

Business Activity Organization on the Regional Level: State and Prospects

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Suggested Citation:

Harkusha, Serhii Anatoliyovych, Hlushachenko, Anatoliy Ivanovych, Dovzhyk, Olena Oleksandrivna (2017). Business activity organization on the regional level: state and prospects, Journal of Advanced Research in Law and Economics,

Abstract:

This article describes the process of business activity organization on the regional level and possible influence that external factors cause on it. It is stated that in the years 2010-2015 the number of economic entities in Ukraine has slightly decreased. It is concluded that the share of all the types of enterprises is similar in Ukraine comparing with the EU averages, although there is a significant deviation in the indices of businesses by 10 thousand population which in Ukraine are less than the average for EU countries. In the process of researching the state of development of business activity and the problems of SME development are being indicated. The problems include the following: lack of business support programs at the national level; inconsistency of bank lending to the requirements of business (high interest rates); insufficient infrastructure to support business; unsatisfactory state of vocational training; lack of seed capital for business creation; lack of working capital for business development.

It's concluded that the business model of any business activity plays the role of a template in the process of creation and operation of business in the certain circumstances. It also is an important step in the strategic planning, which includes an overview of future business that in turn affects the evaluation of the main keys of success of the enterprise and determines its growth. The model of business creation is relatively based on resource approach, which is concentrated on the resources and capabilities of the enterprise and is the most important for determining strategic actions. In the perfect circumstances the resources for business activity are meant to become the part of the process of business creation and development. They may be helpful not only as route map of the project implementing but also as its main part. The issue of developing the set of measures that provide the specific tasks of development and activity of small and medium enterprises at the regional level that will ensure efficient use of any information and implementation of scientific approach in business was further developed. The measures mentioned include: implementing the support of entrepreneurship; microcredit funding of the SMEs; increasing the number of small and medium-sized businesses in the production and others. The article also states that business is entirely dependent on the state system concept. The set of measures that provide specific tasks of development and activity of small and medium enterprises (stimulation of entrepreneurship, attracting business in the IT sector, the promotion of export-oriented businesses) should not only solve the economic problems of the country and the region but social issues as well: providing more working places and supporting the small business in the regions. The research and conclusions gained in this article may be used as the

theoretical and practical material for government in order to support the SMEs and for entrepreneurs who intend to start their own business.

Keywords: *entrepreneurship, business, business entity, business activity, resources, SMEs, innovation process.*

JEL Classification: L26, K29, J00.

Introduction

Entrepreneurship development significantly impacts on the socio-economic situation of any community. In order to start their own business future entrepreneurs must consider various factors which influence its development. Entrepreneurship is an activity of the subject that somehow causes some economic risks. The government makes a significant impact on the organization and activities of entrepreneurs within the stimulation and regulation processes. Entrepreneurship is also largely dependent on governments at the local level and the relevant economic status of specific single region of the state. But the main factor that affects the business organization is the availability of resources. Given the role that they play in deciding on starting a business, there is a need for providing an effective system of business organization and development incentives by the local governments.

Researching the various sources of studies shows that the business organization at regional level is well studied in the context of relation to the EU countries and in the context of problems of Ukrainian legislation. According to Melnyk business development at the national and regional services markets should be seen as generating engine of the model transformation of the national economy. This is affected by a number of exogenous and endogenous factors. The current business environment makes both positive and negative trends. In order to strengthen the positive trend of business development it is important to improve the environment of its origin and functioning, especially improving the current regulatory policy in the sphere of economic activity, increasing labor costs, and accordingly, incomes of citizens. The complex of the actions mentioned above would have approached Ukraine to EU countries, made it possible to provide changing consumption patterns and thus increase the demand for services, and would have contributed to the implementation of savings to start a business (Melnyk 2016).

In the context of the European experience N. Strelbitska and T. Redko point to the important role of small and medium enterprises in the social and economic development of member states. SME functioning supports the region's economy during the crisis and ensures competitiveness through technological innovation, the authors note. The effective form of organization of innovative processes in the EU is creating business clusters as SME's joining the cluster provides them with access to finance and internationalization activities (Strelbitska and Red'ko 2016).

