

UKRAINIAN SMES AS OBJECTS FOR SOCIAL INVESTMENT FROM EUROPEAN UNION: TRENDS IN DEVELOPMENT, CURRENT STATE AND WAYS FOR IMPROVEMENT TO ATTRACT INVESTMENT

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The challenges of modern world are dictated by the state of the environment, demographic changes, social upheavals, economic transformations. Therefore, the leading European institutional associations in their strategies and programmes are focused on sustainable development. It is important that responsibility for this is on both countries and their associations (that is, in the global context) as well as on individuals and companies (that is, it is individual and business engagement). And it is clear that responsible development is a global and individual liability at the same time.

A socially responsible business is gradually becoming more of a norm than the exception today. Taking into account that it is the small and medium-sized businesses themselves who are the main players in the field of economic growth, these companies need to be the bearers of social changes and transformations in society and economy. Formation and development of a small and medium-sized business strategy for social responsibility is important for all levels of the business environment, as for the internal environment and for external one. At the internal level, competitive advantages of the company are created and its competitiveness is ensured. At the level of the external environment a new socially responsible economy is formed.

The issue of business development inseparably linked with the issue of its financing. In the formation of socially responsible business, the conditions of financing change, the effect and return on investment is already not only purely financial, but also social in nature. Therefore, it is important to

create effective mechanisms for financing projects for the development of social responsibility of small and medium-sized enterprises (SMEs). Social responsible investments act as a tools for financing of SMEs development in their new capacity — socially responsible agents of sustainable development.

Trends in the development of small and medium-sized business in Europe (EU) show that it is the main sector represented by the overwhelming majority of enterprises, as well as the largest number of employees, while generating a significant amount of value added. Similar trends are also taking place in Ukraine, which is a member of the Eastern Partnership, and it seeks to join all economic processes in the EU and meet the goals and principles of the development of the European economy.

Analysis of the characteristics of SMEs in Europe (Fig. 1) showed that almost all enterprises belong to this sector and make 23 489 thousand business entities of the total 23 894 enterprises. These companies provide jobs for more than 93 million people and form an added value of the European economy making 4 030 billion EUR.

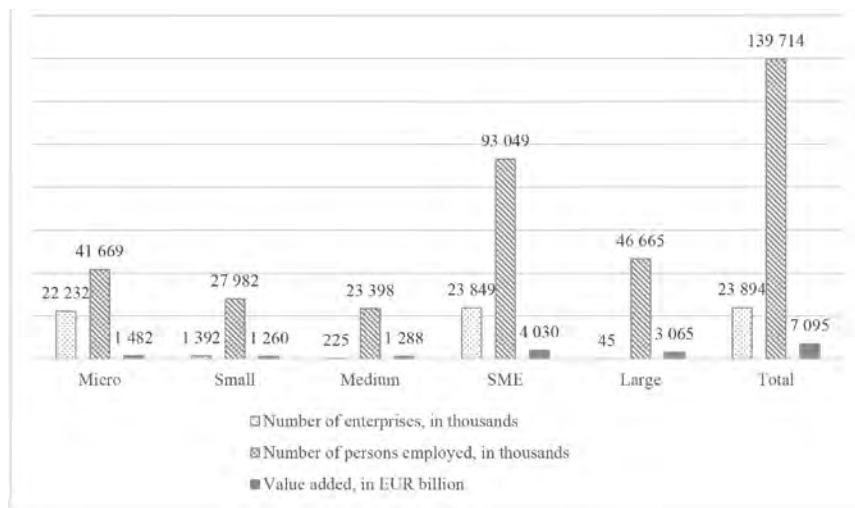


Fig. 1. The SMEs and large enterprises: number of enterprises, number of persons employed and value added in 2016 in the EU-28 non-financial business sector *

* Source: compared by author on the basis of [1]

According to the data of Annual Report on European SMEs in 2016-2017 small and medium companies play a significant role in the 'accommodation and food services', 'business services' and 'construction' sectors, in each of which they accounted for more than 80 % of EU-28 employment in 2016. Furthermore, SMEs accounted for 70 % of EU-28 employment in the 'retail and wholesale trade' sector [1]. These Fig.s provide an opportunity to argue that small and medium-sized businesses play an important role in forming demand and supply in the markets for goods and services, provide the population with the necessary benefits and form the basis for economic development. In addition, the role of small and medium enterprises in the development of a socially oriented responsible economy and in achieving the goals of sustainable development is crucial.

