

**UKRAINIAN MEDIUM SIZED BUSINESS IN TERMS OF GLOBAL COMPETITIVE ENVIRONMENT: NATIONAL SPECIFICS, TENDENCIES AND MAIN PROBLEMS OF DEVELOPMENT**

**Problem definition.** Medium-sized business (MB) is a basis of social being in world developed economy. It takes intermediate position between large corporate business, which is controlled by the state because of its strategic influence, and small business, which usually has service function. Generally the substantial part of labor pool works in a medium business and as a consequence they define social prosperity of society.

For example in Europe, the share of medium-sized enterprises is about 1,1 % (number of employees — 51-250 persons). 17% of labor force total is engaged in this sector, and 17,8% of value added is made here. At that, private enterprises of medium size play key role in secondary industry.

As for Ukraine, the role of SMEs is defined ambiguously. There are different points of view on this issue; sometimes these views are even polar.

Generally, before 1980 in national science there were only few studies on medium business, as well as business in general. The first reason for that is ideological aspects: entrepreneurship as well as capitalist society was considered as a historically fated.

Deep changes in the ideology that were observed in the early 1990 (more properly the denial of any ideology at all) have cardinally changed the question of necessity of business scientific research as a whole and medium-sized business in particular.

**The objective of the article** is to learn specifics of national medium-sized business, to find out main tendencies of development and problems that prevent the development.

**The analysis of the latest scientific research publications.**

The problems of small and medium-sized business has been studied by national researchers — Amosha A., Adamov B., Liashenko V., Golovacha E., Akimova I., Zaitsev Y., Macogon Y., Savchuk V., and also foreign

researchers — Avramova O., Ovcharova L., Cvetova I., Hisrich D. R., Gavin B., Sutton K. and others.

Medium-sized business often falls out of context. In other words, even when the object of research is small and medium-sized business, more attention is paid to the problems of a small one. But private medium business creates so called “backbone” of the developed economies. It has some advantages compared with small or large business.

In comparison with small business, medium-sized business has the advantages as follows: market fluctuation tolerance, potentially more effective because it can use scale effect economies, has better access to external financing, and has more possibilities for scientific and technological innovations. In comparison with large business, medium business is: more flexible to market fluctuations, and more oriented to satisfying individual needs of buyers. Also medium-sized business has great significance on the employment market. Medium-sized enterprises play key stabilizing role, because during the growth period they do not have tendencies to hyperemployment, but in the recession period they are quite reserved in reducing staff.

In this connection the necessity of deeper research of medium-sized enterprises arises, because of their ability to become the basic element in forming complete middle class. Also they are able to provide innovatively-investment development of Ukrainian economy in the terms of global competition.

**Conceptual issues of research**

The Ukrainian scientists and politicians (as well as representatives of other countries) have three main characteristics of their approach to SMEs problems.

First of all, marginal estimates of SMEs role in the economy (either SME sector is considered as the main driver of economic growth and instrument of solving social problems or the accent is made only on large industrial giants).

Secondly, there is neglect of medium-sized

*Table 1*

**Statistics of EU enterprises by size (% share of total), 2005 [8, p. 47]**

Business category	Number of enterprises	Value added	Number of persons employed
SMEs	99,8	57,7	67,4
Micro	91,8	21,0	29,7
Small	6,9	18,9	20,7
Medium	1,1	17,8	17,0
Large	0,2	42,3	32,6

Table 2

## Comparison of definitions of SMEs (EU) [3, p.35]

Enterprise category	Number of persons employed	Turnover (1996), million euro	Turnover (2003), million euro	Total balance (1996), million euro	Total balance (2003), million euro
Medium	<250	≤40	≤50	≤27	≤43
Small	<50	≤7	≤10	≤5	≤10
Micro	<10	≤7	≤2	≤5	≤2

enterprises, while their role in development of entrepreneur initiative and solving of urgent economic problems is not less than the role of small and microenterprises.

Thirdly, as a consequence, state policy concerning SME is oriented on decreasing barriers for market entry (and also creation of privileged conditions for small enterprises) and pays no attention to growth barriers.

As a first step, we should define the criteria of business classifications to highlight the medium sector and estimate its value in the economy of Ukraine. Usually, researchers use such figures as number of employees and annual turnover of the enterprise. Also we should mention that there are no unique international criteria or standards of business classification, although some efforts are making to work out these criteria.

