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## OPERATION OF A BUSINESS ENTITY IN THE CONTEXT OF GLOBALIZATION

**Problem statement.** In the period of globalization of economic processes one of the significant roles in development of business entities is played by external factors that influence determination of their development lines and the choice of strategic aims as regards economic upturn, and also corresponding coordination of a business mission with the targets of competitive and consumer environment on different levels of economic performance. Besides, at a fast pace of technological innovation, in order to determine clear benchmarks and provide steady development for a business entity it is essential to envisage the processes of integration of the national economy into the united international economic system.

However, the development of business entities in national economy, in particular in Ukraine, is carried out within the frame of the economic policy which is formed and provided by the state. That is why negative developments in the given economic system are not only the consequence of the world's financial and monetary crisis and serious political and economic instability in the country, but also the reflection of internal problems which, to a wide extent, have been provoked by inadequate decisions of the regulatory bodies. Under such conditions business entities are disoriented in selecting, setting and implementing their goals, and also in using the most efficient mechanisms for their achievement. All that determines disproportionality and rigid pragmatism (up to inappropriateness) of a business entity economic ambitions as concerns setting own goals and making a system of methods, means and stimuli of their achievement in the frame of operation of the economic system of Ukraine and the international system in general.

Military activities, which are taking place in the east of Ukraine, have displayed and aggravated all shortcomings of the state policy regarding control of the na-

tional economy. In particular, the absence of practical solutions to the issues of the support of business activity in Ukraine and creating supportive environment for its growth has triggered the process of negative investment. In turn, the absence of state priorities in the economy development and long-term programs of its achievement as well as instability in the world and domestic economies and, correspondingly, irregular demand for exportation have resulted in significant deterioration of common rates and business activity in Ukraine. Thus, according to the official figures of the Ministry of Finance of Ukraine over the period between 2005 and 2015 inflation rate in Ukraine reached 403.9% [1]. Along with this, in 2005 one US dollar was equal 5.3042 hryvnas, and in 2015 it was 25.555 hryvnas. The value of the hryvna against the dollar dropped by nearly 5 times [2; 3].

Such rates of the national economy lead one to think about the efficiency of the strategic management employed in defining development lines of the country's economy in general and business entities in particular. In this respect, along with the absence of state priorities, there is a need of identifying negative factors which get in the way of carrying out development strategies and efficient development of national economy and business entities as its indispensable element.

### **Analysis of the latest studies and publications.**

Although there are a great many studies devoted to forming a development strategy of business entities, and also the issues, connected with the theory and methodology of strategy making and organizing strategic management at a company, have been worked out profoundly, specific external environment effects and response formation of business entities in the period of globalization are unique. As a consequence, it becomes essential to establish theoretical aspects of the given problem and methodological approaches which allow

business entities to create mechanisms of efficient confrontation with negative effects of external environment and successfully operate with regard to the real condition under economy globalization, as well as make their own strategy for more or less distant perspective.

Certain theoretical and methodological aspects of the above-noted range of problems have been reflected in the works by a number of domestic authors: V. Lyashenko, Y. Kotov [4], A. Blagodarny, A. Tolmacheva [5], V. Khobta, O. Popova, A. Meshkov [6], V. Dementyev, V. Vishnevskiy [7], I. Bondareva, S. Kravchenko [8], N. Dalevskaya [9], etc.; by Russian scholars: O. Vikhanskiy, L. Goncharenko [10], A. Zaritskiy, G. Kleiner, etc.; and also by representatives of foreign schools: D. Boddy, H. Mintzberg, M. Porter, A. A. Strickland, K. Payonk, P. Lees, I. Mazurkevich [11], etc.

**Outline of unconsidered parts of the general problem.** In their works these scholars have conducted a profound research of various aspects of strategy and strategic management. The impact of the external environment on the behavior of a business entity has been looked into. The influence of different factors on the investment climate has been analyzed. Nevertheless, changes in the external environment of business activity set nonstandard tasks which make one find new approaches and methods of problem solution as regards determination of strategic priorities of a business development in the context of globalization and efficient formation and realization of a business entity strategy.

