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**INTERACTION OF CORPORATIONS AND SMALL BUSINESS IN THE  
AGRICULTURAL SECTOR OF UKRAINE**

**Udova Lyudmila,**

PhD in Economics, senior researcher,  
Institute for Economics and Forecasting,  
National Academy of Science of Ukraine,  
Kyiv, Ukraine  
e-mail: [u\\_lyudmila@ukr.net](mailto:u_lyudmila@ukr.net)

**Abstract.** *The article explains the significance of large agricultural enterprises (corporations) and small forms of management (households) in ensuring the food security of Ukraine, employing rural population and developing rural areas, as well as the advantages of small business to corporations. It is stated that corporations and small agribusiness should develop in parallel, building close economic relations, which need constant improvement.*

*The author notes that development of integration processes in the agrarian sector is one of the promising directions that will promote the efficiency of agricultural production. Small commodity producers are interested in this kind of relationship, since integration gives them guarantees regarding provision of work and marketing of manufactured products. While implementing the integration relations households are provided with means and objects of labor, seeds, planting material and feed, technological support and guarantees regarding selling manufactured products.*

*The article describes the models of attracting households to integration relations in the agrarian sector of Ukraine: production contracting, mini-cluster model, cooperative model, cooperative-integrated model. Including small business in a cluster model of the agrarian market will create objective conditions for improving the efficiency of its management. Having large production facilities, agro-corporations can purchase agricultural products from small enterprises on the basis of contracting for further processing (freezing, drying, etc.) and sales. Suggested models and mechanisms of interaction between large and small agribusiness will increase the efficiency of organization of their activities, as well as promote the development of rural areas.*

**Keywords:** *agricultural sector, corporations, small business, households, integration relations, production contracting, mini-cluster model.*

**JEL Classification:** Q11

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**Introduction.** In Ukraine, the organizational structure of agriculture is represented by two categories of agrarian producers, they are: agricultural enterprises of various organizational legal forms and households that carry out agricultural activity both for the purpose of providing their family members and city relatives with food products and agricultural commodity production and do not have the status of legal entity. During long period of time, small forms of economic activity (households) operating in the agrarian sector of the economy retain the traditional function of the landowner - the proprietor, the entrepreneur and the owner in one person, which means that various agricultural work on the agricultural land will be done in the best possible terms, with care towards the land, as well as to the cultivated plants and animals.

In developed countries big business creates favourable environment for innovation which plays a significant role in economic development. However, small business is an integral element occupying a large niche in national economic system, modified with the transformation of large enterprises [1, p. 15]. The advantages of a large agrarian business today are the following: the introduction of new technologies, maximum productivity in the cultivation of major crops due to the expansion of production, the possibility of diversification of products, and a higher economic result.

**The main body of the academic paper.** Despite the fact that large agro enterprises are major agricultural producers in modern conditions, small business has found its place in the agrarian sector and continues to develop. This is partly due to a number of advantages of small production, such as: ease of setting up a small business, organization of own business; flexibility, ease of specialization change; minimum fixed costs; special friendly nature of the relationship in the team.

Households occupy a significant niche in the food supply of the country, as well as participate in the restoration of the labor force, raising the standard of living and welfare of the rural population by increasing revenues from sales of products in urban markets, developing rural areas, using small mechanization, which is unusual for large agricultural enterprises. In order not to lose a powerful producer of agrarian products and to preserve a specific rural system, it is worth creating conditions for further development of households.

It is necessary to promote the development of large and small forms of agricultural production in unity - they should not be contrasted, but mutually support each other. Households and agricultural enterprises should have close economic relations that require continuous improvement.

Small farms sell agricultural products—in small quantities as raw materials to intermediaries or directly to processing enterprises of agrarian products in the domestic market at low prices.

Creation of new organizational and legal structures on the basis of households will enable them to significantly improve the conditions for the production and marketing of manufactured products, to ensure concentration of production, which will allow the use of mini-machinery, reduce the cost of people's labor to produce a unit of production, improve the work and life balance of the peasants, increase production efficiency.

Large and small agribusiness should supplement each other, occupying their niches while satisfying the needs of society in food, as well as food and light industry - in agricultural raw materials. Small farms increase the production of products that are being cut in large enterprises. The latter are increasingly specialized in the production of cereals, sunflower seeds, sugar beets, while small farms are increasing the production of potatoes, vegetables and milk.

