

Original research paper

PROFITABILITY OF AGRICULTURAL ENTERPRISES IN UKRAINE (ON THE CASE OF LVIV REGION): CONDITIONS AND TENDENCIES OF FORMING

ABSTRACT

The main objectives of the study are generalization of the economic essence of the process of profitability formation, discovery of tendencies and conditions of profitability formation of the agricultural producers in Lviv region. The study contains an analysis of actual data from using clustering methods, economic analysis, synthesis, graphic and empirical method of economic research. The research is based on statistical data that were provided by official statistical agencies in Lviv region (Main Statistic Administration in Lviv region, Ukraine). The research was conducted based on the results of the activity of agricultural enterprises, issued by Main Statistic Administration in Lviv region in 2009 - 2013 years. Place and Duration of Study – Lesya Ukrainka Eastern European National University (Lutsk, Ukraine). The paper determined that profit of agricultural enterprises is the source of its development through reinvestment and also the basis of stable activity and fulfils a social function in the context of providing employment for rural population. The article proved that the profitability of an agricultural enterprise is its economic state, that displays the realized and potential ability to generate a positive financial result from the implementation of both the main (related to agricultural production), and the whole business. According to results of the research of profitability of the agricultural producers in Lviv region for 2009 – 2013 years, the instability and heterogeneity of their development, manifested in large variation of parameters of profitability, were detected. The article proved that the application of special preferential tax treatment influence on the profitability of agricultural enterprises is positive but not sufficient. Particularly, the negative tendencies of the reduction of state support programs of agricultural production in Ukraine cause unprofitability of part of the agricultural enterprises that are especially significant in cattle-breeding.

Key words: *profit; the profitability of agricultural enterprises; profitability; state financial support of profitability; preferential tax treatment.*

1. PROBLEM AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC AND PRACTICAL TASKS

In the market environment the basis of carrying out of any goods production is getting the profitability by a subject of production activity. Profitability is a driving force of business development and means of satisfaction of own requirements of entrepreneurs in different economical welfares.

Profitability of agricultural enterprises forms the perspective of production extension of agricultural output on the qualitatively-innovative base that enables to ensure the competitiveness of the production on the domestic and international markets, to guarantee the food security and food independence of the state. Profitability is a basic term of solving social problems, particularly the employment of rural population and the development of social assets of rural areas. However,

profitability of agricultural enterprises of Ukraine is characterized with an unstable dynamic. The considerable specific gravity of subjects of agricultural sector regularly suffers loss in the result of their commercial-economic activity. Such kind of situation causes the bankruptcy of enterprises, the reduction of the amount of manufacturers exacerbating social-economic problems.

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44 **2. LITERATURE REVIEW AND FORMULATION OF RESEARCH OBJECTIVES**

The works of many classics and also modern scientists-economists are devoted to the economic essence of the rise of profit and parameters of its estimating, among which we emphasize A Babo [1], I. Blanc [2], M. Bilyk [3], U. Brigham [4], A. Dayle [5], L. Dziubenko [6], B. Collas [7], L. Kostyrko [8], E. Negashev [10], D. Hann [11], L. Chorna [12], A. Sheremeta [13; 14] and others. Questions of profitability and economic effectiveness of agricultural production and organizational-economic aspects of their increase are reflected in the works of V. Ambrosov [15; 16], V. Andriychuk [17; 18], P. Berezivsky [19; 20], V. Zhmaylov [21], V. Messel-Veseliak [22; 23], m. Parhomets [2; 25], P. Sabluk [26; 27], G. Cherevko [28], V. Yurchyshyn [29; 30], V. Yakubiv [31; 32] and many other authors.

Among modern scientists worth paying attention is the research of economists from South Nigeria - Nsikan Edet Bassey, E. Okon Uwemedimo, Umoh Idaraesit Uwem and Nyong Eteyen Edet [33] who studied the determinants of fresh fish marketing and profitability among captured fish traders in South-South Nigeria.

There are also interesting works of modern scientists from Ghana – Kwasi A. Darkwah, Abeku A. Asare-Kumi, E. N. N. Nortey and Isaac Baidoo [34], who examined profitability of insurance companies in Ghana in their research.

