

RESEARCH ON SMALL ENTREPRENEURSHIP IN LVIV REGION (ANALYTICAL GROUP OF LVIV ENTREPRENEURS COMMITTEE, 2008)

INTRODUCTION

Today, Ukrainian business faces a dilemma – to develop in those directions as their colleagues from the European states, or adhere to development standards, adopted traditionally on the basis of the Soviet experience, used almost in the whole territory of the former USSR. We should note that, according to the Lisbon Strategy and a number of other documents, the priorities of European SMEs are: cheaper and quicker launch of new business, more effective legislation and regulation, improvement of the system of electronic communication of business and government, education and practical training for entrepreneurs, taxes and financial issues, increase of engineering capacities, improvement of e-business models. In some way, these aspirations have a lot in common with the concerns and priorities of an essential part of our business.

In this situation, simple statement of negative facts is not an instrument for development. Partner relations of business and government require common elaboration of steps aimed at the improvement of institutional structure of business environment, specific mechanisms of competitiveness growth, leveling of subjective factors. The aim of the present research is to facilitate this process. At the same time, this research is a good basis for analysis of the fulfillment of the Regional program of small business development.

The author of the research is the Analytical Group of Lviv Entrepreneurs Committee, which also engaged the specialists of the Department of International Economic Analysis and Finance and the Department of Theory and History of Sociology of Lviv Ivan Franko National University. We should also note that the Committee conducted a similar research in the previous year, what allows us to make some comparative analysis.

The main working group included the experts of LEC Analytical Group, Yaroslav Prytula (Candidate of Science, associate professor of Lviv Ivan Franko National University), Natalya Pohorila (PhD, Lviv Ivan Franko National University), Ivan Kulchytskyy (deputy head of Lviv Centre for Scientific-Technical and Economic Information).

The research was carried out by the order of Lviv Regional State Administration and in cooperation with it, as well as under support of the Entrepreneurship Department.

The research contains an assessment of current competitiveness of regional small and medium enterprises in the view of current and potential threats, desired steps for increase of competitiveness level, obstacles for their realization, used instruments, institutional environment.

The final task of the research is to elaborate proposals for state authorities and entrepreneurship as regards qualitative level of cooperation with the aim of increase of competitiveness of regional SMEs.

The design of the questionnaire allowed to determine priority of certain directions of improvement of the current situation.

Each block uses the factor analysis of significance (significance indicator), level of influence (influence indicator), and correlation between significance and influence level (indicator of interference priority IP). The research also presents levels of differences in assessments of the same factor by the respondents, separates main factors of influence from the point of view of age categories of businessmen, kinds of their activity, regions of activity (district, region, Ukraine, Ukraine and foreign markets), and regions of location.

The research consists of five sections.

Section 1. Current threats.

The block analyses the threats an enterprise faces already today: market monopolization, corruption, imperfect legislation, etc. As the unsuccessful interaction of local authorities and business also belongs to the current threats, there is a special sub-block “Factors impeding effective cooperation of entrepreneurs and local authorities”.

Section 2. Future threats.

The section analyses the threats an enterprise will face in 5-10 next years: filling of market with cheap import products (as a result of WTO accession, potential creation of a free trade zone with EU, etc.), lack of qualified workforce (as a result of deterioration of higher and professional education system), unfavorable changes in legislation, expensive credit costs, a number of other factor.

Section 3. Desired high-priority steps to increase the competitiveness.

The section analyses a wide spectrum of instruments, such as information technologies, involvement of SMEs in public procurement, as well as traditional “overcoming of bureaucratic obstacles and corruption”, “improvement of the image of entrepreneur”, etc.

Section 4. Obstacles for competitiveness growth.

The section assesses significance and level of influence of necessity to build informal relations with a number of state institutions, absence of access to technological developments, absence of qualitative and inexpensive business education, and many other factors.

Section 5. Implemented steps to increase competitiveness

The section concentrates on the activity of governing authorities as regards the support of entrepreneurship in the region, in particular, simplification of licensing procedures, fostering of creation of new workplaces, development of entrepreneurship support infrastructure, expansion of possibilities of information provision, etc. The section also emphasizes on the work of specific institutions in realization of the mentioned steps.

Section 6. Modeling of development.

The final part of the research presents regression models, allowing to assess contribution of main factors of business environment on formation of current and future competitiveness of regional enterprises, and to model the development of regional business in the next several years.

The collected statistical material consists of two parts:

1. Based on the adherence to industrial and territorial structure of regional small business – 300 questionnaires in total. Research method – personal interview.
2. Without adherence to the mentioned structure, with involvement of all regional administrations of Lviv region, city councils, business associations – 780 questionnaires in total. Research method – personal interview.

