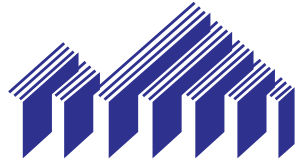


# handbook



Union of Manufacturers  
and Employers  
of Armenia



International  
Labour  
Organization

Employers' Organizations

## PRODUCTIVITY AND COMPETITIVENESS

Caucasus and Central Asia



### ARMENIA

Handbook on Productivity  
and Competitiveness





Dear employers, I would like to present to your attention the first "Handbook on Productivity and Competitiveness for Employers".

The handbook represents trends of productivity and competitiveness development.

I express my deep gratitude for support to International Labor Organization

Gagik Makaryan  
Executive Director of UMEA,  
Project Manager "Productivity and Competitiveness Improvement"



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## Introduction

### ***Each individual has a legal unlimited right for entrepreneurship activity***

*Constitution of the Republic of Armenia, article 33.1*

The Union of Manufacturers and Employers of Armenia (UMEA) activity is well known in Armenia and foreign countries regarding its independent and consistent evaluation of economic improvements, active participation in perfection of economic legislation, contributes to protection of native producers interests, promotion of international business cooperation, establishment of mutual beneficial relations between companies as well as for Armenia as for representatives in foreign countries. The Union carries out its activity basing on the principles of self-governing, transparency and democracy as well as on voluntarism and equal rights.

Activity of UMEA is focused on formation of favorable business environment and protection of businessmen's interests - gradual implementation of democratic economic legislation, provision with experience of world leading business world business and training through marketing and partner search at external markets.

The main objectives of the Union: establishment of business class, formation of favorable environment for foreign investments in Armenia as well as public opinion, integration of the country in the world economics.

Assist and support to market infrastructures formation, structure changes in main branches of economics and development of strategy for further promotion, modernization of production and release of competitive products.

With the purpose of the country's productivity is necessary to mobilize available resources, realize functions of catalyst in each company or in employer's organization, assist to productivity improvement at the national and company's level.

It is necessary to establish a role of productivity improvement in development of strategy for the country and a company within a short term, medium term and long-term periods.

What is the role of productivity improvement strengthening in a process of economics globalization?



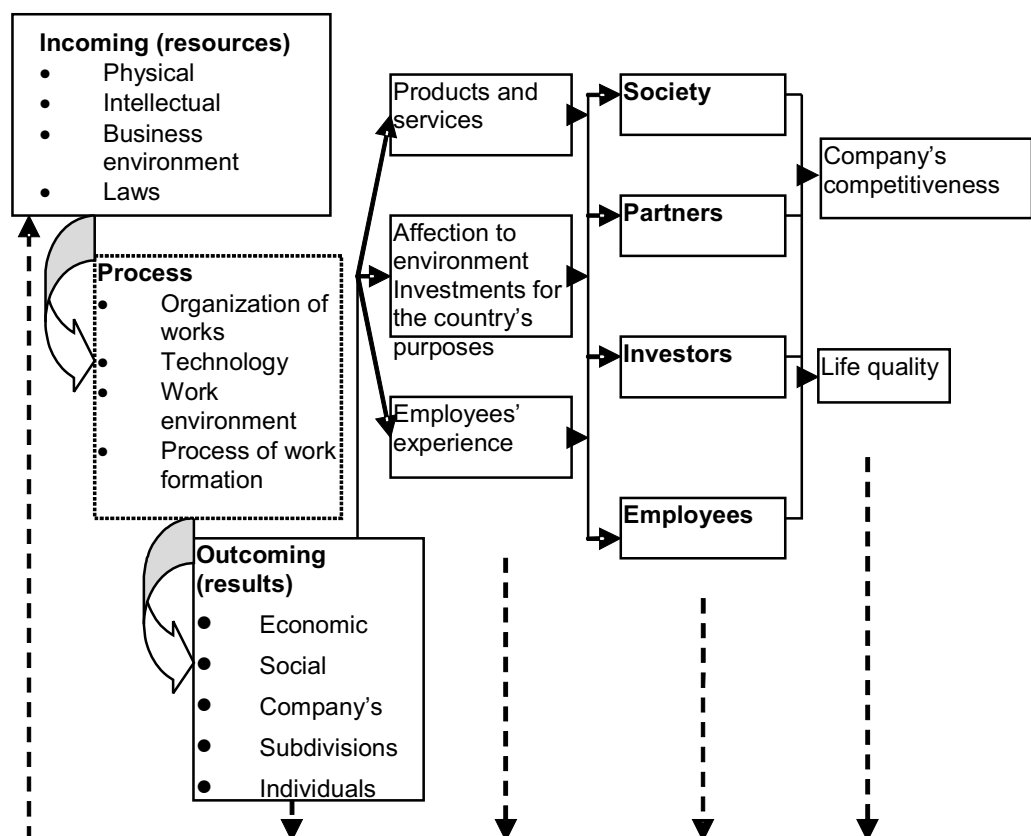
How is productivity data compared with neighbor countries at local and international markets as well as in relation with the main competitors at foreign markets?

Which sphere of the economics where productivity improvement is the most necessary? Comments on these issues and disclose of productivity development opportunities are specified in the handbook.

## Productivity

Productivity it is a correlation of products' or services' selling volumes to total expenses. In relation with this it is necessary to specify that all acting as products or services suppliers should correspond to all requirements as only suppliers which can ensure high quality and high economic values are surviving (for instance: innovations, quality, satisfactory time and corresponding price) especially under conditions of productivity development.

### Productivity: global view





Reducing of productivity or barriers in development can be considered as low culture within organization, low level of understanding regarding role of productivity or managers and employees' internal relations and their low professional capabilities and finally missing of intercommunication between suppliers and clients or weak relations.

Availability of similar problems hampers productivity and consequently elimination of these problems becomes a primary task for everybody.

To be more productive will mean to be more organized regarding issues of the company's objectives and mission definition, resources for the strategy development and requirements to personnel, study on business environment and demand.

For the productivity management it is necessary to apply processes, effective methods of management and suppliers, continual training and training programs concerning development of labor force and their motivation increasing, improvement of work environment: lighting, temperature, ventilation, security, rest, provision with appropriate space and interior and other additional conditions Employers' attitude towards labor force capabilities is also vital.

Multiple facts prove that most employers consider the following capabilities to be vital:

- 1 Discipline
- 2 Team work
- 3 Carefulness and stubbornness
- 4 Quality culture
- 5 Devotion to work and pride

The following spheres are preferable: quality of products and services, excellent quality of servicing, various management links cooperation, effective use of personnel, competitive price, necessary technologies and reliable supplies.

Thus, productivity will mean elimination of loss:

- Time
- Material



- Devices
- Buildings and areas
- Electricity and energy vector
- Mental abilities and and intellect
- Losses caused by unhealthy work relations and missing of appropriate conditions or conflicts
- Losses caused by out-of-date equipment<sup>1</sup>

Specially, out-of-date equipment directly affects on productivity resulting huge expenses, losses, high prices (about 80%). Frequent causes of low competitiveness are big debts, wrong strategies, low quality of products or management, poorly planned investments, etc.

Encouragement of personnel is vital for the company's productivity increasing and encouragement schemes are noticeably raise motivation. Some companies are focused on encouragement of individuals giving them a bonus and a number of other companies carry out encouragement on the base of total outcome received by the company. In this case the employees arte more interested in exchange of knowledge within organization than in case of giving a bonus to individuals and it is evident that an employee will prefer to conceal information for increasing his individual results. Thus, companies which apply method of encouragement for total outcome are receiving more benefits.

The main factors for employee's motivation:

- a) high income
- b) independence
- c) opportunity for career development
- d) Opportunity for own ideas
- e) Availability of days off
- f) Quantity of work hours
- g) Work environment
- h) Best methods of management

<sup>1</sup> Out-of-date equipment is reducing productivity and for instance 36 % of retarding companies that are using equipment more than 10 years and only 10 % in case if companies are using equipment for 2-4 years.



For characterizing productivity it is often convenient to use an opportunity for additional value formation and evaluate its importance.

## Competitiveness

Traditionally, the main objectives of competition were market domination, expansion, growth and profit. But more and more often today the objectives of competition are client satisfaction, quality of life and long-term social development. The traditional objectives have slowly been transformed into means.

The conditions for competitiveness have also changed dramatically. Most notable are the revolutionary developments in technology, particularly communications and information, and changes in the labour force with women moving into professional and managerial positions and running their own businesses. A better educated, more flexible and mobile labour force has much more power than in the past to negotiate and even dictate employment conditions.

Globalization provides both positive and negative challenges to governments. Global markets are demanding greater business aggressiveness, entrepreneurship and agility; governments have to design more balanced policies to promote international competitiveness and openness while providing social protection for those who, for any reason, are unable to keep up with these rapid developments. Finally, economic and political liberalization, deregulation and decentralization, privatization and restructuring are making competition more intense than ever before. These changes have increased the pressure for social dialogue to meet expectations of different groups.

Thus, competition increasingly takes place not only between nations. Countries with high domestic trade barriers or in sufficient social infrastructures and inferior market conditions face the risk that foreign and domestic private capital may rapidly leave the country. A number of countries have even set up agencies whose sole task is to boost competitiveness.





## Competitiveness in the global business environment

Economic liberalization and deregulation are bringing about a closer integration of domestic and international markets. As a result, companies are facing increased competition in their export markets and in domestic markets as well, since imported products and services can now easily enter the home market.

## Globalization in trade and investment

The most important forces integrating the global economy are international trade and investment. The pressures for economic integration have been reinforced during the past two decades by developments in technology, changes in market structures and the emergence of transnational corporations, all the result of growing world trade and investment. International economic integration has been happening at two levels. At the macroeconomic level, integration has been happening at two levels. At the microeconomic level, integration intensifies as companies expand across national borders either through equity investments (mergers and acquisitions or "greenfield" investments) or through non-equity links (strategic alliances) that integrate the activities of independent firms.

## What is competitiveness?

Competitiveness is becoming a really hot issue all over the world. It is the most important way of achieving economic growth and sustainable social development. Nations compete in the sense that they choose policies to promote higher living standards. In the globalized economy, competitiveness means an ability to constantly take the most advantageous position or niche in a rapidly changing market environment.