It is important to note that the main trends in the development of small and medium-sized businesses in Ukraine, which is a member of the Eastern Partnership, are also in line with the European trends. Data (Fig. 2) shows that in Ukraine there are about 306.5 thousand companies, 306 thousand of which represent small and medium business. Of the 5.8 million employed in the small medium and large businesses, almost 4.2 million are staffed by small and medium-sized enterprises. Ukrainian SMEs generate 32.7 million EUR of value added from almost 60 million EUR commonly made by businesses in the Ukrainian economy. It shows the significant role of Ukrainian business in the functioning of the economy and its social responsibility development.

The structure of the number of enterprises, number of people employed and added value created by business shows that micro-business is the most represented. Microenterprises occupies 93% in Europe and 80.8% in Ukraine and generates 20.9% and 5.4% value added accordingly (Fig.s 3, 4). Hence, microbusiness is more efficient and brings a greater social impact in Europe than the Ukrainian one generates. It is an impetus for Ukraine for finding ways to increase the efficiency of microenterprises and their social contribution to the economy. The staff employed in microenterprises in Europe is 29.8% of the total number employed in business and is three times higher than the same indicator in Ukraine — 11.1%. This also reveals a more active and socially oriented development of microbusiness in Europe compared to Ukraine.

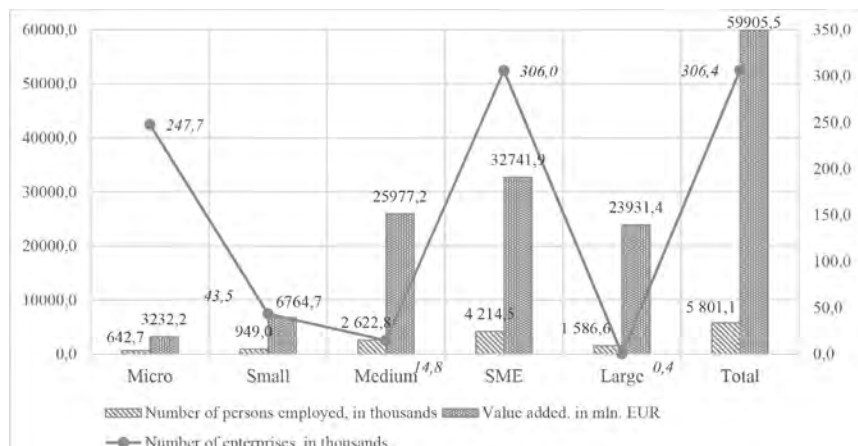


Fig. 2. The SMEs and large enterprises: number of enterprises, number of persons employed and value added in 2016 in Ukraine *

* Source: compared by author on the basis of [2]

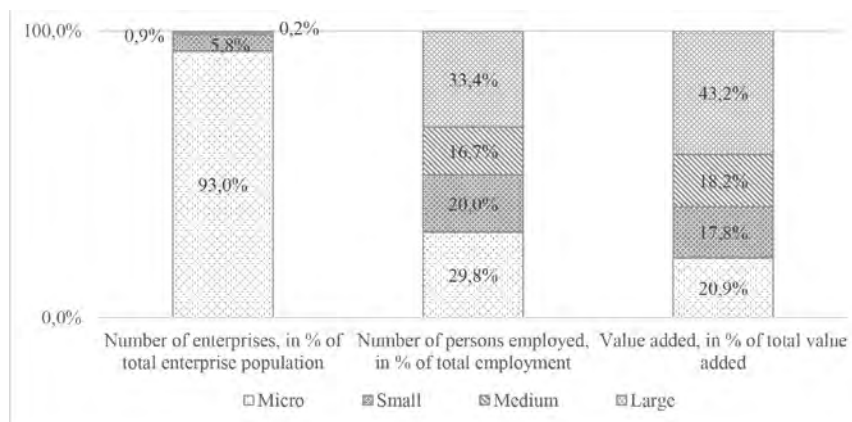


Fig. 3. The structures of SMEs and large enterprises: number of enterprises, employment and value added in 2016 in the EU-28 non-financial business sector *

* Source: compared by author on the basis of [1]

Small and medium-sized enterprises, on the contrary, predominate in the structure of Ukrainian companies and occupy 14.2% and 4.9% ac-

cordingly, while European companies account for 5.8% and 0.9%. Small and medium-sized enterprises in Ukraine have the largest number of employed — 61.5% while European companies have 36.7% of personnel. The largest value added in the Ukrainian economy is created by medium and large businesses (about 43% and 40% accordingly) while in Europe 43% of value added is for large business and the rest is created by other companies.

