

SENSITIVITY OF SMALL BUSINESS OF UKRAINE TO DYNAMIC CHANGES OF THE GLOBAL ENVIRONMENT

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Abstract

The article deals with the problems of development of small business of Ukraine and substantiates the basic prerequisites for its existence in a dynamic external environment. The estimation of the current state and tendencies of development of the food industry of Ukraine as a strategically important branch for the domestic market is conducted. The analysis of the main economic indicators of the industry. The competitiveness of Ukrainian products in the international market is analyzed. The sectoral composition of the food industry, its problems and contradictions of development are considered. A detailed analysis of the sub-sectors of the food industry for the production of bread, bakery and flour products was carried out. The problem of ensuring the effective functioning and development of small businesses in the food industry in Ternopil region is considered.

Keywords: enterprise, small business, food industry, change.

INTRODUCTION

In the context of present transformations in the state economy business sector performs an important role and, at the same time, acts guarantor of stability of the economy and increase welfare of the population. Small business enterprises are the an integral element of market economy. Occurrence of such enterprises is considered by western economists as the main source of increasing the number of jobs, welfare of the population, potential stimulus of innovation activity in the country, development of healthy competition and reduction of monopolism on the market of management and a kind of impetus to regional development.

According to the results of 2017, in the structure of domestic entrepreneurship the number of small business entities in Ukraine amounted to 322920 units, the share of which was 95.5% to the total number of enterprises, when the large ones – 0.1% and average – 4.4%. The priority spheres of the activities of small business entities in the same year were wholesale and retail, repair of vehicles and motorcycles (86572 units), agriculture, forestry and fisheries (47714 units), real estate transactions (33673 units), processing industry (31239 units), professional, scientific and technical activities (26884 units), construction (26673 units) and other fields of activity [1].

The peculiarity of the functioning of small businesses in the market is the focus of their activities on the specific production of any one product. At the same time, small volumes of production allow to use material and technical supply more effectively due to limiting the number of suppliers, applying flexible pricing policies, rather adapt to changes in external environment, orientation is carried out purely on local markets and a small circle of consumers. In recent years, due to the unstable business environment in the country, sometimes unclear actions of the authorities, restless the situation with neighboring countries, the number of small businesses and the number of employees in such enterprises was considerably reduced. In almost all types of economic activity, apart from enterprises engaged in the supply of

electricity, gas, steam and air conditioned, there were tendencies to reduce the number of small enterprises – whether it is wholesale and retail trade, or financial and insurance activities, or professional, scientific and technical activities.

One of the leading types of economic activity of small business enterprises in Ukraine is invariably food industry. It refers to the processing industry, which comprises 31239 small business enterprises, i.e. 88.8% of the total number of enterprises [1].

Food industry – this is the main link agroindustrial complex of Ukraine. It has favourable conditions for its effective development and is also one of the leading structure of forming units of the whole economy and industrial complex, whose effective functioning is the fundamental factor of economic and social growth, the main condition for increasing living standards of the population. This industry has always been considered priority and strategically important for Ukraine. It provides the population of the state food products, determines the development of agriculture and is a powerful export potential of our country.

The composition of food industry includes almost 22 industry and over 40 productions. The main ones are sugar, flour milling, meat, dairy, bakery, oil milk, confectionery, alcohol, macaroni, brewing, fish, wine, cereals, canning, tobacco.

The importance of the food industry for the country's economy in general is due to its specific weight in total production and sales of products, the amount of taxes it pays to the state fund, as well as export potential. According to the State Statistics Service of Ukraine volume of sales, namely the production of food products, drinks and tobacco products has been gradually increasing in recent years (Table 1).

Table 1. Volume of sales of products of the food industry of Ukraine for the period of 2011–2017

No	Indicators	Years						
		2011	2012	2013	2014	2015	2016	2017
1	The volume of sales of industrial products, total, mln UAH (actual prices)	1331886	1400680	1354130	1428839	1776604	2158030	2608027
2	Processing industry, mln UAH	868392,4	889496,6	836571,7	903735,3	1139213	1312729	1619495
3	Production of food products, beverages and tobacco products	222387,8	254459,9	261783,7	302391,9	398023	462419	546654

Source: compiled by the author using data from [1]

The largest development of food products, beverages and tobacco products was observed in 2017. During the analyzed period (2011–2017), the production of food products, beverages and tobacco products increased almost in 2.5 times, which, in turn, provoked growth of industrial production in total in the state – by 2 times.

Domestic food industry counts enough food and beverage producers that are able to compete well in the market. According to the State Statistics Service of Ukraine in 2017, the number of industrial enterprises engaged in the production of food products, beverages and tobacco products was 5498 units, when the highest value of the indicator was in 2011 6559 units (of these, 5206 units are small business enterprises), which employed about 427.2 thousand people (including 47.1 thousand people – at small business enterprises). More detailed analysis of the industry is presented in table 2.