At *macro level* it is important to have a stable and predictable macroeconomic framework which creates the goods and capital markets that are essential for an effective and efficient allocation of resources. This includes a realistic exchange rate policy, a foreign trade policy that stimulates local industry, competition policy, and a fiscal and budgetary policy geared for growth and stability. This macro framework should provide a conducive business environment for entrepreneurship and innovation, and promote effective enterprises.



At *meso level* there should be specific policies and institutions that help industry and create competitive advantages. Such institutions would include National Competitiveness Boards, National Productivity Organizations, National Institutes for Management Development, organizations for small enterprise promotion, industrial associations, employers, organizations and many others. There would also be institutions dealing with financial and regulatory policy design and implementation.

Both national and company competitiveness are the result of government policy and market factors. Appropriate government policies can contribute dramatically to growth. Competitive economies require stable and sound macroeconomic conditions.

There are many determinants of government policy. Short-run competitiveness can be achieved through relative cost advantage, exchange rates, and aggressive export trade development. However, relative cost or price alone does not determine long-term competitiveness. As a rule, countries that gain market share also display faster productivity growth and rapid increases in technological capability.

Nations compete in creating conditions that attract and encourage capital to invest in productive and competitive enterprises. They compete in creating a policy framework that encourages and enables enterprises to constantly upgrade and keep on improving their productivity. They compete through putting in place programs and incentive packages that help firms develop competitive advantage and pursue strategies for successful participation in global markets. Generally, competition policy aims at promoting market-oriented strategies, actively uses such tools as anti-monopoly laws, deregulation and liberalization of certain sectors, and facilitates the entry and exit of companies. There are also policies that support technological innovation and upgrading, trade promotion and human resource development in the effort to improve short-term and long-term productivity.

National competitiveness depends on many factors and conditions and it is helpful to arrange them in groups. A well-developed classification was proposed by Michael Porter (1990). According to his model, the following elements determine the competitive advantage of nations:

- *Factor conditions* - the availability of production factors such as skilled labour and knowledge, physical resources, capital resources, science and technology, and the physical infrastructure necessary to compete in a given industry.



- *Demand conditions* - local demand for products and services, its composition, size, pattern of growth and buyer sophistication, market information flows, regulatory standards, and openness of public-sector contracts.
- *Related and supportive industries* - the availability of suppliers and related industries that are internationally competitive.
- *Firm strategy, structure and rivalry* - the conditions for starting and managing a company, and the nature of domestic rivalry, which covers intellectual property protection, corruption, tariff liberalization, hidden trade barriers, intensity of local competition, antitrust policy, and legal barriers to entry.

The most competitive countries are also characterized by labour market flexibility and the quality of industrial relations, since flexible labour markets, low labour taxation and harmonious industrial relations all support higher economic growth.

Difficulties in containing inflation, sudden currency devaluations, sharp declines in commodity prices, collapsing external demand and domestic recession often contribute to reducing national productivity and competitiveness. The role of government in macroeconomic management is particularly important in developing countries where market failures commonly occur. Failures stem from information barriers and from external issues. Information barriers include poor management and accounting practices, poor measurement of intangible assets, poor knowledge management, etc. External problems relate to the risks associated with intangible investments and the danger that enterprises will fail to capture the returns on investments that are not firm-specific.

What can government do to support organizational change that will contribute to its macroeconomic and social goals? Since human capital investment is at the core of knowledge generation and innovation, the clearest priority is education and training. Governments can also support efficient human capital markets through information, counseling and standard setting, promoting links between the education sector and the labour market. In addition, they can foster the diffusion of best practice on workplace innovation and encourage institutional partnerships.

## Financial mechanisms

A well-developed, internationally integrated financial mechanism in a country contributes to promoting and supporting its international



competitiveness. Effective financial markets, a developed banking sector and high-quality financial services are among the most important conditions for competitiveness. Statistical and factual data support the notion that countries with extensive and efficient financial markets and banking systems are outperforming countries with underdeveloped financial mechanisms or overdeveloped government regulations and excessive control.

## Business and social infrastructure

A good business and social infrastructure supports commercial activities, develops the most important production factor - people and their intellectual capital - facilitates the distribution of resources and information flows, and upgrades the natural environment. The infrastructure includes natural resources and functional business systems, power, information technology, transport and communications, education and health institutions, and environmental protection.

## Quality management

The quality of management is critical to national productivity and competitiveness. It defines the capacity of business leaders and their organizations to respond to new market opportunities and challenges in a creative and flexible manner. Competitive products and services reflect managerial ability, its long-term orientation, adaptability in a changing environment, level of entrepreneurship and skills for integration and differentiation of business activities. Process management capabilities are particularly important today.

## Quality of people

A skilled and motivated labour force with good health and positive attitudes increases national productivity and competitiveness. Education and training, technical, skills and management efficiency all contribute to competitiveness. Access to high-quality basic education increases social mobility, equips people with the tools to acquire skills and means of livelihood, and fosters self-reliance. Education increases knowledge and critical thinking, contributing to greater productivity and earning power, and stimulating economic growth and development.



Nations have to choose the path they are going to take for long-term development. The most appropriate options depend on the current level of economic and social development, national culture, values, priorities and expectations.

This means more deregulation, privatization, entrepreneurship, individual responsibility, shareholder value, flexibility, less government intervention and control, decentralization and focus on productivity, profitability and competitiveness. There is also some movement from the left-hand column to the right in social responsibility there is a trend towards some decentralization of power from the state to companies.

## Innovation

Innovation does not refer only to new technology; it is one of the key elements of productivity development. Any new product or service, technological application or process, any change in management finance, marketing or advertising is an innovation.

Innovation requires a combination of strategy, financial commitment, operational integration, entrepreneurship and competent people. It is also important to identify markets that can be served by the company's technological and innovative capabilities. Gaining access to these markets is central to the innovation process. Incidentally, it is becoming more important to attract customers to the company innovation process as well. Innovative product users often far outnumber a company's product developers.

The concept of innovation involves:

- the process of making improvements by introducing something new
- a new idea, method or device
- the successful exploitation of new ideas
- change that creates a new dimension of performance

*Companies cannot grow through cost reduction and reengineering alone... Innovation is the key element in providing aggressive top-line growth, and for increasing bottom-line results, and totally, competitiveness of the company.*



In general, business organizations spend a significant amount of their turnover on innovation i.e. making changes to their established products, processes and services. The amount of investment can vary from as low as a half a percent of turnover for organizations with a low rate of change to anything over twenty percent of turnover for organizations with a high rate of change.

The investment may vary by industry and by market positioning.

1. Improved quality
2. Creation of new markets
3. Extension of the product range
4. Reduced labour costs
5. Improved production processes
6. Reduced materials
7. Reduced environmental damage
8. Replacement of products/services
9. Reduced energy consumption
10. Conformance to regulations
11. Human Resources Development
12. Quality Management

## **Productivity Development Initiative**

### **The Role of UMEA in productivity issues**

The Union of Manufacturers and Employers of Armenia (UMEA) was founded on March 23, 1996 by the Constituent Assembly.

UMEA is a non-profit non-governmental organization that unites businessmen which hold the leading position in economic entities.



The inherent feature of the UMEA activities which has great authority in Armenia as well as in foreign countries, is the active participation in improving the economic legislation and protection of interests of local manufacturers, development of international business cooperation, creation of mutually beneficial relations for companies inside Armenia and abroad.

While implementing its activities the Union directs its potential and forces to the realization of the following tasks:

- actively participate in projects for development of the Armenian economy
- participate in the activities for the improvement of the tax policy aimed to stimulate the development of entrepreneurship
- support the improvement of finance and credit policy of the Republic for attracting foreign and local investments.
- Training programs for productivity development (Training Modules)

## Training Modules

- Competitiveness and Tax Regulation
- Quality Management
- Start and Improve Your Business
- Sales Management
- Human Resource Management
- Occupational Health and Safety Management System
- Labor Code of the Republic of Armenia
- Reorganization and Management
- Productivity and Competitiveness
- Productivity and Quality Management. Environment

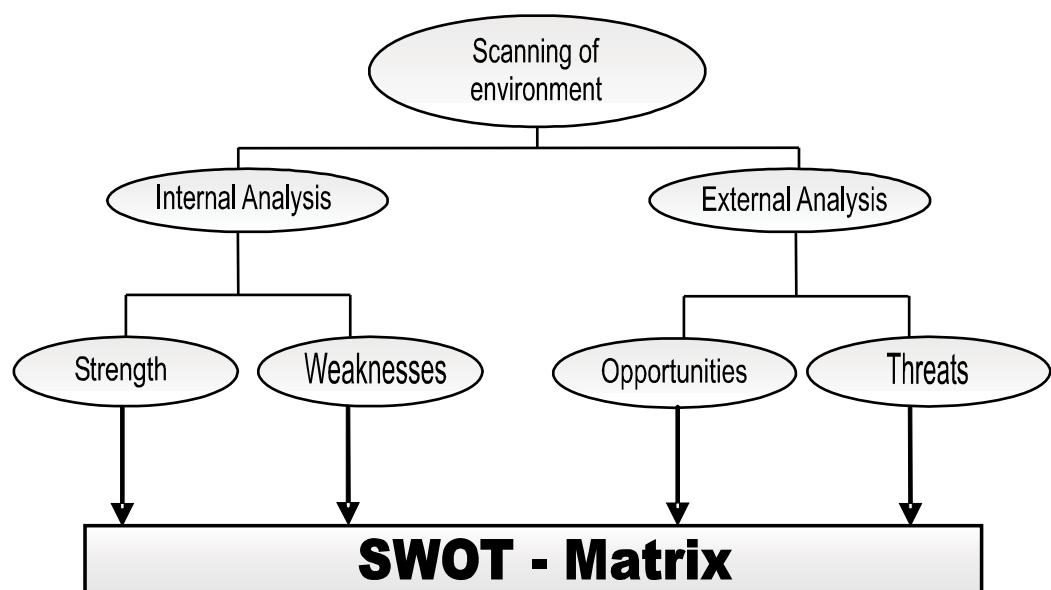
Creation of **cross point** is often necessary for catalyzing and managing the productivity route of the country. A similar **cross point** can be the Productivity and Competitiveness (P&C) Center for Employers Organization (UMEA)



## Main Objectives of the Center

- The center should assume training and consultant activities, in order to build capabilities and capacities between enterprises and different structures.
- It helps productivity concept to have more precise and practical perspectives.
- The center will undertake the role of collecting and distributing information on productivity improvement results, making that information available for all.
- The center will provide analysis for policy development of productivity.

