

## THE MECHANISM OF STATE SUPPORT FOR SMALL BUSINESS DEVELOPMENT: SYNERGISTIC ASPECTS

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**Abstract.** *The purpose* of this research is the development of theoretical foundations for the functioning of the mechanism of state support for small business in a decentralized government based on a synergistic approach. *The subject of the study:* theoretical and methodological foundations for the functioning of the mechanism of state support of small business in the context of synergetics. *Research methodology* is a set of principles, approaches, general theoretical, special, and interdisciplinary methods of scientific knowledge, namely morphological analysis, comparative analysis, methods of deduction and logical generalization, analysis and synthesis. Functioning of the mechanism of state support for small business is considered on the basis of a synergistic approach. The synergistic approach is one of the most effective methodological bases for the development of modern economics. The article considers the key theoretical provisions for understanding this approach, substantiates the possibility and feasibility of its application in the implementation of this mechanism in modern economic conditions. *Results.* It is determined that the reform of decentralization of power has led to the creation of institutional problems in the economic mechanism of state support for small business. In the regions and territorial communities, there is no single mechanism to support the development of small business, which causes the inefficiency of this area of public policy. This justifies the relevance of the use of new methodological approaches to the formation of the mechanisms for implementing the state policy of business regulation. The importance of small business for the development of the national economy, ensuring its stability, is substantiated, the main approaches to the essence of entrepreneurship are investigated. Theoretical aspects of the functioning of the mechanism of state support for small business on the basis of traditional and systemic approaches are systematized, their positive aspects and shortcomings are determined. It is substantiated that in the conditions of economic transformations and introduction of the reform of decentralization of power it is expedient to use the synergistic approach in the research of the mechanism of the state support of the small business. It is emphasized that the very synergistic approach is able to study the process of functioning of the mechanism of state support for small business on the basis of evolutionary development and self-organization of complex systems. We propose to consider the mechanism of state support in the conditions of decentralization as a process of self-organization of small business entities and public authorities, which is carried out through their interaction with the meso- and macroenvironment. Conceptual bases of the use of the synergistic approach in the research of the mechanism of the state support for the development of entrepreneurship and its economic levers are developed. It is substantiated that the application of a synergistic approach in the process of formation and application of the mechanism of state support of small business will allow to take into account interdependence of economic processes and phenomena, to investigate the interaction of local authorities and small businesses under decentralization. The use of a synergistic approach as a research method also makes it possible to take into account the dynamics of the state support mechanism. The synergistic methodology in the study of the mechanism of state support for small business allows to take into account the existence of connections and interactions between the components of the mechanism, as well as the integrity and ability to change. Based on a synergistic approach, it becomes possible to ensure the development of small businesses by preventing threats. The next advantage is the ability to take into account the alternative scenarios of small business development of a particular region or territory in a changing socio-economic environment. Consideration of the mechanism of state support as a self-organized system makes it possible to study the patterns of self-organization, which in the future should become the basis for calculating the synergistic effect of the mechanism.

**Key words:** state regulation, state support, decentralization, economic mechanism, economic levers, small business.

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## 1. Introduction

Ukraine's strategic goal is integration with the countries of the European Union due to which the country's economy is becoming more open to foreign business partners every year showing an increased interest in small business. Given the relevance of small business for the development of the national economy and individual regions and territories, the public administration processes aimed at creating favorable conditions for its development become significantly important. In this regard, we consider it relevant the issue of providing effective state support for the development of small business on the basis of government interaction with business and communities, which is impossible without the development and implementation of an appropriate mechanism for state support for the development of business structures.

At present, the goal of the Ukrainian economy is to transit to the modernization of the public administration system, accompanied by the formation of new economic institutions, implementation of reforms in the field of state regulation based on decentralization, the use of leading mechanisms and instruments of public policy. However, the reform of the economic system, the decentralization of power led to the creation of institutional problems in the economic mechanism of state support for small business, cooperation of public administration and private property, which requires the use of new methodological approaches to the formation of mechanisms for implementing public policy on entrepreneurship.

The unsystematic state support is a consequence of the difference in the regional conditions of formation of small business institutions and insufficient consideration of the specifics of decentralization management, especially in the economic component. Each region forms a system of economic state support for small business, based on the ideas of local authorities, and there is no regulation on the formation of state support systems at the regional and territorial levels, which often slows down achieving the required level of business support. In the regions and territorial communities, there is no single mechanism to support the development of small business, which causes the inefficiency of this area of public policy and incoherence of support institutions. In addition, the theoretical aspects of the formation and improvement of the mechanism of state support for small business, taking into account the basics of the synergistic approach, are currently insufficiently disclosed. Some tools of this mechanism are not adapted to the conditions of system modernization and the formation of the information economy. Consequently, the aim of the article is to develop theoretical foundations for the functioning of the mechanism of state support for small business in decentralization in the context