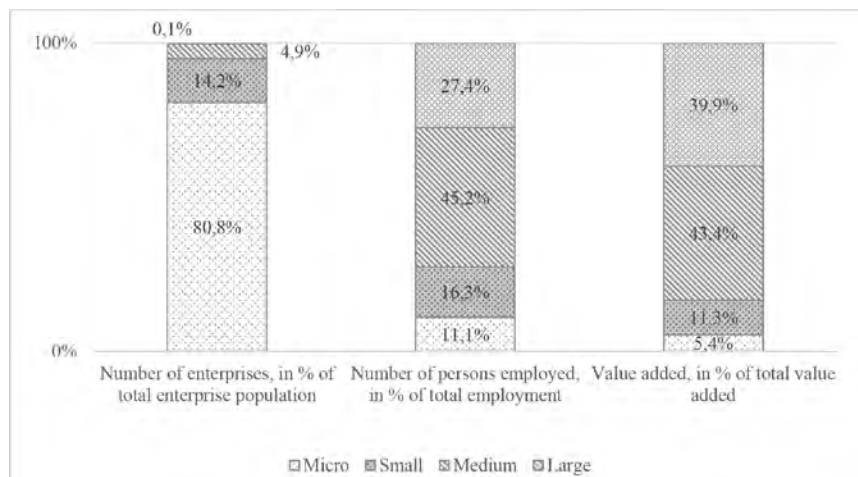


Fig. 4. The structures of SMEs and large enterprises: number of enterprises, employment and value added in 2016 in Ukraine *

* Source: compared by author on the basis of [2]

The role of Ukrainian companies in creating value added in the economy over the five years from 2012 to 2016 is gradually increasing (Fig. 5), as a whole for all microbusinesses, small and medium-sized businesses, and for each group of enterprises separately. And this is a positive trend, which shows effective changes in the work of SMEs and their social component.

According to the analysis of statistical data, economic efficiency of Ukrainian small and medium business gradually fluctuates during 2012-2016, but at the end increased slightly and SMEs had the most effective indicators of value added in 2016 (Fig. 6).

Ukrainian SMEs provides national economy with good and services and sold 62% of all products in 2016 in Ukraine. At the same time financial

results of small and medium enterprises outlines the low profits and the presence of unprofitable enterprises (Figs 7, 8)

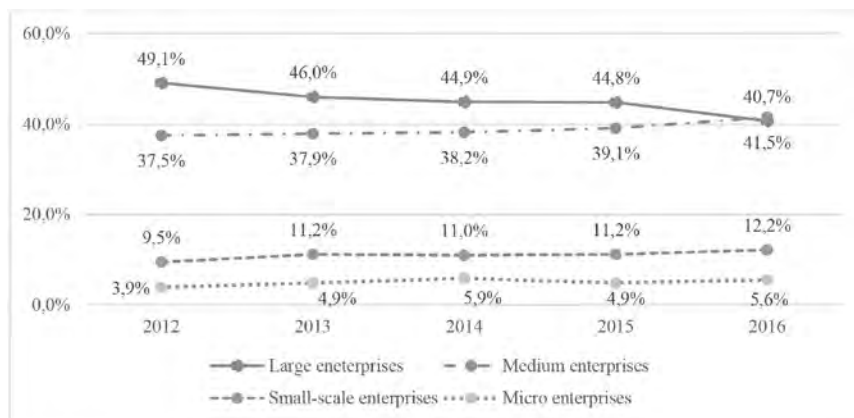


Fig. 5. The value added of SMEs and large enterprises in 2012-2016 in Ukraine *

* Source: compared by author on the basis of [2]

