International Journal of Engineering & Technology, 7 (4.8) (2018) 871-875

International Journal of Engineering & Technology

Website:www.sciencepubco.com/index.php/IJET

Research paper

Latent Factors in the Management in the National Economy of Ukraine

Liana Ptashchenko [1*], Lyudmila Svistun [2], Valeriya Volkova[3], Yuliia Khudolii[4]

[1]Poltava National Technical Yuri Kondratyuk University, Ukraine
[2]Poltava National Technical Yuri Kondratyuk University, Ukraine
[3]Vasyl' Stus Donetsk National University, Ukraine
[4]Poltava National Technical Yuri Kondratyuk University, Ukraine
**Corresponding author e-mail: lianaptaschenko63@meta.ua*

Abstract

To confirm the author's hypothesis about what the negative impact on the state of the national economy have not so much economic or political factors, but latent character factors.
The influence of latent factors on macroeconomic processes is considered. Many factors influence the state of the national economy of Ukraine, where it is possible to consider an extended reproduction of shadow financial relations in the country. The main issue of shadowing the financial cash-flows lies in use of financial institutions, especially banks, insurance companies, stock brokers, credit groups to inefficiently withdraw funds, to evade taxes and to avoid legalization of profit, earned through crime. The terms of management put forward the objective necessity of the study of the latent factors that hinder the economic convergence of Ukraine with the standards of the leading developed countries, particularly in Europe. The research of scientific publications on problems, materials s of rating organizations and statistics data has allowed the authors to suggest synergetic idea of combining the processes of state management and social self-organization optimally, the necessity to involve scientists and society to develop implement and monitor methods of anti-corruption, as the main threat to economic security and further development of Ukraine's national economy.
To achieve the purpose the complex of general scientific and special methods was used: abstract logical, monographic, induction and deduction, theoretical generalization and systematization – to determine and generalize theoretical and methodological foundations of latent management as a systemic factor of shadow economy; the semantic method was to define the terms; dynamic methods and comparative analysis, Pareto, expert assessments were used to confirmation of the dominant negative influence of latent factors on the national economy.
Forming the conceptual methods of mitigation of the impact of destructive latent management in the shadow sector on the national economy of Ukraine.
Forming the perception about the influence of latent management as a destructive factor on the stability of existence of negative factors in the national economy of Ukraine, that is a barrier of economic convergence to the EU.

Keywords: *government regulation, convergence, latent factors, latent management, national economic security, shadow economy, structural changes*

1. Introduction

In the current state of global economic instability the issue of efficiently managing and securing the growth of the national economy and its real sector is of immediate interest. The crises waves negatively impact Ukraine's economic security, especially since its economy is integrating into the global economic processes, escalating economic and social shocks in the nation's social life. The main characteristics of the economic environment that Ukrainian businesses operate in are: international economic volatility, market stagnation, decrease of investment attractiveness of Ukrainian companies, critical need for modern technology, shortening of Ukrainian product life-cycle. All of the above is also accompanied by destructive latent management in all of the national economy sectors. In essence, the state of economy today challenges the resilience of national businesses in difficult operation conditions. This relates to management decisions on all levels, from development strategy to business project organization efficiency. The answer to the economic and political situation of today is implementing adequate management that could support a sufficient level of economic security and to minimize the effect of social and economic shocks on the Ukrainian society.
Those conditions demand to develop an efficient mechanism of increasing economic security in national businesses that will be able to withstand external and internal threats, as well as decreasing the effect of shocks from Ukraine's convergence with the EU.
The phenomenon of latent management and the latent factor model is covered in works by Mitina O.V., Korotkova E. M., Savchenko A. V. The economic convergence of countries in the EU is researched by Z. Darvas, E. Zervoyanni, B. Makkoviak, M. Stoker, G. Fagost and others [1–5]. At the same time the issue of latent management related to Ukraine's convergence with the economies of more developed EU countries requires deeper research. Those problems lead to an escalation of economic shock and have a negative influence on the state of economic security of the country and its businesses.

The economic security level can not be assessed by a particular statistic figure, since it includes at the very least 3 key components:

1) the current level of economic security (the level of resource sufficiency for production, investment and financial operation);
2) the efficiency of operation;
3) the potential for further growth.