Here at the essence of profitability of enterprises is often interpreted by scientists-economists only as an index of productivity that clears up its economic essence not completely enough.

The support of profitability on the state level is often characterized with a lack of system, the opacity of its giving, a problem prediction and a limitedness of financial capacity of the state. Profitability management in the enterprises very often doesn't have a strategic direction and a complex-systematic character that requires carrying out further systematic researches.

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67 **3. THE PRESENTATION OF THE MAIN RESULTS AND THEIR JUSTIFICATION**

On the base of research of the works of classics and modern representatives of economic science it was found out that profit is a natural result of effective economic activity of the enterprise and has a versatile economic essence. Taking the part of an embodiment of added value in a product of manufacturing, a purpose guideline and an incentive for the development of production activity, at the same time is a reward to the entrepreneur for his enterprising talent and risk. In this context the profit of an agricultural enterprise in its many displays is a base of determining the profitability as a multidimensional economic category, which is a qualitative characteristic of the effectiveness of business management.

Profitability of an agricultural enterprise reflects both the effectiveness of its internal organizational management and the adequacy of adaptation to dynamic factors of the external competitive environment, expressed in the ability of accomplishment of its special social-economic mission and

accumulates in itself the achieved results and possibilities of their increase in future. Therefore under profitability we should understand such economic state of the enterprise that appears as an accomplished and potential ability to generate a positive financial result from carrying out both agricultural production and the whole business activity, which is in exceeding of the profit over the made expenses in the amount sufficient for the further effective functioning and meeting corporative and public interests.

We have discovered that during 2009 -2013 the amount of medium and large agricultural enterprises in Lviv region reduced for 20 %. First of all it was caused by the unprofitableness of the part of them. Selective choice gave certain positive results. It was discovered that in 2013 in Lviv region with the increase of the areas used by researched agricultural enterprises for 36% the amount of production of the gross output of plant growing in them increased for 75%, cattle breeding for 41%. It affirms the combination of extensive and intensive methods of the development of agricultural enterprises of the region on the base of their enlargement.

Analytic research of profitability of agricultural enterprises in the region, in the view of their organizational legal forms of management, gave an opportunity to make a complex of particular conclusions (table 1).

Table 1. Dynamic of profitability of agricultural activity at the enterprises of Lviv region (Ukraine) in the view of their organizational legal forms of management*

Enterprises according to property category Years		Total	Economic companies	Private enterprises (including big farms)	Production cooperatives	Intereconomic and others	State
Specific gravity of profitable enterprises in their total amount,%							
2009		44	41	48	100	25	33
2010		48	46	53	100	100	0
2011		64	61	70	100	0	20
2012		63	58	71	100	0	40
2013		52	53	52	33	-	40
Change 2013 to 2009, percent points		22	25	3	-50	-	7
Profitability level of agricultural activity,%							
2009		22,4	26,1	11,6	1,4	-9,6	-13,6
2010		27,6	31	17,7	2,3	12,9	-15,1
2011		21,4	23,3	24,3	11,3	-	2,9
2012		2,2	-1,1	17	-6,7	-	2,8
2013		36,9	46,5	1,4	-21,6	-	1,7
Change 2013 to 2009		13.6	11.3	18.9	-7.7		17.4

*Source: integrated on the base of data of Main Statistic Administration in Lviv region

Therefore according to the results we ascertained that nearly a half of both economic companies and farm enterprises were unprofitable during the researched period, but the level of profitability of agricultural activity at the enterprises of Lviv region in total has increased. At the same time the

effectiveness of activity of companies is higher in comparison with the effectiveness of activity of private agricultural firms and farm enterprises which get higher profits both per unit of expenses and per unit of used area of agrarian land. Commonly the discovered results are caused by a greater scale of activity, higher technical equipment of economic companies which operate with the main funds on the base of leasing of property shares of the company copartners that in comparison with farm enterprises and private enterprises gives opportunities for forming a lower cost of complete product.

It is well-known that the research of absolute indexes of the dimension of profitability is reasonable to carry out according to the involved resources and received production results of management. The effectiveness of planning and carrying out production activity is characterized by the amount of profit, received for the involved resources and per unit of the produced and sold output (Fig. 1.).

