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# **Key Factors of Working out of the Financial Improvement Strategy of Sumy Region Agricultural Enterprises**

## **Introduction**

Modern financial condition of many Ukrainian agricultural enterprises is not stable, because of the global economic crisis and miscalculations of the state agrarian policy, that results in high risks of bankruptcy, low income level of rural inhabitants, and negative influence on the economy of processing, service and other branches and spheres of economy. Under the condition of Ukraine's access to SOT, financial instability of most agricultural enterprises causes the threat to the state provision security. That is why it is especially essential nowadays to find the key factors which influence the financial improvement of the enterprises of agricultural sphere to provide their solvency, profitability, firm competitiveness and production of the ecologically safe products.

## **Research Goals, Tasks and Methods**

The main target of this work is to distinguish the key factors which influence the financial improvement of Sumy region agricultural enterprises to provide their firm financial condition and also to provide the provision safety on the regional and state levels.

To fulfill this aim, the following tasks must be solved:

- to explore the key factors of outer environment of the formation of the financial improvement of Sumy region agricultural enterprises' strategy;
- to evaluate the up-to-date financial condition of Sumy region agricultural enterprises;
- to work out the conception model of the financial improvement of Sumy region agricultural enterprises' strategy on the regional level;

The subject of the research is the strategy of the financial improvement of agricultural enterprises of Sumy region.

For solving set tasks the following basic methods were used: monographic, abstract and logic, calculation, constructive and comparative, generally accepted statistic methods.

## **Key Factors of Outer Environment of the Formation of Financial Improvement of Sumy Region Agricultural Enterprises' Strategy**

The activity of agricultural enterprises needs reasonable planning. The applying of the necessary financial resource depends not only on the favorable investment climate, created by the state and the local authorities, but also on the agricultural enterprise, which must plan its prospects. That is why the strategic activity planning is essential not only for foreign investors, but to the agricultural enterprises as well, regarding their dynamic development.

It is necessary to realize that it is impossible to detach from the world tendencies of production and consumption of agricultural products. On the basis of this fact, the working out of the financial improvement strategy should be grounded on the key factors of macro and giga environment, such as world population quantity forecast and main provision kinds' consumption forecast. It is also essential to take into consideration the state agrarian policy, which is put into the programs of agricultural production industries and rural territories development on the state and regional levels as well.

It is also necessary to consider the state agrarian policy, which is programmed by the agricultural production development and the rural area on the state level and the local one as well.

According to the data of Food and agriculture organization of UNO (FAO), the world prices on provision have increased almost twice for the last 10 years (Table 1).

The world provision price increasing was observed in 2010. If in January 2009 the total provision price index was 172.4% (sugar – 334.0%, cereals – 171.1%, milk – 215.6%, meat – 120.1%), then in January 2010 it increased till 214.7%, applying sugar index price 398.4%, oils and fats – 263.0%, cereals – 237.6%, meat – 142.2%. The “rontal” increasing of main price indexes made experts talk about the straining of the world provision crisis and create the negative consumption forecasts of the following price dynamics on the market of agricultural products.