In this scope, the union capacity development becomes essential for ensuring efficiency of P&C Center.







## Mechanisms for Evaluation of Employers' Union Capacities Development

*SWOT and PEST analysis conducting, questioning of organization members:*

*Conducting of SWOT analysis:*

SWOT analysis is useful while comparing recourses and capacities of organization with dark competitive environment in which it has to operate. It serves as an instrument under formation and selection of strategy. SWOT - is an abbreviation of the first letters of the words Strength, Weakness, Opportunities and Threats. In the diagram brought below it is shown how SWOT analysis is inserted in the scheme often called "Scanning of environment".

### SWOT matrix

A clear difference is made between internal and external factors in SWOT analysis, Thus, Strengths and Weakness are internal factors. For instance, Strengths can be professional experience of your specialist in relations with hired employees. Weakness can be an exclusive targeting at collective problems solving. Opportunities and Threats are external factors. For instance opportunities can be consideration for well-known brands or loyalty of members of organization. Threats can be occurring of a new rival in vital sector.

SWOT analysis is foreseeing that organization will not follow the most profitable opportunities. Development of competitive advantages at the expense of clear definition of conformance between Strengths of organization and possible Opportunities. In some cases it will be more rationale to eliminate weaknesses in order to take advantage of more serious and promising opportunities. For developing of strategies taking into account SWOT profile a matrix for all these factors can be built. The matrix is given below.

	<b>Strengths</b>	<b>Weaknesses</b>
<b>Opportunities</b>	Strategies S-O	Strategies W-O
<b>Threats</b>	Strategies S-T	Strategies W-T



**Strategies S-O** are focused on opportunities which are agreed with Strengths of organization

**Strategies W-O** are focused on overcoming of weaknesses which allows widely to use opening opportunities in the future.

**Strategies S-T** define ways and methods which organization can use for reducing its vulnerability in front of occurring external threats.

**Strategies W-T** define protective plan which does not allow weaknesses to make organization too susceptible for external Threats.

**PEST** analysis is a construction used for scanning of strategic external macro environment in which your organization is operating

PEST - it is an abbreviation of the first letters of names of the following factors:

- Political factors
- Economical factors
- Social factors
- Technological factors

## Conducting of questioning of organization members

It is very important also to have a clear notion about what members of union think about its activity effectiveness and quality of provided services. It will noticeably complete information received by SWOT analysis and ensure a real situation.

**"Strategy it is - 1% of wording and 99 % of realization"**

*Thomas Edison, American inventor*

A strategic objective defines a concrete outcome which will be possible depending on how managers can develop detailed work plans ensuring its performance. Besides it, organization can measure progress in achieving to the given objective. Establishment of strategic objectives should ensure that organization mission will be completed and favorable opportunities will not be missed and strengths will be actively run under reliable resistance to external threats and fight with own weaknesses.



The most managers in process of strategic objectives development meet also abbreviation SMART.

**SMART objectives** - it means:

**Specific** - Is it specified in the objectives what do you wish to achieve?

**Measurable** - Can you evaluate if an objective is achieved or no?

**Achievable** - Is this objective available and achievable in general?

**Realistic** - Can you achieve these objectives with available resources in reality?

**Time-bound** - When do you want to achieve established objectives?

## Strategic Planning - Project for Achieving a Success

### The First Stage: assurance of shared views

*To ensure for top management and Board members to undertake a concept of necessity for process for strategic planning and realization of*

#### **Actions**

- To prepare analysis of the present and the latest tendencies in membership corps and financial situation of organization
- To identify current and future issues and objectives facing organization
- To forecast development of organization for the next three-five years, if it will continue to operate the way it has been operating up to now

#### **Review and co-ordination**

*All proposals should be agreed with executive top management and Board of employers' organization.*



## The Second Stage: development of process plan

### Objective

*To establish key stages and appoint concrete responsible persons for realization of strategic process*

### Actions

- To make a decision concerning who will develop a plan
- To make a decision concerning level of planning
- To specify a methodology for planning process which will be applied
- To establish deadlines for key stages in the plan development
- To establish time-bounds specifying when main institutes of organizations should join a process of planning or decisions such as its Board or General meeting
- To include in a plan-schedule of Board's works dates of issues review in accordance to which it is necessary to receive its agreement
- To adopt a decision if it is necessary to include external consultants and if necessary to what degree
- To establish a budget of planned works

### Review and co-ordination

## The Third Stage: Co-ordination of mission wording

### Objective

*To develop a wording which will be approved by the Board and actively supported by the staff and members of organization*

### Actions

- A group of planning is developing wording of project mission
- Consultations with employees of organization and representative selection of its members are carried out within this project
- The amended project is presented for discussion to executive management or organization's Board
- Conducting of official co-ordination of mission wording at the Board
- Distribution of mission wording to main interested parties including employees, members of organization and business partners
- Review and coordination

### Review and co-ordination

*Wording of mission became an outcome of consulting with members and employees of organization. The final variant should be approved by the Board*



## The Fourth Stage: co-ordination of strategic priorities

### Objective

*To analyze possible strategic alternatives for organization, select from possible alternatives and establish their strategic priority*

### Actions

- Planning group is carrying out internal and external analysis using SWOT methodology as well as questioning organization members and in thematic groups
- A list of possible strategic priorities is developed
- A competitive analysis of alternatives is undertaken
- Proposed priorities are presented for discussion to executive top management or Board
- Draft of priorities is reviewed by basic members and employees of organization
- Strategic priorities are agreed at Board

### Review and co-ordination

*Initial as well as with basic ideas on the draft should be agreed with top management or Board as well as with basic members and employees of employer's organization. The final variant of priorities should be approved at the Board*

## The Fifth Stage: Transformation of strategic priorities into objectives

### Objective

*To transform received strategic priorities into limited set of SMART objectives*

### Actions

- A group of planning is developing SMART objectives on the base of the received list of agreed priorities
- A group of planning is preparing a general scheme of the plan which includes a wording of the mission, a list of strategic priorities and strategic objectives
- The board reviews and approves a general scheme of a plan
- Analysis of the general scheme clarifying organizational changes is carried out and appropriate decision is made while realization of such changes
- Financial analysis of the scheme plan is carried out, appropriate corrections in order the plan to correspond financial capabilities of organization
- A final variant of the plan with expenses outline is prepared and agreed at the Board

The plan is submitted for approval of Shared meeting of organization members a final variant of the plan along with the expenses outline. The final variant is approved by Shared meeting of organization members.

### Review and co-ordination

*At first the Board is analyzing and approving the general scheme of the and then plan*



## The Sixth Stage: transformation of objectives into work plans

### Objective

*To transform agreed strategic objectives into everyday work plans at organization level, departments, operating groups and individual employees*

### Actions

- Strategic objectives are presented by managerial departments and members of mixed groups as they have to develop specific work plans on these objectives achievement
- Work plans should be included in standard systems of established objectives adopted in organization

### Review and co-ordination

*The whole complex of individual work plans should be reviewed and approved by executive top management*

## The Seventh Stage: Measuring and Progress Analysis

### Objective

*To be assured that a procedure for work quality control is available in organization in relation with performance of work plans at the level throughout organization, its departments, work groups and individual employees. To establish a regular procedure in accordance to which the strategic plan is analyzed on the issue of performance*

### Actions

- Work plans should be appropriately included in the quality management systems of work and progress evaluation available in the given organization
- The Board should conduct annual analysis and inspection of strategic priorities and objectives

### Review and co-ordination

*Executive top management should ensure availability of control system for development and performance of work plans of organization. The Board should conduct annual analysis and inspection of strategic priorities and objectives*



**Stenton- Rainshtain - What to Do and What not to Do**

**What to do?**

**What not to do?**

Keep it simple and sustained - KISS. Plan success is not measured in kilos. Your objective is to establish objectives for all your work which will be focused on all your work within the next year or two ones. Restrict a list of these objectives and tasks and you will be able to control them.

Do not go into details more than it is necessary and do not establish too many objectives and tasks are bringing to confusion, conflict of objectives, petty-minding meddling and failures in their performance

Carry out all steps as they are described. Use the selected methodology as it was compiled by authors. You selected it basing on its reputation. Study on success of others.

Do not miss any stages and carry out them completely. If you purchased an expensive brief-case you will not immediately change its hand, small straps or color. Avoid attempts to "amend" a procedure until you will not have sufficient data justifying amendments.

Continually focus on mission. A mission means to what organization is seeking to in its work and activity and what is a central focus as for planning as for everyday work according to the plan realization. You ask yourself "How will you assist mission performance?" before you select any objective, object strategy or tactics or undertake any action.

Do not do things just because "we always did in that way" or "I think that we should do that even if it is not agreed with our mission". If in your decisions you will not be guided by the mission, you will miss the newest decisions, lose the course or become a shareholder.

In order not to be tempted by prematurely performance of tactic plan use methods of "brain relief". You are an excellent tactic and meeting a problem you propose an immediate. Under strategic planning your responsibility as well as responsibility of your group includes formation of objectives of high level and establishment of specific tasks considering mission of organization. Compile list of all ideas proposed by the group. Put aside all these ideas until you are not prepared for tactic plan creation.

Do not initiate establishment of tasks until mission, objectives and tasks of organization are clearly formed. Mission is establishing context of objectives development which in their turn establish context for tasks establishment and achievement of specific and measurable results. Select a tactics for achievement of higher level





**Stenton- Rainshtain - What to Do and What not to Do**

**What to do?**

**What not to do?**

Evaluate, evaluate and once more evaluate! Select useful and significant methods of progress measuring for all objectives, tasks and tactic measures. What information is necessary for adoption of decisions? Once more apply to the point KISS Keep it simple and sustained.

Do not avoid evaluation only because sometimes it is difficult and labor-intensive. Evaluation can be difficult especially when it is related to level of customer satisfaction, moral status of employees or efficiency of their work. Define criteria for yourself for measuring of these non-material indices in order to control progress at performance process.

Evaluate quality of outcome everywhere it is possible. The quality defines how customers will judge your products and services. Such approach is ensuring the best information necessary for strategic decisions adoption and constantly keeping you for performance of mission and satisfaction of customer interests.

Do not select productivity as a method for progress evaluation only because it is easy to define it. Productivity though can not tell if you created products or services, which is required by customer. Production of rejected products will not require much time. But if you are focused on quality in result it can be that productivity will be considerably increased, as expenses for rework will be missing.