**The aim of this article** is to study conditions of business entity operation and to define priorities of its strategic development in the context of global changes of external environment, since achievement of any key-note has its own value. Besides, the efficiency of achieving sub-goals and an ultimate goal predetermines long-term prospects of business entity activities. In this context, of special interest is theoretical and methodical base of making the strategy with a coordinate system of priorities relevant to the conditions of external and internal environment of a company.

**Presentation of the baseline of the study.** According to the aim of this article, it is important to clarify the concept of strategy in order to clearly realize both recital and process component of the given economical category. It should be noted that there is no major difference in interpretation of the concept of strategy among different authors. The most complete definition is given by O. Vikhanskiy. Here strategy (after Greek *strategia: stratos* - army + *ago* - am leading) is defined as "long-term properly determined line of development of an organization as concerns the area and forms of its activity, system of relationship within the organization as well as the position in the environment which leads the organization to its goals".

In the above-noted definition the emphasis is laid on a line of development being long-term. However, se-

lected lines of development and a company's priorities can change. That can be specified by both external and internal factors which influence strategy making or force a business entity to take certain actions. Besides, as stated above, changes in external environment can either directly or indirectly affect the change of strategic directions of activities of a business entity up to the change of the mission, that is, up to the main business goal.

Consequently, it is reasonable to consider development strategy of a business entity in its operating behavior in changing external environment as a direction with emphasizing priorities in goal achievement and realization of certain management functions under changeable environment in order to improve quantity and quality characteristics of a business activity results. This definition includes resource component in strategy making, as it is the options available for use by a business entity which are as a rule limitative while choosing means and methods of a business development. [5, p 30-37].

As concerns inner potential of a business entity, its entrepreneurial ability should be noted in the first place. However, this ability can come out under certain conditions of external environment. Among the others, it is a case of motivation.

Under conditions when over the period of 10 years the national currency depreciates by 5-6 times, and capitalization of businesses reduces to zero value (we have in mind the east of Ukraine 2012-2016 yrs.) with no real responsibility taken for that by any body of power and its representatives, including oligarchs-monopolists, motivation to create and operate businesses as it is will tend to zero. Conversely, in the countries with advanced economy, chances for force majeure situations to occur are minimal, which attracts investors and to a certain degree stimulates business development.