In turn, V. Lyashenko, Y. Tulku note that in circumstances where there is no legal and general scientific definition of objects of the support innovation, the performance of the developed programs of state support of Small Business Innovation is very complicated, and the effectiveness of such support is highly questionable (as it should be borne in mind when analyzing the status and trends in this sector) (Lyashenko and Tulku 2015).

Now the small business sector in Ukraine is still in its early stage of development and can be characterized by a high degree of inefficiency, said E. Zabarna. Ukrainian enterprises at the same time suffer from excessive taxes and a complex system of regulations. The scientist also points out that today there is a significant growth of small businesses in many areas: the introduction of new flexible technologies; expanding consumer demand, which departs from the standard mass-produced goods, and refers to products that have their own style and characteristics (Zabarna 2016).

O. Serhiiko has studied the importance of public administration in the field of entrepreneurship. In his opinion it is the targeted, purposeful, imperious, systematic activity of

the executives to implement the control functions which finds expression in the relevant management system and is implemented through the use of special tools - forms and methods of management. The author says that along with the "narrow" understanding of public administration its "broad" understanding was formed. It is regarded as the powerful impact on social welfare system that can reveal the nature of power, its functionality and overbearing nature of management, its manifestation in purposeful activity of state bodies in order to ensure the social and economic development (Serhiiko 2015).

So, in order to understand what entrepreneurship at regional level is, it is necessary to know the social and economic conditions of its development. The state should support SMEs to develop its economy and so that the budget could regularly receive the proceeds.

The article aims at studying the measures needed for business organizing at the regional level and the allocation of specific tasks and activities of small and medium enterprises by the local governments.

1. Methods

The theoretical and methodological basis of the studying is the provision of economic theory. The achievement of the goal is ensuring by using of the following methods: grouping and comparing performance; abstract logic; and statistical expertise and etc.

2. Results

The question of determining the place and role of small and medium business in modern society is relevant and should be considered in the context of the relationship between economic, social and political content as well as interference of the relevant elements of the social structure in specific circumstances. The viability of an enterprise can be measured by a set of different indicators, which in turn depend on a combination of various factors (prices and demand for the company's products, raw material prices and the reliability of sources, the ability of financial and legal support in commercial and industrial activities, output, product quality, qualified personnel staffing of the company and so on.). The prospect of economic enterprise (market size for products, ability to attract the necessary funds, etc.) is also important. With the help of these indicators the criteria of economic viability can be obtained, namely profitability in the projected output and payback period of investment.

The stable economic and political situation in the country certainly affects the number of companies and their financial condition. Paying attention to these factors is of particular importance at the regional level, so giving the details on the exactly taken Sumy region in this study will attempt to analyze the structure of business in Ukraine and the European Union.

In Sumy region during the year 2015 the following 4 business projects have been financed: Individual Entrepreneur O. Bohach (purchase of equipment for maintenance and expansion of services Workshops "M44", Sumy) totaling 94.16 thousand of hryvnias; agricultural service cooperative "Pechynska dairy", Trostyanets district (purchase of machinery and equipment for the cooperative) totaling 416.5 thousand UAH; agricultural service cooperative "Gardens of Sumy region", Sumy district (purchase of equipment for processing edged timber gardens) totaling 380.0 thousandUAH; and Individual Entrepreneur V. Dubrava (purchase of equipment for wood), totaling 42.0 thousand UAH.

Thus, the official website of the Department of Economic Development and Trade of Sumy Regional State Administration has indicated that there is some work carried out in relation to small and medium businesses in the region. Let's consider the structural performance of enterprises in the region based on their size (Table 1).

Table 1. Structural indicators of enterprises of Sumy region based on their size *

Indicator	2010	2011	2012	2013	2014	2015
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	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises
Total	5380	100,0	5424	100,0	5432	100,0	5817	100,0	5819	100,0	5842	100,0
Large enterprises	5	0,1	8	0,1	9	0,2	8	0,1	7	0,1	6	0,1
Medium-sized enterprises	431	8,0	410	7,6	398	7,3	383	6,6	367	6,3	357	6,1
Small enterprises	4944	91,9	5006	92,3	5025	92,5	5426	93,3	5445	93,6	5479	93,8
including microenterprises	3870	71,9	3890	71,7	3996	73,6	4438	76,3	4530	77,8	4651	79,6

