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PROBLEMS AND HORIZONS OF BUSINESS PROCESSES LOGISTIZATION IN UKRAINE

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ABSTRACT

The article studies current Ukrainian market from the viewpoint of implementation of logistic approaches in home economy. There are shown both negative and positive tendencies of the process; place of logistics in the country progress is determined. Theoretic approaches to the new "logistization" category originated within post-Soviet countries while implementing logistic approaches in business processes are studied.

JEL CLASSIFICATION & KEYWORDS

■ L2 ■ O14 ■ Logistics ■ Logistic approach ■ Logistization ■ Business processes ■ Trends

INTRODUCTION

Upgrading operation of enterprises is one of current actual problems. As practices show enterprises look for any ways of cuts in expenditures. Unfortunately, bosses of Ukrainian enterprises use common methods: downsizing, utilization of cheaper and as a rule less qualitative raw etc. As opposed to Ukrainian managers Western ones use tools of management, marketing and logistics in the process of carriage of enterprise. In this context studies of problems and horizons of logistization of business processes in Ukraine are of high priority.

Logistics is rather young science which originated in 1960s–1970s. In 1980s European companies found it one of the main factors of competitive advantages of profit-making.

Logistics as a future of Ukrainian business

Ukrainian entrepreneurs consider logistics as performance of a number of operations (transportation, storekeeping etc.). Such an interpretation results in undervaluation of importance of logistics, and misunderstanding its practical application context.

It should be noted that scientists have not completed shaping theoretical bases of logistics yet. "Conceptual attitudes and total complexes of problems have not been shaped yet as process of shaping logistics as a science is in progress" (Foundations of Logistics, 2009). Some scientists consider logistics as a "theoretical and practical idea of management of flow processes taking place under flowing material resources and adequate information from their origination source up to final consumption with optimum balance of cumulative logistic expenses and consumer satisfaction" (Sirenko, 2002). Others consider logistics as a "science of economic relations of shaping and integration of various business processes connected with transactions of material values, and their financial, information and service support, and as an economic management mechanism – integrated system of forms, methods and instruments of shaping complex of processes of resource purchase, manufacturing process, distribution, and sales of goods and services" (Frolova, 2005).

Today more and more scientists connect definition of term "logistics" with performing functions of management of flows. It can be concluded that logistics is comprehensive approach in managing business activities of enterprise. It helps to develop rational organization of flow processes to identify and implement possible managerial reserves, and to realize additional income. In this context minimization of total expenditure and maximization of consumer satisfaction are the key decisive factor of logistics. That's why logistics is important for success of particular enterprise, branch and the whole country.

In developed countries about 93% of time of goods flow from source of raw materials to final customer is its passing through various channels of supply, sale and for the most part storage. As a matter of fact, manufacturing goods takes only 2% of total time, and external transportation – 5% (Bazhin, 2003). Expenditures connected with physical supporting and distributions are the main ones in logistic system. In American industry they are about 20% of GDP (Osmolovets, 2005).

World statistics show that logistical costs become important component of production expenditures. In the USA logistics take about 10% of GNP. In 2006 German freight logistics became European leader. Its turnover was more than € 170 bln to be some 7% of GDP of Germany. In China logistic expense were 18,1% of GDP, and in Thailand it was 18,9%of GDP in 2007 (United Nations ESCAP).

As world practices show shaping integrated logistic systems covering various fields of entrepreneurship is the most important factor of economic growth. For example, logistic market size in China is Yuan 249bln. It is supposed that during several years it will grow with 30–40% average annual increase. Eleventh five-year plan includes measures of favouring rapid logistics growth in the country (United Nations ESCAP).

It is a great problem for Ukrainian enterprises to implement logistics tools.

Macroeconomic measures from Table 1 characterize economic growth of the country (Official Site of the State Statistic Committee of Ukraine). The data show that economic situation in Ukraine is unstable.

It should be noted that sharp decline of GDP in 2009 (14%) can be explained by shrinkage of real sector of economy at the expense of decline in economic activity of enterprises. In this context, rates of GDP growth vary disproportionately to rates of state debt growth, and it shows that national policy is unbalanced and conflicting. Heavy dependence on changes in external markets under the conditions of undeveloped internal market is the main risk for developed Ukrainian enterprises.