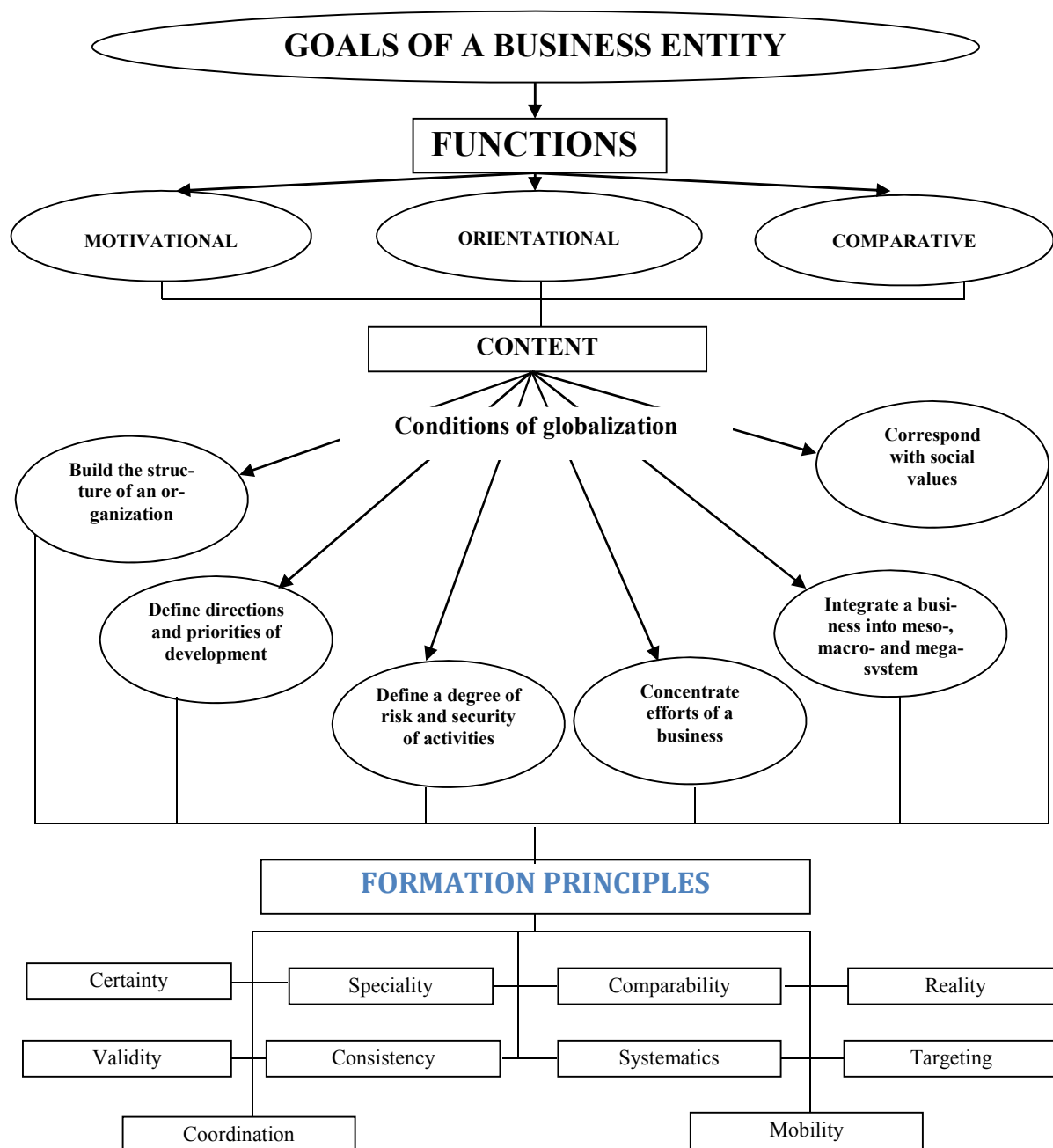
Of no less importance is the fact that the countries situated in border territories of adversarial economic systems of global scale are more vulnerable and any moment can become a foothold for a showdown between imperialistic neighbors. Nevertheless, there are a lot of examples of the confrontations of this kind in history, such as: Cyprus, Korea, Singapore, Israel, Japan, etc. The governments of these countries, in due course, had their priorities straight as for choosing the vector of development, thus, making it possible to form national security system.

One can assume that determination of strategic priorities of development is based on national security of the country, tax climate favorable to business development and integration with the global political and economic system. Then, it will be of vital concern for business entities in countries with emerging economy to think on a mega-scale in order to accelerate processes connected with integration of the national economy into the international economic system.

Taking into account strategic benchmarks of development, businesses should set their mission correlating it on different levels of operation of the world economic system. It is not the case of affiliation as an extreme measure of integration, on the contrary, it is about finding own place in the global system on different levels of cooperation. In view of this, a business entity mission,

while making a strategy and setting goals, should be established with regard to the influence of the external environment not only of the regional and national level, but also of the global one [5, p 30-37].

Based on strategic benchmark directions, goals of a business entity are set in accordance with their functions, content and formation principles in the context of globalization (fig. 1).



**Fig. 1. Goals of a business entity: value, content, formation principles (in the context of globalization)**

Source: prepared by the authors.

Among directions of strategic planning, inclusive of the ones on a global scale, a range of the following benchmarks of development can be noted (tab. 1).

Based on strategic benchmark directions goals of a business entity are set in accordance with their functions, content and formation principles in the context of globalization (fig. 1).

Table 1

**Strategic value orientation of a business development**

Value type	Value category	Goal characteristics
Theoretical	Facts, knowledge, rational thinking	Long-term research and projects
Economical	Usability, utility, capital accumulation, changeability	Growth, profitability, results
Political	Power, recognition	Total capital amount, volume of sales, number of employees
Social	Good fellowship, absence of conflict, acceptance of multiculturalism	Social responsibility, friendly atmosphere within organization
Esthetic	Stylistic harmony, content, shape and symmetry	Product design, quality, appeal
Scientific	Scientific potential	Patenting and research intensity
Ethical	Coordination with the surrounding environment	Ethics, moral issues

Source: prepared by the authors.

