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## **THE CONCEPT OF STATE POLICY FOR ENTERPRISE DEVELOPMENT AND ITS FEATURES IN THE CONTEXT OF EUROPEAN INTEGRATION**

### ABSTRACT

The study aims to substantiate and deepen the theoretical foundations of the state policy for enterprise development in the context of European integration. The methodological framework of the study involved the following methods: analysis and formalization, logical generalization, abstract-logical method, and induction and deduction. Analysis and formalization provided for determining the essence of such concepts as entrepreneurship, small and medium-sized enterprises, and state policy for enterprise development. Logical generalization involved defining and formulating the scientific principles of state policy for enterprise development. Abstract-logical method ensured theoretical generalization and drawing the conclusions of the study. Methods of induction and deduction helped define the issue under the study and clarify its subject. The essence of small and medium-sized enterprises in Ukraine is analyzed. In order to develop and improve the state policy for enterprise development in Ukraine, which has been granted the status of a candidate for EU membership, the authors of this article suggested legal, organizational, regulatory, and institutional changes that would promote the development of entrepreneurial activity and adaptation to the European space in the future. Entrepreneurship development requires attracting investment and sufficient financing from the state and international investors. The factors influencing the state policy for enterprise development and growth of small and medium-sized enterprises were analyzed. The enterprise development strategy in Ukraine was examined. The authors

studied enterprises in Ukraine and suggested the mechanisms of the state policy for their development.

**KEYWORDS:** state support, small and medium-sized enterprise, mechanisms of state policy, European integration, enterprise development.

**INDEX:** 1. Introduction. - 2. Entrepreneurship as an object of state policy. - 3. State policy for enterprise development in Ukraine in the context of European integration. - 4. Conclusion.

## **1. Introduction**

Ukraine has been recently granted the status of a candidate for European Union (EU) membership, which entails reforming the national economy involving the development and improvement of the state policy in the field of entrepreneurship and enterprise development as a crucial sector of the economy of Ukraine. The state policy for enterprise development is considered an activity aimed at coordinating and interconnecting all elements of the entrepreneurial system required for its stable state (Hazuda & Voloshchuk, 2017). It ensures an uninterrupted, balanced work of all elements of an enterprise and ways of their arrangement and modernization (Feldman et al., 2005). In other words, the state support of entrepreneurship involves improving the situation of entrepreneurs (material, financial, economic), carrying out their activities on an equal footing with other entrepreneurial structures, and exercising their potential to ensure development.

Public authorities are called to elaborate programs, finance projects, and implement measures to support enterprise development at the expense of (central, local, and regional) budgets, revenues from privatization of property, the attraction of foreign investments, etc. State or public policy is the administration by public authorities, for example, executive bodies, which relates to certain areas of their activities and mandatory corresponds to the laws of a country and social customs (Iezghor, 2010). Currently, entrepreneurs, on the example of small and medium-sized enterprises, experience the following significant problems and obstacles to their development:

- the economic recession;
- ongoing armed conflict on the territory of Ukraine;
- the complexity of the business environment;
- the lack of state support.

The above entails the search for innovative, effective areas of support for small and medium-sized enterprises (SMEs), taking into account changes, especially adaptation to the European economic space, where the activities of small and medium-sized enterprises account for the largest share of gross domestic product (Bashkatova, 2019).

Such domestic scholars as L. Bezuhla (2011), Z. Varnalii (2007), N. Didenko (2017), N. Orlova and J. Mokhova (2018), Bolotova, (2019), S. Dryha (2009), and Baklan (2015) dedicated their works to the issues of state policy for enterprise development. However, there is a lack of a modern study on state policy in the field of entrepreneurship development in Ukraine, which considers the experience of leading European countries. At the same time, the enterprise development in Ukraine in the context of obtaining the status of a candidate for EU membership requires a study of issues related to the elaboration and improvement of the legal framework, the definition of organizational, political, legislative, and financial directions of state regulation of SMEs under transformations, and the risks faced by the world economy.

Therefore, the study aims to substantiate and deepen the theoretical foundations of the state policy for enterprise development in the context of European integration.