The above listed tendencies resulted in unemployment and inflation in Ukraine. Despite 2010 showed insignificant improvement it will take several years to re-establish lost. Inflation "eats" growth average gross wages.

During all years of its independence Ukraine trying to be export-oriented country lately has become more and more import-depending. In 2010 credit balance increased practically thrice. It is UAH-3113, 1bln.

Ineffective structure and high power intensity of manufacturing output in Ukraine, price rise for energy make entrepreneurs search for new ways of improvement efficiency of economic activities. Sparing themselves searching reserves of technologic upgrading in majority of

Table 1: Macroeconomic Measures of Development of Ukraine in 2000–2010

Measure	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP Growth, %	5,85	9,15	5,21	9,57	12,08	2,7	7,3	7,9	2,1	-14	4,2
Trade Compared with Previous Year, %		100,8	101,3	110,6	104	97,7	105,9	105,4	98,7	77,6	106,4
Net (+, -), UAH, mln		2886,5	3844	2836,7	6918,6	1291,8	-2884,5	-7263,6	-13294,7	-1312,6	-3113,1
Monthly Average Gross Wages Compared with Previous Year, %	129,6	135,2	121	122,8	127,5	136,7	129,2	129,7	133,7	104,9	120
Monthly Average Real Earnings Compared with Previous Year, %	99,1	119,3	118,1	115,2	123,8	120,3	118,3	112,5	106,3	90	110,2
Inflation Rate, %	25,68	6,13	-0,51	8,26	12,28	10,3	11,65	16,55	22,34	12,3	9,1
Unemployment Rate, %	4,2	3,8	3,7	3,6	3,5	3,2	2,8	2,4	2,1	1,9	1,6
Industrial Production Index Compared with Previous Year, %	113,2	114,2	107	115,8	112,5	103,1	106,2	110,2	96,9	78,1	111
Government Deficit, UAH, bln	-0,8	-1,5	-0,6	-0,2	-3,2	-1,8	-0,7	-1,1	-14,1	-16,1	-64,4
State Debt, UAH, bln	77	74,6	75,7	75,5	85,4	78,1	80,5	88,7	189,4	301,5	432,2

Source: State Statistics Committee of Ukraine, http://ukrstat.gov.ua.

branches they repair to price increase. Thus, annually Ukraine loses its industrial and competitive potential.

Adequate measures are required to stabilize socio-economic situation in Ukraine. We believe that one of the measures is motivation of implementation of logistic approaches in real sector of economy.

Implementation of logistic approach is expedient for enterprise owing to:

- Increase in productiveness level through following above-listed rules of logistics:
  a. dematerialization of goods,
  b. reduction of working hours losses,
  c. cutting of transportation costs,
- increase in efficiency of use production assets use (including facilities) and decrease in their passive part,
- industrial and manufacturing headcount reduction,
- cuts in expenditures and rise in profitability,
- return of facilities from reserves,
- increase in goods sale,
- "nonlost" profits (difference in work before and after logistic approach implementation).

Above helps to conclude that efficiency upgrading use of all resources of enterprise is priority of logistics.

In 2008 International Center of Advanced Research in partnership with Conference Board of Canada estimated potential of Ukraine. In the field of "Resources and Efficiency of Their Use" Ukraine is 39th of 46. Accordingly USA, Canada and Ireland are first, second, and third (Potential of Ukraine and its Realization). That's why just logistics is the potential of improving market power for many Ukrainian enterprises.

Logistization as a new term. Features of logistization of business processes in Ukraine

Idea of "logistization" is new one, and it has Russian origin. Some scientists can not take the term, and use "implementation of logistic approach". The categories can not interfere, but it should be noted the category "logistization" is of all-inclusive sense. Logistization is "total organization of logistic systems and chains on the basis of theory of logistics" (Semenko, 2006). Or "a process of reorganization of current system of flow management based on implementation of general principles of logistics, integration and coordination of functions of all members of "raw material supply-manufacturing-sale-distribution" chain" (Melnykov, 2004). Latter definition is more complete. In this context logistization means not only implementation of principles of classic logistic in managerial process but also adaptation of effective world practices to current home managerial system. Logistization is not aimed at death of current managerial system but at its reconstruction.