Provide with all necessary support, recourses, preparation, management and education ensuring successful activity of everybody. People can not work well if they do not have everything they have for their work performance. A plan is as successful as its performance is successful and it depends on ability to manage people.

Do not send people for performance of a task not providing them with all necessary conditions. To assign a task is possible only when a person is provided with all necessary conditions. You can require from people only if they can control the situation.





# Strategic Planning of Business

## Strategic Planning

Trend of strategic management and planning in business passed an impressive way of evolution from its origin immediately after the Second World War. A very humble start as a small part in the course of total management for business schools, trend of strategic management and planning is serving as a firm base of business and business organizations building. In the process of strategic planning, one of the new approaches of evaluating internal and external capacities of the organization is based on SWOT analysis

## SWOT Analysis

*Discovering of new opportunities, and managing and eliminating threats.*

SWOT Analysis is a powerful technique for understanding your Strengths and Weaknesses, and for looking at the Opportunities and Threats.

The key elements are:

- What advantages does your company have?
- What do you do better than anyone else?
- What unique or lowest-cost resources do you have access to?
- What do people in your market see as your strengths?
  
- What could you improve?
- What should you avoid?
- What are people in your market likely to see as weaknesses?
  
- Where are the good opportunities facing you?
- What are the interesting trends you are aware of?
  
- What obstacles do you face?
- What is your competition doing?

.....  
*Strengths*

.....  
*Weaknesses*

.....  
*Opportunities*

.....  
*Threats*



- Are the required specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

**Strengths** and **weaknesses** are often internal to employers' organization. **Opportunities** and **threats** often relate to external factors. Useful opportunities can come from following examples:

- Changes in technology and markets on both a broad and narrow scale
- Changes in government policy related to the field of activity
- Changes in social patterns, population profiles, lifestyle changes, etc.
- Local Events

The detailed view of 4 key components of SWOT are presented below.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>■ Advantages of proposition</li> <li>■ Capabilities</li> <li>■ Competitive advantages</li> <li>■ Resources, Assets, People</li> <li>■ Experience, knowledge, data</li> <li>■ Financial reserves</li> <li>■ Marketing - reach, distribution, awareness</li> <li>■ Innovative aspects</li> <li>■ Location and geographical</li> <li>■ Price, value, quality</li> <li>■ Accreditations, qualifications, certifications</li> <li>■ Processes, systems,</li> <li>■ IT and communications</li> <li>■ Cultural, attitudinal, behavioural</li> <li>■ Management cover, succession</li> </ul>	<ul style="list-style-type: none"> <li>■ Disadvantages of proposition</li> <li>■ Gaps in capabilities</li> <li>■ Lack of competitive strength</li> <li>■ Reputation, presence and reach</li> <li>■ Financials</li> <li>■ Own known vulnerabilities</li> <li>■ Timescales, deadlines and pressures</li> <li>■ Cashflow, start-up cash-drain</li> <li>■ Continuity, supply chain robustness</li> <li>■ Effects on core activities, distraction</li> <li>■ Reliability of data, plan predictability</li> <li>■ Morale, commitment, leadership</li> <li>■ Accreditations, etc</li> <li>■ Processes and systems, etc</li> <li>■ Management cover, succession</li> </ul>



Opportunities	Threats
<ul style="list-style-type: none"><li>■ Market developments</li><li>■ Competitors' vulnerabilities</li><li>■ Industry or lifestyle trends</li><li>■ Technology development and innovation</li><li>■ Global influences</li><li>■ New markets, vertical, horizontal</li><li>■ Niche target markets</li><li>■ Geographical, export, import</li><li>■ New USP's</li><li>■ Tactics - surprise, major contracts, etc</li><li>■ Business and product development</li><li>■ Information and research</li><li>■ Partnerships, agencies, distribution</li><li>■ Volumes, production, economies</li><li>■ Seasonal, fashion influences</li></ul>	<ul style="list-style-type: none"><li>■ Political effects</li><li>■ Legislative effects</li><li>■ Environmental effects</li><li>■ IT developments</li><li>■ Competitor intentions - various</li><li>■ Market demand</li><li>■ New technologies, services, ideas</li> <li>■ Vital contracts and partners</li><li>■ Sustaining internal capabilities</li><li>■ Obstacles faced</li><li>■ Insurmountable weaknesses</li><li>■ Loss of key staff</li><li>■ Sustainable financial backing</li><li>■ Economy - home, abroad</li><li>■ Seasonality, weather effects</li></ul>

Here are some examples of what a SWOT analysis can be used to assess:

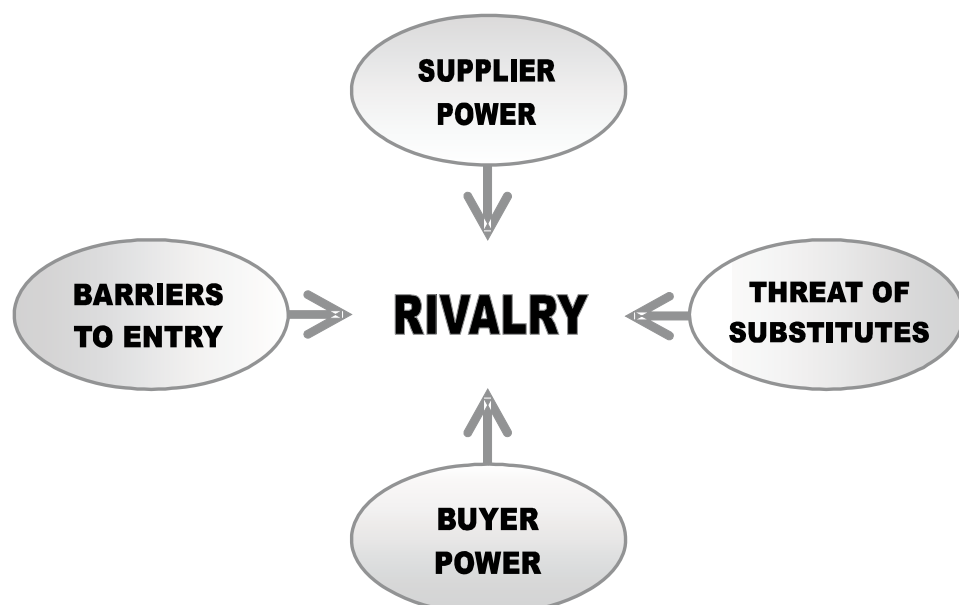
- a company (its position in the market, commercial viability, etc)
- a method of sales distribution
- a product or brand
- a business idea
- a strategy
- a potential partnership
- changing a supplier
- outsourcing a service, activity or resource
- an investment opportunity.

## "Five Forces" Model of Porter

Evidently, the start point for planning process initiation is analysis of rivalry. An outstanding leader in this sphere is a professor of Harvard school is Michael Porter. Porter is probably one of the most well-known in the world academician in the business sphere. In the list of the most well-known guru in business compiled by Accentures Institute for Strategic Change, Porter is occupying a position "the best in his class". Porter published 16 books and more than 85 articles. His book "Competitive Strategy: Techniques for Analyzing Industries and Competitors" published in 1980 had 60 editions and was translated into 17 languages.

The most famous work of Porter in the sphere of analyzing and rivalry environments related to his model of "five forces". The model is based on the principles of microeconomics and coming from an idea that corporative strategy should correspond to favorable opportunities and threats occurring in external environment of the given organization. "Five forces" model takes into account demand and supply, availability of supplementary and substitution goods, correlation between production volume and production expenses as well as market structures such as monopoly, oligopoly and unrestricted rivalry. The goal of corporative strategy of Porter is transformation of these competitive forces is aimed at improvement of organizations' positions. Porter's model allows businessmen-managers to carry out analysis of the basic leading forces in their sector. Managers make decisions concerning how they can affect on peculiarities occurring in their business interests or take use of them on the base of outcomes of the analysis of "five forces".

### Presentation of Porter's "Five forces" model



## Barriers to entry

### The "Five Forces" can be described in the following way:

The easier for companies to enter one or another market the more fierce is rivalry at the market. Factors which can restrict threat of penetration of new players into a market are called barriers to entry. Here are some examples of such barriers:

- Formed loyalty to leading brands
- High production expenses
- Limited resources
- High expenses for reorientation of companies
- State restrictions or strict legislation

## Supplier Force

Shows pressure on business made by suppliers. If one supplier has so unlimited possibilities and can define restrictions for a company's production volume it means that the suppliers has sufficient force. Suppliers can have such force if:

- There are no so many suppliers of the given product available at the market
- Substitutes are missing
- Substitution with another (rival) product will be too expensive
- Products is so important for customers that they can not do without it

## Buyer Force

Shows pressure on business made by buyers, if one buyer has so unlimited possibilities and can define restrictions for a company's production volume it means that the suppliers has sufficient force. Suppliers can have such force if:

There are no so many buyers of the given product available at the market

- Purchases are usually made in big volumes
- Substitution with another (rival) product will be a problem
- Products are not vital for buyers and they can do without it within a long period of time.

## Threat of Substitutes

What is likelihood that some people can substitute products with rival products or services? If expenses for such substitutions are low it can make considerable threat. A threat of substitution depends on



similarity of characteristics of substitutes. For example, if tea price is raising considerably, tea buyers can substitute it with beverages like coffee, as these products are similar in their characteristics. When substitutes have similar characteristics they are considered as new participants penetrated into the market.

### ■ Rivalry

Describes intensity of rivalry between firms represented at the given market. Sectors with high rivalry are usually characterized by low income, as competitiveness maintenance is very high.

Highly competitive market can be an outcome of

- Many equal players represented at the market and missing of dominating firms
- Weak differentiation between competing products and services
- A branch of industry was established long ago and a slight growth is available. Companies can grow only at the expense of winning over of customers from its rivals.

## Mac-Kinsey Model 7-S

**Strategy** - Plans on distribution of limited time resources of organization in order to achieve established goals.

**Structure** - a method according to which separate units of organization relate to each other - centralized with functional subdivisions, decentralized (a tendency in more large organizations) matrix, network holding

**Systems** - procedures, processes and schedules characterizing how important work should be carried out - financial systems, hire, evaluation systems for indices and progress, information systems.

**Style** - Culture style of organization and behavior of key managers on the way of achievement of organization objectives.

