

MANAGEMENT OF SMALL ENTERPRISES IN UKRAINE

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A b s t r a c t. Characteristics of small business are highlighted in the article. The current status and trends of the development of small business in Ukraine are analyzed. Some aspects of governmental support of business in Poland are observed. The ways of improving the development of domestic small business are suggested in the article, taking into account international experience.

INTRODUCTION

The present situation of global changes in the economy of Ukraine, transformation of its economic ties increases an importance of the issue of rational management of small and medium size enterprises (SME) as an standing point for sustainable development of country in general, through providing competitiveness and receipts of GDP, social security of society, forming and support of middle class, as well as exposure of key factors that have an impact on its formation and development. SME is, first of all, a basis for forming of middle class and smoothing of social inequality. The index of stratification of society in Ukraine, according to estimations of experts, averages between 16/1 and 40/1, that is characteristic of the countries of third world [Тымкив 2011].

In total over 2,7 million persons are employed in small enterprises of Ukraine, and it takes 9% of the country's employable population. At the same time 11% out of general production volume of goods (works, services) are produced by small enterprises, which proves more effective operation of small business in comparison with large-scale one [*On the development...*2012]. However, an in-depth economic crisis inflicted large losses of small business. According to the data of State Tax Service of Ukraine, in 2011 the amount of businessmen has decreased by 70 thousand persons (for the first time since independence was proclaimed). 246 thousand businessmen liquidated their registration, and only 177 thousand applied for registration. By the world rating of Doing Business Ukraine holds 152 position [*Редакція...*2012].

The potential of small business sector is not fully used, which indicates the need to resolve this issue and confirms the relevance and timeliness of research.

Nowadays considerable attention of scientists-economists is paid to the development of integrated formations and large commodity producers. Undoubtedly large-scale enterprises will be able to solve a number of their problems rapidly: to fill profitable part of state budget, to stabilize economic situation in general etc. However, the role of SME is not less important, comparatively with the large organizational structures of country.

According to the current practices, the developed countries provide steady economic development and functioning of small enterprise sector mechanisms, having them as top priority task. In Ukraine there are a number of shortcomings and problems in terms of initiation of small enterprises, their regulations and management.

There are the following domestic and foreign researchers who paid attention to the ways of improvement of management of enterprises generally and to its state support particularly: S. Mocherniy, L. Didkivskiy, L. Golovko, L. Donec, N. Romanenko, L. Romanova, P. Kuzmishin, S.M. Chistov and others. Problems of SME are highlighted by: V. Bilik, O. Blagodarniy, Z. Varnaliya, L. Vorotina, V. Vorotina, L. Dmytrichenko, V. Karsekina, O. Kvasovskiy, Y. Klochka, O. Kuzhel, L. Martinyuk, V. Miski, O. Neveleva, O. Podzereya, O. Popova, V. Sizonenko, I. Slobodyanyuk, O. Titarenko, T. Chernyak and others.

A research aim is a study of features of small enterprises functioning in Ukraine and development of recommendations concerning the improvement of their state in the context of providing the competitiveness of domestic economy.

RESULTS

Exploring the development of small business and taking into account its multidimensional nature, namely, economic, legal, political, historical, psychological components, an entrepreneurship can be qualified both as a managing method and as a way of economic behavior, special type of activity, business and organizational creativity.

A small entrepreneurship is an independent, systematic, initiative economic activity of small enterprises and businessmen (physical persons), that is conducted at an own risk with the aim of income gain [Варналій 2004]. Practically it means any activity of the economic entity, aimed at realization of its own economic interest. It doesn't have to be especially risky and innovative based on principles of complete economic responsibility. To the opinion of Prof. Z. Varnalii, a difference between concepts "small enterprise" and "small business" consists exactly in this quality factor. Unfortunately, these concepts are delimited neither in economic literature, nor in practice [Варналій 2001]. The universally recognized fact is that the small enterprise is a mandatory market element, important factor of development and effective functioning of economy. According to the experts, *two whales which support economy are, on the one hand, large structures that provide its stability and controllability, giving the way for large-scale innovation, on the other side – small business that creates a competitive environment and provides flexibility, individualization of production* [Жуликов 1994]. The special impact of small business to solve social problems is visible in market oriented countries.