The basis of the economic security mechanism is a systematic approach that combines tools, methods, levers and data that is created according to principles which exist as objective economic laws, and are implemented using an efficient management system. Monitoring the economic security level and diagnostics of the management system to detect any latent factors there have a positive or negative influence on the level of national economic security as a whole, are especially important in the management system.

Any latent factors that influence national businesses and their economic security should be accounted for in the process of monitoring and performing diagnostics.

Author's hypothesis is that the negative impact on the state of the national economy have not so much economic or political factors, but latent character factors. To confirm the hypothesis will use dynamic methods and comparative analysis, Pareto, expert assessments.

Let's examine the influence of latent factors on macroeconomic processes. For example, structural deformities like the shadow economy, uncontrolled capital outflow, laundering illegal capital or asset grabbing (CIS issue otherwise known as raiding) have an extremely high negative impact on the state of economic security. Those deformities exist because latent factors are difficult to detect, and even harder to manage.

Latent factors are created as a by-product of apparent factors in an inefficient management system, especially when the demands of the system are in conflict with the interests of a managed object. For instance, the apparent factor is a requirement to pay taxes, and the latent factor would be a desire to evade taxes if possible.

Since latent factors can't be observed directly, there have been statistical and analytic methods developed to detect latent factors and their creation mechanism [6].

In scientific works, social and economic practice latent management is often confused with or is considered equal to manipulation. V. P. Sheynov [7], for example, considers hidden management a manipulation. However, those concepts are different at their core, and as such, should be researched as part of different sciences: manipulation becomes part of sociology and psychology and latent management should be included into political science and economic system management theory.

A number of scientists have used the term latent to describe hidden influences in organization management and thus have started scientific debate on this complex management theory issue [8].

Latent management is a hidden goal-oriented influence on a process, as a result of which the subject of the process consciously accepts and executes seemingly independent decisions, which were actually developed by an actor of latent management, Meanwhile, the object of latent management, understanding the situation, receives externally adjusted data that causes it to take pre-determined actions, regardless of his own intellectual effort.

The person or group under latent influence that is responsible for the decision made in circumstances of incorrect data, biased perspectives or lacking knowledge is therefore rationally and intellectually supporting the actor of latent management that changes the economic traits of that person's or group's operation.

In that context, a distribution of latent management into groups of constructive and destructive types is the most important to develop social and economic systems and for the state of economic security.

To confirm the author's hypothesis about what the negative impact on the state of the national economy have not so much economic or political factors, but latent character factors.

For example, destructive latent management is a systemic factor of the shadow economy (Fig. 2) as well as other negative aspects of the economy. «Shadow» economy is the epitome of how corruption intertwines with financial security of a country.

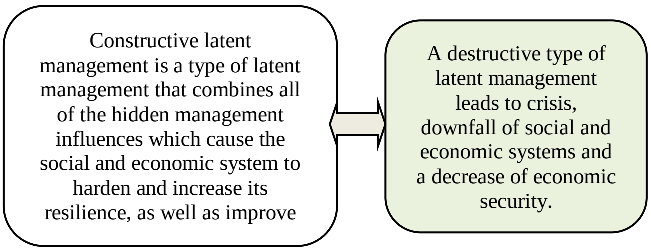

Fig. 1: Constructive and destructive latent management

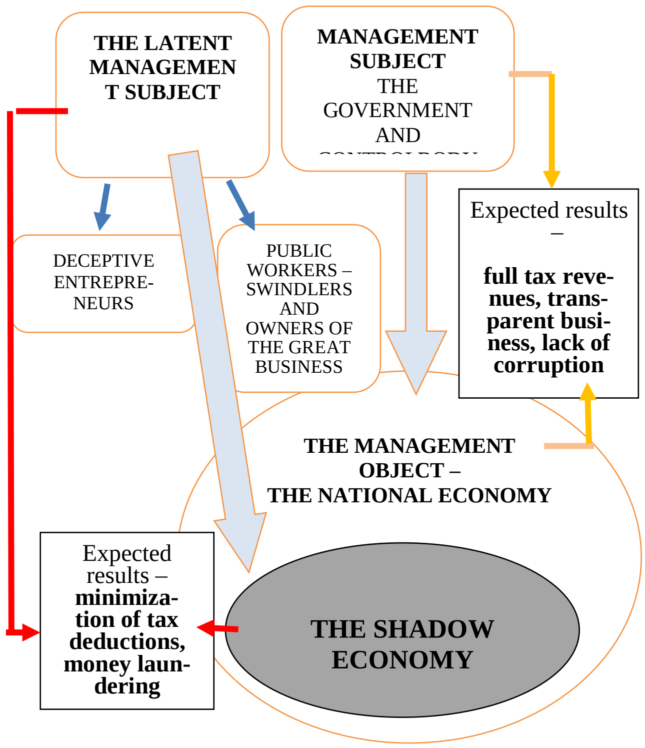

Fig. 2: Latent management as a systemic factor of Shadow economy

According to experts' calculations, the shadow economy constitutes a 40-60% part of the GDP (Ukraine's Ministry of Economy states a 47%).

