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ECONOMIC ANALYSIS OF SMALL BUSINESS ACTIVITIES IN AGRARIAN PRODUCTION EKONOMICKÁ ANALÝZA AKTIVÍT MALÝCH PODNIKOV V AGRÁRNEJ PRODUKCII

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In the past, production in enterprises with high concentration of capital was a major characteristic of the Ukrainian economy. The transition to a market economy on the basis of private ownership led to the emergence of a large number of business entities, which are classified according to the economic criteria as small businesses. In this paper we examine the economic nature of business, small business and entrepreneurship. In scientific literature there is often presented an argument about the advantages of the economy of scale. Empirical evidence shows that the advantage of a large business in comparison to a small one in the agriculture is not absolute. The advantages and disadvantages of small forms of management are given in this paper. We analyze the quantitative criteria for the division of enterprises to large, medium, and small. They are represented in various legislative acts of Ukraine; however they do not always correspond with each other.

Key words: agribusiness, agricultural production, small form of management, quantitative criteria, state regulation

One of main features of Ukraine in the near past was the production of goods by businesses with high level of fixed assets concentration. This was an approach that determined in that time the economic policy of the state, exploring the prospects of the increase of physical volumes of commodities, growth of labor force, increase of efficiency of financial, fuel and energy, labor and other resources, especially through the creation of production, scientific, agri-industrial associations and agricultural firms. Under the conditions of the market economy based on principles of private and collective property in the country there were created plenty of subjects which according to the category of small enterprises.

Material and Methods

Elements and characteristics of small enterprises activities in agrarian sector have been analyzed by Varnaliya (2005). At the same time a lot of aspects of development of small business remain debatable and are objects for further research, because this field is not sufficiently explored. Welfare creation and its distribution to the user are results of economic activity in every society. These activities are carried out on the basis of co-operation of productive forces and production relations. That is why business, particularly small business, historically rose up in the process of the development of the society. The objective of this article is to analyze the fundamentals of small business functioning in agrarian production.

Results

An enterprise is a dynamic, active element of business, based on free initiative and executed as an independent activity, carried out by citizens, by the associations of citizens producing goods, implementation of works and services, with the purpose

of profit. An enterprise includes only businessmen, and not all of participants of trade. Business is wider concept, than enterprise, because it covers all the relations between all the participants of market economy, including not only businessmen but also others subjects, employees, state structures That is why an enterprise as economic phenomenon is considered as a business category (Ilckuk, 2006).

According to leading scientists of NNC „Institute of agrarian economy” of UAAN, an enterprise is a difficult and significant, multi-system and multilevel concept. It is a combination of economic, historical, social and legal relations and as a concept it includes its categories, functions in socio-economic life, methods of its economic activity, business environment, personality of a businessman, style and type of his thought and conduct, historical and socially psychological aspects.

In the real economic life, an „enterprise” and „business” are often equated. Accordingly concepts „small enterprise” and „small business” are also equated. A small enterprise, according to Varnaliya (2005), is an independent, systematic, innovative activity of a small enterprise or citizens-businessmen at their own risk, executed in order to achieve their economic interest – profit (business income) (Govorushko and Timchenko, 2006).

Small business is an activity of any small enterprises and separate citizens (physical persons) done for profit. Practically it might be any activity of management subjects, aimed at the realization of their own economic interest. And this is not always a very risky and innovative activity based on principles of complete economic responsibility. Namely the increased risk and innovation, typical for a small business, according to some scientists (in particular Varnaliya), is a qualitative aspect separating the concepts „small enterprise” and „small business” (Varnaliya, 2005).

Before this differentiation, it is possible to extend the opinion of authors of “Entrepreneurial activity and agro-business” and consequently drawing to a conclusion, that a small enterprise is a part of small business, and serves only to the businessman, but not all market participants. Small business in a village includes small forms of management.

Small management represents such form of management, which has at least two of followings descriptions: independent management and private capital. In the economy of developed countries, small forms of management are the main source of employment. For example in the USA about a third of workplaces (31.8 %) is provided by firms with an amount of workers less than 100 persons; in England – 26, in Germany – 17, Denmark, Netherlands, – 40 % and so on (Ilckuk, 2006). With the number of medium-sized enterprises this percentage increases (Table 1).