Analysis of the economic characteristics of small business is determined by two factors: it exists objectively and develops as a kind of integrity, sector of economy (of national, regional and local levels); it is a special type of business. The economy structure enables the coexistence of different sized enterprises, including small ones, which form the appropriate group. This set of production cells, small-scale ones, describes the concept of «small-scale production. Small business is a social form of small industrial units in a

market economy. Its main economic features are: isolation (i.e. housekeeping at your own risk), specializing in any kind of activity, sale of industrial goods (services) through the market distribution [Шабранська 2006].

The features of small business entities functioning can be observed through their administrative functions, principles, aims and tasks. In most cases the owner of the economic unit – small enterprise – is also its economist, generator of ideas, and leader, realizing an interest and initiative of the owner. Accordingly, most decisions that are made during its activities are based on authoritative opinion of proprietor – leader. While large enterprises are faced challenges of cost minimization, improvement of indexes of capitalization, increasing of shares price, small enterprise is developed to realize ambitions of proprietor, that can consist in the aims to be independent, realize the innovative and organizational skills, to be useful to society, to improve the welfare etc.

It should be noted that there are the same administrative processes in activity of both small and large enterprises. But the process of small enterprises' management has its specific features related to the small scale of activity that stipulates imperfection and simplifies the organizational structure, absence of clear division of labor. The specific of communications in small enterprises is the advantage of verbal communication, when the process of information transfer through the simplified hierarchy of relations passes more quickly and smoothly, in comparison to large ones. In other words, there is an integration of rights, duties and responsibility of proprietor with the functions of management. In most cases it is caused by the desire of owner to minimize a risk level. A leader mostly independently executes most functions, but abandonment from delegation of plenary powers (or their part) causes the deficit of time for administrative activity and negatively affects enterprise performance. Therefore time limits and money issues should be foreseen in terms of worker training, that will be in charge of some certain functions.

In a small enterprise an alternative to plan can be “entrepreneurial flair”. Intuition based decisions may meet well industrial and commercial interests of the company, but the probability of the correct decision using inefficient procedures is much lower than rationally based, systematic action. Therefore, improvisation and intuition should be considered in addition to planning, but not as its full alternative [Морина 2011].

Analyzing public policy, the use of its instruments in the sector of small enterprise can be distinguished in two large models, described in table 1. Small business entities and models, which are full-fledged economic entities that differ from big business only by size. They can use all the regulatory requirements, as well as big business, because they often involve only production programs. These subjects have almost no influence on the development of a competitive market; there is limited horizontal competition with a potential propensity for monopoly. Their development is a natural extension of the evolution of “parent” companies, big business, which reduces the need for low-skilled labor, betting on efficiency, productivity and introduction of new technologies.

Small business of **model I** are valuable economic subjects that differ from the subjects of large business only by size. All the regulated requirements can be applied here, as well as for large business, as they are often connected by the same productive programs. Such subjects almost do not influence the development of market competition; limit horizontal competition takes place in a sector with a potential gravitation to the monopoly.

Small business of **model II** are highly dynamic, with short lifetime and high rates of entrance and getting into the market. As a result of limited own resources, they are naturally concentrated in the traditional spheres of rapid flow of capital (trade, services)

