THE CHANGE IN PRIORITIES OF STATE REGULATION OF THE SMALL BUSINESSES’ DEVELOPMENT

Urgency of the research. Small business is the structure-forming element of the modern mixed economy. Its subjects promptly react to the changes of market conditions, maintain a competitive environment, create new work places etc.

Target setting. The imperfection of classification criteria and artificial narrowing of the economic substance of small business made some of the domestic business entities be out of state regulation.


Uninvestigated parts of general matters defining. The problems of transformation of the economic essence of small business in the modern economy of Ukraine and, on this basis, the feasibility of changes in priorities of state policy and its support need more investigation.

The research objective. The objective of the paper is a comprehensive study of the economic essence of small business, providing recommendations on improving its quantitative classification criteria and expanding its structure, formulation of proposals for effective directions of state support for each domestic small business.

The statement of basic materials. The weighty role and functions of small business in today’s mixed economy are substatediated; its advantages and disadvantages are characterized. On the basis of the critical analysis of existing classification criteria and of the use of the world experience it is suggested to broaden the criteria for its classification. While determining qualitative criteria one should take into account the heterogeneity of small businesses and their contribution to economic development. Size criterion (small sole proprietors, micro enterprises, small businesses) is offered to be complemented with the criterion of conformity to market economy ("forced entrepreneurship", "mature entrepreneurship", "demanding entrepreneurship").

Conclusions. Using updated criteria and taking into account the importance, specificity and heterogeneity of domestic small business, it is proposed to change the priorities of state policy of its maintenance.

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** Keywords:** small business and entrepreneurship; small sole proprietors; micro enterprises; small enterprises; “forced entrepreneurship”; “mature entrepreneurship”; “demanding entrepreneurship”.

**Urgency of the research.** The long-term experience of developed countries persuasively affirms that subjects of small business play the structuring part of modern mixed economy. It is difficult to imagine market relations’ development without this component. Under conditions of prolonged macroeconomic and political instability in Ukraine’s economy, a strong decline in living standards of its population, devaluation of the currency and inflation, small companies can solve current problems. Moreover, it comes to create new jobs increasing incomes, market saturation in goods and services and so on. Therefore, special urgency gets research of economic essence of small business in the modern world.

**Target setting.** In modern economic literature the economic concept of small business and entrepreneurship has most widely acquired its identification of entrepreneurship whether of its subject - small enterprise or self-functional entrepreneur - private individual (small sole proprietor). It is considered that these approaches are insufficient to the definition of the concept’s essence, while conformable identification confines its economic core.

**Actual scientific researches and issues analysis.** Range of the most decisive foreign scholars, who consider the formation conditions and various aspects of small business and entrepreneurship, are intended S. Brue, R. Gallager, P. Drucker, H. Milenbush, S. Parker, D. Rechmen, P. Heyne, A. Hosking, M. Mescon, J. Schumpeter etc. Stated domestic scholars of small business and entrepreneurship are Z. Varnaliy, T. Kovalchuk, I. Mazur, E. Panchenko, V. Sizonenko, N. Sobol etc.

**Uninvestigated parts of general matters defining.** Development of the definition of small business and entrepreneurship in Economics is not full. Despite the growing number of publications devoted to the problems that exist in small business and entrepreneurship, in Ukraine in particular, there are still contradictions about this concept. The emphasis is made on such terms as: registration, financing, taxation, management etc. In order to play companies’ functions in modern Economics, it is important not only to give practical advice about its establishment and administration, but also clarification of its economic nature.

**The research objective.** The main goal of this paper is a general research of economic essence of small business and entrepreneurship. Providing recommendation regarding improvement its quantitative criteria classification and extending its structure. In addition, formulation of some specific suggestions regards the effective aims of state support for every subject of small business and entrepreneurship in Ukraine.

**The statement of basic materials.** The value of small business and entrepreneurship for an effective development of modern market economy and reforming Ukraine’s society could be measured through its role and functions.

