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## THE ROLE OF REGULATORY AND NON-REGULATORY ENVIRONMENT WHEN ENTERING EUROPEAN MARKETS BY NATIONAL COMPANIES

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regulatory environment, non-regulatory environment, entering foreign market, European Union, national companies, export potential

The role of regulatory and non-regulatory environment of companies entering the European market has been studied in the article. It has been determined that entering new markets with competitive products requires innovative approaches to exports, taking into account modern trends and challenges both at national and international levels. It has been proved that national economic development stability and its competitiveness level depend on business' internationalization rate to ensure production, innovation, investment and socio-economic capacity. The structure of national exports of goods and services has been analyzed. It has been demonstrated that the European Union is the main trading partner of Ukraine. The impact factors of Ukraine's export activities with the European Union countries have been determined. The role of SMEs in the export potential of Ukraine and the world has been investigated. It has been determined that Ukrainian businesses do not sufficiently apply internationalization strategies to implement their potential opportunities, despite the fact that national enterprises have a high export activity level. It has been proved that companies' level of internationalization is affected by national regulatory and non-regulatory environment. Non-regulatory factors have been analyzed: access to funding, knowledge and information, as well as to technologies and innovations. The main problems which national companies face when entering external markets have been distinguished. It has been determined that inadequate financing is a significant obstacle to most entrepreneurs, although this is not the only resource for successful export activities. It is also important to organize business processes, be able to communicate and find new partners, understand peculiarities of product positioning and segmenting, take into account current trends, challenges and opportunities. It has been proved that high level of businesses' competitiveness is an important condition for internationalization being formed by the development and implementation of innovations.

## РОЛЬ РЕГУЛЯТОРНОГО ТА НЕРЕГУЛЯТОРНОГО СЕРЕДОВИЩА В УМОВАХ ВИХОДУ НАЦІОНАЛЬНИХ КОМПАНІЙ НА ЄВРОПЕЙСЬКІ РИНКИ

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### Ключові слова:

регуляторне середовище, нерегуляторне середовище, вихід на міжнародний ринок, Європейський Союз, національні компанії, експортний потенціал

У статті досліджено роль регуляторного та нерегуляторного середовища в умовах виходу підприємства на європейський ринок. Визначено, що вихід на нові ринки з конкурентоспроможною продукцією потребує використання інноваційних підходів до експорту з врахуванням сучасних тенденцій та викликів як на національному, так і міжнародному рівнях функціонування економіки. Обґрунтовано, що стабільність розвитку національної економіки та рівень її конкурентоспроможності залежить від ступеня інтернаціоналізації підприємств, що забезпечують реалізацію виробничого, інноваційно-інвестиційного та соціально-економічного потенціалу. Розглянуто структуру національного експорту товарів і послуг. Показано, що Європейський Союз є основним торговельним партнером України. Визначено фактори, що вплинули на експортну діяльність України з країнами Європейського Союзу. Досліджено роль малих та середніх підприємств в експортному потенціалі України та світі. Визначено, що рівень використання бізнес-стратегій

інтернаціоналізації українськими підприємствами є недостатнім для реалізації потенційних можливостей, незважаючи на те, що спостерігається високий рівень експортної активності національних підприємств. Обґрунтовано, що рівень інтернаціоналізації підприємства залежить від регуляторного та нерегуляторного середовища, що встановилось у державі. Проаналізовано нерегуляторні чинники: доступ до фінансування, доступ до знань та інформації, доступ до технологій та інновацій. Виокремлено основні проблеми виходу національних компаній на зовнішні ринки. Визначено, що недостатній рівень фінансування є значною перешкодою для більшості підприємств, хоча це не єдиний ресурс, необхідний для успішної експортної діяльності. Важливо також правильно організувати бізнес-процеси, здатність до комунікації та пошуку нових партнерів, розуміння особливостей позиціонування та сегментування свого продукту, орієнтація щодо сучасних тенденцій, викликів та можливостей. Доведено, що важливою умовою інтернаціоналізації є високий рівень конкурентоспроможності підприємства, що формується за рахунок розробки та впровадження інновацій.

### Problem statement

At the present stage of development of the global economy there is the influence of globalization processes have been risen, which meets the need to adapt national economies to the features and conditions of the global space functioning. Therefore, new markets entrance, development and introduction of new competitive goods and services, innovative approaches aimed at deepening international trade relations play important role for the Ukrainian economy now. In addition, real position and prospects of future development of the national economy depends on the functioning of business entities. Thus, the study of the role of a regulatory and non-regulatory environment when entering foreign markets being priority and precondition for the stability of the Ukrainian economy development is particularly relevant.

