

Institutional Principles of Intensifying the Innovative Development of Small and Medium Agribusiness

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Abstract

At the present stage of economic development, one of the most essential tasks is to ensure the sustainable development of agriculture and the formation of competitive agricultural production. The formation and development of the organizational and economic mechanism for activating the innovative development of small and medium-sized businesses in agriculture is a complex system of relations that requires support from the state, so the authors proposed directions and forms of state support for activating the innovative development of small and medium-sized agribusiness, as well as the conceptual foundations for the formation of wholesale distribution centers in agriculture for the development of small and medium-sized businesses. The proposed activities will make it possible to form cooperative and integration ties between small and large enterprises of the agro-industrial complex and intensify their innovative development.

Keywords: Activation; Agribusiness; Innovative development; Institutional principles; Small and medium business.

1. Introduction

The innovative development of agro-industrial production is closely connected with entrepreneurial activity in the countryside. Practice shows that entrepreneurship is a catalyst for sustainability of the agricultural sector, a guarantee of solving social problems, increasing incomes of peasants. Transformation processes have led to diversity in agriculture, the formation of different categories of producers who participate in meeting the needs of domestic and foreign markets for agricultural products and food. For a long period of market transformation, the main producers of agricultural products are small forms of management, to which agricultural statistics include farms and households. They play a role in providing the country's population with food and industry with agricultural raw materials. However, the potential of small business in agro-industrial production is not exhausted.

The task of the state is to create favorable organizational and economic conditions for the effective development of economic entities of different sizes, which will increase the investment attractiveness of the agricultural sector, product competitiveness, income, sustainability of rural areas. Despite the positive achievements in recent years, the agricultural sector has accumulated a number of key issues that hinder the formation of the business environment and competition, including insufficient attention to small business development, stimulating investment and innovation activity of small businesses, supporting entrepreneurial initiative.

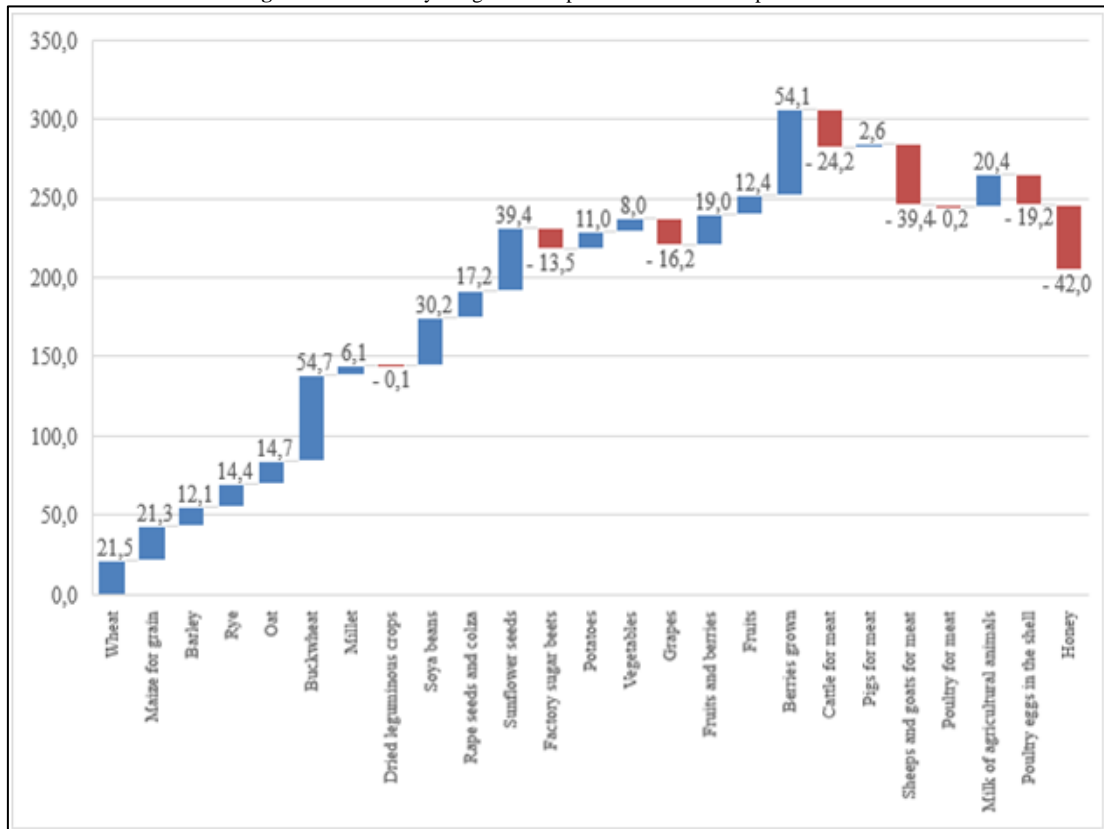
Small and medium business in agriculture is dominant and its development should be considered as a way to form a competitive environment and the business sector. The formation of small business also leads to the institutional restructuring of society through the spread of economic freedom and the formation of the "middle class" as a basis for social stability.

