

# THE ISSUES OF THE FACTORS IMPACT ON THE BUSINESS CLIMATE

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**Abstract:** summarizing the above it should be noted that business environment, being a sphere performing economic, social and political diverse and varied functions, bears the influence of various factors, on the one hand, by adapting to the new environment created by the action of these factors, and on the other hand, trying to transform this environment, advance own interests and achieve maximum results, therefore, based on the analysis of the business environment structure it can be noted that for development of business environment it is necessary to ensure interconsistency of internal and external environments and their factors.

**Keywords:** business environment, external environment, internal environment, direct factors, indirect factors.

## ВОПРОСЫ ВОЗДЕЙСТВИЯ ФАКТОРОВ НА БИЗНЕС-КЛИМАТ

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**Аннотация:** подводя итог сказанному, следует отметить, что бизнес-среда, являясь сферой, выполняющей экономические, социальные и политические разнообразные функции, несет влияние различных факторов, с одной стороны, путем адаптации к новой среде, созданной действиями этих факторов, а с другой стороны, трансформируя эту среду, продвигая собственные интересы и достигая максимальных результатов. Поэтому, основываясь на анализе структуры бизнес-среды, можно отметить, что для развития бизнес-среды необходимо обеспечить взаимосогласованность внутренней и внешней среды и их факторов.

**Ключевые слова:** бизнес-среда, внешняя среда, внутренняя среда, прямые факторы, косвенные факторы.

In 2007, the global financial and economic crisis did not have an immediate impact on business environment of the Republic of Armenia, however, the economy of the Republic of Armenia started to feel its effects after 2008-2009. In other words, macro environment or indirect environmental impact factors are the same macroeconomic indicators such as monetary and fiscal policies, consistency between laws and their execution, customs and tax regulations and related administration, demography and its structure, economic and technological development, situation with infrastructure and factors affecting it, poverty, social and cultural peculiarities, environment and state policy on its protection and others [2].

It should be noted that macro environment creates general conditions for the entity's activities in the external environment, however, its impact on different entities depends on the scope of their activities and their inner potential [4].

It is rather difficult to control and influence the macro environment, nevertheless, during the whole term of its functioning the entity should periodically analyze the changes in macro economy and assess their impact on its future activities.

Among indirect factors many economic factors can be distinguished, including general macroeconomic situation and dynamics of main macroeconomic indicators, scale of markets and their development level, tax burden and level of tax administration, population income and its allocation, intensity of competition in commodity markets, level of consumer demand, opportunities to enter foreign markets and import and export ratio, level of protection of domestic market, stability of currency policy and exchange rates, volume of investments and proportionality of their allocation, availability of loans for the real sector of economy, condition, depreciation, renewal degree, repurchase terms of fixed assets, stability of national currency and other factors, which affect the opportunities to access to markets and business risks and, ultimately, the business initiative.

The results of works of a number of researchers show that the capacity of domestic market, especially with respect to goods requiring high level of processing, remains on the low level in our country. In this regard, great influence is also exerted by such factors as high percentage of population living in poverty in the Republic of Armenia, overloading of the society as a result of income inequality and the unformed middle class, which is the main consumer of locally manufactured goods, especially under conditions of large import volumes and relatively small export volumes.

Foreign markets continue to remain inaccessible to the majority of the Armenian entities due to economic (depreciation of fixed assets, low level of financial security, obsolete technologies, unequal distribution of tax burden, unhealthy competitive environment, relative impossibility of application of up-to-date marketing technologies, etc.), as well as geopolitical, regional, domestic political and various other reasons.

Political and legal factors play a decisive role in maintaining stability in relationships between society, business and government, state administrative mechanisms and process of making decisions important for the society, development of ownership relationships and civil rights, relations between economic entities, resolution of economic disputes and in other spheres [7]. All this ensures the reliability and credibility of the legal environment of business in the long run, which allows to accumulate savings, attract credit funds for implementation of business initiative, as well as guarantees fair distribution of dividends received as a result of the projects implemented and ultimately shapes quality and level of state intervention or regulation in the business sphere. In general, definition of market processes, including forms and levers of state regulation of business, is crucial for creation and maintenance of a favorable environment in this sphere. The excessive interference of the state in market processes restricts the freedom of business, rises the costs of overcoming barriers to entry into business environment, which, by increasing the risks associated with business project, reduces the possibility for its successful implementation. On the other hand, the state is an important mediator between economic entities, which ensures political and legal market environment necessary for them. It should be noted that removal of the state from the sphere of regulation of market processes leads to generation of large social expenditures due to a number of critical weaknesses of the market. In other words, it is obvious that it is necessary to define certain forms and limits of state intervention to the market, which should be based on levels of social and economic efficiency of market mechanism in the country, or, that is to say, on business efficiency criterion.

