

# PRIVATE AND FAMILY BUSINESS: THE WORLD SITUATION AND UKRAINIAN REALITY

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## Summery

**Purpose.** The purpose of this paper is a presentation of the results of the previous research «Private business in Ukraine: success, threats, trends and expectations» which was made for the estimation of conformity of Ukrainian realities to world trends as to development of entrepreneurship and readiness to overcome typical problems.

**Method.** During the research, there was used an expert questioning method (there was developed a questionnaire which took into account the experience and methodology of analogical researches of PwC Global Website Enquiries but adapted and developed certain issues considering realities in Ukraine), and there were also used the methods of theoretical generalization and comparison, analysis and synthesis (in order to process and interpret the results of the questionnaire research).

**Results.** The research resulted in determination of trends of private and family business development in Ukraine and there was made their comparative analysis with the situation in Russia and in the world, there were outlined internal and external problems which slowed down development and increase of efficiency of doing business in Ukraine.

**Innovation of the paper research.** Adaptation to Ukrainian reality and perfection of the informative data of the research concerning the situation and problems of development of small and middle business in Ukraine.

**Practical implications.** The obtained results should be taken into account by identifying the ways of improving activity of the State Service of Ukraine on questions of regulatory policy and development of entrepreneurship, by developing the National Program of Support and Development of Entrepreneurship for 2014 and the following years.

**Keywords:** entrepreneurship, small business, private and family business, authorities and business.

**Statement of the problem .** It is traditionally considered that at the state level in Ukraine a big role of small and medium businesses to the community, the development of the national economy , the decision of problem of employment and so on. The situation in the Ukrainian business is traditionally estimated based on the study of relevant statistical materials, which are published on the website of the State Statistics Service and in a relevant Yearbook [1 ]. Making informed of regulatory policy on business development in Ukraine, timely correction of existing priorities and efforts needs the expanding of assessment tools, including the using of internationally recognized research tools.

**Analysis of recent research and publications.** The situation regarding the status and prospects of private and family businesses in different countries of the world, with the conducting of comparative analysis and with the definition of the general trends for many years is studied by the world renowned international consultancy company PwC Global Website Enquiries.

PricewaterhouseCoopers (PwC) - the largest in the world international network of companies offering professional services in consulting and auditing. The company exists for more than 160 years and is a part of the so-called Big Four auditing companies. Total service provided by the company in 2011 amounted to 29.2 billion U.S. dollars, the number of employees - 169 million people in 158 countries of the world [2]. In the countries of CIS works an agency of PwC in Russia, which employs more than 2.3 thousand specialists. [3].

The study of situation in the private and family business are conducted by this company not for the first year. In particular, in 2012, were conducted 2 studies, the results of which are posted on the website : " private and family business: reliable model of the XXI century " [4 ], " Private Business in Russia : Successes and anxiety , trends and expectations " [5 ]. In study involved 2,000 companies of 30 developed countries and countries that are catching up . First

study were conducted in the Russian Federation, where were interviewed 49 representatives of Russian companies, which are engaged in different kinds of economic activities.

The purpose of this study PwC defined as follows: to identify trends of private and family businesses all around the world and discover, how managers of private companies evaluate the effectiveness of their business in modern terms, how far they look to the future, considering the prospects of development of their business, whether they think about the problems of transmission of business to the next generations and how they assess their potential as compared with public and state-owned enterprises [4].

General features of modern Small and Medium business versus large business entities are:

- Patience, commitment to long-term investment, which does not depend on the competitive environment and the current level of profitability (patient capital);
- Quick and flexible decision-making process, which increases the chances of entrepreneurial success, and allow quickly master the niche market segments;
- The presence of a greater number of executives and owners of subjects of private and family business the enterprise of thinking, the ability to changes each new generation;
- A higher degree of responsibility for the creation and preservation of jobs and for the consideration in their work interests of the local population (community) - socially responsible small business;
- A more important role of personal relationships and trust in the process of forming relations with all commercial partners, closer relationships with customers (client-small business).

These features allow to establish the presence in private and medium-sized businesses a long-term competitive advantage of business model, guaranteeing consistently high socio-economic importance of this type of business.

Experts note that private and family businesses all around the world is undergoing a rapid phase of its development, has consistently high rates of growth. Respondents confidently assess the prospects for their further business life.

At the same time for development of private and family businesses in the world are inherent and serious problems that were clarified during the study PwC Global Website Enquiries. The most important problem is considered a general economic situation: market conditions, competition, government policy and regulation. The main internal problems are recognized the

problem of attracting and retaining qualified personnel, the ability to export activity (access to foreign markets), the need to improve internal business processes, implementation of economic management, including planning tools and monitoring expenses and cash flows, management of costs and receivables, introduction of modern information systems.