Despite some positive developments in general, entrepreneurship in Ukraine in the agricultural sector is developing slowly and fragmentarily, competition between economic entities is inefficient, and the competitive position of most domestic enterprises is weak. The volume of development of agricultural entrepreneurship is insufficient to ensure employment of the rural population, the effective balance of various forms of management, and the sufficient profitability of many business entities in rural areas. There is no appropriate system of organizational

and economic measures that would allow the effective functioning of the agricultural sector. Due to the shortage of entrepreneurs and improper implementation of targeted programs to support entrepreneurship in rural areas, its non-agricultural types are also underdeveloped. Overcoming the problems hindering the development of agricultural production, the consequences of the financial and economic crisis, requires intensification of entrepreneurial activity in rural areas and the appropriate organizational and economic mechanism that will attract a wide range of citizens to small business, create jobs, ease of agricultural entrepreneurship.

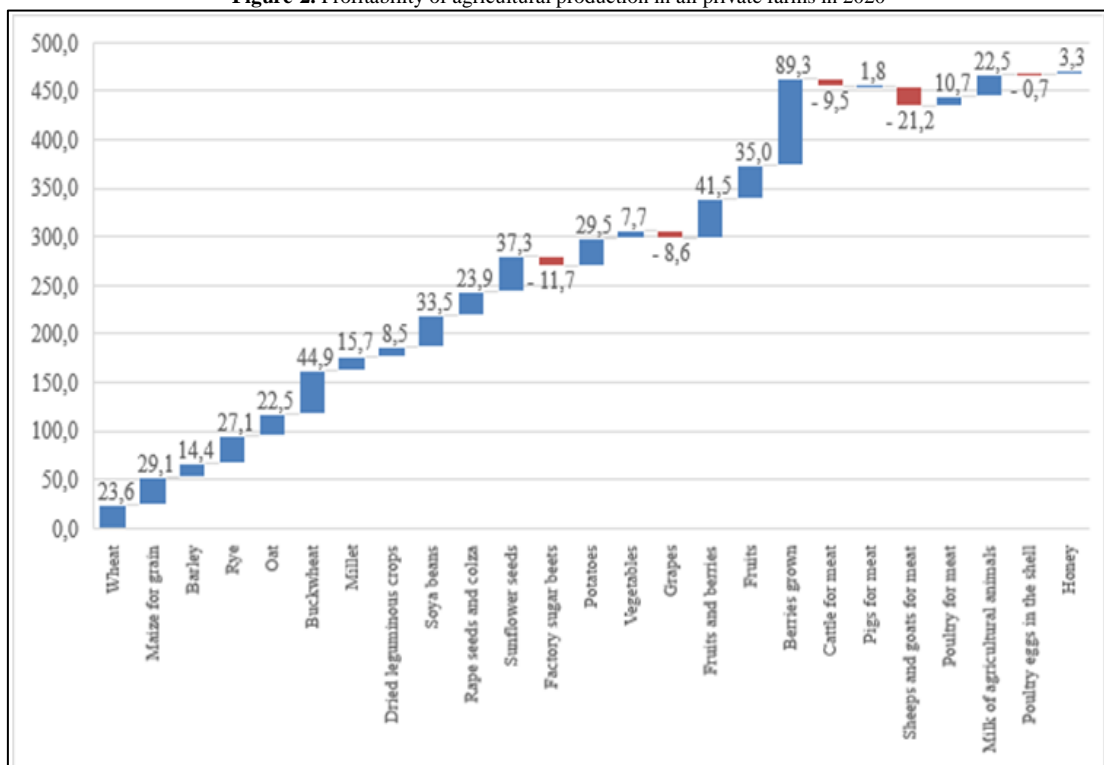
The problem of the Ukrainian agro-industrial complex is that in many industries it is low-profitable or unprofitable at all (Fig. 1-2). Therefore, enterprises do not have enough resources for innovation.