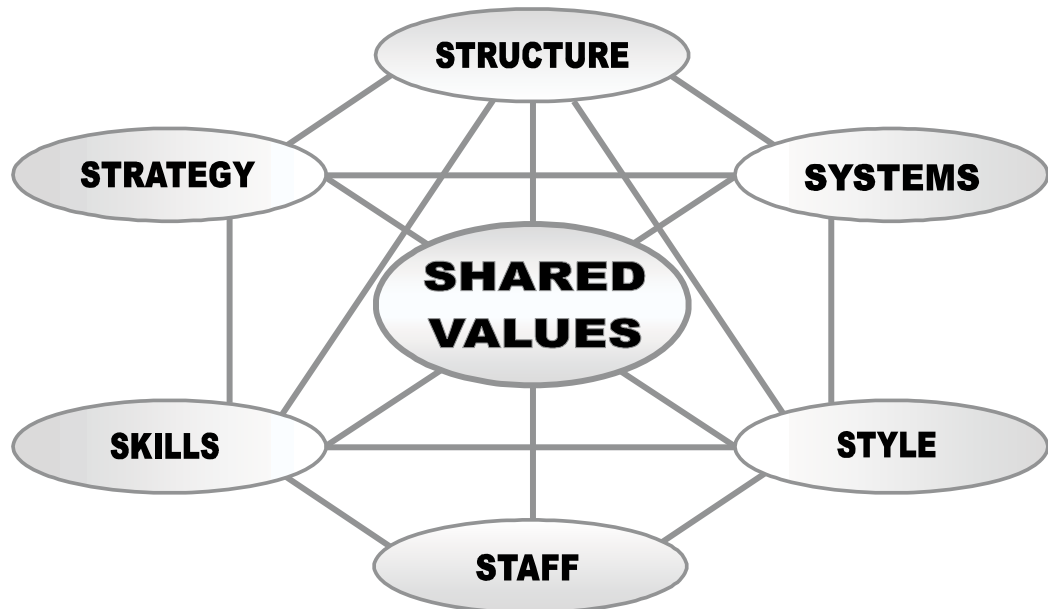
**Staff** - Number and type of personnel employed in organization

**Skills** - Clearly defined capabilities of employees or organization in general

**Shared value** - Views and beliefs of organization. Central shared convictions and positions regarding vital issues.



## Presentation of Mac-Kinsey 7-S model



Concentration of initial marketing in order to spread principle of customer and rival focus throughout organization and development of internal interventional coordination of information concerning marketing, customer and rival.

Customer focus requires understanding of customer needs and problems and it will help to organization to develop additional value for customers in proposed products and services. In employers organizations where privileges for their members and additional services proposed as for members as for non-members are often non-material, formation of this value is closely related to quality of interaction a member of organization and a customer with administrative apparatus. It is necessary to maintain development of appropriate culture regarding provision with services, protection systems for provision of this service and criteria of performance.

Customer satisfaction is the most important factor in definition of his further loyalty and long-term continual currents of income due to the programs of membership expansion raising of customer loyalty level.

Though meeting different levels of customer satisfaction, what customers shall I take care of the most?

Common sense outlines to concentration of marketing efforts for segments of organization members and clients displaying low levels of satisfaction (very unsatisfied, unsatisfied and neutral). Though





studies carried out by Jones and Saccar, 1995 showed that in reality the highest levels of loyalty and adherence will be expressed through revised purchases or a wish to pay additionally by the most satisfied segments (satisfied and very satisfied).

In the result of study, carried out in wide range of different sectors, it became obvious that for clients displaying maximum level of satisfaction with products or services (very satisfied), likelihood of repeated purchase was in six times higher (or at maximum level) than at the next level (satisfied). Thus we can make a conclusion that if we can to increase percent of customers or organization members to the level of very satisfied it can be possible to transform income flows without attracting new buyers.

Rival focus requires understanding of as short-term as long-term possibilities and tendencies of his rivals by organization. How do competitive units establish their structure and size of membership fees? How do they stimulate membership and any additional products and services provided to its members and society?

Who is a leader of the market in the sphere of our interests or in different spheres of entrepreneurship, where do we work? What are the present and the past results regarding our own effectiveness and our other rivals? Are there different types of competitive organizations operating at the market, making profit, i.e. other employers' organizations, consulting companies on management issues and professional associations as well as non-governmental and non-commercial organizations?

People working in the sphere of non-commercial companies and organizations very often consider rivalry as a improper word, however if we manage profit formation effectively, developing membership bonus, additional products and services will not be taken in by competitive innovations.

Interventional coordination requires from employers' organization planning of effective management on profit formation strategy in order to build its internal structure for optimal understanding and distribution of market information about customers and rivals and react appropriately to customer requirements.

From the point of organization it supposes and requires close integration of marketing function throughout organization, it will require development of positive relations within organization in different departments, where everybody is participating in efforts to satisfy customer requirements and members of organization and it will





require identification of customer requirements in any efforts of strategic planning and operative work.

Internal strategies of marketing should correspond to external plans of marketing through tendency for perfection in customer relations management.

Benefits of this method of market focus can reform character of correlation between available and assumed members of organization, clients, business partners and donors. Requirements and wishes of available and potential members of organization are clearly defined and that supply of goods and services is developed for their satisfaction or exceeding their quality requirements.

Dealings with organization members are substituted with mutual relations and quality and value of the last are defined less in money terms and more from the point of contact type (i.e. close or far, highly active or relatively passive). Strategy of targeting of employers' organization will respectively reflect different values and requirements which are satisfied by various products and services.

It does not propose standardized responses on various segments of members and clients of organization. Closer and meaningful correlations with available and possible members of organization afterwards can be developed on the based of mutual exchange and shared value.

If a service quality is a "supply of a great or wonderful service in relation to customer expectations" (Zeithamal & Bitner, 1996) evaluation of any gap between a supplied service in fact and idea about this service is vatal for definition of adherence and loyalty of customers and members of organization.

We can evaluate service quality and customer satisfaction through various methods.

The simplest way is estimation of complaints concerning each service or its component.

It is evident that only very satisfied or dissatisfied customers are inclined to praise or complain and our understanding what is needed to do for service quality if we consider only praises or complaints.

More complicated and strict approach to evaluation of service quality is developed by Parasuraman (et al., 1988). They establish four key gaps of service quality (with the fifth - with joined gap) which jointly

.....  
*Guarantee  
Commitment on  
Services' Quality*



form sum of divergence between a service provided by organization and idea of customers regarding the service

**Gap 1:** Ignorance of expectations of members/ clients of organization

Difference between actual needs of member/ client organization and ideas of management concerning their needs.

**Gap 2:** Disuse of right project of the service

Difference between ideas of management representatives concerning needs of member/client of organization and actual level of adopted standards for services.

**Gap 3:** Non-provision with set of standards for services

Difference between specification of services and actual supply of services

**Gap 4:** Non-provision with promised level of service in reality

Difference between promises made to members and client of organization

## The Role of Infrastructures for P&C Development

In all cases an enterprise is operating in a society and the last should create appropriate conditions for its successful work. Infrastructures in the sphere of human activity are providing immediate work of the enterprise, its personnel. These infrastructures should find interest in effective operation of an enterprise and, in its turn, enterprises should consider infrastructures reliability and productivity. The most commonly used for of infrastructures classification is distinguishing of production and non-production infrastructure branches. Production infrastructures are transport means, exegetics, communications, municipal economy, capital repair, material and technical and consumer servicing. Though the last ones do not produce material benefits they allow all other spheres of human activity to be occupied with their specialized work which is especially important for branches of material benefits producers.



Production infrastructure is usually profitable as it provides population with services, but its basic value is assurance of independence, stability, reliability and safety of government against external intrusion, aggression and other emergency situations. In particular it is ensuring vitality of all government objects. The last requires a special reliability of the production infrastructure and its independence from external affects. Infrastructure for provision of economic independence is becoming vital and can be a reliable reserve of own production capacities, its market independent from external world. It is purposeful to organize production at place in region at place, in state it is possible all nomenclature of goods ensuring repair, interchangeability, availability of spare parts, other exploration requirements for reliable and stable work infrastructure and spheres served by it.

In reality infrastructure is a base of any country, its foundation as it includes the totality of its overland and even underground constructions.

Let us review non-production infrastructure which is indirectly ensuring specialized activity of other spheres of human activity. It includes health, education, higher education, organization of culture, data ware as well as libraries and data banks, sport, recreation and some sphere of population servicing. In the row of classifications institutional infrastructure is outlined and it includes administrative body, laws protection, justice, non-governmental and political organizations.

## Basic Requirements to Infrastructures

Typical natural principle and the main feature of infrastructures is territorial-junction system of their organization. It means that any region with compact population should have all types of infrastructure services, especially communications, transport, energetic, education, health and other ones for vital activity of the given region. In the central settlement of the given region a junction of all infrastructures is formed which similar to similar junctions of borders is making image of communication network imposed on the whole country. Thus, territorial-junction principle of organization is coming from here. Similar system of organization is typical for all infrastructures, i. e. transport, energetic, repair and etc. Difference can be only in number of module junctions and large settlements or vice versa missing of energetic junctions under availability of neighbor region of large capacities.



The second basic requirement under formation of infrastructures it is a provision of high level of standardization of parameters of interaction with other infrastructures, which should ensure coherence of all similar systems. This coherence should cover not only the given country but the whole world.

Role of infrastructures in economics of government is very important in stimulation of material production development. In order to ensure promotion of any branch it is very important to form customer market. Only demand can stimulate production as any product of labor can become a commodity if it is required by society. To stimulate production artificially, even investments it is useless plan. Along with it all branches of infrastructure because of their regional-junction principle of organization are bound to appropriate regions in accordance with their parameters: structure, economic, demographic, social, consumer. Though these infrastructure branches create social order not only for development of infrastructures and industry feeding them but also all attributes of their continual, stable, reliable and economically profitable exploration. Thus, their availability is a guaranteed market for production of services. Any independent country should start from development of own infrastructures, production necessary for infrastructures according to their capacities and abilities. It is natural that not only mentioned above is ensuring independence, especially all infrastructures, agriculture production, rework of its production are fundamentals of development of own industry, as a beginning of country establishment. Of course it is not bad to have investments but any population should have own and not foreign person in its activity.