**Table 1**  
Investment Volumes in Basic Capital on Branches of Agro-Industrial Production

Year	Price index on the world provision resources	Meat	Milk	Cereals	Oils and fats	Sugar
1990	108.8	131.1	74.9	99.4	72.9	185.7
1991	103.2	127.2	77.2	94.3	78.4	129.8
1992	107.0	120.4	94.7	103.3	84.1	129.6
1993	105.0	121.4	88.0	96.7	84.1	137.6
1994	109.8	118.0	78.8	106.3	106.5	162.4
1995	120.8	115.2	106.3	113.8	127.7	193.6
1996	125.8	114.0	110.6	144.6	113.0	173.0
1997	114.0	111.5	104.9	113.1	110.7	158.0
1998	105.7	95.3	101.5	101.6	128.8	136.3
1999	92.9	93.2	87.6	92.3	99.5	93.3
2000	89.1	95.0	92.4	84.2	71.2	107.3
2001	92.0	92.7	107.0	86.4	64.8	127.9
2002	89.8	91.5	85.7	91.6	82.8	97.4
2003	96.8	95.6	91.8	98.0	99.1	104.6
2004	110.2	110.0	117.8	107.7	113.3	96.9
2005	114.1	113.6	134.8	102.9	104.2	130.5
2006	120.2	106.8	127.7	115.1	107.9	211.2
2007	145.2	110.6	190.7	156.5	154.4	146.0
2008	196.9	127.0	239.0	242.8	239.8	178.0
2009	147.6	118.4	131.4	174.6	144.0	231.4
2010	172.5	131.3	201.1	172.7	178.4	291.9

Source: Built upon the data of the National strategy research institute ([www.niss.gov.ua](http://www.niss.gov.ua)).

The obvious reasons of the world price increasing tendencies on the markets of agricultural products are the following:

1. The population of the planet is being constantly growing. Thus, if in 1990 the population of the world was 5.26 billion people, then in November 2011 it grew to 7 billion people. Recently 90% of population growth has taken place in the lowly-developed countries. Among birth leaders Africa is the first (45 babies in 1000 people), Latin America is the second – 31, Asia is the third – 29 babies.
2. There is a current tendency of area decreasing, suitable for the agricultural cultivation. There are 4810 million ha of land in the world, used for agriculture

(among them, arable areas – 1340 million ha, meadows and pastures – 365 million ha). The biggest arable areas belong to the USA (185 million ha), India (160 million ha), Russia (134 million ha), China (95 million ha), Canada (46 million ha), Kazakhstan (36 million ha) and Ukraine (32 million ha).

3. There exists the shortening of agricultural raw materials supply, which is connected with unfavorable weather conditions in some countries – producers. Reports about the low wheat yields in Russia, Ukraine, Kazakhstan and Canada in 2010 caused the rapid price increasing on this product, which grew on more 70% during the two summer months in 2010.
4. The enlarging of growing crops amount is aimed for the biological fuel production. This tendency is supported, for example, by the US government, which gives vast subsidies to its farms and agricultural enterprises for growing wheat, corn, rape.
5. Increasing consumption of provision in the most highly-populated countries of the world – India and China – was caused by their fast economic development, which was followed by the growth of people income and consumption demand. In the period of crisis, the developing countries showed the less level of stagnation, or they avoid crisis at all.

**Table 2**

Sufficient consumption indicator in foodstuff (per person, per year) [kg]

Foodstuff	Rational norm	Real consumption in 2010	Sufficient consumption indicator
Bread and bread products (calculations in flour)	101.0	111.7	1.11
Meat and meat products (calculations in meat)	80.0	49.7	0.62
Milk and milk products (calculations in milk)	380.0	212.4	0.56
Fish and fish products	20.0	15.1	0.76
Eggs (items)	290.0	272.0	0.94
Vegetables and melons	161.0	137.1	0.85
Fruit, berries and grapes	90.0	45.6	0.51
Potato	124.0	133.0	1.07
Sugar	38.0	37.9	0.99
Vegetable oils of all kinds	13.0	15.4	1.19

Source: Calculated according to the data of the Agrarian policy and provision ministry of Ukraine ([www.nimagro.gov.ua](http://www.nimagro.gov.ua)).

These are the external giga level factors. The macro level should also be under review. As a result of the extensive development model of the agricultural sector, the indicators of the Ukrainian provision safety are getting worse. The consumption balance of the main provision (Table 2) shows that in 2010 in Ukraine real consumption of most main foodstuffs were lower than the reasonable norms. The intensive retardation from the factual consumption was observed at fruit, berries, and grapes – to 49%, milk and milk products – to 44%, meat and meat products – to 38%, fish and fish products – to 24% [Zhaliga 2011].

