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MANAGEMENT OF SMALL BUSINESS ENTITIES

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ABSTRACT

The purpose of the study is to identify the factors influencing the management of the activity of small businesses and to provide recommendations for its development through the resolution of crisis issues that prevent businesses from achieving strategic prospects and stable profits. The main factors for reducing the effectiveness of small businesses have been identified on the basis of the results of the questionnaire survey of one level of managers (small business directors), which should be taken into account in the formation of strategic management decisions and long-term development strategies. It is found that many of the factors are subject to managerial influence, which minimizes the negative impact on the performance of small business entities. The hypothesis that the main tool for stimulating small business development remains the state has confirmed with the help of research, but there is an urgent objective need to identify other factors that influence the activities of small businesses that impede their development and lead to closure. The study suggests that only a balance between the internal environment of small businesses and the regulatory framework of the state will allow them to work effectively in market conditions and provide the national economy with money.



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The authors present a position on the organization of a small business entity management system that reflects the links between processes and events in a market environment. The presented approach takes into account a number of elements of influence on a small business when forecasting its development in a strategic perspective. The results of the study showed that it is necessary to clearly identify the tasks at each stage of development of a small business entity, to form alternative models of its development by looking for ways to optimize activities and opportunities to avoid possible risks.

Keywords: management decisions; small business entities; taxation; definition criteria; factors of influence; management.

1. INTRODUCTION

Small business in Ukraine is a prerequisite for the development of economic and innovative potential of the state. The functioning of small businesses can reduce the unemployment rate; create a competitive environment, which leads to the development of innovative approaches in doing business. In countries with mixed and market economies, small businesses are an integral part of economic relations, and it is therefore essential to have an effective management system in place throughout their life cycle. Yes, in the US, 98% of small businesses go bankrupt because of ineffective management and only 2% explain bankruptcy reasons as unrelated to corporate governance.

In today's conditions of development, profitable small business entities apply strategic management methods, focusing on the formed enterprise strategy. Ukraine's economic space contributes to the development of small business entities and concentrates strong potential.

A survey of small business entities has shown that insufficient attention is paid to management practices in entrepreneurship in Ukrainian practice. The need for this study is due to the fact that by grouping management methods in accordance with the set goals of the enterprise, we can quickly and effectively assess the crisis situation and choose the right direction of development, aimed at strengthening the position of small business in the national economy.

2. LITERATURE REVIEW

Improvement of the system of management in general and in small business of Ukraine in the conditions of resource scarcity, in particular, is an important and topical area of scientific research. It can be argued on a global scale that it is of strategic national importance. Not only



its economic stability but also its place in the world economic market depends on the extent to which individual entities operating in the state's economic system and itself can effectively manage production. Thus, the argumentation and results of exploring the possibilities of forming a more sophisticated management system are a significant part of the scientific achievements that contribute to the implementation of measures aimed at maximizing the efficiency and overall improvement of the activity of small business entities.

It is important for businesses to maximize their operations in the context of resource scarcity and energy import dependency in order not only to be competitive in the market but also to have economic preferences and benefits in an unstable global economy. In this regard, the problem of improving management and its focus on achieving the best financial results in small business is relevant and, at the same time, complicated by the lack of relevant practices of management traditions in most Ukrainian enterprises. However, this situation has improved significantly in recent years. The activation of scientific research of Ukrainian scientists and practitioners plays an important role in this.

Many illustrative examples of achieving effective management of small businesses are in theory and practice. Scholars and practitioners in general pay much attention to this issue. Many authors call state regulation among the most influential factors influencing the activity of small business entities.

The legal and economic frame work in which enterprises operate is crucial to the performance of SMEs. The licensing procedures that SME shave to abide by are seen as a hindrance to effective operation (KARANJA et. al., 2013).

In addition, there are other reasons that slow down the development of small businesses and lead to the decline of small businesses and their bankruptcy.

Figures from the UK Department of Trade and Industry 1 show that 65 percent do not survive beyond three years and research by Barclays Bank 2 put save rage survival rates at 34 percent five years from start-up (WILSON; BATES, 2003).

Various authors call external influences among the reasons that adversely affect the functioning of small businesses, lack of effective management skills, and others.

The main reasons are that management resources are volatile and also that there are few, if any, systems in place to support sustained, profitable and orderly growth (WILSON; BATES, 2003).