Infrastructures are very important, strategic for each country of national safety and economics as they should to head very responsible state leaders especially legislature establishment able to foresee possible consequences of adopted decisions in the future.

## Role of Infrastructure for competitiveness

Increasing of commercial attraction and volume of direct investments in economics is associated to reducing of investment risks i.e. creation of conditions under which opportunity of high incomes for investors in case of successful project and not huge loss under its failure.

If investments structure within the country (or region) is not balanced, i. e. such sectors of economics remain without investments. It is related to insufficient infrastructure provision of specific business and can be changed with the help of measures at medium level no bearing global character.



It is possible to divide infrastructure support (provision) of any activity into three main sectors: technological, financial and personnel.

If a technological sector is associated with material elements first of all, such as business-incubators and trade houses, innovation and technological centers and techno parks, financial one is realized through various investment tools: start and guarantee funds, various funds of technical assistance joining budget, social and private recourses, personnel provision has mainly non-material character and it is a system of formal and non-formal relations realized through various associations, units, clubs as well as a system of consulting services, education and training entrepreneurs and managers of various structures.

Infrastructure can be formed as by international organizations, federal and regional authorities as by representatives of various types of business interested in advocacy and advancement of their interests.

## Financial Infrastructure

All financial institutes are related to financial infrastructure having direct or indirect concern with direct investment. It probably will more constructive to review only those specific financial tools, which allow to reduce investment risks and use effective free financial resources to the maxim.

## People ware

The main risk for investor in any country and any type of business is related to unequal management. Minimizations of this risk is achieved through increasing of management and entrepreneurship culture, training of high quality for managers of all levels and provision them with necessary assistance (consulting and information).

Infrastructure can be considered at three levels: micro, medium and macro levels depending on type of analysis.

At micro-level infrastructure is a block of engineering and technical constructions necessary for functioning of any company.

At medium level infrastructure is a block of sites and constructions serving for a certain territory: republic, region, town and village.



At macro level infrastructure is a block of general economic and social conditions providing effective development of national economics totally. In the narrow sense market infrastructure is a block of institutes of servicing systems, enterprises serving the market and carrying out certain functions on normal mode provision for its operation.

Infrastructure also has the following specific features:

- First of all, infrastructure is a sector of economics for general purpose
- Secondly, it is characterized by collective consumption
- Thirdly, objects of infrastructure are capital intensive and do not require huge initial investments. In relation with this is not possible to expect simultaneous development
- In the fourth, branches of infrastructure are long-term recompense brunches.

## Market Concept

Market it is an institution or a mechanism which brings together customers (bearers of demand) and sellers (suppliers of products and services). Under modern market we understand any system which allows customers and sellers to carry out free purchase and sale of products. Market structure can be in various forms. It can be a traditional market at the city square, commodity, stock, currency or labor exchanges, announcements in newspapers like "sell-purchase", information-computer systems of purchase and sell of commodities and etc. There are many types of markets and the main ones can be grouped in accordance with the following features.

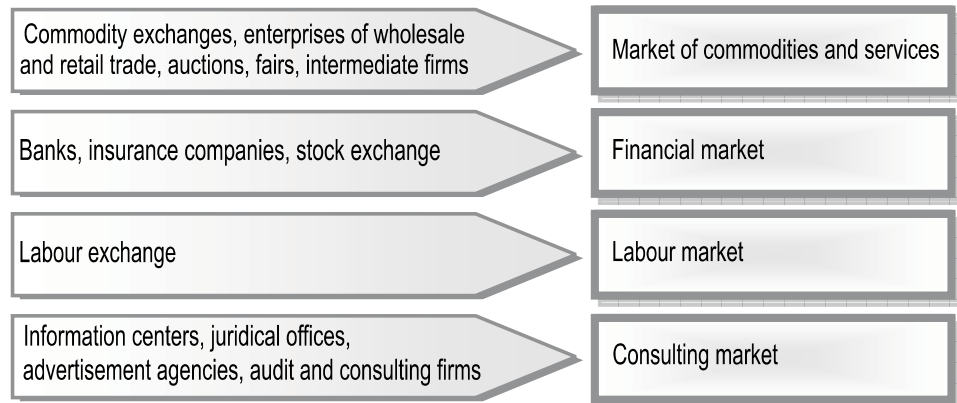
Main Types of Markets		
From the point of operating legislation	In accordance with the purpose of market relations objects	In accordance with spatial sign
<ul style="list-style-type: none"> <li>■ Legal market</li> <li>■ Shadow market</li> </ul>	<ul style="list-style-type: none"> <li>■ Consumption market</li> <li>■ Capitals market</li> <li>■ Labor force market</li> <li>■ Information market</li> <li>■ Financial market</li> <li>■ Exchange market and etc.</li> </ul>	<ul style="list-style-type: none"> <li>■ Local market</li> <li>■ National Market</li> <li>■ International market</li> <li>■ Regional market</li> <li>■ World market</li> </ul>



Modern, highly developed market is carried out six principle correlated functions.

1. **Intermediate function** - market directly links producers (sellers) and customers of products and provides them with an opportunity to communicate with each other in economic language of price, demand and supply and purchase-sale.
2. **Pricing function** of market is appearing under collision of demand and supply as well as due to rivalry. In the result of free game of market forces products and services prices are formed.
3. **Informative function of market.** Formed prices are "telling" businessmen concerning economic situation. In particular through certain spread of prices (for tea, coffee, and cocoa) and through their landslide and growth businessmen learn about volume of production, saturation of market with products, customer requirements and etc.
4. **Regulating function** is operating through the same mechanism of free market relations. Capitals transition from branches with lesser profit and reduced prices (overproduction of goods) into more profitable branches with raised prices (underproduction). As a result in the first branches production is reduced and in the second ones - increasing.
5. **Stimulation function** is also carried out with the help of market prices. In the given case economics efficiency is stimulated. The prices remunerate producers of products in high demand with additional profit, who improve their production, increase productivity and reduce expenses.
6. **Sanitary function** is strict but economically sound. The market "cleans" economics from unnecessary and ineffective economical activity. Those entrepreneurs who do not consider customer requirements and do not care about progressiveness and profitability of their production and are defeated in competitive "fight" and are "punished" by bankruptcy and vice versa effectively operating enterprises of public utility are prospering and developing.





## Labor Relations and Social Partners

### *Principles of Labor Legislation by Labor Code of RA*

In accordance with Labor Code of RA the third article, labor and related to it immediate relations the main principles of the labor legislation are:

- 1) freedom of employment, including the right to employment, which should be freely selected or agreed upon by each person; the right to administer the labor capacities, choose the profession and type of activity;
- 2) prohibition of any type of compulsory work and violence with respect to employees;
- 3) Legal equality of parties of labor relations irrespective of their gender, race, nation, language, origin, citizenship, social status, religion, marital and family status, age, philosophy, political party, trade union or public organization membership, other factors unrelated to the employee's professional qualities;
- 4) provision the right to fair working conditions for each employee, including working conditions meeting safety and healthy working conditions;
- 5) equality of the rights and opportunities of the workers;





- 6) provision of the timely and complete remuneration of the employees at the rate not lower than the minimal salary stipulated by the law
- 7) provision of the right to freely make union for the protection of the rights and interests of the employees and employers, including the rights to create trade and employers unions or join them;
- 8) stability of labor relationships
- 9) freedom of collective negotiations;
- 10) responsibility of the parties to the collective contract for their obligations.

The State shall ensure the implementation of the labor law rights in accordance with the provisions of this Code and other laws. Labor rights may be restricted only by law, if such restrictions are necessary for public security, public order, public health and morals, rights and interests of the others, honor and good reputation.

## The Concept and Principles of Social Partnership

1. The social partnership is the system of relationships between the employees (their representatives), employers (their representatives), and in cases established by this Code the Government of the Republic of Armenia, which is called upon to ensure the consolidation of the interests of the employees and employers in collective labor relations.
2. The main principles of social partnership are:
  - the equality of the parties;
  - the freedom of collective negotiations;
  - taking into consideration the interests of the parties and performance of respectful attitude;
  - compliance with the requirements of labor legislation and other normative acts by parties and their representatives;
  - authorization of the representatives of the parties;
  - freedom of choice of work-related issues offered for discussion;

- voluntary character of the parties to accept obligations;
- feasibility of the obligations accepted by the parties;
- mandatory performance of collective contracts;
- control and supervision over the implementation of collective contracts;
- responsibility for non-implementation of the collective contracts because of the parties or their representatives.

## Types of Social Partnership

The social partnership, as a matter of fact, is implemented in the following ways:

- 1) collective negotiations - related with development and conclusion of collective contracts;
- 2) mutual consultations and information exchange.

## Levels of Collective Contracts

Collective contracts may be of the following levels:

- 1) collective contracts concluded at national level;
- 2) collective contracts concluded at sectoral or local level;
- 3) collective contracts concluded at the level of organization or its separate (structural) subdivision.

## Contents of Collective Contract of the Organization

The collective contract of the organization contains mutual obligations of the organization and employers about issues or a part of them stipulated by the clause 3 of the Article 49 of this Code:

- labor security and additional hygiene measures;
- additional guarantees for the employment;



- additional socio-economic guarantees, which the parties consider as necessary;
- conditions of remuneration for work, regulation mechanisms for the remuneration of work taking into consideration inflation and price rises;
- order and conditions for the reduction of employees, guarantees in case of reduction
- working and rest time, including provision of leaves and their duration;
- order for the receipt of necessary information and implementation of control and supervision over the execution of collective contracts;
- liability for the non-performance of the contract;
- order and timeframes for the submission of claims by employees and employers in case of collective labor disputes;
- etc.

## Control and Supervision over the Implementation of the Collective Contract of the Organization

Collective labor dispute is disagreement between the trade union and the employer on the raised and not met claims occurring during the negotiations for the conclusion of collective contract

### Submitting of Demands

### Consideration of Demands

**Procedures applied** (Conciliation Commission (including with the participation of a mediator), in case of disagreement - a court

In case of non-regulated dispute a strike is announced (including a warning strike)

In case of a strike announcement an employer has no right to accept new employees instead of employees participating in the strike (except cases established by laws), making obstacles for employees to visit their working places.



1. In case of recognizing the strike as unlawful according to the procedure defined under Article 78 the trade union, which declared and led the strike shall pay to the employer a fine from its property for the damage caused to him/her in a procedure established by the legislation of the Republic of Armenia.