Considering the development of entrepreneurship, it should be noted that there are fundamental differences of strategic goals, mission and opportunities of large and small business. Table 2 identifies the key success factors of small and large businesses. In this study it is assumed that the medium business is a symbiosis of qualitative characteristics of two significantly different scales of business.

Mathematically the indicator of strategic development of an enterprise (*SDE*) can be represented in money terms by the total cash flow for the *n*-th number of years and the value of the same business on the stock market in the *n*-th year (*MC*), and *SDE* calculation formula will look as follows:

$$SDE = \sum_{i=1}^n CIF_i + MC_n \quad (1)$$

Consequently, with wrong strategic benchmarks chosen and the peg to the national currency which can depreciate due to the absence of cooperation between the national economy and the economic system of the developed countries of Europe and the USA, motivation for a business entity (*Mo*) will tend to its minimum with *SDE* indicator tendency to zero value:

$$Mo \rightarrow \min, \text{ if } SDE \rightarrow 0. \quad (2)$$

Thus, while defining strategic priorities, a business entity will in the first place focus on such external factors as political and economic strength and security, business-friendly tax climate, responsibility on the part of the government for possible force majeure.

Table 2

**Comparative analysis of key factors of success of economic activities of large and small business entities**

Large businesses		Small businesses
Capital accumulation, capacity to withstand an economic downturn using own resources	KEY FACTORS OF SUCCESS	Structure flexibility, which leads to swift reaction to changes in economic environment
Possibilities to attract substantial investment and realization of capital and science intensive business activities		Possibility of sole proprietorship, which increases the level of responsibility and commitment in the eventual outcome
Availability of reserve resources to meet changes in external environment		Direct link between a proprietor and a management entity, which reduces time between a decision making and an activity itself
Effect of production scale and possibility to influence other business entities		Small scale of market coverage provides direct personal link between a small business entity and a personified consumer and allows considering current and potential demand more correctly

In turn, there are many so called rating agencies which define investment appeal of national economies on a global scale. Among others, the leaders in this kind of study are Fitch Rating, Standard & Poor's and Moody's.

It is the ratings and predictions of these companies that potential global investors refer to, and economic performance and business development are largely dependent on the capital inflow of the latter. Thus, Fitch Ratings defines the following levels of credit capacity (tab. 3).

As it was reported on November 18, 2015, in the press-release of Fitch Rating, the agency upgraded long-term credit rating of Ukraine in foreign currency from RD to CCC [13].

It should also be noted that according to the World bank's study of general assessment of business performance from 2010 to 2015 Ukraine moved up from rank 147 to rank 96 among 189 countries in the world [14].

There currently exist a great number of scientific approaches to development and realization of strategic managerial decisions. Most often used in the modern study of strategic management are the following approaches: systematic, complex, integrated, marketing, functional, dynamic, reproductive, processing, normative, quantitative, administrative, behavioral, situational. Each of these approaches has methodical specifics of realization, orienting points and analytical tools.

<b>Fitch Rating of credit capacity</b>	
<b>Credit rating</b>	<b>Description</b>
AAA	The highest credit capacity. The lowest default risk expectations, assigned only in case of exceptionally strong capacity to meet financial commitments. Chances of negative impact on the part of predictable conditions are very low.
AA	Very high credit capacity. Very low default risk expectations indicate very strong capacity to meet financial commitments. Vulnerability to the impact on the part of predictable conditions is not significant.
A	High credit capacity. Low default risk expectations and strong capacity to meet financial commitments. Nevertheless, this capacity can be vulnerable to the impact of adverse business environment or adverse economic conditions to a greater extent than in higher-rated cases.
BBB	Adequate credit capacity. Higher vulnerability to default risk, especially in case of near term adverse changes on the part of business environment or economic conditions. However, business or financial flexibility makes it possible to meet financial commitments.
BB	Speculative rating. Higher vulnerability to default risk, especially in case of near term adverse changes on the part of business environment or economic conditions. However, business or financial flexibility makes it possible to meet financial commitments.
B	Very high speculative-grade rating. Significant default risk, although there is some limited strength reserve. Financial commitments are currently met, but the capacity to pay out on obligations is vulnerable in case of deterioration of business environment or economic conditions.
CCC	Substantial credit risk. Distinct possibility of default.
CC	Very high level of credit risk. Default in one form or another is possible.
C	Exceptionally high level of credit risk. Default is very near or unavoidable, or an emitent has suspended activities. The following factors are characteristic of the emitent: the emitent has entered a period of favorable economic conditions or a remedial period after failing on main financial commitments; the emitent has acquired a temporary permit on default on obligations or has made an agreement about nonpayment on obligations after failure to meet main financial commitments. Fitch, on other grounds, believes that the situation relevant to rating RD or D is near or unavoidable, also in terms of official announcement about the swap of distressed debt.