It should be noted that most of the scientists that research economic and financial security state the fact that, financial security is the most important part of economic security of a government, because any economy is based on finance.

2. Main body

Many factors influence the state of the national economy of Ukraine, where it is possible to consider an extended reproduction of shadow financial relations in the country. The main issue of shadowing the financial cash-flows lies in use of financial institutions, especially banks, insurance companies, stock brokers, credit groups to inefficiently withdraw funds, to evade taxes and to avoid legalization of profit, earned through crime.

Huge rate increases debt dependence, while the volumes of industrial production are reduced and almost missing the growth of GDP. In support of this we give the following statistics. The total amount of State and guaranteed debt over the last three years has 3,5 times (from 549.46 UAH billion in 2013 , up to 1941,36 billion UAH ($ 71.76 billion.) in the 2017 year), including State external debt during this period increased in 4.7 times and amounted to 977,64 billion UAH ($ 36.48 billion.) [9].

But same public debt growth in itself does not cause apprehensiveness if the economy works, develops its real sector and is GDP. The results of the comparative analysis of public debt and GDP indicate, unfortunately, that the level of debt security almost twice exceeded the legal limit of the indicator «national debt/GDP», which not would exceed the 60% because the size of real GDP in 2016 amounted to 2034,43 billion UAH [10] ($ 75,35 billion) and, the ratio of the «national debt/GDP», respectively – 95,4 %.

Analysis showed that the most critical to the national economy of Ukraine are the following factors:

–the growth of the public debt and of exceeding his pace over the pace of GDP;

– the excess of the share of foreign loans to cover budget deficit in 7 times;

– a reduction of 11% of GDP (in the ranking, compiled by the CIA, Ukraine on the growth of GDP was ranked in 2015: 222-nd position of 225 countries [11];

– significant amounts of shadow economy, the extent of which are not decreasing (table 1).

Table 1: The scale of the shadow economy in Ukraine in% of GDP

	Period						
	1989	2007	2013	2014	2015	2016	2017
The share of the shadow economy to GDP	12.0	54.9	35	42	40	41	33

[The scale of the shadow economy in post-socialist countries (in% of the country's GDP) was calculated by the method of D. Kaufmann-A. Kaliberda and by the method of M. Lasko]

For comparison, according to the research of Frederick Schneider, the average size of the shadow economy in Europe in 2015 amounted to 18% of GDP. The lowest share of the shadow economy in GDP traditionally is observed in Switzerland (6.5%), Austria (8.2%), Luxembourg (8.3%), the Netherlands (9%) and the United Kingdom (9.4%). In Germany this index estimated at 12.2% of GDP [9].

The results of the World Economic Forum's 2016 – 2017 according to the global competitiveness index Ukraine ranks 85 place with 138 countries were evaluated [12].

The real importance of change of the index of global competitiveness is defined taking into account the number of countries, which have been evaluated.

The table shows that in global competitiveness index Ukraine improved its position in terms of «higher education and vocational training, «innovation», but rapidly reduces its position on the indicator of the development of the financial market».

This is due to the ineffective policy of NBU, the lack of reforms in the field of development of non-government pension provision, underdevelopment of the Ukrainian stock market, etc., but confirms the fact that Ukraine has significant intellectual potential, which, unfortunately, not valued and not supported by the State and big business. In addition, the reforms that are necessary on the path of convergence, slowed or are one-sided nature. So, in our opinion, the Ukrainian Government uses just destructive measures, without trying to hold back or smooth economic and social shocks that accompany these actions. For example, the gradual withdrawal of energy tariffs to the European level is not justified economically, because the main energy supply companies with funds not updated during Soviet times, and wear the networks supply exceeds 80%.

According to experts, the losses of profit from shadow economy annually are 12-13 billion uah [13].