Figure-1. Profitability of agricultural production in all enterprises in 2020



Source: According to State Statistics Service of Ukraine [1].

Figure-2. Profitability of agricultural production in all private farms in 2020



Source: According to State Statistics Service of Ukraine [1].

It should be noted that private enterprises are more profitable, mostly due to more rational use of resources and more modern equipment, so government support should be aimed at stimulating innovation, modernization of equipment, development of new technologies and more.

The aim is to develop organizational, methodological and practical institutional principles for intensifying the innovative development of small businesses in the agricultural sector.

2. Material and Method

General scientific research methods were used in the research: abstract-logical – to generalize the theoretical and methodological aspects of development of small and medium agribusiness; analysis and synthesis – to study the statistical material on the economic activity of small and medium agricultural enterprises; methods of mathematical and statistical data processing – to identify factors that increase the economic efficiency of small businesses; computational-analytical and graphical –for the construction of tables, calculations and visual display of research results.

3. Theoretical and Analytical Basis

In scientific works, scientists turn to the disclosure of the essence of different types of mechanisms for regulating the activities of economic entities – economic, economic, market, domestic [2]. At the same time, some scholars dedicate their work to the problems of the functioning of the organizational and economic mechanism. Thus, scientists consider the formation of organizational and economic mechanism for: cooperation between enterprises and state institutions [3]; stimulation of the innovatively activity [4-7]; ensuring the development of agro-industrial production of Ukraine [8, 9]; increasing the competitiveness of agricultural products [10, 11]; adaptive tools in agricultural enterprises [12, 13]; risk management of agricultural enterprises [14-16]; state support in agriculture [2], etc. According to the analysis of publications, the main elements of the organizational and economic mechanism are not structured, not clearly defined, the relationship between them is not disclosed.

In Ukraine, small business is primarily of economic importance. It is not perceived as the main tool of social policy and providing jobs for the population.

Positive changes are also taking place in the field of regulation and stimulation of entrepreneurship. Today, Ukraine ranks fourth among the 50 countries that have achieved the best pace of change in business.

The business sector is represented by subjects of various organizational and legal forms of management.

Velu [17], exploring the processes of business development, identifies such qualitative criteria that characterize the size of firms as the purpose of creating and ways to promote the product, the type of management, the method of personnel management, and the methods of financing activities (Table 1).

Table-1. Qualitative parameters for determining the size of the company

Comparison criteria	Small business	Small - medium business	Medium - large business	Big business
Purposes of creation	Intuitively determined by the market, with improvisation	Intuitively adjusted by the market and the adopted strategy	Adjusted by the market and strategy, ingeniously	Market dominance, systematic and strategic
Type of management	Personal, authoritarian, direct	Personal, consultations with key partners, specialists	Personal management, use of a small team of specialists, involvement of external experts	Team management, involvement of a large team of specialists, functional organizational structure, consulting structure
Product promotion	No planning and market research	Short-term planning without marketing research	Carrying out short-term and periodic long-term planning, non-systematic marketing research	Development of long-term plans, regular marketing research
Personnel management method	Personal "boss-employee" relationship based on the "big family" principle, high degree of motivation and involvement, lack of trade union influence, lack of workforce council	Personal relationship "employer - team of employees", some degree of involvement, little influence of trade unions, lack of council of the labor collective	Collaborative attitude, organizational environment, low degree of motivation, increased influence of the trade union movement, absence of work collective council	Strict hierarchical model of relations, interaction in teams, complete lack of involvement (except for top managers), difficulties in increasing motivation, strong trade unions and councils of labor collectives
Sources of financing	Family, bank	Family, bank	Family, bank, shares	Bank, shares

Source: according to [17].

The European Commission identifies micro, small and medium-sized enterprises according to such criteria as the number of employees, annual turnover, balance sheet, independence (Table 2).

Table-2. Definition of SME proposed by the European Commission

Criterion	Microenterprise	Small business	Medium enterprise
Number of employees	up to 9	up to 49	up to 249
Annual turnover	up to 2 million euros	up to 10 million euros	up to 50 million euros
Balance amount			up to 43 million euros
Independence	Up to 25% of capital or voting shares are owned by one or more companies that are not SMEs		

Source: According to European Commission [18].

