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Business Cooperation of Ukrainian Enterprises: Interpretation of Historical Factors, Characteristics of Relations and Operating Conditions

Summary

The main purpose of this article is to analyse scientific approaches to the investigation of the business cooperation of Ukrainian enterprises for defining its historical aspects of interpretation, rules and characteristics of cooperation; the specific nature of business entities relations; economic freedom of these relations; conditions of their operation, as well as aspects of creation and economic development of business cooperation in the economic and legal policy conditions in Ukraine. On the basis of authors proposals there are determined the strategy and tactics of Ukrainian business cooperation. This is the research article.

Key words: business entities, business cooperation, enterprises, historical aspects, market.

JEL codes: M21

Introduction

The market's tasks include ensuring the free operation of economic entities, providing them with an opportunity to run trade activities and cooperation on equal terms, as well as the development of horizontal relationships and freedom of pricing.

Activity of every enterprise is directly formed by people's needs; therefore they are based on the relationships between demand and supply of goods and services, products, and markets as well as prices and the market. The market is a diversified and varying place of rivalry of enterprises competing in their strive to meet the social needs. That struggle has a diversified nature in terms of the means of activity possessed by a given enterprise as well as their possibilities of sale of the manufactured goods in definite markets (Duraj 2004).

The noted over the period of the last seven years sustainable and dynamic growth of accounts receivable issuing from mutual settlements between enterprises is an evidence for the need to carry out an analysis and evaluation of business cooperation between them. The specified factors determine the necessity to put business cooperation of enterprises in a specific set of market relationships in order to implement analytical safeguards enabling functioning of the mechanism of cooperation management on the market economy's principles. Moreover, the issue of business cooperation of economic entities requires new theoretical approaches and an effective application thereof in practice. Of the specific attention are the

complex recognition, generalisation, and use of rich stocks of the theoretical and methodological achievements.

An aim of the study is to present the sources of information of business cooperation of economic entities as well as to evaluate it based on the analysis of individual aspects of the development.

Research findings

The analysis of business cooperation indicates the multiaspect nature of economic relations as well as the variety of forms and methods of implementation thereof, being an inseparable part of enterprise's activity. There should be taken into account such aspects of the issue in question as, *inter alia*:

- specificity of business cooperation of enterprises and its characteristic features;
- characteristics of mutual relationships between economic entities;
- strategy, policy and economic freedom of business cooperation;
- conditions of individual aspects of setting up and developing business cooperation within the framework of economic and legal policy.

The carried out analysis of variable scientific approaches provides the grounds for stating that among scientists there is not concurrence of views on perception of the mechanisms of business cooperation. Nevertheless, all pay attention to the actuality of research of that issue. Some researchers consider business cooperation as a symptom of integration relationships between enterprises and, in particular, as integration of the contemporary industrial production, whereas others – as “horizontal relationships of business partners” (Майданчик, Любинецкий, Карпунин 1991). These problems are more precisely presented by the scientists considering it as one of the most important “principles of the economic system described as the market one”, where the “principle of contractual relationships is replaced by the principle of subordination relationships” (Балашов, Седов 1986). The followers of “vertical relationships” (Носкова 1981), under business cooperation mean “commercial relations” and “legal rules of competition”, including the “market rules”, seeing in the perspective of economic development the opportunity for “reinforcement of the role of contracts and agreements” (Попреп 1995).

The second group of researchers highlights the problem of business cooperation in the context of one-sided relationship. In particular, they pay attention to the process of “economic relations” of state-owned enterprises with their business partners, focusing their attention on “reinforcement of cooperation not only with suppliers but also with consumers”. Still others emphasise, in turn, “reliability of the business partner as a payer” (Попреп 1995). It must be said that there were published many scientific works devoted to the issue of business cooperation of enterprises with banks and state institutions. More and more studies are also devoted to learning the business ethics which so far has been a marginalised problem.

