

**SCTCMG 2018**  
**International Scientific Conference “Social and Cultural  
Transformations in the Context of Modern Globalism”**

**A SYSTEM OF VOLUNTARY CERTIFICATION AS AN ELEMENT  
OF TERRITORY BRANDING**

M. S. Gairbekov (a)\*, H. G. Chaplaev (b)

\*Corresponding author

- (a) Federal State Budgetary Educational Institution of Higher Education Chechen State Pedagogical University,  
Address: 33 Kievskaya st., 364031, Grozny, Chechen Republic, Russian Federation
- (b) Federal State Budgetary Educational Institution of Higher Education Chechen State Pedagogical University,  
Address: 33 Kievskaya st., 364031, Grozny, Chechen Republic, Russian Federation

*Abstract*

To develop the economy of the Russian territories nowadays, it is necessary to develop and improve a measure system to increase its investment attractiveness. Intensification of investment flows into the real sector of the economy should promote the increase in rating and the degree of competitiveness of domestic companies, goods, products and services in the international market. Along with mandatory certification there is a system of voluntary certification, which is at the stage of its formation in our country. Introduction to this system of innovations in terms of the possibility of cooperation between domestic companies and manufacturers and large international companies which provide testing, inspection and voluntary certification services can play a positive role for a favorable investment climate of regions. The development of regional brands will help to reduce the subsidies of regional budgets, increase exports of domestic goods and products, provide new work places, expand production infrastructure, improve staff skills, develop technologies and the economies of regions and the country more actively on the whole. Besides, for external donors such as developed countries and multilateral financial institutions, the role of providing support to developing countries remains vital. The explosion of international private sector investment flows did not eliminate the need to support the growth and development programs in developing countries, except the emergency relief and poverty reduction programs. The result of this study is the developed theses on confirming the benefits of cooperation with foreign companies that provide testing, certification companies to attract investments and provide further development..

© 2019 Published by Future Academy [www.FutureAcademy.org.UK](http://www.FutureAcademy.org.UK)

**Keywords:** Certification services, investment, regional economy..



## **1. Introduction**

One of the most significant imperatives of the development of market reforms in the Russian Federation today is modernization of the economy – modernization of production forces, technologies, forms and methods of interaction between the entities of the Russian economy. In the context of globalization, when each country is becoming increasingly dependent on the global processes of the world economy, in the context of the intensification of trade relations between different countries, the need to develop the country's territories and attract investment becomes one of the most urgent problems and at the same time one of the most promising areas in the economic sector. To achieve these goals, it is necessary to develop and establish conditions for opportunities expansion to attract investments and international trade, eliminate or minimize the imperfections of bureaucratic procedures for conducting these activities in the regions that may hinder the cooperation of local and international companies, integration into international production and trade network. It is important to pay special attention to the fact that the implementation of such measures is not a kind of regional separatism, but measures to improve the economic situation, which is especially significant for regions with highly subsidized budgets. These measures will allow to increase the export of domestic goods, products and revenues to the regional budget, reduce the degree of subsidies to the region, and have a positive effect on the state of the country's economy by improving the economic performance of the region on the whole. In addition, in the conditions of Western sanctions and the priority of the country's economic security, the choice of international companies and corporations for further cooperation should be made especially carefully.

## **2. Problem Statement**

The investment attractiveness of a certain territory consists of a set of indicators, one of which is branding of companies located in a given territory, their goods, products and services. It is obvious that conducting additional voluntary certification within the framework of the compliance requirements with international standards by reputable companies that have significant weight on the world market, will have a positive impact on the possibility of obtaining additional investments and the integration of industries and products into the world trade. Thus, the introduction of a new element into the system of voluntary certification in the Russian Federation, fully coordinated with the legislation of the country, an element of legalized cooperation with companies providing services in the field of testing, inspection and voluntary certification (the so-called TIC sector) can help to expand economic opportunities and contribute the economic development of the country and its regions.

