



ASSESSMENT OF BUSINESS CLIMATE IN THE SERVICE SECTOR AND CRITERIA FOR SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

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Abstract: *The article examines the business climate in the service sector as a key factor in the development of small and medium enterprises. The main economic, institutional, and organizational conditions for doing business that affect the functioning of service sector enterprises are analyzed. Special attention is paid to the criteria for the development of small and medium enterprises, including indicators of financial stability, innovation activity, employment, and competitiveness. Based on the analysis conducted, the main problems and prospects for improving the business climate are identified, and directions for state and corporate support for small and medium business entities in the service sector are determined.*

Keywords: *business climate, service sector, small and medium enterprises, business development, entrepreneurial environment, competitiveness, state support, economic development*

World and domestic experience shows that entrepreneurship is one of the key elements in a market economy. The nature and scale of entrepreneurial activity affects the pace of economic growth, the structure and quality of gross national product, and solves the problem of employment.

The service sector is one of the key components of the modern economy, providing a significant share of gross domestic product and employment. In a market economy, small and medium-sized enterprises (SMEs) play a special role in the development of this sector, distinguished by their flexibility, adaptability, and ability

to respond quickly to changes in demand. Assessment of the business climate in the service sector and determination of SME development criteria are important for the formation of effective state and regional economic policy.

The business climate represents a set of economic, legal, institutional, and social conditions in which entrepreneurial activity is carried out. A favorable business climate contributes to investment growth, increased enterprise competitiveness, and expansion of the services market.

In the service sector, the business climate is particularly sensitive to such factors as the level of population income, effective demand, quality of regulation, availability of financial resources, and level of digitalization.

Assessment of the business climate is carried out on the basis of a system of quantitative and qualitative indicators, among which the following can be highlighted:

- level of administrative barriers and complexity of doing business;

- availability of credit and investment resources;
 - tax burden and stability of the tax system;
 - infrastructure development (transport, information, service);
 - level of competition in the services market;
 - degree of entrepreneurs' trust in government institutions;
- implementation of digital technologies and online services.

Analysis of these indicators allows identifying problem areas and determining directions for improving conditions for entrepreneurial activity.

In scientific literature, there is no single definition of the essence of entrepreneurship. Economists, sociologists, philosophers, lawyers, and other representatives of science offer various interpretations of the meaning of this term, in accordance with the stated research goal and accumulated knowledge. Within the framework of our research, entrepreneurship will be considered as a mechanism for implementing risky production and economic activities, based on the manifestation

of personal initiative and aimed at systematically obtaining profit from the production and sale of goods/services/work.

Today, changing economic conditions modify the main features of entrepreneurship and generate a new assessment of the role and place of business in the socio-economic development of society, which is especially relevant for enterprises in the service sector.

Small business accounts for one-sixth of all production capacity in the country, which has resulted from automation and mechanization of existing production, introduction of new production technologies, and expansion of product range. A quarter of investment flows directed toward replacing worn-out equipment and machinery was invested in small enterprises. In addition, 6% of new jobs were created at enterprises in this economic sector.

The role of small and medium enterprises in creating new jobs, mainly in the service sector, has been recognized. These enterprises provided employment growth in the last decades of the twentieth century.

They ensure social and political stability, are capable of mitigating the consequences of structural changes, adapt more quickly to market needs, make a significant contribution to regional development, and design and use technical and organizational innovations.

Currently, at the present stage of economic development, the role of small and medium enterprises (SMEs) is significantly increasing. This is explained by such features and functions of SMEs as: functioning in the local market; faster adaptability to local economic conditions, turnover of fixed capital and resources, as well as a smaller amount of necessary initial investment compared to large entrepreneurship; high speed of response to market conditions and consumer preferences, ability to introduce changes in the production process and the product itself in a short time depending on internal and external factors; direct connection with the consumer; narrow specialization in certain segments of the goods and

services market; ensuring mobility and ability to quickly adapt to technological deviations.

Small and medium entrepreneurship makes a huge contribution to the development of the country's sustainable competitiveness, in conditions of constantly intensifying competition with foreign companies, through the ability to quickly and adequately respond to changes in consumer demand and preferences, forming the necessary flexibility of the national economy.

