

Review Paper

The Impact of Small and Medium-Sized Enterprises on the Level of Employment

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ABSTRACT

For any country, an important component of its national well-being is ensuring the working capacity of the population. Since the problem of unemployment is one of the most common in Azerbaijan, it is relevant to consider it in the country. The experience of developed countries shows that small and medium-sized enterprises play an important role in providing employment. Therefore, it is relevant to consider the current state of this type of business in the country and identify the degree of its influence on the level of employment. The main methods that were used during the study were analysis, induction, modelling, forecasting. Thus, it was shown that there is a direct interdependence between the state of small and medium-sized enterprises and the level of employment, which indicates the need for the development of this type of business to solve problems related to the labour market. In addition, some difficulties were presented that hinder the qualitative development of this type of business. Among them are problems in legislation, difficulties with financing, institutional imperfection. In addition, the authors propose some methods of solving them, in particular, the introduction of changes in monetary policy, ensuring state financing of small and medium-sized enterprises, changing legislation. The study makes a certain contribution to the development of the theory of economic analysis (highlighting the impact of small and medium-sized businesses on employment in Azerbaijan).

HIGHLIGHTS

- The article aims to analyze the current state of small and medium-sized enterprises (SMEs) in Azerbaijan, examine their influence on employment levels, identify challenges hindering their development, and propose solutions, highlighting the importance of SMEs for employment and contributing to the theory of economic analysis.

Keywords: Labour Market, Macroeconomics, State Management, Type of Business, Working Capacity

In the modern world, one of the main goals of most countries is to increase the employment of the able-bodied population and improve their standard of living in general (Hult *et al.* 2020; Lohmann *et al.* 2020). A new solution was found in highly developed countries to achieve this goal, namely the creation of jobs in small and medium-sized enterprises (SMEs) (Albalushi and Naqshbandi, 2022; AL-Tamimi and Jaradat, 2019). Therefore, the analysis of the impact of SME development on

the level of employment in different countries is currently quite relevant.

As part of this work, a study was conducted for Azerbaijan. This is due to the fact that in this country one of the main socio-economic problems

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is the provision of employment for the able-bodied population. However, there are still substantial difficulties associated with the development of small and medium-sized enterprises in the country, which is due to various reasons, especially the inefficient development of institutions and some problems within the legislative framework (Vagif, 2021). This creates problems in the context of the labour market and the functioning of the economy in general (Batrancea *et al.* 2022).

The general role of small and medium-sized enterprises in the development of the country was also considered by J.M. Pedraza (2021). The researcher noted that SMEs are vital forces for job creation, economic growth, and poverty reduction. Thus, J.M. Pedraza (2021) concludes that regular budget support for SMEs is important for ensuring the sustainable development of the economy of the country. Based on empirical studies in the context of Vietnamese companies, the effectiveness and role of small and medium-sized enterprises were confirmed by T.V. Pham *et al.* (2021). Their empirical results showed how the interaction between the activities of SMEs and the overall indicators of economic development occurs. L.J. Rotar *et al.* (2019) identified a clear correlation between the unemployment rate in small and medium-sized enterprises and the overall unemployment rate, is valuable. J.H. Vagif (2021) examined the development of small and medium-sized enterprises in Azerbaijan, paying special attention to their role in the modern development of the country. T.G. Aliyev and S.T. Alieva (2018) examined the labour market in the Republic of Azerbaijan as part of their study.

Thus, the objectives of this study were to assess the development of SMEs in Azerbaijan and draw conclusions about their impact on the level of employment. This will allow giving some advice on the formation of a better policy in these areas, which will increase the overall welfare of the state and the standard of living of the local population.

MATERIALS AND METHODS

The authors needed to use a substantial number of different sources to conduct the study. Among them, some statistical resources can be noted, in particular, data from the official website of the World Bank Unemployment Rate (2022) in Azerbaijan. Sources related to the legislative

framework of the country were also important for the study. In addition, data provided by some organisations in their reports was used. Among these, the report from the Centre for Economic and Social Development (Bayramov *et al.* 2017) can be mentioned, which conducted a comparative analysis of the development of SMEs in Azerbaijan and considered the features of their development. A report from the Organisation for Economic Cooperation and Development (Schreyer, 1996) on the interdependence between unemployment and small and medium-sized enterprises in the member countries of the organisation is also notable.

