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USE OF STATE SUPPORT LEVERS FOR SMALL AND MEDIUM-SIZED ENTERPRISES WITHIN THE DYNAMIC ENVIRONMENT

The evolution of theoretical approaches to the definition of the “entrepreneur” and “entrepreneurship” concepts essence was studied. It was established that various risks inherent in entrepreneurship are characterised by the complexity of distinguishing the signs of economy and investment within a turbulent dynamic environment of uncertainty, limited liquidity in a small and medium-sized business. It was determined that in many countries of the world small and medium-sized enterprises enjoy state support through their taxation systems, which necessitates the determination of a fair tax burden and appropriate fair tax bases. The role of small and medium-sized enterprises in ensuring technological progress, eliminating regional imbalances in economic development, achieving socio-political stability in society and strengthening national security was highlighted. The Recommendations of the European Commission on the SME definition in different countries of the world were characterised. The method of SME classifying into independent and dependent was suggested, which will further allow guiding the SME sector activities to ensure stability in society and simultaneously comply with their obligations to manage public finance at all levels.

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Problem Statement

In recent years, most countries have been developing against the background of new economic reality formation associated with occurrences of instability, which requires authorities to make adequate management decisions in public finance and social policy. One

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of the priority areas to overcome the negative trends is to expand operations of small and medium-sized enterprises (SMEs) in all forms and types. Companies flexible in structure and small in size react to market changes faster, using consumer and other advantages. They have greater flexibility in manufacturing competitive goods and providing services based on innovation and modern technology.

Results

Given national characteristics of economic systems, in the framework of anti-crisis measures, the governments of the leading countries of the world pay significant attention to supporting SMEs by introducing various regulatory instruments, including taxation (Draft resolution submitted by the President of the General Assembly, 2015; UNCTAD, 2015; Klimenko, 2015). Business activity has a diverse impact on national socio-economic systems (SES). In the past and at present, a lot of theorists, starting with the classical school of political economy, have considered the problems of entrepreneurship in SES. Encouragement of sustainable (stable) development through public administration mechanisms is currently in the focus of scientists and practitioners. Promotion of private initiatives in our country should be accompanied by theoretical and applied research into the aspects of business relations, development and implementation of new approaches to taxation as a lever of economic management, analysis of foreign experience in the fiscal regulation of the SME sector.

Economic activity, starting with its simplest development stages and ending with the world globalisation, has peculiar features at each stage of mankind evolution. The evolvement of the theoretical views on defining the “entrepreneur” and “entrepreneurship” concepts essence is given in Table 1.

The scientific analysis results of the essence of activity, which aims to gain profits in a competitive socio-economic environment, have given rise to the theoretical approaches to the SME taxation in the dynamics of its evolution.

The literature review shows that entrepreneurship carries special features based on various risks that can increase in a turbulent dynamic (Shumpeter, 2011) environment of uncertainty (Knight, 1921), limited liquidity (Holtz-Eakin, 1994), etc. The complexity of distinguishing the signs of economy and investment (Gentry, 2004) in small and medium-sized businesses represents a separate problem.

Guided by its European integration aspirations, Ukraine is experiencing the processes of economy transformation and increasing the SME role. Entrepreneurship is the force that accelerates the pace of the economy by increasing its efficiency, rationalising management processes and regularly introducing technological innovations.

The economic processes dynamism and need to respond to global challenges (such as poverty, education, gender equality) promoted an increase in the role and place of SMEs in the development of socio-economic systems, which was manifested in their inherent functions defined by prominent experts and scientists (Draft resolution submitted by the President of the General Assembly, 2015). These functions involve contribution to the processes of economy demonopolization and competition development, new jobs creation

and income increase. In addition, the international community has come to the conclusion that SMEs are able to fast respond to changes in market conditions, contribute to flexibility of the economy, participate in business activity encouragement and increase in goods and services production in national economies (Gentry, 2004).

Table 1

Evolution of the theoretical understanding of entrepreneurship

Academic economists	Theoretical views on entrepreneurship
R. Cantillon (Kantil'on, 2004) (XVII – XVIII centuries)	Richard Cantillon appears to be the first to have introduced the concept of “entrepreneur” into the economic theory: the entrepreneur is a person who deliberately takes on risk in return for uncertain profits, with the risk being the main feature of entrepreneur’s activity and adjusting supply in accordance with the demand in different markets being the main function of his activity (Avtonomov, 1993).
J.-B. Say (Say, 1971) (XVIII – XIX centuries)	Jean-Baptiste Say believed that – “entrepreneur is a person who organises other people within a production unit, produces a certain product/service”; – entrepreneurs are the centre of the production process and distribution theory.
F. Knight (Knight, 1921) (XIX–XXV centuries)	Frank Knight elaborated on the concepts of risk and uncertainty and emphasised the difference between them.
J. Schumpeter (Shumpeter, 2011) (XX century)	According to Joseph Schumpeter, dynamics of economy is associated with entrepreneurial activity and implementation of such “new combinations” as the manufacture of new goods and commercial use of the existing ones, use of innovative production methods with changes in the degree of monopolisation in industry structures, development of alternative sources of raw materials and sales markets.
P. Drucker (Drucker, 1985) (XX century)	Peter Drucker described the entrepreneur as an innovator and revolutionary, and innovation as the entrepreneur’s unique tool
F. M. Scherer (Scherer, 1990), I. M. Kirzner (Kirzner, 2001), J. M. Tirole (Tirole, 1983), F. A. Hayek (Hayek, 2007), (XX century)	These scholars’ works are focused on the investigation of industrial markets, analysis of entrepreneurs’ rational and irrational behaviour according to the theory of incentives. In particular, Israel Kirzner researched the influence of entrepreneurship on market equilibrium and assumed that the existence of non-equilibrium situations provides the entrepreneur with an opportunity to receive additional profits. According to Friedrich Hayek, the role of the entrepreneur is to optimally equilibrate supply and demand in order to prevent overproduction (Hayek, 2007).
M. Casson (Casson, 1982) (XXI century)	Mark Casson defines the entrepreneur as someone who uses judgment to deal with the problem of limited resources distribution and considers all his activities in terms of management.