Ukrainian scientists, focusing on the specifics of the functioning and management of small business entities, emphasize the presence of regulatory, organizational, personnel and resource problems (VAKHOVYCH; SHEIKO, 2016); PROSHCHALYKINA; DUDNYK, 2017).

These problems cover almost all the important elements of a small business. However, the overwhelming majority of Ukrainian scientists emphasize the need to improve normative regulation of business entities and believe that this will have a significant positive impact on the effectiveness of their management.

It is necessary to improve the mechanisms of public administration and to strengthen the financial factor of influence on the processes of business development in the country in order to reach the level of developed countries in Ukraine and to increase the presence and importance of small business (ZAHORSKYI et. al., 2019).

The purpose of the study is to identify the factors influencing the management of the activity of small business entities and to provide recommendations for its development through the resolution of crisis issues that prevent enterprises from achieving strategic prospects and stable profits.

3. DATA AND METHODOLOGY

The theoretical substantiation of the formation of an effective management system for small business entities, based on existing problems, will significantly reduce the risks and avoid unproductive losses. Advanced management systems will respond to these challenges in a timely manner and prevent them. The reasoning behind the need to develop such a management system is also: low efficiency of small business entities; insufficient scientific and practical development on problems of their management; increasing tension in meeting the needs of the Ukrainian economy; availability of reserves for management improvement.

One of the promising ways for solving the problem of forming an effective system of managing small business entities is to identify the factors that affect their activities and sustainable development. We believe that further research is needed to identify the most influential factors in managing a small business, with further improvement in the direction of their development.

Various factors that directly influence the formation and rational development of this sector of the economy affect the activities of small businesses. Small business entities are extremely sensitive to changes in the market environment. At the same time, these entities are



the most vulnerable and vulnerable to bankruptcy, despite the fact that they contribute to social and regional development.

We will give some examples to clearly outline the most influential factors affecting small business entities and require the increased management influence applied in different countries to identify such entities. The criteria for identifying small business entities in different countries are differ (Table 1).

Table 1: Criteria for identifying small business entities

Country	Criteria for identifying small business entities			
	The number of employed people	Annual volume of sales	Gross profit	Share capital
USA	- defense industry: up to 1000; - other areas: up to 100.	-	-	-
Japan	- defense industry, transport: up to 300; - Wholesale: up to 100; - Retail and others: up to 50.	-	-	- defense industry, transport: up to 100 million yen; -Wholesale: up to 30 million yen; - retail and others: up to 10 million yen.
European Union	up to 50;	up to EUR 4.0 million	-	up to EUR 2.0 million
Russia	up to 100;	400 million rubles	-	-
Poland	up to 50;	250 thousand euros	-	min. 5000 PLN (1200 euros)
Ukraine	up to 50;	-	up to 10 million UAH.	-

Source: written by the author himself

Certainly, in each country, the criteria are set based on their own national beliefs and traditions. But the table above suggests that the purpose of the management system through different criteria will also be different. For example, if there are only restrictions on the number of employees, then the management system will focus on ensuring the efficient use of manpower. If there is a set amount of sales and gross income, then the managerial influence will be directed to the fulfilment of this criterion. In its essence, it will be restrictive, since usually when going beyond the established level; it is obliged to switch to another tax system.

The most important prerequisite for the development of small business entities is the improvement of their management system for the purpose of effective functioning and sustainable development.

The main task of the management mechanism is to ensure the sustainability and stability of the development of business structures, so it is necessary to form a new concept of development, which will avoid risky environment in new economic conditions.

This concept, in our opinion, should be based on:

- the role of the manager and his competence (specialty);
- possibilities of financial support of activity;
- social and economic, legal conditions and freedoms;
- tax preferences;
- external economic impacts and other factors.

Each of the above components imprints not only on the activity of the small business entity as a whole, but also on the quality level of its management.

In particular, the successful activity of an enterprise in a risky environment depends on the level of qualification of the businessman and his willingness to eliminate them. The entrepreneur must combine the functions of economist, lawyer, manager and analyzing the situation that has emerged at the enterprise to make independent management decisions, taking into account its environment. As practice shows, often the reason for the bankruptcy of the enterprise is the lack of professional training of the manager and the ability to adequately analyze the market situation.