## **2. Entrepreneurship as an object of state policy**

One of the modern and most priority directions for reforms in the state is the improvement and elaboration of state policy in the field of enterprise development. Now, the authors of this article turn to the analysis of the concept of entrepreneurship. The concept of entrepreneurship or entrepreneurial

activities is an independent, dynamic, continuous, and risky activity of business entities, where the principal purpose is to make a profit.

The state policy for enterprise development is a system of state measures (legal, administrative, organizational, supervisory) aimed at creating favorable conditions for the effective development of entrepreneurship (Baklan, 2015). It will be expedient to determine the essence of the concept of entrepreneurship as an object of state policy. Entrepreneurship as an object of state policy is a purposeful, managing, and systematic activity of authorities to implement the functions of state support of business entities. Recent trends in the dissolution of enterprises and the economic situation in Ukraine confirm that the need to improve the state policy for enterprise development is an acute and relevant issue.

The authors of this article analyzed the state policy for enterprise development on the example of small and medium-sized enterprises (SMEs). State policy for SME development is the central factor of the country's development, promotes a competitive business environment, and contributes to introducing new technologies and innovative projects and attracting investments. It also provides new job opportunities to solve the problems of employment of the population and ensures the effective functioning of the state (Derenko, 2012). The authors established that SMEs have dominated in terms of the number and volume of production in the leading EU countries in recent years. According to the UN data, small and medium-sized enterprises produce between 30 and 60% of the national product, depending on the country. It is substantiated that SMEs account for about 90% of the total number of enterprises in the countries of the European Union. The approximate number of SMEs is 20 million in the EU, and the number of people employed in SMEs is roughly 70% (Global Entrepreneurship Research Association, 2017; Papadopoulos et al., 2021).

The state policy for SME development involves legal, political, organizational, financial, and innovative complexes and includes information measures (Burakovskiy et al., 2015). SMEs have a small (insignificant) range of activity characterized by mobility of production, short duration, dependence on the impact of the external environment, and degree of financial risk. Therefore, small and medium-sized enterprises require significant stimulation of their activities and obligatory protective mechanisms on the part of the state.

The Economic Code of Ukraine (Verkhovna Rada of Ukraine, 2003) defines the concepts of small business entity and medium-sized business entity, also used in the Law On Development and State Support of Small and Medium-Sized Enterprises in Ukraine (Verkhovna Rada of Ukraine, 2013). In terms of scientific literature, it is a frequent phenomenon to identify the concepts of small and medium-sized enterprises with small and medium-sized businesses in the modern practice of public services, institutions, and organizations. The authors of this article hold that “enterprise” and “business” are concepts that complement each other.

The examination of SME development as an object of state policy has shown that the concept of small and medium-sized enterprise has ambiguous interpretation in the scientific literature and among domestic and foreign scientists. Notably, it is possible to use the concepts of small and medium-sized enterprises separately. The main classification of enterprises lies in their determination as small or medium-sized according to the following criteria:

- the number of employees;
- turnover;
- the consolidated balance sheet;
- income.

In the European Union, four criteria are principal for defining small and medium-sized enterprises (SMEs). These criteria are the number of personnel (employees), average annual turnover of the enterprise, general balance sheet,

and independence of the enterprise (European Commission, 2002; Commission of the European Communities, 2008). According to these factors, the following types of enterprises are distinguished:

a) a medium-sized enterprise, where the number of employees is up to 250 people, and the maximum average annual turnover is 40 million euros and does not exceed 27 million euros;

b) a small enterprise, where the number of employees varies from 10 to 49 people, the employees are in an employment relationship with the owner of the enterprise, and the maximum average annual turnover is 7 million euros and does not exceed 5 million euros;

c) a microenterprise that provides jobs to no more than ten employees (there are no restrictions on annual turnover and balance) (Verkhovna Rada of Ukraine, 1991a).

Regulatory legal acts of Ukraine involve different interpretations of concepts of small and medium-sized enterprises (Verkhovna Rada of Ukraine, 1991b; 1999a; 1999b). Thus, part 3 of Article 55 of the Economic Code of Ukraine (Verkhovna Rada of Ukraine, 2003) states that the following criteria distinguish between business entities of micro-, small and medium-sized enterprises (Table 1).