According to the world leading economists, the small forms of management play a huge role in those countries where a setback in economic activity is registered. Consequently, for the revival of domestic agriculture, a speed-up development of small forms of management is necessary. In scientific literature, it is often claimed that the law of large scale advantage (i.e. increasing returns to scale) prevails in a market economy. However, in agriculture such law is absolute. It is related to complicate production process and large dependence on natural, economic, technical, historical and other factors of production. Advantages of large-scale production in agriculture always have certain limitation, after which they subside, shrink gradually, or even do not appear at all.

The main restrictions of advantages on the large-scale production over small-scale in the field of agriculture are:

1. With increasing concentration of production charges on internal transportations and movement of goods grow.
2. The process of production is complicated, the control of the production process is weak, and as a consequence the management efficiency diminishes.
3. Large-scale production in agriculture requires significant land areas and substantial funds.
4. Existence in Ukraine of judicial of landownership limitations per one person (the maximum size of land owned by one person is limited up to 100 hectares of agricultural lands, until 2010).

5. In agriculture there are a lot of kinds of production which can be cost-effective within the limits of "small" and even "shallow" business (viticulture, gardening, beekeeping) (Rusnaka, 1998).

However, compared with the large businesses, small forms of management are not competitive in all markets. The first condition of success in a small business is finding a market on which to be small is an advantage, not a failure. Advantages of small business are:

- **Market size:** a lot of markets, especially in villages, have limited sizes and low capacity.
- **Innovations and changes:** small enterprises are the basic source of innovations in the economy in all developed countries. They implement innovations to the market quicker than large enterprises.
- **Personal contact:** very often as advantages of small enterprises there are considered personal contacts which over time can turn into business relationships. Also an advantage of small business is the personal relationship of the leader of the small enterprise with his employees that affects their performances for better.

Among disadvantages of small forms of management there could be mentioned:

- **Different access to resources:** this failure is especially seen on the capital market. Banks and other sources of loans perceive small business as more risky.
- **Lack the effect of scale:** it is considered that large businesses gain from the economy of scale by reducing the average cost per unit of output and increasing level of output.
- **Problems of internal specialization:** small forms of management lose a lot because there is no internal specialization. As a result, the businessman who starts his own business loses a lot of time looking for clients, accounting, and solving questions concerning the using of the land, etc.

Table 1 Development of small and medium enterprises in different countries of the world

Countries (1)	Amount of MSP, thousand (2)	Amount of MSP / 1 000 inhabitants (3)	Employed in MSP, million persons (4)	The share in total employment in % (5)	Income of MSP as a % of GDP (6)
Great Britain (7)	3 738	62.6	13.1	47.9	50–53
Germany (8)	3 550	42.5	18.5	69.3	57
Italy (9)	4 125	71.5	16.8	73	57–60
Netherlands (10)	555	35.8	3.425	57	50
France (11)	2 490	42.6	15.2	54	55–62
USA (12)	15 719	58.2	68	54	50–52
Japan (13)	6 450	49.6	39.5	78	52–55
North Korea (14)	2 769	60.1	8.89	81.9	48.4
Czech Republic (15)	836.9	80.5	3.23	64.3	52.9
Hungary (16)	770	76.2	1.89	66	50–60
Poland (17)	2 546.5	65.8	5.33	60.6	60
Romania (18)	377	16.8	1.77	42	52
Lithuania (19)	158.7	23	1.137	69.2	73
Russia (20)	891	5.65	8.3	13	10–11

MSP – medium and small enterprises

MSP – malé a stredné podniky

Tabulka 1

Vývin malých a stredných podnikov v rôznych krajinách sveta

(1) krajiny, (2) počet MSP (malých a stredných podnikov) v tisícoch, (3) počet MSP/tis. obyvateľov, (4) zamestnaní v MSP v mil. osôb, (5) celkový podiel zamestnanosti v %, (6) príjem MSP ako % z HDP, (7) Veľká Británia, (8) Nemecko, (9) Taliansko, (10) Holandsko, (11) Francúzsko, (12) USA, (13) Japonsko, (14) Severná Kórea, (15) Česká republika, (16) Maďarsko, (17) Poľsko, (18) Rumunsko, (19) Litva, (20) Rusko

- **Government control:** according to the leading economists of the developed countries, the burden of government control over the entrepreneurial activity, for the last 20 years has been growing remarkably. Regulation is accompanied by the introduction of permanent spending which is almost equal for all forms of enterprises. In addition, there are other factors like the establishment of the safe equipment, or preparation and holding of different sort of checks. The owner of the small form of management must execute this work after conducting his main functions. The agrarian production has seasonal character and very often owners of agrarian enterprises in a small business during the peak of season do not have time to process the documentation. Quite often due to lack of time they can not benefit from selected subsidies, or grants.

