

**SOCIAL SCIENCES****ECONOMIC FREEDOM AS A STRATEGY AND MECHANISM OF THE  
ENTREPRENEURIAL DEVELOPMENT****Alla Suriak**

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**Abstract.** The article defines the essence and features of the economic freedom as an instrument for a deep analysis of the entrepreneurial development strategy and mechanism in Ukraine. The basis of such an examination became entrepreneurship evolution trends considering through the dynamics of the economic freedom growth and having been taken into account in its index, as the latter is an indicator of the state and development of the global economy in the modern world.

**Keywords:** economic freedom, entrepreneurship, economic freedom index, ways of economic freedom growth, strategy of the entrepreneurial development, mechanisms of the entrepreneurial development, economical advancement.

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**Target Setting**

Any economic freedom is a theoretical and real-world problem of the modern entrepreneurship in Ukraine. Developing within a market economy, it has become one of the most important investment prerequisites comprehensively characterizing the economic situation in the country, as well as its business opportunities and economic growth. Any economic freedom changes give a push for turns in its investment climate and attractiveness resulting in the modification of the country's overall economic and business environment and influencing on the decision determining if it is worth developing any business in Ukraine for a potential investor. This is precisely why the analysis of ways concerning the economic freedom growth makes possible to determine the strategy and concrete options of the entrepreneurial development that in its turn will affect our country's economic freedom index improvement, its economic and social welfare.

**Actual Scientific Researches and Issues**

Some issues related to the theory of economic freedom are based on the ideas of foreign scholars: A. Smith, J. Keynes J. Buchanan, J. Haan and J. Stem, J. Hanson, J. Heckelman and M. Stroup, P. Zaglidi. A. Smith has believed that the welfare of the country depends on the freedom of the market economic activities within the market conditions and

competition, J. Keynes argued that the investment and entrepreneurship advancements depend on the development of internal and external freedoms in the country. J. Buchanan has defined economic freedom in the state economic behavior and its significance in the regulation of such an economic behavior. Works of the domestic scientists such as V. Boiko, Z. Varnalii, A. Halchynskyi, O. Hlushchenko, A. Kolot, N. Lytvynenko, I. Markovych, L. Khizhniak, A. Suriak, and A. Chukhno are grounded on the economic freedom importance as one of the progressive tools assisting the economic growth and the well-being of the population. Simultaneously, the analysis how economic freedom influences on the development of the entrepreneurship is still inadequately treated and requires a detailed justification by native economists.

### **Uninvestigated Parts of General Matters Defining**

Researchers of economic freedom often focus their attention only on the specific series, namely, on the evaluation of the economic freedom index and do not pay enough attention to the influence of economic freedom aspects on the husbandary practice and entrepreneurship, in particular on their development in a mutual mechanism.

### **Purpose of the Article**

The goal of research is to determine the essence of economic freedom and its evaluation through the analysis of the economic freedom index, study the formation of the strategic plan and the mechanism of the entrepreneurial development as the economic freedom realization as well as turns at the present stage of the society evolution.

### **Presentation of Basic Material of the Research**

By economic freedom, we mean the manifestation and realization of the subject's freedom in the economic activity, an opportunity to think and act freely and responsibly in business, as well as the ability and possibility to make independent decisions relative to the economic activity types and means in the economic field (*Suriak, 2004: 28-29*). The careful scrutiny of economic freedom in general through the producer's and consumer's economic kinds of freedom specifically actualizes the role of entrepreneurship in the producer's and the consumer's freedom. Entrepreneurship as an independent, initiative and at its own risk economic activity occurs owing to the producer's economic freedom and allows the consumer's economic freedom to take place in this process. The entrepreneurship implementation is the realization of some producer's and consumer's economic freedom in the market environment.