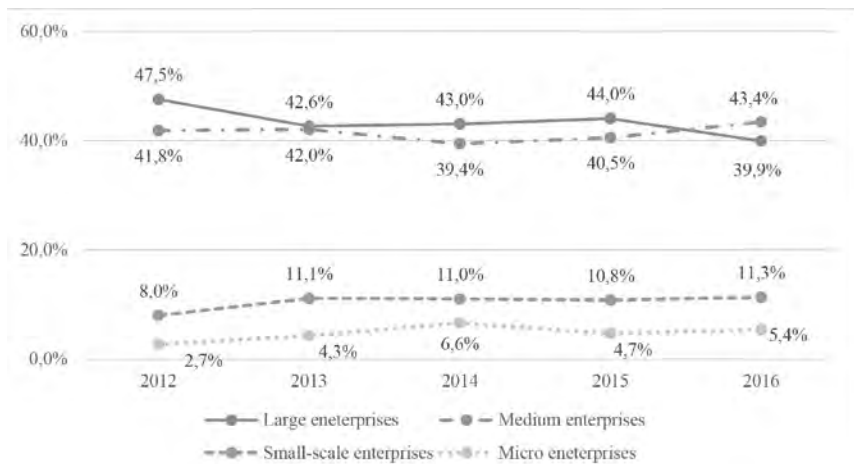


Fig. 6. The value added at factor costs of SMEs and large enterprises in 2012-2016 in Ukraine *

* Source: compared by author on the basis of [2]

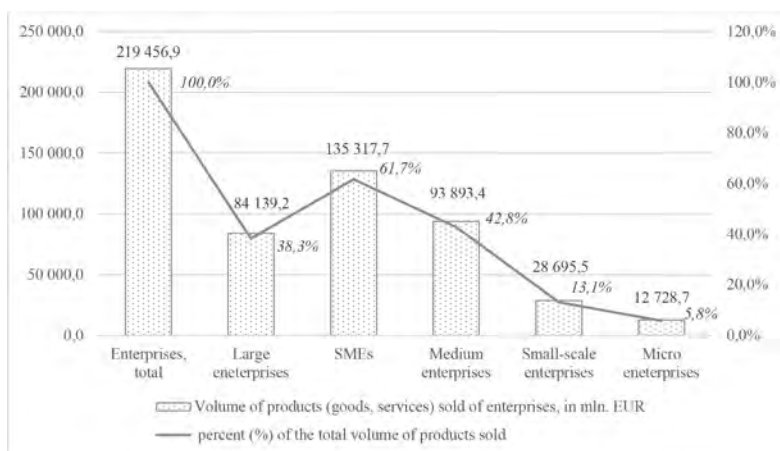


Fig. 7. Volume of products (goods, services) sold of enterprises of economic activity with separation on large, medium, small and microenterprises in Ukraine in 2016*

* Source: compared by author on the basis of [2]

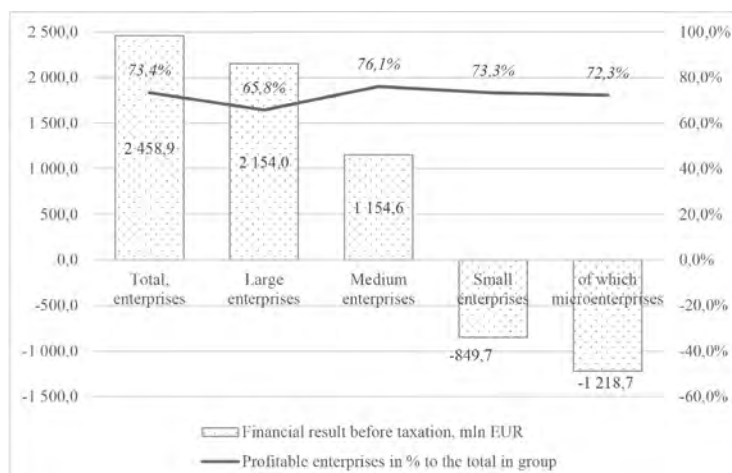


Fig. 8. Financial results before taxation of economic activity with separation on large, medium, small and microenterprises in Ukraine in 2016*

* Source: compared by author on the basis of [2]

Therefore, it can be concluded that Ukrainian business is developing in line with the tendencies of SMEs in Europe. Nevertheless, its current state requires further steps to improve its efficiency and a social component plays an important role in this.

A socially responsible business involves understanding by the owners and employees of the enterprise of the importance of developing corporate social responsibility (CSR) at the strategic level and involving all personnel in these processes.

When companies implement “strategic CSR” they can find there are many benefits, including strengthened corporate and brand reputations and enhanced trust with key stakeholders (customers, employees, regulatory agencies, suppliers, and investors), improved risk management, increased revenues from innovation to identify new business opportunities, and reduced costs from efficiency improvements. [3]. Social responsible business considered as businesses can build and enhance their competitiveness by improving and reporting on their responsible business practices [4]. The directions to develop business practice should include responsible impact on personnel, responsible relationship with stakeholders and clients, responsible attitude to environment, development of the social projects in different areas, responsible consumption.