of a synergistic approach based on the principles of self-organization and the evolution of the mechanism's potential. Achieving the goal requires the following tasks: determining the role of small business in the development of the national economy; studying the essence of entrepreneurship; determining the mechanism of state support for small business in the context of basic theoretical approaches; substantiating conceptual bases of use of the synergetic approach in the research of the mechanism of the state support for the development of business and its economic levers. The use of morphological and comparative analysis allows to specify conceptual and categorical apparatus, to explore approaches to the definition of "entrepreneurship", "mechanism of state support". Based on the method of analysis and synthesis, it becomes possible to study the evolution of these categories, to draw conclusions about the main theoretical provisions of the mechanism of state support for small business. The application of a synergistic approach makes it possible to explore this mechanism as a self-organizing system and provide suggestions for determining the effectiveness of the interaction of the components of the mechanism and their impact on economic development.

## 2. The essence of small business and its role in economic development

Entrepreneurship and, in particular, small business, is a complex phenomenon that operates on the basis of the interaction of economic, legal, social, market and other public relations. However, the impact of small business on the state of socio-economic development of countries is different: in the EU countries, the share of small business in GDP is 52-70%, and the share in total employment population – 55-82%, while, according to World Bank research, these figures in Ukraine are 14.5-15.8% and 19.2-20.7%, respectively (The World Bank, 2020). According to S. Zahra, small business is a significant factor in socio-economic development, providing millions of jobs, offering a variety of goods and services, increasing national prosperity and competitiveness (Zahra, 1999). So, supporting the formation and development of the institution of small business at the expense of economic levers by public authorities is a priority of public policy in the context of reforms and compliance with the European integration course of economic development.

The initial stage of the study of the phenomenon of entrepreneurship characterizes it as an activity associated with risk and aimed at generating income. So, according to A. Smith, entrepreneurial activity enables a person to meet their needs through labor (Smith, 1962). Since the 19th century, as the development of entrepreneurial activity and the separation of functions of ownership and

management, the essence of entrepreneurship has been considered in the context of the organization of production. For example, the economist J.-B. Say considers entrepreneurship in the focus of 3 components: the economic concepts of “capital”, “land”, “labor” as key factors of production. In turn, the neoclassical theory (J. Clark, A. Marshall, L. Walras) identifies entrepreneurship as a specific management function, and the entrepreneur acts as a manager who combines the factors of production (Mochernyi, 2000). Starting from the middle of the 20th century, there is a prevailing approach in economics, according to which entrepreneurship is associated with innovation. J. Schumpeter sees the unique role of the entrepreneur in overcoming the inertia of the economic system and the desire of economic entities to act in accordance with sustainable practices (Schumpeter, 1982).

According to the Law of Ukraine “On Development and State Support of Small and Medium Business in Ukraine” (2012), small business entities in Ukraine are individuals and legal entities of any kind of organizational and legal form and form of ownership, in which the average number of employees for the reporting period does not exceed 50 people and the annual income from any activity does not exceed an amount equivalent to 10 million EUR at the average annual rate of the National Bank of Ukraine.

### **3. Defining the essence of the mechanism of state support for small business**

The system of state support for small businesses in modern realities does not fully reflect the state of economic relations, which requires a wide range of instruments of state support in the direction of decentralization. According to Z. Varnalii, state support for small business is a set (complex) of priority solutions that determine the main directions and forms of legal, economic, and organizational assistance for the development of small entrepreneurship taking into account the interests of the state and business entities (Varnalii, 2002). Most researchers adhere to the following classification of means of state regulation of support for small business:

- 1) direct state influence, i.e., through the system of state procurement and state contracts, establishment of norms and standards, legislative acts, targeted comprehensive development programs;
- 2) indirect influence, i.e., through government loans, grants, tax benefits, subsidies, prices, etc. (Melnyk, 2000).

The mechanism of state support and the use of economic instruments, namely debt financing with the use of bank loans, as well as forms of support aimed at maintaining employment, providing tax benefits, covering business costs, etc., has become relevant because of the pandemic challenges (Pichkurova, 2020).

The priority is to analyze the category of the “mechanism” in the context of state regulation of small business development. O. Komiakov considers the mechanism of state regulation as a set of organizational and economic methods and tools that allow to perform functions for continuous operation of the studied system (the state) to improve the functional condition of the economic environment (Komiakov, 2000). Instead, M. Koretskyi considers the meaning of the concept of the “mechanism of state regulation” as a system of tools, levers, methods, and incentives through which the country regulates economic processes, as well as ensures the implementation of socio-economic functions (Koretskyi, 2004). In turn, L. Koval considers the mechanism of state regulation of business as a single organism with internal and external links with other mechanisms (Koval, 2011). A. Butenko (Butenko, 2011) and L. Yavorska (Yavorska, 2013) emphasize the systemic and complex mechanism of state support for business.