### Analysis of recent studies and publications

Much research has been devoted to business internalization as well as the challenges Ukrainian entrepreneurs face entering European markets by many foreign and Ukrainian economists, such as: S. Andersson [1], J. Johanson, J.E. Vahlne [2], P. Buckley, M. Casson [3], B. Andrushkiv [4], I. Kramar, N. Marynenko [5], O. Lytvyn [6], O. Pogaidak [4], I. Sytnik, N. Ragulina [7] and etc. However, the issue of the influence of regulatory and non-regulatory factors in the context of entering European markets requires more in-depth study.

### Objectives of the article

The objective of the article is to determine the influence of regulatory and non-regulatory environment factors upon Ukrainian entrepreneurs entering European markets.

### The main material of the research

At the present stage the European Union is Ukraine's main trading partner. According to the Ministry of Economy of Ukraine, foreign trade operations were conducted with partners from 227 countries all over the world in the first half of 2021, with a third of Ukrainian goods and services supplied to the EU countries (Fig. 1).

According to the results of the first half of 2021 (Fig. 1), goods and services exports to the EU amounted to \$11,9 bn, respectively to 39,7% of total domestic exports. In comparison with the corresponding pre-pandemic period in 2019 goods exports to the EU increased by 20%. The greatest number of Ukrainian goods was exported to Poland (\$2,3 bn), Italy (\$1,5 bn), Germany (\$1,2 bn) and the Netherlands (\$1 bn) [9]. More than 14 thousand Ukrainian companies have exported their own products to the EU countries to date. It should be noted that goods exports structure from Ukraine to the EU countries is led by agribusiness and food industry products (34,1%), metallurgical sector products (19%) and machinery products (15,6%).

According to the experts, «The only way to become successful globally is to pursue an economic strategy that foresees an entrepreneur and internalization of Ukrainian

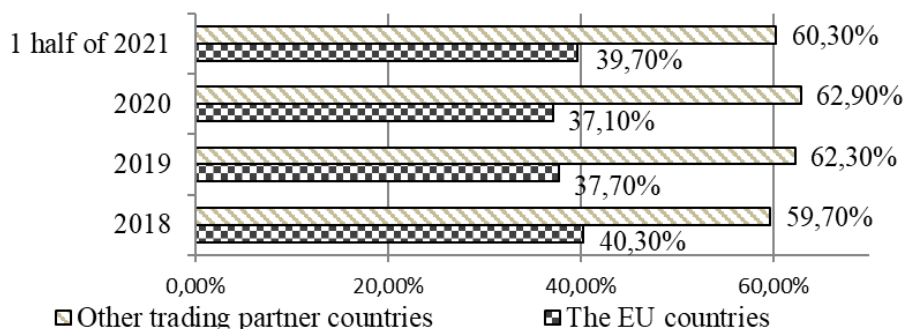


Fig. 1 – The share of the EU countries in Ukrainian goods and services exports

Note: Developed by the authors on the basis of [8; 9]

business as the foundation of development, and export development as the priority of Government policy...» [10]. According to the State Statistics Service, Ukrainian export activity is predominantly represented by large enterprises accounting for 70,5% of total exports, while the share of small and medium-sized enterprises (SMEs) merely amounts to 29,5% [11]. Such a situation exists nearly in all branches of the national economy, particularly in extractive and processing industries, wholesale and retail trade. At the same time agricultural commodities exports are mainly represented by small and medium-sized enterprises (SMEs). This situation is due to implementation of tariff-free quotas for agricultural products exports to the EU countries as well as to simplification of export activity administration in this sector.

Therefore, the level of implementation of internalization business strategies by Ukrainian SMEs is low. However, global experience shows that SMEs do export quite actively, the share of national export value and export volume per capita by small and medium-sized enterprises may vary significantly in different countries. In particular, in a third of the EU countries the share of SMEs in a total export value exceeds 40% due to predominantly small export volume per one enterprise – more than \$1 mln per year (with the exception of Ireland, where the corresponding figure exceeds \$6 mln). Leaders in the contribution of SMEs to export value include such small countries as Cyprus (65%), Estonia (60.3%), Latvia (52.1%), and Malta (49%) [12].

In recent years Ukraine has undergone a series of reforms to improve the regulation of SMEs activity. Nevertheless, some changes should still be made to approval procedures, customs, VAT administration and managing international payments. Thus, the experts of the World Economic Forum have identified the biggest obstacles to exporters' activity in Ukraine: limited access to trade access, difficulties in finding potential markets

and buyers, improper production technologies and staff skills, insufficient compliance with international technical requirements and standards, problems of accessibility to imports resources at competitive prices [13]. According to Ukrainian exporters the most common issues of concern to SMEs include currency control (in particular, restrictions on the return of foreign exchange earnings, mandatory sale of foreign exchange earnings), inefficient and non-transparent VAT refund mechanism, corruption at customs, a large number of export permits, significant level of bureaucratization, lack of funding and information.