It should be noted that implementation of logistic principles and managerial methods at Ukrainian enterprises is very slow process. In Ukraine it depends on a number of reasons:

1. Skeptic attitude of managers of enterprises to implementation of new managerial methods. First of all, it depends on unwillingness to recognize fundamental changes which took place in philosophy of shaping material, financial, and information flows. Another reason of skeptic attitude to logistization is lack of unified methodological approach to estimation of efficiency of enterprise logistization. That is it is very difficult for manager to make a cold evaluation of results of logistic approach implementation in management.
2. Staff deficiency of specialists. Russia has Dissertation Councils on "Logistic" specialism on the basis of current schools (Russian Economic Academy named after G.V. Plekhanov, Ural State Economic University, and St. Petersburg State University of Economics and Finance etc). Ukraine has not fundamental school which could develop wide range of the field problems. Most of all teachers and professors of State University "Lvivska Politekhnika" and National Air University contributed to popularization of logistics as a science. However we can not help noting works by such scientists as T. Skorobogatova, A.Kalchenko, E. Krikavski etc. During last decade situation changed for better and promise to get specialized logistic education is possible today. More and more institutions of higher education try to introduce logistics in a list of key specialism areas. However despite the positive changes chance of such education is limited.
3. Lack of comprehensive monitoring of logistization of business processes in Ukraine. Analysis of home single-purpose periodicals show that sphere of problems becomes narrower. Mainly, problems of transport movements, shipping and stevedoring are considered. Application of data indirectly characterizing logistization process can not identify Ukrainian tendencies, and it prevents considering and estimating real situation.

4. Lack of regulated legal framework, high level of corruption and bureaucracy. Situation with bureaucracy in Ukraine is unpromising as it occupies 35th position of 46. As to corruption, Ukraine occupies 37th position. Mostly, rating of Ukraine is affected by indices of business losses as a result of corruption and nepotism impact (Potential of Ukraine and its Realization). The problem is especially vexed for companies engaged in foreign economic activity (customs clearing).
5. Underestimation of sphere of circulation to compare with production sphere. As logistic costs are first associated with transportation ones then the majority of managers can not find it expedient paying attention to the sphere as the potentials for cost reduction. But if one sums up shipping costs, stevedoring, customs clearing etc. many managers will revise their opinions. Thus share of logistic component in value of output in Ukraine is 30–35% (for comparison logistic costs in the USA are no more 10% of GDP, 9–11% in Europe, and 11–12% in Japan) (Zharik, 2010).
6. Finiteness of financial resources of Ukrainian entrepreneurs. As a rule, the majority of changes concerning economic process organization need certain investments. Not every enterprise can find required sum for that.
7. Low level of logistic infrastructure maturity. In Ukraine producers practically waive require services of specialized logistic companies. Comparably, in America and Europe up to 60% of producers require their services. Ukrainian market includes a number of companies performing services on shipping, storekeeping etc. As to logistic companies providing a comprehensive range of services, they are practically nonavailable. The number of companies which infrastructure corresponds to infrastructure of Western Europe companies is about 20. The majority of them are offices of the biggest foreign companies. Ukrainian logistic companies place primary emphasis upon motor transport component (Klochko, 2005).

Above negative factors show that favourable environment for forwarding logistization of business processes is not available. At the same time, Ukraine has a number of advantages for home entrepreneur. Among them are:

1. Beneficial geographic location of the country. Ukraine is in the center of the principal directions of transport flows (index of transitness is 3, 75) (Prykhodko, 2008). The advantage gives a boost to economic integration. Capabilities to create transparent economic environment and to improve customs policy will forward process of business logistization in Ukraine.
2. Opportunity to apply use satisfactory practices of foreign countries as to the use of logistic approaches in management. It will help to avoid a number of mistakes.
3. Resource potential of the country. Today, when resources become more expensive and limited, Ukraine is more availability having cheap resources (labour, material, natural etc.).
4. Entrepreneurs' comprehension of acute need to apply new resource-saving approaches in management. Day by day interest is heightened and creativity is manifested in the new for Ukrainian managers approaches to management.

Conclusions

Progress of modern logistics becomes crucial chain for uninterrupted and fast growth of national economy of the country. Unfortunately, today Ukraine has more "contra" than "pro" as to logistization of business processes. However, even such a negative picture holds out hope for evolution of logistization of Ukrainian economy. To a large extent, developments depend on actions of Ukrainian entrepreneurs. If enterprise does not apply logistic principles for own activity management it invites failure in the system of flow movement, and in loss of time and resources.

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