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Regional Aspects of the Development of Small and Medium-sized Enterprises

Abstract. *The article discusses the impact of the institutional environment for the activation of small and medium enterprises (SMEs). The analysis of the dynamics of the main indicators of institutional environment and the number of SMEs is given. In the article it is characterized the relationship between the level of development of business environment and the dynamics of SME, calculated the correlation coefficients between the dynamics of creating of institutions for business support and registered number of SMEs. The most effective institutional support mechanisms and ways of improvement of the institutional environment of SMEs are singled out – spreading the international practice of creating business incubators and technology parks, expanding the range of services provided to SMEs.*

Keywords: *SME sector, institutional environment, business environment, institutional support, business incubators, technology parks*

1. Introduction

Today, despite the positive dynamics of quantitative indicators of SMEs numbers, small and medium enterprises in Ukraine are developing slowly and less innovatively in comparison with our European neighbors. Important role is played by the institutional environment of SMEs, and quality of it is not always able to meet the needs and problems of business entities. A favorable institutional environment of entrepreneurship can be a significant factor in the socio-economic development of regions and the whole country through its impact on regional investment attractiveness and competitiveness.

The works of Ukrainian scientists are dedicated to the study of general aspects of the development of small business in Ukraine [Berezhnyy 2014; Pasinovich, Yasinovska 2015], issues of the institutional environment of entrepreneurial activity in the regional aspect [Zaplatynskyy 2008; Vasylytsiv 2009]. The role of the business environment in regional development in Poland is described in the researches of J. Dominiak [2013]. However, analysis of influence between the levels of development of the region and the development of institutional support for SMEs need to be deepen. The issue of institutional support requires additional researches for developing effective models of regional management and promotion of small business and economic development.

The main objective of this study is to determine the relationship between the level of development of institutional environment of SMEs and the level of regional development. Also we need to describe the characteristic of regional environment factors that are stimulating and give positive organizational impact on the development of small and medium enterprises in the region.

2. Presenting main material

The high concentration of SMEs in a particular area gives the incentive and new abilities to business, introduce new knowledge and technical solutions and create conditions to increase the competitiveness of the local economy.

Analyzing of the territorial concentration of the subjects of SMEs in Ukraine outline some important issues – irregularity, instability and slowdown of growth: in 2017-2018 years the largest number of businesses SME sector were registered in the city Kyiv and such regions as Kharkiv, Dnipro, Odessa, Lviv, Kyiv, Zaporizhia, Donetsk, Vinnytsia and Khmelnytsky regions. In general, in all regions of Ukraine, the increase in the total number of SME entities in 2017 was more than 10%, but in 2018, the level of growth is only 5% (Table 1).

In 2018 some regions demonstrate the decrease of the number of SME entities – in Herson region, and small changes in amount of SME entities (near 1-2%) in Ivano-Frankivsk, Mykolaiv, Odessa and Sumy regions. However, the problematic situation in Eastern Ukraine remains, where in connection with military actions of the occupation in 2014 we can see a sharp reduction of business entities in the Donetsk – by 44% and Luhansk regions – by 67.6%.

There is a negative fact, that in some regions the number of employed and employees of SME entities has significantly reduced (Table 2), in total amount we can notice the decrease of their number for only 2,6-2,9%.

The main reasons of the situation are:

– changing in taxation system in Ukraine and increasing of the level of taxation of SME entities;

Table 1. Analysis of the number of SME entities in the regions of Ukraine in 2016-2018

