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*Olena Bazilinska, Olena Panchenko, Yelyzaveta Dovhinka***COMPARISON OF RUNNING A SMALL ENTERPRISE IN GERMANY AND UKRAINE***Олена Базілінська, Олена Панченко, Єлизавета Довгінка***ПОРІВНЯННЯ ВЕДЕННЯ МАЛОГО БІЗНЕСУ В НІМЕЧЧИНІ ТА УКРАЇНІ***Елена Базилинская, Елена Панченко, Довгінка Елизавета***СРАВНЕНИЕ ВЕДЕНИЯ МАЛОГО БИЗНЕСА В ГЕРМАНИИ И УКРАИНЕ**

*In this article work of private enterprises in Ukraine and Germany is compared. It is highlighted a set of features that determine successful functioning of small business enterprises in Germany compared to Ukraine. In addition, the system of private enterprises is considered in the article as the basis of social and economic development of a country. Particular attention is paid to national characteristics of accounting. Also the importance of maintaining small private enterprises by the state is emphasized.*

**Key words:** *small business, accounting, financial reporting, capital, profit, enterprise.*

*Fig.: 1. Tabl.: 1. Bibl.: 12.*

*Проведено аналіз роботи приватного підприємництва України та Німеччини. Виділено певні особливості, які визначають успішне функціонування малого бізнесу в Німеччині. Також у межах статті досліджено вплив функціонування системи приватного підприємства як основи соціально-економічного розвитку держави. Особливу увагу приділено національним рисам ведення бухгалтерського обліку. Обґрунтовано важливість підтримки державою малих приватних підприємств.*

**Ключові слова:** *малий бізнес, бухгалтерський облік, фінансова звітність, капітал, прибуток, домоуправління, підприємство.*

*Рис.: 1. Табл.: 1. Бібл.: 12.*

*Проведен анализ работы частного предпринимательства в Украине и Германии. Выделены особенности, которые определяют успешное функционирование малого бизнеса в Германии. Также в рамках статьи исследовано влияние функционирования системы частного предпринимательства как основы социально-экономического развития государства. Особое внимание уделено национальным чертам ведения бухгалтерского учета. Обоснована важность поддержки государством малых частных.*

**Ключевые слова:** *малый бизнес, бухгалтерский учет, финансовая отчетность, капитал, прибыль, домоуправление, предприятие.*

*Рис.: 1. Табл.: 1. Библ.: 12.*

**JEL Classification:** L20, L26.

**Definition of the research question.** Today it is difficult to overestimate the importance of small business in the overall economic system of the state. The sector of small-scale business is one of the most important sectors, because it determines the quality of the proper functioning of the market economy within the country. The activities of private enterprises have a significant effect on the competition, because they are an indispensable part of the competition, which in turn causes the healthy functioning of the market economy. Small and medium-sized enterprises (SMEs) provide numerous new jobs by meeting the demand for products that are not produced by large enterprises and performing their social function. "Out of the 7.4 million people employed in Ukraine, in 2013 more than two thirds (67.8%) were working in the SME sector: 40.7 % in medium-sized and 27.1 % in small-sized businesses. Independent entrepreneurs provided 993,800 jobs for the economy. Overall, in 2013, the SME sector provided employment to 24.6 % of the economically active population of Ukraine" [1].

It should be noted that micro and small enterprises in Ukraine are extremely vulnerable to negative external influences, such as fluctuations in prices of resources, raw materials and products, and difficulty of raising funds through loans, changes in tax and customs legislations. However, we should remember that this year Ukraine "rose" in the ranking of the ease of doing business index from the 96th to the 80th position, as compared to 2015 [2]. Thus, the environment for doing both large and small and medium business has improved to a certain extent, but it's too early to talk about the ease of doing business in Ukraine.

In Germany, the development of small enterprises is more dynamic. It is caused by the business environment, which differs from the environment in Ukraine. Given this fact, you

can understand what features make a small business in Germany more efficient, and to identify what can be transferred into Ukrainian business practices.

**Analysis of recent research and publications.** The problems of small businesses in Ukraine are researched by such scholars as Mylyavska E. P., Vorotin L. I., and Sokolenko V. A. Accounting for small businesses and the peculiarities of their operation in Germany are investigated by Zharikov L. A., Naumova N. V., Haluzina S. M. and Pupshys T. F., which confirms the relevance of research features and effectiveness of the German business, compared to domestic business.