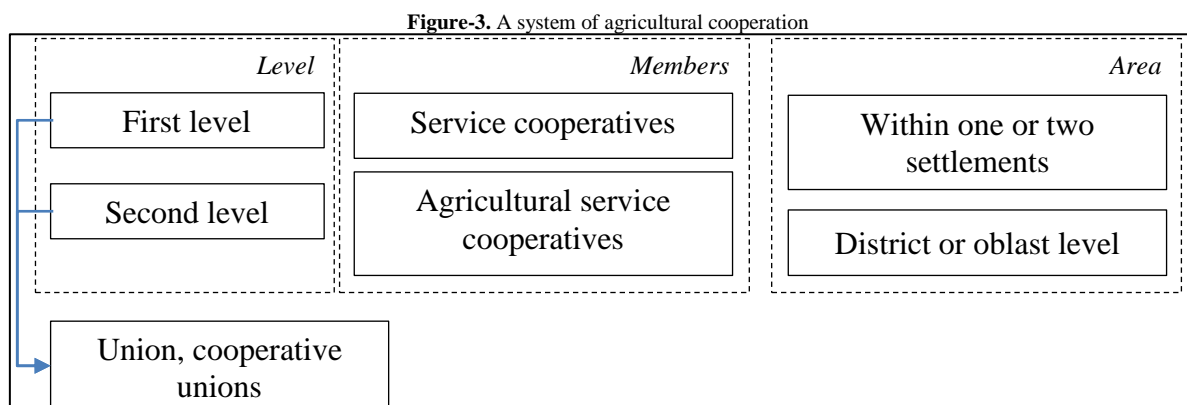
Sustainable development of small agribusiness is determined not only by the level of production, but also by the formation of cooperation and integration ties of small and large agricultural enterprises.

At the same time, the financial stability and investment opportunities of small agribusiness entities directly depend on the interaction with large enterprises. Interacting with small, large enterprises pursue their own strategic interest in the implementation of innovations, development of new markets, in the prompt receipt of relevant and timely information. For small business entities, such interaction solves the main problem – product sales [19, 20]. At the same time, the cooperation of small and large forms of agro-industrial complex management is to some extent able to compensate for the existing shortcomings of the state policy to support small business. According to Zawalińska [21], integration and cooperation are one of the most important factors in increasing competitiveness, which affects the productivity of all factors. Therefore, today the most rational and competitive forms of organizational and economic association of small, medium and large agribusiness are especially relevant. Such forms can be integration and cooperation, which have a number of fundamental differences. Unfortunately, in scientific publications there is a substitution of the concepts of cooperation and integration, their special features and characteristics are not clearly distinguished, which requires detailed research.

Cooperation expresses the process of cooperation of both individual entities and a set of different organizational and legal forms, which are created on cooperative principles. Through cooperation it is possible to provide support to small, medium and large enterprises, to create a stable system of interaction of various forms of management on fair observance of interests of commodity producers. World experience has shown that through cooperation the potential of specialization and diversification can be used more widely, the efficiency of modern machines and technologies can be increased, and the competitiveness of product manufacturers can be increased. Cooperatives provide an opportunity to include products produced by farms and private farms in the marketing chain, increase the added value of products, improve the quality and safety of agricultural products. Depending on the level of the organizational hierarchy, there are primary cooperatives and cooperative associations. The former are created directly by agricultural producers, and the latter are formed with the participation of primary cooperatives. In the process of building cooperative structures, the emergence of higher-level cooperative associations may be based on sectoral, territorial or functional characteristics.

That is, the system of agricultural cooperation may include several levels (Fig. 3).

First-level cooperatives include service cooperatives, which are created within one or two settlements. The next stage in the development of cooperation can be considered the creation of agricultural service cooperatives of the second level (district or regional level). The amalgamation of primary cooperatives within a larger formation allows to increase their competitiveness, provide economies of scale, reduce transaction costs, defend the interests of members of the cooperative.



Source: Developed by the authors.

In order to coordinate the activities of cooperatives of the first and second levels, protect property interests, improve legislation in the field of agricultural cooperation, cooperate with the authorities, optimize trade flows, cooperatives alone or jointly with other agricultural producers may form associations in unions, unions.