Table 1. Models of small enterprise

Model I	Description	Model II
Small business entities that are the satellites of large and middle business	Small business entities, independent on large and middle business	
Ties and dependence on other business units		
It is determined by development of large and middle business status	Directly does not depend on development of medium sized and large business	
Qualifying requirements to labor force		
Pulls out rigorism to qualification, competence and professional preparation	Does not require high qualified labor force	
Limitation of increase		
It is the component of the „distributed” productive system - depends on the parameters concerted with large business	It is the element of independent network - depends on development of enterprise potential of nation	
Basic public parameters		
A reaction on public needs at the market of labor force is absent	Rapid rates of labor force surpluses absorption	
Rates of updating		
Low rates of updating (a low level of bankruptcy and leaving the market)	High rates of updating (a high level of bankruptcy and leaving the market)	
Sustainability:		
Relatively high sustainability level	Low sustainability level, high risks	
Requirements of external support		
Are the components of state support of industries/sectors	Possibility of development by slight needs or absence of government programs of support and budget funds	
The basic requirements of partners		
Continuity and planning	New ideas, dynamism	
Requirements to the equipment		
Often require highly specialized equipment, critical requirements for the area of transport infrastructure	Average demand for all-purpose equipment, averaged requirements for space and transport infrastructure	
Presence of market niches for new subjects		
Low, depends on the need of „paternal” companies	High, it is determined by new ideas	
Key indicators of development		
Part in GDP, volumes of realization	working position capacity	
„Bonuses” indicators of development		
A working position capacity	Part in GDP	
Share of value added		
Wide range of	Wide range of	
Barriers of entrance to the market		
Relatively high	Mainly low	
Policy instruments		
First of all it is the instrument of economic policy	First of all it is the instrument of social policy	

Source: [Зелена книга...2011]

and does not mainly use highly skilled labor force. The high rates of updating stipulate their requirement in simple and clear regulatory and tax requirements. As a result of high dynamism, large quantity and mainly low barriers of entrance to the market, they operate in a highly competitive environment, that within the conditions of ownership rights protection stimulates them looking for new market niches and products.

Those differences of models I and II determine the different set of public results and, of course, require the different instruments of state support. Public policy of model I expects the rapid increase of GDP and further redistribution of national wealth through budgetary mechanisms, thus it must envisage support of large business subjects and introduction of identical regulatory and tax rules, and also separate programs of support of a limited number of small business entities. The public policy by model II expects high employment rate in society and economic independence, thus it must be concentrated on indemnification of risks of high rates of changes in small business environment by simplification of regulatory and tax rules for small business entities.

During an economic crisis and post-crisis recovery model II is crucial for the social climate in society. Under the conditions of sustainable socioeconomic development model I takes the 1st place. It should be emphasized that model II priority does not preclude the development of subjects of model I, but the priority of model I almost completely eliminates the possibility of business models II development [Зелена книга...2011].

Ukraine ranks last positions according to the European rankings (Euro stat data) by contribution of small business in country's GDP (about 11-13%), but it should be noted that Ukraine and the EU still remain a significant difference in the classification of small and, which is more important, the medium-sized entrepreneurship, which doesn't allow methodologically to compare the objective contribution of SME in the country's GDP. In case of preparing consolidated statements about SME of Ukraine, identifying classification limits for medium businesses similarly to classification adopted in the EU, we can predict that the performance of SME contribution in Ukrainian economy will reach 50-60% [Зелена книга...2011].

According to the statistics in 2009 6.5 million persons (including employees) were employed in small business in Ukraine, in 2010 this number dropped to 4.9 million (Tab. 2).

Table 2. Indexes of small enterprise development in 2008-2010 years

Indexes	Years			2010 year to 2008 year [%]
	2008	2009	2010	
Number of small business entities per 10 thousand persons of population [units]	609	661	464	76.19
Number of the workers. thousand persons	6 308.0	6 450.9	4 960.2	78.63
Volume of products sold [million UAH] including:	701 634.6	657 643.6	714 811.7	101.8
Small enterprises:				
- amount of the workers. thousand persons	2 319.0	2 227.4	2 145.7	92.53
- volume of products sold [million UAH]	496 683.0	461 691.1	484 393.5	97.53
Physical persons-businessmen:				
- amount of the workers. thousand persons	3 989.0	4 223.5	2 814.5	70.56
- volume of products sold [million UAH]	204 951.6	195 952.5	230 418.2	112.4

Source: systematization based on [State Statistics...].