Thus, in 2003 the European Commission has decided to work out recommendations for standardization of approaches to defining and classifying business. Recommendations represent an official normative document, and its action extends to all of EU members. So, EU can be an example of standardization and make it easier for enterprises to carry on business, as it also facilitates conducting research in this sphere.

Contrastive analysis of business classification in European Union is given in table 2.

As we can see from the table 2, in EU firms where number of employees is 50 persons are identified as the category of small business, and medium business with the staff of 250 persons.

In the USA, to enterprises of small business attribute firms with the staff of 100 employees, to medium business — with 500 persons.

Parameters of business classification in Turkish economy are similar to European. Criteria of turnover and number of employees are practically identical.

According to the law of the Russian Federation “About development of small and medium entrepreneurship in Russian Federation” average number of employees should not be more than:

- 101 to 250 persons for medium-sized enterprises;
- 100 persons for small firms;
- micro business — 15 persons.

Annual turnover or balance sheet assets should not surpass:

- micro firms — €1,4 million;
  - small firms — €9,2 million;
  - medium-sized enterprises — €23,2 million [1].
- Concerning Ukraine, we can say that only in 2008

after changes have been made in Commercial Procedure Code of Ukraine and in the law of Ukraine “About state support of small entrepreneurship” we’ve got more or less well-defined classification of business. The definitions are given bellow.

“Enterprises can be classified as small, medium or large firms depending on the number of employees and annual turnover.

Small enterprises (irrespective of the form of ownership) are those with the number of employees during the business period being less than 50 persons, and the value of total income during this period being less than 70 million UAH (about € 6,4 million).”

To large enterprises attribute firms if the number of employees is more or equal to 250 persons, and annual turnover is more than 100 million UAH (about € 91,2 million).

All others are medium-sized firms” [2].

As we see, even in the Commercial Procedure Code the medium business got such a vague definition as “all other firms”.

Quantitative and qualitative parameters of development of enterprises of this sector were evolved after legislative changes that had been mentioned above (table 3, figure 1, 2, table 4, 5, 6).

So, the share of medium-sized enterprises decreased, and in 2008 it was to 6,8% from total number of firms (figure 2). Actually to the medium business are attributed firms with annual turnover from 70 to 100 million UAH. The reduction of diapason explains decreasing of this parameter and in the context of analysis of medium business development it shows the negative tendencies. But in point of fact these are only changes in the methodology, and there is no ground for negative forecast.

The criteria of the number of employees remained stayed the same. In 2008 there were 35,3% of total number of employed worked in the enterprises of medium-sized business (table 4).

In total in the medium-sized enterprises there worked 35% of the number of employees in 2008 (table 5). The majority of employed work in agriculture is 70,1%, industry is 30,4%, construction is 41,6%.

The productivity of SMEs is lower than on large firms and equal to 60% of the level of the latter ones. Also within the SMEs sector the least productive are medium-sized firms: the productivity here is equal to 89% from the same parameter of small firms and 76% ? in the micro enterprises. This fact deserves special attention because it contradicts to theoretical expectations.

Table 3

Number of enterprises per 10 thousand of population, units [7, p. 244]

Years	Medium enterprises	Small enterprises
2006	5	72
2007	5	76
2008	5	72

One of the potential reasons for this is specific process of formation of modern Ukrainian medium-sized business, and as a consequence its specifics from the point of view of ownership. As distinct from Western countries, where medium business has grown from successful small private companies, in Ukraine the medium business sector was formed on the basis of privatization process of middle and large sized state enterprises. Modern medium enterprises were created from privatized large companies that during the process of restructuring made an important staff reduction and have passed to the category of middle business, or from the subdivisions of large vertically-integrated companies, which diminished before or in the process of privatization. This means that Ukrainian enterprises instead of being a successful example of increasing entrepreneurial effort imitatively represent sector, which have inherited the problems of old large state companies and need essential restructuring [4].

Specific process of Ukrainian middle sector formation also determined particular qualities of ownership structure. In Western European countries medium firms that have grown up from small companies usually belong to small group of owners (often members of one or two families), that take active part in management. This minimizes the risks of corporative management conflicts. In Ukraine middle sector is represented by joint-stock companies (namely open) with vague structure of ownership, this causes problems of corporative management and reflects operation effectiveness.