The real consumption of the provision groups, such as “bread and bread products”, “potato”, “vegetable oil of all kinds” was higher than rational norm.

Such exceeding of the norm is an evidence of unbalances nutrition of the population, which tries to provide own energetic needs on the account of the economically affordable products. Thus, in 2010 the average day nutrition of an Ukrainian was 2946 kcal that is 18% more than the border criteria (2500 kcal). The main part of calories is consumed by Ukrainians through vegetative foodstuff, however 27,1% of the average day ration is supplied with the foodstuff of the animal origin, that is twice lower than the determined ultimate criteria (55%). Analyzing the data behind, we can conclude, that under the conditions of the growing need in provision on the local and the international levels as well, agricultural enterprises must be financially stable for the production of the ecologically safe provision in sufficient amount.

## **Financial Condition of Agricultural Enterprises of Sumy Region**

Financial condition is one of the most important characteristics of activity for every enterprise. The aim of the financial condition evaluation of an enterprise in the anti crisis management system is working out and implementing the measures, directed to the rapid solvency restoration, restoration the sufficient level of financial stability of an enterprise, establishing the ability of an enterprise to continue its economic activity, ability for its further development, providing profitability and production potential growth and taking responsible decisions. We state that the financial condition itself is the key micro level factor of working out the financial improvement of agricultural enterprises' strategy according to Podolska [2007]:

Financial condition of an enterprise is determined by such elements:

- 1) profitability of the enterprise's activity;
- 2) reasonable profit dealing, that is left in the disposal of the enterprise after paying taxes and necessary expanses;

3) sufficient amount of own financial resources for the organization of the production process and the process of the products' realization;

4) reasonable placement of main and working funds;

5) solvency and liquidity.

As we are limited in the amount of this material, only indicators of losses in the activity of the agricultural enterprises of Sumy region will be reviewed (Table 3, 4, 5).

**Table 3**

Loss indicators: totally in agriculture of Sumy region agricultural enterprises

Indicator	2008	2009	2010	Deflection (+,-) 2010 from:	
				2008	2009
Net profit (+) loss (-)	-104123,0	-160523,8	-103110,5	1012,5	57413,3
Profitability (+) loss (-) [%]					
- products realization	-30.25	-28.05	-31.73	-1.49	-3.69
- main means	-35.70	-34.70	-36.58	-0.88	-1.88
- working assets	-51.80	-54.82	-65.05	-13.24	-10.23
- assets	-3.55	-5.12	-3.01	0.54	2.11
- own capital	-11.50	-17.37	-10.80	0.70	6.57

Source: Calculated according to the data of Statistics collection of Sumy region [2011].

**Table 4**

Loss indicators: animal husbandry of Sumy region agricultural enterprises

Indicator	2008	2009	2010	Deflection (+,-) 2010 from:	
				2008	2009
Net profit (+) loss (-)	-23843,0	-9716,7	-2301,0	21542,0	7415,7
Profitability (+) loss (-) [%]					
- products realization	-2.41	-2.39	-25.25	-22.84	-22.86
- main means	-4.36	-3.67	-25.52	-21.16	-21.85
- working assets	-7.78	-6.72	-46.70	-38.92	-39.98
- assets	-2.84	-1.13	-0.25	2.58	0.88
- own capital	-4.86	-1.91	-0.44	4.42	1.47

Source: Calculated according to the data of Statistics collection of Sumy region [2011].

**Table 5**

Loss indicators: plant production of Sumy region agricultural enterprises

Indicator	2008	2009	2010	Deflection (+,-) 2010 from:	
				2008	2009
Net profit (+) loss (-)	-133969,0	-150102,7	-100774,6	33194,4	49328,1
Profitability (+) loss (-) [%]					
- products realization	-11.18	-44.16	-34.01	-22.83	10.16
- main means	-12.82	-48.75	-41.18	-28.36	7.57
- working assets	-16.77	-72.11	-72.36	-55.59	-0.25
- assets	-6.41	-6.59	-4.00	2.42	2.59
- own capital	-32.85	-36.51	-23.32	9.53	13.20

Source: Calculated according to the data of Statistics collection of Sumy region [2011].