* Source: Statistical Yearbook of Sumy region

While analyzing statistics it is advisable to note that in Sumy region there is a trend of increase of number of units of all the business types in the period from the year 2010 to 2015, especially regarding the small enterprises. In particular, the number of enterprises has increased in this period by 535 units for the small businesses, and by 781 microenterprises respectively, while the number of medium-sized enterprises decreased by 74 units. This on the one hand is an indicator of the positive trend of the small business development and employment increase, and on the other hand it shows the reducing trend of medium-sized enterprises and their transition to small forms. This will require additional research and improvements of the policies to promote business practices.

The dynamics of number of business units of large, medium-sized and small enterprises in the Sumy region in the period from 2010 to 2015 in the percentage indicates a larger share of small businesses - an average of more than 90%, including micro-enterprises - 70%. According to the official website of the Department of Economic Development and Trade of the Sumy Regional State Administration in order to support the small and medium enterprises 1209.96 thousand UAH (or 93% of the plan) was spent from the regional budget in 2015, of which 932.66 thousand UAH was used to provide small and medium businesses with financial assistance on a rotating basis for investment projects in priority areas for the region.

If we consider the figures in Ukraine as a whole, the situation looks as follows (Table 2):

Table 2. Structural indicators of enterprises of Ukraine based on their size *

Indicator	2010		2011		2012		2013		2014		2015	
	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises	Number of enterprises, units	% re total number of enterprises
Total	378810	100,0	375695	100,0	364935	100,0	393327	100,0	341001	100,0	343440	100,0
Large enterprises	586	0,2	659	0,2	698	0,2	659	0,2	497	0,1	423	0,1
Medium-sized enterprises	20983	5,5	20753	5,5	20189	5,5	18859	4,8	15906	4,7	15203	4,4
Small enterprises	357241	94,3	354283	94,3	344048	94,3	373809	95,0	324598	95,1	327814	95,5
including	30044	79,3	29581	78,7	28646	78,5	31847	81,0	27892	81,8	28424	82,8

microenterprises	5		5		1		7		2		1	
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* Source: Performance statistics for structural entities with distribution for their size. State Statistics Service of Ukraine. <http://www.ukrstat.gov.ua>

Analyzing the structural indicators of enterprises Ukraine based on their size in the table 2 it should be noted that there was also a decrease in the total number of entities in Ukraine in 2010 to 2015 years period. In particular, this trend is stable on the number of large and medium-sized enterprises. On the other hand, during the last two years of the study period there has been a positive dynamics of growth of small businesses, which accounted for 95.5% of all enterprises. The figures in the table show us the general trend of increase in the number of small business entities in the country, although its rate is being very low. It can be easily mentioned when comparing them with similar indicators in developed countries. Therefore, in order to stabilize economic growth in Ukraine it is needed to enhance the role of small and medium enterprises that are a basis for sustainable economic development. At this stage, the main obstacle for the growth is administrative and regulatory barriers.

In order to be able to study the further business development in our country we consider the Ukrainian business to be compared with the leading European countries so that to understand what direction to move in. The classification criteria for enterprises is based on the average number of employed persons in the enterprise: microenterprises employing up to 9 people, small enterprises employing from 10 to 49, medium-sized enterprises employing from 50 to 249 employees, large enterprises employing more than 250 workers. The main indicators characterizing the size and structure of the state of business in Ukraine and the EU average for 2015 are presented in Table 3.

Table 3. The main indicators characterizing the structure of business in Ukraine and the European Union in 2015

Indicators	Countries	
	Ukraine	EU
Population, mln. people	42761 (excluding Crimea)	502520
Number of enterprises, units	343440	23004059
including large	423	44458
medium-sized	15203	224647
small	327814	22734954
including micro	284241	21356252
Share in business, % large	0,1	0,2
medium-sized	4,4	1,0
small	95,5	98,8
including micro	82,8	92,8
Number of enterprises by 10 thousand people	80,3	457,8
including large	0,1	0,9
medium-sized	3,6	4,5
small	76,7	452,4
including micro	66,5	425

* Source: summarized by the authors due to the relevant data

The data shown in Table 3 indicates that the share of business enterprises of all categories look the same way for Ukraine and European Union averages. There is a significant deviation on businesses by 10 thousand people of population: in Ukraine these figures are much lower than

the average data for the EU. It is small and medium-sized business that form the service and logistics support of strategic investors in the country. In 2015, the number of small businesses per 10 thousand people of population on average in Ukraine was amounted to 80.3 enterprises (comparing to 456.9 in EU).

