

# Good starting business in ukraine research paper example

[Parts of the World](#), [Europe](#)



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The process of globalization makes many companies worldwide think about becoming international. There are many reasons for it, such as going to the international markets, increasing sales, reducing costs of manufacturing and research & development by means of outsourcing, engaging skills and talent from other countries, increasing company's revenues, and etc. Lewis Globalworks Co., Inc. has been working in the market for many years and now would like to expand its activities to the other countries in order to optimize its operations and financial results. This research paper is focused on evaluation the possibilities and peculiarities of business's expansion to Ukraine and provides recommendations for the company in this respect.

## **Overview of the Country**

Ukraine is situated in the East Europe, it is a former member of the Soviet Union and now has a developing market and economy and, thus, it is attractive location for investment and working in. There are a number of pros and cons regarding investing in this country that will be described below.

Ukraine has a good geographical location, significant potential and resources. Numerous advantages can make it interesting for Lewis Globalworks Co., Inc.

As Lewis Globalworks Co., Inc. is going to open a production facility in Ukraine, it is recommended to consider not only the capital city district. Other regions of the country have more free space, lower prices and therefore may be more suitable for construction a plant. In this case the company may face more issues with logistics and transportation.

## **Transport System of Ukraine**

Speaking about international transportations, it is possible to deliver goods to or from Ukraine by different transport means: air, rail, automobile and marine. Ukraine has airports in all large cities with necessary infrastructure for handling and storage of the shipments. Export and import customs procedures can be fulfilled in the airport. Ukraine has the access to the Black sea and the Sea of Azov and there are ports, where the shipments can be dispatched or delivered. It is recommended to use intermediaries to deal with the authorities and customs clearance, as the high level of corruption and contradictive legislation makes the process very complicated. Shipments from the ports can be delivered to the cities of destination by specialized trucks and customs clearance can be arranged locally. Transportations by road are rather common for Ukraine and are used to deliver cargo inside the country as well as to/from any European countries and CIS. The rail transport in Ukraine belongs to the state and thus companies rarely use their service as they are not customer-oriented and, for example, it is usually difficult to know the status of the shipment, etc. However, for some commodities it is an option and can be used successfully.

## **Economic Overview**

Ukraine has a good economic potential due to its large domestic market, professional labor force, access to different natural resources including very good agricultural land, large coal and significant gas and oil reserves, and location between Russia, Asian markets and Europe ('Doing Business In Ukraine', 2010).

The European Union accounts for approximately 30% of trade in Ukraine and CIS account for around 40%. Ukraine has a large ferrous metal industry, manufacturing steel and steel pipe, cast iron, and the chemical industry of the country produces mineral fertilizers, coke, and sulphuric acid. Global demand for chemicals and steel that totals around 40% of exports from Ukraine's sharply dropped at the end of 2008.

Produced goods include turbines, airplanes, metallurgical equipment, tractors and diesel locomotives. The country is also a producer of sunflower seeds, grain, and sugar beet. Ukraine has a significant industrial base that includes much of the former USSR's rocket and space industry.

As a response to the significant economic downturn in Ukraine in 2008, the International Monetary Fund (IMF) provided a \$16.4 billion Stand-By Arrangement (SBA) to the country, with the conditions of banking sector reforms, as well as monetary and fiscal policy adjustments. The World Bank has provided to Ukraine over \$5 billion since the country's joining the Bank (1992).

The country is the European Bank for Reconstruction and Development (EBRD) member and in May 2008 joined the World Trade Organization (WTO). In 2008 European Union and Ukraine started negotiations on a comprehensive and deep free trade agreement (DCFTA). In the EU-Ukraine 12th Summit that took place in September 2008 in Paris, the EU provided Ukraine with an association agreement that contained chapters on trade and political relations ('Doing Business In Ukraine', 2010).

Living Standard. In 2008 GDP per capita in Ukraine according to the information of CIA made \$7,800 (PPP), ranked the world's 83rd. Nominal

GDP was \$198 billion (in U. S. dollars), ranked world's 41st. According to the World Bank, Ukraine is a state with middle-income.

Population. Now the population of Ukraine makes around 46. 1437 million, urban is 68% (31. 5872 million) and rural is 32% (14. 5565 million).

## **Political Overview**

Background. According to the Constitution that came into force in 2006 (January 1), the country is a parliamentary presidential democracy. Ukraine possesses a pluralistic political system, and basic human liberties and rights protected by the Constitution. The head of the state is the President. The Prime Minister chairs the Cabinet of Ministers and serves as the head of government that is the highest executive body. The Prime Minister is nominated by the parliament (Verkhovna Rada) and approved by the President. The Cabinet of Ministers is appointed by the Prime Minister, other than the Ministers of Defense and Foreign Affairs who are appointed by the President. Then the Cabinet of Ministers is approved by the parliament ('Doing Business In Ukraine', 2010).

People's Deputies are elected to the parliament (Verkhovna Rada) by a proportional representation form based on lists of parties. The Verkhova Rada's constitutional role does not differ much from other elected parliaments. It debates, approves and amends legislation; approves the Cabinet of Ministers; approves the budget and ratifies international agreements.