Table 2. Number of companies, employment and hired workers in the food industry (2010–2017)

	Years	Number Enterprises, units		Number of employed workers, thousand people		Of these number of hired employees, thousand people	
		In all	Small Enterprises	In all	Small Enterprises	In all	Small Enterprises
Production of food products, drinks and tobacco products	2010	6551	5193	419,2	49,5	417,9	48,3
	2011	6559	5206	427,2	47,1	425,7	45,7
	2012	5768	4490	417,0	43,8	415,2	42,2
	2013	6407	5192	404,1	45,3	402,4	43,8
	2014	5528	4477	350,8	37,5	349,4	36,2
	2015	5502	4486	321,0	36,6	319,5	35,2
	2016	5104	4114	313,7	38,6	312,5	37,6
	2017	5498	4465	323,6	37,8	322,3	36,7

■ – the highest value of the indicator for 2011–2017

Source: compiled by the author using data from [1]

The food industry is extremely important for small business, with the need for the development of which noted in the European strategy "Europe 2020" [2]. Food production is not a capital-intensive activity, to ensure effective activity in it, the scale effect does not play a special role, therefore, it is dominated by small businesses, whose share was in 2017, 81.2% in the total number of food processing companies respectively [1].

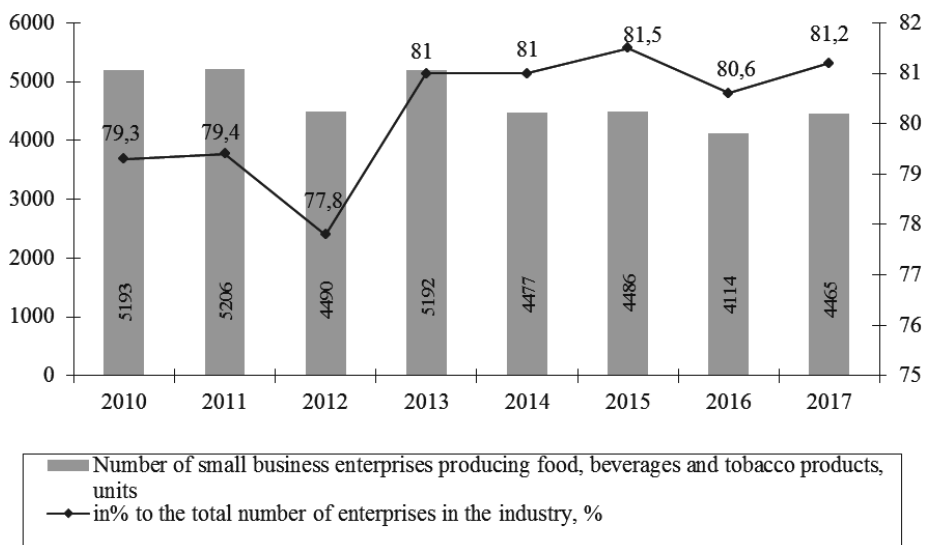


Figure 1. Dynamics of the number of small businesses and their share in the structure of the industry (2010–2017)

Source: compiled by the author using data from [1]

The volumes and structure of food consumption significantly affect the purchasing power of the population and its solvent demand. At the same time, they depend on the level and structure of Ukrainian incomes, the subsistence minimum, the sexual structure, the place of residence of people and other factors. The study examines the market of food industry products from a position of analysis of baking industry in Ukraine and Ternopil region in particular. After all, this industry plays a significant social and strategic role in the life of society and the result of its production – bread and bakery products, is the main product of every person's nutrition every day.

Specificity of the market of bread is that it is almost entirely represented by products of domestic production. In this respect, the national bakery industry operates in the mode of subsistence farming: what did, and then consumed. However, the volume of such consumption over the past 20 years has decreased three times. Such a negative trend influenced by the following factors:

- reduction of population, in particular high mortality rate, low fertility, emigration;
- increase in prices for products;
- insufficient solvency population;
- development of home baking and mini-bakeries whose products are not recorded and statistics are not taken into account;

– change of consumption structure, that is, reorientation of consumer demand for the more expensive types of food – dairy, meat and fish products.

According to the data of the State Statistics Service of Ukraine, in 2018 the actual consumption of bread and bakery products did not exceed the rational norm (101 kg per person per year) (Figure 2).