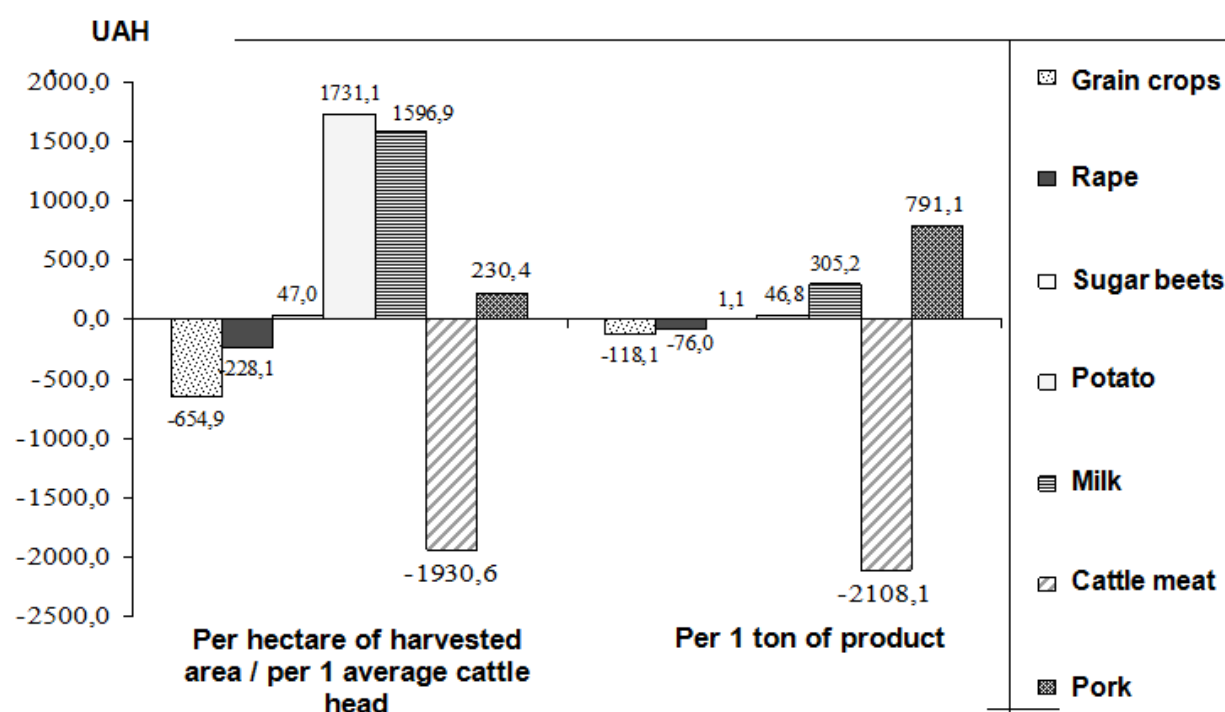


Fig. 1. Profit received by agricultural enterprises of Lviv region in the account per unit of involved areas, cattle heads and in the account of produced output, 2013 (in UAH)*

**Source: built on the base of data [35].*

In the result of researching the dynamic of profit which was received by agricultural enterprises of Lviv region in the account per unit of the involved areas, cattle heads and in the account per produced output it was determined that the effectiveness of usage of biological and land agricultural resources in many sectors according to the sum of 2013 got extremely unsatisfactory index.

According to the results of the research it was discovered that in the district view in Lviv region there is a disproportional benefit from agricultural lands used by enterprises in the context of correlation: "quality of lands – amount of produced gross output" and "quality of lands – profit from agricultural activity". It points that productive-economic effectiveness of agricultural enterprises in present

conditions of business management depends more on economic-organizational conditions of internal and external spectrum than on the quality of natural resources. On the base of the research as to the formation of the cost structure and prices of agricultural output, and comparison of the dynamic of price indexes of agricultural output and the output of subsidized industrial sectors it was discovered an unovercome price disparity. It negatively marks on the effectiveness of considerable specific gravity of enterprises of Lviv region.