The main lever of slowing down the development of business activity is the lack of financing, which is mainly carried out at the expense of entrepreneurs' own funds. However, not all entrepreneurs can meet the financial needs of an entity only at their own expense, so it is necessary to solve the problem of financing at the expense of borrowed funds. Small business entities are constantly experiencing a shortage of funds, so they need to solve this problem through the widespread use of government programs of small business support.

When operating in an external environment, the company must remember the correctness and effectiveness of the formation of a management system and the creation of a mechanism for interaction between the state and the business structure.

Equally important for the development of the business entity is the correct formation of internal processes at the enterprise itself and clarity in the performance of professional duties of employees. The company must have an analytical department that conducts strategic research and establishes patterns of development in the context of economic reforms and selects the best areas of activity, while forming a new system of methods and mechanisms for effective management of labor, material and financial resources of production.



Distinctive factors affect the level of business activity and the ability of an entity to quickly adapt to changes in the environment and to use the necessary management methods to generate entrepreneurial profit. Particularly acute is the problem in the tax system of Ukraine, despite the numerous changes that are periodically introduced to the tax legislation and aimed at improving it. Unstable tax laws, distortions of the nature of individual types of taxes, unfair distribution of the tax burden and the lack of transparent mechanisms to protect taxpayers diminish the economic freedom of business entities.

Other obstacles to this plan include bureaucracy, which exists at the stage of registration of a business entity in various state institutions. Analyzing Ukraine's economic freedom rating according to a US study by Heritage Foundation and The Wall Street Journal, we see that in 2019 it ranked 147th among 170 countries and is considered a free economy (Economic Freedom Index – 52.3) (Table 2).

Table 2: Comparison of Ukraine's economic freedom rating with some other countries

Country	Ranking	Index of Economic Freedom
Hong Kong	1	90.2
Switzerland	4	81.9
Australia	5	80.9
Republic of China	10	77.3
USA	12	76.8
Georgia	16	75.9
Latvia	35	70.4
Kazakhstan	59	65.4
Russia	98	58.9
Belarus	104	57.9
Ukraine	147	52.3

Source: Rating of countries..., 2019

Compared to 2016, where Ukraine ranked 162 among 178 countries (the Economic Freedom Index – 46.8), now its indicators have increased. However, it still remains in the zone of countries with a major free economy; close indicators are present in Tajikistan (Economic Freedom Index – 55.6) and Uzbekistan (Economic Freedom Index – 53.3).

The above problems and factors that affect the quality of small business management can be divided into external and internal.

It is not enough to formulate proposals for improving the management system and to build a model with better quality parameters for identifying the factors that influence small business entities. The next step to strengthening or weakening them (depending on whether they are positive or negative) is to look for management ways to influence them.

The management system must be effective, i.e. the cost of its formation should be less

than the results obtained from its use. Not all factors can be considered for the optimum ratio in small businesses. Therefore, it is important to rank the causes as their impact on the small business entity management system is important in order to select those to be considered.

We have developed a survey questionnaire for this purpose. It is intended to analyse the environment in which small business entities operate, identify the most influential factors in their operations (Table 3).

Table 3: Questionnaire

Interviewee _____
 (name, surname, position)

Survey guidance: it is necessary to study the reasons for the bankruptcy of small enterprises according to their importance:

1 – Does not affect at all, 2 – Has little effect, 3 – Difficult to answer; 4 – Has moderately affecting; 5 – Has strongly influenced.

	Does not affect at all	Has little effect	Difficult to answer	Moderately affecting	Strongly influenced
Qualification training of the head of the enterprise	1	2	3	4	5
Lack of strategic management at the enterprise	1	2	3	4	5
Struggle between minority and major owners of enterprises	1	2	3	4	5
Depreciation of fixed assets and lack of funds to upgrade them	1	2	3	4	5
Motivating employees to fulfill their responsibilities	1	2	3	4	5
The presence of a lot of abuse and fraud management	1	2	3	4	5
Government support programs for small businesses	1	2	3	4	5
Functioning of the analytical department at the enterprise.	1	2	3	4	5
Increasing consumer demands and needs for enterprise products	1	2	3	4	5
Increasing restrictions on environmental protection, active activity of environmental organizations	1	2	3	4	5
Internet crimes and virtual fraud	1	2	3	4	5
Increasing share of high-tech products and services	1	2	3	4	5
Small Business Taxation System	1	2	3	4	5
The level of economic freedom in Ukraine.	1	2	3	4	5

Note: Respondents were provided with a questionnaire to rank the most influential and non-influential factors on the performance of a small business entity by emphasizing the extent of impact of each criterion from 1 to 5.