**Underlining still unsolved aspects of the problem.** However, scientists explore factors influencing small businesses in Germany and Ukraine separately, without comparing the advantages and shortcomings in their operation. This study proposes to explore what you can learn from the organisation of such enterprises in Germany. Ukrainian businesses may benefit from the German system. As well as, to assume what characteristics of German businesses could be transferred to Ukrainian enterprises and what would be very difficult to implement.

**The aim of the study.** The article aims to study the characteristics of the small business in Germany, by following a specific example, its finance and accounting, as well as to make a comparison of the business models of Germany and Ukraine.

**Main material.** This paper proposes to highlight the main advantages and disadvantages of having a small business in Germany and explore the main features of industrial and financial activity of a typical German company. As well as to suggest what features of businesses in Germany can be practically applicable to Ukraine.

Firstly, we should note the significance of entrepreneurship for the German economy, which in 2016 ranked fourth in the world by nominal GDP [3]. In 2011, more than 60 % (26.2 million) of employees in Germany were working in small- or medium-sized businesses. 99.3 % of all companies were small [4]. We believe that the situation has not changed significantly since then. Therefore, we can assume that such a high employment rate and the large number of small- and medium-sized enterprises are due to the comfortable conditions for such businesses in Germany.

It should be noted that in Ukraine, the share of small businesses in the total number of enterprises is also large: “In 2013, in Ukraine, there were 393.300 companies. Among these companies, only 659 were considered to be large-scale enterprises, that have more than 250 employees and annual revenue of at least EUR 50 million. Thus, 99.8 % of companies in the country are classified as SMEs, of which 81.0 % are in the group of micro enterprises employing up to 10 people with an annual income of up to EUR 2 million” [1].

The activities of SMEs are vulnerable to external factors such as the demand for goods and services that are offered on the market by the companies, costs of raw materials and products, lack of investment and capital, the administrative burden of the tax authorities, as well as other factors. We can compare how these factors affect SMEs in Germany.

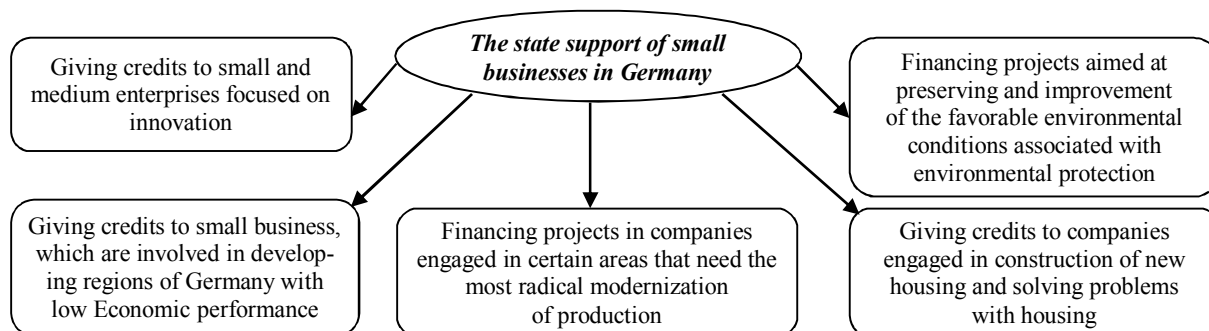
The first feature of interest to those who think of opening a business or expanding an existing is a low interest rate (an average of 3.45 % [5]). To receive the credit one must have a good credit history. This condition is applicable to residents of Ukraine as well, where Oshadbank, as of November 2016, was offering loans with the interest rate of 21.75 % [6]. For relatively stable German companies operating on the market for at least 5 years and which have satisfactory financial performance, banks such as Kreditanstalt für Wiederaufbau (state-owned), offer a credit of 1 % (but, under certain conditions) [7].

Also, it is hard not to mention skilled labor. In Germany, the Ausbildung is the common practice, where young people do not commit to studying in the university, but work in their fields of interest, receiving salary and simultaneously gaining knowledge, required for their

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future career. In addition, it is worth noting the fact that this country attracts some of the best experts from around the world.