Institutional factors characterize as-is state of the market and business infrastructure, namely, systems of banking, insurance, distribution (stock and commodity exchanges, securities market, wholesale trade system, employment centers, etc.), market mediators, business services (marketing, advisory, advertising, expert, etc.), as well as the unified information environment, which ensure present-day flows of goods, capital and labor force both inside and outside the economy [1]. Depending on the nature of combined impact of these factors, eventually, the levels of business risk and barriers to entry into business sphere, as well as the degree of favorableness of business environment are determined.

Technological factors include the level of development of national science, engineering and technologies, as well as the degree of introduction of high technologies, which together with social and cultural factors (education level, social and moral-psychological atmosphere in business, etc.) play a decisive role not only in one or another country, but also in exercising the business initiative worldwide and creating new opportunities for it [5, pp. 29]. This factor allows the business circles of the country to go out the national economy and enter foreign markets, as a result of which, on the one hand, they are provided with an opportunity to benefit from the up-to-date global scientific results and effects of technological progress, and on the other hand, the country is gradually becoming an equal player in the global economic system. It should be noted that for Armenia prominence may be given to information technologies, which have been acknowledged as a dominant sector for our economy by the government of the Republic of Armenia, and only provisionally, since at present the crucial role assigned to these technologies is more conditioned by existence of a certain potential, rather by its real use. It is also clear that in order to succeed in this direction it is necessary to make a sharp transition from declarative statements to development and implementation of targeted and specific policies by providing relevant businessmen with direct and substantive government support.

One of the characteristics of business development in the Republic of Armenia is the low level of information technology support of business and almost neutrality of favorable influence of information factors, which do not allow the businessmen to respond to different market signals in a timely and flexible manner and appropriately review development strategies and tactics of their entities. Despite certain steps undertaken in recent years, the information technology support of business in Armenia can be deemed absolutely dissatisfactory, which is the evidence of existence of various issues in this area and necessity for a state-specific approach to their resolution. Such an approach should be aimed at ensuring availability of reliable, accurate and updated information for business circles, which can increase business efficiency several times and significantly contribute to making well-founded and weighted decisions.

This characteristic is typical of domestic business, although there is a need for individual spheres and forms of business to access to specific, professional or unusual information subject to particular conditions of exercising business initiatives in these spheres and special nature of activities. Here it is also obvious that besides the establishment of a unified information environment, special information systems should be also provided to meet the informational needs of certain types of business, which, despite of being viewed as a more remote measure, in our opinion shall be addressed already now by undertaking specific steps.

Social and cultural factors include the level of basic indicators representing social "identity" of the country, moral and ethical norms of the society, degree of polarization among different layers of population, income and

property differences, level of poverty, level of general and specialized education, structure of professional qualification of labor force, level of remuneration in the private sector, accessibility of health care system and cultural traditions of the society [6]. It should be noted that within the scope of the dissertation topic special focus is placed on social and economic factors influencing business environment, particularly, on the system of business culture and ethical norms, which is of crucial importance not only for establishment, development and expansion of business relationships among entrepreneurs, but also from the perspective of showing the attitude, which is shaped by the society and state under the combined influence of all these factors and is demonstrated in everyday disposition to business environment.

Natural and demographic factors include climatic conditions, energy and mineral resources, land and water resources of the country and their quality, population size, its age and gender composition, birth and mortality rates, population health (genetic pool quality), territorial distribution of population, etc. These factors have significant impact on development of the society and national production, and, consequently, on business lines, division of labor and specialization of businessmen over the long term. Together with educational characteristics of population, they mainly determine the level of enterprises and remuneration, and, ultimately, their degree of compliance with business requirements. Together with educational characteristics of population, they mainly determine the level of entities and remuneration, and, eventually, the degree of their compliance with business requirements.