3. Discussions

Small and medium-sized businesses tend to have a local character, indicating that there is an interaction between economic entities and the local market. The local market does not only use raw materials and labor force, but there is also a realization of finished goods and services. In addition, the company can easily adapt to a particular region, since such conditions are more favorable for its further development.

The state of business in Ukraine is an indicator of business activity of the population, on the one hand, and evaluation of business on the other. It plays a significant role in the national economy, namely, providing employment and work places for people, creating the competitive environment, providing filling the budget with the tax payments and so on.

The problems of small and medium business in Ukraine, in the opinion of the authors of this article, include:

- practically no business support programs at national level;
- inconsistency of bank lending to the requirements of business (high interest rates);
- insufficient infrastructure to support business;
- unsatisfactory state of vocational training;
- lack of seed capital for business creation;
- lack of working capital for business development.

The experience of the European Union confirms that the small and medium-sized businesses play an important role in the economy, which affects economic growth as a whole. Organizing the EU single market, simplifying the tax system, improving the availability and sources of financing, cheap and fast business registration process and freedom of doing business, improving new technologies –those are the factors that contribute to efficient and high quality business support systems.

Using the experience of companies in the EU, we can mention the advantages and challenges for business in Ukraine (Table 4).

Table 4. The advantages and challenges for business in Ukraine in case of entering the EU*

Strengths	Weaknesses
<ul style="list-style-type: none"> - enterprises flexibility; - the ability to simulate production; - the ability to change the business profile of the enterprise; - significant motivation to work; - reducing the tax burden. 	<ul style="list-style-type: none"> - the lack of access to capital; - no development strategy; - the lack of qualified personnel; - the absence of measures to stimulate lending and investing in small business.
Opportunities	Threats
<ul style="list-style-type: none"> - broad sales market; - access to the market of production; - broad capital market; - reducing exchange rate risk; - the use of new technologies and management practices; - simplified international cooperation; - improving the stability of law; - the elimination of tariff barriers; - favorable EU policy for SMEs. 	<ul style="list-style-type: none"> - excessive legal regulation; - introduction of new quality standards; - new bureaucratic procedures and legal complexity; - new legislation requirements; - restricting access to public contracts; - increased competition; - luring customers some foreign companies; - easy entry into the domestic market through the foreign capital.

* Source: summarized by the authors

The results of the Amway Global business research for 2016 (Amway Global Entrepreneurship Report, AGER) show that Ukrainians treat entrepreneurship as an additional source of income, but many of them are uncomfortable with the need to seek and win customers. The number of Ukrainians who are positive about the business has increased by 2% and now reaches 65%. Although this is not enough to be a good dynamics, but it's the first steps forward to positive changes. The world average indicator of a positive assessment of business is 77%. This most positive attitude to business is shown by the residents of Denmark (94%), Vietnam (95%) and Norway (96%). The worst situation is in Slovakia (58%), Romania (52%) and Turkey (42%). Ukraine consistently goes against the global trend in terms of motivation to start a business. If the world's leading reason for starting a business is "independence of the employer" (50%) and "the opportunity to realize the ideas" (47%), in Ukraine it is primarily and traditionally treated as "an additional source of income" (34%). The other important factor which is well shown in the regional dimension is "getting back to the labor market".

In Ukraine on January 1, 2017 some certain categories of entrepreneurs were obliged to pay the taxes even if they have no income. Therefore, at present there is a tendency to reduce the number of entities. On the one hand it reduces statistics (as some part of the entrepreneurs did not actually work), and on the other hand those people have lost the opportunity to resume at any time. If nothing changes regarding the approaches to business, unemployment in the country will only grow, as well as the number of professionals moving abroad. Closure of small business entities leads to reducing of the number of taxpayers and therefore lowers the budget receipts. Also the number of people in need of subsidies in Ukraine is constantly growing negatively affecting employment and socio-economic indicators of the state.