Thus, the conducted research makes it possible to identify traditional and systemic approaches to determining the essence of the mechanism of state support for small business. Within the traditional approach, the mechanism of state support for small business is considered in the context of a set of public administration measures to support business. We consider it expedient to note that the disadvantage of this approach is the point impact on business, as well as insufficient involvement of public authorities in the implementation of the mechanism. The reviewed approach, as a rule, is realized through the system of normative regulation with the involvement of instruments of financial support.

The application of the systemic approach is based on a comprehensive study of the components of the mechanism and the relationships between them. The development of a state support mechanism in the context of a systemic approach allows for a comprehensive analysis of the system of state support but does not allow to determine the systemic effect, as it considers the mechanism as a sustainable system without taking into account aspects of improvement and change. On the other hand, the advantage of this approach is the consideration of state support for small business as an element of the higher-level system, namely the national economy, the effectiveness of which affects the functioning of small business entities at the regional level.

### **4. The synergistic approach in the study of the mechanism of state support for small business**

The application of a synergistic approach in the process of formation and application of the mechanism of state support of small business will allow to take

into account interdependence of economic processes and phenomena, to investigate the interaction of local authorities and small businesses under decentralization. This position is based on the theoretical and methodological principles of synergetics as a science that explores aspects of the emergence, interaction and evolutionary transformation of open self-organizing systems. For H. Haken, "... synergetics explores the combined action of many subsystems (mostly the same or several different species), which results in a macroscopic level of structure and corresponding functioning" (Haken, 1980). In this regard, the solution of the economic mechanism of state support of small business is associated with the feedback of the subject and the environment in the process of their interaction, and the mechanism of state support in decentralization is considered appropriate as a process of self-organization of small business and public authorities, which is carried out through their interaction with the meso- and macroenvironment.

As O. Mykhailovska notes, the synergistic approach is an approach in which a specific phenomenon or process is considered not in isolation, but in the context of the evolution of systems (Mykhailovska, 2011). The synthesis of systemic and synergistic approaches in the context of consideration of the economic mechanism of state support for small business allows to study its structure as a complex system of interconnected elements and to substantiate the principles and laws of functioning and development. Notably, state support is not only a mandatory function of the state for small business entities but a system of connections and tools to identify the most effective business representatives to address the strategic objectives of the national economy. This is possible within the framework of their integration to find optimal solutions, establish business cooperation and obtain a synergistic effect as the end result of the mechanism. The application of a synergetic approach also makes it possible to take into account the dynamics of the state support mechanism.

The synergy of the mechanism of state support for small business also involves the impact of economic levers and tools of the mechanism not only on the objects of management but also their operating environment. Consequently, the synergistic effect of the mechanism of state support for small business entities is the result of the interaction of its components, which can change the quality of the business environment and keep the economy on a certain trajectory of development by adapting to negative changes.

The functioning of the state support mechanism should be based on purpose, i.e., there must be some goals and specific priorities, which in the context of a synergistic approach should be reviewed in the light of economic and political external changes.

This avoids duplication of state support tools at different levels of public administration. On the other hand, the purposefulness of the mechanism should also take into account the balance of interests of the national economy, economic entities and public authorities on the basis of economic levers. Improving the mechanism of state support in the context of decentralization is possible on the basis of effective interaction between business entities and public authorities.