As negative trends and potential problems in period till 2017 respondents named :

- The state of the global economy, which provokes acute price competition ;
- Globalization of the economy (in terms of their willingness to work in foreign markets);
- Growing of importance of innovation factor for preserving existing competitive advantages (the need for continuous improvement of all aspects of the activity);
- Aggravation of the struggle for "valuable employees ", increased competition in the labor market;
- Threats, conflicts and risks, that are inherent to the change of generations - the transfer of business to new generations of owners.

**The aim of an article** is publishing of the results of the study "Private Business in Ukraine: successes, threats, trends and expectations", which was conducted at the Department of Economics and Finance of Kyiv National Trade and Economic University in May 2013 according to the binding of matching of Ukrainian realities by identified world trends . In the questionnaire (survey) participated 240 representatives of Ukrainian SMEs that, compared with the size of the sample in other countries, allows to evaluate him as a representative.

**Results.** For the study of questionnaire was developed - a questionnaire which, on the one hand, based on experience and methodology of similar studies PwC Global Website Enquiries (for the possibility of inter-country comparisons of the obtained results and recognition of conformity global trends, the situation in the countries catching up), and with other - it contains the original questions, that reflect aspects of doing business in Ukraine, which are actual for Ukrainian business community.

Participants of conducted survey - 240 subjects of entrepreneurship - have mostly simple legal forms: 32% (one third) - Co.Ltd, 22.5 % - private enterprises, 20% - SPDFL . 67% of respondents are registered and operating in Kiev, 25 % - in regional centers, other - in district's centres. Almost 50 % of respondents are the CEOs of companies, 20 % - chief accountants and 20 % - CFOs. 80 % work in enterprises with number of employees of less than 100 people and annual revenues of less than \$ 100 million, which are the real representatives of small and

medium enterprises (SMEs). 50% of respondents are engaged in retail and manufacturing, 20% - are members of the construction industry. Respondents have sufficient experience of entrepreneurship: the average age of the existence of their business is 12.6 years.

The results of questionnaires for representatives of small and medium business in Ukraine are the follows.

Assessing the role of small and medium-sized businesses to the community. Analysis of respondents' answers to survey questions concerning the characteristics of private businesses (Table 1), allows to state, that Ukrainian entrepreneurs significantly more of their foreign colleagues recognize the high social importance of SMEs for job creation (respectively , 92% and 77 %), a stronger spirit entrepreneurship, which is inherent in SMEs compared to other forms of business (respectively 92% and 63%). 6% of respondents share the assertion that SMEs contribute to stabilize the economy and overcome the crisis.

Ukrainian respondents much differ from their foreign colleagues in recognizing high-risk business activities (86% vs. 39%), they measure degree of risk for SMEs significantly higher than in other forms of business - including large and public; recognize the greater role of personality and capabilities renovation of business with each new generation (respectively 55% vs. 47%).

At the same time, the survey found that to Ukrainian business is not peculiar perception of innovative ideas (only 21% vs. 34%). 74% of respondents are agree with the statement that for SMEs, is characteristic a high speed decision making (average world rate - 29%), but it may also indicate a low validity (preparedness) of such decisions.

**Table 1. Assessment of the role of small and medium-sized businesses for the community**

Answers and and answers to the questionnaire	World	Russia	Ukraine
<b>Do you agree with the following characteristics of the private sector ?</b>			
-Play an important role in creating new jobs:			
Agree	77%	94%	92,10%
Disagree	8%	2%	7,90%
-A stronger entrepreneurial spirit:			
Agree	63%	84%	92,10%
Disagree	7%	4%	23,70%
-Promote to economic stabilization:			
Agree	72%	82%	76,30%

	Disagree	7%	4%	23,70%
-Take on more risk:				
	Agree	39%	71%	86,80%
	Disagree	30%	10%	13,20%
-With each new generation business is completely updated:				
	Agree	47%	55%	55,30%
	Disagree	17%	10%	44,70%
-Private business is less inclined to perception of innovative ideas:				
	Agree	34%	35%	21,10%
	Disagree	36%	12%	78,90%
-More time is spent on decision making:				
	Agree	53%	4%	26,30%
	Disagree	29%	90%	73,70%

Assessment of performance in 2012 and of prospects for growth in 2013 (Table 2 ). Answers to the research questions regarding changes in revenue in 2012 showed that the growth rate of revenue Ukrainian businessmen are the lowest in the world - 25 % vs. 65% - average world's rate, 92 % - Russia. Therefore they are more pessimistic about the prospects for further growth of revenue. Relatively fewer Ukrainian entrepreneurs ( 55 % vs. 69%) rated their growth in 2013 as a stable . One in four respondents ( 26% vs. 2% - in the world) expects further deterioration of indicators in its activities. At the same time, the integration processes (consolidation ) are not considered by Ukrainian businessmen as a real prospect of their future (2.6 % vs. 16%).