In the real world, there are no generally accepted criteria on the categorization of enterprises into small or middle businesses. In every country there are some elements that help to categorize enterprises as small scale. In the USA, for example, the distinction between small middle and large size business is given by the law on small business (from 1953). In the same year there was also created the Administration of small business (AMB) with the objective to support the regional programs of development of small business, to assist with the personal training of businessmen, to finance the scientific researches in this sphere, to provide through banks and funds tax-credit privileges small enterprises and to provide them loans, to hold conferences and seminars, determine mutually beneficial copulas with large enterprises, to help the developing counties through international organizations in creation of small enterprise and small business (Azizov, 2001).

In 1958 there was added an amendment to this law on small business, which clearly delimited the parameters of small business; it made the conditions for granting the credits to the small firms considerably more advantageous than for large business. In this law, a particular paragraph stated that "a small firm is such an enterprise which exists and functions independently, its owner is independent of other business entities, it does not prevail in the industry of business".

All the USA firms depend on the amount of the hired workers and according to the criteria of AMB they are divided into five categories: the smallest (1–24 employees), small (25–99), intermediate (100–499), large (500–999), very large – (1 000 and more workers).

In agriculture, the American economists divide farms into similar categories, based on the value of the products sold by them (sales in thousand of US dollars):

- I – (to 10 000 USD) – if a farmer lives in rural areas;
- II – (from 10 000 to 40 000) – small peasant farms;
- III – (from 40 000 to 250 000) – family farm;
- IV – (from 250 000 to 500 000) – large family farm;
- V – (over 500 000) – super large farm (Ilckuk, 2006).

Quantitative criteria of division of enterprises on large, middle, and small within the borders of Ukraine are represented in different legislative acts and not always correspond with each other. In the Economic codex, passed on the 1. 1. 2004, it is stated that small enterprises (regardless of the patterns of ownership) are those where the medium quantity of workers for a reporting (financial) year does not exceed 50 persons, and the amount of gross sales (output, services) for this period does not exceed a sum equivalent to a five hundred thousand Euros based on the average annual rate of the National bank of Ukraine in relation to a Gryvnya.

In the Ukrainian Law on «The state support of small enterprises» from 19. 10. 2000đ. no. 2063 – III the definition of the subject of small business entity is defined as physical persons, registered as the subjects of entrepreneurial activity, and also legal entities – subjects of entrepreneurial activity of any legal form and patterns of ownership, in which a medium quantity of employers does not exceed 50 persons for the reporting period, and the volume of annual gross earnings does not exceed 500 000 Euro. This law covers also small business entities which operate in agriculture.

According to the above mentioned definitions, the concept of the small enterprise and entity, as a small business subject, coincide, so that is why government might support them. At the same time, in compliance with the legislation of the President's Decrees on «Making alteration in Decree of President of Ukraine no. 727 from 3. 7. 1998đ. and on «The simplified system of taxation, account and accounting of small business entities» no. 746/99 from 28. 6. 1999y, other quantitative criteria of small business entities are given. According to the Decree no. 727 a simplified system of taxation, account and accounting is developed for such subjects of the small business:

- physical persons running the business without creation of legal entity (in labor relationships – including members of their families), are not more than 10 persons during the year and revenues from sales (commodities, works, services) for a year does not exceed 500 ths. of Uah;
- entities – subjects of entrepreneurial activity of any legal form and forms of ownership, in which medium quantity of workers does not exceed 50 persons and volume of profit from sales (commodities, works, services) for a year does not exceed 1 million Uah.

We can make a conclusion that there are some substantial differences in Ukrainian legislation concerning quantitative criteria of small business. This requires adoption of a law which would have removed the existing discrepancies.