The main approach that was used was systematic, the reason for which is the distribution of the impact of small and medium-sized enterprises on employment on separate processes that interact with each other and form a single system of influence. In turn, one of the main methods in conducting the study was analysis. With its help, the authors evaluated various kinds of information about the current state of small and medium-sized enterprises and the labour market. In turn, the historical method allowed considering the state of the country in the context of the state of SMEs in the past and comparing it with current realities. During the study, the authors also used modelling, which allowed for assessing the relationship between SMEs, the labour market, and unemployment. A forecasting method was used to draw conclusions about the future trends related to employment. Induction, in turn, allowed generalising a certain set of disparate data on SMEs and drawing conclusions based on them about the real state of these enterprises. Deduction also allowed forming certain recommendations on improving the situation in the context of small and medium-sized businesses and unemployment based on the general state of these variables in the country. The authors also used some of the simplest statistical methods to form appropriate conclusions during their work.

RESULTS

After the collapse of the Union of Soviet Socialist Republics (USSR) and the independence of the Republic of Azerbaijan, the country chose a market path of development. Thus, along with the recognition of private property, the necessary conditions for the development of entrepreneurship

were created (Bayramov *et al.* 2017). The adoption and implementation of the Law of the Republic of Azerbaijan “On Entrepreneurial Activity” (1992), Law of the Republic of Azerbaijan “On State Assistance to Small Business” (1999), Law of the Republic of Azerbaijan “On Privatisation of State Property” (2000), Decree of the President of the Republic of Azerbaijan “On Approval of the II State programme for the Privatisation of State Property in the Republic of Azerbaijan” (2000), Decree of the President of the Republic of Azerbaijan on approval of the state programme for the development of small and medium-sized businesses in the Republic of Azerbaijan (2002-2005) (2002) played an important role in this process. The adoption and implementation of the Decree

of the President of the Republic of Azerbaijan on the approval of strategic roadmaps for the national economy and the main sectors of the economy (2016) and the establishment of a public legal entity “Entrepreneurship Development Fund of the Republic of Azerbaijan” in 2018 also had a positive impact on the development of SMEs in the country. Due to Decree of the Cabinet of Ministers of the Republic of Azerbaijan No. 556. On approval of the “Criteria for the division of micro, small, medium and large businesses” (2018), all business entities have been divided into micro, small, medium, and large businesses. This division is presented in more detail in Table 1.

Table 2 shows the dynamics of small business development in Azerbaijan in 2005-2018.

Table 1: Criteria for the distribution of enterprises by the criterion of their size

The size of the business entity	Average number of employees, people	Annual income (ai) (thousand manats)
Microenterprise	From 1 to 10	$ai \leq 200$
Small business	From 11 to 50	$200 < ai \leq 3000$
Medium-sized enterprise	From 51 to 250	$3000 < ai \leq 30000$
Large enterprise	From 251 and above	$30000 < ai$

Table 2: Dynamics of small business development in Azerbaijan

Years	The number of active business entities in the country, units	Among them, small business entities			
		Quantity, units	Share in the total number of business entities, %	The share of products (works and services) produced in the private sector, %	Share in GDP, %
2005	12778	11982	93.8	8.5	5.3
2006	13095	12232	93.4	5.6	3.8
2007	14740	13577	92.1	6.1	3.9
2008	14852	13678	92.1	5	3.4
2009	15431	14250	92.3	6	3.5
2010	15623	14532	93	16.9	4.2
2011	15086	14187	94	16.2	3.8
2012	14741	13658	92.6	7.6	5.7
2013	15654	14461	92.4	9.4	4.4
2014	15616	14398	92.2	8.5	4.3
2015	19082	17847	93.5	2.7	1.2
2016	18112	16835	92.9	1.3	0.7
2017	20951	19535	93.2	1.5	0.8
2018	24454	22689	92.8	1.9	1

Source: Compiled by the authors based on SSC (2023).