Corporate Social Responsibility (CSR) in European Commission understanding refers to companies taking responsibility for their impact on society. The European Commission believes that CSR is important for the sustainability, competitiveness, and innovation of the EU enterprises and the EU economy. It brings benefits for risk management, cost savings, access to capital, customer relationships, and human resource management [5].

The importance of CSR for enterprise and EU economy is as follows:

In the interest of enterprises — CSR provides important benefits to companies in risk management, cost savings, access to capital, customer relationships, HR management, and their ability to innovate.

In the interest of the EU economy — CSR makes companies more sustainable and innovative, which contributes to a more sustainable economy.

In the interests of society — CSR offers a set of values on which we can build a more cohesive society and base the transition to a sustainable economic system.

In Europe Sustainable Responsible Investment (SRI) supports development of SCR. SRI Strategies show growing in all their types (Fig. 9).

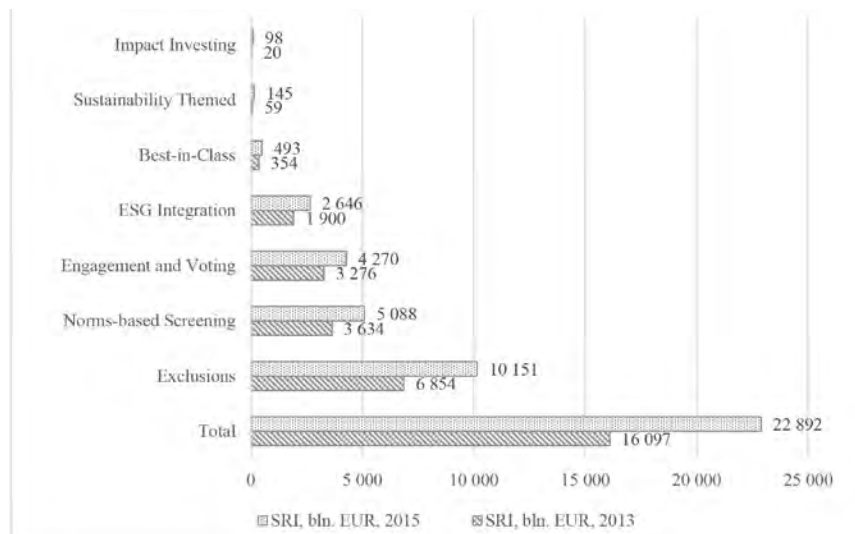


Fig. 9. Overview of SRI Strategies in Europe in 2013-2015*

* Source: compared by author on the basis of [6]

The type of strategy defined by ways of social investing and by the couple of appropriate indicators, which are taken in consideration by investors. The initial and important factor for investor is high level of business transparency and accountability.

The results of the survey (Fig. 10) “Business Changing the Country” of the Ukrainian National platform for small and medium businesses shows the most important characteristics for the SMEs in Ukraine. These features of business are transparency, high level of quality, consideration of shareholders’ interests, contribution in R&D and science, formation of new social-aims perception of the world, care of the environment and strong independent social values [7].

The problems and negative factors, which prevents the development of CSR in the Ukrainian companies, were investigated in research of the Ukrainian center of development of CSR [8]. One of the main factors is a level of transparency. Transparency index of the 100 companies in Ukraine

(top-companies) in 2015 shows that a disclosure level became better, but had risen slightly (Fig. 11). The bar chart provides information about 100 Ukrainian companies and their level of disclosure. The biggest companies show the highest level of disclosure. Over the period, 2011 to 2015 as whole there was gradual increase in the level of transparency. Nevertheless, during this period there were observed different trends for each group of enterprises. It is valuable to note, that the measures for disclosure of information among the largest companies were the most influential indicator of growth.

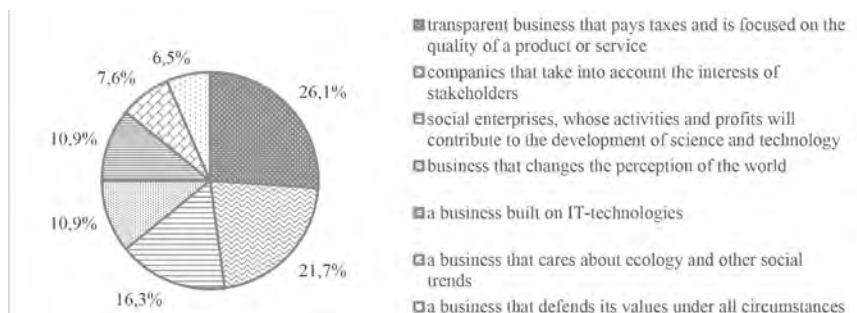


Fig. 10. The main values of Ukrainian SM business in 2016*

* Source: compared by author on the basis of [7]