In the agrarian sector of Ukraine, according to Dolinskiy (2003) small organizational structures can be categorized as follows:

- I – private economies of the citizens and farms – subjects of small entities which operate on private land, property funds, and land shares, based on the personal labor of businessman and his family and on principles of individual activity.
- II – farms operating on personal and leased funds of production, and land with right of renting of labor force. Such legal form of management, as well as the predefined quantity of workers belongs to small enterprises.
- III – private enterprises such as small enterprises, cooperative stores, societies, created on the basis of own property and land, as well as enterprises and partners-assets, operating on the labor of founders or hired labor.
- IV – private-rental companies which operate on personal and leased funds. Rented lands and property represents shares of workers of reformed KSP.
- V – Enterprises providing technological, technical, transport, zoo-veterinary consultations and other services.

Listed classification can be applied to the operation of small businesses in the agricultural sector. According to our opinion they can be classified as follows:

- I – private economies of citizens and farms – subjects of small entities which operate on the private lands, property funds

and land shares, based on the personal labor of businessman and his family and on principles of individual activity.

- II – farms which operate on the personal and leased funds of production and land with right of renting of labor force.
- III – private enterprises of different legal forms which are created on the basis of own property and land, operating on the labor of founders or hired labor.
- IV – private-rental companies of different legal forms operating on the basis of personal and leased funds. Rented lands and property are represented by the shares of workers of reformed KSP.

The main requirement in this classification is that the size of economies must meet the legislative criteria of enterprises on small forms of management.

The analysis of world experience has shown that the foundation process of an enterprise is the substantial factor of successful development of market relations and stability of national economy. That is why practically all over the world, governments participate in forming and development of entrepreneurial activity and support the most expedient and effective directions, especially in small form of business. From the analysis of the small enterprises activity and aspects of its implementation in Ukraine, there has become evident the necessity of enhancing the role of government and regional control in the development of small business, as well as the promotion of innovative technologies in the enterprise sphere. The analysis of development aspects of domestic small business has shown that macroeconomic conditions at the regional level interact with the government assistance: as for example the imperfection of the system of taxation; instability of the budgetary financing of the government and regional support programs for small enterprises; lack of development of mechanisms of financial-credit support and insurance of risks of small enterprises; absence of mechanisms of self-finance (credit unions, fund associations, etc.); restricted access of the small enterprises to the production capacities and property of the restructured enterprises; absence of reliable social protection and safety of businessmen; organizational problems of co-operation of small business with markets and state structures; administrative barriers interfering in the development of small enterprise. Systematization of the above listed factors and terms of the development of small enterprise have affected the development and support of this sector (economic, social-cultural, innovative).

Resume

For successful development of small business in the agriculture of Ukraine, it is necessary to take into account historical realities of development and functioning of the country, and also features of every separate region. This is necessary because there are many different territories in Ukraine, and each of them has a unique, inherent structure and characteristics. Therefore development of small business and development of some state programs for its regulation requires regional approach of operating in this sphere, and must be based on industrial and factorial analysis, computer-integrated indexes of development of small business in separate agricultural regions, and study of the influence of entrepreneurial activity in agriculture on economic, social, scientific spheres. For the formation and development of the state system in support of business activity, it is greatly significant to study and adapt the global experience in the agrarian sector, where small business is the leading area of the

market economy. World experience of management proves that small, middle, and large enterprises do not exclude, but supplement each other. A major element of market economy must be the existence and co-operation of many large, middle, and small enterprises and their optimum ratio.

Súhrn

V minulosti bola produkcia v podnikoch s veľkou koncentráciou kapitálu hlavnou charakteristikou ukrajinskej ekonomiky. Prechod na trhové ekonomiku založenú na súkromnom vlastníctve viedol ku vzniku veľkého množstva obchodných spoločností, ktoré sú na základe ekonomických kritérií zaraďované medzi malé podniky. Daný článok sa zaoberá ekonomickou podstatou obchodu, malých podnikov a podnikania. V odbornej literatúre je často prezentovaná polemika o výhodách a nevýhodách „úspor z rozsahu“ (economy of scale). Empirická skúsenosť ukazuje, že výhody veľkých podnikov nie sú v poľnohospodárstve absolútne. Tento príspevok prezentuje výhody a nevýhody malých foriem manažmentu, podáva analýzu kvantitatívnych kritérií, ktoré rozhodujú o rozdelení podnikov na „malé“, „stredné“ a „veľké“. Tieto kritériá sú prezentované v rôznych zákonoch Ukrajiny, avšak sú vždy zosúladené.

Kľúčové slová: agrárny obchod, poľnohospodárska produkcia, malá forma manažmentu, kvantitatívne criteria, štátna regulácia

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