## **3. Research Questions**

The subject of the study is the introduction of additional elements of cooperation with international TIC companies into the system of voluntary certification in the regions of the Russian Federation.

## **4. Purpose of the Study**

The purpose of the study is to provide objective information and identify the impact of the proposed changes on the investment climate of the territories, study international experience in this area and consider all advantages and disadvantages, if any, to apply such innovations.

## 5. Research Methods

The research methods used in this paper are information review, functional analysis, method of analysis and synthesis, method of analogy and comparison.

## 6. Findings

Currently in Russia there are two forms of certification – mandatory and voluntary. Mandatory certification is a form of state control and can be carried out only in cases that are specified in the legislative acts of the Russian Federation, that is regulated by laws and regulations of the Government of the Russian Federation. The main purpose of mandatory certification of goods and products (services) is to confirm their safety for the life, health of the consumer, the environment and the absence of harm to the property of the consumer. Voluntary certification is the official system used for goods, products and services, when the quality confirmation is not a mandatory requirement of the legislation. Voluntary certification is carried out on the initiative of the applicant to confirm the conformity of goods with the standard requirements, technical specifications or other documents that the applicant determined.

The Federal Agency for Technical Regulation and Metrology covers the whole complex of processes for technical regulation and metrology, starting from project reviews and approvals of national standards, regulation of technical committees work on standardization and to maintaining a single database that contains information about all voluntary certification systems registered in the country. The development strategy of the Federal Agency for Technical Regulation and Metrology assumes in the future its effective modernization and transformation into a modern national body for standardization and ensuring the unity of all dimensions.

According to clause 1 of Article 21 of the Federal Law of December 27, 2002 No. 184 “On Technical Regulation”, “voluntary confirmation of conformity is carried out at the initiative of the applicant on the terms of an agreement between the applicant and the certification body. Voluntary confirmation of compliance can be carried out to establish compliance with the documents on standardization, voluntary certification systems, and contract terms. The object of voluntary confirmation of conformity may be the process of production, operation, storage, transportation, disposal, sale, goods and products, work, services, as well as other objects for which certain requirements are established by corresponding standardization documents, contracts and voluntary certification systems” (*Federal Law ...*, 2002).

In accordance with the Order of the Government of the Russian Federation of September 24, 2012 No. 1762, the strategic objectives of the development of the national standardization system for the period up to 2020 include measures to: 1) promote the integration of the Russian Federation into the world economy and international standardization systems as an equal partner; 2) reduction of unjustified technical barriers to trade; 3) improving the quality of life of the country population; 4) improvement of standardization systems that would meet the provisions of the World Trade Organization Agreement on Technical Barriers to Trade; 4) enhancement of work in international and regional organizations for standardization (*Order of the Government ...*, 2012).

This development strategy fully meets the needs of the country and the realities of the global economy, where there has been a recent increase in the industry market for testing, inspection and voluntary

certification, due to the increased demand for outsourcing these services, diversification of mandatory standards for goods and products and their regulatory standards. (*Markets and markets*, 2017).

As an integral part of economic globalization, outsourcing is a special form of business organization on a global scale. One of the most rapidly developing segments of outsourcing market is currently “offshore” outsourcing. Its mechanism is especially actively used by multinational corporations in work place creation and is performed through foreign direct investment. Therefore, multinational corporations can use highly efficiently both human capital and other factors of production from completely different regions of the world. Corporations that main activity is directed to the use of resources of external organizations, regardless of their territorial and national affiliation, practice global outsourcing methodologies. Offshoring can be considered as a component element or a narrower outsourcing profile. Outsourcing is a process that necessarily involves the participation of a third party, but it is not always accompanied by operation transfer abroad. The term “offshore outsourcing” in international business defines an organizational decision making mechanism, which imposes the transfer of functions (separate business processes) independently implemented by a certain company (separate business processes) outside the parent company’s jurisdiction to foreign affiliates.