Source: Holtz-Eakin, 1994.

The proportion of small, medium and large firms in the business environment is formed affected by strategic decisions of large firms based on their innovative capabilities: research

and scientific experiments with subsequent commercialisation of innovations. However, the economy of development differs from the expected effects of stable sales rise in a well-established range of goods and services. The dialectics of the firm's life cycle is related to the fact that at the stage of entering the sales market, its advantages are built on the basis of technological, marketing, organisational and managerial innovations. As small firms evolve into medium-sized ones and later into large enterprises, a method to strengthen business sustainability should be chosen, given the contradictions of increasing productivity through development and size as well as the potential for creating unique combinations of production factors with space and time. Among other things, in this way, we can analyse the potential of small and medium-sized firms in terms of their presence in certain market niches accompanying a rapid development of multinational companies, when the promotion of high-tech products should be supported by an ability of small businesses to quickly adapt to global value-added chains in partnership regimes.

In general, SMEs have some distinct competitive advantages over large businesses. Owing to their mobility, SMEs respond fast to changes in the market situation, have the potential for rapid return on investment with low capital intensity and limited overhead costs due to high motivation, rational organisation of managerial decision-making and its proximity to the manufacturing process. In the framework of the horizontal management system, direct and personal contacts of employees with partners and managers, new products are rapidly developed and production volumes increase due to technological flexibility of production processes and own potential of small scale production.

In addition, SMEs have advantages over other public institutions in terms of middle-class formation and public life democratisation, possibilities for realising peoples' capacity for initiatives, improving entrepreneurial qualities and skills. According to the researchers, advantages of small enterprises also involve independence, autonomy, freedom and possibility to start a business with a relatively small start-up capital, rapid adaptation to regional characteristics, direct communication with consumers, narrow specialisation in a certain segment of the consumer market (Jefymenko, 2011; Varnalij, 2005).

In many countries, SMEs enjoy state support. Its component is taxation, that is the process of state intervention in the market mechanism for economy self-regulation, when one party represented by the state makes another party – the taxpayer – to pay part of its income. This necessitates a determination of an equitable tax burden and, in order to respect the principle of equality with regard to small enterprises in national economies, determination of appropriate fair tax bases.

The advantages formed in the SME field affect the fiscal space significantly due to the stated above advantages associated with a strong potential for creating new jobs, competitiveness and ability to change.

Some scholars (Jefymenko, 2011; Rising, 2014; Vishnevskij, 2010; Kozačenko, 2003) highlight a specific role of small business in ensuring technological progress, eliminating regional imbalances in economic development, achieving social and political stability in society and strengthening national security. However, the peculiar features form within the framework of the existing system of state support in the country, which affects the main

parameters of entrepreneurial initiative. Such systems are established according to national, mental, ethnic, cultural, economic and other characteristics.

The tools to encourage and support SMEs available in developed market economies tend to be difficult to implement in developing countries. After all, financial capacities are different. Unlike developed countries, public and financial institutions in developing countries are weak and cannot create an enabling environment.

Accordingly, there is a need to prioritise the functions that the state expects SMEs to perform. In developed countries, the purpose of encouraging SMEs is employment and well-being creation, innovation introduction, increased competitiveness and development of entrepreneurial initiative (Jefymenko, 2006; Commission of the European Communities, 2008). In developing countries and the least developed countries, the objective of SMEs development is primarily related to the economic component, namely the creation of opportunities for income generation and poverty alleviation. It should be noted that creation of employment and self-employment, which is important in terms of overcoming poverty, also contribute to a reduction of the criminal environment in the country and development of human capital through educational programs (European Commission, 2015).

According to the statistics data, 1/2 (50%) of jobs are created by small enterprises annually (Usman, 2015). Their role is particularly important in crisis years as well as in depressed areas. Traditionally, small firms have an atmosphere of creativity, interest and activity. Success built with own hands, a need to take responsibility for own life and destinies of the nearest and dearest change the attitude to work and business radically. Permanently struggling for survival, SMEs are forced to be constantly developing, quickly respond to changes in market conditions, and be the best in order to succeed. Due to their relatively small size, SMEs respond faster to accelerated changes in the markets and more easily penetrate unfilled niches. In general, the activity of small firms is often a segmental business, whose advantages are mainly manifested within crisis times. The bankruptcy of small businesses is not accompanied by significant risks, since market niches generally have sufficient space for activities of many partners and competitors.

The existence of large firms requires a constant study of demand and the presence of competitive advantages based on the factors of marketing, technology, productivity. SMEs are able to produce goods in small volumes focusing on the consumer paying capacity, meet the needs for scarce services and manufacture piece products according to customer requirements. Small firms, often family-owned, are the only ones able to maintain a high level of diversification of offers, providing customers with special types of products and services. This happens, among other things, due to their direct communication with the customer. At the same time, SMEs are vulnerable to negative external and internal uncertainties, threats and risks.