A number of Western researchers thoroughly analyse the “market transactions”, what undoubtedly demonstrates the financial aspect of business cooperation (Койз 2007). This

notion is often identified with the “costs of market transactions”, “costs of use of the price mechanism”, etc. (Козу 2007). In the subject literature, there often occurs the term “transaction costs” which are defined by K. Dalman as the “costs of information collecting and processing, negotiations and decision-making, exerting control, and legal protection of meeting the contract’s terms” (Dalman 1979).

The third group of researchers considers business cooperation in terms of outsourcing by individual business entities (Волкодавова, Комякова 2004), thus ignoring the internal market relations. Hence, incorrect is identification of business cooperation with export and import relations (Корминов 2004).

The most precisely business cooperation is defined by scientists who describe it as the “economic process during which its participants (firms, consumers, investors, and states) make a choice” (НИКИТИН 2006). Hence, right is the remark made by R. Coase that the economy is the “science of the choice” (Козу 2007). Apparently, the proper choice of main directions of cooperation, forms and method of implementation thereof based on mutual benefits and equal rights of the parties is the main purpose of business cooperation of enterprises.

Having considered the specified various scientific approaches to the issue of business cooperation of enterprises, it should be stated that the partial, multidirectional nature of research of given problems leaves a broad field for further pondering.

As the market’s infrastructure envisages activities of business entities setting forth favourable conditions for signing contracts and forming various types of cooperation, they should be divided into the three separate categories: competitors, ‘neutralists’ and potential partners.

The terms ‘partner’ and ‘competitors’ should not be identified (Коршунова 1992). That classification is quite relative as the relationships between individual firms are not permanent. One cannot either exclude that under the impact of a change of plans and development strategies, the competing with one another firms will become ‘neutral’ and later on – ‘potential business partners’. The enterprise starting from looking for its business partner should, therefore, reasonably assess the nature of the existing or the potential business cooperation.

In turn, the competing enterprises may be divided into the three groups:

- firms which offer a similar good in the same market;
- firms which may prospectively offer a similar good;
- firms offering substitute goods.

The continuous and systematic getting known one’s competitors allows the enterprise avoiding a contact with them in this or another segment of the market, while an analysis of their activity allows identification of their strengths and weaknesses in order to work out an effective strategy for one’s enterprise. The set of data on the activity carried out by competitors and an analysis thereof is labour-consuming, hence it should be conducted systematically.

Enterprises create alliances to implement their common business goal with the help of complementary resources. This means that they are making a match by the following crite-

ria: the same determination to implement the business venture and the held assets, which, combined with other resources, will suffice to implement the venture. If for outsourcing and alliance the long-term cooperation is a genotype feature, then for servicing the traditional orders it is a specific case and one of the direct reasons for identifying it with outsourcing (Oleński 1995).

The 'neutral' firms include those whose interests intersect with interests of another enterprise in the chosen market segment. In individual cases, this term may be attributed to the companies manufacturing similar goods or rendering similar services, though providing them in other markets. Therefore, one should not exclude the possibility of cooperation with the above-mentioned firms, e.g. in order to join their forces and to oppose a strong competitor.

As potential partners there should be treated the enterprises with the supposedly common interests. A thorough examination of business cooperation allows defining it as a limited unity of many aspects and a separate economic category. Therefore, business cooperation should be understood as a complex of economic ties of entities whose objective is to gain mutual benefits, basing on the economic and legal, systems as well as programme and target methods of solving economic problems taking into account the market's requirements.

Strategies and tactics of business cooperation

Based on the above-mentioned conclusions, we must say that there is the need to define the strategy and tactics of business cooperation. As the business cooperation strategy there is considered achievement of maximisation of benefits during fulfilment of various contracts. Respectively, the tactics is implementation of a given strategy in relations with individual business entities, consisting in observance of the business ethics standards and the so-called rules of the game in the market. It must be noticed that the system of mutual relations envisages the retention of socioeconomic sovereignty of business cooperation and consensus of interests. The philosophical approach to freedom defines the full independence from other entities' interests, decisions or actions. However, the development of partner business cooperation ends in failure in the case when those partners do not mutually take into account their interests. The freedom of choice under the conditions of the contemporary market economy is possible exclusively on condition that there is completely processed information on the interests, intents, and actions of contractors in the market.

