

V. M. Tisunova, D. O. Mardar\*

Didorenko Lugansk Domestic  
Affairs National University

\*Shevchenko Lugansk National University

## THE STRATEGIC DIRECTION OF THE INTERACTION BETWEEN AGRICULTURAL ENTERPRISES AND ENTERPRISES WITH OTHER TYPES OF THE ECONOMIC ACTIVITIES

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The leading role of the agricultural production in the priority economic activities is shown in the article; there are summarized trends of organizational approximation of production of agricultural products to industrial production, industrial Donbass taken as an example; the prospects of creation conglomerates are discussed to ensure food self-sufficiency of the region. Appropriate recommendations are provided.

**Key words:** agricultural business, economic activities, strategy, conglomerate, food self-sufficiency, region.

В. М. Тісунова, Д. О. Мардар\*

Луганський державний університет  
внутрішніх справ імені Е. О. Дідоренка,

\*Луганський національний університет імені Т. Шевченка

## СТРАТЕГІЧНИЙ НАПРЯМ ВЗАЄМОДІЇ СІЛЬСЬКОГОСПОДАРСЬКИХ ПІДПРИЄМСТВ З ПІДПРИЄМСТВАМИ ІНШИХ ВИДІВ ЕКОНОМІЧНОЇ ДІЯЛЬНОСТІ

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Показано провідну роль сільськогосподарського виробництва серед пріоритетних видів економічної діяльності, узагальнено тенденції організаційного наближення випуску сільськогосподарської продукції до промислової діяльності на прикладі індустріального Донбасу, розглянуто перспективи створення конгломератів для забезпечення продовольчої самодостатності регіону та надано відповідні рекомендації.

**Ключові слова:** сільськогосподарське підприємство, види економічної діяльності, стратегія, конгломерат, продовольча самодостатність, регіон.

### Statement of the problem

The ability of enterprises to increase their effectiveness directly depends on their economic state which is formed by several factors; the main factors are those that form the effectiveness of the strategic processes on the different levels. During the formation the strategic policy of regions and countries the choice of the perspective forms of organization of economic activity and defining their influence on development of other branches of economy has a great importance. One of the features of agriculture is its direct impact on socio-economic development of the state, its regions and businesses; it makes necessary in provision of the priority development of agriculture in the economy in the following two features as: the necessity in meeting the primary needs of the population for providing a steady demand on products, and availability of this type of the economic activity for all economic actors.

The state and regional authorities are constantly in search of new methods and approaches to the management and planning of the areas to overcome the considerable range of problems that exist in society state and regional. To achieve the main goal of economic development, they use a comprehensive set of rules and practices that find expression in the adoption of the strategic documents. Relevance of selecting the strategic directions is due to insufficient study of its institutional role in providing of the economic growth.

### **Analysis of recent research and publications**

Theoretical, methodological and practical aspects of the strategic directions of the development in agriculture and other economic activities are reflected in the work of the next economists: O. Amosha, V. Andriychuk, V. Bogachov, I. Blanc, V. Vlasov, P. Volodin, M. Demyanenko, T. Kalinesku, M. Kisil, B. Kliyanenko, M. Kodenska, L. Kostirka, L. Mirkuvava, V. Mesel-Veselyaka, P. Ponomarenko, L. Revutskyi, P. Sabluk, V. Salli, M. Chumachenkj, O. Shpykulyak and others.

Mentioned authors have researched theoretical and methodological foundations for the development and implementation of the strategies for the development of enterprises in various industries. Despite on serious research, the models of interaction between enterprises from the various economic activities have been insufficiently investigated and they need further more systematic justification to use in them on practice.

### **The formulation of objectives**

Investigation of the theoretical foundations and applied problems in the strategic development of the companies within the industrial region determines the next goals that have to be reached:

- the prioritization of agriculture among other economic activities;
- the necessity to ensure interaction between enterprises from the different economic activities as a key component of its effective development and ensuring sustainability of the region.