**Table 2. Assessment of the prospects of growth in 2013.**

Answers and questions of questionnaire	World	Russia	Ukraine
Results of the 2012	65%	92%	25,30%
<b>How do you evaluate growth opportunities in the coming year?</b>			
Quick and intense	12%	22%	10,50%
Stable	69%	65%	55,30%
Consolidation	6%	8%	2,60%
Reduction	2%	2%	26%

**Key internal problems of enterprises of small and medium sized businesses.** The main reasons impeding revenue growth enterprises SMEs, respondents identified the following:

Instability of the national economy	77.5%
Increased state control	35.0%
Price competition	35.0%
Saturation market of your products	27.5%
Bribes, that had had to pay to solve their problems	15.0%
Difficulties with attracting and retaining of top professionals	7.5%
The instability of the global economy	7.5%
Disagreements over strategy	2.5 %
Disagreement workers' with wages	0.0%

It is noteworthy that in the respondents' estimates dominate external factors; their own mistakes or incompetence recognizes significantly smaller percentage of respondents.

Ukrainian respondents radically different from their foreign and Russian colleagues in understanding the major internal problems that hinder the development of their activities (Table 3 ). The most important for Ukrainian respondents is the problem of profitability - search for reserves of its growth, ensuring an adequate level (60% vs. 13% - average world rate, 39% - Russia). Questions about the establishment of effective management and use of qualified personnel unreasonably small concern Ukrainians, that, in our opinion, it should be evaluated as a significant disadvantage, poor judgment, inflated self-esteem (respectively 13.2% of Ukrainian respondents, 58 % and 43 % - average world rate).

**Table 3. Key internal problems of enterprises of small and medium sized businesses.**

Answers and questions of questionnaire	World	Russia	Ukraine
<b>What are the main problems within the company?</b>			
Yield	13%	39%	60,50%
Attracting and retaining of qualified personnel	43%	39%	13,20%
Attracting of investors	14%	33%	26,30%
Technology, flow of funds, cost control, reorganization of the company	58%	36%	13,20%

**Small Business: Challenges of internationalization.** According to the survey, the SMEs of Ukraine become more active participants in the process of internationalization's processes and actively enter to international markets (Table 5). This is a very positive trend.

Thus, if in 2012 to around 6% of revenue came from the overseas market, in 2013 Ukrainian businessmen wait almost 2-fold increase - up to 12%.

77.5% of respondents in Ukraine noted the high contribution of private and family companies to development of the global economy. As for the factors - stimulants of these processes the respondents' evaluations dispersed - 42% note stimulating role of international competition, while at the same time, the half raised their concerns about threat absorption.

The main obstacle to access to international markets and the efficient organization on them, the Ukrainian respondents consider finding of reliable local sources - 47.4% of correspondents. Next in order of the most importance – is understanding of local business culture, currency fluctuations, economic situation in foreign markets, understanding of customers in foreign markets. The last place - the language barrier - he is recognized like an obstacle only by every fifth (18.4 % ) of the respondents, but it is still significantly higher than for businesses in other countries and even for Russia. Hence, there are three relevant conclusions for representatives of higher educational establishments (HEIs) of Ukraine - it is fitting to offer more actively the educational seminars for entrepreneurs (training, etc.) for the study of foreign languages (business vocabulary , and secondly - to pay attention to the master's programs, retraining programs etc., which are relating to international issues, especially regarding business traditions and practices of business in foreign markets; and thirdly - to consider the given above in the existing forms of education and training of entrepreneurs ..

As for the vision "where" to concentrate their efforts on international expansion, Ukrainian respondents showed some unexpected for us results, which also differ from world's trends (Table 4): 50% see their future only in the CIS markets (!). This orientation of Ukrainian business should be taken into account of Ukrainian politicians, MPs in determining the overall vector of development of our country.

Unreasonably Ukrainian businessmen pay a very little attention to Asian, African and Latin American referral of its international expansion, while for the world, given the speed of development and the level of development, these areas are priorities of foreign expansion (respectively 10.5% vs. 30% - Asia 7.9% to 14% - Africa, 2.6% vs. 25% - Latin America). Perhaps this issue also requires appropriate outreach and educational work among entrepreneurs and the aid the relevant authorities and institutions.