One of the significant factors in economic development is the contribution of small and medium business to the country's employment. According to statistics service data, in 2019 the average share of workers employed in small and medium enterprises was 40%, and taking into account external part-timers 75% (in the EU this indicator ranges from 55% to 81%), thus providing a fairly large share of jobs. Approximately 78.4% of workers are employed in small enterprises in manufacturing, trade, real estate operations, and agriculture.

Currently, medium-sized enterprises predominate in more capital-intensive sectors such as insurance, banking, and transport. Consequently, we can conclude the following direction: SMEs dominate in manufacturing and trade, while large entrepreneurship takes on activities requiring large capital investments.

Currently, the criteria for small enterprise development have been changed for the better since 2019: small business status is now assigned automatically by tax authorities based on a declaration.

According to statistics, the maximum income for persons with a simplified taxation system will be 120 million sum. That is, all "simplified taxpayers" are automatically equated to small enterprises (if the enterprise size is up to 15 people - to microenterprises).

The dynamic functioning of small and medium, including innovative, entrepreneurship for many developed countries is the foundation on which economic and prosperous development is based.

Entrepreneurial activity is carried out by the listed economic entities with the aim of obtaining profit, which serves as an integral indicator of the effectiveness of these enterprises and their activities. Classification by quantitative criteria is convenient and simple, indicators necessary for researchers, such as turnover and number of employees, are easily accessible, but it does not contain a theoretical basis for determining the choice of certain criteria, as well as measurement methods.

Taking into account the transition to a market economy, in conditions where domestic entrepreneurship has to compete with high-quality imported products in both foreign and domestic markets, the main economic task becomes the development of conditions for ensuring competitiveness. Technological re-equipment and optimization of the production process become the main, most significant factors in ensuring competitiveness, the role of which is steadily growing every day. The constantly growing level of the economy forces us to think about the role of innovations on a broad scale and shows the necessity of their use. Consequently, innovative economic development is the only alternative.

The services market is a sphere of exchange of services that are the result of enterprise work. The historical prerequisite for the emergence of the services market was the development of commodity-money relations. The services market came as a supplement to the already existing commodity market, while for a long time these two types of markets were not differentiated.

Export and import of services is carried out through the opening of branches of service provider enterprises in other countries. The service sector occupies a dominant position in the industrially developed countries of North America, Europe, Japan, and South Korea, mainly in the areas of financial, telecommunications, information and medical services, and in education. These countries account for more than 50% of world trade in services. The share of developing countries in world trade in services is significantly smaller, and they offer mainly transport, tourism, and financial (offshore) services.

The service sector is heterogeneous: it includes services in material (repair services, etc.) and intangible (tourism, education, activities in financial institutions, etc.) production. According to the method of service provision, services are divided into 2 groups, in one people dominate, in the other machines (Figure 1).

Services in which the importance of technology predominates - air transportation, telecommunications services, ATMs - do not have problems related to quality and marketing. Thus, gaming machines provide entertainment services, and here there is no participation of a person - the service provider, except for maintenance. In those service sectors where human presence is extremely necessary - such as providing consultations, conducting the learning process, healthcare - the person is a significant link in service quality.

At the current time, the importance of the service sector has increased due to the creation of certain socio-economic conditions that are formed in connection with the specifics of the mechanism for satisfying various needs of modern society. Among other things, the formation of the service sector of the economy is also connected with the emergence of economic sectors whose functional activity is conducted in the sphere of production and sale of services.

This, in turn, occurs due to the social division of labor. Needs for services and renewal of their nomenclature increase and expand in direct proportion to increasing needs in general, shifts in social development priorities from satisfying production interests to satisfying end-user interests.

Obviously, the nature of needs for services has now transformed, and economic and social interests have begun to coincide, which is the basis for the emergence of needs. In this case, we are talking about the fact that the institutional boundaries of the service sector have significantly expanded in connection with the adoption of a classifier of types of economic activity, products, and services.

Now those types of activities that were not previously such have come to be called services. For example, the concepts of "retail services," "services in the field of education," "medical services," "public services," etc. In many ways, this was associated with the commercialization of the social sphere, its transition to the principles of paid services for their end consumer.

In connection with the above, it is necessary to create new and effective mechanisms to support small and medium business, which will be able to form the basis for developing the theory and methodology of infrastructural support for small business; develop strategies for the development of small and medium business, the practical implementation of which will allow creating a mechanism for economic development, which, in turn, will make it possible to form sustainable development of the service sector at different levels of its provision.

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