Therefore, the argument goes that the indicator of any economic freedom is its index calculated by the Heritage Foundation in conjunction with the Wall Street Journal and it is to assess the level of some economic development and freedom of the government and business interconnections and conditions (*The global plan for recovery and reform, 2009*). Experts of the Heritage Foundation believe that the index of economic freedom is an indicator of the absence of government interference or obstruction of the production, distribution and consumption of goods and services, with the exception of the necessary protection and support for freedom as it is (*The global plan for recovery and reform, 2009*). Each of the

indicators is evaluated according to the scale from 0 to 100 points and according to this criterion: the higher the score is, the higher the level of economic freedom in the country is.

The index of economic freedom includes twelve components (before there have been ten) grouped into four groups:

- rule of law (protection of property rights, efficiency of the judicial system, and the government integrity);

- government restriction (tax burden, public expenditure, fiscal health)

- regulatory efficiency (business freedom, labor market freedom, monetary freedom)

- openness of markets (freedom of trade, freedom of investment, financial freedom)

(*Index of Economic Freedom, 2017*).

According to the report of the "Level of Economic Freedom in the World of 2017" Ukraine ranks the 166th place out of 180 countries. The economic freedom index of Ukraine was 48.1 out of 100 possible points, which is still insufficient for the accelerated development of the national economy and economic freedom (*Portal of Ukraine's Competitiveness, 2018*).

The economic freedom index of 2018 (*Index Economic Freedom, 2018*) assesses the achievements of Ukraine in 51.9 points out of 100 possible and it has the 150th place in the rating of 180 countries. Despite that Ukraine was the last among 44 European countries, and its score is lower than the average European regional and global indicators, the economic freedom index of Ukraine rose to 3.8 points in 2018, which was due to the positive changes in 8 out of 12 indicators. Three indicators of Ukraine are assessed worse than they were last year. They are considered as the right of ownership, government integrity and freedom of trade. The indicator of financial freedom has remained at the level of 2017. And experts have noted some positive changes in the assessment of monetary and investment kinds of freedom.

Such a position of economic freedom is because of the modern real business environment where the entrepreneurship is being constantly developed. The entrepreneurship advancement is hampered by some insufficiently favorable business climate, which creates obstacles firstly to the progress of small and medium business. According to such international ratings as 'Doing Business' and the 'Global Competitiveness Index', the business climate in Ukraine does not promote the development of entrepreneurship. However, the results of these studies also indicate and prove that the situation is improving. For example, in the top list of the 'Doing Business' published by the World Bank, Ukraine rose from the 152nd place (2012) to the 80th place in the rating of (*Doing Business, 2017*).

To develop the entrepreneurship is constantly necessary to make better the regulatory environment taken into account in the economic freedom index in two groups of indicators. They involve the government control and the investment climate regulatory effectiveness. We refer to them the components of the other two groups of economic freedom index - open markets and the rule of law, and in the end, it will become a factor in the business environment and economic freedom improvement.

So, we consider that modern problems of the business environment that impede the development of entrepreneurship and do not allow economic freedom to grow will be:

- quality of institutions, which still insufficiently ensure the protection level of property and shareholders' rights in modern conditions;

- underdevelopment of any competition and initiatives in the entrepreneurship advancements in order to maintain the conditions for competition in the market through the concentration of large conglomerates in the industrial life of business activity;

- present barriers to entry and exit of enterprises in the Ukrainian economy;

- low level of direct foreign investments and limited capitalist process in the export-oriented entrepreneurship (*Annual Report, 2017*);
- budget restrictions and insufficient state support for the development of small and medium-sized businesses;
- low entrepreneurial culture and labor productivity despite the high level of the workforce education;

The private entrepreneurship insufficient growth is one of key reasons for the economy weakness and the slow upswing of economic freedom (*Warns of Learning Crisis in Global Education, 2017*). The structural problem of the economy and the reason for the non-increase in economic freedom are evidenced by such results as the almost unchanged structure of exports; slow growth and low labor productivity; limited volume of direct foreign investments, especially in export-oriented production; and high energy intensity.