According to calculations presented in Table 3, 4 and 5, the activity of the agricultural enterprises is unprofitable. But there are enterprises in every district of Sumy region, which use efficiently their own financial, land, material and labor resources. 186 agricultural enterprises out of 350 have been working efficiently for last 3 years, and the profitability level achieves 35–37%.

Total unprofitability influences negatively on the level of workers engaged in agricultural production material stimulating (Table 6).

**Table 6**

Level of average monthly salary of Sumy region agricultural enterprises

Indicators	Year					
	2005	2006	2007	2008	2009	2010
Average monthly salary in total in agriculture, UAH	372	477	632	940	1079	1305
Average monthly salary in total in industry, UAH	814	873	954	1677	1849	2134
Average monthly salary in total in financial activity, UAH	970	1315	1785	2309	2471	2852
Average monthly salary in total in Sumy region, UAH	663	932	1186	1472	1593	1866
Average calculated quantity of stuff workers in total in agriculture	44 120	33 141	30 551	27 535	23 024	21 923
Salary funding in total in agriculture, thousand UAH	203 686	215 585	231 769	310 530	298 101	343 314

Source: Calculated according to the data of Statistics collection of Sumy region [2011].

In general, the survey conducted before and this material give the opportunity to make unpleasant conclusion that the majority of agricultural enterprises are not profitable, highly dependable on external funding and low solvency. On the basis of this fact, it is essential to work out the financial improvement of agricultural enterprises' strategy, taking into consideration the key factors of micro, macro and giga levels mentioned before.

## **The Concept Model of the Financial Improvement of Agricultural Enterprises' Strategy on the Regional Level**

As there is no common point among the scientists about the stages of working out of financial improvement strategy [Sabluk 2004, p. 6; Dovgan et al. 2009, p. 76; Sodomir 2008, p. 61; Kulaets and Kutcekon 2009, p. 77], its content and the number of stages, it is necessary to create the own algorithm of the process of financial improvement of agricultural enterprises' strategy concept model formation (Figure 1).