Sovereignty of business cooperation should be based on that the legal activity of business entities is protected by the authorities and nobody may interfere with its contents, forcing acceptance of other terms of the contract. But sovereign business entities are not fully independent of their partners. This independence has definite limits conditioned by the desire to retain and find one's own sovereignty by each of the parties.

Business cooperation of enterprises is an important part of both national and foreign economy. The contemporary world could not exist without economic, production and scientific and research cooperation between partners from various countries. Inconsistence of the

Ukrainian legislative norms with the standards and regulations of the global market causes that there appear numerous difficulties in the course of carrying out cooperation with foreign business partners, especially at the initial stage of cooperation. In individual cases, this may have led to signing contracts unfavourable from the perspective of Ukrainian partners. The application of the practice of western countries to the Ukrainian conditions without significant changes is unlikely as each country has its own, proper only for it political, economic and legal specificity.

The correct and objective assessment of partnership consists in an analytical study of the strategically important aspects of its development. The principle of making right decisions as to the purposefulness and terms of cooperation is the presence of necessary information and results of the carried out analyses concerning the functioning of entities in the market, market processes, what will provide an opportunity to build business relations, to assess financial abilities of potential partners or contractors and reduction of the degree of risk factors impact.

The impact of the most important factors on the development of business cooperation of enterprises must be classified by the nature of their intensity – into objective and subjective. The objective factors reflect the impact of the market environment on contractual relationships, while the subjective ones are the competency of the enterprise and depend exclusively on rationality of making administrative decisions. Mutual relations between them give an opportunity to determine the degree of adaptation of the specific enterprise to the market conditions where there takes place the criterion of competitiveness, potentiality and reliability in the course of choice of a business partner.

Difficulty with predictability of such tasks for the Ukrainian entrepreneurship consists primarily in the presence of significant amount of permanently changing suppliers, consumers and other contractors operating in the market environment as well as in that the main source of information on activities of their business partner is exclusively the published financial accounting which not always is accessible. In order to make proper decisions the entrepreneur may apply to relevant national or independent information agencies dealing with economic consultancy. However, services of such firms in Ukraine are extremely costly; therefore they are used only by not many companies. Having in mind the fact that the enterprise constantly needs those data, the costs of their provision may exceed the reasonably allowable level for small and medium firms. Hence, it is worthwhile to set up an adequate analytical office just at the enterprise where permanent partnership will ensure their own statistical base, helpful in making key decisions. Getting known the problems, which are occurring in the process of establishing business cooperation by Ukrainian enterprises in the domestic and foreign markets, causes that the mechanism of safeguarding a given process has its disadvantages of the internal and external nature.

Those of the internal nature:

- the low level of financial market development. The main reason is lack of the guarantee of payments at the part of business partners as well as at the part of financial institutions. This concerns not only settlement of liabilities for the partner but also collateral thereof;

- mutual enterprises' settlements in the domestic and foreign markets are significantly debt-burdened;
- legislative inadequacy. In Ukraine, at present, there are sought proper legal solutions which will enable efficacy of legal regulation of business partnership cooperation.

Those of the external nature:

- there is not defined the legal status of military actions of the Russian Federation in Ukraine: there is lack of legal norms, according to the UN status; it precludes addressing a request for military assistance to international institutions. Thus, the Ukrainian government has caused the blockage of the introduction of legal mechanisms envisaged by the international law, in case of aggression, to receive the right to protection at the part of international community;
- the 'effect of the country of the manufacturer' – the stereotype opinion of western partners of goods of the Ukrainian produce as not meeting the global standard requirements;
- the low discipline of goods delivery based on the contracts signed. Western partners apply strict requirements as to the terms of goods supplies. They favour purchases of products with higher prices from reliable partners suppliers or anticipate in contracts high fines which cause that cooperation involves significant risk for Ukrainian entrepreneurs;
- great support of exports of their firms by developed capitalist countries, causing additional obstacles for Ukrainian producers who cannot expect a similar assistance. In the majority of Ukrainian enterprises, there can be seen the lack or difficulty with an access to the obligatory elements of the infrastructure of international marketing. For example, advertising agencies and marketing research firms lack of experience of work in foreign markets, financial institutions do not support long-term agreements in the field of foreign economy, etc.;
- lack of antidumping legislation and practice of application thereof in the foreign economy.