Development of integration processes in the agrarian sector is one of the promising directions which will promote increase of efficiency of agricultural production. In general, integration is the process of combining different subsystems to achieve the goals of the organization or the introduction of any particular parts into a single whole of a particular system.

In agriculture, integration is seen as the development of productive and economic ties between enterprises of agro-industrial complex, focused on the combination of their land, financial, material, and human and other resources for the production and sale of the final product [2, p. 380]. Economic growth in the country is possible to be achieved only if the integration of large and small business is based on the benefits for both large corporations and small businesses. Such integration should be considered as an economic symbiosis, long-term economic interaction of strategic partners, which gives a synergistic effect when the effect of the joint activity exceeds the sum of the economic effects of individual enterprises.

Small commodity producers are interested in this kind of relationship, since integration gives them guarantees for the provision of work and marketing of manufactured products. While implementing the integration relations households are provided with means and objects of labor, seeds, planting material and feed, technological support and guarantees regarding selling manufactured products. Referring to world and domestic experience, it is possible to increase the efficiency of households through its technical and technological upgrade, organising a complex of educational and advisory activities in rural areas and the creating conditions for the formation and implementation of integration relations. Kopach K. states that the integration of agrarian enterprises and households is that inseparable interconnection, mutual understanding and close relationship between them, which will not only provide the population with products and revenues, but also facilitates the implementation of other economic and socially important functions for the state [3].

Active interaction of households with agricultural enterprises could be facilitated by: contractual operations on grazing and fattening of animals, reproduction of a productive herd, the sale of agricultural products, storage and processing of products, joint implementation of certain measures (creation of compatible production facilities, construction, etc.); development of lease relations (lease of industrial buildings, premises, productive livestock and other fixed assets); renting the necessary equipment for a fee, etc. Obviously, small commodity producers can independently directly enter into contractual relations with each of the participants in market infrastructure: harvesting, processing and trading organizations, marketing cooperatives, etc. In this case, they will have additional costs for storage, transportation, preparation of products for sale [4].

Small agricultural producers are very limited in access to credit resources, not always provided with fixed and circulating assets, they also require agro-service and advisory support. The implementation of the priority tasks of agrarian policy requires, basically, creating new integration relations, which envisage close coordination between large enterprises and small business representatives. In this case, it is necessary not only to provide access to resources and state support for the development of small business in the countryside, but also to establish close production links in the process of production and marketing of agricultural products.

Scientists have developed several models of attracting households to integrational relations in the agrarian sector of Ukraine, a mini-cluster is one of them. There are several interpretations of the term: a cluster is a group of interconnected enterprises or organizations located in or near the settlement that complement and enhance each other's competitive advantages; cluster is a voluntary branch-territorial association of business entities, including state authorities, with a view to consolidating activities and achieving competitive advantages in the context of globalization, etc. [5].

It is necessary to distinguish between vertical and horizontal integration while creating the cluster. Vertical integration is achieved through a combination of technologically interconnected productions, distribution systems and other economic processes within the scope of the activity of the association. The advantage of vertical integration is to achieve savings or reduce costs in the process of joint production, sales of products, the established functioning of the quality control system, etc. Stable raw materials supply will help to manage production planning and supply schedules more efficiently, and will reduce overall costs [5].

Mini-cluster models [6] were developed to be applied as informal types of horizontal and vertical integration in world practice. An enterprise integrator is the core of the cluster, it forms its internal infrastructure according to a certain type of production. Depending on the specialization, one or more processing or trade enterprises can serve as the core of the cluster, and its members (agricultural producers) form the raw material zone. The cluster operation experience shows that the formation of cluster associations by large enterprises is the most sustainable as they are interested in the involvement of small and medium-sized commodity producers in order to obtain labor-intensive products to fill specific product niches, as well as cooperative enterprises of commodity producers supported by state authorities [7].

Agro-industrial clustering, by definition of Sabluk P.T. and Kropivko M.F. [8], is the concentration and specialization of agro-industrial production with the formation on the territory of closed food chains on the basis of integration so that clusters participants could obtain competitive products, as well as increase profitability.