The use of public support for SMEs depends on the objectives set by governments. Thus, for countries, which see the purpose of SMEs development in economic growth, investment activity and innovation (Usman, 2015; European Commission, 2015) (for example, the EU countries), the basis for encouragement is non-tax levers based on the development of human capital. Tax levers are used within the framework of the general taxation system and aimed at encouraging investment and promoting innovation. For developing countries and countries

with transition economies, the priority of SMEs development consists in employment creation and poverty alleviation.

This trend is consistent with the United Nations Millennium Declaration (Draft resolution submitted by the President of the General Assembly, 2015) adopted in 2000 on the basis of the materials of the UN World Conferences. The Declaration, adopted by 147 heads of state and 189 states, contains provisions known as the Eight Millennium Development Goals and 18 targets (UNCTAD, 2015; Klimenko, 2015) with the time frame. The set Millennium Development Goals (MDGs) and targets are of global priority to ensure that the countries of the world can achieve sustainable growth based on the relevant goals, including decent work for all, well-being, poverty eradication, technological advantages, human capital development, and improvement of living standards. Thus, the SME encouragement coincides with the Millennium Development Goals, regardless of whether the country is developed or developing.

Small and medium-sized enterprises are the economic basis of the EU countries' economies, as they constitute an overwhelming majority of business entities and play a key role in employment, affecting the level of economic growth in most industries and sectors; they are characterised by their propensity to innovation and development. At the same time, the operating environment of small business is quite complex, its activities are associated with a range of problems: access to financing, high tax rates, administrative complexity, corruption, rules regulating the labour market and trade, etc.

Aware of the importance of SMEs for prosperity and social well-being, governments in both developed and developing countries are working out public support measures. The purpose of this paragraph is to reveal the role and importance of SMEs in the EU member state economies and the main areas of state support for SMEs in these countries.

The role and importance of small, medium and micro-enterprises in the country's economy are viewed in the light of their contribution to employment, value-added and exports. In fiscal terms, their share in the total taxable income of enterprises and average taxable income at the business entity level, including the amount of the enterprises' taxable incomes from entities of different sizes and depending on the types of taxes they must pay, is representative.

In a broad sense, SMEs are primarily independent entities, which are not in control of a large or medium-sized enterprise. According to the definition provided by the relevant European Commission Recommendations (The Lisbon European Council, 2000), SMEs are "enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million". Small enterprises are defined as those, which employ fewer than 50 persons and have an annual turnover and/or annual balance sheet total of less than EUR 10 million; microenterprises are firms which employ fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million (see Table 2).

Table 2

Criteria for the SME Definition in the EU countries and Ukraine

Company category	Staff headcount (annual)	and	Annual turnover	or	Balance sheet total
EU countries					
Micro	< 10	and	=/< EUR 2 million	or	=/< EUR 2 million
Small	< 50	and	=/< EUR 10 million	or	=/< EUR 10 million
Medium	< 250	and	=/< EUR 50 million	or	=/< EUR 43 million

* net income from sales of products (goods, works, services)

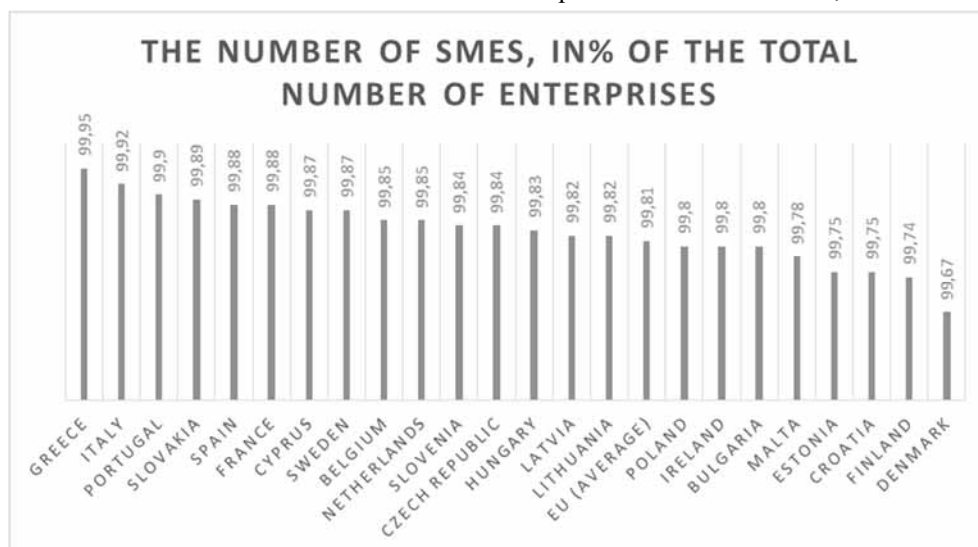
Source: The Lisbon European Council, 2000.