Source: information analyzed from [12]

However, application of these approaches by business operators of different forms and scales of activities is impractical due to complexity of these methods.

Thus, in the context of drastic changes of political and economic environment connected with globalization of economy and quick pace of technological innovation, for a business to make the strategy of its progressive development having defined a proper direction of the latter, on the base of state business support policy, is a decision-making process under conditions of high information asymmetry.

**Conclusions.** Strategic priority definition including positive global tendencies of economic upturn can be considered an additional advantage for strategy making in aggressive and changeable environment. On the basis of the above-stated the following conclusions can be made:

- strategy represents the line of development of a business entity with defining priorities in goal achievement and realization of certain management functions under changeable environment in order to improve quantity and quality characteristics of a business activity results;

- development strategy can be characterized by one or more parameters reflecting the process of goal pursuit. For quicker and more efficient realization of all set

goals and stated missions under conditions of globalization, it is essential to plan business activities with regard to the concept and perception of interaction of micro-, macro-, meso- and mega-levels of economic performance;

- for assessment of efficiency of choice and realization of development strategy we suggest using the indicator of strategic development of an enterprise (*SDE*) in view of the impact of market conditions on enterprise value under globalization of economic processes.

- strategy making and realization are carried out by means of using corresponding techniques which are immanent to general goals and missions of a business entity;

- the scale of business activities and strategy making horizons allow to link tactics and strategies of a business entity to achieve the maximum effect from strategic management realization;

- using of the system of strategic development indicators given in this article, and analyses methods, on different levels of economic system operation and interaction with a business entity, and also definition of stability and investment appeal under globalization, can contribute to positive changes in political and economic system of countries with emerging economy, in particular, Ukraine;



- definition of strategic priorities of a business development under globalization is the main point of the maximum horizon of strategic planning and a matter of great concern of business entities;

- decrease of information asymmetry between state authorities and global market operators, on the one hand, and mostly small and medium-sized businesses, on the other hand, will allow raising responsibility of the former and increasing growth rate of the latter. This, in turn, will contribute to stabilization of the global social and economic system.

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### **Пайонк К., Ляшенко В., Квілінський О. Функціонування суб'єкта підприємницької діяльності в умовах глобалізації**

У статті досліджено проблеми, які пов'язані з функціонуванням суб'єкта підприємницької діяльності в умовах глобалізації економічних процесів. Проаналізовано на прикладі України взаємодію економічних систем з точки зору суб'єкта підприємництва. Запропоновано методи оцінки та визначення орієнтирів для вибору стратегічних напрямків розвитку підприємства.

*Ключові слова:* стратегія, суб'єкт господарювання, глобалізація.

### **Пайонк К., Ляшенко В., Квилінський А. Функционирование субъекта предпринимательской деятельности в условиях глобализации**

В статье исследованы проблемы, связанные с функционированием субъекта предпринимательской деятельности в условиях глобализации экономических процессов. Проанализировано на примере Украины взаимодействие экономических систем с точки зрения субъекта предпринимательства. Предложены методы оценки и определения ориентиров для выбора стратегических направлений развития предприятия.

*Ключевые слова:* стратегия, субъект хозяйствования, глобализация.

### **Payonk K., Lyashenko V., Kvilinskyi O. Operation of a Business Entity in the Context of Globalization**

The article looks into the problems connected with the operation of a business entity in the context of globalization of economic processes. Interaction of economic systems has been analyzed from the perspective of a business entity on the example of Ukraine. There have been suggested methods of assessment and benchmark definition for choosing strategic directions of a business development.

*Keywords:* strategy, business entity, globalization.

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