**Table 4. Small Business: Internationalization issues.**



Answers and questions of questionnaire	World	Russia	Ukraine
<b>What are the main (to you) difficulties in conducting business abroad?</b>			
Finding the reliable local partners	11%	20%	47,40%
Understanding the local business culture	20%	25%	36,80%
Fluctuations in exchange rates	16%	23%	36,80%
Economic conditions in foreign markets	16%	35%	31,60%
Understanding customers in foreign markets	12%	45%	28,90%
Understanding (compliance) the local requirements	19%	23%	23,70%
The political situation in foreign markets	7%	28%	18,40%
Language barrier	5%	8%	18,40%
<b>What international markets are you planning to in the next 5 years:</b>			
CIS		29%	50%
Central and South-East Asia	30%	29%	10,50%
Europe	34%	28%	26,30%
Latin America	25%	10%	2,60%
Africa	14%	4%	7,90%

**Key problems / threats of the next 5 years.** As for problems and threats in coming 5 years to grow your business (Table 7), 65% of Ukrainian respondents believe the main problem is general state of the economy, 40% concerned about the question of political stabilization and determination of strategic orientation, 37.5% - as the financial and credit system. These results of questionnaire augur well for a more active participation of the business case in lobbying of their interests through business associations, trade unions and other organizations.

The internal threats of their development, unfortunately, Ukrainian respondents, generally, do not see (the percentage of respondents who gave positive answers to these questions is significantly lower than the average world rate). Innovative activity and innovation capacity implementations are marked only at 17.5% of respondents (by every 6th), and the importance of developing and consolidating staff - is not regarded as an obstacle to development in generally (0% of respondents). It seems that this position is short-sighted and requires explanatory work among the business case.

In the list of topical issues for the development of private business till 2017 respondents mentioned in order of importance the following issues:

- consolidation, more acquisitions and aggressive competition from large global companies - 67.5%

- increase the negative pressure from the state - 45.0%
- Increase the role of professionalism / attract new employees by - 20.0%
- control issues: disputes and potential conflicts around those who will take over control - 10.0%
- The consequences of Ukraine's accession to the WTO - 2.5%
- The question of succession - 2.5%.

It should be noted that the problems of improving the quality of management, the implementation of economic management of the enterprise, unfortunately, is not yet evaluated by respondents as relevant and priority. This position, in our opinion, is short-sighted, because on the base of this tool can be improved their competitiveness, to provide effective economic activity, despite the adverse external conditions. To remedy the situation, it is appropriate to promote wider the successful experience in the use of modern management tools.

**The problem of "transfer of business" and views at its decision.** Research conducted by the author, had contained a section that dealt with the transfer of business to future generations (heirs). For Ukraine it is the fundamentally new problems, but is relevant, because the age of those, who started business in the 90's is gradually coming to pension and afterpension (Table 5).

**Table 5. The problem of "transfer of business" and views at its decision.**

Answers to the questions of questionnaire	World	Russia	Ukraine
Are you planning to transfer ownership of the business to the next generation? If not, why?			
Yes	41%	10%	*1,6%
No	59%	90%	15,80%
When transferring business to future generations, do you plan to attract foreign managers? If so, why?			
Yes	25%	14%	23,70%
No	75%	86%	76,30%
Which procedure do you use to resolve conflicts and succession planning?			
Shareholder agreement	49%	37%	18,40%
Evaluating the effectiveness of business management	32%	14%	28,90%
Procedures of investment and going out of business	28%	14%	10,50%
Family Council	29%	12%	26,30%
Measures in the event of disability or death	37%	6%	2,60%
The family constitution	19%	2%	0%
Mediation	24%	0%	2,60%

None of the	21%	39%	21,10%
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As shown surveys, entrepreneurs Ukraine, unlike their Russian counterparts and the global situation, has not disappointed yet in the potential of the business. 82% of Ukrainian respondents plan to transfer their business to a new generation, and 76% are not going to draw in the management the third-party administrators, relying on potential, talents, abilities of their children and grandchildren. For comparison, 90% of Russian entrepreneurs and nearly 60% - of respondents in the other countries, who took part in surveys, plan sale of a business, its shareholding and involvement of professional salaried managers. I think that for young people, particularly students, who are the heirs of capital (business) of their families - this is good news, but also a serious responsibility - to study so that to strengthen, develop, increase business - the success of the older generation.

Ukrainian businessmen do not see the sources of conflict in the planning and implementation of continuity (they, may be, haven't felt yet all the threats and dangers that they faced). If such conflicts will occur, it is expected that the family councils will allow to resolve them. Respondents do not think to use the special procedures that are now considered to be effective and the most common in the global business - corporatisation, mediation, development of family constitutions and others.