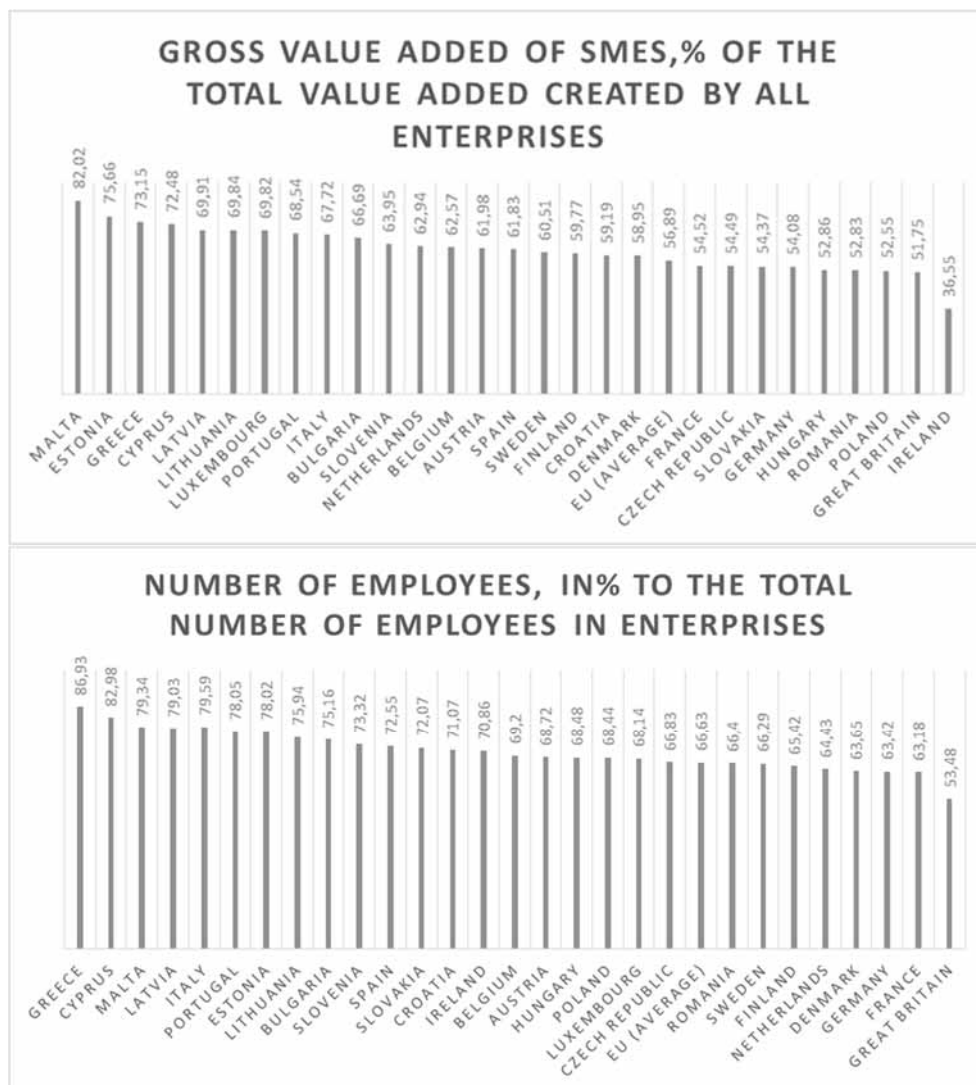
Consequently, the status of SMEs is determined on the basis of simple factors, such as staff headcount, annual turnover and annual balance sheet total (net assets). The Recommendations of the European Commission concerning the SME definition are generally recognised and used not only within the EU.

Small and medium-sized enterprises are a large group of business entities, involving enterprises with different organisational structure, different number of employees and level of economic activity. The European Commission considers them to be a key factor for economic growth, innovation, job creation and social integration in the EU. Small and medium-sized enterprises, that is those employing fewer than 250 persons, are a very important part of the economy. According to Eurostat (Commission Recommendation, 2003), they account for approximately 99% of all the companies while providing about two-thirds of the total employment in the EU (from 53% in the UK to 87% in Greece) and generate about 56% of the total turnover in the EU (see Figure 1).

Figure 1

Activities of small and medium-sized enterprises in the EU countries, 2016





Source: European Commission, 2018.

In all the EU countries, microenterprises are the most common form of entrepreneurship (the main criterion is employing fewer than 10 persons): they make up 96% of all enterprises in Denmark, the Netherlands, Spain and Sweden. According to *Entrepreneurship at a Glance*, the latest report on SMEs' activities in the OECD countries (European Commission, 2018), their performance indicators have enjoyed a stable positive trend, showing a recovery from the financial crisis. There has been a general strengthening of small businesses' position in all economy sectors due to expansion of all final demand categories (household consumption, public consumption, exports of goods and services, investment by households, governments

and enterprises), while in the previous years exports was the main factor in the SMEs' recovery.

In almost every EU-28 country there was an increase in SME employment, although the dynamics of this indicator was heterogeneous (significantly different) by economy sectors: from 0.9% in construction to 2.8% in the business services sector (European Commission, 2018). Employment recovery in SMEs was the most dynamic in the service sector. The wholesale and retail, accommodation and food supply as well as business services sectors saw a growth of approximately 1.7%, 1.8% and 2.8% respectively, while in the manufacturing sector it was not so rapid, at 1.1% in 2016.