Business activity cannot appear out of nowhere. Usually to start a business a founder is to have the idea and initial capital, associates, intellectual and human resources. The business model of any business is the template for creation and operation of businesses in certain circumstances. It is an important step of the strategic plan, which includes an overview of future business, which in turn affects the evaluation of the main keys of success of the enterprise and determines its growth. So, to start a business means to simulate the pattern of its promotion by the local authorities (Fig. 1).

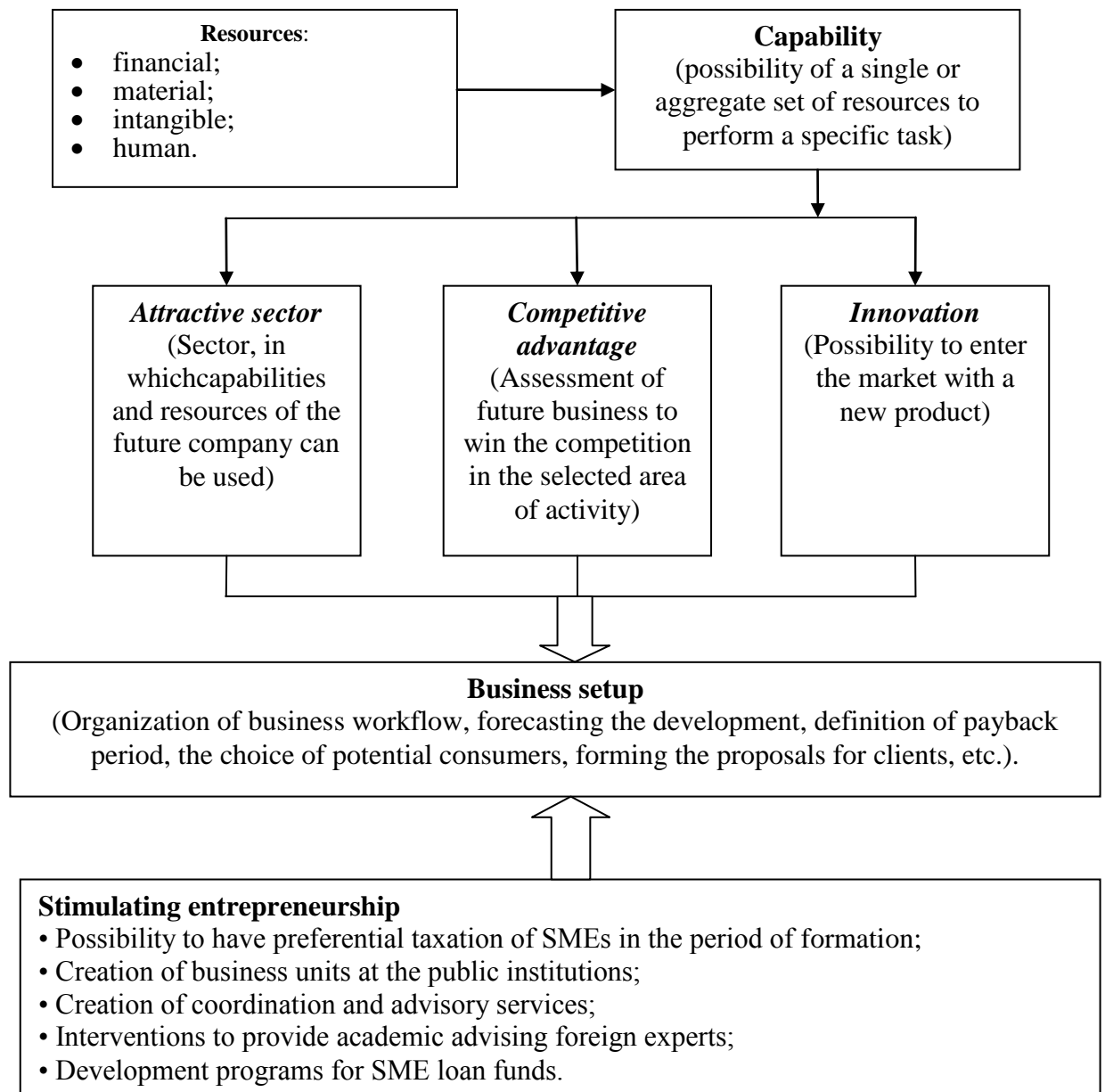


Fig. 1. Model of a business according to the resource approach*

* *Source: proposed by the authors*

Based on this resource vision one could argue that the desire to become a successful business owner does not always coincide with the capabilities of a particular person and not all beginners can prove their own business to obtain the desired results (the possible reasons for that are the lack of knowledge, patience or perseverance).