It should be mentioned that the assessments in the sections “Current threats”, “Future threats”, “Desired high-priority steps to increase the competitiveness”, “Obstacles for competitiveness growth” were made with the use of 10-point scale, and in the section “Implemented steps to increase competitiveness” – with the use of 5-point scale.

PRESENTATION OF SOME RESEARCH RESULTS FOR THE SPHERES THAT, IN THE OPINION OF ENTREPRENEURS, REQUIRE PRIORITY INTERVENTION

Current threats

	Intervention need
Instability of legislation	4.0
Corruption and its manifestations	3.4
Competitiveness growth	2.7
Low prestige of entrepreneur's work	2.0
Development of infrastructure of small business support	1.5
Availability of external sources of finance	1.3

Factors of cooperation with state authorities

	Intervention need
Local authorities do not want to cooperate with entrepreneurs	3.0
Absence of common vision of regional development directions	2.9
Absence of public control over the activity of authorities	2.5
Unwillingness of entrepreneurs to cooperate with state authorities	1.9

Future threats

	Intervention need
Changes in legislation, unfavourable for the business	4.4
Criminalization of environment	3.1
Filling of market by cheap import products	3.0
Increasing deficit of qualified labour force	2.7
Unavailability of credit resources, necessary for business development	2.7
Insufficient competence of the personnel for dealing with new problems	2.7

Issues requiring urgent solution

	Intervention need
Struggle with corruption of officials	2.0
Elimination of bureaucratic obstacles for business activity	1.9
State support of exhibition activity of small business	1.2
Use of innovative information and communication technologies, including on-line communication of business and government	1.1
Involvement of small business in state procurement	1.1
Support of small business prestige by local mass media	1.1
Development of a network of consulting and training services in the region	1.1

Priority level of institutions

Institution, with which the relations are desired	Intervention need
Tax inspection	1.8
Local authorities	1.4
Fire inspection	1.4
Sanitation service	1.4
Police	1.3
Electric inspection service	1.3
Funds (pension, social and medical insurance, employment, etc)	1.2
Ecological inspection	1.2
Banking and insurance organizations	1.1
State placement service	1.0
Associations of entrepreneurs	1.0
EURO - 2012	1.0
Higher education establishments	0.9
Non-governmental organizations of small business support infrastructure (consulting companies, specialized agencies, etc.)	0.9

**Level of influence of institution, with which the well-regulated relations are desirable
(probably informal)***

	Quality of influence
Banking and insurance organizations	6.6
EURO - 2012	6.1
Local authorities	5.9
Funds (pension, social and medical insurance, employment, etc)	5.7
Higher education establishments (as suppliers of qualified workforce)	5.6
Unions, associations of entrepreneurs	5.5
Electric inspection service	5.5
Tax inspection	5.5
Sanitation service	5.5
Fire inspection	5.4
State placement service	5.4
Police	5.3
Ecological inspection	5.2
Non-governmental organizations of small business support infrastructure (consulting companies, specialized agencies, etc.)	5.0

*5 – neutral assessment, 6-10 – positive assessment, 1-4 – negative assessment

Inhibition factors of business development*

	Quality of influence
Necessity to build informal relations with state authorities	5.3
Absence of qualitative and inexpensive business education	4.2
Migration of labour force	4.1
Insufficiency of external financing	4.1
Absence of production areas for business expansion	4.0
Weak infrastructure development (transport, communication lines, etc.)	4.0
Absence of access to domestic innovative technological developments	3.9
Insufficient qualification of labour force	3.7

*5 – neutral assessment, 6-10 – positive assessment, 1-4 – negative assessment

SOME CONCLUSIONS

Some basic conclusions that could be drawn from the research:

1. Among the current threats, “corruption and its manifestations” exerts the worst influence on the business. Out of 780 enterprises, the negative influence of corruption on the business is recognized by 554, i.e. 71% of all questioned enterprises.
2. Corruption is the most important problem for trade enterprises.
3. “Availability of external source of finance” worries the food industry sector the most.
4. Factor of competition growth in Lviv region is the most important for physical persons — entrepreneurs. At the same time, competition growth is the worst influence factor for industrial, construction and trade sector.
5. Enterprises of agricultural and forestry sector positively assess the influence of competition growth on their business. Slight positive influence of competition growth is recognized by transport and service sector, food industry.
6. Entrepreneurs younger than 35 are less ready to cooperate with the state authorities.
7. In the opinion of entrepreneurs, among the future threats the worst influence will be exerted by the criminalization of environment, and this factor is one of the most important. The same significance is assigned to the change of single tax system. Criminalization factor is the most important for the regional centre.
8. Legislation changes are the most fearful for the trade companies, deficit of qualified workforce – for industrial and construction enterprises, as well as for agricultural and forestry sector.
9. Filling of market by cheap import products is important factor for companies, operating on local markets (within the limits of the region); for companies, operating on national and foreign markets this factor is practically not important. At the same time, the latter are worrying about insufficient competence of the personnel.
10. Filling of market by cheap import products is important factor for physical persons - entrepreneurs.
11. Criminalization factor has the worst influence on the business, operating on the national market.
12. In the opinion of the businessmen, among the first-priority steps that should be done by the authorities are: “elimination of bureaucratic obstacles”, “struggle with corruption of officials”, “support of prestige of private entrepreneurship”. At the same time, taking into account the negative impact of certain factors, it is essential to solve such problems as “insufficient involvement in the public procurement” and “corruption of officials”. Among the important factors is also “state support of exhibition activity”.
13. Drawing conclusions as to the first-priority steps on the basis of 780 respondents, we see that the 3rd important factor that requires intervention is “necessity of support in implementation of innovative information and communication technologies”.