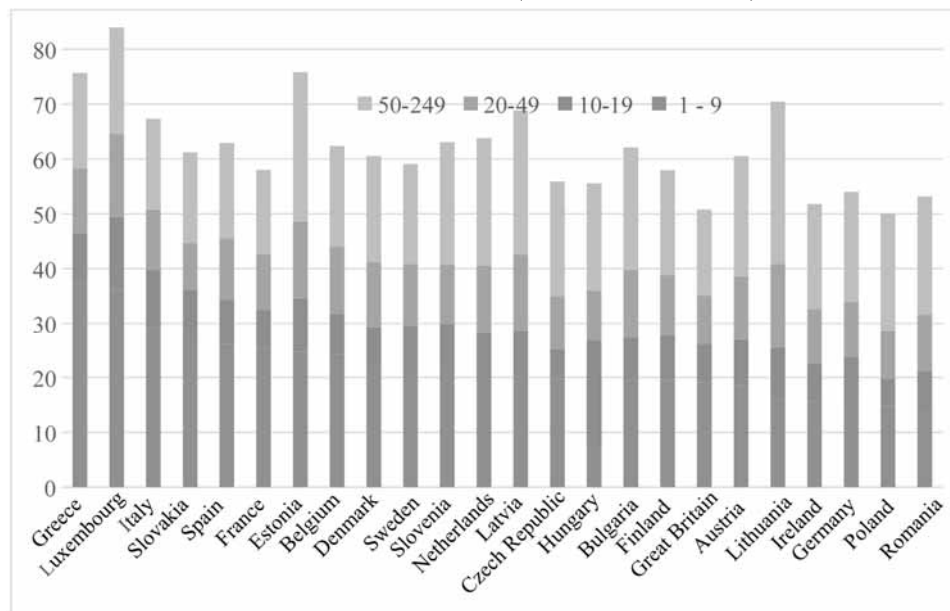
High-tech industries have played a significant role in the growth of small and medium-sized businesses. In particular, the provision of information processing services and high-tech services is associated with the highest increase in the SME employment in the EU-28.

According to the recent data (2012-2014), a significant part of new enterprises in the EU-28 were created in the sectors outside the ICT sector. In particular, enterprises involved in the production of information and communication technologies, provision of relevant services or wholesale and retail trade in ICT only accounted for 7.9% of all EU-28 enterprises created within this period (European Commission, 2015).

Among small and medium-sized enterprises, approximately 31 million persons in the EU-28, who are self-employed, make up a separate group. After all, being full participants in the labour market, they do not receive traditional wages. This is a characteristic feature of this group. Here enterprises may represent different legal forms (such as sole trader, incorporated business, partnership, etc.). 31 million of self-employed persons together make up 14% of the total employment in the EU-28. New information technologies have resulted in new modes of production and opportunities for self-employment. The emergence of so-called "platforms" or gig-economy, that is, an economy characterised by the availability of numerous online platforms to help people who are willing to offer specific services to find those seeking these services, has had a significant effect on the self-employment level in the EU. At the same time, this phenomenon requires new approaches to labour market regulation and taxation of self-employed persons.

The contribution of SMEs to value-added and exports. In most economies, SMEs generate a significant share of value-added, although this share is lower per number of employees. This difference is due to the lower productivity of small enterprises compared to large firms. However, the share of value-added generated by SMEs can vary considerably across countries and across sectors. In the transport, storage, gas, production and air conditioning sectors, some SMEs are able to generate more value-added than large enterprises (Organisation for Economic Co-operation and Development, 2017, p. 22). The share of the value-added generated by SMEs in the EU ranges from a little over 80% in Luxembourg to 50% in Poland, Great Britain and Ireland. On average, in most countries, SMEs generate between 55% and 75% of value-added. A significant part of it is generated by microenterprises due to their number (Organisation for Economic Co-operation and Development, 2015, p. 35). Microenterprises provide approximately 10-25% of value-added in most countries, except for Greece and Luxembourg, where this figure exceeds 35% (see Figure 2).

Figure 2
Gross value added by enterprise size (depending on the enterprise staff headcount) in some EU Member States, 2015 (or the latest available)



Source: generated based on Organisation for Economic Co-operation and Development, 2015.

The share of small enterprises' direct exports differs significantly across countries: from 16% (Germany) to more than 54% (Estonia, Ireland, Latvia). Small and medium-sized enterprises create less than half of the total export flow in virtually all the countries, for which data are available (except three). The greatest contribution to export activity in each country under consideration was made predominantly by medium-sized enterprises (enterprises, which employ from 50 to 250 persons) rather than by micro- and small enterprises (with the exception of Ireland) (see Figure 3). It is worth mentioning that in Figure 3, the data on the SMEs' direct contribution to exports formation are only presented.

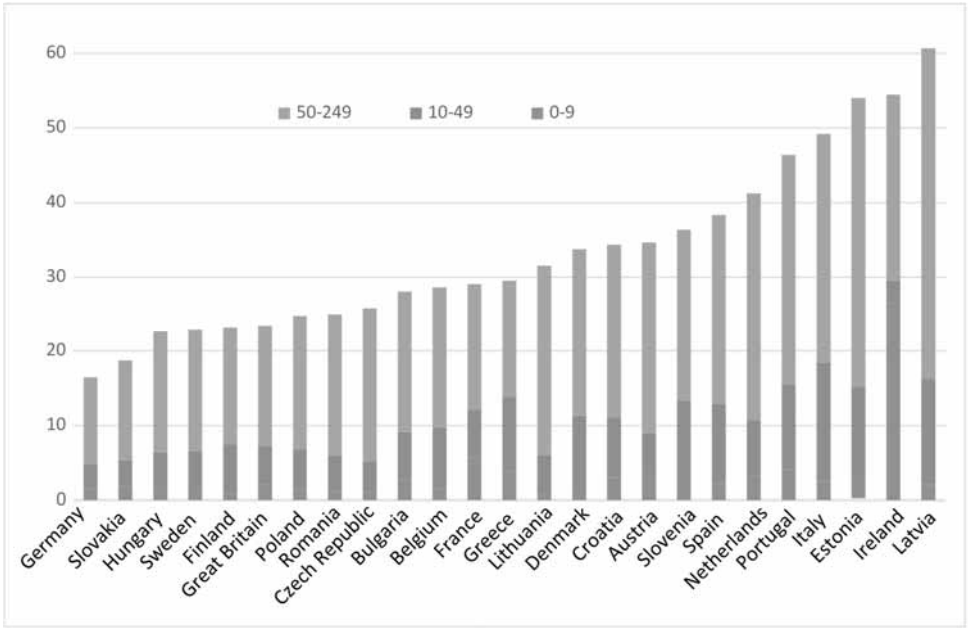
However, SMEs can also contribute to exports indirectly – as suppliers to large exporting enterprises. The preliminary assessment of this effect shows that it may significantly exceed the direct effect (Organisation for Economic Co-operation and Development, 2015).