At the same time, at the modern process of economy globalization, multinational corporations turn out to be the most significant economic entities, due to them there is a tendency to deepen the international division of labor, and an increase in foreign trade. As the most promising way of cooperation between domestic national corporations and companies and international multinational corporations in Russia, Zhuravsky Yu. A. notes the formation of a “strategic alliance”, which in the future will provide opportunities for Russian companies to access innovations and international experience of partners in the alliance (Zhuravsky & Yakunina, 2011).

The situation on the international market today is characterized by the following factors: quality, safety and environmental standards are becoming more rigid (*International Organization for Standardization*, 2016). To reduce risks, investors need reliable information from a disinterested third party, increasing trade between different countries as a result of globalization (World Trade Organization, 2018).

All these factors have largely contributed to the market expansion for services supply of testing, inspection and voluntary certification. Taking into account the above mentioned, the demand for testing, inspection and voluntary certification services will increase.

The global market for testing, inspection and voluntary certification services was valued at 184,545.5 million dollars in 2016, and the expected annual growth rate is 5.8 % from 2017 to 2025 (Barclays Corporate, 2018).

The leading companies in the global market for testing inspection and certification are Intertek Group PLC, Bureau Veritas SA, SGS Group, ASTM International, ALS Ltd., TUV SUD AG, DNV GL Group AS, AsureQuality Ltd., Underwriters Laboratories Inc, Dekra SE, Lloyd's Register Group Limited and TÜV Rheinland Group. The biggest foreign companies and famous multinational companies which perform the same services in Russian are TUV (Germany), Bureau Veritas (France, England), SGS (Switzerland), Det Norske Veritas (DNV Norway), IQ-Net (international), “Bureau Sert International”, Moody International (multinational). (*Association of Independent ...*, 2018).

According to independent estimates, the TIC sector grows by five to six percent annually (*Catalist Corporate ...*, 2016). This growth is due to several factors. First, the rules and standards are changing; there is a shift to tougher and more complex rules and standards in various industries that create opportunities for the economic growth. Outsourcing factor: large corporations and government organizations are increasingly attracting external experts to reduce internal costs and transfer responsibility for complex issues to the third parties. Global trade: On the whole, the growth of global trade has become a major growth driver for the TIC sector. The variety of goods and products, their sophistication and shorter life cycles increase the amount of services offered by testing, inspection and certification companies lately. Another important factor is safety and quality control, since the costs of inconsistency of these indicators increase, mainly due to the speed with which information is disseminated in the modern world. TIC companies manage these risks and allow businesses to protect themselves through preventive measures, such as third party certification and/or high standards.

Companies in this sector also solve problems to overcome the problems of stationary infrastructure, which exists mainly in developed countries, where TIC companies focus their efforts to improve reliability and standard of living, as well as productivity. In developing countries, TIC markets are growing more rapidly because of the growth in goods exports from developing to developed countries, which must meet more strict requirements and quality standards. Companies provide inspection, verification, testing certification services and carry out related support functions such as auditing, consulting and advanced training. The purpose of these services is to increase productivity, meet international quality standards, manage risks and improve quality more successfully, safety and compliance of goods and products and services with international standards.

The TIC services market is a complex of different segments, which are a combination of local and international rules and regulations. Since TIC is primarily a service industry, capital expenditure ratios are low. On average, it is two to three percent of revenue for testing, inspection and certification (mostly IT), and six to eight percent for laboratory testing. Approximately 57% of the total market volume is conducted in-house, with priority service to the natural sciences, utilities and the public sector. The rest of the address market is served by an independent vendor service, which main business is to provide TIC services in the outsourcing market (*Catalist Corporate ...*, 2016).

Developing countries have strong potential for developing the testing, inspection and certification market. The volume of exported goods from developing countries to developed countries has recently increased dramatically. More and more attention among Western companies is to take control of the entire value chain. Exported goods must comply with existing Western standards. Besides, the increase in the share of the middle class in the BRIC countries leads to the fact that people pay more attention to their health and become more selective with regard to the food they consume and prefer certified products. Also, the demand for water, energy and consumer goods is growing with the improvement of the economic situation and higher disposable income.