The main functions of small business and entrepreneurship are:

1. The capability of providing competitive character and contribution to reducing of monopoly tendencies in the modern mixed economy;
2. Fast response on changes in market environment, flexibility and dynamism;
3. Infiltration of consumer market and stimulation of gross demand;
4. Assisting to effective solving unemployment problem while crisis periods which caused by absorption of excessive labour and creation of new jobs;
5. Increasing of wealth rate and fight against poverty;
6. Formulating of entrepreneurs as the basis for the middle class society;
7. Softening (reducing) of social tension, democratization of market relations, providing of economic, social and political stability.

The structural-logical scheme of weighty role and main functions of small business in modern mixed economy is presented Figure 1.
Krasota O. V., Melnyk T. H., Borysenko O. A. The change in priorities of state regulation of the small businesses' development

**Fig. 1. The structural-logical scheme of weighty role and main functions of Small Business (Entrepreneurship) in modern mixed economy**

Quantitative classification parameters and data regarding its positive dynamics (quantity among all companies, employment rate, GDP share, etc.) are the main indicators of valuable role of small business.

Quantitative classification parameters of small business of Ukraine are determined in accordance with current legislation, to two criteria - average amount of laboring for a calendar year and the amount of annual earnings from any activities (Fig. 2).

Besides quantitative features, small business has also qualitative aspects that are better shown in its specific advantages and disadvantages. The most valuable advantages of small business are:

- Economic-industrial features (flexibility, dynamism, fast market saturation, adaptation to technological changes);
- Institutional (accessibility and the effortless to this type of entrepreneurship);
- Economic-social (saturation of the labor market with new working positions, providing social stability);
- Socio-psychological (overcome of means' of production alienation, results of production activity, labor motivation) etc.

Meanwhile, by the advantages of small business there exist the inherent shortcomings that also arise from its specificity. These are:

- High dependence on market conditions;
- Bigger vulnerability compared to big business, adverse economic factors and economic instability (cyclical downturns, inflation, strengthening competition);
- Weak segmentation of own market share and insufficient strong position on it;
- Chronic deficit, connected to the low interest equity and need to attract borrowing costs;
- Lack of technical equipment and primary material procurement comparatively to big entrepreneurship;
- Major dependence on the some large customers;
- Great risk and tendency to bankruptcy etc [2].
ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

Красота О. В., Мельник Т. Г., Борисенко О. А. Перегляд приоритетів урядових вимог малому BUSINESS, and for the purpose fully determine its economic substance and specifics.

As mentioned above, it is necessary to implement a balanced state policy to support small business, and for the purpose fully determine its economic substance and specifics.

In our opinion, we consider understanding of economic nature of small business (entrepreneurship) to be ineffective due to two reasons. First of all, it is limitation of quantitative criteria which was determined by Ukrainian Code of Administrative Offences. There is also no strict definition of small business (entrepreneurship) among Tax Code of Ukraine, only different groups of business entities are divided into simplified taxation system. Secondly, heterogeneity of small business subjects is not described in existing state regulations. Their execution among whole population of small business entities implicates the absence of state support, right of receiving tax preferences, etc.

Business entities quantitative classification parameters vary due to national peculiarities of different counties. As opposed to two criteria in Ukraine, in EU countries (which are quite attractive for Ukrainian producers and exporters) there are three criteria: assets measurement criteria added to basic criteria of annual average, employment rate, and annual income. The expediency of the latter could be explained by the situation when some companies could have high sales volume and annual income but own small amount for assets. That is why in EU countries de-facto and de-jure they are the subjects of small business, and in Ukraine, de-facto they are, but de-jure - they are not.

Based on the table 1, basic quantitative criteria of domestic small business (entrepreneurship) generally meet their criteria in the EU countries.

This is a positive factor, because it correlates with the European standards. To improve Ukrainian legislation on the entrepreneurship the attention should be paid to the combination of the EU criteria above. Eligibility of an average number of employees, annual income or value of assets are the compulsory criteria to classify an enterprise to a category. This flexible combination of classification criteria will make it possible to attribute more entities to the subjects of domestic small business. They can receive all the benefits from its position as required by a law and public policy.