To ensure the efficient operation of SMEs in our country it is important to have some kind of effective leverage on the business and results of financial and economic activity. In authors' opinion, one such effective leverage is developing an information base on demand of management (shareholders), which nowadays is a language of business and has the specific features of reflecting the business transactions for every business entity. Identification of each enterprise can be achieved by developing measures to ensure the efficiency of any information and implementation of scientific approach in the enterprise. To achieve this it is important to provide the support of entrepreneurship; create the funds for micro crediting the SMEs; increase the number of small and medium enterprises in manufacturing; increase the share of high-tech sectors (IT sector) among small and medium enterprises; increase the quality and the share of

exports; increase the number of employees at small and medium enterprises; increase local revenues from the activities of small and medium businesses. Table 5 demonstrates the complex of activities that can lead to execution of the tasks of development of small and medium enterprises.

Table 5. Complex of activities that can lead to execution of the tasks of development of small and medium enterprises*

Task	Complex of activities
Entrepreneurship simulating	<ul style="list-style-type: none"> • Possibility to have preferential taxation of SMEs in the period of formation; • Creation of business units at the public institutions; • Creation of coordination and advisory services; • Interventions to provide academic advising foreign experts; • Development programs for SME loan funds.
The involvement of business in IT sphere	<ul style="list-style-type: none"> • Establishment of IT departments at public institutions;• • Possibility to have preferential taxation for IT business; • Increasing the list of specialties in IT area in educational institutions; • Improving the computer database at educational institutions for organizing the effective training of IT specialists; • Implementing the principles of dual education (involvement of practicing IT professionals); • Online consulting in IT business; • Participating in government and foreign Grande in a series of information technology.
Export-oriented business stimulation	<ul style="list-style-type: none"> • Application of preferential taxation for small and medium businesses that enter the international markets; • Providing the analysis of foreign markets; • Providing the services in assessment of products according to international quality standards.

* *Source: proposed by the authors*

There is a necessity to develop a national program of stimulating the small business based on private property and provide it with the accessible public loans and preferential taxation. Today Ukraine has made some measures to support business. More than 100 different illegal or outdated documents have been abolished (including 44 canceled acts of the Cabinet of Ministers and other central executive authorities in the field of state supervision (control), which in practice would mean reducing the number of inspections of businesses by the different institutions. These measures of state supervision (control) lost their relevance or are no longer anticipated in accordance with the Law of Ukraine "On principles of state supervision (control) of economic activity"). These actions can be noted as some positive changes that promote entrepreneurship.

Conclusion

The study has found the state of entrepreneurship development in Ukraine and identified the problems of small and medium business in Ukraine: the lack of business support programs at the national level; inconsistency of bank lending to the requirements of business (high interest rates); insufficient infrastructure to support business; unsatisfactory state of vocational training; lack of seed capital for business creation; lack of working capital for business development.

In authors' opinion, the resource approach to business is the most optimal. It is impossible to organize any activity without resources (financial, material and intangible, human). The lack of required amount of free cash flow (main resource) may become an insurmountable obstacle. Thus, the environment in the form of resources and capabilities of the enterprise are the two most important things for determining strategic actions. Ideally, resources for business activities should be the main part of the creation and development of enterprises. They may require not only determine the development path of the project, but also act as a part of business activity.

It is also important to realize that business is entirely dependent on the state system concept. The set of measures that provide specific tasks of development and activity of small and medium enterprises (stimulation of entrepreneurship, attracting business in the IT sector, the promotion of export-oriented businesses) should not only solve the economic problems of the country and the region but the social ones as well (providing the work places and support regional small business).

The prospects for further development in this direction will be to implement the programs of SME development in specific regions given their special characteristics.

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