It should be recalled that the level of SMEs internalization depends not only on the regulatory environment established in the country, but also on non-regulatory factors, which can be grouped into three categories (Fig. 2).

It is indisputable that the development of SMEs is impossible without adequate funding. However, the share of small and medium-sized enterprises which take loans is much lower in comparison with the corresponding indicator for large enterprises (18.2% vs. 36.1%) [15]. The reason for this may be that SMEs are more likely to get an additional funding application rejected. Nevertheless, increasing access to financial resources is an essential component for further business internationalization.

It should be emphasized that financial resources accessibility is important for the majority of entrepreneurs but it is not the only resource needed for a successful start of export activity. It is also important to properly organize business processes, know how to seek partners, understand the positioning of your product, and navigate current trends and opportunities. Thus, a necessary condition for strengthening the competitiveness of business is to improve the practical skills of employees.

Another crucial condition of internalization is a substantial level of enterprise competitiveness, which is formed through the development and implementation of innovations. Regrettably, however, Ukrainian SMEs do

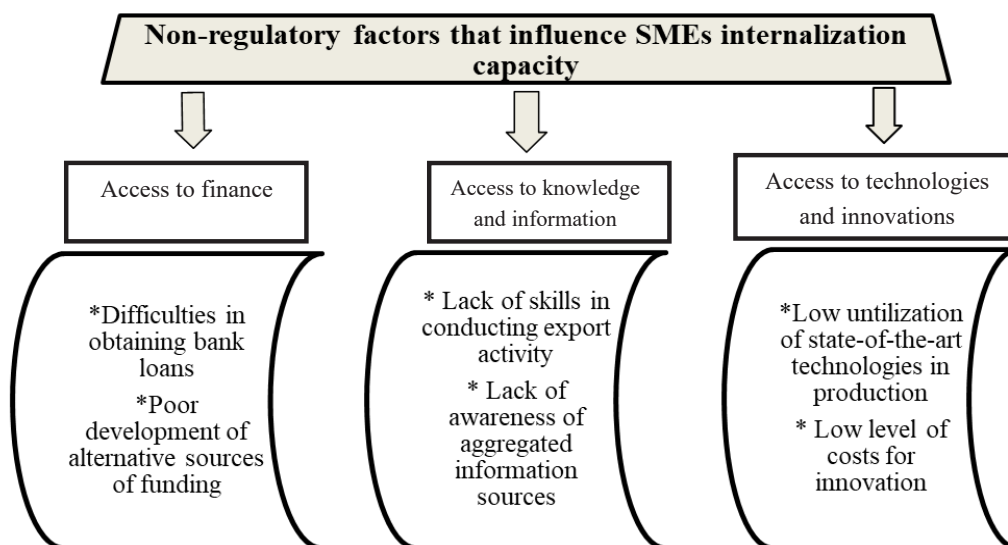


Fig. 2 – Non-regulatory factors that influence SMEs internalization capacity

Note: Developed by the authors on the basis of [14]

not invest enough in research and development. Only 3.5% of Ukrainian small and medium-sized enterprises invest in these types of work, while this figure is 10.3% among Ukrainian large enterprises and 23.2% among European enterprises [15].

Therefore, a regulatory and non-regulatory environment that has formed at the current stage in the national economy plays an important role in the internationalization of business. Today, the process of Ukrainian legislation harmonization with the relevant norms of the European Union is being actively carried out, but certain regulatory mechanisms should still be improved. To improve the non-regulatory environment, a large number of initiatives have been launched to stimulate the development of small and medium-sized enterprises. Most programs were developed in cooperation with international institutions, the Government of Ukraine and civil society. However, the

issue of awareness of Ukrainian entrepreneurs about the possibilities of using these programs remains problematic.

### Conclusions

The research has shown that the EU is currently Ukraine's main trading partner, accounting for a third of total Ukrainian exports. However, exports commodity groups are primarily represented by grain, metal and other products that are vulnerable to price fluctuations in global markets. Although the entry of small and medium-sized enterprises into the market of the European Union is an urgent problem today, Ukrainian entrepreneurs face numerous problems trying to enter the aforementioned market. Competitiveness for the success of domestic entrepreneurs in European markets depends on the company or specific owner, the level of their business culture and their aptitude for acquiring knowledge.

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