In effect, the investment attractiveness of Ukraine remains at a low level as the investment climate is quite risky. Every year, the share of Ukraine in the global investment areas has been declining; in 2013, it accounted for less than 0.2% (Гайдуцький 2014).

The events in 2013-2015 in Ukraine significantly worsened the economic and international situation. The military conflict in eastern Ukraine, narrowing or closing the Russian Federation's market had a negative impact on the Ukrainian balance of payments.

Moreover, during the first three quarters of 2014, there were implemented in Ukraine capital investments of the total value of 135.48 bn UAH, what, compared with the similar period of 2013, means the drop by 23%. In the period in question, most investments went to industry (40.6%), construction (17.2%), the trade and services sector (10.2%), agriculture (8.2%), transport (6.4%), the real estate sector (4.6%), and telecommunication (4.1%). After the three quarters of 2014, the cumulated value of FDI in Ukraine dropped by 17.62% (or by 10,375.4 mn USD) and amounted to 48.5 bn USD. In 2013, the Ukrainian economy absorbed investments valued at 247.89 bn UAH, what, compared to 2012, means the drop by 10.1%. Sales of enterprises dealing with wholesaling amounted in 2014 to 986.7 bn UAH

and were lower by 15% vis-à-vis the previous year. Sales of retailing in 2014 amounted to 903.5 bn UAH, what means the drop by 8.6% against the year 2013 (Офіційний 2015).

An analysis of the conditions of historic development of the concept of integrated reporting, taking into account the experience of application of the International Financial Reporting Standards, can ensure the complex approach as regards financial and non-financial indices of enterprises in their close relationship. As it is proved, the integrated reporting is not only an adequate source of analysis but also provides information on the impact of the enterprise on the society, economy and environment (Струк 2015). The scope of information in the report is to be such that together with the demonstration of the enterprise's development strategy there may not be revealed confidential information. Enterprises may use, while preparing the integrated report, the directives and recommendations, being guided by their own feasibility study of such use. Currently, enterprises most often use the directives in the area of sustainable development, worked out by the Global Reporting Initiative (GRI); the Global Compact – the standard of running business, which defines the basic rules of human rights, labour conditions, environmental protection, and tackling corruption; the standard Account Ability 1000 (AA 1000); ISO 26000, the Guidance on social responsibility.

On 15 April 2014, there was introduced the Directive of the European Commission aimed at amending the EU legislation as regards reporting and it was accepted by the European Parliament. In September 2014, there was completed the pilot programme which covered more than 80 organisations and 25 investors from 24 countries aimed at examination of the rules, contents and practical application of the integrated reporting. Then, it was planned to set up a new business network which will include the programme participants (Danone, Deloitte, HSBC, KPMG, Microsoft, Coca-Cola, Volvo, and Unilever). Taking into account the direction of Euro-integration, Ukrainian enterprises should pay a particular attention to these directives.

The inclusion of non-financial indices into the integrated reporting will allow raising its quality and reflecting a considerable impact of the environmental, social and governance (ESG) factors as regards the sue of natural resources, human rights and influence of business on the social phenomena and climate changes. This model or reporting is perceived as a possible way to obtain comprehensive information on enterprise's activities, what reflects the risk and opportunities as well as the logic combination of the ESG factors with financial performance.

Hence, the principle priorities of the integrated reporting are:

- to meet the information need of long-term investors, presenting the effects of the made decisions in the long-term perspective;
- to reflect the relations between the ESG and financial factors in making decisions affecting long-term business outcomes, making a clear and transparent relation between economic sustainability and its economic value;
- to ensure forms of reporting the ESG factors for their systematic inclusion in the decision-making process;

- to shift the emphasis of the change of priorities as regards assessment of the effects of activities from short- into long-term;
- to provide more information in the financial statement, which is every day used in operative management.