According to the economic analysis of PwC company, global GDP growth in the world in 2017-2019. will look like this – China 35.2%, USA 17.9%, India 8.6%, Euro-zone 7.9%, Brazil 1.2%, Russia 1% (Desjardins, 2017). According to the report, China will have savings of about \$ 58.5 trillion by 2050, India – about \$ 44.1 trillion, and the total amount will be \$ 34.1 trillion. Japan (\$ 6.7 trillion), Germany (\$ 6.1

trillion), United Kingdom (\$ 5.3 trillion) and France (\$ 4.7 trillion) are expected to fall to eighth, ninth, tenth and the twelfth positions in the list, respectively. These countries will be replaced by Indonesia (\$ 10.5 trillion), Brazil (\$ 7.5 trillion), Russia (\$ 7.1 trillion) and Mexico (\$ 6.8 trillion), which will occupy the fourth, fifth, sixth and seventh positions in the world list (Smith, 2018).

In the article “Prospects for emerging markets,” the authors note that countries with developing economies that have been the focus of attention in the past decade – the BRIC countries (Brazil, Russia, India and China) are expected to contribute more than half of global GDP in 2030, and companies that do not consider these high-potential markets do not have opportunities for sustainable long-term growth. To succeed, companies should understand the needs of local people, use local know-how and resources, and apply new and very flexible business models, adapted for localized offers (Primo Braga, Sjöblom, & Stehli, 2013).

It is necessary to note the significant difference in the participation of various entities in the development of quality standards in Russia and abroad. In foreign countries the contribution to the industry of small and medium-sized companies, professional organizations is 85-90%, in the Russian Federation – 8-10%; governments of foreign countries – 5-15%, in Russia – 90% (*Federal Agency ...*, 2010).

Active cooperation with TIC companies can stimulate domestic companies to participate more actively in the process of standards development within the country, which also corresponds to the interests of the development of the domestic economy. Thus, according to existing forecasts and estimates from both parties, an additional element in the form of cooperation in the field of certification with leading world TIC companies can be adopted on the most favorable conditions for our country, which undoubtedly will have a positive effect on the development of the Russian economy.

However, testing, inspection and certification services from foreign suppliers may have limitations, according to the requirements of the Government Decree of April 21, 2010 No. 266 “On the peculiarities of conformity assessment of goods and products (services) used for the purposes of protection of information constituting a state secret or other restricted information classified as protected in accordance with the legislation of the Russian Federation, and goods and products (services), information which is supposed to be a state secret intended for operation in foreign agencies of the Russian Federation, as well as its design processes (including surveys), production, construction, installation, commissioning, operation, storage, transportation, sale, disposal and disposal, on the features of accreditation of certification bodies and testing laboratories (centers) performing work on the confirmation of compliance of the specified goods and products (services), and on amending the Regulation on certification of information security facilities”.

Having analyzed the statistics on attracting investments (foreign direct investment) and the number of small companies in the regions based on data from the Federal State Statistics Service (let us take selectively the regions of the neighboring federal districts), it is easy to identify the pattern of the direct growth in the number of companies to the size of received investments. Compare the figures in table 01. (*Federal State Statistics ...*, 2016).

**Table 01.** Foreign direct investment into the regions of the Russian Federation and a number of small companies in 2015

Region	Foreign direct investment into the Russian Federation (according to the data payment balance in the Russian Federation in millions of dollars) in 2015	Number of small companies in the Russian Federation in 2015
Republic of Adygeya	4	4179
Republic of Crimea	13	17189
Krasnodar Krai	1519	81783
Republic of Dagestan	12	4640
Republic of Ingushetia	0	2946
Stavropol Krai	438	26093

Today in the Russian Federation there is a system of complex assistance to Russian business to promote its interests into foreign markets with an emphasis on support of certain foreign economic (investment, export, technology transfer) projects of Russian regional companies.