Small business sector is very miscellaneous by the structure. There is a great variety of economic players, mostly different micro-subjects - private sole proprietor and micro-enterprise with low productivity. Each of them has its own aim of activity and specification, that is characterized by the valuable problems and barriers. Therefore, it is advisable to review and extend the structure of national small business subjects and determine the productive ways of governmental support for each of businesses.
The change in priorities of state regulation of the small businesses' development

<table>
<thead>
<tr>
<th>Types of enterprises</th>
<th>Quantitative criteria</th>
<th>Ukraine</th>
<th>The EU</th>
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<tbody>
<tr>
<td></td>
<td>Average number of employees, per person</td>
<td>&lt;2</td>
<td>&lt;2</td>
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<td></td>
<td>Annual income, ml euro</td>
<td>&lt;2</td>
<td>&lt;2</td>
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<tr>
<td>Micro enterprises</td>
<td>0-10</td>
<td>0-9</td>
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<tr>
<td>Small enterprises</td>
<td>10-50</td>
<td>10-49</td>
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<tr>
<td>Middle enterprises</td>
<td>51-250</td>
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<td>50-249</td>
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<tr>
<td>Big enterprises</td>
<td>&gt;250</td>
<td>&gt;50</td>
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Table 1

We agree with the point of view of those economists, who consider that it is possible to divide small business entities in Ukraine into the greater number of groups, than it is determined in the current legislation of Ukraine: small sole proprietors, micro enterprises, small enterprises [1].

For instance, Varnaliy Z. S. suggests to classify small business entities in such groups: 1) traditional, 2) research, 3) innovation-oriented small firms. They must differ by the criteria of regularity and the aim of innovative activity [4, pp. 413-415]. The experts of the Friedrich Neumann Foundation believe that small (and medium) companies in Ukraine can be divided into five groups: innovative growing companies, freelancers, subsistence businesses, stuck-in-the middle companies and pseudo self-employed.

These groups fulfill the criteria of small and mid-sized businesses, but in fact are very different from each other. They have their own specific problems. Fund experts conclude that economically justified is preexisting of only the first two groups, but the last three should not exist in the modern economy or play a minor role in it. [3].

We suggest to complete the criterion of size of small business entities (small sole proprietors, micro enterprises, small enterprises) with the criterion of compliance to the market relations. By this criterion, we propose to consider the following groups: "forced entrepreneurship", "mature entrepreneurship" and "demanding entrepreneurship" as the subjects of a domestic small business (entrepreneurship).

We will characterize our vision of the offered groups.

1. "Forced entrepreneurship" is the entrepreneurship, performed for the sake of accommodation, it is business against poverty. It is carried out by sole proprietors and the micro entities, whose only purpose is income acquisition, sufficient only for personal living; survival of business owners. It is characterized by the low level and experience of management of business owners, insufficiency of knowledge in the field of entrepreneurship.

   Such a type of activity in its essence is a forced, temporary phenomenon. It exists, as a rule, until the economy recovers and passes into a growth phase or until the owner of this business gets an opportunity to become a hired employee with the sufficient salary. This type of business activity prevails preliminary in the areas of market retail trade and in other places intended for trade, provision of population with the elementary household services, first in small and remote from the cities settlements with the high level of unemployment etc.

2. "Mature entrepreneurship" is the traditional activity of the micro and small enterprises, which are oriented at stable production volumes and sales in a certain field of activity. The owners of such a type of enterprises focus on the small, but fixed income, preserving the settled traditions in management, production and sales. They do not aim at fast risky development of the entity. Their activities are conditioned by limited, stable and monotonous demand.

   "Mature" entrepreneurial structures carry out product-oriented small-scale production and consumer goods for the local needs, according to the shift in demand. They also make accessory products for the large enterprises which are engaged in the construction of small buildings, wholesale and retail trade, provide with the necessary types of service without which a person cannot exist and which are
unattractive for medium and large business. As an example of such an entrepreneurship we can take small specialized shops, hairdressers, repair workshops of household appliances, restaurant household etc.