The sectors of the national economy, ranging from industry, construction, and ending with the tourism business, are influenced by many factors, threats and dangers for the socio-economic development of the region [14]. The main reason lies in the latent management, which covers all branches of the economic complex of the country.

As destructive latent management today has become the norm in all levels of Ukrainian business practice, the situation poses the question: how to avoid its negative consequences? Since the Ukrainian economy is in a state of deep crisis, and the governmental attempts to join the economy of the EU have caused economic and social shock in Ukrainian society.

Note: other countries of the post-soviet block have also experienced economic shock, which is only natural when converging into different, more developed economies but those countries have attempted to soften the impact with adequate social and economic policy.

For example, those countries have experienced the following financial and energy resources shocks:

– *financial shock in the price formation sector* – the rate of inflation in developing European Union countries in 2008-2009 was on average 10%, whereas the Eurozone average was approximately 2%;

– exchange rate formation shock– Another type of financial shock, experienced by developing economies in convergence with the EU. The shock is caused by the fact that new members have to fulfill the Maastricht criteria of a stable exchanges rate. Financial shock of this type have had significant impact on the state of the foreign trade and current account balance, as well as budget balance of the new EU members;

– *a growing dependence on foreign funding and internal loan intensifier.*For example, the government debt of the Czech Republic has increased from 18,5% of GDP in 2000 to 29,4% in 2008, the debt of Poland has increased from 36,8% to 41,6% respectively, whereas Hungarian government debt has increased from 54,2% to 73,8%, thus exceeding the Maastricht criteria of 60% GDP ratio limit;

– *energy resource shocks.*Convergence shock energy resource price changes also coincided with shock, connected to the tendency of primary energy resource value increase on global markets for the last few quarters, up until IV quarter of 2008. This shock synergy resulted in a noticeable (in some cases, an N-fold) increase of electricity and natural gad prices for the major customer groups of the aforementioned countries. In particular, electricity prices in Hungary and the Czech Republic have increased 2,2 times in the first half of 2008 in comparison to 2000. The prices for industry use in the same timeframe have increased 2,4 times in the Czech Republic, 2,2 times in Hungary, 1,5 times in Slovenia. For some of the EU-10 countries the change of price has been especially significant in the post-convergence period. For example, the industry electricity price has increased from the 1st half of 2005 to 2008 1,6 times in Poland, 1,7 times in Slovakia and Latvia, 1,6 times in Lithuania. The newly integrated EU countries have experienced stronger shock due to the N-fold natural gas price increase of the last few years. The public price for natural gas in Hungary has increased 3,4 times in 2008 if compared to 2000, industrial usage price increase equals a 3,5-fold increase, whereas in the Czech Republic – 2,8 and almost 3 times, and Slovenia 2,2 and 1,9 times increase respectively [15 – 17].

Then again, the governments of those countries gave out loans into the real sector of the economy intensively, helped the economy restore on grounds of resource efficiency and innovation to soften the shock impact.

However, the current state of affairs in Ukraine is much worse. In its attempts to support the economic convergence of Ukraine with the EU, the government has used either uncommon regulation measures or ceases government regulation in socially important sectors like price and utility rates. Furthermore, inefficient government management becomes destructively latent, which manifests as the shadow economy and corruption. In effect, this doesn't reduce economic and social shocks in Ukrainian society, but only increases it.

In international ratings, Ukraine has a very bad reputation and, sadly, is described as unstable, unreliability and high levels of corruption. Such a state of affairs can't positively influence development of international relations or efficient foreign policy. That being said, there is another side to the current reputation.

The only periodic analytical paper that assigns ratings to countries based on reputation is The Country Rep Track. The developers are from the consulting company Reputation Institute. The company's experts have created a rating system, that allows monitoring the influence of reputation on competitiveness, investment attractiveness, development of trade and tourism. Countries are rated on a 100-point scale with criteria such as trust, interest, political views and foreign policy, business climate, quality of trade, services, infrastructure and living conditions, natural and tourism resources. The Reputation Institute experts hold the view, that «reputation means money». They highlighted a very strong correlation between a country's reputation and the desire to visit, buy products, produced in the country, invest in it and pursue education or a career there.