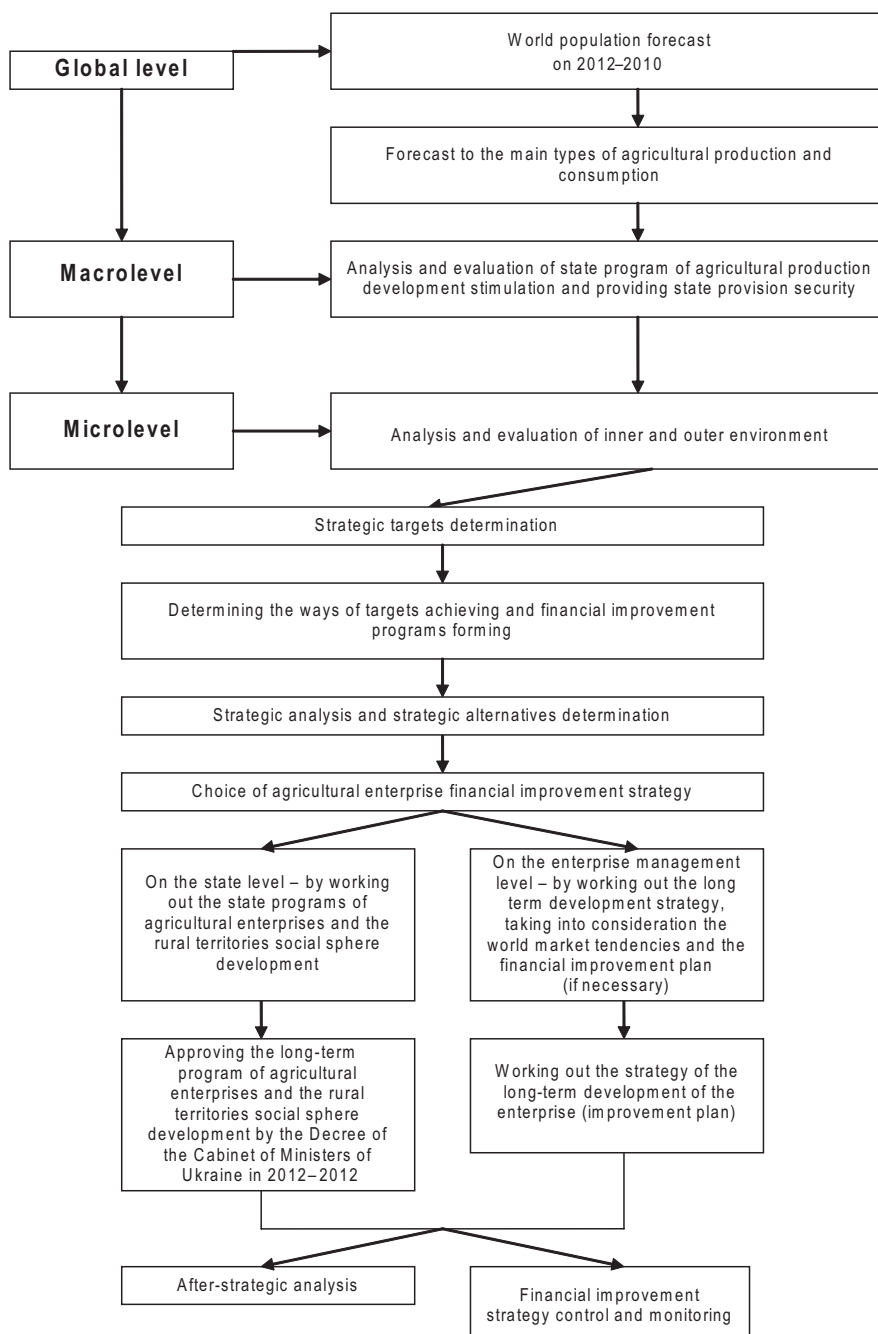
As it has already been mentioned, it is impossible to detach from the world tendencies of agricultural production and consumption. On the basis of this fact, the working out of the strategy should be grounded on the key factors of macro and giga environment, such as world population quantity forecast and main provision kinds' consumption forecast, and the state programs of agricultural production development, and also the key micro level factor – the actual financial condition of the agricultural enterprises.

Further there will be under review the list of the certain actions, which must be accomplished by the local authorities and the enterprise management to provide the financial improvement of the agricultural enterprises' strategy.

The measures of financial improvement of agricultural enterprises support should be done in complex and directed to elimination of the specific factors of financial instability.

To achieve this, it is necessary on the state level: to provide the state programs funding for land protection, plant and animal selection; the creation of new, more effective means of their protection, mineral fertilizers; to improve the legislative base of agricultural production insurance and to create favorable conditions for the active insurance activity on the rural territories; to form special-term loaning and taxation of the additional activities; to provide (if necessary) state contracts on purchase of products of these producers on average market prices; to develop transport network and financial infrastructure; to improve the price regulation policy on main provision, and also to form the mechanisms of profit norms regulations in the economic branches on the benefit of agriculture; to stimulate the





**Figure 1**

The conception model of financial improvement of the agricultural enterprises' strategy

Source: Own design of the author.

development of social infrastructure in the countryside, consumer services, trade networks, others; to finance state research institutions and programs on the necessary level, to involve private funds to supply sponsor help more actively to scientific projects in agriculture, and also to provide state support of the innovation development of enterprises, financing the ecological programs, expanding state programs of credit support to agricultural producers etc.