3. "Demanding entrepreneurship" is an innovative type of an entrepreneurship. As a rule, it evolves from the certain scientific discoveries and often becomes a "guide" of a new type of production or new products. It rarely requires the considerable capital investments and large staff of workers, but it is aimed at the stable development and riskiness.

It includes newly created micro and small enterprises, innovative and attractive startups, IT companies whose activities are concentrated on the implementation of original and in most cases own innovative idea. They are engaged in the realization of innovations and creation of the experimental samples of new products.

In such companies in the long-term perspective, the small size is considered only as an intermediate stage of the lifecycle after which it has to grow up to its most effective size, according to the demand of an industry. It is necessary to remind that Apple, Google, Toyota, Samsung and others started as small business entities, and now they are well-known and high-profitable giants.

In table 2, we represent a combination of classification criteria of small business (entrepreneurship) entities in Ukraine that follows from their heterogeneity.

**Table 2**

<table>
<thead>
<tr>
<th>Combination of classification criteria of Small Business (Entrepreneurship) in Ukraine</th>
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<tr>
<td>  Sole proprietors</td>
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<td>Micro entities</td>
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<td>Small enterprise</td>
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The most widespread in Ukraine are first two types - "forced" and "mature entrepreneurship". Despite the high innovative potential of subjects of a domestic small business, there is still steadily low level of their innovative activity in comparison with the EU countries.

For the effective development of the "demanding entrepreneurship", it is necessary to overcome a number of obstacles, first, consequences of an economic crisis and low level of technical work equipment, to improve general innovative climate in economy etc. So, according to the Bloomberg Innovation Index, in 2016 Ukraine took the forty-second place in the rating of countries and appeared between Croatia (the forty-first place) and Serbia (the forty-third place). At the same time, the countries which, as well as Ukraine, about three decades ago began the process of transformation from command to modern mixed economy, achieved considerably better results. Poland rose in the rating by one step higher, than the last year, and took the twenty second place. Slovakia rose by three steps and took the thirty-sixth place [5].

In Fig. 3. there are reflected advanced criteria for small business entities on the basis of which it is reasonable to define the directions of effective state policy.

In general, the state needs to strengthen its policy in the field of support of national entrepreneurship and business potential. Indeed, the latest measures of regulatory policy in business area are the new project "On Approval of the Strategy of small and medium business in Ukraine for the term until 2020" drafted in 2016 by the Cabinet of Ministers of Ukraine [6].

The main aims of the strategy are, firstly, a determination of the long-term priorities of the state policy in the field of development of small and medium-sized enterprises, and, secondly, focus on creating favorable conditions for its evolution to match the best European practice.

Besides, in January 2017 Ukrainian government has passed a draft law on Ratification of Agreement between Ukraine and the EU on Ukraine's participation in the EU program for the "Competitiveness of Enterprises and SMEs (COSME) (2014-2020)", which Ukraine officially joined in May, 2016. COSME aims to uphold small and medium-sized enterprises, particularly by facilitating their access to
EU markets and to the grants of direct financing, creating a favorable environment to increase competitiveness and entrepreneurial culture formation.

However, due to the heterogeneity of small business in Ukraine it is impossible to use a unified approach to their regulation. Even the most comprehensive and advanced program cannot solve specific problems of all the domestic micro-entrepreneurship. Therefore, it is necessary to change the priorities of state policy in the field of small business maintenance. Effective public policy should take into account the diversity of this structural unit of modern mixed economy and personalize instruments and measures to sustain it.

We believe that the main task of government policy support of "forced entrepreneurship" is to help pseudo-entrepreneurs become true entrepreneurs, mainly through the creation of business support centers, various business courses etc. There they will have a chance to gain the necessary knowledge and entrepreneurial skills, master the entrepreneurial thinking style and realize the need for further development.