## **DIVIDUAL EMPLOYMENT RELATIONS**

**EMPLOYMENT CONTRACT** (is concluded in written form and signed by two parties),

## **Types of Employment Contract**

Employment contract is concluded:

- with an indefinite term,
- with a definite term ( a seasonal job, a temporary job)
- personal services and etc.

## **SAFETY AND HEALTH OF EMPLOYEES**

Safety and health of the employees is a system of maintaining the life and health of employees during the working activity, which includes legal, socio-economic, organizational-technical, health, medical-preventive, rehabilitation and other measures.

### ***Right of Employees to Safe Work concluded:***

- Employer is responsible to provide employees with with proper, safe and health-friendly working conditions as set in the law
- ***Ensuring normal working conditions*** (adherence to safety norms and rules)
- The workstation and working environment of every employee must be safe, comfortable and non-harmful to health,
- It shall be permitted to use only the work devices
- Exposure to Dangerous Chemical Substances collective and individual protective equipment
- Organized in compliance with the requirements laid down in normative legal acts on safety employee ad health at work assess potential risks to ensuring the safety and health of



employees, Manages the Occupational Safety and Health Status Card in the organization, etc

- Compulsory and periodically Health Examinations
- Training, Instruction and Qualification Testing of Employees in Occupational Safety and Health Matters
- The transfer of the employee who has fallen ill or was injured at the place of work to a health care

The employer must inform and consult employees about all the issues related to the analysis, planning of ensuring the safety and health of employees, the organization and control of appropriate measures. The employer shall ensure the participation of the trade union in the discussion of issues related to ensuring the safety and health of employees.

## **The Role of Quality Management in Competitiveness Improvement Productivity Development through Quality Management**

### **Occupational Health and Safety System International Standard OHSAS 18001**

.....  
*Documentation  
on Occupational  
Safety System*

It is necessary to establish and maintain documentation on occupational safety in accordance with size and character of organization activity and should cover:

- (a) Policy and objectives of organization on occupational safety
- (b) Distribution of key functions on occupational safety and responsibilities on occupational safety management
- (c) The most significant hazards/ risks coming from organization's activity and measures for their prevention and regulation
- (d) Clauses, methodologies, instructions and other internal documents used in the frames of the system on occupational safety management



.....  
*Documentation  
on occupational  
safety  
management  
should be*

- (a) clear and legible, understood by users
- (b) reviewed on regular basis and updated in case of necessity and be available for all members of organization to whom it is addressed

.....  
*OH&S Policy*

Employer consulting with employees and their representatives should state in written form OH&S Policy and it is to correspond the following:

- (a) conform to specifics of organization, its size and character of activity
- (b) be brief, legible, date is to be available and put into usage by signature of a responsible person within organization
- (c) Spread within organization and available for all persons at place
- (d) Continual review for its correspondence
- (e) Being available for corresponding external parties which are interested

.....  
*Policy on  
Occupational  
Safety should  
include as  
minimum:*

The following key principles and objectives for realization of which the organization is responsible.

- (a) Assurance of security and health safety of all members of organization
- (b) Maintenance of appropriate national laws, volunteer programmes, collective agreements on occupational safety and other requirements which organization has to carry out
- (c) Guaranteed provision with consultations for operators and their involvement in all elements of occupational safety system
- (d) Continual improvement of system functioning on occupational health and safety management system.



.....  
*Involvement of  
employees*

- a) Involvement of employees is one of the most important elements of occupational health and safety management system.
- b) Employee OH&S representatives with defined roles and communication mechanisms with management, including, for example, involvement in accident and incident investigations, site OH&S inspections etc.
- c) Employer should organize processes for employees in such way that employees have time for active participation in processes of organization, planning and carrying out evaluation and actions aimed at improvement of occupational health and safety management system.

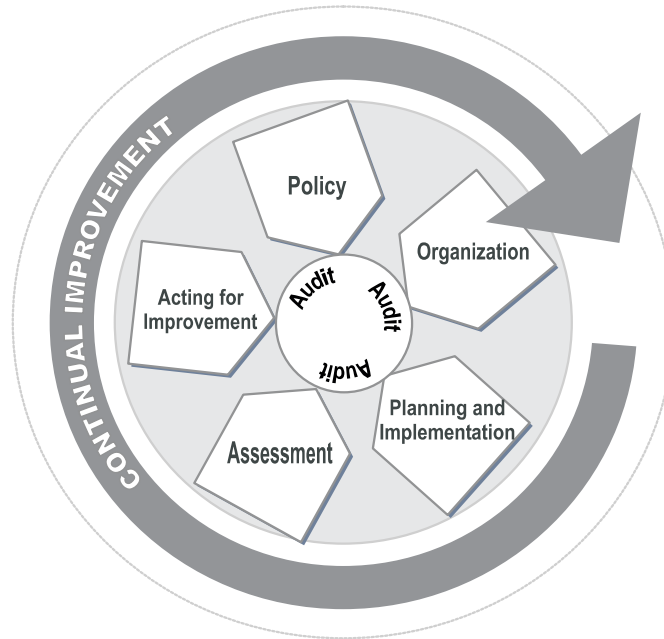
.....  
*Main principle of  
OHSAS 18001*

- 1. To list work places and performing operations. Identification of hazards.
- 2. Analysis of hazards, disclose of significant ones and identification of risk degree through review of their occurring and severity of consequences
- 3. Determination of management elements reducing or eliminating degree of risk
- 4. Control of processes. Description of processes and maintenance of risk level or class of hazard within acceptable limits through apply of management elements
- 5. Establishment, conducting and maintenance in operating state a system for monitoring using preventive and regulative monitoring
- 6. Development and apply of elimination mechanism, correction of shortages which should be undertaken if monitoring or internal audit is specifying that situation can be out of control
- 7. To establish and maintain in operating state a procedure for checking and analysis of results confirming system efficiency and its improvement
- 8. Control of documents and records of the system





## Principle Elements of OHSAS



## Total Quality Management, ISO 9000:2000 Quality Management System

The following eight principles form a basis for ISO 9000:2000 Quality

Management System:		
1	Customer focus	The organizations depend on their consumers and consequently should understand their current and future needs, fulfill their requirements and aspire to surpass their expectations.
2	Leadership	Leaders provide the unity of purpose and activity spheres of the organization. They should create and support the internal environment in which employees may be completely involved in tasks solution of the organization.



**Management System:**

3	Involvement of people	Employees of all levels make a basis of the organization, where full involvement of employees enables the organization to use their abilities with benefit. Creation of decent, safe and productive work places. Management of human resources.
4	Process approach	The desirable result is achieved more effectively when activity and appropriate resources are operated as a process.
5	System approach to management	Revealing, understanding and management of the interconnected processes as a system promote productivity and efficiency of the organization at achievement of its objectives.
6	Continual improvement	Continual improvement of the organization's activity on a whole should be considered as its constant objective.
7	Factual approach to decision making	The effective decisions are based on the data and information analysis.
8	Mutually beneficial supplier relationships	The organization and its suppliers are interdependent, and relations of mutual benefit raise ability of both parties to create values.



## Ecological Management Systems ISO 14001

The leading indications given in this standard are applicable to any organization regardless of its size, type and level of readiness which is concerned with (or is interested in) creation, contribution and (or) improvement of the Ecological Management System.

The principals and elements of Ecological Management Systems

The model of Ecological Management Systems (pct. 1) reflects the viewpoint of a simplified organization which adopts the principals noted (when translating directly it will be given) below.

.....  
*Principal 1.*

### **Obligation and policy**

The organization is ought to define its own ecological policy and assume obligations regarding Ecological Management Systems.

.....  
*Principal 2.*

### **Planning**

The organization is ought to develop its own implementation plan for ecological policy.

.....  
*Principal 3.*

### **Contribution**

With the purpose of effective contribution the organization is ought to raise opportunities and secure mechanisms which are necessary to achieve indices of its own ecological goals and purposed problems.

.....  
*Principal 4.*

### **Measuring and evaluation**

The organization is ought to measure, control and value its own characteristic to ecological orientation.



## Food safety management systems: Requirements for any organization in the food chain ISO 22000

### Scope

This International Standard specifies requirements for a food safety management system where an organization in the food chain needs to demonstrate its ability to control food safety hazards in order to ensure that food is safe at the time of human consumption.

### Food safety hazard

Biological, chemical or physical agent in food or condition of food, with the potential to cause an adverse health effect.

### Terms and definitions

#### Food safety

Concept that food will not cause harm to the consumer when it is prepared and/or eaten according to its intended use.

#### Food chain

Sequence of the stages and operations involved in the production, processing, distribution, storage and handling of a food and its ingredients, from primary production to consumption.

#### Food safety hazard

Biological, chemical or physical agent in food or condition of food with the potential to cause an adverse health effect.

#### Food safety policy

Overall intentions and direction of an organization related to food safety as formally expressed by top management.

#### End product

Product that will undergo no further processing or transformation by the organization.



### **Flow diagram**

Schematic and systematic presentation of the sequence and interactions of steps.

### **Control measure**

"Food safety" action or activity that can be used to prevent or eliminate a food safety hazard or reduce it to an acceptable level.

### **Prerequisite program**

"Food safety" basic conditions and activities that are necessary to maintain a hygienic environment throughout the food chain suitable for the production, handling and provision of safe end products and safe food for human consumption.

### **Critical control point**

"Food safety" step at which control can be applied and is essential to prevent or eliminate a food safety hazard or reduce it to an acceptable level.

### **Monitoring**

Conducting a planned sequence of observations or measurements to assess whether control measures are operating as intended.

### **Correction**

Action to eliminate a detected nonconformity

## Appendix 1: Doing Business in Armenia

### World Bank Doing Business Explore Economies

(source: [www.doingbusiness.org](http://www.doingbusiness.org))

Featured economy			
Ease of...	2006 rank	2005 rank	Change in rank
Doing Business	34	34	+3
Starting a Business	46	48	+2
Dealing with Licenses	36	70	+34
Employing Workers	41	22	-19
Registering Property	2	6	+4
Getting Credit	65	76	+11
Protecting Investors	83	81	-2
Paying Taxes	148	147	-1
Trading Across Borders	119	113	-6
Enforcing Contracts	18	19	+1
Closing a Business	40	39	-1

Note: 2005 rankings have been recalculated to reflect changes to the 2006 methodology and the addition of 20 new countries.