It should be borne in mind that for a more accurate statistical display, which would be consistent with the European Union's SME Definition, the data at the micro-level, which enables obtaining more detailed information on SMEs' economic behaviour, should be taken into account. In official statistics, SMEs are most often identified by staff headcount. That is, the statistics include all enterprises, regardless of their organisational structure, where the staff headcount does not exceed 250 persons. When collecting data, the enterprise's participation in various associations is not generally considered. However, this nuance is

important as enterprises belonging to a national or international group of companies may have advantages over independent enterprises: for instance, in terms of access to financing, terms of trade, access to foreign markets and other aspects of doing business.

Figure 3

Exports by enterprise size (depending on the enterprise staff headcount), %



Source: generated based on the Organisation for Economic Co-operation and Development, 2015.

In fact, according to the additional surveys of small enterprises' performance (Organisation for Economic Co-operation and Development, 2015), the majority of enterprises, which employ fewer than 250 persons (small enterprises), are independent (autonomous) (93.6%). Only about 500 thousand (6.4%) of enterprises employing fewer than 250 persons are dependent (that is, they belong to a domestic or international group of companies). At the same time, these dependent enterprises make a disproportionate contribution to trade and employment: they generate more than half of the total turnover (52.4%) and create about a quarter of the labour force (see Table 3).

In surveys, the term "enterprise, which employs fewer than 250 persons" is used instead of SMEs, as there is no data on whether they meet other criteria for being defined as SMEs. The data on the number, turnover and employees are detailed by categories of belonging to national or international groups, on the basis of which small and medium-sized enterprises are further divided into dependent and independent.

Table 3

Enterprises, where the staff headcount does not exceed 250 persons*, 2015

Company category	Number of enterprises, % of the total enterprises	Turnover, % of the total turnover	Employees, % of the total persons employed
Independent	93.6	47.6	74.9
Dependent, including:	6.4	52.4	25.1
in the group < 250 employees	4.3	15.3	10.6
in the group ≥ 250 employees	0.4	13.4	4.8
in the international group	1.6	23.6	9.7

* By the data presented by 12 EU countries, which participated in the Micro data linking project.⁵

Source: *Organisation for Economic Co-operation and Development*, 2015.

However, in this context, the independent enterprise is an enterprise which, according to the business register (BR), is not controlled by another enterprise (neither domestic nor foreign) and at the same time does not control another enterprise (neither in the country of residence nor abroad). Dependent enterprises belong to a group of enterprises and are controlled by other enterprises (domestic or foreign) and/or control another enterprise (in their own country or abroad).

In addition, a separate column of the dependent enterprises category contains the detailed data on the companies, which belong to the group, where the total staff headcount exceeds 250 persons (as, according to the SME definition, such a dependent enterprise should be viewed as a large enterprise). This enabled us to conclude that the majority of dependent enterprises in the sample group (approximately 335 thousand, or 4.3% of the total) refer to the groups, which employ fewer than 250 persons – that is, these enterprises can still be considered as SMEs based on the employment criterion.

About 34 thousand dependent enterprises in the sample group (0.4% of the total) belong to the groups employing over 250 persons. Therefore, they are actually large enterprises; such enterprises generate 13.4% of the total turnover and create nearly 5% of the total employment.

A separate group also includes dependent enterprises, which belong to international groups (there are about 129 thousand of such enterprises or 1.6% of the total). Since the data on the size of the group's foreign part is not always available, we cannot distinguish the enterprises, which belong to the group with the total staff headcount of over 250 persons, among those belonging to international groups. We can only assume that many of them are actually large enterprises. According to Table 3, enterprises employing fewer than 250 persons and belonging to international groups generate about 23.6% of the total turnover and create 9.7% of the total employment.

⁵ Statistical survey of the Micro data linking project (MDL project), which included 12 countries (Bulgaria, Croatia, Denmark, Estonia, Finland, Italy, Latvia, Netherlands, Portugal, Romania, Sweden and Norway).

The data presented highlight the importance of enterprises belonging to international groups and the fact that the control criterion (independent/dependent enterprise) should be taken into account when analysing the data of small and medium-sized enterprises and categorising them based on the staff headcount, as dependent enterprises behave in a different way compared to independent ones.

As far as micro-enterprises (with the staff headcount from 0 to 9 persons) are concerned, 96.6% of them are independent, 2.9% belong to the national group, and only 0.6% of them belong to the group of enterprises employing more than 250 persons. Only 0.5% of micro-enterprises in the countries, which participated in the survey, belong to the international group⁶ (Table 4).