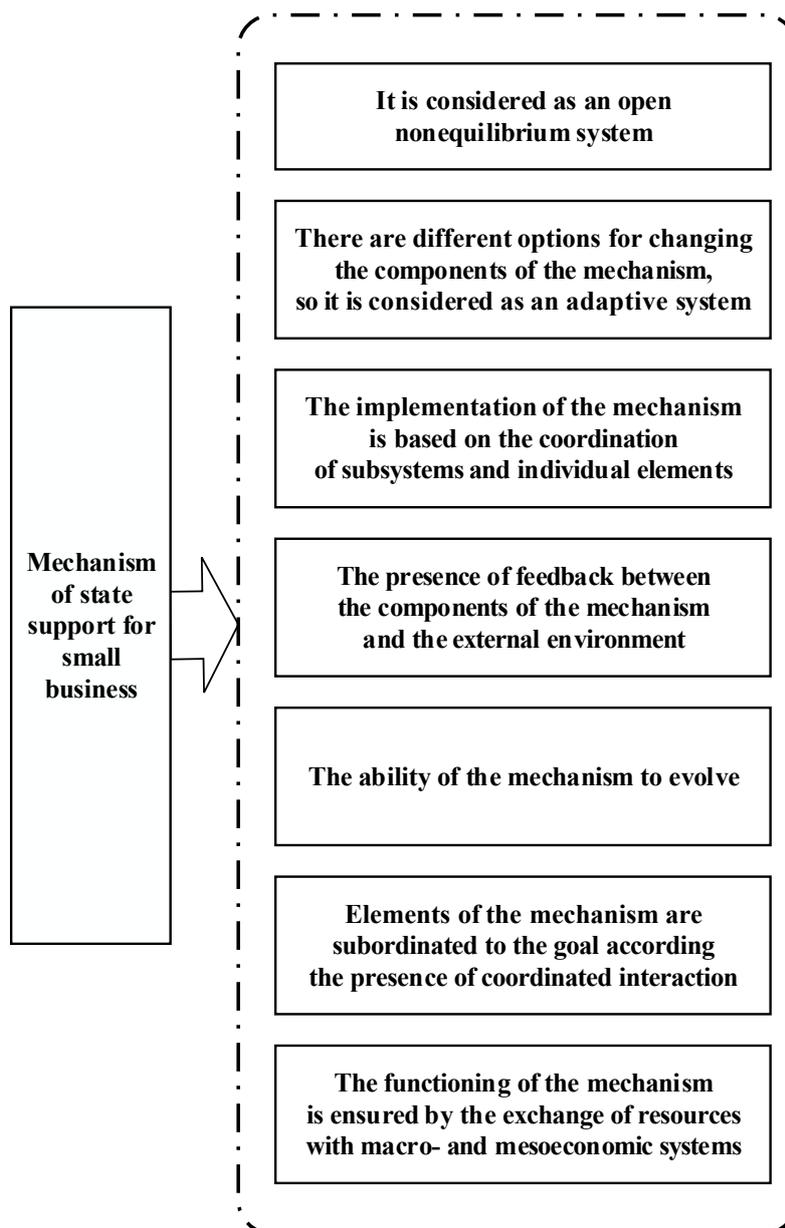
The application of a synergistic methodology in operating the mechanism of state support of small business entities will allow to combine the main tools and economic levers that are currently used in each region but are not always effective enough.

The study of the synergistic aspects of the functioning of the mechanism of state support for small business development brought us the opportunity to identify the following conceptual principles of its functioning (Figure 1).

The synergetic methodology explores the possibility of ensuring the development of small businesses by preventing threats and allows to take into account the alternative scenarios of small business development of a particular region or territory in a changing socio-economic environment. In the context of nonlinear dynamics as the basis of synergistic methodology, the mechanism of state support for small business development is a complex hierarchical system, the interaction of elements of which (public authorities, businesses, levers, goals, objectives, tools) is based on self-organization. The dynamism of the mechanism gradually leads to a nonequilibrium state, which is called the "bifurcation point" in synergetics. According to the development theory, at this very point, there are several options for the evolution or change of the studied mechanism. Choosing one of the options allows the mechanism of state support as a system to evolve and achieve a steady state. The risk of the mechanism functioning and the increased level of uncertainty of the operating environment are observed with the distance from the steady state and the approach to the next bifurcation point.

This allows us to conclude that the availability of alternatives or attractors throughout the implementation of the state support mechanism requires monitoring the changes in external and internal factors and the introduction of necessary adjustments to the developed mechanism. This shows the ability of the mechanism of state support for small business development to self-organization. It should also be borne in mind that in the process of formation and operation of the mechanism there may appear new characteristics and properties that must be taken into account when making corrective changes.

Thus, economic efficiency of the mechanism of state support for small business in the context of



**Figure 1. Synergistic principles of the mechanism of state support for small business**

*Source: author's development*

decentralization from the standpoint of a synergistic approach is provided by performing the following tasks:

- formation of a socio-economic environment that ensures the development of small business and individual business entities;
- financial provision of state support on the basis of decentralization of local budgets;
- availability of infrastructure services to business entities;
- expanding the powers of public authorities in the implementation of support for small business;
- ensuring cooperation between government and entrepreneurship, involvement of small businesses in the creation of the documents for development.

## 5. Conclusions

Thus, the application of the synergistic methodology in the study of the mechanism of state support for small business allows:

- to take into account the existence of connections and interactions between the components of the mechanism, as well as the integrity and ability to change;
- to study the patterns of self-organization, which in the future should become the basis for calculating the synergistic effect of the mechanism.

The implementation of the mechanism of state support for small business development requires the improvement of existing levers and the introduction of new economic methods and tools that in the

strategic perspective will contribute to the formation of a perfect system of business regulation in the context of decentralization reform. The functioning of the mechanism should be considered from the standpoint of dynamics and synergistic interaction between

public authorities and the business entities. The study of feedback, the process of choosing alternatives in the implementation of the mechanism will determine the possibilities and directions of its further self-organization.

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