From one side there is a tendency, which testifies that after the quantitative measuring development of small and mid size businesses status in Ukraine, on the whole, responses the best European indexes, and from other hand, testifies to the anxious tendency of rolling up of sector in terms of employment rate. It can be explained by influence of economic crisis, however more for certain, that it is consequences of negative business-climate in Ukraine with its annual worsening.

Generalization of destabilizing factors enables to isolate the main factors that hinder the development of small business:

- lack of clearly articulated, through regulations, public policy in support of small business,
- increased administrative barriers (registration, licensing, certification, control and licensing practices, management of lease relations, etc.),
- the lack of real and effective mechanisms of financial support,
- excessive tax burden and burdensome reporting system,
- uncertainty entrepreneurs in the stability of business conditions,
- excessive intrusion of government to the activities of entities.

One of the main problems that hinders the development of small business in Ukraine, is that it is considered in the framework of government policy solely to economic considerations. The consequences and logical extension of this problem are flawed state regulation, numerous administrative barriers and high level corruption mechanisms.

In general, government policy in the field of small business is inconsistent, fragmented, contains internal inconsistencies and contradictions that are ineffective.

The basic principles of state regulation of small business in the leading countries of the world are providing incentives for independent economic activity of citizens. It should be separately noted that although public emphasis on the economic activity of citizens, the main goal is not so much the economic performance of small business, but its ability to bind excess labor and dynamically respond to external changes. So it is not only the economic aspects of small business and its social significance. That is what should be considered a priority to guide government policy in the economic crisis and rising unemployment.

Studying the experience of the EU on the formation of mechanism of small business functioning should focus on specific aspects of state support of entrepreneurship in Poland. Its economic conditions are close to the conditions of Ukraine, besides during the past 20 years its successful reforms placed it at a fairly high level.

International recognition of Polish position and achievements encourages learning from this country in support of SME as well as from its regional aid system of incentives and government grants.

In 1995-1997 the Polish government accepted program of development of small enterprise, as a result, basic organizational structures were created [*Raport o stanie...* 2007]:

- in 1995 the „Polish fund for support and development of small enterprise”, that provided co-operation of 240 agencies and institutes of support of small enterprise, was initiated. A fund cooperates with a government and parliament, giving reliable analytical information about small enterprises and prospect of their development;
- in 1997 – the „National fund of credit guarantees”, that guaranteed credit allotting to the small enterprises, later on the network of regional funds was created for support and development of agrarian and depressed districts;
- „Agency of development of technique and technologies” began its activity in 1997, assisting to the development of innovative technologies and their application in SME.

Later on Polish government worked out and introduced some other effective programs. The economic program “Directions of public policy for a small enterprise by 2002” envisaged continuation of previous policy, and also development of following directions: consultations and practical skills to the businessmen, organization of consulting centers, each of them was specialized in certain industry; a facilitation of access of small enterprises to the external financial resources; export support; increasing of domestic products quality.

Another government initiative was adopted in July 2002, which included a package of anti-crisis actions to protect the free market and increasing employment. As a part of this package, preferential tax rates for newly established enterprises and enterprises that provide jobs were applied; bankruptcy procedure was simplified, credit guarantee system and the system of funds lending to small businesses were changed. The program “Capital for Entrepreneurs” (2002-2006) was aimed primarily at facilitating conditions and activation of external financing for business needs. In 2002 Poland ratified the European Charter for small businesses. In 2004, the country joined the EU, which put small businesses at very favourable conditions for the outlet expansion, as well as for the implementation of international business interests [*Raport o stanie...*2007].

The following facts testify the dynamic development of SME in Poland. In the list of REGON (National register of enterprises) there were 1 million of legal persons-enterprises in 2003, 3 million in 2004, and 6 million in 2008. In 2004 the share of small enterprises in national GDP was about 50.0%, in 2008 it took 57.5%. More than 10.78 million people work in the sector of small enterprises (66.9% out of total number of working population), including 31.9% of those who work for micro enterprises (up to 9 workers), 15.1% – for small enterprises (10-49 workers), 19.9% – for medium-sized enterprises (50-249 workers) [*Raport o stanie...*2007].