Region	2016	2017	2018	Dynamics 2017/2016 (%)	Dynamics 2018/2017 (%)
Ukraine	291 154	322 920	339 382	10.91	5.10
Vynnytsia	8 154	8 706	9 163	6.77	5.25
Volyn	4 734	5 293	5 591	11.81	5.63
Dnipro	24 325	26 603	27 772	9.36	4.39
Donetsk	9 893	9 909	9 201	0.16	-7.15
Zhytomyr	5 545	6 108	6 502	10.15	6.45
Zakarpattia	4 800	5 543	6 173	15.48	11.37
Zaporizhia	12 877	13 975	14 375	8.53	2.86
Ivano-Frankivsk	6 587	7 342	7 973	11.46	8.59
Kiev	16 860	18 403	19 045	9.15	3.49
Kropyvnytsky	6 859	7 406	7 721	7.97	4.25
Lugansk	3 303	3 205	3 240	-2.97	1.09
Lviv	14 749	17 064	18 237	15.70	6.87
town Kyiv	9 706	10 459	8 766	7.76	739.14
Mykolaiv	20 191	23 203	11 077	14.92	-52.26
Odesa	8 429	9 609	23 803	14.00	147.72
Poltava	4 409	4 995	10 345	13.29	107.11
Rivne	4 916	5 324	5 213	8.30	-2.08
Sumy	4 017	4 481	5 564	11.55	24.17
Ternopil	19 328	21 461	4 778	11.04	-77.74
Kharkov	6 882	7 824	22 564	13.69	188.39
Herson	5 865	6 575	7 924	12.11	20.52
Khmelnysky	7 605	8 414	7 039	10.64	-16.34
Cherkassy	3 345	3 759	8 691	12.38	131.21
Chernivtsi	4 886	5 560	3 913	13.79	-29.62
Chernihiv	72 889	81 699	5 712	12.09	-93.01

Source: State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/> [accessed: 18.10.2019].

- the existence of SME entities, that do not really work and have not stop their registration yet;
- increasing of the level of the shadow employment.

On the Figure 1 it is shown the connection between the dynamics in number of SMEs and the dynamics of employment in small and medium business via the regions.

As it was mentioned before, Lugansk and Donetsk regions demonstrate decreasing in those two indicators, also Chernihiv has bad marks.

Only Poltava and Cherkassy regions have increased number of SMEs and employees during 2017-2018 years. The main group of Ukrainian regions demonstrates lowering level of employment in SMEs but still positive dynamics in

Table 2. Number of employed and employees in small and medium-sized enterprises in the regions of Ukraine in 2017-2018

Region	Number of employed (thsd)			Number of employees (thsd)		
	2017	2018	Dynamics (%)	2017	2018	Dynamics (%)
Ukraine	1562,4	1521,9	-2.59	1658,9	1611	-2.89
Vinnytsia	48,0	48,5	1.04	51,4	51,7	0.58
Volyn	27,3	27,1	-0.73	29,4	28,9	-1.70
Dnipro	129,1	124,7	-3.41	135,9	131,1	-3.53
Donetsk	42,3	40	-5.44	44,6	41,9	-6.05
Zhytomyr	35,7	35,7	0.00	37,6	37,3	-0.80
Zakarpattia	24,6	24,3	-1.22	27,2	27,3	0.37
Zaporizhia	63,0	62,1	-1.43	68,4	66,9	-2.19
Ivano-Frankivsk	32,7	32,5	-0.61	35,3	35	-0.85
Kiev	91,6	90,5	-1.20	95,6	94	-1.67
Kropyvnytsky	34,9	33,9	-2.87	38,5	37,5	-2.60
Lugansk	15,9	14,7	-7.55	17,1	15,9	-7.02
Lviv	93,4	92	-1.50	98,5	96,4	-2.13
Mykolaiv	40,7	40,7	0.00	45,9	45,6	-0.65
Odesa	108,1	103,8	-3.98	115,4	109,6	-5.03
Poltava	48,3	48,5	0.41	51,5	51,6	0.19
Rivne	28,3	27,1	-4.24	30,2	28,8	-4.64
Sumy	30,1	29,2	-2.99	31,8	30,8	-3.14
Ternopil	26,0	25,9	-0.38	27,6	27,5	-0.36
Kharkov	110,4	108,5	-1.72	116,4	114	-2.06
Herson	33,4	32,5	-2.69	36,8	35,6	-3.26
Khmelnysky	35,7	36,3	1.68	38,4	39	1.56
Cherkassy	40,0	40,1	0.25	43,2	42,9	-0.69
Chernivtsi	20,0	19	-5.00	21,5	20,3	-5.58
Chernihiv	32,3	29,8	-7.74	34,2	31,4	-8.19
town Kyuv	370,6	354,5	-4.34	386,5	370	-4.27