14. “Struggle with corruption of officials”, “elimination of bureaucratic obstacles”, “support of prestige of private entrepreneurship” are the most important for trade enterprises; “use of innovative information and communication technologies” and “state support of exhibition activity of small business” – for industrial and construction sector; “involvement in the public procurement” and “elimination of bureaucratic obstacles” – for agricultural and forestry sector; “development of network of consulting and training services” – for transport and service sector.

15. The best effect from “struggle with corruption of officials”, “elimination of bureaucratic obstacles”, “use of innovative information and communication technologies” is expected in the regional centre.

16. Importance of development of relations with institutions, engaged in the preparation to EURO-2012, prevails over the importance of the development of relations with police, ecological inspection, higher education establishments, state placement service, associations of entrepreneurs, consulting companies.

17. Banking and insurance organizations, EURO-2012 and local authorities exercise the most positive influence on the business. Neutral influence is exerted by consulting, ecological inspection and police. Tax inspection has practically insignificant, but still positive influence.

18. At the same time, taking into account the priority of intervention with the aim of improvement of work, the first four places are held by tax inspection, sanitary service, fire inspection and police. Among the mentioned institutions, tax inspection has the biggest influence, what is explained by its importance for the business. 311 entrepreneurs out of 780 estimate the work of tax inspection positively, based on the level of its influence on their business.

19. EURO-2012 holds the last place by the priority of interference. This means, the business is sure that there will be no problems with its organization.

20. Development of mutual relations with local authorities is the most important for physical persons – entrepreneurs. Development of relations with tax authorities is the most important for legal entities with the number of employees up to 10. Cooperation with higher education establishments is the most important for legal entities with the number of employees up to 50.

21. Development of relations with local authorities and tax administration is the most important for trade sector; with business associations and institutions dealing with EURO-2012 – for transport and service sector; with sanitary service, energy inspection and police – for food industry.

22. Entrepreneurs below 35 are more reluctant to develop relations (probably informal) with such structures. At the same time, they are more willing to cooperate with consulting sector.

23. Only entrepreneurs below 35 positively assess the influence of cooperation with consulting sector and higher education establishments on their business.

24. Business, oriented at national and foreign markets, is more willing to cooperate with consulting companies and specialized institutions, is more interested in EURO-2012.

25. The main impeding factors for competitiveness growth (according to the level of influence) are: “insufficient qualification of workforce”, “absence of access to innovative national technological developments”, “weak infrastructure development”. At the same time, the leading factors by the priority of intervention are: “insufficient qualification of workforce”, “weak infrastructure development”, “absence of production areas for business expansion”.

26. The worst influence factors for 780 respondents are: “insufficient qualification of workforce”, “migration of workforce”, “absence of production areas for business expansion”.

27. Necessity to build informal relations with the authorities is the most important deterrent for agricultural and forestry sector; weak infrastructure development – for trade, industry and construction; absence of access to innovative national technological developments – for industry and construction sector; insufficiency of external financing – for agricultural and forestry sector; absence of high-quality business education – for transport and service sector, food industry; migration and insufficient qualification of workforce – for industry and construction sector.

28. Analysis of the total respondents base shows the first-priority need in innovative technological developments for agricultural and forestry sector.

29. Such factors as “necessity to build informal relations with the authorities” and “absence of production areas for business expansion” are the most important deterrents for entrepreneurs below 35.

30. Insufficiency of external financing has the worst influence for food industry; absence of high-quality and inexpensive business education, absence of production areas for business expansion – for trade sector; migration and insufficient qualification of workforce – for transport and service sector.

31. Comparison of average assessments of state authorities’ activities in the sphere of entrepreneurship support of the present research and the research of 2006 shows some improvement of the majority of such activities and worsening in such activities as “information provision of entrepreneurs”, “involvement of small enterprises in the public procurement”.

32. At present, the most qualified services for the business are provided by non-bank financial institutions (4 points by 5-point scale). At the same time, their services were used by legal entities with the number of personnel up to 10.

33. Assessments on the basis of the general base show the best level of services of banking organizations (3.7 points), local development agencies, consulting and auditing companies.