#### Starting a Business (2006)

The challenges of launching a business in are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.



Indicator	Armenia	Region	OECD
Procedures (number)	9	9.4	6.2
Time (days)	24	32.0	16.6
Cost (% of income per capita)	5.1	14.1	5.3
Min. capital (% of income per capita)	3.3	53.9	36.1

### Dealing with Licenses (2006)

Shown below are the procedures, time, and costs to build a warehouse in , including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

Indicator	Armenia	Region	OECD
Procedures (number)	18	21.4	14.0
Time (days)	112	242.5	149.5
Cost (% of income per capita)	43.1	564.9	72.0

### Employing Workers (2006)

The difficulties that employers in face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

Indicator	Armenia	Region	OECD
Difficulty of Hiring Index	33	34.2	27.0
Rigidity of Hours Index	40	50.7	45.2
Difficulty of Firing Index	20	37.1	27.4
Rigidity of Employment Index	31	40.8	33.3
Hiring cost (% of salary)	17.5	26.7	21.4
Firing costs (weeks of wages)	13.0	26.2	31.3



## Registering Property (2006)

The ease with which businesses in can secure rights to property is shown below. Included are the number of steps, time, and cost involved in registering property.

Indicator	Armenia	Region	OECD
Procedures (number)	3	6.4	4.7
Time (days)	4	102.0	31.8
Cost (% of property value)	0.4	2.7	4.3

## Getting Credit (2006)

Measures on credit information sharing and the legal rights of borrowers and lenders in Armenia are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

Indicator	Armenia	Region	OECD
Legal Rights Index	5	5.5	6.3
Credit Information Index	3	2.9	5.0
Public registry coverage (% adults)	1.5	1.7	8.4
Private bureau coverage (% adults)	0.0	9.4	60.8

## Protecting Investors (2006)

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.



Indicator	Armenia	Region	OECD
Disclosure Index	5	4.7	6.3
Director Liability Index	2	3.8	5.0
Shareholder Suits Index	8	6.0	6.6
Investor Protection Index	5.0	4.8	6.0

### Paying Taxes (2006)

The data below shows the tax that a medium-size company in must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

Indicator	Armenia	Region	OECD
Payments (number)	50	48.3	15.3
Time (hours)	1,120	423.0	202.9
Total tax rate (% profit)	42.5	56.0	47.8

### Trading Across Borders (2006)

The costs and procedures involved in importing and exporting a standardized shipment of goods in Armenia are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

Indicator	Armenia	Region	OECD
Documents for export (number)	7	7.4	4.8
Time for export (days)	34	29.2	10.5
Cost to export (US\$ per container)	1,600	1,450	811
Documents for import (number)	6	10.0	5.9
Time for import (days)	37	37.1	12.2
Cost to import (US\$ per container)	1,750	1,589	883

## Enforcing Contracts (2006)

The ease or difficulty of enforcing commercial contracts in is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

Indicator	Armenia	Region	OECD
Procedures (number)	24	31.5	22.2
Time (days)	185	408.8	351.2
Cost (% of debt)	14.0	15.0	11.2

## Closing a Business (2006)

The time and cost required to resolve bankruptcies in is shown below. The data identifies weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is also shown.

Indicator	Armenia	Region	OECD
Time (years)	1.9	3.5	1.4
Cost (% of estate)	4.0	14.3	7.1
Recovery rate (cents on the dollar)	42.0	29.5	74.0

## Appendix 2: Rates of Countries

### World Bank Doing Business Explore Economies

(source: [www.doingbusiness.org](http://www.doingbusiness.org) )

N	Country	Rates of countries	Company Launch Time (days)	Time on Export (days)	Cost of export (per container in USD)	Time on Import (days)	Cost of import (per container in USD)
1	Armenia	34	24	34	1600	37	1750
2	Georgia	37	16	13	1370	15	1370
3	Russian Federation	96	28	39	2237	38	2237
4	Ukraine	128	33	33	1009	46	1025
5	Kazakhstan	63	20	93	2780	87	2880
6	Poland	75	31	19	2260	26	2260
7	France	35	8	15	886	15	886

## Appendix 3: ILO Conventions and Recommendations

### ILO Convention 142 concerning Vocational Guidance and Vocational Training in the Development of Human Resources

#### **Article 1.**

1. Each Member shall adopt and develop comprehensive and co-ordinated policies and programmes of vocational guidance and vocational training, closely linked with employment, in particular through public employment services.
2. These policies and programmes shall take due account of-
  - (b) the stage and level of economic, social and cultural development; and
  - (c) the mutual relationships between human resources development and other economic, social and cultural objectives.

#### **Article 2.**

With the above ends in view, each Member shall establish and develop open, flexible and complementary systems of general, technical and vocational education, educational and vocational guidance and vocational training, whether these activities take place within the system of formal education or outside it.

#### **Article 4.**

Each member shall gradually extend, adapt and harmonise its vocational training systems to meet the needs for vocational training throughout life of both young persons and adults in all sectors of the economy and branches of economic activity and at all levels of skill and responsibility.



## ILO Recommendation 150 concerning Vocational Guidance and Vocational Training in the Development of Human Resources

### **II. Policies and Programs**

4. 1) Members should adopt and develop comprehensive and co-ordinated policies and programs of vocational guidance and vocational training, closely linked with employment, in particular through public employment services.
- 6) Such policies and programs should have as objectives
  - b) to promote and develop creativity, dynamism and initiative with a view to maintaining or increasing work effectiveness;
  - e) to protect persons against occupational hazards by making high standards of teaching occupational safety and health an integral part of training for each trade or occupation.
1. 1) With the above ends in view, Members should establish and develop open, flexible and complementary systems of general, technical and vocational education, educational and vocational guidance and vocational training, whether these activities take place within the system of formal education or outside it.
- 2) Members should aim in particular at
  - c) Developing comprehensive systems of vocational training covering all aspects of productive work in all branches of economic activity.



## **ILO Recommendation 189 concerning General Conditions to stimulate Job Creation in Small and Medium-Sized Enterprises**

### **1. Definition, Purpose and Scope**

#### ***The role of Small and Medium-Sized Enterprises in national development***

The National Labour Conference recommends, that Members should, in consultation with the most representative organizations of employers and workers, define small and medium-sized enterprises by reference to such criteria as may be considered appropriate, taking account of national social and economic conditions. Members should adopt measures which are appropriate to national conditions and consistent with national practice in order to recognize and to promote the fundamental role that small and medium-sized enterprises can play as regards:

- the promotion of full, productive and freely chosen employment;
- greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
- training and development of human resources;
- provision of goods and services which are better adapted to local market needs;
- access to improved quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;
- stimulating innovation, entrepreneurship, technology development and research;
- access to domestic and international markets.

### **2. Policy and legal framework**

#### ***Creating an environment conducive to the growth and development of enterprises***

For creation of such conditions member-states should

adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment (as regards, in particular, inflation, interest and exchange rates, taxation, employment and social stability);





establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation;

improve the attractiveness of entrepreneurship by avoiding policy and legal measures which disadvantage those who wish to become entrepreneurs.

### **Removal of political constraints**

It is necessary to remove constraints on a path leading to development and growth of profitable and competitive SMEs, arising, in particular, as a result of

- difficulties of access to credit and capital markets;
- low levels of technical and managerial skills;
- inadequate information;
- insufficient access to markets;
- difficulties of access to new technologies;
- lack of transport and communications infrastructure;
- insufficient support for research and development.

### **3. Development of an enterprise culture**

#### ***Where and how the entrepreneurial environment is formulated and encouraged***

In creation of new enterprises the International Labour Conference (ILC) stipulates for the importance of socio-cultural factors impact on the entrepreneurial activity. Thus, the ILC recommends, that Members should adopt measures, drawn up in consultation with the most representative organizations of employers and workers, to create and strengthen an enterprise culture which favours initiatives, enterprise creation, productivity, environmental consciousness, quality, good labour and industrial relations, and adequate social practices which are equitable. Moreover, the awareness campaigns should be carried out to promote respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services.

#### **4. Development of an effective service infrastructure**

Development of competitive enterprises with a view to create the greater number of workplaces and increase their quality ...

Set of possible services of support

Access to below-mentioned services in the field of entrepreneurship development may essentially increase competitiveness of SMEs and promote their viability:

- Development of economical activity plan and measures on its performance;
- Business-incubators;
- Information services, including consultations on a public policy;
- Services in the form of consultations and scientific researches;
- Improvement of professional skill in the field of management and professional qualification;
- Access to the electric power, communication facilities and physical infrastructure, such as water and power supply, premises, travel facilities and roads, which are provided directly or through intermediaries in a private sector;
- Support of innovation and modernization;
- Consultation on technological issues;
- Consultation on effective application of information and communication technologies in business activity;
- Access to markets of capital, credits and contracting of loans guarantees;
- Consultation on issues of financial management, regulation of credit and debt relations;
- Assistance to export and creation of favorable conditions for internal and international trade;
- Support study of market, and marketing;
- Assistance in product design, and its perfection and promotion in the market;
- Quality management, including quality control and its measuring;
- Services on packing production; and
- Services on protection and rational use of environment.



## **5. Roles of organizations of employers and workers**

The employers' and workers' organizations should provide an opportunity of their participation in SMEs development covering the following directions:

- Formulating problems of SMEs and their employees for the government;
- Rendering services on direct support of vocational training, consultation, access to credits, marketing, consultation on issues of employers-employees relations and encouragement of cooperation with larger enterprises;
- Cooperation with national, regional and local institutions, including intergovernmental regional organizations which support SMEs in such areas as vocational training consultation, start-ups and their quality control;
- Assistance in realization and participation in development of economic socio-progressive basic adjustment (for example, by means of retraining and independent employment assistance), maintaining, thus, a necessary network of social protection.

## **6. International cooperation**

Appropriate international cooperation should be encouraged in the following areas:

- establishment of common approaches to the collection of comparable data, to support policy-making;
- exchange of information on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in small and medium-sized enterprises;
- creation of linkages between national and international bodies and institutions that are involved in the development of small and medium-sized enterprises, including organizations of employers and workers, in order to facilitate exchange of staff, experiences and ideas; exchange of training materials, training methodologies and reference materials; compilation of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;
- promotion of access by small and medium-sized enterprises and their workers to national and international databases on such subjects as employment opportunities, market information, laws and regulations, technology and product standards.



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