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## **SMALL AND MEDIUM BUSINESS: DEFINITION, CRITERIA, CATEGORIES OF SUBJECTS, PLACE AND ROLE IN MARKET ECONOMY**

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**Abstract:** in article reveals definitions of small and medium businesses, based on quantitative indicators of small and medium entrepreneurships, clarifies characteristics of small and medium businesses. In work analyzes dynamic of main indicators of small and medium entrepreneurships for period 2010-2015, indicating instability of small and medium-sized enterprises, reveals reasons of this. Author carried out idea, that historically in Russia, in first place, supported big business, although it is small and medium businesses make significant contribution into economic and social development of economically developed countries.

**Keywords:** medium business, microenterprise, principle of independence, small business, strength of workers.

It is possible to classify forms and types of business on different grounds. One of these grounds are quantitative indicators that characterize the scale of the business (in terms of the number of employees, the level of income received, etc.), in connection with which large, medium and small types of businesses are distinguished.

Revealing the content of the definitions of "small business" and "medium business", it is necessary, first of all, to consider their relationship with related concepts. Thus, in scientific, educational literature, texts of regulatory legal acts, the concepts of "small business" and "small entrepreneurship" (and, accordingly, "medium business" and "medium entrepreneurship") are often used. Some authors believe that there are differences between these concepts. So, M.V. Kochanovsky defines small business as an economic activity in small enterprises that brings profit, and small business, in turn, considers it as a small business, the main subject of which is the entrepreneur [12]. It seems that with this approach, the differences between the analyzed concepts are not visible. At the same time, an analysis of the literature and texts of normative legal acts related to the topic of the study showed that the fundamental differences between these concepts are difficult to distinguish, therefore it would be correct to consider them as synonyms. In particular, in the "Modern Economic Dictionary" it is very clearly indicated: "Small business is a business carried out in small forms, based on the entrepreneurial activity of private entrepreneurs, small firms, small enterprises" [17, p.182].

The term "small business" (similarly to "medium business") is borrowed from foreign practice. At the same time, as a rule, it is not used in Russian legislation, but



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the concept of "small entrepreneurship" (respectively, "medium-sized entrepreneurship") is used, although there is no clear legal definition of the latter as such.<sup>1</sup>

We believe that there are significant differences between the concepts of "small business" and "small entrepreneurship" (respectively, "medium business" and "medium entrepreneurship") they are missing, so in this study they will be used as synonymous.

A number of authors formulate different approaches to the definition of small and medium-sized businesses. In particular, definitions based on the consideration of small and medium-sized enterprises as a sector of the economy occupying a certain niche in it are highlighted [19]. This approach is very heuristic for revealing the functions of small and medium-sized businesses in the country's economy.

<sup>1</sup> For the first time the term "small business" was officially used in the Resolution of the Council of Ministers of the USSR of

08.08.1990 No. 790 "On measures for the creation and development of small enterprises", and then in the Resolution of the Council of Ministers of the RSFSR of

18.07.1991 No. 406 "On measures to support and develop small enterprises in the RSFSR" [7, pp.4-19].

The definition of small business as an economic system is devoted to the allocation of horizontal and vertical links in the structure and mechanisms of functioning of small business [25]. It seems that the listed approaches to the definition of the concepts of small and medium-sized enterprises depend on the objectives of the study. At the same time, it should be emphasized that in many respects the criteria for the allocation of small and medium-sized businesses depend on how these phenomena are considered: as a certain socio-economic phenomenon, an object of statistical accounting, or as an object of influence from the state (for example, an object of state support, taxation, etc.). However, we proceed from the fact that the essential features of the phenomena of small and medium-sized entrepreneurship are primarily related to the quantitative assessment of the scale of entrepreneurship. At the same time, the question arises about the justification of such a quantitative assessment, and for these purposes statistical data, monitoring studies, and foreign experience are used. At the same time, it is necessary to bear in mind the conditionality of such a quantitative division.

The qualitative criteria put forward by some authors to distinguish small and medium-sized businesses, on the one hand, from large businesses, on the other hand, raise many questions. Thus, it is proposed to include the following among the qualitative criteria of small and medium-sized businesses: the unity of ownership and direct management of the enterprise; the visibility and transparency of a small enterprise, the scale of which allows the owner to be aware of almost everything that is happening in it; the personalized nature of the entrepreneur's relations with partners - suppliers of resources and buyers of finished products, as well as the informal,



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personal nature of relations with each employee of the enterprise, etc. [6] The listed signs are hardly specific for small and medium-sized businesses: most of them, rather, relate to small groups as such (for example, personalized the nature of the relationship), the other is not distinctive for all manifestations of small and medium-sized businesses. So, the owner of a small, and even more so a medium-sized enterprise can manage the latter with the help of hired managers and at the same time his legal status as a small or medium-sized enterprise will not change. The situation is similar with the personification of relationships in a small or medium-sized enterprise. The absence of such relations may not affect the legal definition of this enterprise as small or medium.