Most often, the assistance is provided through project work as an element of state non-financial export support and carried out in the form of a “project passport” or “technical task” to a trade mission, which is approved by the leadership of the Ministry of Economic Development of Russia. The format of the “technical” assignment includes the search for potential partners or purchasers of Russian products, goods and services in several countries where trade missions are located. The main goal of the “technical assignment” is to determine the demand for Russian products, goods, and services on the market in the country of the trade mission. If such demand is identified, an individual project passport is formed with a high probability of its successful implementation. The “project passport” format serves for the implementation of coordinated actions by project participants to achieve financial results (signing a contract, investments, and supplying products).

Trade missions in cooperation with project initiators and administrations of the Russian Federation take an active part in project work by defining prospects for implementing foreign economic projects in the host countries, searching for potential partners, organizing negotiations with contractors, supporting foreign economic projects (including supporting participation in tenders).

Cooperation with international companies which provide testing, inspection and certification services could help to improve the effectiveness of this work, simplify procedures and shorten the launch time of projects, while at the same time ensure the quality of the implementation. Thus, by optimizing the structure and amount of information provided by the project initiator, the procedure for initiating an application for the state support in the formats of the project passport and technical assignment will be simplified, and the mechanism for monitoring the implementation of the foreign economic project (including risk assessment and ways to level it) will be more efficient.

Foreign direct investment (FDI) in developing countries is an ambiguous topic. Some researchers present it as the equivalent of postcolonial exploitation of raw materials and cheap labor according to the “theory of external dependence” or “peripheral capitalism” (Prebisch, 1992). At the same time, more recent experience shows that FDI in developing countries is increasingly moving to medium and highly skilled manufacturing sectors with higher income levels (Ramanathan, 2011) and many emerging economies have built their growth in FDI flows. The problem of attracting foreign direct investment is to attract such

investment that would link foreign investors with the economy of the local host country. Such investments should meet the requirements: 1) provide decent work places, 2) improve skills in the host economy, 3) assist the transfer of technologies and knowledge, 4) increase the competitiveness of domestic companies and ensure their access to markets, 5) act socially and environmentally responsible in a way.

To achieve these requirements, host countries cannot simply wait for action from international market forces. They need an individual policy to overcome domestic imperfections that impede the smooth integration of local and foreign companies into global supply chain networks. Voluntary certification will contribute to the development of the domestic economy and act as a catalyst, stimulate actions to provide first-class infrastructure and access to skilled workers, technical specialists, engineers and managers. It is also one of the necessary conditions to attract investors (Moran, 2014). There is a need to step up efforts to strengthen feedback from FDI in the economy of indigenous peoples. It consists of the lack of the competitive pressure of foreign participants on local suppliers to increase the competitiveness of the latter, establishing of several forms of direct assistance, such as training, assistance in financing, assistance in quality control and introduction to export markets (Görg & Seric, 2016). Such integration will occur more efficiently and faster if local companies, goods and products are pre-certified internationally.

## 7. Conclusion

Thus, as a result of the study, we came to the conclusion that the proposed elements in the voluntary certification system in the Russian Federation – cooperation with large internationally recognized companies for testing, inspection and certification will: 1) promote the integration of the Russian Federation into the world economy and international systems; 2) meet the economic interests of our country and the interests of potential investors, which implies mutually beneficial cooperation according to the trends of the modern global market; 3) stimulate more active participation of domestic companies in the development of quality standards; 4) increase significantly the attraction of investments by increasing the branding of goods, products and services; 5) promote the introduction of goods and products into export markets; 6) contribute to improving competitiveness of domestic goods and products; 7) promote the development of infrastructure, staff qualifications, exchange of experience and technology improvement; 8) contribute to the creation in perspective of a modern and effective national body for standardization, quality control and ensuring the uniformity of measurements, which would be able to cover the entire domestic market and enter the international market.

## Acknowledgments

The work was implemented with the financial support of the intra-university grant of Chechen State Pedagogical University for an initiative scientific research.