In comparison with each companies' group, the total disclosure level is not high in Ukraine. Only 17 companies had CSR report. Overall, the level of transparency over the period 2011 to 2015 increased slightly in comparison with the 2011, but had gradual upward trend after 2012. The biggest companies were most successful in the level of disclosure. It is consequently that smaller companies should pay more attention to their CSR and transparency level.

Social responsibility of the business is important for the sustainability. The social development of business contributes to the achievement of the goals of sustainable development proclaimed by the UN [9]. The Sustainable Development Goals (SDGs) call on companies everywhere to advance sustainable development through the investments they make, the solutions they develop, and the business practices they adopt. In doing so, the goals encourage companies to reduce their negative impacts while enhancing their positive contribution to the sustainable development agenda [9]. Thereby,

CSR strategy has the same principal objectives and participants/stakeholders. The research based on the interview with international experts of the most significant objectives and influential groups for sustainability shows that business aimed to add value, manage the risks and obtain competitive advantages (Fig.s 12, 13). It is also important for business to be responsible for customers, investors, personnel and meet regulatory standards. Clients and customers, employees, governance, investors, regulators and civil society are the most important stakeholders of the development of sustainable business.

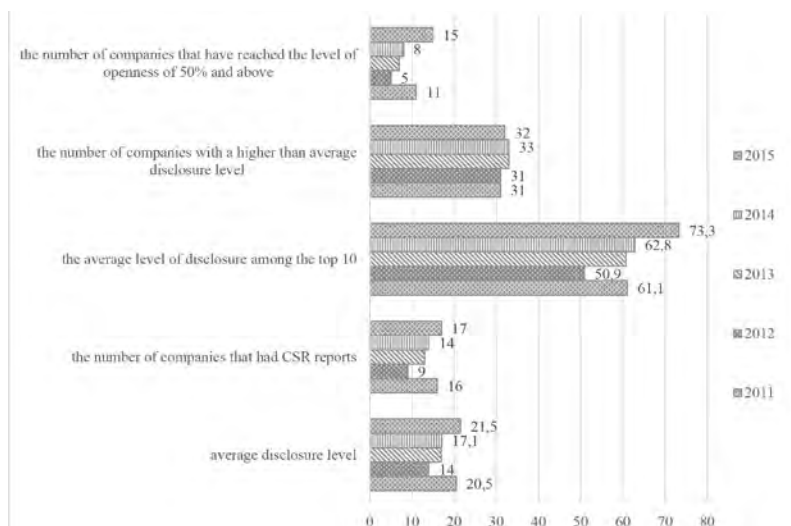


Fig. 11. The transparency level on the top-100 companies in Ukraine in 2015*

* Source: compared by author on the basis of [8]

With regard to Ukrainian enterprises, it is important to develop systematic approaches to the formation of social responsibility, provide the implementation of social development projects, and the attraction of the necessary investments of social orientation. The experience of the EU shows that socially responsible investments today have their own strategies and require the business to have the appropriate characteristics. It is important for Ukraine as a whole and for SMEs in particular to form strategic directions for the development of social responsibility for business, as well

as to build a system for ensuring the investment attractiveness of Ukrainian business for social investment.



Fig. 12. The principal objectives of organization's sustainability strategy*

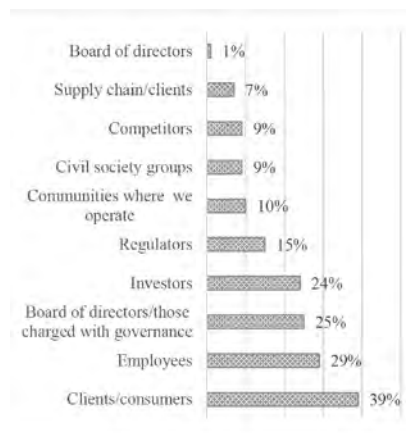


Fig. 13. The groups, which has the most influence on organization's sustainability strategy*

* Source: [10]

Today Ukrainian business has a number of problems and a number of initiatives on the ways of its development. According to the survey, the most frequently requested services for entrepreneurship support are entrepreneurship protection (84%) and financial and credit support (73%), as well as advisory assistance, training and protection of business interests (60%) [11].