The definition of small and medium-sized entrepreneurship in Russian legislation is presented through the categories of its subjects, which, in our opinion, is not entirely correct, since it identifies the categories of a business entity and entrepreneurial activity itself as a phenomenon of public life [8]. Thus, in accordance with the Law "On the Development of Small and Medium-sized Enterprises in the Russian Federation" (hereinafter - Law No. 209) [3], among the essential features of entities officially classified as small and medium-sized enterprises, the following are highlighted:

- conducting business activity<sup>2</sup> (at the same time, the legal status of economic entities can be both a legal entity and an individual entrepreneur, and according to the organizational and legal form, these can be economic societies, economic partnerships, production cooperatives, agricultural consumer cooperatives, peasant/farmer/farms and individual entrepreneurs);
- classification as small (including microenterprises) and medium-sized enterprises.

As can be seen from the above, both commercial and non-profit organizations (for example, agricultural consumer cooperatives) can be attributed to small and medium-sized enterprises, although the attribution of non-profit organizations to small and medium-sized businesses causes discussions. Thus, some authors believe that this contradicts the essence of non-profit organizations insofar as they are endowed with the function of entrepreneurial activity, the purpose of which is to extract profit [9, p.21], other authors, on the contrary, see the need for state support of such organizations and do not exclude the possibility of attributing other types of non-profit organizations (for example, engaged in innovative activity) to small and medium-sized businesses [20].

It should also be noted that among commercial organizations, state and municipal unitary enterprises are not classified as small and medium-sized businesses by the legislator (although in a narrow sense, according to the Civil Code of the Russian Federation

Thus, small and medium-sized businesses are small and medium-sized enterprises based on the activities of small and medium-sized enterprises, including



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the activities of individual entrepreneurs. In turn, small and medium-sized enterprises are included in the concept of small and medium-sized enterprises, which refers to business entities in various organizational and legal forms that meet the criteria provided by the legislator for their classification as small and medium-sized enterprises.

At the same time, there are additional conditions for different organizational and legal forms, according to which they can be attributed to small and medium-sized enterprises. In particular, it is introduced as follows

2 The term "business entity" is not disclosed in the analyzed Law, and its legal definition is found in the Federal Law of the Russian Federation "On Protection of Competition", which establishes that an economic entity in its organizational and legal form can be a commthe so-called independence criterion for small and medium-sized enterprises, the purpose of which is to ensure their independence, first of all, from large business.

Thus, for business companies, business partnerships, at least one of the following requirements regarding the structure of the authorized capital must be met: for example, restrictions have been introduced on the total share of participation of the Russian Federation, as well as its subjects, municipalities, public and religious organizations (associations), etc. in the authorized capital of limited liability companies, namely - it should not exceed 25%; there are restrictions on the total share of participation in such capital of foreign legal entities (and/or/ legal entities that are not small and medium-sized businesses) - 49% (previously - 25%); another part of the requirements is that shares traded on the organized securities market should be classified as shares of high-tech (innovative) sectors of the economy, etc. As can be seen, the legislator restricts the participation of public legal entities, foreign legal entities, public and religious organizations, foundations in the authorized capital of enterprises belonging to small and medium-sized businesses.

At the same time, a number of restrictions (for example, in the total share of participation of foreign legal entities) are lifted in relation to enterprises related to innovation, practical application (implementation) of the results of intellectual activity, the exclusive rights to the results of which belong to the founders (participants) of this enterprise (budgetary, autonomous scientific or educational institutions of higher education), as well as in relation to legal entities that have received the status of a participant in the Skolkovo project.

Meanwhile, the attitude to the principle of independence in the scientific literature is ambiguous. In particular, some authors generally propose to completely prohibit the formation of the authorized capital of a small enterprise by the property of state and municipal organizations [5, p.34]. It seems that the restrictions introduced by the latest amendments to the current legislation on small and medium-sized enterprises most accurately reflect the situation in the analyzed area.



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Currently, the parameters for small and medium-sized enterprises, as well as for individual entrepreneurs, are set uniformly, and differentiation by type of activity is not used. The limit values of the book value of assets are not set.