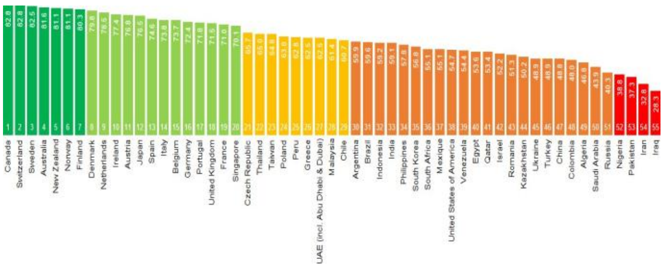

Fig. 3: Country Rep Trak, 2017 [19]

As seen on fig. 3, Canada holds the 1st place in 2017, and the last is Iraq. In total, 55 countries around the world were rated. Ukraine is on the 45th position, only 6 positions ahead of Russia (51th place).

The authors of the rating argue that the 3 main indicators of a country's reputation are: quality of life (appealing environment); quality of government institutions (efficiency of governance); rate of development (development of economy). In that context, the top 3 on the list are Canada – appealing environment, Japan – developed environment, Fig. 3.

Sweden – efficiency of governance. That being said, the authors mention that the biggest and/or most developed countries are not always the ones with the best reputation, but the happiest people live in countries that have a good reputation, are in peace and have a low level of corruption [18].

We share the opinion of T. Kovalchuk that one of the important and effective factors that led to the current problems is the psychology of temporality, which is governed by big business, and virtually all Governments. The history of the Ukrainian Government, and, consequently, the power rotation is the confirmation of this [19]. Firmly realizing its time, every syllable of the Ukraine Government ask for loans to international organizations, willingly participates in debt, knowing that it's return will be trying to resolve the following command.

We are not against such a policy of borrowing only if funds aimed at investment projects, in capital investments, the development of industry, agriculture, social sphere. However, almost all the funds of the foreign currency loans are used for current needs and replenishment of reserves of the NBU.

Based on the foregoing, the terms of management put forward the objective necessity of the study of the latent factors that hinder the economic convergence of Ukraine with the standards of the leading developed countries, particularly in Europe.

3. Conclusions

In earlier publications we justify conceptually economic model of national economy of Ukraine, which would be satisfied with the economic interests of the majority of citizens and society in general [20, 21]. We defined components of a successful economy:

1) information and informatization;

2) intellectual capital;

3) availability of resources.

We considered those three components, using philosophical concepts and Pareto principle. Grounded presence of deregulation of these components of a successful economy in the Ukrainian society.

This disbalance – consequence of destructive latent management– leads to negative consequences in the Ukrainian society, which hinder the economic development and convergence. Namely:

1) in Ukrainian society perceive information, interpret it, have access to information sources and technologies. Result: information – weightiest arms control community;

2) level of intellectualization of the human capital and the desire for continuous self-improvement and self-education. Consequence: the ease of managing the crowd with a low intellectual level, are not able to have their own opinion and position;

3) in access to resources and other economic and social benefits. For the Ukrainian society a disbalance in the access to material resources and goods is 90:10. The consequence is the stratification of society on the rich and the poor, the almost complete destruction of the «middle class».

These patterns have spawned two big problems in Ukraine: 1) politicized oligarchy; 2) passive behaviour of the participants of economic relations. These problems are disease of the Ukrainian society and latent factors containment of economic convergence in the European region. Because these imbalances by Pareto are causes of mass diseases of mankind, that little investigated, but because scientists have not yet classified, and thus –the diagnosis is not represented in the timeline of medical diseases.

The question arises: is it possible to overcome these «diseases» in the body of the national economy, which we have identified as «passive behavior of the participants of economic relations through ignorance» and «politicized oligarchy»? the answer is simple, and it's a lot of talk, but few do. Known ancient folk wisdom: Everybody wants to change the world, but no one wants to start with yourself! Declare can be beautiful and a lot. But nothing will change until every member of the Ukrainian society (top –down) do not realize that changes need to start with yourself. Then will appear in those who have the opportunity to do real economic reforms that would have made Ukraine a successful, prosperous country, contributed to the real economic convergence of Ukraine with the developed countries of the European Union.

It is important to understand that management processes in Ukrainian businesses and their economic security systems are graded by levels of intellectual and organizational complexity, and as a result, by executive hierarchy levels. Since the latent and apparent management subjects are antagonistic rivals, the one that uses a more complex form of management organization process that depends on management competence and from a desire to achieve results.

