taking into account the economic conditions and a combination of state, companies and individuals interests.

Later analysis has shown that application of non-competitive methods of privatization led to the prices of large privatized enterprises that were much lower than their actual market value

was. Between 1994 and 1997 sale of shares was the main method of privatization of the large enterprises. Share of joint-stock companies compared to other methods of privatization in 1995 was 78.8%, in 1996 - 75%, in 1997 - 77%, whereas the competitive methods of privatization were respectively 1.1%, 0.4%, 1%. This resulted in enormous state losses. Between 1992-1997 sales of state property yielded only 600 million UAH, the state budget received 200 million UAH. These revenues could be explained by the fact that only since 1996 legislation provided the transfer of funds obtained from privatization to the state budget.

From 1995 to 2000 privatization was carried out mainly in the form and of certificate privatization. For 1995-2000 the number of stock of the joint-stock companies offered for sale at auctions for privatization property certificates was 13,447, where over 13 thousand shares of the total value of 2 billion UAH were sold. For compensation certificates sale of 7,268 shares was offered, with over 7 thousand of stock (total value 6 billion UAH) was sold. However, the process of certificate privatization did not provide significant revenue to the state budget. Searching for effective owners, who would be able to get the company out of crisis, was also unsuccessful.

All Ukrainian property privatized between 1991 and 2011 is worth \$500 billion to 1 trillion dollars. 80-85% of government property is already privatized, it means that the state had to collect at least \$ 500 billion. In fact, the country has received 32 billion UAH that is about \$ 6 billion. Nearly \$ 5 billion was obtained for “Kryvorozhstal” Steel Works. The rest of the Ukrainian economy was sold for about \$ 1 billion. Having it in mind it is difficult consider privatization, rational and legitimate.

Today 100 largest enterprises in Ukraine belong to non-residents, i.e. to holdings registered in various offshore zones. Accordingly, most of profit, about \$ 30 billion generated by these enterprises is exported. If at least a fraction of this money would be transferred to the state budget, the level of social and economic development of Ukraine would have been much higher.

Privatization processes in Ukraine are accompanied by the conflicts of interests of different business groups. The example of privatization and re-privatization of JSC HC ‘Luganskteplovoz’ is instructive (“re-privatization” means the privatization of previously nationalized private property, the reverse transition to the privatized property, i.e. a return to the private ownership the products of previous nationalization). In March 2007, 76% of the stock of ‘Luganskteplovoz’ was bought by Bryansk Machine-building plant, which belongs to the Russian ‘Transmashholding’ holding. State-owned shares of the company were sold for 292.5 million UAH with a starting price of 292 million UAH, a ridiculous price. Many years of court proceedings had followed. The verdict of the Supreme Court of Ukraine was the final link in the chain of the judgments, which stated that the privatization of 76% stock of ‘Luganskteplovoz’ was illegal. ‘Luganskteplovoz’ was returned to the state. But the money paid by the Russians for

the enterprise was not returned. In December 2010 the State Property Fund declared Bryansk Machine-building plant (Russia) as the winner of the sale of 76.001% of shares of JSC HC 'Luganskteplovoz', which purchased the plant for 410 million UAH.

The reprivatisation of 'Luganskteplovoz' evoked financial and legal conflicts. The State Property Fund should return 'Transmashholding' the money that it paid when it bought the plant for the first time. That payment was made in US dollars, with today's exchange rate it should be 40 million UAH more than the same Russian holding paid for the second purchase...

Privatization in Ukraine has not separated business from the government. As a result, high level of corruption, intervention of the representatives of government into business persist. The consequence is a slow establishment of market relations, inadequate quality of life, retarded formation of the middle class and civil society in Ukraine. Thus, resolving the conflicts that arise in the economic sector between the enterprises and the regions and state authorities require a radical change in political and economic relations prevailing in Ukraine.

Conclusions

New approaches to economy, clusters, rational reorganisation of privatisation and management of state property would contribute to coordinated actions of enterprises, central and local governments, and society and thus contribute to management of the conflicts of interests of various actors. It may contribute to social and economic development of Ukraine. Common actions of manufacturers and government are required. The first step in this direction may be organisation of regional associations, which would serve as both productive networks and experimental fields for further actions.

References

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