**Table 1.** Classification of business entities in Ukraine

o.		Microenter- prise in Ukraine	Small enter- prise in Ukraine	Medium-sized enterprise in Ukraine
	Individual			
	Average number of em- ployees	Does not ex- ceed 10 people for the reporting pe- riod	Does not ex- ceed 50 people for the reporting pe- riod	
	Annual income of acti-	Does not ex- ceed an amount	Does not ex- ceed an amount	

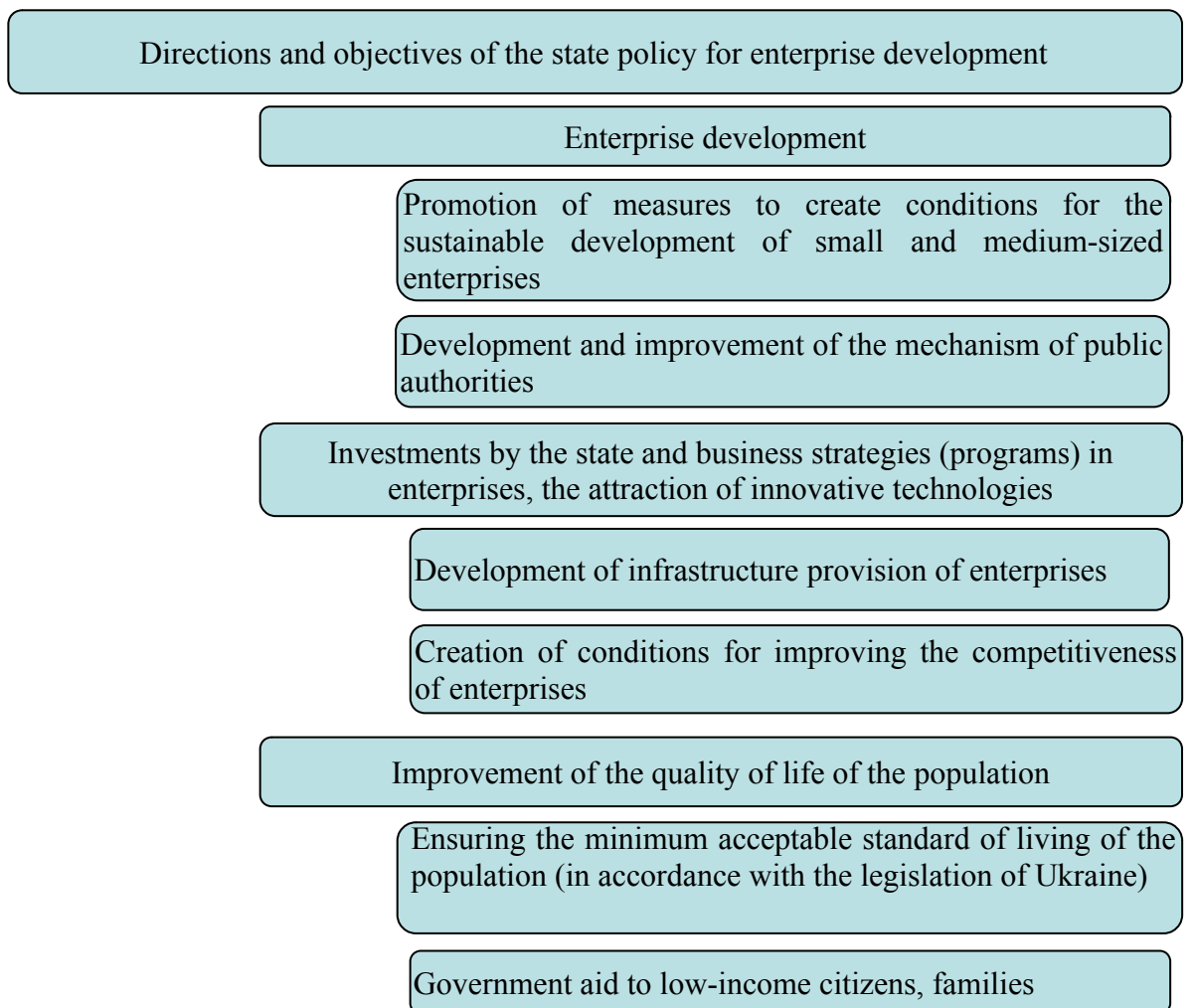
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	vity (of any type of activity)	equivalent to EUR 2 million	equivalent to EUR 10 million	
Entity				
	Average number of em- ployees	Does not ex- ceed 10 people for the reporting pe- riod	Does not ex- ceed 50 people for the reporting pe- riod	Exceeds 250 people for the re- porting period
	Annual income of acti- vity (of any type of activity)	Does not ex- ceed an amount equivalent to EUR 2 million	Does not ex- ceed an amount equivalent to EUR 10 million	Exceeds an amount equivalent to EUR 50 million