Given the novelty of the considered problems, it is appropriate to conduct outreach for better preparing entrepreneurs to this complex and very important stage of their development.

**Issues of "Business State".** Concluding the analysis of results of the questionnaire "private and family business: successes, trends and threats" is impossible to ignore the problems of relations between business and the state, that for our country is very, very relevant (Table 9).

In research to the question "Do you think that the state creates the necessary conditions for the development of Small and family business in Ukraine and recognizes its role for the economy as a whole (job creation, stabilization of economic development)", 55% of respondents strongly responded - no, 37.5% - partially and only 7.5% gave a positive response. It appears that the state and public institutions that deal with these problems should think seriously about such estimates in identifying of areas for their priority effort.

Ukrainian respondents' answers to questions of this section of the questionnaire also differ from both Russian and world of practice (Table 6).

**Table 6. Issues of "Business State".**

<b>Answers and questions to questionnaire</b>	<b>World</b>	<b>Russia</b>	<b>Ukraine</b>
Do you support such assessments regarding the state's role in the development of private business:			
Agree	63%	82%	84,20%
Disagree	16%	6%	15,80%
The State recognizes the importance of private business			
Agree	28%	10%	55,30%
Disagree	38%	53%	44,70%
Young people who come into the labor market, have the necessary skills and education			
Agree	27%	4%	39,50%
Disagree	35%	51%	60,50%
The state is doing everything it can to help business to develop / survive			
Agree	15%	4%	23,70%
Disagree	55%	82%	76,30%

The biggest priority for Ukraine continues to be the problem of getting funding, including preferential. 84% of Ukrainian (vs. 63% - average world rate) believe that the state should assist businesses in gaining access to finance. Relatively more Ukrainians than respondents from other countries, agree with the statement that "The State recognizes the importance of private business" (55% vs. 28%), but they note that this is only declarative position of power, "a show." 76% of Ukrainian respondents did not agree that the government is doing everything it can to help businesses develop / survive (world average rate is well below - 55%).

Two-thirds of respondents expressed a negative attitude towards the work of educational establishments and believe that young people who come into the labor market does not have the necessary skills and education. Expressed estimates suggest that nowadays more than ever is necessary long-term partnership of business and education: learning content in the universities should be coordinated with business and leading professional associations; successful business professionals have to review programs, textbooks and other learning materials, to share their experiences during lectures, give master classes, to take part in state certification and so on. Only as a result of this collaboration business will be able to receive such professionals that it seeks to receive, the other way, as international experience shows, does not exist.

Results of the questionnaire (listed in order of importance in Table 7) should be put in the basis of correction of state support of small and medium-sized businesses, because they clearly define priorities, which should be targeted.

**Table 7. Responses to the questions of the questionnaire, "How on your opinion the government can support the business?"**

% Of respondents which gave positive answers

<b><i>In general:</i></b>	
To create a reliable, transparent and stable tax regime that is favorable for business, to low taxes	72,50%
Fight corruption, raiding, hostile takeovers	65%
Eliminate bureaucratic obstacles,for example as an excessive reporting	57,50%
Create an independent and impartial judiciary system	40%
Improve infrastructure	32,50%
Invest in education, trainings, research and development	32,50%
Change labor laws	20%
<b><i>Small and medium private businesses:</i></b>	
Provide support, respect private business and contribute to its development	65%
To ensure fair conditions for conducting private business	57,50%
Create incentives for start-ups, growing companies, small companies that go to the risks	50%
Provide access to cheap financing	40%
Create a system that will equalize opportunities of private businesses and large companies (including the government)	27,50%
To support the international expansion of private business	7,50%

As for the expectations of Ukrainian business in relations with the state, the answers of respondents were divided as follows: reducing bureaucracy in the cooperation with the government - 55.0%; transparent and clear rules of business - 52.5%; decrease in tax rates - 42.5%; simplification tax administration -42.5% decrease in interest rates on loans - 39.5%; reduction of development of the shadow economy - 30.0%.

**Conclusions and further research directions.** The study "private and family business: successes, trends and threats " is the first attempt of conducting research in the Ukraine of situation in small and medium entrepreneurship methodology that meets the highest international standards. These results are interesting for many contact audiences: government ,

business associations, individual entrepreneurs, representatives of universities, youth and others. It is advisable to continue the practice of such researches and make them systematic. To this end, we propose to create a permanent research unit of the State Service of Ukraine for Regulatory Policy and Entrepreneurship Development or introduce the practice of ordering the conduction of such researches by leading economic research universities or groups of scientists.

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