Table 4

Categorisation of enterprises with the staff headcount of fewer than 250 persons*, 2013

Enterprise category by staff headcount	Independent	Belonging to the national group			Belonging to the international group
		Total	Including		
			total staff headcount < 250	total staff headcount ≥ 250	
Categorisation of the enterprises total number, %					
from 0 to 9 employees	96.6	2.9	1.8	0.5	0.5
from 10 to 49 employees	81.3	15.4	9.1	2.3	3.3
from 50 to 249 employees	54.3	32.7	13.5	7.1	13.0
from 0 to 249 employees	95.1	4.1	2.4	0.8	0.9
Categorisation of the enterprise employees, %					
from 0 to 9 employees	95.7	3.6	2.3	0.3	0.7
from 10 to 49 employees	77.5	18.3	10.6	2.7	4.1
from 50 to 249 employees	49.9	35.0	13.6	8.2	15.1
from 0 to 249 employees	78.3	16.3	7.8	3.2	5.5

* Data from 18 EU countries, which participated in the collection of data on SME activities

Source: Organisation for Economic Co-operation and Development, 2015.

More than half (54.3%) of enterprises, which employ from 50 to 249 persons, are independent; 7% of enterprises are actually large, as they belong to the group with the staff headcount of 250 or more persons (Organisation for Economic Co-operation and Development, 2015). The data from individual countries are within the general trend: while the share of dependent enterprises is relatively low in most countries, their contribution to turnover and employment is significant. In particular, the share of dependent enterprises belonging to international groups is very low (from 0.5% in Croatia to 5.9% in Romania).

However, the contribution of this group of enterprises in terms of turnover and employment is much more considerable, usually, it is more than 10%. The only exceptions are the

⁶ Voluntary data collection programme involving 18 European countries (Belgium, Bulgaria, Croatia, Finland, France, Germany, Italy, Latvia, Lithuania, Hungary, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom).

following countries: Croatia (3% of the total turnover and 1.6% of employment), Bulgaria, Finland and Italy (about 5.5%, 5.2% and 8.3% respectively, in terms of employment in companies with the staff headcount of fewer than 250 persons belonging to international groups).

Denmark, Norway and Sweden have the biggest number of dependent enterprises, which employ fewer than 250 persons; their share accounts for 25.7%, 22.8%, 16% respectively. These companies are the most significant contributors to the total turnover in Norway (73.7%), Sweden (71.5%) and Denmark (69.2%); the same countries are the leaders in terms of job creation (Norway – 55.9%, Sweden – 54.8%, Denmark – 57.7%).

The contribution of independent enterprises to job creation and turnover generation is naturally high. In seven of the twelve countries, at least 90% of enterprises with the staff headcount of fewer than 250 persons are independent. In Denmark, Norway, Sweden, Estonia and Latvia, the share of independent enterprises was less than 90%, but more than 70%. The Netherlands (97.9 %) and Portugal (97.4 %) have the highest proportions of independent enterprises with the staff headcount of fewer than 250 persons.

In terms of employment generation, the share of independent enterprises ranges from 42.3% in Denmark to 83.5% in Portugal. In most countries, the staff headcount of independent enterprises employing fewer than 250 persons made up about 70-80% of the total staff headcount in this enterprise category. The lowest rates are seen in Denmark, Norway and Sweden (about 40-45%).

As far as trade (turnover) is concerned, independent enterprises employing fewer than 250 persons generate about 25-30% of the total turnover among all the enterprises in the sample group in Denmark, Norway and Sweden. In Estonia, Latvia and Finland, the contribution of independent enterprises to the total turnover ranges from 40% to 45%. Bulgaria (61%), Croatia (60%) and Romania (58%) have the highest share of the turnover in the category of independent enterprises employing fewer than 250 persons.

In general, despite the fact that the share of independent enterprises in the sample group is high (70-90%), in terms of turnover, both dependent and independent enterprises contribute almost equally.

In some countries, enterprises belonging to the international group contribute to employment generation considerably, especially in the Netherlands (18.7%) and Estonia (22.5%); to a lesser extent, it is seen in Latvia, Romania, Portugal, Denmark, Sweden and Norway (from 10% to 15% in each country). The contribution to employment generation of the enterprises belonging to the groups with the staff headcount of 250 or more persons is more considerable in Sweden (13.3%), Finland (11%) and Norway (10%).

In terms of turnover, the contribution of enterprises with the staff headcount of up to 250 persons belonging to international groups is even more distinct than their contribution to employment generation. The largest share of these enterprises' turnover was observed in the Netherlands (44.8%), Estonia (40.3%), Portugal (35.9%), Latvia (35.7%) and Romania (34.2%). However, enterprises belonging to the group, which employs no more than 250 persons, have no more than 10%-20% of the total turnover.

In one way or another, dependent and independent SMEs participate in global target chains as partners, suppliers and distributors for large and multinational companies. This creates a number of additional opportunities for them, including the benefits of entering new, global and niche markets to supply specialised goods and services, expand cooperation chances (Papadopoulos, 2018). Enterprises able to respond quickly to innovations have better opportunities to participate in these global target chains (Organisation for Economic Co-operation and Development, 2008). Tax measures, which promote growth and provide support for SME financing and innovations, are part of a wide range of national government initiatives needed to facilitate the involvement of SMEs in the global value chain.

A distinctive feature of small enterprises is a high level of adaptability to changing conditions of the global economic environment, the propensity to innovation and a high potential for growth. Some SMEs are new firms with high growth and development rates, but most of them do not evolve into larger firms. Among the entire enterprise population (2014), those, which can be referred to as fast-growing companies (enterprises with more than 20% of the average annual growth of staff within three years or more, which had fewer than 10 employees when created), make up from 2% to 6% of the total enterprises, with 1% being the so-called “Gazelle” enterprises, which make swift progress within the first five years of their operation (Organisation for Economic Co-operation and Development, 2015).