"Forced entrepreneurship" agents are the most vulnerable to adverse macroeconomic factors, such as inflation, real income decline, depreciation, cyclicality and others, as they do business to ensure their own living and combat poverty. At the same time, such entrepreneurs are self-employed and create new jobs, thus they do not join the ranks of the unemployed. Therefore, in terms of general economic instability the state has to support their activity ultimately by reducing regulation, using the simplest taxation, accounting and reporting systems. With the transition of the economy from crisis to sustainable growth path, and with the increase in employment and income levels, the expediency of "forced entrepreneurship" will reduce dramatically. Thus, in the long term "forced entrepreneurs" must develop into the form of "mature" or even "demanding entrepreneurship."

In our belief, public adjustment policy of "mature entrepreneurship" as of the most common type of enterprises should be aimed at:

- income regulation through imposing differentiated tax rates;
- creation of profit reserves which remain nontaxable (during the specific period, like a year);
- establishment of favorable conditions for rental of premises and equipment owned by the state;
- simplification of tax administration (particularly of information and analytical support, taxpayers registration, tax reporting, tax control, VAT refunds);
- limitation of regulations (by reducing the number of documents and procedures required to do business);

Advanced criteria for the Small Business (Entrepreneurship) in Ukraine

Fig. 3. Advanced criteria for the Small Business (Entrepreneurship) in Ukraine

<table>
<thead>
<tr>
<th>SMALL BUSINESS (ENTREPRENEURSHIP) ENTITIES</th>
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<tbody>
<tr>
<td>SOLE PROPRIETORS</td>
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<tr>
<td>MICRO ENTERPRISES</td>
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<tr>
<td>SMALL ENTERPRISES</td>
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<tr>
<td>«FORCED ENTERPRENEURSHIP»</td>
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<tr>
<td>«MATURE ENTERPRENEURSHIP»</td>
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<tr>
<td>«DEMANDING ENTERPRENEURSHIP»</td>
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</table>

➢ AVERAGE ANNUAL NUMBER OF EMPLOYEES
➢ ANNUAL INCOME
➢ ASSET AGGREGATE
• restriction of the powers of business control systems and minimizing the opportunities for corruption activities conducted by controlling bodies;
• promotion of advanced technology, making the "mature entrepreneurship" one step closer to "demanding entrepreneurship".

As "the mature entrepreneurship" is oriented mainly on satisfaction of local demand, it is necessary to focus on effective measures of regional state policy.

"Demanding entrepreneurship" is the most desirable type of entrepreneurship in terms of economy. Only entrepreneurial firms, which intend to implement innovations and grow, can make a powerful contribution to economic development of Ukraine. Such type of an entrepreneurship needs to be stimulated and supported in every possible way. For this purpose, we suggest to use the following measures:

• to grant loans on establishment of the enterprise or its further innovative development which should not be returned in case of success;
• to enter investment allowances which will be provided by specialized authorities and directed for release of technically advanced products and creation of new workplaces.

Such measures will promote the innovative development of small business entities. In contrast with "mature entrepreneurship", which is oriented on satisfaction of local demand and needs effective support at the regional level, "demanding entrepreneurship" performs the greatest contribution to the development of the national economy and therefore requires deliberated support and stimulation at the state level.

The offered list of measures of small business entities state support depending on their classification criteria, features of development and value for economy, is incomplete. It has to be put forward for the public discussion and consider positions of entrepreneurs directly, so as representatives of the government and management.

Conclusions. Small business entities play a role of a structure-forming element of modern mixed economy, perform important functions and fill market niches in which medium and large business are not interested. At the same time, its political regulation is not weighed. We consider, for change of priorities of its state regulation it is necessary to implement following steps:

1. To use not two, but three indicators at determination of quantitative classification criteria of a small business, namely: to add to main criteria – the annual average number of workers and annual earnings – the size of assets. Even more, to consider the first criterion obligatory, and to use the last two optionally.

2. To expand the structure of a domestic small business entities, considering its heterogeneity, specific signs and problems, to complement the criterion of size (small sole proprietor, microenterprises, small enterprises) with the criterion of compliance to the market relations ("forced entrepreneurship", "mature entrepreneurship", "demanding entrepreneurship").

3. To define the effective directions of the state support to each of small business entities, considering their features and value for economic development of the country.

References
5. Україна поступилася місцем в рейтингу країн із...
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