Source: It is developed by the authors

According to a survey of 200 persons who are directors of enterprises, the following results were obtained (Table 4).

Table 4: Results of a survey of small business directors (200 respondents)

	Does not affect at all	Has little effect	Difficult to answer	Moderately affecting	Strongly influenced
Qualification training of the head of the enterprise	8	2	15	56	119
Lack of strategic management at the enterprise	1	10	8	35	146
Struggle between minority and major owners of enterprises	78	45	17	33	27
Depreciation of fixed assets and lack of funds to upgrade them	12	23	31	57	77
Motivating employees to fulfill their responsibilities	9	11	5	23	152
The presence of a lot of abuse and fraud management	1	16	23	18	142
Government support programs for small businesses	2	6	1	17	174
Functioning of the analytical department at the enterprise.	27	41	45	48	39
Increasing consumer demands and needs for enterprise products	6	10	3	44	137
Increasing restrictions on environmental protection, active activity of environmental organizations	24	36	8	45	87
Internet crimes and virtual fraud	4	6	5	24	161
Increasing share of high-tech products and services	35	54	14	32	65
Small Business Taxation System	2	1	4	21	172
The level of economic freedom in Ukraine.	5	6	8	22	159

Note. Odessa, Ternopil and Vinnytsia region, Ukraine

Analysing the results of the conducted study, we find that the training of the director plays an important role in the management of small businesses (119 respondents focused on this). Researchers conducted by foreign scientists confirm the importance of the qualification work of the manager and pay attention to the training of staff.

For example, Hog art het al (2009) cite issues indicative of a lack of ambition, including: management skills: it is highly skilled managers who are more likely to develop higher value-added product/service strategies, which in turn have implications for skills and training; management capacity: a lack of management time to devote to strategic issues; influence of staff on training: claims that staff may be unwilling to undertake training; imperfect information: on the nature and quality of training available and the value of that training to the employer (KARANJA et. al., 2013).

As a rule, if the enterprise is smaller, the less likely that the manager correctly applies strategic management in its activities (146 respondents indicated no strategic management). From this we can draw 2 conclusions: the application of strategic management is not beneficial

for small businesses; there is a problem with the use of strategic tools due to the lack of ownership of the management entities. The positive experience with the use of models of their strategic development by individual small enterprises is further supported by the second conclusion. Therefore, it is more likely that the management of small business entities needs to have some knowledge in this area and to properly understand the situations and financial management of the enterprise using the elements of strategic management.

In addition, the size of the enterprise and its distance from major cities and urban center's adversely affect the level of awareness of financial instruments. Many respondents (142 persons) indicated in the survey that there were a large number of abuses and frauds of management during the activity of enterprises.

Generally, the smaller the enterprise, the less likely its management will understand the need for financial management and the poorer the understanding of financial management. Likewise, the size and the distance from major cities / urban centres are negatively related to the level of awareness of financial instruments (KARANJA et. al., 2013).

An equally important factor in influencing the management and performance of small business entities is the motivation of employees to fulfil their responsibilities.

Analysing the answers of the respondents, we can see that it is one of the factors influencing the quality of work of an entity that provides effective influence on the motivation of a person's employment. For a long time, material incentives have been an important way of influencing employees, enhancing their work activity and contributing to a positive financial result.

In today's economic conditions, consumers pay attention not only to the price of the product, but also to its quality. Product quality is a major driving force in the market, which is closely linked to the competitiveness of an enterprise in a market environment, since we make a profit from the turnover of the product. On the one hand, it characterizes the work and raises the ratings of a small business in a competitive environment, and on the other hand, it must fully meet the basic needs of the consumer.

The conducted survey confirms the growing demands and needs of consumers for the products of the enterprise, which also acts as an indicator of investor confidence, which will invest in its own funds. Thus, products must meet all the developed standards and consumer needs in order for products to lead the market and to take the first place in the rating.