Source: State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/> [accessed: 18.10.2019].

number of small and medium enterprises. The average level of dynamics in SMEs for Ukraine is +5,1% and in dynamics of employment – 2,7%. But in some regions the indicators can differ for more than 10%. Therefore, certain regions need significant support to stimulate SMEs. As well as the use of opportunities of institutions that promote development of SMEs.

After analyzing the statistical information we can provide a clear line of influence between the number of SMEs and their employees and the GDP of the region. However, there is also a very important inverse relationship - the level of development of the region, the human potential in this region, favorable policies of local authorities and the level of investment attractiveness significantly affect

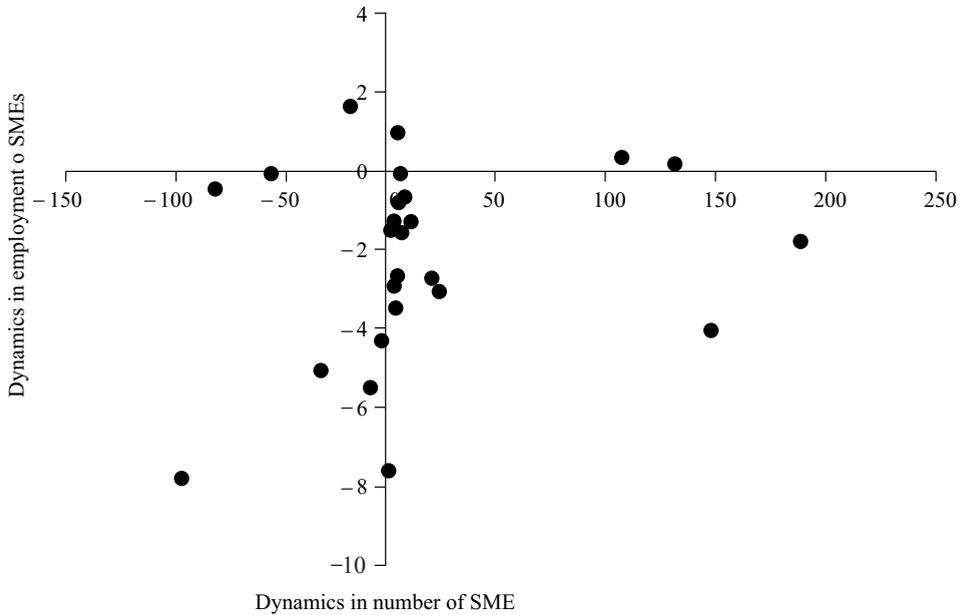


Figure 1. Regional particularities in development of the SMEs in 2018

Source: based on the Table 1 and Table 2.

the growth of the SME sector in the region. It is a benefit to the economy in general and the regional economy in particular, that small and medium enterprises work efficiently and demonstrate sustainable growth from small and medium to large companies. There is a need of implementation of new tools to support institutional environment to start-ups and existing SMEs.

The increasing of regional development puts a request to the institutional environment of SMEs, which should meet the needs of the sector.

In the socioeconomic changes taking place in Ukraine, the established work of the institutional environment of entrepreneurial activity is an important factor in national growth. The development of entrepreneurship environment institutions should be an integral part of state support both in general and at the regional level. Such a state policy should combine actions of the authorities of different levels in the direction of stimulating entrepreneurship. Indeed, a well-developed and effective network of small and medium-sized businesses can be a major factor in the development and competitiveness of both the region and the state as a whole.