## References

- Association of Independent Quality Experts (2018). *Rating certification systems*. Retrieved from <http://www.aneq.ru/reiting.html>
- Barclays Corporate (2018). *Barclays Corporate Testing Report 2018*. Retrieved from <https://www.barclayscorporate.com/content/dam/corppublic/corporate/Documents/Industry-expertise/Testing-Report-2018.pdf>

- Catalist Corporate Finance Research (2016). *Global Testing, Inspection and Certification Summer 2016*. Retrieved from <https://www.uk.alantra.com/research-documents/2016/catalist-corporate-finance-testing-inspection-certification.pdf>
- Decree of the Government of the Russian Federation of April 15, 2014 No. 330. (2014). On approval of the state program of the Russian Federation development of foreign economic activity. Retrieved from <http://economy.gov.ru>
- Desjardins, J. (2017). *Where is global growth happening?* Retrieved from <http://www.visualcapitalist.com/chart-global-growth-happening/>
- Federal Agency for Technical Regulation and Metrology (2010). *Problems of technical regulation and standardization in Russia at the present stage*. Retrieved from [http://www.unece.org/fileadmin/DAM/trade/agr/promotion/2010\\_Anapa/Presentations/TechnicalRegulationRussia\\_R.pdf](http://www.unece.org/fileadmin/DAM/trade/agr/promotion/2010_Anapa/Presentations/TechnicalRegulationRussia_R.pdf)
- Federal Law of December 27, 2002 No. 184. (2002). On technical regulation. Retrieved from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_40241/](http://www.consultant.ru/document/cons_doc_LAW_40241/)
- Federal State Statistics Service (2016). *Foreign direct investment in the Russian Federation in 2015-2016*. Retrieved from <http://www.gks.ru>
- Federal State Statistics Service (2015). *Number of small companies by type of economic activity in 2015*. Retrieved from <http://www.gks.ru>
- Görg, H. & Seric, A. (2016). Linkages with Multinationals and Domestic Firm Performance: The Role of Assistance for Local Firms, *European Journal of Development Research*, 28(4), 605-624
- International Certification Organization (2016). *ISO strategy 2016-2018*. Retrieved from <https://www.iso.org/ru/publication/PUB100364.html>
- Markets and markets, Press release (2017). *Testing, Inspection and Certification (TIC) Market worth 247.94 Billion USD by 2023*. Retrieved from <https://www.marketsandmarkets.com/PressReleases/testing-inspection-certification.asp>
- Moran, T. H. (2014). Foreign Investment and Supply Chains from Emerging Markets: Recurring Problems and Demonstrated Solutions. Working Paper Series Peter G, *Peterson Institute for International Economics (IIE)*14-12. Retrieved from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2534095](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2534095)
- Order of the Government of the Russian Federation of September, 2012 No. 1762 (2012). On the strategic goals of the development of the national standardization system for the period up to 2020. Retrieved from <http://webportalsrv.gost.ru>
- Prebish, R. (1992). *Peripheral capitalism: is there an alternative?* Moscow, ILA RAS.
- Primo Braga, C.A., Sjöblom, L.M., Yu, H.H., Avagyan K., Stehli, S. (2013). *Emerging markets perspectives*. Retrieved from <https://www.imd.org/research-knowledge/articles/emerging-markets-perspectives/>
- Ramanathan, K. (2011). An Overview of Technology Transfer and Technology Transfer Models. *Technology Transfer and Small & Medium Enterprises in Developing Countries*.
- Smith, R. (2018). *The world's biggest economies in 2018*. Retrieved from <https://www.weforum.org/agenda/2018/04/the-worlds-biggest-economies-in-2018/>
- World Trade Organization. (2018). *WTO-IMF-World Bank report: greater trade integration will boost shared prosperity*. Retrieved from <https://www.wto.org>
- Zhuravskiy, Yu. A., Yakunina, Yu. S. (2011). Prospects for the participation of transnational corporations in the modernization of the Russian economy. *Bulletin of Baikal State University*, 1, 5–8.