It is essential on the local authorities level to monitor areas and to control the soil usage conditions, to take measures regarding the improvement of the ecological situation on the territory of the rural community; to create (if there is no) or to improve the work of the regional veterinarian and zoo technical services, agro technical laboratories; to develop transport as well as rout network in the rural districts of the region, to hold regional exhibitions and fares for promotion the local producers to the national and international markets; to create favorable conditions for the development of the processing enterprises, procuring and supplying organizations; to monitor constantly the depressive districts for the formation of the domestic policy to level the life standards on rural territories etc.

On the management level: it is necessary to keep the maintenance of technological demands not to let the soil quality deteriorating; to work out own soil protection programs; to restore the selection work, to implement the scientific based crop rotation, animal feeding rations, to improve the work of zoo engineering, veterinarian and agronomic services, to control the animal keeping norms, to monitor the insurance market for searching reliable partners to insure the yield, main herd, perennial plants; to stimulate the marketing activity; to develop own social background, and also to provide the policy of increasing the salary level and payments to owners etc.

As regarding the strategy implementation towards the enterprises of Sumy region, so the main measures of agricultural producers' financial improvement must be done by the enterprises' management, taking into consideration tendencies on the world and national markets. But the ability of the management to implement such measures greatly depends on the outer environment, especially on state and regional policy of agriculture development support, reflected in the appropriate state and regional programs that belong to the executive local and state authorities' competence.

## Conclusions

The following conclusions can be formed on the base of this research:

1. The key factor, which influences the working out and implementing of the financial improvement of the agricultural enterprises' strategy on giga

level, is the constantly increasing demand on foodstuff, because of the rapid world population growth, arable lands decrease, bio fuel production and instability on the world financial markets. Besides, it is typical for the population of Ukraine to have scarce main provision kinds' consumption. Factors mentioned before, must stimulate the state authorities to work out the financial improvement of the agricultural enterprises' strategies on the regional and state levels to produce the ecologically safe products in sufficient amount.

2. Financial condition is one of the most important activity characteristics of every enterprise. As it is proved by the calculations done, the activity of agricultural enterprises of Sumy region is not profitable. But there are enterprises in every district of Sumy region, which use effectively own financial, land, material and labor resources. 186 agricultural enterprises out of 350 have been working with profit for the last 3 years, and the efficiency level achieves 35–37%. The total unprofitability influences negatively on the level of workers engaged in agricultural production material stimulating.
3. According to the proposed financial improvement of the agricultural enterprises conception model, the core measures of the agricultural producers' financial improvement must be done by the management of the enterprises, taking into consideration tendencies on the world and national markets. But the ability of the management to implement such measures greatly depends on the outer environment, especially on state and regional policy of agriculture development support, reflected in the appropriate state and regional programs that belong to the executive local and state authorities' competence. Thus, the strategy implementation depends on the enterprise itself and the state agrarian policy as well, and the key indicators of its efficiency should be indexes of main provision kinds' consumption by the population of Ukraine and the dynamics of agricultural production export amount.

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## **Kluczowe czynniki opracowania strategii poprawy kondycji finansowej przedsiębiorstw rolniczych z regionu Sumy**

### **Streszczenie**

Celem opracowania było określenie strategii poprawy kondycji finansowej przedsiębiorstw rolniczych. Zwrócono uwagę na otoczenie zewnętrzne przy formułowaniu strategii. Nie można pomijać tendencji w zakresie światowej produkcji rolniczej i konsumpcji. Oceniono sytuację finansową przedsiębiorstw rolniczych regionu Sumy. Stwierdzono, że na brak rentowności negatywnie oddziałuje poziom zatrudnienia zaangażowanego w produkcję rolniczą. W opracowaniu wyodrębniono główne elementy strategii poprawy kondycji finansowej przedsiębiorstw rolnych.