4. Results

4.1. Directions and Forms of State Support for Intensifying the Innovative Development of Small and Medium Agribusiness

High prices for means of production and taxes, unavailability of loans, lack of own funds, low purchasing power of the population, imperfect market and legislation, lack of prudent protectionist policies and protection of domestic producers undermine incentives for entrepreneurial activity in rural areas. In such circumstances, all businesses, especially small businesses, need government support. At the same time, the constant change of the internal and external environment requires the improvement of existing and the introduction of new mechanisms for obtaining and distributing budget funds to support the income of agricultural producers. Even at the beginning of business formation in Ukraine, the support of small business was identified as one of the most important tasks of public policy [22, 23]. However, real agricultural policy is aimed at supporting big business and limiting small business. The problems of forming an integrated system of state support for business development, including small business, remain relevant. We believe that state support should be considered, along with state regulation, as part of the economic policy of the state.

The most important economic levers of state regulation of agro-industrial complex are:

- Budget (loans, compensations, grants, leasing, financing of certain activities, etc.);
- prices; taxes (preferential, differentiated);
- Credit (preferential, commodity, etc.);
- Insurance.

The influence of the state on pricing policy can be carried out by both administrative and economic levers (Table 3).

Table-3. Types of state support for small and medium enterprises

Government support	Components of support
Financial	Partial compensation of interest rates on loans provided for the implementation of projects of small and medium enterprises; partial compensation of leasing, factoring and payments for the use of guarantees; providing loans, including microloans, to start and run your own business; providing loans for the acquisition and implementation of new technologies; compensation of expenses for the development of cooperation between small and medium enterprises and large enterprises; financial support for the introduction of energy-saving and environmentally friendly technologies; other types of financial state support not prohibited by law.
Information	Creation and maintenance of state, regional and local information systems, information and telecommunication networks, assistance in starting a business via the Internet; providing information: on the state of implementation of state, regional and local programs for the development of small and medium enterprises and the level of effectiveness of state support; on the state of development of small and medium enterprises; about infrastructure facilities to support small and medium enterprises; other information (economic, legal, statistical, production and technological, marketing), necessary to ensure the development of small and medium enterprises.
Consultative	Assistance in the establishment of infrastructure facilities to support small and medium enterprises, which provide consulting services to small and medium enterprises, and ensure their activities; simplify access to real-time information.

Source: Developed by the authors.

In our opinion, the improvement of the system of state support for domestic farmers should take place through:

- providing financial support on a non-repayable basis not only to newly established and separated farmsteads, but also to other farms;
- prolongation of loans obtained by farms under the condition of documented facts of their unprofitable activity due to unfavorable weather and climatic conditions of management;
- providing financial support for the establishment and operation of agricultural service cooperatives.

To support households, a number of measures need to be taken at the state and regional levels:

- to allocate budget loans to processing and procurement organizations for the establishment of stations
- organize the purchase of agricultural products in the regional food fund for social institutions;
- create a system of financial support for households;
- promote the establishment of agricultural cooperatives;
- to hold exhibitions-fairs of agricultural products produced by households.

4.2. Formation of wholesale Distribution Centers in Agriculture for the Development of Small and Medium-Sized Businesses

As already noted, small and medium-sized enterprises today play an important role in saturating the consumer market with food and raw materials, being the main sources of income and employment for the rural population. Urgent are the problems of maintaining production volumes in small and medium-sized businesses, giving these forms of management "immunity" to external risks, as they are the guarantor of social stability.

At present, it is necessary to solve the problems of creating conditions for the development of infrastructure for primary processing, storage, transportation and marketing of agricultural products, finding funds to ensure the sustainable functioning of small and medium-sized agribusiness, distinguishing between sources of financing production - own and borrowed, placement and volumes of agricultural production by districts on the basis of agricultural consumer cooperation of small-scale production and its integration with large-scale agribusiness. The effective development of small-scale agribusiness contributes not only to an increase in the production and sale of agricultural products by small businesses, an increase in employment and self-employment of the rural population, its income, but also to obtain additional social and economic benefits in other related industries - processing industry, transport, trade.

The analysis of the modern development of agribusiness in Ukraine showed that in order to ensure access of small businesses to the system of marketing, storage, processing and sale of agricultural products, direct interaction with wholesalers, retailers and end consumers, and increase their income, new institutions and mechanisms are needed.

One of these institutions may be wholesale distribution centers created on the basis of agricultural consumer cooperatives.