Considering the importance of creating effective high-productive medium-sized business sector for the Ukrainian economy development we should identify the main factors that influence this process.

The main source of development of effective and viable medium business is a small private business that moves to another size category. Thus, all the factors that influence the on creation of new enterprises, the survival capacity in the market and growth, also play key role in the forming of medium-sized business.

Such factors are generally institutional, administrative-regulatory, financial, segment and regional and individual ones [4].

Generally-institutional factors. In a general sense they characterize the development level of market institutions that is necessary for functioning of economic entities (including small firms). In a narrow sense, these factors are — the systems of protection of private ownership rights and commercial contracts, providing fair competition.

Administrative-regulatory factors. By implication they belong to the institutional ones but are always considered separately and represent interrelationship between private business state machine in the sphere of

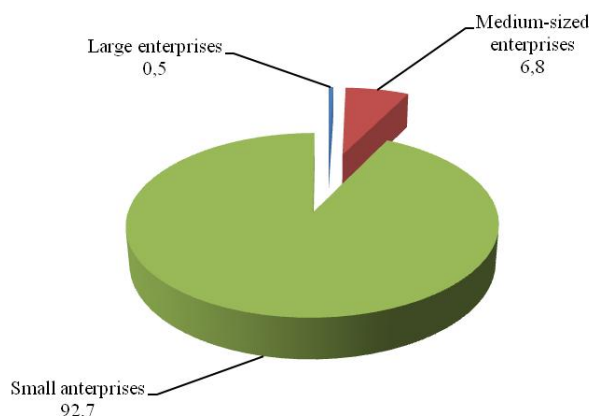


Fig. 1. Share of large, medium and small enterprises before legislative changes in 2008 (% from total number of firms)

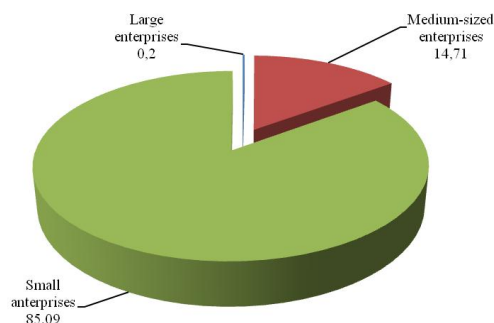


Fig. 2. Share of large, medium and small enterprises after legislative changes in 2008 (% from total number of firms) [7, p. 241]

registration, licensing and other “permissive” procedures and also tax system.

Financial factors characterize specifics of internal and external sources of financing for business development.

Segment and regional factors reflect specifics of region or district, in which the firms work, from the point of view of technical, natural and other (non-institutional) aspects.

Individual factors characterize personal specifics of the entrepreneur.

**Conclusions and perspectives for the future research in this area.**

As result of research of specific development of Ukrainian SMEs we can name some particular qualities of such enterprises:

Table 4

**Number of hired workers in the enterprises [7, p. 252]**

	Large enterprises		Medium-sized enterprises		Small enterprises	
	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees
2006	3189,9	34,7	3848,7	41,8	2158,5	23,5
2007	3440,1	37,9	3480,8	38,4	2154,3	23,7
2008	3594,2	40,4	3136,5	35,3	2156,8	24,3

Table 5

**Number of employees in the enterprises [7, p. 247]**

	Large enterprises		Medium-sized enterprises		Small enterprises	
	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees
2006	3189,9	34,4	3850,3	41,5	2232,3	24,1
2007	3440,1	37,6	3482,7	38,0	2231,5	24,4
2008	3594,3	40,1	3137,7	35,0	2237,4	24,9