The cluster model of agro-industrial production organization and development involves the formation of the following closed cycles "production - storage - processing - realization of agricultural products" on a particular territory, operating on the basis of integration and cooperation, to ensure the effective functioning of each agro cluster participant, production of competitive products and profits maximization. Including households in the cluster model of the agrarian market will create objective conditions for improving their management efficiency. The cluster model is an organizational framework for ensuring regional, as well as sectoral, product etc competitiveness.

Cluster local networks of territorial production systems are sources and factors ensuring a high level and quality of life of the population, economic growth and sustainable development of territories. Formation and development of clusters in the food complex requires uniting producers of a particular type of agrarian raw material and / or food products into a technological chain with horizontal and / or vertical links. Within the framework of the cluster, on the basis of integration and cooperative ties, the adaptation of agrarian and processing enterprises to market conditions of economic activity takes place. The increase of economic management efficiency is achieved through the support, development and intensification of industrial and economic ties, which, in the final analysis, provide a high overall result. Increasing the productivity in clusters as the result improve the quality, safety and competitiveness of manufactured products, and enhance economic performance for all its participants [9].

Along with managing the agrarian cluster participants, it is very important to manage its structure as the main purpose of the management mechanism is to create the system of relations between the participants, which will contribute to counteracting the influence of negative factors,

making prompt adjustments and responding to changes in the environment, and the main task is to ensure the organizational unity of the participants in improving the efficiency of the activity, creating necessary conditions for the transformation of economic relations, successful sustainable economic and social development problem solving[10].

Combining the efforts of households and other organizational and legal management forms based on cluster model will have positive influence on their development as a result of lower production operating costs, reducing financial risks, forming relationships on a contractual basis, which will increase the production profitability on small farms. Along with this, as a result of the effective functioning of the agro cluster, the development of auxiliary crafts will be widespread, in particular, the repair and construction of warehouses, the repair of servicing and agricultural machinery, that is, alternative segments of small farms within the agro cluster may become complementary to the main production. Such a system of production organization, of course, eliminates a number of contradictions between individuals in the agrarian sector of the economy [11], and eventually lead to the development of industrial and social infrastructure in the countryside, and an increase in the living standards of the rural population.

Another important and promising model for attracting households to integrational relations in the agricultural sector is industrial contracting, which is, on the one hand, the simplest form of combining the production interests of the two sectors of the economy, from the provision of agricultural production to its harvesting, and on the other hand, - it forms strong cooperative-integration production and distribution links in the agricultural sector of the economy [4, p. 106]. Also, production contracting increases the competitiveness of products in the market, as well as its profitability. The positive aspects of contracting are the following: it allows to distribute different types of resources among the subjects of integration in a more efficient way, increase revenues by combining activities, reduce dependence on weather and climatic conditions due to spatial diversification, enhance the competitiveness and investment attractiveness of agribusiness.

Owning large production facilities, agro-corporations can purchase products of horticulture, berry and vegetable growing from small enterprises for further processing (freezing, drying, etc.) and sales on the contracting basis. Expanding the product line by producing frozen and dry fruits and vegetables will allow filling the market with domestic products, eliminating the shortage of raw materials for the food industry, and increasing employment in rural areas.

Another is the cooperative model which requires creating a system of consumer co-operation. According to Article 2 of the Law of Ukraine "On Cooperation", a consumer cooperative is formed by uniting the physical and / or legal persons for the organization of trade services, procurement of agricultural products, raw materials, production of products and provision of other services in order to satisfy the consumer needs of its members [12]. The advantages of consumer co-operation are the following: the ability of its members to use the services of transportation and distribution of products, as well as advisory services, collective protection of interests, etc.

The next is co-operative-integrated model which also involves creating a consumer cooperative, integrating with the production, processing or marketing enterprise of the agrarian sector of the economy. The main advantage is the deeper level of agro-economic integration preserving the independence of business entities, however the problem is the inability of the integration interaction of individual rural households that are not members of the cooperative.

Worldwide practice shows that franchising and outsourcing are two other effective forms of interaction between large and small agribusinesses.

Franchising in modern conditions is one of the best and most effective ways of developing a small business. It works both for enterprises that have already achieved some success and would like to develop in the future, and for starting business enterprises that have the desire and ability to do business under the direction of a large enterprise, gain new knowledge, experience, master and take innovative technologies and methods of business organization. This is an integrated form of large and small business cooperation, considering necessary balance of economic interests of both parties [13].