One of the main conditions for the active development of small businesses in Germany is the comprehensive level of state support. The main focus for assistance from public authorities in Germany, as well as a number of other developed countries, are the high-tech industries. Small businesses in such sectors have privileged access to public financing. Financing includes directions shown in Figure.



*Fig. The main directions of state support of small businesses in Germany*

Source: compiled by authors based on information from [8].

An important part of any business is cooperation with the internal revenue service. In Germany, during the first three years of lifetime of a small business no control over its income is established, but at the end of this period, the responsible authorities conduct a detailed monitoring of the financial activities of the business. However, if the company does not violate the “rules of the game” of taxation that are transparent and stable (which is very important for the reality of Ukraine), then no problem arise.

In October 2016, Prime Minister of Ukraine Vladimir Groisman said that during a special meeting the government will consider a bill on tax holidays for small businesses for the first five years. “The bill aims to simplify life for businesses and remove the obstacles that prevent entrepreneurs from operating normally and developing further. In particular, simplify tax administration, reduce costs and time. Also, proposed changes include the introduction of tax holidays for five years for small businesses, the introduction of transparent VAT refunds through a single register and transfer of databases of the State Fiscal Service to the Ministry of Finance”, wrote the head of government [9].

One of the features of a small business in Germany is that they can publish reports in abbreviated form and are exempt from a number of general requirements regarding the composition and depth of detail of financial reporting, including the drafting of explanatory notes. They have a right to skip the formulation of the statements of fixed assets and cash flow, as well as the report of the main results and prospects, and they do not have to list large debtors and creditors.

All rules governing the accounting and financial reporting in Germany are contained in the so-called German Commercial Code (HGB: Handelsgesetzbuch).

The Commercial Code (hereinafter “TC”) defines the minimal requirements for accounting and reporting for all companies engaged in commercial activities. Of course, there may be exceptions to the rule for businesses that do not exceed a certain size (SMEs) and basic requirements for consolidated reporting. Moreover, these requirements vary depending on the size of the enterprise. The enterprises are divided into micro-, small-, medium- and large-scale businesses [10].

Requirements for financial reporting in Germany differ depending on the size of the company. The classification of enterprises depending on their size is given in Table.

Table

*The classification of enterprises by size*

Size of enterprise	Employees	Annual income
Micro enterprise	Up to 9	Up to EUR 2 million
Small enterprise	Up to 49	Up to EUR 10 million
Medium enterprise	Up to 249	Up to EUR 50 million
Large enterprise	More than 249	More than EUR 2 million

Source: Ministry of Statistics of the Federal Republic of Germany [3].

It should be noted that the basic principles of accounting in Germany, the rules of recognition, measurement and display of economic activities, are very similar to the relevant principles in the legislation system of Ukrainian. The German accounting tradition is firmly rooted in Ukraine. However, there are slight differences. Namely, in Germany, it is permissible to use two methods of reporting income: the method of reporting full costs by cost elements (Gesamtkostenverfahren) and the method of reporting functional expenses by cost items (Umsatzkostenverfahren) [10].

Foreign exchange transactions are accounted based on the exchange rate on the date of transaction and exchange differences arising at the time of payment are recorded as profit or loss in the current period. Accounting for inflation is not recognized by German entrepreneurs, because the level of inflation in Germany is low. It plays a role only in cases of consolidation of accounts, if the subsidiary is located in a country with hyperinflation [10].

The annual accounts of all companies, except small companies, are audited by independent auditors.

Penalties for violations associated with the preparation and submission of financial statements vary. They range from administrative fines for missing deadlines of publishing statements and fines of up to EUR 5.000 for delays in the publication of reports to up to 3 years of imprisonment and large fines in cases of distorted reporting by the officials of the company or their auditors [10].

Theoretically, companies in Germany have the right to choose what kind of individual financial statements to publish, based on the national standards or standards of IFRS. However, in practice, most companies that are not listed at stock exchanges, publish their statements according to German standards, since financial statements prepared according to German standards are the basis for payment of dividends and taxation; and the standards defined by IFRS are rather complicated.

German commercial law offers a wide range of legal forms of companies. We will now consider briefly the features of the most common legal form, an individual enterprise (Das Einzelunternehmen).