Recent Developments. A key task for the next several years will be the level to which the country can develop a government system based on

parliamentary majorities. The country ranks #142 (out of 183 states) in the Doing business 2010 report of the World Bank, reflecting complications including: the tax burden, bureaucracy, lack of transparency and clarity in tax administration, lengthy business registration procedure, lack of transparency and slowness in the judicial system ('Doing Business In Ukraine', 2010).

During 2008 and 2009, Ukraine made several positive changes in the Employing Workers and Protecting Investors areas. The country also eased the tax burden on companies by reducing some rates of social security tax (social security fund, pension fund, and social insurance for work accidents). However, these positive changes did not help Ukraine to decrease the gap with top reformers. According to the experts, still Ukrainian business has to pay separate 99 taxes. The Ukrainian business's profits are taxed at a 57.2% rate while the world's average is around 44%. Also Ukraine still has rather poor infrastructure, that means rail and road links are not good for investors due to their quality ('Doing Business In Ukraine', 2014).

## **Taxation**

In Ukraine, taxes mean statutory charges and are levied according to the Ukrainian Tax Code. Taxes are divided into local or national. The major taxes include: value added tax (VAT), corporate income tax (CIT), single contribution to mandatory social security fund and Personal income tax (PIT).

As a legal principle, taxes, tax collection procedures, tax rates and tax incentives can be established exclusively by the Ukrainian legislation.

National taxes like VAT, CIT, PIT, excise taxes and customs duties account for the biggest portion of country budget's revenues. Authorities of the local level can also collect revenue from different local taxes like parking tax, tourist tax, real estate tax (other than the land property), unitary tax and tax on some types of business activities ('Doing Business In Ukraine', 2010).

## **Challenges**

Ukraine is #146 (out of 180) on 2009 Transparency International's Corruption Perceptions index (compared to 99th in 2006). It is also estimated that Ukrainians pay around 10-20% of income for bribes, and that 80% of the citizens pay for services they are guaranteed to receive for free (higher compared to any other state surveyed) ('Doing Business In Ukraine', 2010).

## **Strategies of Market Entry**

Foreign investors may take into account the following variants for entering the market of Ukraine:

- commission arrangements and agency;
- direct sales;
- joint venture with a partner in Ukraine;
- representative office;
- subsidiary in Ukraine.

The choice of the foreign investors is often motivated by the maintenance costs and incorporation, and also by the tax and legal risks involved.

## **Labor Regulations**

The main law regulating relations of employment in Ukraine is the Ukrainian Labor Code. The Labor Code is the similar to the one from the Soviet era and has not been subject to any significant revisions since 1971. Thus, in many aspects it does not meet the market economy's requirements.

The Labor Code is applicable to all institutions, organizations, and companies in Ukraine, irrespective of their type, legal form, or activity area, and to hiring workers individual entrepreneurs. Foreign nationals' employment in Ukraine is a subject to the Ukrainian immigration and labor laws, in case otherwise is not provided in the international treaties in force that the country is a party to.

Employment Agreements. Employment can be formally established by an employment contract or an employment agreement, either in written form (for an employment contract it is obligatory) or verbally ('Your Business In Ukraine', 2012).

## **Corruption**

Corruption, grand and petty, makes the one greatest barrier to enhancing investment and trade in the country. Grand corruption involves many high-level officials, the government assets sale, or large contracts of government. Petty corruption refers to officials of lower-level who decide on enforcing (or not enforcing) laws.

International businesses complain mostly about Ukrainian legal and regulatory hurdles created to elicit bribes. Similar as in most countries where corruption is present, employees of Ukrainian government, hoping of eliciting



bribes, design registration and licensing procedures deliberately to be so complicated that they may really threaten to slow or halt foreign investment or trade. As a result, the expense and time of obtaining the licenses and requisite permits to set up and open a business or to trade add to costs substantially, decreasing both investment and trade. Rigged privatizations impede investment also. Contradictory laws and corrupt judges in Ukraine make it complicated for companies to put contracts into force that also decreases investment (Crane and Larrabee, 2015).

While Ukraine has implemented a number of positive reforms, the implementation's low level substantially undermines the process of reform, as organizations do not benefit due to the legislation's changes. According to the IFC, 74% of organizations were surveyed in 2010, similar as in 2008.

Preparing necessary documents procedure to register technical specifications is still time-consuming (47% of businesses spent over 2 months on it in 2010 and 41% in 2008).

In those cases in which the legislation has been put into force, the burden on organizations has been substantially reduced. For example, less number of businesses require permits (32% of companies received permits in 2010 and 54% in 2008), in turn, permits need less time for processing (to obtain all permits it took 48 days for organizations and for sole proprietors 36 days in 2010, in comparison with 54 and 44 days in 2008), and the expenses for it are lower.