### **Presentation of main materials**

Theoretical theses about ensuring efficient operation of the businesses and the implementation of the strategic development have to be based on the socio-economic importance of the products that are produced.

Therefore, there is an objective interest of any region in the organization or control of the production for all material and energy resources necessary for its development, as well as recreating the main productive force – manpower [1]. The formation of this interest produces various types of limitations for lots of manufacturers, that hinder the growth of the hyper – scale enterprises and increase the complexity of their structure and often leads to limited specialization of the production. It means that the company is located of constantly changing external industrial and economic environment, the boundaries of which are households moving. The presence of this pattern can be explained by a large variety of the forms of enterprises in any sector of economic activity – from the small company with a little number of manufacturing operations to multisectoral corporations.

According to the research of the strategic processes in agriculture that have been made at the Ukrainian Academy of the Agrarian Sciences, their performance is based mostly on external factors beyond the agricultural business.

Along with that, theoretically for most types of the economic activities – mining industry, processing industry, production, gas and water distribution, construction, transport and communication industry, utilities sector, households and personal products industry – there is an objective trend for direct organizational and economic interaction, mainly with agricultural production.

The agricultural output is the main condition of the life activity the society. Agricultural sector forms its social-oriented nature and have to provide the three equal priority through the transformation [2, p. 24]:

- The ensuring food security at the state and the region;
- The creation of an effective functioning and export-oriented agriculture, based on the competitive advantages;
- The rural development within agriculture.

The agricultural research allows to make an important conclusion: the deconcentration of the agriculture of Ukraine is a natural process with its current low performance, which is determined by the level of management on micro level. Modern management is presented only in 15 % of the reformed households [3, p. 7-8], which survived the reform and produces 2/3 of the total production output at the enterprises in the analysed sector [4, p. 22].

In agriculture, almost all fixed investment are spent on modernization and reconstruction of the existing enterprises, buildings (91.2 %), and while only 8.8 % – are directed to build the new enterprises. The using of the obsolete agricultural assets increases the cost of agricultural production and its expenses [2, p. 72].

According to the number of parameters (the advantage of the access to grants, the loans, the provision of the material and technical resources, the possibility of the using infrastructure and access to social programs) large farms have an advantage over smaller ones [5, 6, 7]. However, in terms of the cost control, the productivity and business risks on the small businesses appeared to be more adaptable to changes in market conditions. At the same time, the potential of the agribusiness cannot be fully implemented by any of the traditional models of the large or small states. This problem is partially solved by the association of private and commercial interests and the achievement of the proper scales from that association, including the small farms [2, p. 48].

The possibility of the increase the exports from Ukraine, as a member of the WTO, requires the revival of great goods production [5, p. 27], that according to the world experience, it is based mostly on the combined business [2, p. 9].

In addition to issues of industrial areas, the mergers of the business in the main industries in the region contribute to the solution of issue of the social sector, including the meeting the needs of the population.

The Ukraine's strategic priority is to move to an innovative model of the economic development. The most important condition for this transition is the accumulation and an efficient using of the human resources [8, p. 6].

Nowadays, a human being as a main component of the social production has a priority place not only in scientific research but also in a social-economic policy for majority of the countries at the world.