The research of sales activity of agricultural manufacturers of Lviv region in 2013 year showed that nearly 60 % of their output is realized through intermediary marketing channels. Directly to rerolling enterprises they realized only 32,8 % of output, mainly - cattle or of cattle origin. We have discovered an insufficient development of own sale chain of agricultural enterprises of Lviv region. Such situation is caused by the peculiarity of enterprises of the sector, which produce mainly raw output that needs further processing as well as by the fact that a lot of small agricultural manufacturers have got limited resource possibilities for creating own marketing service and branches which would provide the sales of output.

Analysis of the dynamic of profitability level of agricultural sectors of Lviv region during the period from 2009 to 2013 years gave us an opportunity to discover a stable tendency of its reducing (Fig. 2.). Especially such reducing was substantial in 2012 year.

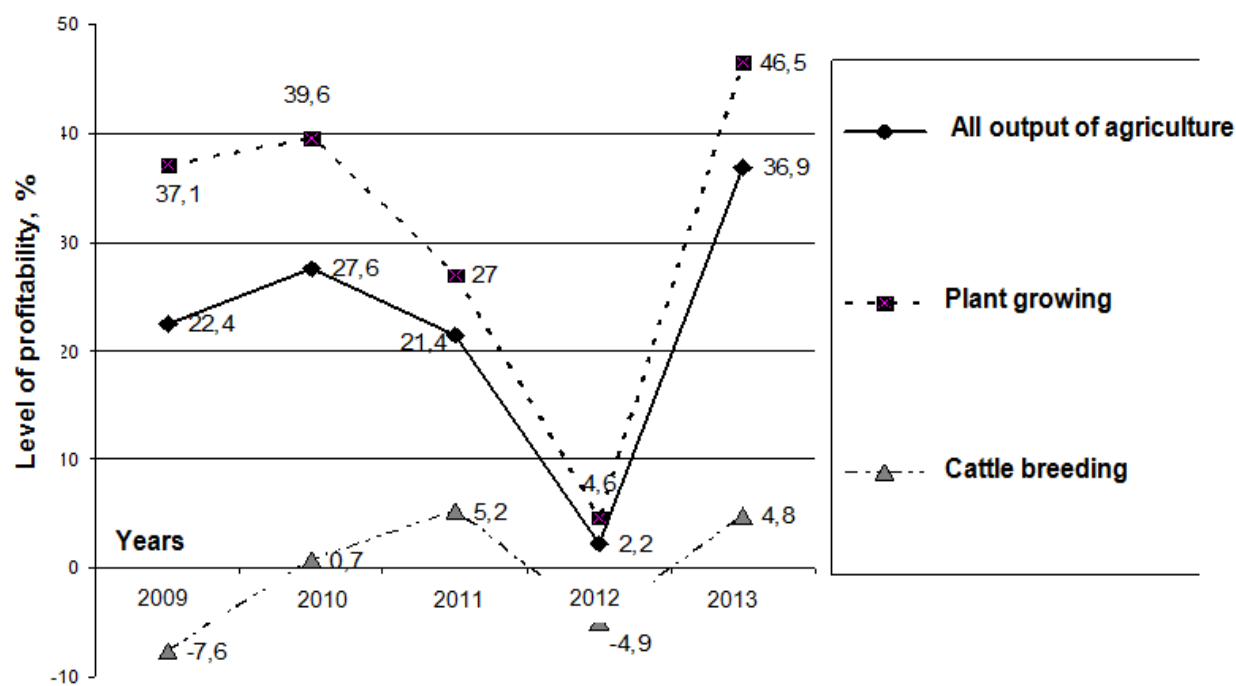


Fig. 2. Dynamic of profitability of the output of agricultural enterprises in Lviv region (Ukraine) during 2009 – 2013 years, %*

**Source: built on the base of data [35 - 39].*

However even in the conditions of constant reduction of profitability indexes the production of the main part of kinds of agricultural output at agricultural enterprises of Lviv region since 2009 remained profitable, but it concerns only plant growing sector. But production and realizing of cattle output

during the researched period were unprofitable and only in 2010 the sector overcame the profitability line.