References

[1] Dzhalilov, O. (2013).Ekonomichna konverhentsiia yak pokaznyk intehrovanosti krain.[The economic convergence as an indicator of integration].Visnyk sotsialno-ekonomichnykh doslidzhen –Journal of Social and Economic Research,Issue 3 (50).pp. 132 – 139.

[2] Darvas, Z., &Szapary, G. (2008). Euro Area Enlargement and Euro Adoption Strategies. Economic Papers 304. European Commission, Feb., 60.

[3] Zervoyianni, A. (2008).Convergence of Shocks Trade BV in the Enlarged European Union.WP 15-08. The Rimini Centre for Economic Analysis.

[4] Mackowiak, B. (2006).External Shocks U.S. Monetary Policy and Macroeconomic Fluctuations in Emerging Markets. Humboldt University Berlin, Germany.

[5] Stocker, M. (2007). Catching-up Challenges in EU, EMU. Working Paper of Businness Europe Conference.pp. 10–18.

[6] Mitina, O.V. (2008).Modelirovanie latentnyh izmenenij c pomoshh'ju strukturnyh uravnenij [Modeling Latent Changes Using Structural Equations].Jeksperimental'naja psihologija- Experimental Psychology,№1. 131 – 138.

[7] Sheynov,V.P.(2014). Munipulirovanie i zashhita ot manipuljacij[Manipulation and protection from manipulation]. St. Petersburg: Piter.

[8] Korotkov, E. M. (2015). Issledovanie sistem upravlenija [Research of management systems].Moscow: «Urite».
[9] [Statistical materials on public and publicly guaranteed debt of Ukraine]. minfin.gov.ua. Available online: http: //www.minfin.gov.ua/news/view f.
[10] Valovoj vnutrennij produkt Ukrainy [Gross inner product of Ukraine]. index.minfin.com.ua Retrieved from: http://index.minfin.com.ua/index/gdp.
[11] Reyting stran po tempam rosta VVP[Rating of countries by GDP growth]. nonews.co. Available online: http://nonews.co/directory/lists/countries/gdp-temp.
[12] The Global Competitiveness Report 2016–2017. weforum.org. Available online: https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1.
[13] Stratehiia detinizatsii ukrainskoi ekonomiky [Strategy of shadowing of the Ukrainian economy]. old.niss.gov.ua. Available online: http://old.niss.gov.ua/Evrointeg/Prez1/roz7.htm.
[14] Chernysh I. (2017) Scientific and methodological aspects of business management and organizational development of the tourism sector enterprises of Poltava region in the context of sustainable development // I.Chernysh, V. Makhovka// The Baltic Journal of Economic Studies. – Vol. 3 No. 5.– pp.436- 443. DOI: http://dx.doi.org/10.30525/2256-0742/2017-3-5-436-442
[15] Landreth, H. (2012).Historia myśli ekonomicznej. Warszawa: Wyd. Naukowe PWN, (copyright 2005).
[16] Marini, M. (2004). Convergence of candidate countries to European Union: an analysis on industrial production using dynamic factor model.Working papers and studies, European Commission, 11. Retrieved from: http://epp.eurostat.ec. europa.eu.
[17] Syschuk, A., & Dedeluk, K., & Motovylska L.(2008). Ekonomichna konverhentsiya: yevropeys'kyy kontekst dlya Ukrayiny [Economic convergence: the European context for Ukraine]. Naukovyy visnyk Volyns'koho natsional'noho universytetu imeni Lesi Ukrayinky -Scientific Herald Volyn National University Lesya Ukrainian.pp. 168-172.
[18] Which countries have the strongest reputations globally in 2017. Reputation Institute. Available online: https://www.reputationinstitute.com/Media/news.
[19] Kovalchuk, T. (2010). Suchasnyy stan, finansovi chynnyky ta perspektyvy rozvytku vitchyznyanoyi ekonomiky [Current situation, financial factors and prospects of development of the national economy]. Ukrayina finansova. Available online:www.ufin.com.ua/analit_mat/gkr/164.htm
[20] Ptashchenko, L. (2014).The methodology of balancing economic interests. Palmarium academik publishing. Deuschland.
[21] Ptashchenko, L. (2016).Problems of the shadowing of the national economy – barriers to the European integration of Ukraine.Gulustan Black Sea Scientific Journal of Academic Research. DOIprefix: 10.23747. September-December. – pp. 9 – 12.