## **Business Customs and Culture in Ukraine**

**Presentations and Meetings.** Personal relations and contacts are very important and, in case after prior correspondence the partner seems to be interested, it is strongly recommended to visit the country. All the important questions have to be discussed face-to-face. However, introductory general meetings are not welcome and the foreigner should be ready to speak about the specific issues even at the first meeting.

Appointments have to be confirmed some days before a meeting and are usually complicated to arrange beforehand. Punctuality and smart dress code are recommended to show respect that is standard business etiquette like in any other country. In Ukraine hand shaking is important ('Doing Business In Ukraine', 2014).

Meetings usually take place in the company's office. However, very often foreigners are invited to the restaurants, mainly which offer Ukrainian cuisine. It is typical to discuss business issues during the meal, but the financial operations, signing contracts and other similar things are usually left for the office. Due to their natural hospitality, very often local business people may spend a lot for restraints and other entertainment for their guests.

**Negotiations.** People in Ukraine are hospitable and business negotiations/meetings can be rather extended. There is even a possibility that local hospitality overshadows the purpose of business. However, cautiousness is typical and business persons usually treat even basic information as confidential, like turnover, number of staff, and etc. Such data is difficult to receive on the phone but may be received at a meeting. In case

of meeting with the officials, from ministries to municipalities, they can express a desire to conclude a Memo of Understanding. These MoUs are typical in Ukraine and, even though they do not have legal value, they are considered to be a significant part of the process of partnership ('Doing Business In Ukraine', 2014).

**Greeting in Ukraine.** It is recommended to know the title of each person and to address Ukrainian colleagues with the surname and appropriate title in the meeting. In case a Ukrainian colleague does not possess an academic or professional title, it is better to use the prefix of “ Pani” (for women) and “ Pan” (for men) followed by her or his surname. In Ukraine it is customary to shake hands with the colleagues. It is recommended to repeat ones name and maintain eye contact during each handshake. Ukrainians shake hands again before departing.

**Business Cards in Ukraine.** In Ukraine it is necessary to put colleagues' titles on business cards, as Ukrainians highly respect academic degrees. It is good to have one side of the business card translated into Ukrainian.

## **Cultural Etiquette in Ukraine**

**Timing.** Business meetings in Ukraine are often conducted over a meal that helps to establish good relationships. It is also possible that the foreign colleague is invited in a colleague's home to a business meeting with a meal.

Ukrainians behave under traditional gender roles. Men in Ukraine always open doors for women, light their cigarettes and pour their drinks. It is recommended to follow their respect lead when abroad. Some people in

Ukraine are superstitious so it is necessary to avoid passing an object over a threshold or shaking hands over a threshold, both of such actions are associated with bad luck.

## **Dress in Ukraine**

It is customary for Ukrainian business people to dress conservatively and formally, with women wearing suits or dresses and men wearing suits (Foreignstaffing. com, 2015).

Ukraine is considered to be a country of great potential, but this potential is not tapped fully. The reasons why Ukraine has not realized its potential are its cumbersome and overregulated business environment and bad investment climate. Organizations spent in 2010 around \$900 million on inspections and technical regulations systems and compliance with permit. Corruption and ingrained graft add to the cost and complexity of procedures. Around 46% of surveyed organizations confirmed that they used unofficial methods to solve problems with officials that made approximately of 10% of organization turnover in 2010. „

## **Until implementation of positive steps take place, the country will remain in the “ potential” category.**

Currently Ukraine experience conflict with Russia that has a bad influence upon the economy and, thus, foreign investors fear to open their representative offices and manufacturing facilities in Ukraine. However, some of them still do it and temporary crisis is not an obstacle for them. The conflict situation is supposed to be resolved in the nearest future.

In my opinion, it is a good opportunity to open business in Ukraine. Having

analyzed different sources, it is obvious that most researchers see many positive trends in this country. Taking into account all the advantages of the country (educated workforce, good natural resources, large territory, and etc.), it seems that it is possible to cope with current disadvantages (corruption, economic crisis) and establish a sound company that will be developing in the future. Thus, Lewis Globalworks Co., Inc. is encouraged to consider opening its manufacturing facility in Ukraine in some years, when the situation, hopefully, will become stable. In order to be on the safe side, it is recommended to think about proper insurance coverage for the company and its local facility, to follow the latest events and explore the situation.

## **Conclusion**

It is possible to conclude that Ukraine is a country that is worth investing. It still has a number of weak points, such as high level of corruption, lack of transparency of the administrative procedures, contradictory legislation, and etc. The government is making a certain number of steps to facilitate many of the procedures and make the country more attractive for the foreign investors. Advantages of Ukraine include skilled labor force, good geographic location between Europe, Russia and Asian countries, significant natural resources, including coal, oil and gas, comparatively large territory and developing market, that means that it is possible to promote and sell goods and services locally.

In spite of the difficult situation and crisis of the Ukraine's economy, the recent steps made by the government are directed to simplifying the conditions for the foreign organizations and investors as well as to the

liberalization of trade. Following the period of recession and conflict with Russia, the country expects economic increase mainly due to the development of international operations. The development of country's relations with the European Union as well as with other countries can lead to the enhanced collaboration in different spheres, including business.

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