We should admit that determining tendencies of formation of profitability of agricultural production in Lviv region was characterized by certain peculiarities. In particular, the received average level of profitability was formed including the presence, in the totality of the researched enterprises of the region, of a few atypical farms with a super high level of profitability. So in the region there are large manufacturers in plant growing which are characterized with evidently atypical high indexes, which in the sum make a contorting effect on the result average level of profitability index across Lviv region in the researched period.

According to the results of the research during 2009 – 2013 years in this region it was detected considerable fluctuations of the profitability level of different sectors of agricultural production and a substantial specific gravity of agricultural enterprises which had unprofitable production and realization of agricultural output (table 2). It affirms the ineffective adaptation of agricultural manufacturers to the market environment. In the researched totality of agricultural enterprises of Lviv region during 2009 – 2013 years we discovered a considerable disproportionate of their distribution according to profitability levels of realization of typical for the region kinds of output. The indexes of profitability level of agricultural activity, profit norms for assets at the enterprises of the researched region widely vary.

Table 2. Dynamic of profitability level of realized output at agricultural enterprises of Lviv region (Ukraine) during 2009 – 2013 years, %*

Output	2009	2010	2011	2012	2013	2013 to 2009, (+/- ; per cent points)	Agricultural enterprises, that realized their output in 2013	
							Amount, unit	Among them – share Profitable in the sector, %
All output of agriculture	22,4	27,6	21,4	2,2	36,9	14,5	186	51,6
Plant growing	37,1	39,6	27	4,6	46,5	9,4	...	...
Cattle - breeding	-7,6	0,7	6,2	-4,9	4,8	12,4	...	...
Grain	13	4,5	8,3	4,3	-10,5	-23,5	132	53,8
Sugar beets	101	56	29,2	-3	0,2	-100,8	16	62,5
Rape	88,6	80,6	63,1	15,2	-2,4	-91	78	66,7
Vegetables	45,9	95,9	21,1	12,7	13,2	-32,7	16	68,8
Potato	-23,1	41,2	26,1	-39,3	3,4	26,5	22	63,6
Milk and dairy products	-27,5	15	23,6	3,2	15,8	43,3	28	14,3
Cattle meat	4,1	-36,4	-19,1	-27,2	38,8	34,7	42	16,7
Pork	4,1	10,8	18,7	-7,6	7,3	3,2	32	37,5

Poultry	-15,3	4	1,6	-0,4	6,9	22,2	14	64,3
Eggs	-7,2	-5,5	-16,7	4,4	12,1	19,3	6	100,0

*Source: built on the base of data [35 - 39].

According to the results of the research we stated that the profitability level of agricultural activity in Lviv region during 2009 – 2013 years is influenced by granting state financial support in the form of a special regime of taxation for value added tax and address dotation (Fig. 3.). Automatic return of the value added tax for corresponding operations as to the realization of complete output, improving the financial support of manufacturers, is characterized with a better opacity than dotation support, the order and principles of their granting need considerable improvements.

We discovered that the effectiveness of the activity of agricultural enterprises in Lviv region in 2009 – 2013 years is positively influenced by a special taxation regime in the form of single tax for the preferential fourth group of payers of this tax. However, the reduction of state support programs for agricultural sector in all its types during the last years negatively marked on the effectiveness of the activity of many agricultural enterprises of Lviv region, especially in cattle – breeding.