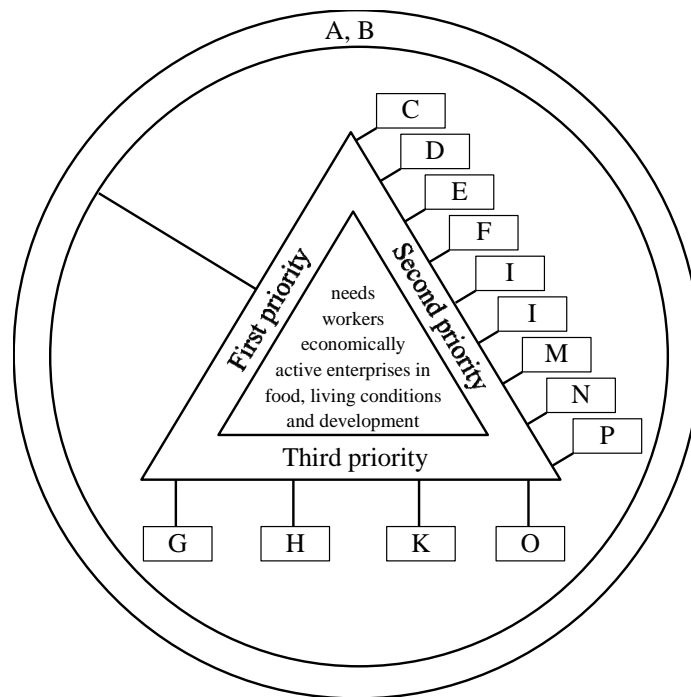
A. Marshal states that quantity of the production is only the way of supporting a human life, the meeting of its demands and the development of the physical, mental and moral forces. The human is the tool to produce this wealth and it is also the endpoint in the process of the producing wealth [10, p. 64].

Awareness of the need to ensure human well-being and the creation of the conditions for the development of the creative possibilities as the goal of social development was reflected in the concept of the human development (the concept of the development of human potential). It the first time, it was formulated in the expanded way by the experts of the Nations Development Programme (UNDP) in 1990.

The requirements of the population of the regions and their level of the satisfaction determine the level and quality of the social management. The analysis of the structure of the population needs on Donbas region has shown that they have changed in the recent years. In 2002, the need in the food was on the second place. But in 2008 and 2009, she moved to the fourth place, and the whole the system of needs was divided as follows: on the first place is the need in good health, on the second place is the confidence in the future, on the third place is the need for security, on the fourth place is the need in the food, on the fifth place is the need for self-realization [9, p. 18–19]. But providing the livelihoods of human remains steady the main factor.

The place of agriculture among other economic activities is shown on the figure 1, where the agriculture, the hunting, the forestry and the fishery belong to the first priority of the economic activities.

According to this situation, the special importance is the generalization of the experience of using various forms of an organizational-economic cooperation between an agricultural and other form of production. This practice indicates about a contraction of the cycle of operating costs and the investment within interactions of businesses and consumers of the agricultural products. Particular importance has solving of this issue at the regional level, which would significantly reduce the dependence of local governments from the state budget and ensure their independence in the decision-making.



*Fig. 1. The priority the types of the economic activities*

- A – Agricultural, the hunting and the forestry;
- B – Fisheries;
- C – Mining and quarrying;
- D – Manufacturing industry;
- E – Electricity, gas and steam production and distribution;
- F – Construction;
- G – Trade, repair of the motor vehicles, the household appliances and the subjects of personal use;
- H – Hotel and restaurant industry;
- I – Transport and communications industry;
- J – Financial affairs;
- K – Transactions related to the realty, renting, inzhiniring and providing business services;
- L – Public administration;
- M – Education;
- N – Health and social work;
- O – Providing the utilities and personal services; activity in the field of culture and sports;
- P – Activities of the households.

The cooperation and organizational unification of the agriculture enterprises with other types of economic activity in developed countries have led to the emergence of economic support systems for the agricultural sector on behalf of the state. In some countries, it has covered 70 % of all the costs of farms. It can be considered as a finished model of agricultural practices implemented in other industries across the state. Generally the model can also be applied in the context of the individual sectors and the enterprises.

The first place related to the agriculture among the other sixteen activities of the National Classification of Economic Activities (NACE) is a good indicator of how it is important for society. NACE is designed according to the European standards and preserves the idea of the indirect integration of the agriculture into other types of production.

One of the features of agricultural production is its high availability, it can be carried out by almost all the working population without a long-term special trainings.