Summing up, the introduction of the integrated reporting in the Ukrainian practice will allow ensuring an adequate level of informing business partners and other users of financial reports, raising the enterprise's business reputation, supporting creation of mutually favourable relations with all contractors, workers and other concerned parties; raising the level of competency of the administrative personnel in the enterprise's developmental strategy, defining business models and interpretations of the strategy through definite indices revealing the support of resources; stimulating growth of economic security and sustainability of the enterprise's development; ensuring public information on the enterprise's share in the region's socioeconomic development and retaining its ecological and economic security, etc.

Conclusions

The trade's openness is the state where import barriers are low, not being the notion identical with trade liberalisation which is in fact the process of reduction of those barriers. Trade liberalisation is to yield benefits by the fact that it shifts the country's economic assets from the protected sectors, where it does not have a comparative advantage, to the sectors, where it is more effective and may successfully increase its exports. In the developed countries, lack of resources (*inter alia*, manpower and other production outlays) usually is not a constraint precluding the growth of new export sectors. Such states have significant reserves of resources which are not used at all or are used only partially (Stiglitz, Charlton 2006).

The Ukrainian government often is unable to find an answer to the measures discriminating domestic producers abroad. Their potential abilities are activated only when in the work aimed at the establishing and developing partnership in the first place there is put assessment of effectiveness of the economic projects implemented on the grounds of contractual relations. The optimal under the market conditions is that model of cooperation which ensures the maximum profit over a long time-period, *inter alia*, stability of operation of Ukrainian and foreign enterprises with the minimal risks as well as improving production and replacement thereof with a new one at the proper time. In order to ensure an effective cooperation on the road to the market economy there should be, therefore, meet the following requirements:

- supporting domestic producers whose commodities substitute imports;
- supporting exporters of domestic produce;
- limiting imports and increasing import duty for particular types of goods;
- activating the investment activity: fostering foreign investments and an effective use thereof while carrying out domestic production with the use of modern technologies;
- facilitating the development of innovative activity and entrepreneurship in all sectors of the economy;

- setting up a new tax system which would protect the development of competitive, effective and robust sectors of the Ukrainian economy.

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Biznesowa współpraca ukraińskich przedsiębiorstw: interpretacja czynników historycznych, charakterystyka stosunków oraz warunki funkcjonowania

Streszczenie

Głównym celem artykułu jest analiza podejść naukowych do badania biznesowej współpracy ukraińskich przedsiębiorstw w celu określenia historycznych aspektów jej istoty, zasad i specyfiki współdziałania podmiotów gospodarczych, wolności gospodarczej takich stosunków, uwarunkowań ich funkcjonowania, jak również przesłanek dla tworzenia i pomyślnego rozwoju współpracy biznesowej w środowisku gospodarczym Ukrainy. Na podstawie wniosków autorskich określono strategię i taktykę współpracy biznesowej przedsiębiorstw ukraińskich. Artykuł ma charakter badawczy.

Słowa kluczowe: podmioty gospodarcze, przedsiębiorstwa, rynek, współpraca biznesowa, aspekty historyczne.

Kody JEL: M21

Деловое сотрудничество украинских предприятий: толкование исторических факторов, характеристика отношений, условия функционирования

Резюме

Основная цель статьи – анализ научных подходов к исследованию делового сотрудничества украинских предприятий для определения: исторических аспектов изучения его сущности, правил и особенностей сотрудничества, специфики взаимодействия экономических субъектов, экономической свободы таких отношений, условий их функционирования, а также предпосылок для создания и успешного развития делового партнерства в экономической среде Украины. На основе авторских предложений определили стратегию и тактику делового сотрудничества украинских предприятий. Статья имеет исследовательский характер.

Ключевые слова: экономические субъекты, предприятия, рынок, деловое сотрудничество, исторические аспекты.

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