Among interviewed experts in the Ukrainian business environment, corruption is the main obstacle for business development (65%) and limited access to financial resources (57%) as well. In this regard, the main areas of support for entrepreneurship are its financial and credit support (78%), infrastructure support (68%), programs for stimulating innovation and export support (65%) [12].

Ukraine attracts investment for business, at the same time for SMEs access to financial resources is more limited and problematic. As a whole, the volume of direct investments from the EU to Ukraine in 2017 amounted to 26.1 million USD (Fig.s 14, 15).

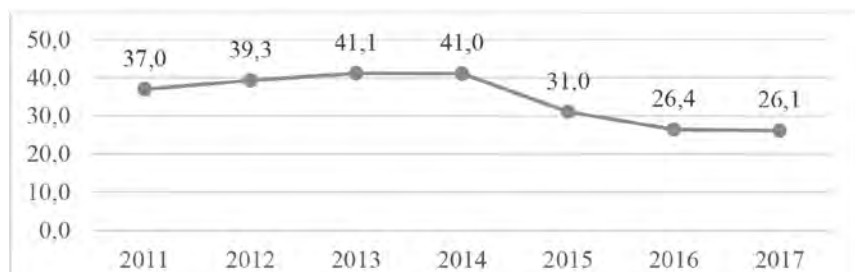


Fig. 14. Level of direct investment to Ukraine from EU during the period 2011-2017, mln. USD*

*Source: Source: compared by author on the basis of [2]

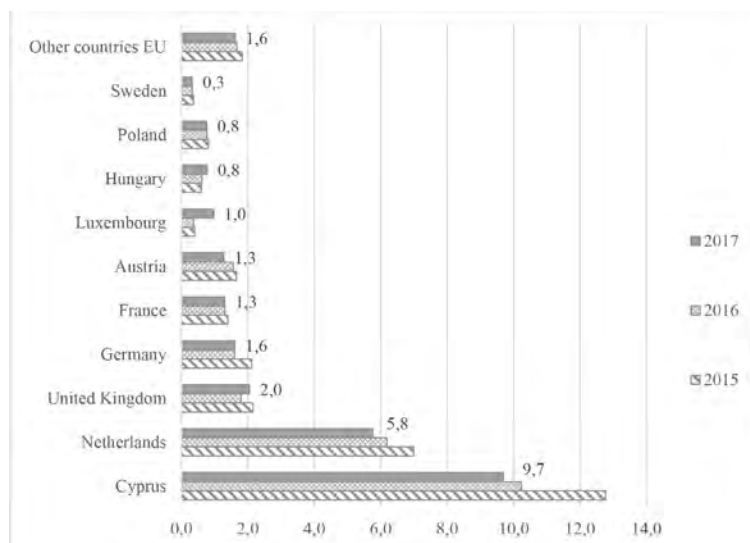


Fig. 15. Level of direct investment to Ukraine from EU countries during the period 2015-2017, mln. USD*

*Source: Source: compared by author on the basis of [2]

During the period from 2011 to 2017, the volume of investments from the EU countries to the Ukrainian economy grew moderately during the period 2011 to 2014 from 37 to 41 million USD. After that, there was a steady trend for a decline in volumes from 2015 to 2017 (by 36%). The large-

est volumes of investments into Ukraine from the EU over the past three years came from Cyprus, Netherlands, and United Kingdom.

At the same time, Ukraine as member of the Eastern Partnership countries is included in the SMEs Development Program, which provides grants for the development of socially responsible business. Therefore, the EU has cooperation with Ukraine in the framework of the Eastern Partnership. Ukrainian companies have business links with European ones, can take participation in the European programs of business support, and take active part in different conferences and other meetings to make Ukrainian business closer to European economy. The programs of collaboration are focused on human rights and civil society [13].

The ways for improving business in Ukraine to develop integration in EU were declared at International Conference on Support for Ukraine. They include following areas: changing the political, administrative and commercial culture of the country, higher energy prices for consumers, greater competition of businesses, bring energy efficiency in line with the EU average so on. In the frames of bilateral cooperation with Ukraine is planned to grant assistance in the period 2014-2020 to contribute to development of SMEs in Ukrainian economy and aimed to support programs for reforms in energy, transport, environment, migration and other socially significant directions [13, 14].