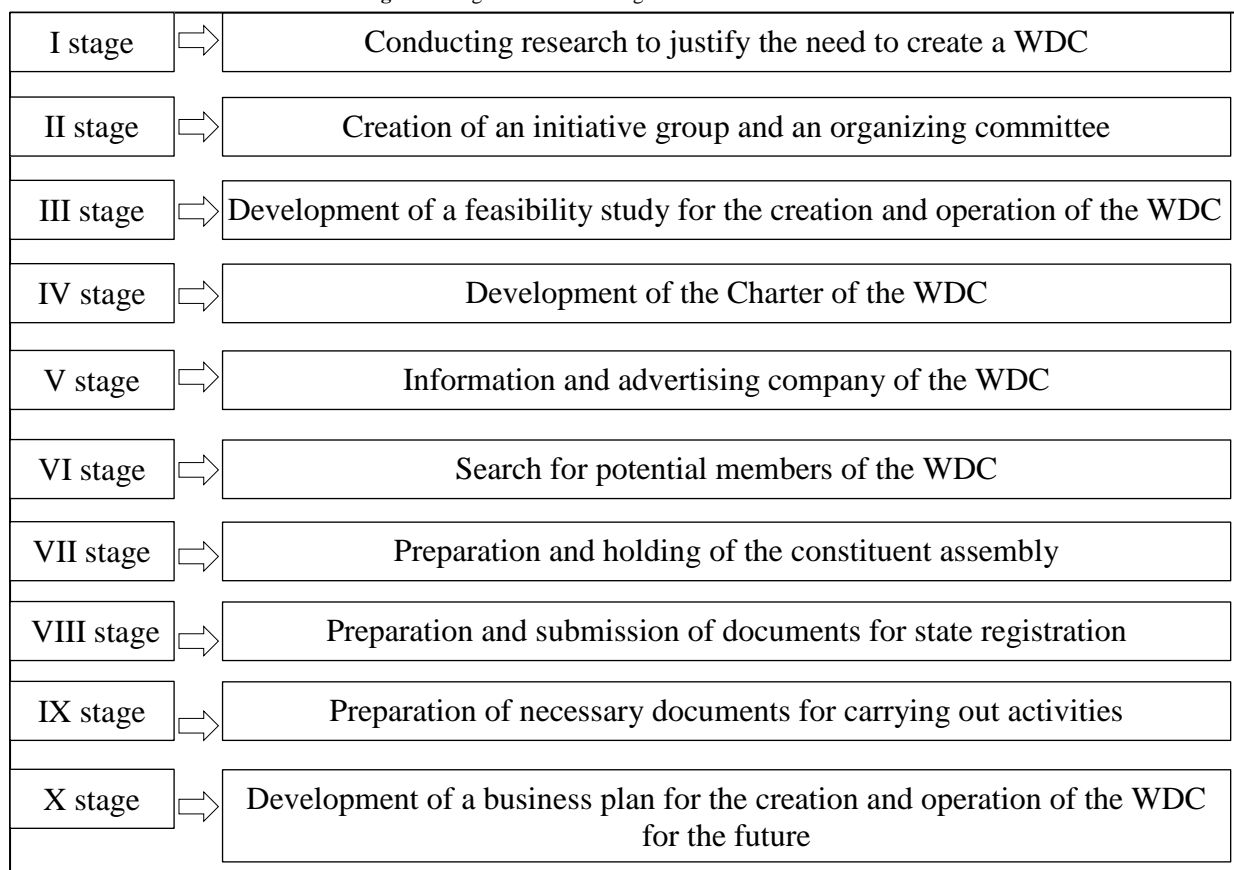
A wholesale distribution center based on an agricultural consumer cooperative is a multifunctional organization created as a wholesale and logistics platform to provide small and medium-sized businesses with access to the system of marketing, storage, processing and sale of agricultural products, their direct interaction with wholesalers, retailers and end consumers, consumers in order to form a fair market price for agricultural products, increase the income of agricultural producers, improve the supply of high-quality and cheap products to the population of the region.

Figure 4 shows the algorithm for creating a wholesale distribution center based on an agricultural consumer cooperative. The creation of wholesale distribution centers should be preceded by work to justify such a need.

So, at the first stage, regional, municipal authorities and rural advisory services through the media and citizens' gatherings provide information on the need and expediency of creating a wholesale distribution center in a particular area. As a result, citizens interested in the creation of the center are identified.