Franchising is an agribusiness system, which consists of a large agricultural enterprise (franchiser), operating effectively on the market, has its well-proven brand and small business (franchisee), which has acquired the franchisor's right to use his trademark and running business

technology [14]. The cooperation mechanism in the agrarian sector is the following: a large agricultural enterprise gives a small business the right to use its brand, teaches business technologies, and also provides a guarantee, as its success has already been proven in practice. The effectiveness of franchising is twofold: firstly, it makes it possible to engage active but not very experienced in agribusiness people and teach them effective business processes management, and secondly, it allows to build network business in large areas. Thus, franchising is a method of replicating successful small farms that produce similar products with large agricultural enterprises.

The franchising model of interaction between large and small agrarian enterprises has a number of advantages: firstly, the period of operation of small agribusiness is significantly expanded, the risks of products sale decrease, secondly, the number of small agricultural enterprises goes up, which increases the employment of the rural population, thirdly, it makes it possible to satisfy the needs of the population in natural products, and, fourth, increase the profitability of budgets of rural areas. Franchising has room for successful development of small agribusiness, since it combines ownership and managerial skills of large agribusiness.

Outsourcing in agribusiness is the transfer of various elements of economic activity from a large agricultural enterprise to a small agribusiness on the long-term contract (agreement). Outsourcing involves a closer mechanism of interaction between large agricultural enterprises and small agribusiness than contractual agreements. Large agroholdings can lease or sell a part of assets to a small business on special inducement under the contract.

The ideas of outsourcing have the following undeniable advantages: large agricultural enterprises concentrate their efforts on their main activities and are not distracted by the production of other types of products; reducing operating costs, number of employees, risks, etc. [15].

Under outsourcing, small businesses perform work according to the contracts having minimal influence on the business of large agribusiness, as according to the contract, only non-major processes could be transferred. For example, packaging products, drying and freezing products, etc.

The reasons behind the spread of outsourcing as a mechanism for interaction between large agricultural enterprises and small agribusiness are: lack of knowledge about the principles of outsourcing, fears of large agrarian enterprises about disclosure of commercial secrets, lack of highly skilled and active managers of small agricultural enterprises, lack of support from the authorities, lack of information on the potential of small forms of management [16].

**Conclusions.** Small business is reasonable and can develop in those activities and spheres, which have an advantage over large-scale business. That is why it is necessary to promote the development of both large and small forms of agricultural production, not to violate their integrity and not to oppose one another. They must not only complement the forms of functioning, but also implement the specific conditions and factors of innovation development, and at the same time, establish joint promotion of agricultural products on the market with the minimum participation of intermediaries.

Interaction of small and large agribusiness farms can be reflected in the integration of large enterprises with households, which will increase the profitability of small business entities and increase the volumes of production of large enterprises. At the same time, small producers are provided with the resources necessary for the production of agrarian products.

The formation of agricultural cluster involves the growth, development and improvement of the quality of agricultural products produced in small farms, growth of competitiveness of economic entities in order to access commodity markets and formation of an appropriate environment for its functioning, which will increase the efficiency of agricultural production, diversify the economy and improve living standards and well-being of rural population. Particular attention should be paid to the geographical concentration of economic entities within the cluster created, which will enhance the integration and cooperative ties between commodity producers and increase the synergy effect in the process of agricultural production.

The efficient functioning of clusters through the integrated participation of all agrarian market participants will ensure the creation of closed cycles for the production, storage and processing of products, which will lead to a production quality increase and its competitiveness on the market, and will promote the growth of employment of rural population.

Large agricultural enterprises, in the process of diversification, increase in production volumes or development of the raw material base, are able to satisfy their own interests by involving households in joint activities, which, on the other hand, will receive guarantees regarding social protection, employment, effective distribution of profits, provision of basic means, fodder, seeds. The cluster model will solve the problem of resource-based industry and promote the implementation of products with high added value in the market.

In order to function successfully on the regional level, it could be good practice to approve the cluster management principles support programs that can be implemented in the form of regional contests for better cluster projects.

Franchising and outsourcing can be considered as effective forms of relations between corporations and small businesses, which will significantly increase the efficiency of small agribusiness, and, consequently, will ensure the living standards and welfare of rural residents. The proposed models and mechanisms of interaction between large and small agribusiness, will increase the efficiency of organization of their activities, as well as promote the development of rural areas.

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