In today's society, computer technologies have rapidly evolved, which, on the one hand, optimizes the work of all small businesses, and on the other hand, creates the risk of unlawful interference with business processes, that is, committing Internet crimes, resulting in massive losses. There is a significant increase in the opportunities for criminal activity using the Internet, which is progressively increasing every year. E-wallets require special attention from management staff, as anonymity in this case is not a barrier to online fraud.

Such concerns were expressed by the respondents who were given the questionnaire. 161 directors of small business of the 200 interviewed noted that this factor has a strong influence on the business of the enterprise, and 24 has a moderate influence.

An effective lever of influence to overcome such negative aspects is a well-established system of regulatory regulation and accountability. Successful development of entrepreneurship is possible only in conditions of ensuring healthy competition, creation of favourable climate and rational support from the state. Management provides targeting, rapid adaptation to the changing environment, and increased competitiveness in the global space, which will ultimately ensure long-term sustainable development. In Ukraine, the business sector is represented by regulations, strategic and programmatic documents of four levels: state, regional, micro level and basic (Figure 1).

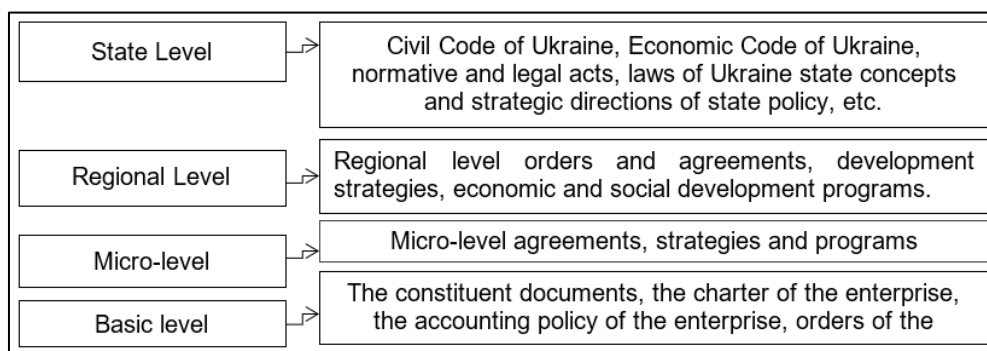


Figure 1: Normative and legal regulation of the management of small business entities in Ukraine in a competitive environment

Source: it is generalized on the basis of a study of current normative and legal acts and instructional and methodological materials

The state has a special place in regulating small business, which at this stage of development is experiencing serious difficulties in growth. In Poland, for example, the state is working closely with academic schools in financial research to increase the profitability of small businesses.

The Ministry of Science and Higher Education is responsible for the commercialization of scientific achievements, in particular for research and development. The Ministry financially

supports the cooperation of the academia with businesses and finances research and development in firms in Poland. A recent policy priority has been to boost entrepreneurship education with in higher education (MARKLUND et. al., 2017).

In Ukraine, the state policy is implemented at different levels (Figure 1) and the Law of Ukraine “On State Support and Development of Small and Medium-Sized Enterprises in Ukraine”, according to which the state should provide adequate support, stimulate investment and innovation activity of small business entities and create favourable conditions in order to develop entrepreneurship. To date, favourable economic conditions for the successful functioning of small business are not being traced in Ukraine, as confirmed by the results of the survey of directors of the surveyed entities.

Obviously, that the current tax system needs optimization in order to improve the efficiency of tax relations. The tax system of Ukraine slows down the process of small business development because it lacks the funds received from tax collection to cover the main expenditures of budgets, which in turn impedes the normal functioning of the state's economy and development of the business environment. The state has introduced tax cuts in order to get the economy out of the shadows, but we should not expect a quick filling of the tax base, since most of the potential payers will study exactly how this effect will be reflected on competitors who are officially working and only then will accept one or the other.

It is known that the simultaneous impact of a large number of external and internal factors on the enterprise will lead to bankruptcy. Having analysed the results of the questionnaire, we can state that bankruptcy in Ukraine is mainly caused by 1/3 external factors and 2/3 by internal ones. Thus, improper regulation of internal processes and the influence of external factors on enterprises can lead to bankruptcy, which in the future will cause great damage to the national economy of the country.