For instance, in Zasyadko coal mine plant (Donetsk), along with the development of the non-core areas – building of the houses, pensions, roads, communications, healthcare facilities, factories, they are engaged in agriculture including meat and dairy producing by using specially created about 30 years ago

agro-firm “Shakhtar”. The first experience of the agro-firm was held at a former farm “Slovyanskiy”. First of all, on the mining facility were built the livestock premises, then gradually within the agricultural company there were organized the crops production, the production of meat and its selling through a network of firm-shops. On the coal mine facility also was recovered a working process on the dairy plant and the meat plant, located in Sloviansk city. The activity of the agricultural company based on mine provides the employment in rural areas along with stable income, with a wide range of products and the low prices.

The agricultural facility “Shakhtar” has a diversified complex: the dairy and beef cattle, the swine breeding, the eggs and poultry meat, the fish farming and the beekeeping. The area of the agricultural farm is 85 hectares, accounting for 4.8 % of the Donetsk region; it is 18 thousand head of the cattle, 32 thousand heads of the pigs, 8 777 thousand heads of the poultry. Its agricultural output exceeds the 150 million UAH. The facility has the best performance on agricultural yield and livestock production from all other facilities in Donetsk region. It includes 24 production units in Donetsk and Kharkiv regions. The coal mining facility has invested more than 400 million of local currency (UAH) in agriculture.

A notable development occurred in the agribusiness of Illich Iron & Steel Works, located in Mariupol'. An agricultural complex was established in 1999 via a voluntary annexation of agricultural and processing enterprises on the contract basis. According to that contract the Factory became the subject of ownership of the entire property complex; the members of the organized company became the subjects of ownership on the part of shares,, that they received according to the amount of property shares after the consolidation of the statutory fund of Illich Iron & Steel Works and share issues. For land lease, the lease agreements were concluded with every owner for 20 years.

The agricultural facility of Illich Iron & Steel Works became a separate structural division of the plant for the production and selling of an agricultural products and processed products and has acquired a status of a separate legal unit [11]. The separate facilities have formed an agricultural industrial formation (AIF). AIF area is 232 hectares, representing 17 % of Donetsk region area; it has 40 thousand heads of cattle warband, 55 thousand heads of pigs, 245 thousand heads of birds. Its gross agricultural output reaches 260 million of local currency (UAH).

Another industrial unit, named “Ukrpodshyppyk”, has aimed on the realization of a long-term program of implementation of their own agricultural efforts (Artemivsk city, Donetsk region). This corporation consists of non-ferrous metallurgy, food industry, machinery, construction companies, wood processing industry, as it also provides the financial and support services.

Production concern “Energo” (Donetsk city) combines steel production, coke production, coal mining, banking, and also it is engaged in agriculture and food industry (firm “Ahroton”, Dairy Factory “Laktys”).

JSC “Coal Company” Coal Mine “Chervonoarmiyska-Zakhidna № 1” has acquired the corporate rights on “Agricultural firm “Druzhba” in 2000. The land resources of the company were formed via the leased land in citizens, the owners of land certificates and land owners, as well as public property (land reserve and the reserve fund which acts as landlord Chervonoarmiyska district administration). The total agricultural land area is 16.7 hectares. The company is specialized in crop production (legumes, cereals, and certain amounts of forage crops and sunflower). An animal husbandry sector is represented by dairy herding, pig production and poultry farming. The volume of gross output at the enterprise exceeds the 30 million of UAH; the number of employees is 423.

These examples illustrate the actual practice of combining the different enterprises through formation of conglomerates. Conglomerate in contradistinction to a vertically and horizontally integrated structures are combined firms without any industrial community [12, 13, 14]. As a form of economic union, conglomerates emerged in the 60's of last century in the United States. By the end of the decade, the total number conglomerates in the U. S. was 80 %, the UK 45 %, the Germany – 43 %, the Netherlands – 26 %.

The advantage is the ability of conglomerates to create competitive large enterprises with a high level of adaptation to market conditions.

With regard to the mentioned examples, the combining agricultural and industrial production into conglomeration allowed to find quickly the means to invest in objects of agricultural area, significantly

improve the financial position of the agricultural formations in along with the use of non-traditional schemes of redistribution resources from the industrial sector, and also to solve quickly the problems of the food self-sufficiency at the regional level.