Based on the components of economic freedom that are taken into account in the index of economic freedom and the state of the entrepreneurship evolution, we can determine the strategy for the development of entrepreneurship in the following areas:

1. Perfection of the regulatory, legal and institutional environment of any entrepreneurship.
2. Improvement of the entrepreneurs' access to any financing.
3. Tax burden reduction and simplification of the tax administration for small and medium-sized businesses.
4. Development of economic and entrepreneurial culture and skills of economy.
5. Assistance in the export activities being carried out by small and medium-sized businesses and the entrepreneurship internationalization.
6. Competitiveness expansion and innovative potential of entrepreneurial structures (*Strategy for the development of small and medium enterprises in Ukraine up to 2020, 24.05.2017, No. 504-p-KMU*).

Let's take a closer look at each of the strategy directions through the mechanism of its implementation. They exist to improve the entrepreneurship regulatory and legal environment and are able to occur through an updated and complimentary regulatory and legal framework built on real statistics, holistic strategies and action plans by institutions that will shape opportunities and implement business promotion policies, as well as a permanent trustful state-particular dialogue. This strategy also includes: a favorable business climate, assessment concerning the impact of legislative changes in business, simplicity of the registration and dissolution of business, acquisition of licenses and permits, maximization of the access of business structures to the public procurements. Such structural elements of the strategy in their integrated and simultaneous, rather than incremental implementation, provide:

1. Improvement of information and statistical data as to the status and results of small and medium-sized businesses:
  - perfection of the procedure for the simplified registration which will be reflected in the ratings related to the 'Doing Business' and 'Starting a Business';
  - simplification of the enterprise shut-down and termination of its activities that will facilitate some freedom of the choice of the forms, ways, time and place of activity to ensure its effectiveness;
  - facilitation of procedures for licensing and obtaining permits through the monitoring and systematic review of regulatory acts and the introduction of mutual regulation of small and medium-sized businesses;

- creation of the business consultation system on various platforms and the development of public-private dialogue
- ensurance of the control and arrangement of conditions for the completeness and timeliness of contract performance by business entities and their partners;
- awareness enlargement of entrepreneurship structures and their relevant training to increase the potential and opportunities for participation in some competitive bidding and public procurement;
- labor legislation perfection for the coordination of labor relations of entrepreneurs and their hired employees to have labor productivity higher as well as the employees' wages.

2. The access perfection of entrepreneurship structures, especially small and medium-sized businesses to financing can be realized by a mechanism that includes:

- simplification and credit provision cheapening of business structures by commercial banks;
- up-ward movement of the security and reliability of investments to expand business opportunities, especially small and medium-sized businesses;
- scheme improvement to guarantee depositing and procedures for obtaining loans with and without security;
- assistance to develop credit unions, improvement of the legislative and regulatory framework of the credit market resources and the place of credit unions in it, which may be a new source of financing for business structures;
- expansion of the work on the status and completeness of credit histories that can contribute to an effective reduction in the requirements for securing loans before and interest rates for small and medium-sized businesses;
- large use of leasing to reduce the funding gap for all businesses that need new equipment, but without any possibility to get loans;
- factoring development as a way to get access to finances using their receivables as some security;
- development of financing for innovative companies using the opportunities and tools of public-private partnership;
- introduction of international financial reporting standards for all business structures will attract planned foreign investments and improve the access to some commercial finance.

3. Both the tax administration simplification and reduction of the tax pressure on business are considered as ways of some financial recovery of the existed entrepreneurship and an entrepreneurial motive for new entrepreneurs and entrepreneurial structures. The mechanism of entrepreneurship development through the tax improvement includes:

- development of new forms and methods of tax administering for the convenience and transparent activities of business structures;
- enhancement of responsibility for the compliance and full fulfilment of tax obligations;
- reduction of the interference of fiscal authorities in the strategy and current activities of business structures;
- expansion of conditions in the tax holidays and selection of the optimal schedule for the implementation of tax payments.