The individual enterprise (hereinafter "IE") is an enterprise, whose sole member is a natural person, who does not apply to the category of the liberal professions, whose work is conducted on behalf of that person. The individual enterprise is the simplest legal form. IE is not a legally independent unit. The rights and responsibilities associated with the activity and the existence of IE have a direct relation to its single participant, who is responsible to the creditors by all of their possessions.

IE is created at the moment of notifying the relevant public service (Gewerbeamt) and obtaining all necessary permits, in cases where it is required based on activities of the IP. An entrepreneur may have several such companies, they may also work for hire, but with one limitation, they may not work for themselves. All that is required from such an entrepreneur by the state is to submit their income in tax statements timely and properly. However, the state applies this requirement for all other types of businesses as well [11].

Nobody gives directions to the entrepreneur about the starting capital with which they should start their business. No one interferes in the planning and production process.

This form is good for the initial phase. In that case the company is not recognised as so called *Vollkaufmann*, or such for which the commercial law requirements are applicable. The company is not added to the trade register (*das Handelsregister*), and its profit (*der Gewinn*) is calculated using the simplified method. But the entrepreneur meets its obligations with all of their its property: there is no difference between the property owned by the company and personal property in this case [11].

However, a typical Ukrainian businessman can also highlight a number of weaknesses in the German system.

First, a different from the Ukrainian form of communication with the public (including tax) authorities. German bureaucrats are incorruptible, and at the end of the first three years without strict control, the financial statements are checked fairly strictly.

Secondly, since in Germany most people are engaged in SME, market entry barriers are significant. Therefore, the product must be innovative to allow the business to find its niche.

However, it is clear that these two factors have a dual nature. Institutional environment without corruption guarantees the transparency and stability of its subjects. The competition is high and the competition effect indirectly stimulates innovation.

More urgent issues for sectors of small- and medium-sized business in Ukraine are:

1. The importance of raising funds in the initial stages of operation of SMEs and/or at the stage of its expansion to the middle tier. The owners usually invest their own funds, as access to bank loans is limited, and offered interest rates are unfavorable. Due to this situation, the informal capital market is developed: entrepreneurs use money of friends and relatives during the most difficult stage of the business, its foundation. “As a result, small businesses in the early stages contain a paradox: a combination of the highest risk with the lowest income. Moreover, a small start-up capital of a small business creates a further limitation for domestic funding and the complexity of outsourcing” [12].

2. The inequality of SMEs and the bodies that supervise them. It relates to the lack of clarity of law (in contrast to the transparent laws in Germany) that lead to the fact that regulatory authorities abuse given to them powers (also under influence of corruption) and stimulate the transition of SMEs to the shadow economy or their full termination.

3. Price fluctuations for raw materials and energy.

4. Changes in customs and tax legislation.

5. The unfavorable political situation in the country.

**Conclusions.** The article examined the features of small business in Germany and the problems of SMEs in Ukraine. The positive features of having a small business in Germany include the following:

- small German companies enjoy many simplifications in accounting, compared with Ukrainian businesses;

- loans are more affordable because interest rates in Germany are lower;

- a new small business has tax holidays for three years;

- transparency and sustainability of regulations that determine the control of the enterprise by public authorities;

- workforce is highly qualified.

There is a possibility that some of the conditions that make conducting business in the West easier (e.g. tax holidays) will be available for Ukrainian entrepreneurs. However, the healthy functioning of the market is directly influenced by the institutional factor: the presence of corruption and the opacity of interaction between employers and the state.

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At the same time, in Ukraine, these characteristics (providing information about the company, paying taxes to relevant authorities, raising capital, etc.) are obstacles for the dynamic development of SMEs, because:

- SMEs do not have access to loans with low interest rates;
- SMEs do not have access to tax holidays;
- Customs and tax laws are often subject to changes;
- Communication between SMEs and supervisory authorities is not transparent;
- Prices of commodities fluctuate.

The presented problems can only be solved by the consistent state policy on the development of the SME sector, which should include the following steps:

1. A clear definition of the powers of control of public authorities in the legal acts concerning the communication with small and medium enterprises;
2. Optimization of taxes and fees;
3. Giving SMEs access to credits for the creation of the business and its expansion.

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