Institutions designed to support SMEs form the institutional environment of this sector and play an important role in entrepreneurial activity. On the one hand, their activity is dependent on the dynamics of economic development, since at low rates of economic growth and in times of crisis, SME institutions also do

not evolve and depend more on decisions of state government or local authorities, state financing, etc. On the other hand, there is a relationship between the quality of the institutional environment of SMEs and the development of such entrepreneurship, first of all, through the provision of consulting, information, intermediary and educational services by the institutions that promote the effective operation of business entities.

The importance of forming an effective institutional environment for SMEs is reflected in the program documents at the state level. Thus, two of the three goals of the Strategy of the Development of SMEs in Ukraine 2020¹ are related with the infrastructure solutions. According to the Strategy, its successful implementation will contribute to the following goals: firstly, to the creation of the best conditions for business activity; secondly, building of the institutional capacity of the state to effectively formulate and implement the policy for entrepreneurship development; thirdly, to the development of the SME sector. The first goal involves the positioning of entrepreneurship as the basis for the economic development of Ukrainian society, deregulation reform, the creation of a competitive environment, the providing the SMEs the access to financial, property, natural resources, elimination of barriers to the external markets. Achievement of the goal is impossible without the formation of a network of institutions that help collecting financial resources, provide information support, and simplify access of SMEs to the foreign markets.

The second goal includes the following components: the possibility of studying entrepreneurship is open throughout the life; competence “entrepreneurship” is integrated into educational programs, providing a constructive dialogue between government and SMEs, ensuring wide access of SMEs to participation in public procurement, raising the level of statistical and analytical awareness of state authorities about the SME sector. The achievement of the third goal will be the increasing of the competitiveness of Ukrainian SMEs and the added value generated by SMEs.

To implement the Strategy, it is necessary to move from the existing institutional environment of SME support to an effective one [Sych, Volos 2018]. According to the results of an expert survey of the Center for Public Evaluation,² the vision of an effective infrastructure for supporting and developing entrepreneurship in Ukraine became known.

The expert opinion of the institute, which is responsible for implementing the state strategy in the field of SME has been divided. One half – 54% of the respondents - consider necessity of transferring all powers to the specialized state agency for the development of small and medium enterprises (to create a new in-

¹ Strategy for SME development in Ukraine by 2020, https://issuu.com/mineconomdev/docs/short_sme_strategy_apr2017_revas [accessed: 19.10.2019].

² Center of Public Expertise, <http://expertise.org.ua/> [accessed: 19.10.2019].

stitution like the European ones), and 43% of the respondents decided to leave the opportunities to the Ministry of Economic Development and Trade. Obviously, both variants have their supporters, advantages and disadvantages, so the choice of the state regulator in this area requires additional discussion and consultations for reaching consensus.

According to experts, the most effective business support institutions were entrepreneurs associations (89%), business incubators (65%), cluster associations (60%) and professional associations (57%).

The existing SME support infrastructure in Ukraine in 2018 includes business centers (447 units), business incubators (82 units), technology parks (58 units), leasing centers (447 units), non-bank financial institutions (2812 units), entrepreneurship support funds (216 units), investment and innovation funds and companies (2825 units), information and advisory institutions (4054 units)³. In general, there are about 11,000 institutions and organizations of different levels, forms of ownership, and sources of financing, founders' structures and kinds of activity. Certain institutions only partially relate to the support of the SMEs (such as non-bank financial institutions and leasing centers), others are created exclusively for small and medium-sized enterprises (business incubators, business support funds). However, a significant number of institutions do not indicate the stability of their work, as well as the effectiveness of the support they provide to SMEs. According to respondents, existing associations of entrepreneurs, business incubators and other types of institutions need strengthening and development, as well as stimulating the creation of new organizations at all levels. The table shows the growth rates of quantitative indicators in terms of types of institutions. Most institutions show unstable or negative growth rates in the last period – there is a reduction in the network of such institutions and organizations.