Conglomerates have the following features:

- Combining a broad range of the companies, among which there is no any connection of functional or industrial nature; it allows creating the competitive large enterprises with a large-scale coverage of the market in the different sectors;

- High level of decentralized management with the utmost importance of the planning and control, that leads to the qualified management at the companies of various sectors on the micro level and the possibility of rapid adaptation to market conditions;

- The companies from the different areas of economic activity have to be united under one owner and have to be bound with the biggest bank, which helps to attract the additional investment capital and therefore empowerment of the enterprises.

Typically, these basic features inherent to the large associations, that operate in the Donbass area and create conditions for the growth of the conglomerate mergers, in particular, the formation of the rational ratio between specialization and multi product productions at the agricultural business.

At the same time, these benefits of the conglomerate integration into agricultural business do not get the required grades in the society's opinion, except for random statements [15]. This can be explained by the long historical division of the production in the certain sectors of economic activity (industry) under the influence of the specific technologies that meet specific community needs. In its turn, the institutional market transformation (trade secrets and competition) prevented the implementation of regional interests in the formation of self-sufficient communities. As for the sphere of food production, these circumstances have led to the emergence of resistant contradiction between the total and daily nutritional needs and the alienation of most labour unions from their production. This should be considered as primary causes of long stressful situation in the agricultural sector. So nowadays, the rational organization is the key to gaining town's and village's potential [16].

The concentration of production may extend beyond a single industry. The use of new techniques and technologies, the capital construction are often beyond the power to enterprises, because the most of the coal industry as well as agriculture farms have insufficient amounts of the investment along with an outdated manufacturing base. The creation of inter-branch organizations would leave room for further development, improving of the efficiency of investment and increasing competitiveness [17, p. 8].

Thus, conglomerates are the big economic complexes which activities are aimed to satisfy the interests of a the particular region. For them, the specialization by subject is not the main feature, in opposed to the vertically and horizontally oriented integrated structures, which tend to focus on the one production technology. In fact, the conglomerates represent the highest level of the integration in comparing with the vertically and horizontally integrated structure. They maximize the efficiency of the natural resources, as there is a balanced distribution of resources, the finance, the intellectual capabilities that meet the needs of the business. Along with that, the competition principles are not violated.

In the Ukrainian legislation, such forms as the conglomerates do not exist. The need for a legislative definition of this form of business is defined of its great advantages over the forms that are laid down in art. 120 of the Commercial Code of Ukraine (CCU). Therefore, this element of CCU requires the further improvement.

The evolution of the agricultural enterprises is influenced by the technological innovation and the competition to ensure effectiveness. However, the interests of the region does not allow for it to be treated indifferently to changes in large corporations and have an unforeseen complications in the regional societies.

The analysis of the processes of market transformation of developed countries leads to the conclusion about the need for state regulation of the market. The large associations help to solve many social problems in the region. They are able not only to generate their own innovations and make significant research and development works, but they also could concentrate around themselves the medium and small businesses. The creation of the large corporate conglomerates in the region is one of the means of preventing the crisis situations.

## Conclusions

It allows using strategy on expanding market share, enhancing competitiveness, ensuring sustainability of the region through using funds by industrial enterprises at agriculture.

The integration of the agricultural and other types of productions via conglomerates prevents the monopolization of the land tenure and create the democratic conditions in this critical field of economic relations; it makes them transparent and accountable for regional communities.

The results of the conglomerate mergers in the industrial Donbass deserves to be reviewed on the government level and further used in all regions of the Ukraine.

## Prospects for further research

In order to improve the integration processes at the enterprises of the different economic activities, the further research for the all aspects of the legal and methodological provision of business associations is required. It is necessary to make it possible for the enterprises to maintain their activity by using such privileges as the use of tax and financial incentives, as well as the participation of the government and local authorities in the development of the infrastructure of the corporate sector.

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