It is necessary to take into account the theoretical and practical aspects of the development of the national economy and changes in the external environment when assessing the management system of the business sector. The uncertainty of the environment, the variability of the internal state and the inability to predict it necessitates improvement of the enterprise management system, focusing on maximum adaptation to the conditions of the risky environment.

Positive development dynamics will be observed with rapid adaptation to changes occurring in the internal and external environment. This property is very important for a small



business entity because a wrong decision can lead to negative changes in the management system of the enterprise or its elimination. Given the above material and the results of the questionnaire, we follow the urgent need to formulate the concept of small business management in the current economic conditions.

Since small businesses are influenced by both internal and external environmental factors, we propose a new management concept for a small business entity that will strengthen the positive side of the business and stabilize positions in a competitive environment, or weaken the negative (Figure 2).

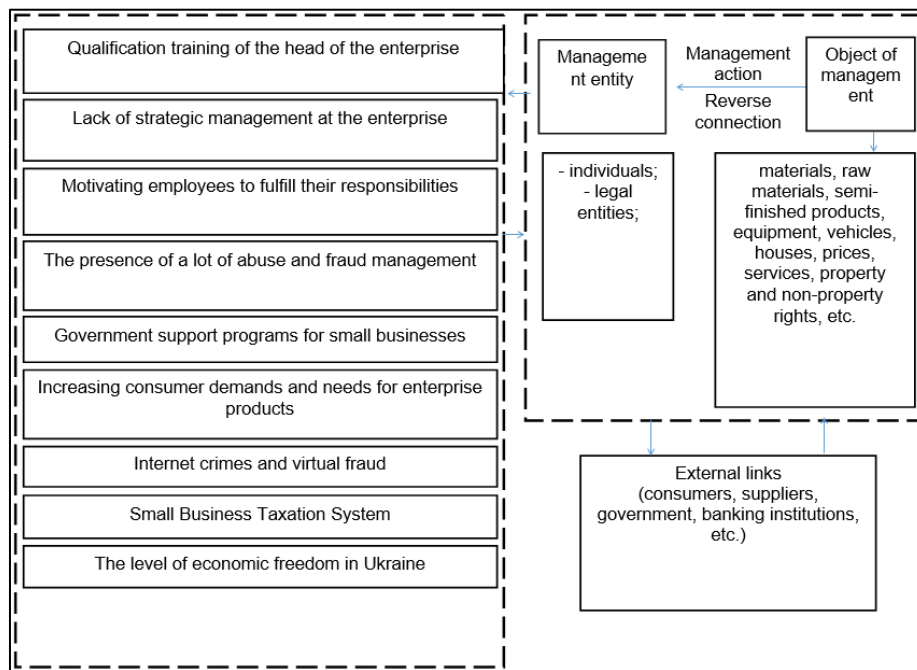


Figure 2: Decomposition of the system of management of small business entities
 Source: it is developed by the author

The proposed scheme (Figure 2) clearly shows us all the processes that occur in the functioning of small businesses and displays the connection between the external and internal environment.

4. RESULTS AND DISCUSSIONS

From the conducted analysis we can conclude that there are not enough favourable conditions for the development of small business entities in Ukraine, so we believe that the main directions of improvement of management should be:

- development and adoption of targeted regional programs for small business development and support;

- introduction of a single vertical system of executive bodies for small business from the Cabinet of Ministers of Ukraine to district state administrations;
- improvement of the process of production of products of the enterprise, which must meet state standards and requirements, and consumer needs;
- creation of information and analytical centers for the purpose of forecasting and preventing bankruptcy and Internet crimes;
- organization of training and retraining of qualified management personnel of small business, with a focus on trends and development of computer technologies.

5. CONCLUSIONS AND RECOMMENDATIONS

As a result of the conducted research, there is a need to formulate recommendations for improving the tools of further management of small business entities and identify alternative ways of its optimization, which will avoid possible risks in the strategic perspective of development.

According to the results of the study, we suggest for small business entities to formulate clear development strategies that will give them competitive advantages in a market environment. At the same time, an important factor remains the quality of goods and their satisfaction with consumers, that is, small businesses will create a brand that is directly proportional to the efficiency of the business entity and its profitability.

Analyzing the survey of the reviewers, we recommend improving the internal control, analysis and accounting of business processes, which will reduce the possibility of making incorrect decisions in strategic management. In turn, we will note the importance of state regulation of small business conditions and lending programs.

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