The European Commission identifies the following criteria for classifying an enterprise as a small and medium-sized business:

- the number of employees at the enterprise;
- ownership structure (economic independence);
- financial criteria (annual turnover, book value of assets).

Thus, in the Recommendations of the European Commission on

3 We are talking about legal entities whose founders (participants) are legal entities included in the list of legal entities providing state support for innovation activities in the forms established by the Federal Law of the Russian Federation of 23.08.1996 No. 127-FZ "On Science and State Scientific and Technical Policy" approved by the Decree of the Government of the Russian Federation dated 08.12.2014 No. 1335.

According to the definition of micro, small and medium-sized entrepreneurs adopted on 05/06/2003, small businesses include enterprises that employ from 11 to 50 people, and annual income does not exceed €10 million [18]. Microenterprises with up to 10 employees and an annual income of no more than €2 million are also singled out among such enterprises. Accordingly, medium-sized enterprises are those where the number of employees is 51-250 people, and the annual turnover is up to €50 million. The Russian legislator also identifies three categories of small and medium-sized businesses: microenterprises (a type of small enterprise), small and medium-sized enterprises.

Thus, there are no uniform criteria for classifying small and medium-sized businesses in foreign countries. Nevertheless, in accordance with the Charter of the International Organization for Economic Cooperation and Development, the following criteria are used: with the number of employees up to 19 people - very small, from 20 to 99 people - small, from 100 to 499 people - medium and over 500 people - large [15].

The allocation of quantitative criteria for classifying enterprises as small and medium-sized also causes discussions within the expert community. For example, some experts point out that innovative activity can lead to a sharp increase in labor productivity, an increase in the volume of work performed, respectively, to an increase in profits exceeding the established criteria. As a result, an enterprise may lose the right to classify it as a small and medium-sized enterprise and, as a result, lose the right to state support. Therefore, it is proposed that the owner of the enterprise can, at will, fulfill one of the quantitative indicators (either concerning the number of employees or the level of income) [14].

It seems that the income indicators currently set by the legislator are significantly higher than the actual ones, and this removes the problem outlined



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above. In addition, the assignment of an enterprise to a microenterprise, small or medium-sized enterprises is determined by the highest value of one of the indicators (accordingly, a change in these indicators for three consecutive years in the direction of increase or decrease may change the status of the enterprise).

Quantitative indicators on the number of employees generally correspond to the actual number of employees of small and medium-sized enterprises. Thus, according to a continuous survey conducted in 2010, the average number of microenterprises was 1-2 people, at other small enterprises - 28-29 people [10, vol.3, p.15]. The average actual indicators of the number of employees turn out to be significantly lower than the legislator's established indicators, which generally corresponds to the European experience.

At the same time, the average number of employees of small and medium-sized enterprises includes persons working under civil law contracts. Some authors propose to exclude them from the average composition [14]. It is difficult to agree with this position, if only because the employer pays insurance premiums for such employees, and their income is included in the company's payroll.

However, the problem currently is that by making changes to Law No. 209, namely, increasing the established income level for classifying an enterprise as a microenterprise to 120 million rubles,

these changes have not yet been reflected in the Tax Code of the Russian Federation: in particular, the threshold from which the application of the simplified taxation system is allowed has not been changed (the maximum amount of income for the 2015 tax /reporting period should not exceed 68,820 million rubles). If earlier there could be both microenterprises and small enterprises among those who used the simplified taxation system, now there are only microenterprises. At the same time, if more than 15 people work at such an enterprise, then it will already belong to a small enterprise.

It is difficult to agree with the authors who are trying to present small and medium-sized enterprises as an independent organizational and legal form of a legal entity [4, p.37], since there is no need to identify any special organizational and legal forms (other than commercial or non-profit organizations) that reveal the essence of these enterprises. According to the results of continuous federal statistical monitoring of the activities of small and medium-sized businesses in 2010 [10, vol.2, p.20], most small businesses were created in the organizational and legal form of limited liability companies.

It should be noted that the problem of identifying criteria for classifying an enterprise as a small and medium-sized enterprise has not only theoretical, but, first of all, purely practical significance: state support, taxation, and lending to relevant entities depend on it. For example, many Russian banks have developed original criteria for small and medium-sized businesses, namely: the size of the company's



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revenue is taken as a basis (according to this criterion, a small business has a turnover of 60 to 150 million rubles, microenterprises - up to 60 million rubles) [11].

As for the place and role of small and medium-sized enterprises in the market economy, they are conditioned by a number of functions of small and medium-sized enterprises, both economic and other (social, political) nature [26].

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