*Source: developed by the author according to the Economic Code of Ukraine (Verkhovna Rada of Ukraine, 2003).*

The following principles should be the basis for entrepreneurship as an object of state policy: compliance with the political and macroeconomic situation in the country; an agreement between the goals of the enterprise and the interests of the state; commitment to ensure sustainable and economic development of the country; a dominance of national interests over the interests of people connected by friendly, family, professional, and administrative relations; the prevention from direct state intervention in the enterprise (Turetskov, 2019). Figure 1 presents the directions and objectives of the state policy for enterprise development.



**Figure 1.** Directions and objectives of the state policy for enterprise development

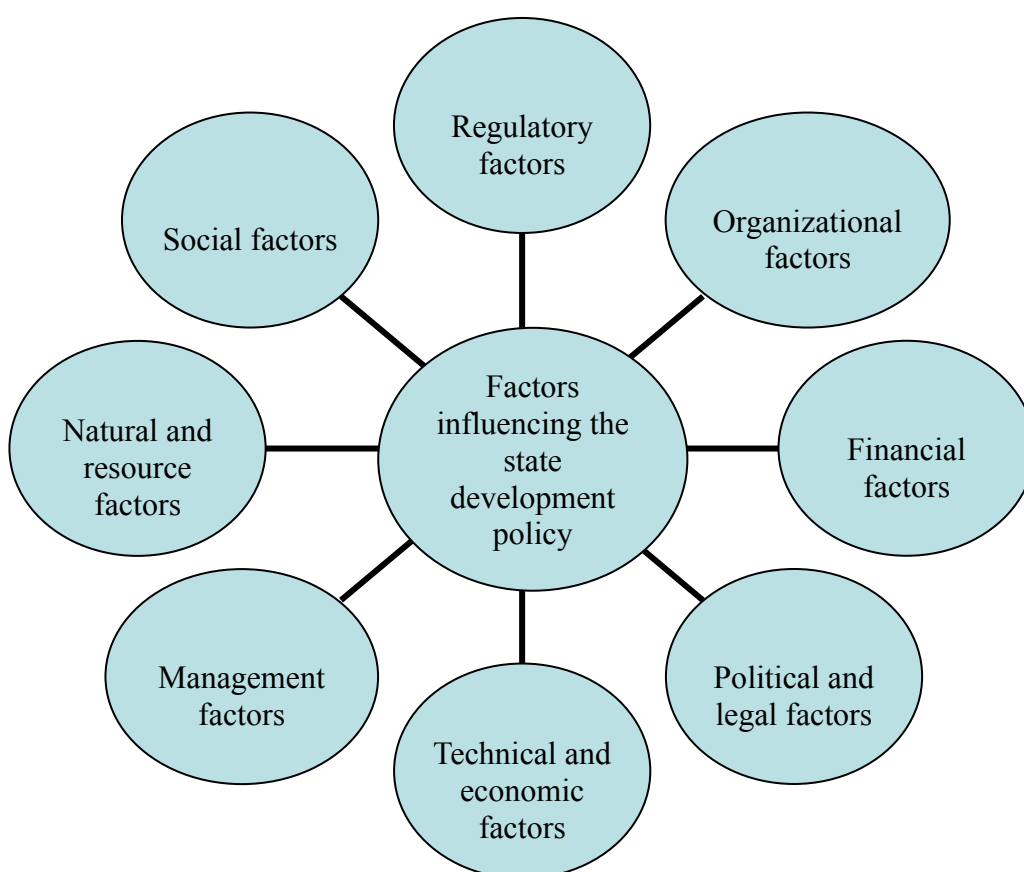
Source: developed by the author according to Bezuhla (2011).