Making comparison with the number of newly created small and medium enterprises (including private entrepreneurs), you can see the following trends:

- in general, the growth of the number of registered SMEs was accompanied by an increase in the number of institutions that promote the development of SMEs in 2018;

- in 2014 there was a significant reduction in the number of institutions against the backdrop of an increase in the number of small businesses;

- the dynamics of the number of institutions and SME entities allows to divide the infrastructure objects into three groups. In the first group we have such institutions whose appearance is slightly correlated with the number of SME entities (non-bank financial institutions, investment companies, business centers). In the second group we have institutions showing a negative correlation with the amount of SMEs (leasing centers, entrepreneurship funds). And in the third group

³ State Statistics Service of Ukraine, <http://www.ukrstat.gov.ua/> [accessed: 19.10.2019].

we have institutions with a high degree of correlation (technology parks, business incubators).

Consequently, there is a relationship between the creation of institutions that support the development of SMEs and the number of SMEs that appear in the country. According to the statistics, only business incubators and technology parks demonstrate a positive trend. At the same time, it is the business incubators that experts have chosen as the best promotion institutions for SMEs. Therefore, we consider it necessary to intensify the creation of business incubators and technology parks with the expansion of the range of services provided there and the implementation of emphasis on the innovative component.

SME support institutions should offer a wide range of quality services, also the portfolio of services of each institution should include different types of support. According to experts, the most popular services are the protection of entrepreneurial rights in relations with controlling institutes (84%), financial and credit support (73%). Trainings and workshops, consulting support, joint marketing of products (services) and advocacy of interests in relations with the authorities as demanded services, received more than half of the votes (from 57% to 62%).

3. Conclusions

Proceeding from the experience of European countries and analysis of the domestic situation, we consider that business incubators and technoparks have a leading role in creating the favorable business environment for SMEs. Techno parks allow to get:

- consulting and training services (in particular, in the field of legal protection, accounting and payment of taxes, commercialization of technologies, marketing researches);
- technological consulting (technological audit, management, strategic planning);
- administrative services (provision of office, conference hall, parking, areas for recreation);
- specific services of the techno park (laboratories, space for researches, transport and communication infrastructure, technology transfer);
- cooperation with research institutes (universities, scientific institutes);
- access to financing (simplify the search for interested investors, venture financing, EU grants);
- marketing and promotional events;
- simplified contact with other SMEs – potential partners.

Creating a business incubator as a separate business entity that has its own property and budget allows SMEs to start their activities in favorable conditions because of:

- attractive conditions in the price terms of lease of premises;
- administrative and office service;
- business counseling (forming a company profile, accessing legal assistance, patenting, information and technology provision, accounting);
- opportunities for «spin-off» as newly created SMEs, based on the close collaboration of the research institution and the business environment;
- platforms for innovative startups and crowd funding.

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Regionalne aspekty rozwoju małych i średnich przedsiębiorstw

Streszczenie. *W artykule omówiono wpływ otoczenia instytucjonalnego na aktywację małych i średnich przedsiębiorstw (MŚP). Dokonano analizy dynamiki głównych wskaźników środowiska instytucjonalnego i podano liczbę MŚP. Scharakteryzowano związek między poziomem rozwoju otoczenia biznesowego a dynamiką MŚP, obliczono współczynniki korelacji między dynamiką tworzenia instytucji wsparcia dla biznesu a zarejestrowaną liczbą MŚP. Stwierdzono, że najbardziej skutecznymi mechanizmami wsparcia instytucjonalnego i sposobami poprawy otoczenia instytucjonalnego MŚP są upowszechnianie międzynarodowej praktyki tworzenia inkubatorów przedsiębiorczości i parków technologicznych, rozszerzanie zakresu usług świadczonych na rzecz MŚP.*

Słowa kluczowe: *sektor MŚP, otoczenie instytucjonalne, otoczenie biznesu, wsparcie instytucjonalne, inkubatory przedsiębiorczości, parki technologiczne*