Table 3 shows the impact of small businesses on the level of employment in Azerbaijan in 2005-2018.

Table 4 shows the impact of micro, small, and medium-sized enterprises in Azerbaijan on the employment rate in 2019-2020.

Based on the analysis, several conclusions can be drawn. Firstly, there is a direct relationship between the number of operating micro-, small, and medium-sized business structures and the number of employees employed in them (Schreyer, 1996).

Secondly, the COVID-19 pandemic has greatly affected SMEs in Azerbaijan, which is why the pace of development of these structures has noticeably slowed down, which negatively affected the level of employment. Thirdly, the state of development of micro, small, and medium-sized enterprises in the republic is unsatisfactory compared to the existing potential, which causes a small role in ensuring the working capacity of the population in the country. The main factors affecting the development of SMEs in Azerbaijan are: lack of resources to conduct stable

Table 3: The impact of small business on the level of employment

Year	Number of operating small enterprises, units	Number of employees in small enterprises, people	Average number of employees in one small enterprise, people	The share of small businesses in the total number of people employed in the country, %
2005	11982	73447	6	0.55
2006	12232	90134	7	0.46
2007	13577	99335	7	0.42
2008	13678	99838	7	0.42
2009	14250	100073	7	0.43
2010	14532	93205	6	0.46
2011	14187	90182	6	0.49
2012	13658	95503	7	0.47
2013	14461	108976	8	0.41
2014	14398	115035	8	0.4
2015	17847	87626	5	0.53
2016	16835	100957	6	0.47
2017	19535	101898	5	0.47
2018	22689	111066	5	0.44

Source: Compiled by the authors based on SSC (2023).

Table 4: The impact of micro, small, and medium-sized enterprises on the level of employment

Indicators	Year	
	2019	2020
Micro business		
Number of subjects, units	262622	307717
Number of employees, thousand people	40.2	40.9
Small business		
Number of subjects, units	5956	5943
Number of employees, thousand people	85.1	92.1
Medium-sized business		
Number of subjects, units	2726	2710
Number of employees, thousand people	206.9	215.7
The total number of employees of micro, small, and medium-sized business structures, thousand people	332.2	348.7
The share of micro, small, and medium-sized enterprises in the total number of employed in the country, %	14.6	14

Source: Compiled by the authors based on SSC (2023).

activities; often – the inability to obtain financing even from regional banks; difficulties with the sale of products; high level of monopolisation in the country and imperfect competition; bureaucratic obstacles to business development associated with unjustified interference in their activities by state bodies, especially those of local execution.

The authorities of Azerbaijan need to find a new approach to combat monopolisation, which has an exceptionally negative impact on micro, small, and medium-sized enterprises in most industries (Shang *et al.* 2022). Another component that is worth paying attention to is the financial and credit policy. According to the authors, it is worth starting with reducing the Central Bank's discount rate to 5%, which will create favourable conditions for the subsequent development of small and medium-sized businesses, since the existing rate does not allow businesses to borrow and use funds effectively (Udoh *et al.* 2018). It is also important to form incentive measures for the development of SMEs, especially in rural regions (Manzoor *et al.* 2021). The organisation of control to comply with the legislation will also help to prevent all kinds of unfair practices that can be applied by entrepreneurs to workers (Aliyev and Aliyeva, 2018). The implementation of the proposed measures can help solve many problems related to unemployment in Azerbaijan.

DISCUSSION

The relationship between small and medium-sized enterprises and the unemployment rate was mentioned by R.T. Naveed *et al.* (2022). Researchers conclude that SMEs make a substantial contribution to providing the state with jobs: they call such companies “an important engine of financial expansion and socio-economic development.” K. Law and H. Entebang (2014) assessed the interaction between SMEs and unemployment in a different way. The researchers considered small and medium-sized businesses not as an opportunity to create jobs, but on the contrary – as a reason for the emergence of SMEs. Another limitation, in this case, is a certain limitation of people to engage in any kind of business, which is due to the fact that entrepreneurship is a separate skill that not all economic entities possess. This once again confirms the fact that small and medium-sized businesses

should be encouraged by the state in order for them to function truly effectively.