4. The formation and development of market economic and entrepreneurial cultures to make higher the entrepreneurship effectiveness and to increase each entrepreneurial structure competitiveness, the entrepreneurs' skills and abilities can be achieved via such a mechanism involving:

- attention increase at all levels of the education system to the private sector needs,
  - focus of education on quality and the availability of business skills in a market and business environment;
  - creation of key competencies of entrepreneurship at all levels of education: primary, secondary, professional, higher and education throughout your life;
  - attraction of business to the cooperation with vocational technical and higher educational institutions;
  - satisfaction of needs in business skills during the training period in the workplace, which will help to increase the productivity and efficiency of business structures and their activities;
  - systematic studies of business training needs for the informal entrepreneurial training in general, professional and higher education institutions;
  - development of the appropriate structure of the entrepreneurial training at all levels using advanced international practices, procedures and training systems to increase the effectiveness of entrepreneurship;
  - information and awareness campaigns related to the existing support and training programs for starting and running business, marketing, financial literacy, etc .;
  - development of the employees' business skills by investing in the education of employees and creating conditions for them to profitable long-term work in this entrepreneurial structure;
  - increasing attention to potential entrepreneurs from different strata of the population, such as young people, women, people with great life experience in order to activate the entrepreneurial potential of these people;
  - self-employment promotion as an adaptation strategy and ways to implement one's own ideas or independence from employers;
  - awareness of the entrepreneurship importance in the economy and society informing about the model or history of business success;
  - stimulation of people to become entrepreneurs while ensuring a balance of risk and reward with simultaneous own contribution to the economic growth of the country;
  - provision of finance to carry out the regular monitoring and analysis of the entrepreneurship advancements taking into account this information in the development of business policies;
5. The promotion of the entrepreneurship internationalization can occur through:
- European standards taken over for the industrial, agricultural and food products;
  - program of national trade policy priority measures and important places in it of small and medium-sized businesses;
  - ensurance of duty-free and low non-tariff barriers to entering the international market to stimulate the export of small and medium-sized businesses;
  - brand reinforcement of trade support institutions, such as chambers of commerce and business associations, trade finance suppliers, consultants and other institutions providing services related to trade, to address the problems of lack of partners and information problems;
6. The perspective competitiveness and innovative potential of entrepreneurial structures can also be achieved through the evolution of a competitive market environment and the development of business support and consulting services. Moreover, it is successful when the infrastructure is created to support the enterprises (for example, incubators or accelerators). They grow and help companies attract scientific researches and expertises, and

to be important in establishing direct and feedback links with foreign and domestic investors requiring the improvement of state basic financial aid process relative to these new companies at an early stage of their activities. It is important to pay some attention to the regional availability:

- consult business with a view to more efficient organization and new business processes;
- create strategies and mechanisms for the development of small and medium-sized businesses at the national, regional and local levels.

### Findings and Recommendations

Thus, the harmonization of the Ukrainian legislative framework for the development of entrepreneurship of any economic freedom and institutional structure with European standards and practices will help to reduce the monopolization of the economy and, accordingly, contribute to the development of entrepreneurship and economic freedom. Any expansion of economic freedom should occur through the business policy renewal, which should be carried out by such actions as:

- adoption of the realistic strategy for the private entrepreneurship progress in the short and long terms;
- creation of agencies or structures that will facilitate the implementation of the private entrepreneurship state policy;
- legislative and regulatory reforms aimed at the loan guarantees to improve financing;
- facilitation of the development of some economic thinking, entrepreneurial skills and abilities to expand the innovative potential of entrepreneurship.

Thus, any economic freedom will be developed through the private entrepreneurship advancements in such ways and with the use of such mechanisms, which will raise the economic competitiveness ensuring the sustainable economic growth of Ukraine.

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