Table 6

**Number of employees on the sizes of enterprises and on type of economic activity, 2008 [7, p. 239-241]**

	Large enterprises		Medium-sized enterprises		Small enterprises	
	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees	thousands of persons	in % to total number of employees
Agriculture, hunting, forestry	88,3	88,3	558,0	70,1	149,4	18,8
Industry	2070,8	58,6	1075,2	30,4	389,9	11,0
Construction	110,8	16,7	275,4	41,6	276,4	41,7
Trade; auto service, repair of household goods and personal demand items	413,3	30,2	377,2	27,5	580,0	42,3
Trade in cars and motorcycles, overhaul and repair	48,6	32,0	48,3	31,7	55,2	36,3
Wholesale and intermediation in wholesale	155,7	20,9	212,3	28,5	376,9	50,6
Retail; repair of household goods and personal demand items	209,0	44,1	116,6	24,7	147,9	31,2
The hotels and restaurants activity	13,7	9,5	55,9	39,0	74,0	51,5
The activity of transport and communications	787,2	69,2	220,1	19,3	130,7	11,5
Financial activity	40,1	43,8	25,7	28,2	25,6	28,0
Real estate operations; lease; engineering and services for entrepreneurs	43,7	4,9	373,4	41,6	479,4	53,5
Education	2,8	7,6	18,3	49,5	15,8	42,9
Healthcare and providing of social help	4,8	5,3	52,8	57,7	33,9	37,0
Providing municipal and individual services, activity in the sphere of culture and sport.	18,8	9,6	98,2	50,5	77,6	39,9

— The main part of SMEs is working in agriculture, construction, healthcare and social services, municipal and individual services, in the sphere of culture and sport.

— The majority of medium industrial enterprises

have arisen after privatization and staff reduction in the large state enterprises.

— As distinct from Western companies, Ukrainian medium-sized business is represented by open joint-stock

companies, so the risks of corporative management conflicts increase.

— Small firms are not an essential source of development of middle sector, because of motivation problems and limited possibilities of growth.

— Investment activity of medium-sized enterprises is rather low, more often insufficient volume of profit is considered to be as an obstacle for investment.

— Thus an important role of SMEs in economic development calls for the necessity of attention of scientists, experts and what is more important government to this sector. Especially it concerns transformation countries, where small and medium-sized business was formed in the process of mass privatization and market mechanism that determines an economic structure which only starts functioning. Despite fact that small business has a great value for development of entrepreneur initiative and competition, its role should not be exaggerated, as well as it is not necessary to forget about the importance of medium business for normal development of economy and middle class formation. On the level of government policy it means that policy for entrepreneurship development should be also focused on tasks for creating conditions for effective development of medium-sized business.

— More intensive study of medium business is caused by its advantages in comparison with small and large enterprises (see above) that under conditions of the global competitive environment factors make it most adaptive to them. Under transformation processes which are occurring in national economy, it is possible allow to understand more deeply the nature, direction and factors of changes which occur, and to determine (if need be) measures of state and internal policy of the enterprises for more successful adaptation to conditions of the global competition dominating in modern economic relations.

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### **Tulku Y. I., Kapturenko N. G. Ukrainian medium sized business in terms of global competitive environment: national specifics, tendencies and main problems of development**

The article examines the essence and main characteristics of Ukrainian medium-sized business. The authors analyses the role SMEs sector, especially the middle sector in the economic development. The article also estimates the condition of medium business, main tendencies of development and perspectives. The author summarizes essential factors that influence on medium-sized business development.

*Key words:* medium-sized business, economic development, business classification, productivity.

### **Тулкю Я. І., Каптуренко М. Г. Український середній бізнес в умовах глобального конкурентного оточення: національні специфічні особливості, тенденції і головні проблеми розвитку**

У статті досліджено сутність та основні особливості українського середнього бізнесу. Проаналізовано роль сектору МСБ, особливо середніх підприємств, в економічному розвитку країни. Також в статті запропонована оцінка стану розвитку середнього підприємництва, досліджено основні тенденції та перспективи розвитку, визначені фактори, які впливають на розвиток цього сектору у вітчизняній економіці.

*Ключові слова:* середній бізнес, економічний розвиток, класифікація бізнесу, продуктивність.

### **Тулкю Я. И., Каптуренко Н. Г. Украинский средний бизнес в условиях глобального конкурентного окружения: национальные специфические особенности, тенденции и главные проблемы развития**

В статье исследованы сущность и основные особенности украинского среднего бизнеса. Проанализирована роль сектора МСБ, выделяя при этом средний бизнес, в экономическом развитии страны. Также в статье дана оценка состояния, основных тенденций и перспектив развития среднего бизнеса; определены факторы, влияющие на его развитие в отечественной экономике.

*Ключевые слова:* средний бизнес, экономическое развитие, классификация бизнеса, продуктивность.

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