Taking into account current issues of Armenian economy and society, the choice of relatively efficient forms of business becomes an important task. In general, the essence of this approach is to use to the maximum extent possible such influential factors of our country as macroeconomic stability, low and manageable inflation, liberal legislative environment, working and intellectual potential of the society, favorable climatic conditions for tourism and health-related business, potential in the sphere of high and information technologies, high educational level of population, close ties with diaspora, business abilities of population, etc.

Naturally, it is also necessary to take into consideration the factors that negatively or preventively affect not only the business and all its environments as a whole, but also the favorable directions for exercising business initiative. Particularly, among such factors are geopolitical complicated situation in Armenia, isolation from foreign markets and major transport problems, low level of development of business infrastructure, especially, insufficiency of volume of domestic investments, weaknesses in competitive environment and major institutional issues of state regulation in this area, etc. In their role of economic entities, business institutions and businessmen act as components of the country's economy and society respectively, and, therefore, cannot disregard the interests of the society and its separate layers. In addition, social and economic and political stability of the society is one of the important prerequisites for the efficient functioning of business institutions.

It should be noted that the impact of indirect factors is more significant and is of a long-term nature, since they influence:

- economic development of the country;
- domestic and foreign policies;
- status of legal institutions;
- social and cultural development;
- geopolitical development of the country;
- demography;
- social policy of the state, particularly, on science, education, engineering and technologies;
- national security and protection of environment.

In reference to internal factors of business environment, it should be noted that they act as an aggregation of production and sales of goods, which are regulated by the entity [3, c. 44-45]. If the entity can have partial influence over external factors, internal factors as a whole are fully managed and controlled directly by the entity. Internal factors include:

- goal;
- people;
- tasks;
- technology;
- structure.

All these factors are interconnected and cannot function without each other. For example, goal is a desired result which the entity wishes to achieve. It is set by people, particularly, by employees working in the entity. However, it should be noted that different entities have different goals, but they are very much alike, since are targeted at generation of maximum profit at minimal costs, and tasks represent a process of achievement of already set goals that must be carried out by previously developed tools and within specified timeframes. During the process of accomplishment of tasks, they are broken down into separate parts, which are completed by employees occupying different official positions. Achievement of tasks in the entity and related process require different approaches, or it may be said that different tasks are assigned to different positions, since different are the obligations associated with them.

As for technology, it is a process of transformation of raw material into final product. It assumes formation of a team of qualified professionals, availability of equipment and technological knowledge that contribute to achievement of the goal set. Among internal factors of business environment the central and driving force is the man, and the structure is the level of management of the entity in different linear and functional dimensions.

In general, in order to characterize the state of business environment in any country it is necessary to pay particular attention to small and medium-sized enterprises, their share, development opportunities and state support<sup>1</sup>, since existing business issues are mostly manifested in this area. In fact, establishment of such enterprises in the Republic of Armenia coincided with the collapse of the Soviet Union, when the market economy was newly formed. Transition to the market economy matched with the period when both external and internal economic and political issues existed in the Republic of Armenia, particularly the energy crisis, blockade, weaknesses and shortcomings in legal and legislative environment, double interpretations of same economic process in different laws, which basically contradict each other, lack of management experience in the sphere of marketing and business plans, lack of financial and economic analysis, as well as absence of business traditions. At the same time, as a result of denationalization of the enterprises, their number sharply increased. According to the statistics, privatization in 1994-1998 resulted in establishment of about 5500 SMEs<sup>2</sup>. This fact implied increase of competition, as well as stabilization of market economy, but did not actually serve the purpose, since majority of that enterprises had not been operating from the moment of registration or operated inefficiently. This fact could be explained by both objective and subjective reasons. In addition, the sharp growth of enterprises further deepened the crisis situation already arisen in the country.

The government of the Republic of Armenia already in 1997 having realized the role and significance of small and medium-sized enterprises in the economic development of the country initiated the process of creating necessary preconditions for SME development. For the first time in the system of the government of the Republic of Armenia within the Ministry of Trade and Industry the SME policy department was established.

The first assignment of the government to that department related to the development of SME policy and strategy. The first strategic document of the sector was called "Small and Medium Enterprise Development Policy and Strategy in Armenia", the process of development of the document was quite transparent, since there were neither appropriately qualified specialists, nor any approach applicable for business sector in Armenia.

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