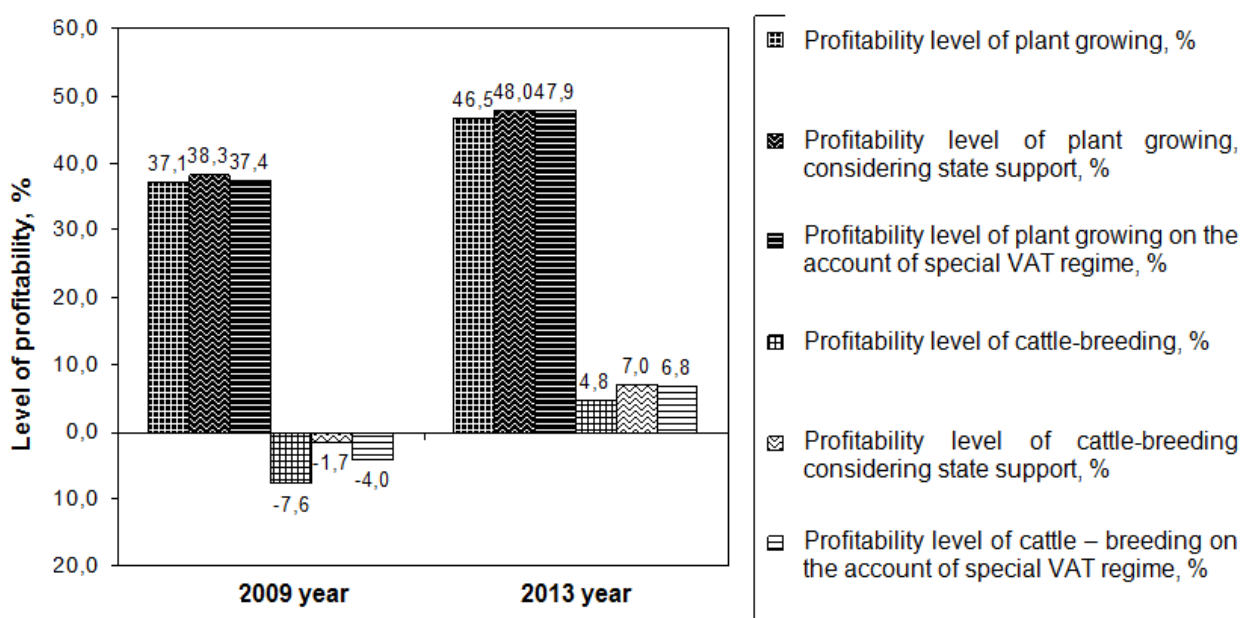


Fig. 3. Visualization of results of the effect of state financial support onto the profitability level of agricultural activity in Lviv region (Ukraine) during 2009 – 2013 years*

*Source: integrated on the base of data of Main Statistic Administration in Lviv region

It was stated that the profitability level of agricultural production of Lviv region is directly influenced by presence or absence of specialization of agricultural activity. In agricultural enterprises of Lviv region with a high level of specialization they received better indexes of profitability level of agricultural production in average in 2013 – 8.2 %, and in monoproducer enterprises (enterprises with only one kind of output) – 11.4 %. This index doesn't reach even 3 % among enterprises with low and medium levels of specialization. At the same time the special gravity of unprofitable enterprises among the last

exceeds 40 % that affirms rather ineffective planning of manufacturing activity of agricultural enterprises in Lviv region and their adaptation to the requirements and challenges of the market.

4. CONCLUSIONS

Profit of an agricultural enterprise is a purpose orient for manufacturing of agricultural output and, being a result of such manufacturing, is an index of its effectiveness. Profit of an agricultural enterprise plays the role of a source of its development on the base of reinvestment, is a principle of stable activity and, correspondently, carries out a social function in the context of providing employment for rural population. As a term of the stable filling of the market with domestic agricultural output, the profit increases food independence of the state, and in the sum it is the base of determining economic essence of profitability.

Profitability of an agricultural enterprise is such its economic state, which reflects realized and potential ability to generate a positive financial result from carrying out both the main (connected with agricultural production) and the whole business activities. This result lies in such exceeding of profit over made expenses, that is sufficient for providing further effective functioning of the enterprise and meeting interests of its owners and public interests. Therefore profitability is a qualitative characteristic of the effectiveness of agricultural management.

According to the results of the research of profitability of agricultural enterprises of Lviv region during 2009 – 2013 years we discovered the instability and heterogeneity of their development that appears in a great variety of parameters of profitability exchange and profitability potential. It was discovered the considerable effect of the environment of functioning of agricultural enterprises onto profitability of agricultural production. Such effect is generally injurious and appears as peculiarities of the development of the market of agricultural output, which is determined as monopsonic. Such effect is insufficiently corrected by the state policy of administration of the activity of agricultural enterprises and other agricultural manufacturers. The effect onto profitability of agricultural enterprises of application of special (subsidy) taxation regime is positive but insufficient. Negative tendencies of the reduction of state support programs of agricultural production in Ukraine cause the unprofitability of activity of the part of manufacturers, particularly in cattle – breeding.

CONSENT

The authors declare that written informed consent was obtained from all participants.

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