The enterprise development and the adequate performance of its functions require significant changes in ensuring access to financial resources, given the substantial shortage of funds. Thus, there is a need to find effective directions of state policy to provide financial and credit support for enterprises at the national and regional (local) levels and improve their financial situation (Donets, 2016).

The authors of this article have established that such problems as weak viability of the enterprise, insufficient state funding, and scarce use of the en-



terprise's potential as a powerful source of social and economic development of the country considerably complicate the business development in Ukraine. The prerequisites for state policy in the field of entrepreneurship and the state of enterprise development are determined by factors that can restrain or inhibit this process. Figure 2 shows the factors that affect the state policy for enterprise development.



**Figure 2.** Factors influencing the state policy for enterprise development  
Source: developed by the author according to Davidsson (2014).

According to Karmazina (2018) the factors influencing the development of small and medium-sized enterprises (SMEs) are divided according to the following characteristics in the scientific literature:

- internal factors (formation of SME potential for innovative development);
- external factors (determination of objects and conditions interacting with SMEs directly or indirectly);
- factors of the industrial environment (emergence of new competitors on the market);
- factors of the political and legal environment (legislative support for SME activities or changes in its state policy).

Therefore, the authors of this article generalize and distinguish the following ways to improve the state policy for enterprise development:

- improvement and elaboration of state supervision procedures in the field of enterprise development;
- elaboration and implementation of state programs for enterprise development;
- involvement of international organizations in SME lending;
- job placement to provide employment for young people;
- creation of conditions for enterprise development in the public and private sectors;
- provision and further formation of the infrastructure for enterprise support;
- promotion of enterprise development, especially small and medium-sized enterprises (SMEs).

### **3. State policy for enterprise development in Ukraine in the context of European integration**

An essential issue in business entity development is the state policy for its development. The state policy for enterprise development is an influential factor in the development of the country since it increases competitiveness, contributes to the introduction of new technologies and innovative projects,

helps attract investments and solve employment issues, and ensures the adequate functioning of the state.

The concept of state policy for enterprise development should be understood as the need to ensure the flexibility of public authorities, the competence of civil servants, and their ability to use and apply modern tools in public administration. The basis for enterprises is appropriate measures typical for their development in the country and implemented at the state level (Hrynova & Novikova, 2008). Notably, the country must elaborate and implement the state policy for enterprise development at the state level in order to ensure its institutional potential. Table 2 presents the mechanisms of the state policy for enterprise development in Ukraine.

**Table 2.** Mechanisms of state policy for enterprise development in Ukraine

o.	Mechanism	Primary measures
	Institutional mechanism	<ol style="list-style-type: none"> <li>1. peace in Ukraine;</li> <li>2. de-occupation of the occupied territories in Ukraine;</li> <li>3. provision of the economic growth of the state.</li> </ol>
	Regulatory and legal mechanism	<ol style="list-style-type: none"> <li>1. guarantee for fair competition on the part of the state;</li> <li>2. simplification of tax administration in the field of small and medium-sized enterprises;</li> <li>3. preferential treatment for the sale of local products in the region.</li> </ol>
	Organizational mechanism	<ol style="list-style-type: none"> <li>1. dialogue between public authorities and business entities, their involvement in elaborating enterprise development programs.</li> </ol>
	Financial mechanism	<ol style="list-style-type: none"> <li>1. reconstruction of infrastructure according to the Marshall Plan;</li> </ol>

		<p>2.2. financial support of local enterprises on the part of the state and investors;</p> <p>3.3. promotion of banks to SME lending on preferential terms.</p>
	Informational mechanism	<p>1. creation of an information field on state support for enterprises in Ukraine;</p> <p>2. provision of information to the local population about opportunities to create their business in the region.</p>
	Innovative mechanism	<p>1. attraction of funds from external investors and public authorities to ensure innovative activities;</p> <p>2. expansion of the network of innovative small and medium-sized enterprises;</p> <p>3. innovative enterprise development.</p>
	Social mechanism	<p>1. state support for social entrepreneurship;</p> <p>2. use of start-ups and other means of entrepreneurship for development and financing;</p> <p>3. enterprise employs internally displaced persons or combatants and war veterans;</p> <p>4. training of employees for occupations required by the state.</p>

Source: developed by author according to Cabinet of Ministers of Ukraine (2013, 2014).