In addition, upgrading of human capital and development of academic centers testifies about active economic and innovative growth of Poland [*Official promotional ...* 2012]. Some measures of informative and consulting and extension character also draw attention:

- creation of constantly updatable base of laws and bylaw acts that are valid in the EU, concerning the sector of SMEs;
- forming of centralized base of standards for electronic documentation according to the international standards to be used by Polish businessmen, adjusting comfortable electronic communication;
- creation the national service system for SMEs;
- introduction of the education and consulting program “Enterprise for ambitious”;
- providing sponsorship for creation of student enterprise – “incubators” and propaganda of their activity;
- additional financial resources for the certification of quality control system (ISO 9001-2000) aimed at improvement of quality of commodities and services, made by small enterprises;
- introduction the regional programs of SME development with participation of international experts and examples of European experience.

An active work to support small businesses is conducted at the regional level. The main forms of these activities are: tax holidays, which include reducing the tax burden, direct financial support through grants, structural funds, individual negotiations, paid expenses - regional investment aid, which is calculated according to the tangible or intangible investment costs or the project cost: assistance under the cost of land, construction, equipment, tangible assets on technology transfer through the acquisition of patent rights, licenses, know-how or non-patent technical knowledge, assistance in creation of new jobs; permis-

sion to carry out activities in special economic zones for regional support, the program offered to employers of labor offices [Виноградський 2008].

This integrated approach to support SMEs in Poland contributes to the creation of favorable environment for private initiative of citizens, becoming one of the important factors for sustainable economic growth of the country, creating new jobs, economic restructuring and strengthening its regional segments.

It should be noted that in relation to the EU-15, Poland has low level of GDP, but the level of state support of small business in the country is high, indicating a reasonable period of policy formation and development of the latter.

International experience in sustainable development of small business is a strong argument in implementation and the need for a mechanism to support small business in Ukraine, which will improve the social and economic status of not only specific sector, but also the country's in general.

Creating favorable conditions for the development of small enterprises is possible due to the implementation of the national strategy by creating organizational and financial institutions, as well as introduction a number of administrative and legal measures at the national and at regional and local levels (Fig. 1).

As a part of small business innovative progress, it is necessary to improve the system of preferential crediting through the creation of regional fund of support (Fig. 2).