As an alternative to the development of SMEs to solve difficulties in the labour market, Z.N. Zainea *et al.* (2020) propose the concept of social entrepreneurship. Researchers, based on data from the countries of the European Union, show that the transition of companies to the principles of functioning related to social responsibility can improve the state of the labour market. Therefore, the researchers suggest that the state authorities pay more attention to the development of this component and encourage enterprises to switch to similar principles.

N.V. Song *et al.* (2022) describe the role of financial institutions to provide an enabling environment for SMEs. Based on data from Vietnam, researchers write that due to the asymmetry of information that arises in connection with the inefficient functioning of institutions, small and medium-sized enterprises may not fully adequately respond to the challenges of the external environment, which reduces the effectiveness of their activities. Therewith, other market players, for example, large companies that have more complete information about what is happening, can use this to extract their own benefits.

As noted by Z.F. Mamedov and V.F. Namazov (2021) in their study on the development of the financial market in Azerbaijan, currently, such financial institutions in the country are at the initial stage of their development. Thus, the country needs a systematic financial market development programme that considers new challenges, priorities, and lessons learned.

Q. Xu and S. Abbasov (2019) write that small and medium-sized businesses have faced a sharp increase in problems in the context of interruptions in supply chains, a decrease in demand, and a shortage of raw materials due to the pandemic and its impact on Azerbaijan. Such conclusions of the researchers were able to obtain through surveys of a sufficiently large number of enterprises, which confirmed the presence of a negative effect. It is interesting to note that only 37.69% of SMEs in the study were fully satisfied with the government policies and measures taken to mitigate the impact of the COVID-19 pandemic. This indicates the existing inefficiency of managing internal processes in the country.

The fact that the measures were not effective enough is also mentioned by K. Aliyev (2021). The author indicates that the Azerbaijani population's trust in the state has decreased after the events related to the COVID-19 pandemic and the authorities' insufficient response to the challenges that have arisen. In addition, the researcher points to the impact of the crisis on the labour market of the country. Indeed, a large number of the local population lost their jobs (which is also confirmed by the data of The World Bank Unemployment Rate (2022)) and were forced to look for opportunities to earn money in the shadow sector or try to survive on allowance.

The development of small and medium-sized enterprises is an effective policy to improve the situation in the labour market in general and in particular, in Azerbaijan. Although the situation in the country is not favourable enough for them, the state has enough levers to change it for the better. However, only a comprehensive impact on all components of the economic, legal, and social environment will be able to have such a positive effect. Therefore, only the formation of a quality policy in all areas will allow to achieve a better level of well-being in Azerbaijan.

CONCLUSION

The conducted study shows that in modern conditions, the economic development of countries, the increase in the level of employment of the able-bodied population is largely determined by the level of development of small and medium-sized businesses. The Azerbaijani reality is different: large companies prevail in the republic, which is why they remain the main source of jobs for the local population. In addition, the current pace of SME development in the country is ambiguous: in some periods, small and medium-sized enterprises strengthen their positions, while in others they decrease. They are briefly mentioned in the framework of the study: insufficient resources, including financial ones, for small and medium-sized enterprises to operate; imperfect competition and substantial monopolisation of many industries; bureaucratic difficulties. Nevertheless, the authors offer some solutions that can help eliminate these problems. They are related both to a change in monetary policy, associated with a reduction in lending rates, and direct assistance provided to SMEs.

In addition, it will be useful to change some components of legislation related to monopoly legislation and simplification of the principles of functioning of small and medium-sized businesses. The role of institutional development is also notable: the authorities should choose the path to the gradual democratisation of the state and the reduction of corruption. Without changes in these components, it will not be possible to achieve any substantial success in increasing the efficiency of the economy of the country. It is relevant for subsequent research to find other opportunities to improve the state of the Azerbaijani labour market. In the context of the development of SMEs, it is important to consider the existing state support programmes for these enterprises and find opportunities to improve their functioning.

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