As part of the EU's €11 billion package supporting Ukraine in April 2015, the European Commission has adopted a €70 million Special Measure for Private Sector Development and Approximation. This measure is a response to the urgent need to support recovery and economic development in Ukraine. It will notably help SMEs across the regions of Ukraine, boosting jobs and growth. It will be complemented by a €40 million loan guarantee facility channeled through the Neighborhood Investment Facility (NIF), which will also ease access to finance for Ukrainian businesses [13].

Taking into account the declining trend in the volume of investments in the Ukrainian economy, as well as taking into account the features of functioning of small and medium enterprises, it is advisable for Ukraine to study the European experience in developing socially responsible investment. To do this, it is necessary to take into account two aspects: internal, which involves active actions of companies for attracting social investments, and external, which involves the expansion and development of investment environment approaches and strategies for the implementation of social investment.

Diagnosis of the strengths and weaknesses of the Ukrainian SMEs as an object of social investment, as well as analysis of opportunities and threats of the environment point out positive tendencies in the development of Ukrainian SMEs, the desire and vision of SMEs representatives on the problems and ways of developing a socially responsible business (Fig. 16).

Strengths	Weakness
– Overwhelming majority of SMEs in the structure of enterprises (99%) – Significant impact on the social efficiency of the economy (60% added value) – Providing most job places (73% employed) – Providing housing and food services – Formation of demand and supply in the markets of goods and services (62% of all sold goods and services), – Formation of a competitive environment – Availability of values and strategic intentions of social orientation among most representatives of Ukrainian business	– Low transparency and accountability level of SMEs – Lack of clear mechanisms of formation of social responsibility strategy in SMEs – Lack of financial resources – Low profits and the presence of unprofitable enterprises
Opportunities	Threats
– EU has co-operation with Ukraine in the framework of the Eastern Partnership – Positive trends in Development of Sustainable Responsible Investment In Europe – Programs of EU collaboration focused on human rights and civil society – Grant assistance from EU in the period 2014-2020 aimed to contribute to development of SMEs in Ukraine and focused on socially important directions	– Low level of protection of the rights of entrepreneurs in Ukraine – Weak financial and credit support in Ukraine, limited access to financial resources – Monopolization of the Ukrainian economy – Lack of Ukrainian business support system – Undeveloped market of investment resources in Ukraine – Low level and negative dynamics of foreign investments (from EU) in the economy of Ukraine (from 37 mln.USD in 2011 to 27 mln.USD in 2017)

Fig. 16. SWOT characteristics of Ukrainian SMEs as objects for social investments from EU*

* Source: compared by author on the basis of [1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14]

Nevertheless, at the same time there are problems with financial resources and active management actions for the formation of system approaches for attracting social investments.

The resulting SWOT-characteristics provide the basis for identifying strategic priorities for the development of SMEs as objects of social investment. The main significant areas and most important strategic measures are as follows:

Strategic area of management:

- formation and development of a strategy of social responsibility at enterprises of SMEs sector, initiation of social projects with development of project management;
- contributing to the achievement of sustainable development goals through their inclusion in strategic business development goals and through the use of special approaches and tools for their implementation.

Human resources area:

- involvement of personnel in processes of formation and development of a strategy of social responsibility;
- formation and development of corporate culture.

Stakeholder's relationship area:

- relationship management and partner interaction with stakeholders;
- creation of partnerships with consulting companies, creation of business centers;
- collaboration with NGOs.

Transparency formation area:

- increasing the level of openness and disclosure, reporting CSR;
- improving company disclosure of social and environmental information;
- being responsible for customers, investors, personnel and meet regulatory standards.

Investment attractiveness area:

- formation of investment attractiveness of SMEs for attracting social investments;
- attracting foreign investments through participation in EU programs.

Innovation and education area:

- support and promotion of innovation;
- enhancing energy efficiency and implementation of green projects;
- integrating CSR into education, training, and research;

- benchmarking the experience of EU in SRI and development of strategies of social responsible investment in Ukraine.

Finally, Ukrainian SM business nowadays is the part of the EU economy and it is a challenge for Ukrainian entrepreneurs to lead their companies to the level of the European trends and requirements in social-economic development. Current state of Ukrainian SMEs gives an opportunity to draw conclusions about the base for further development of economic efficiency and social responsibility for small and medium enterprises in Ukraine. The strategic goals and appropriate measures allows to create effective working mechanism to attract social investment and to enhance the level of social responsibility and sustainability both for individual companies and for the economy as a whole, as well as will promote further integration of Ukraine into the European Economic Area.

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