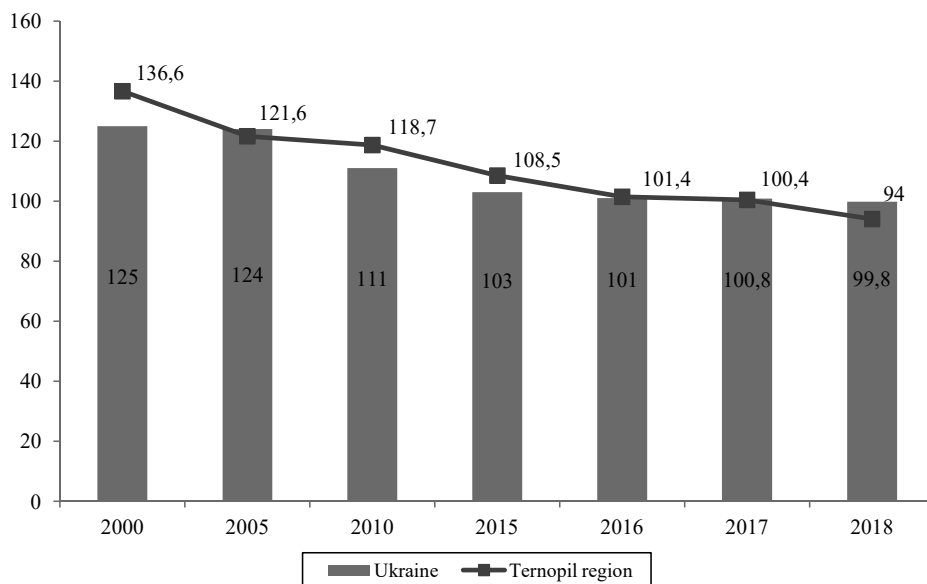


Figure 2. Dynamics of bread and bread products consumption in Ukraine and Ternopil region per capita per year, kg

Source: compiled by the author using data from [1]

In the total volume of products of the whole food industry of Ukraine bakery industry occupies one of the leading places, and the share of consumer food expenditures on bread and grain products of Ukraine in 2018 amounted to 14% (about 576 UAH), confirming their status as the main food product [1].

The main problem of the baking industry of the present time is the pricing process: the growth of components of the cost of grain products ahead of opportunities to increase prices for bread. The price situation on the market in Ukraine is constantly under the control of both authorities and the public. Average prices for the main types of bread in Ukraine and in the Ternopil region are shown in table 3.

If we consider the issue of competitive food products of our country, it is worth noting that Ukraine in the Global Food Security Index (GFSI) occupies a total of 63 place, and in some categories: quality and safety – 46 place (65.2 points), affordability – 66 place (54.1 points), natural resources&resilience – 76 place (57.5 points) and availability – 73 place (53.8 points) [3]. This index is calculated from

2012, and is published by The Economist Intelligence Unit. The Global Food Security Index is a dynamic quantitative and qualitative model of comparative analysis based on 28 unique indicators, which measures the level of food security in developing and developed countries. Overall food security index is calculated for 113 countries.

Table 3. Price dynamics for the main types of bread on the consumer market

No	Region	Bread wheat from the first grade flour			Rye-bread, rye-wheat		
		average prices		Growth rate (decrease) %	average prices		Growth rate (decrease) %
		as of 29.12.2016	as of 28.12.2017		as of 29.12.2016	as of 28.12.2017	
1	Ukraine	10,87	13,30	122,4	10,60	13,01	122,7
2	Ternopil region	11,38	13,57	119,2	10,67	11,68	109,5

Source: compiled by the author using data from [1]

Creating appropriate conditions for the development of food production will promote the development of small businesses, agriculture, better use of agricultural products grown in households, increase the level of employment of population and others.

Leadership of the state at the present stage of the economy should direct policy on the expansion and interest of investment capital in small business of any kind of economic activity. The primary objectives are to provide a highly skilled working force, an effective system of stimulation and motivation of personnel for the maintenance of those specialists, stable normative-legal legislation, implementation of quality control systems of products that meet the world standards, establish a system of planning the development of enterprise potential, foreign economic relations in the conditions of implementation of the principles of free trade within the European economic area, expanding the domestic market of products through the growth of real citizens' incomes, improving raw materials by increasing productivity and efficiency of agricultural production, increasing technical and technological level of production, etc. Implementation of the goals allows to ensure the optimum pace and proportions of development of industry enterprises, food safety, effective management of the enterprise in the direction of maintaining its sustainable competitiveness in the context of globalization.

The state needs the main efforts to implement an effective state regulation of food industry in Ukraine concentrate on the development of production of medium and high-tech innovative products with high added value. This is what will provide a general increase in the competitiveness of food products and increase the level of industrial and technological processing. To overcome the crisis phenomena and stabilize economic development, the state should create the necessary prerequisites

for the direction of public, private and foreign investment in the food industry, for which the future of the national economy.

In conditions of market instability food industry is a sphere that provides sustainability of the economy and living standards, satisfies the population in food and workplace, makes a significant contribution to gross domestic product, forming State budget and food security.

The food industry of Ukraine makes a significant contribution to solving the global food problem. Ukraine is one of the leading countries in the world that provides its own needs in many types of food and exports almost 30% of the volume of products produced in the agro-industrial complex. Solving the problems of this area will help increase its role in the implementation of sustainable development goals not only in Ukraine but also in other countries.

CONCLUSION

Summing up the foregoing, it should be emphasized that the food industry throughout the period of independence played and continues to play a vital role in the economy of Ukraine. In crisis periods, she served as a stabilisation role in the development of economic complex and support of welfare of the population. At the same time, the absence of processes of reforming the industry and its sustainable functioning in the transitional period led to the closure of many enterprises and the collapse of production. Despite many problems, food industry remains the leading sector of national industrial production.

The development of the small business sector in the food sector of both the State and the regions, awareness of their significance, competitive advantages and problems should become the basis of our country's regional policy in the future.

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