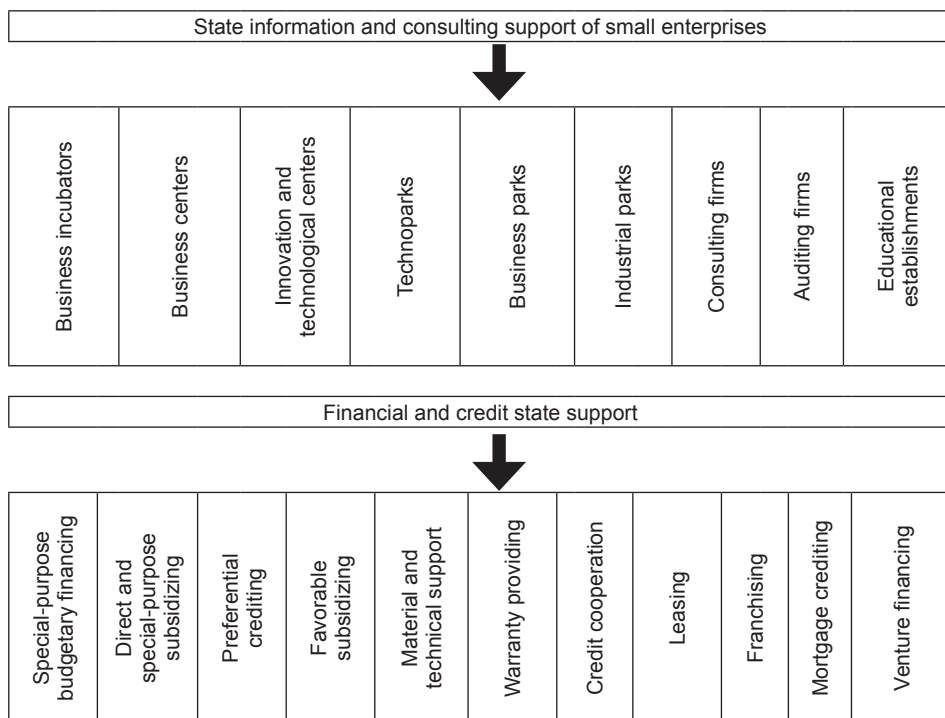


Figure 1. Forms of government support of small business development in Ukraine
 Source: systematized based on [Жолісник 2007].

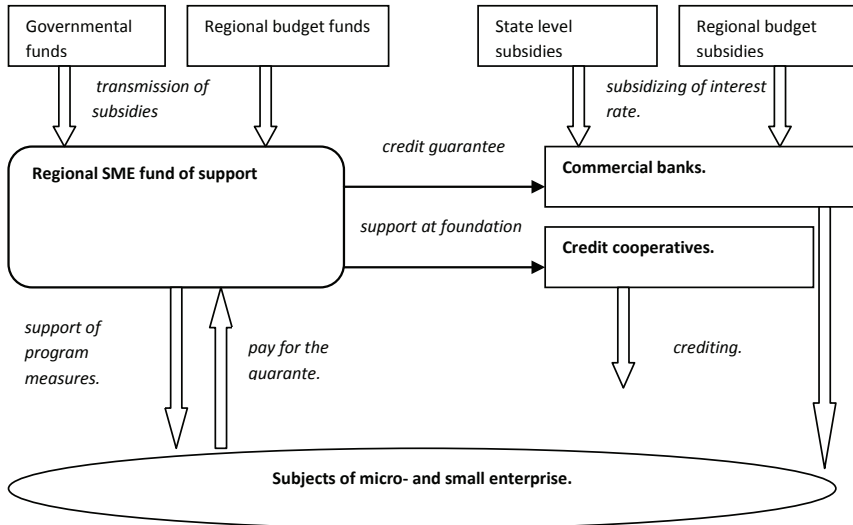


Figure 2. Improvement of crediting system of small business entities

Source: own study.

CONCLUSIONS

Entrepreneurship should be included in all areas of public policy in order to create an effective system of conditions, incentives and motivations of social and economic potential. In this regard, the improvement priorities of small business, particularly at regional and local levels should be:

- in a social aspect: strengthening social and economic positions of middle class of society, assistance of life standard increasing and access to the social welfare through the support of enterprise initiatives among of the population; providing reproduction of small business and increase a number of people employed is in this sector of economy;
- in an economic aspect: creation favorable conditions for the development of business environment, increase of total output of goods, works and services due to the development of innovative business, optimization of resource potential use, industries, increase of assortment and quality of goods produced, first of all foodstuffs;
- in an organizational aspect: improvement of system of measures concerning assistance and control over the small business by creation the research and information system for their activity support, improvement of legal base for their regulation.

As a part of small business innovative progress, it is necessary to improve the system of preferential crediting through the creation of regional fund of support (Fig. 2).

The development of national entrepreneurship is especially important during the search for new economic models and strategies that will lead to enhanced stability and creating sources of the national economic system development.

To fulfill this task, firstly, it is reasonably to make efforts and pay attention to the domestic consumer and investment demand that provides maximum use the potential of demand stimulation, to take measures towards internal market development aimed at most complete and rapid stimulation of internal demand directly to the domestic producer.

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ZARZĄDZANIE MAŁYMI PRZEDSIĘBIORSTWAMI NA UKRAINIE

Streszczenie

Artykuł przedstawia charakterystykę małych przedsiębiorstw oraz analizę ich rozwoju na Ukrainie. Biorąc pod uwagę doświadczenia międzynarodowe, w tym także polskie, przedstawiono sugerowane sposoby poprawy funkcjonowania i wsparcia rozwoju małych przedsiębiorstw na Ukrainie.

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