In fact, fast-growing firms play a significant role in employment generation, the so-called start-ups⁷ and scale-ups⁸ are important drivers of economic growth. According to the latest data, on an average 9.2% of micro-enterprises were referred to fast-growing enterprises in the EU-28. The largest share of fast-growing enterprises – approximately 12% – was recorded in Malta, the United Kingdom, Sweden, Latvia, Hungary and Ireland, while the smallest share (below 3%) was seen in Cyprus and Romania. On average, the EU-28 enjoyed the largest numbers of fast-growing enterprises in the information and communication technology sector, administrative services and support (15% and 12.7% respectively). A large number of fast-growing firms were observed in the transport services sector and in the field of professional, scientific and technical activities – 11% each (Organisation for Economic Co-operation and Development, 2015). At the same time, as it was stated above, more than 90% of new firms are created in the traditional, i.e. non-ICT sectors.

To sum it up, it is worth emphasising on the following. In 2016, with the exception of 0.2%, all the enterprises of the non-financial sector in the EU-28 were SME entities. They provided employment to 93 million people, which accounts for 67% of the total employment, and generated 57% of the EU-28 added value. The vast majority (93%) of small and medium-sized enterprises are micro-enterprises employing fewer than 10 people. They are the basis of the EU economies. Among small and medium-sized enterprises in the EU-28, there are approximately 31 million of self-employed persons, which accounts for 14% of the total employment. The use of information technology has created new opportunities for self-employment. This phenomenon requires new approaches to labour market regulation, financial accounting and taxation of self-employed persons.

⁷ Start-ups – new companies, which tend to grow fast.

⁸ Scale-ups – companies already existing in the market, which occupy a certain niche and show significant (above average) growth rates.

Conclusions

The role and functions of SMEs are extremely important in the national dimension in the context of relations between the state and entrepreneurs. According to the European Charter for Small Enterprises (Financial Web (n. d.)), the ability of small enterprises to adapt to social and regional development as well as their dynamic ability to adequately respond to the updated needs of the market, in particular in providing jobs, is generally recognised. SMEs are the most sensitive to changes in the business environment, the first to suffer from excessive burdensome bureaucratic procedures. At the same time, such enterprises are flexible to consumer demands and require lighter administrative regulation. It should be noted that SMEs' advantages set out in the Charter were analysed in detail in the previous paragraph.

This is also confirmed by the implementation of the Lisbon Strategy, according to which the EU is considered the most competitive and dynamic economy in the world, based on knowledge and capable of sustainable economic growth. In this context, a special role is assigned to SMEs as innovators creating more jobs and centres for social cohesion. In the EU, small enterprises are seen as potential leaders of innovation, employment and economic integration within the community.

In the institutional context, the balance in the conditions of doing business is provided by the balance in the legislation and regulation, which is implemented in the organisational structures, rules and stereotypes of entrepreneurs' formal and informal behaviour. Articles of laws concerning private initiative should be harmonised to regulate SMEs activities, given territorial characteristics and social relations, which developed in the course of time.

The realisation of SMEs potential along with the public space takes place within the framework of economic relations established in the process of distribution and consumption of economic benefits, which give rise to a certain range of interests. It is obvious that each group of entities has its own range of interests. Thus, at the state level, the priority is to meet the interests in social and fiscal areas, while business environment and the public sector are focused on obtaining the benefits provided for by laws, including constitutional provisions.

As it was mentioned above, the state guides the SME sector activities in order to ensure stability and at the same time comply with the obligations to manage the public finance at all levels.

Within the framework of the SES functioning, entrepreneurs' activities are performed alongside with fulfilment of the following major functions:

- economic, where market and production objectives are the basis,
- meeting domestic and foreign markets' needs in goods and services, consumption and commercialisation of innovations, formation of a competitive business environment, etc.;
- social, by solving the problems of employment, creating jobs, providing individuals with a possibility to exercise their professional skills, assisting in poverty alleviation, ensuring well-being;
- fiscal, by ensuring the balance of financial resources.

Small and medium-sized businesses contribute to solving a number of socio-economic problems of society and the public sector, which corresponds to the principles of the theory and practice of inclusive development. This is proved by the experience of successful implementation of modern strategies in the EU and other developed countries. It is worth emphasising that one of the most crucial problems still not completely resolved in any country is unemployment. However, many strategic international and national programs have recognised the appropriateness of the theoretical conclusions as to the SME sector potential for increasing employment.

Competition between businesses fosters a constant search for innovative solutions in management and technology in the framework of international and national relations with other economic agents. The current trends in implementation of economic development objectives differ from the established forms of business activity since nowadays not only management strategies aim to meet the needs of consumers but also they sometimes affect in an aggressive way the creation of demand for related goods or services required for the buyer's economic activity.

The SMEs' social function is not limited to employment generation, but affects social infrastructure formation, charitable activities, creation of incentives for human capital development, poverty reduction, etc.

These functions and their scope are inherent in any initiative. Given this, the system of relations between the state (including tax relations) and business entities should be based on partnership. Economic agents perform their functions: based on social responsibility, business generates added value; the state renders services provided for by the Constitution thus creating an adequate institutional environment, supervises observance of the established rules by all business entities.

In terms of social equilibrium, the combination of business entities' capabilities of ensuring achievement of their own goals while meeting the interests of the state is optimal. Financial support of operating expenses and investment in economic activity represent the conditions of stability.

The existence of sophisticated institutions encourages business environment to develop and grow further within the economic system, and their quality determines the incentives for the performance of the functions within SES. It is the state that is the entity to develop the institutional incentives and economic instruments, which should help to harmonise interests and ensure sustainable growth of the national economy.

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