At the second stage, the initiative group holds a meeting at which an organizing committee is formed.

Figure-4. Algorithm for creating a wholesale distribution center



Source: developed by the authors

In the future, the organizing committee, with the involvement of consultants, develops a feasibility study (feasibility study) for the creation and operation of a wholesale distribution center, determines the size of the share fund of the cooperative and the sources of its formation, the timing of debt repayment, possible risks, etc. The fourth stage of creating a wholesale distribution center includes the development of the Charter, the draft of which is provided to all members of the initiative group for additions and changes. At the next stage, the initiative group, the organizing committee search for potential members of the ORC and bring to their attention the goals, objectives and

capabilities of the center to provide services to its members. As a result, the optimal number of members of the organization is determined and its qualitative structure is formed. At the sixth stage, it is necessary to hold a constituent assembly: organize a hall, ensure the keeping of minutes, prepare an agenda, including the creation of a wholesale distribution center, approval of the Charter, admission to the organization, election of the chairman of the board, supervisory board. In the future, the chairman and (or) executive director prepares all the necessary documents for the state registration of a legal entity. After registration, you need to make a seal and open a current account. At the last stage, the management bodies of the organization, together with consultants or special organizations, develop a detailed investment, production and financial plan for the creation and development of a wholesale distribution center for the future, including such issues as market characteristics, characteristics of the organization, description of activities, volume and direction of investments, financial analysis, risk analysis, parameters of financing activities and repayment of loans, analysis of other aspects of the activity.

For the coordinated performance of the main functions of the wholesale distribution center during its creation, a clear organizational structure should be developed, which means the distribution of duties (functions) of all structural units (divisions), aimed at optimizing interaction with legal entities and individuals in order to ensure the cost-effective operation of the wholesale distribution center.

For the most effective support of small business in agriculture it is necessary to combine state support with extensive use of extra-budgetary funds, to involve as executors of program activities specialized and representative (self-regulatory) organizations that know the needs of small agribusiness.

5. Discussion

Here we will dwell in more detail on one of the proposed tools, namely, we consider it appropriate to use the following types of tax incentives that stimulate the innovative development of small and medium-sized agribusinesses:

- "tax holidays" for profit received from the implementation of innovative projects (within 3-5 years);
- preferential taxation of dividends received from shares of innovative organizations of individuals and legal entities;
- lowering the amount of tax on the part of the profits allocated for joint and custom R&D;
- interconnectedness of accounting for the priority of ongoing projects with the provision of benefits;
- preferential taxation of profits earned as a result of the use of licenses, patents, know-how and other intangible assets that are an integral part of the intellectual property of the organization;
- reduction of the income tax rate by the amount of the value of equipment and instruments provided to research institutes, universities and other innovative organizations;
- deduction from taxable profits of donations to charitable foundations whose activities are associated with the financing of innovations;
- crediting a certain part of the profit of an innovative organization to a special account with the upcoming preferential taxation when using funds for innovative purposes;
- provision of investment and research tax credit
- postponing the term of tax payments corresponding to expenses from profit for innovative purposes;
- lowering the level of the tax rate by the amount of growth in innovation costs.

6. Conclusion

Intensification of entrepreneurship, growth and efficiency of the business sector is one of the main factors of positive structural changes in agriculture, the formation of a favorable economic environment. It is proved that the volume of business development is insufficient to ensure the employment of the rural population, the effective balance of various forms of management, sufficient profitability of many businesses in rural areas, which requires the development of appropriate organizational and economic mechanism. The components of this mechanism are regulatory, economic and organizational elements, which are closely interrelated and are a holistic system of certain measures and methods.

Recommendation section

To improve the mechanism of state support for the development of small businesses in agriculture, it is proposed to implement a set of measures, which includes: effective control over the activities of large enterprises on the basis of antitrust law; development and use of clear criteria for assessing state support for producers; organization of an effective system of monitoring and management of the industry; establishing the maximum amount of budget funds per farm; creation of information and consulting centers for small businesses; availability of all categories of producers to state financial support; taking into account the dynamics of the financial condition of the recipient of subsidies in the distribution of budget aid, etc. It is substantiated that the most priority instruments of state regulation that affect the development of small business are the application of a simplified taxation system, the pension insurance mechanism and the participation of small businesses in public procurement.

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