Thus, the elaboration, improvement, and implementation of the state policy for enterprise development is a purposeful and flexible process that involves a set of measures for ensuring its viability in the future (in the domestic and foreign markets). Creating a favorable business environment for the state policy for enterprise development in the context of European integration should include the following tasks:

1. to create opportunities for rapid adaptation to changes in market demand, increase transparency, and simplify administrative procedures;

2. to create a positive image of the state or region, rebrand in order to strengthen international relations and attract investments (Balkova, 2018).

The purpose of the state policy for enterprise development in the context of European integration is to create favorable conditions for its development, ensure a competitive environment, encourage investments and innovative enterprise development, promote the results of intellectual activity of small and medium-sized enterprises in foreign and domestic markets, and provide employment for the population by supporting entrepreneurship (Honcharova, 2003).

Scientists and experts proposed to elaborate the Strategy for Structural Restructuring of the Economy and a set of appropriate instruments for its implementation. The idea behind this strategy is to strengthen competitiveness, integrate into the single economic space of the country, solve the main problems of the country, and establish the partnership of the state with local and regional governments, private businesses, etc. In the future, such a strategy should focus on the search and development of clusters, startups, etc. The strategy can be a major factor for private investors and funders to fill (Turetskov, 2019).

The subject of the state policy for enterprise development is the state. In the narrow sense, the subjects of the state policy for enterprise development are executive bodies and civil society institutions (formed under the influence of social and political processes). According to N. Orlova and J. Mokhova (2018), the state policy for enterprise development in the context of European integration should include the following stages:

- state support for small and medium-sized enterprises;
- facilitated access to financial services vulnerable population and women;
- support for social and innovative entrepreneurship on the part of state and investors;

- vocational training and improvement of professional skills of business entities;
- vocational training and education of future civil servants;
- enterprise launching by vulnerable population;
- promotion of cooperation between small and medium-sized enterprises;
- popularization of social entrepreneurship among the population (especially among young people).

#### **4. Conclusion**

The concept of entrepreneurship or entrepreneurial activities is an independent, dynamic, continuous, and risky activity of business entities, where the principal purpose is to make a profit. It is substantiated that the state policy for enterprise development is a system of state measures (legal, administrative, organizational, supervisory) aimed at creating favorable conditions for the effective development of entrepreneurship.

Recent trends in the dissolution of enterprises and the economic situation in Ukraine confirm that the need to improve the state policy for enterprise development is an acute and relevant issue. The authors note that entrepreneurship as an object of state policy is a purposeful, managing, and systematic activity of authorities to implement the functions of state support of business entities. The state policy for enterprise development is an influential factor in the development of the country since it increases competitiveness, contributes to the introduction of new technologies and innovative projects, helps attract investments and solve employment issues, and ensures the adequate functioning of the state.

The concept of state policy for enterprise development should be understood as the need to ensure the flexibility of public authorities, the competence of civil servants, and their ability to use and apply modern tools in public ad-

ministration. Thus, the elaboration, improvement, and implementation of the state policy for enterprise development is a purposeful and flexible process that involves a set of measures for ensuring its viability in the future (in the domestic and foreign markets).

The authors distinguished institutional, regulatory, organizational, financial, informational, and innovation mechanisms of the state policy for enterprise development that would contribute to the development of the country and integration into the EU. It has been determined that the state policy for enterprise development in the context of European integration should include the following stages:

- state support for small and medium-sized enterprises;
- facilitated access to financial services vulnerable population and women;
- support for social and innovative entrepreneurship on the part of state and investors;
- vocational training and improvement of professional skills of business entities;
- vocational training and education of future civil servants;
- enterprise launching by vulnerable population;
- promotion of cooperation between small and medium-sized enterprises;
- popularization of social entrepreneurship among the population (especially among young people).

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