

## SCTCMG 2019

### International Scientific Conference «Social and Cultural Transformations in the Context of Modern Globalism»

#### DEVELOPMENT OF SMALL BUSINESSES IN RUSSIA AS IMPORTANT CONDITION

Leila Gishkaeva (a)\*, Raisa Azieva (b), Roza Idilova (c), Zamira Ilmieva (d)

\*Corresponding author

(a) Chechen State University, 32, Sheripova street, Grozny, Russia,  
leila\_114@mail.ru,

(b) Grozny State Technical University named after Akad. M.D. Millionshchikov,  
100, Isaeva ave., Grozny, Russia, raisaazieva@list.ru,

(c) Grozny State Technical University named after Akad. M.D. Millionshchikov,  
100, Isaeva ave., Grozny, Russia, kafedra\_mid@mail.ru,

(d) Grozny State Technical University named after Akad. M.D. Millionshchikov,  
100, Isaeva ave., Grozny, Russia, lalashka76@bk.ru

#### *Abstract*

One of the most important sectors of the economy, which plays an important role in the social and economic development of the country, is the development of small enterprises. The economic advantages of small businesses are: lower cost of job creation; high domestic mobility in case of changes in demand with the use of local resources, inefficient for large production; high profitability of activities in "narrow" market segments, characterized by a specific and limited number of consumers; etc. Entrepreneurship development in developed countries is carried out through cooperation between large and small companies, where activities of large enterprises are not aimed at suppressing small companies, but at mutually beneficial cooperation with them. The structures of large and small businesses try to complement each other, especially in the field of specialization of individual industries and innovative developments. For this, various programs of state support and systems of evaluation of the effectiveness of the implementation of these programs have been developed. With the development of market economy changes in Russia, entrepreneurship, previously a prohibited activity during the Soviet era, began to revive and develop. Small business is developing in the country, becoming more and more civilized, but they are still lagging behind their Western counterparts in terms of their development level. The number of small enterprises in the country is not growing very fast. To overcome the existing negative trends in this area, it is necessary to develop and implement an effective system of state support for small businesses.

© 2019 Published by Future Academy [www.FutureAcademy.org](http://www.FutureAcademy.org).UK

**Keywords:** Income, employment, small business, workplace, market transformation, middle class.



## **1. Introduction**

The development of small business entities is one of the most important trends in employment and income growth and, consequently, in the well-being of the population. The sphere of small business in the developed world can include about 70% of all business units in the country, but the majority of GDP and national income of the state is accounted for by large businesses (Porokhovskiy, 2002). The main social function of small businesses is to reduce social tension and democratize market relations, as small businesses contribute to the development of the middle class, the growth of living standards and the reduction of the shadow economy. The presence of the middle class can be considered as an important evidence and even a criterion of the effectiveness of the reforms, confirming the strength of the entire system of economic, social and political institutions. Conversely, its absence is an indicator of the ineffectiveness of socio-economic reforms in Russia. Aristotle, in his work "On a State Consisting of Average People" (with "average income"), emphasized the importance of the "middle class", which he considers to be a factor in the stabilization of society (Holostova, 2006).

## **2. Problem Statement**

To study the significance of small business for the modern economy.

## **3. Research Questions**

This article analyzes the peculiarities of development and functions of small business structures in the modern economy, determines the significance and role of small business in the socio-economic development of Russia, as well as the problems that Russian small business face.

## **4. Purpose of the Study**

The objective of this study is to determine the place of small business in the modern economy and its role in Russia's socio-economic development.

## **5. Research Methods**

This work involves such scientific methods as statistical analysis, comparative analysis, functional analysis, positive and normative analysis. Scientific research was carried out in accordance with the problem – symbolic principle, the principles of consistency and scientific objectivity.

## **6. Findings**

It is worth noting that the theoretical paradigm, which existed in the mid-1970s, on the continuous process of capital ownership's concentration, on the growth of enterprises and firms' sizes, has not been confirmed in practice (Basareva, 2006). In industrialized countries, there have been processes of increasing the share of employed workers in small enterprises, which have been identified as a major source of growth in employment and labour income (Basareva, 2006). Scientists from different countries have also noted

that employment growth in small companies was driven by the situation in the large enterprise sector. According to them, the labor force coming from large enterprises has been injected into small businesses. Large companies in years of economic instability were able to drastically reduce the number of their employees, and this period was more beneficial for small businesses. The significant increase in the number of small businesses, in accordance with the Birmingham model of small business development in England, was a consequence of the regional and national industrial recession and corporate restructuring (Basareva, 2006).

During the post-industrial development period, the needs for innovation, research and marketing of small and medium-sized businesses are growing. There is a need to produce small batches of different goods with high added value. Medium and small businesses are actively developing in almost all countries, taking into account the modern peculiarities of the global economy, such as employee autonomy, innovation imperative, creative interaction with the employer, and high rates of business ideas implementation in their activities. In developed countries, innovation policies focus on small and medium-sized innovative enterprises. In Japan, for example, small innovative companies account for 99% of the total number of enterprises and produce 52% of the country's GDP (Nikulina, 2009).

Entrepreneurship development in developed countries is carried out through cooperation between large and small companies, where the activities of large enterprises are not aimed at suppressing small companies, but at mutually beneficial cooperation with them. Therefore, the structures of large and small businesses try to complement each other, especially in the field of specialization of individual industries and innovative developments. Whereas the activity of large companies is aimed at satisfying mass and rather homogeneous demand, small businesses operate in small market segments, with a limited range of production. Market niches are markets, mostly for high-tech finished products, whose existence is determined by the peculiarities of the development of the modern economy and international trade relations, when the demand in a particular market due to its small capacity can not be met by large businesses or there is no possibility to cover the entire market by manufacturing (Pavlov & Andreeva, 2009). In the United States, the Small Business Innovation Program had a good track record, with the government receiving eight dollars for every dollar spent over 20 years, with only those companies that implemented university research results receiving funding (Nikulina, 2009).

A condition for the formation of market structures in Russia is the revival and development of entrepreneurship, which was a prohibited activity during the Soviet Union. For example, from 1986 to 1990, about 1,200 people were prosecuted for doing business in the country (Gishkaeva, 2013). Although the monopoly on entrepreneurial activity during the Soviet era belonged to the state, the unofficial private entrepreneurial sector played a significant role in the Soviet economy, especially in the Baltic States. By the beginning of the 1980s, the shadow sector of the Russian economy accounted for 30% of the gross national product of the state, and the excess of income of "shadows" from the official statistical level was 8-10 times higher from the norm. During the period under review, 15 million people were fully or partially employed in the informal sector (Vanyukov, 2008).

It is worth noting that the Russian Empire by the beginning of World War I had good results in the development of capitalism, although it was quite late to enter this stage. As noted by Lenin (1986), in Russia there was not a single branch of the economy functioning on the principles of capitalism, where there were

no processes of complete technical transformation. The volume of foreign investments in the pre-revolutionary Russian industry did not exceed 9-14% of the total industrial capital, which did not exceed the level of the developed European countries (Gryadov, Podgorbunskikh, & Uralov, 2003).

At the end of the 80s of the 19th century in the country there is a revival of this activity, as indicated by the adoption of the USSR laws "On individual labor activity" November 19, 1986; "On cooperation in the USSR" of May 26, 1988. Further other laws were adopted: the law of the RSFSR "On Enterprises and Entrepreneurship" of December 25, 1990; the law of the USSR of April 2, 1991 "On the General Principles of Entrepreneurship of Citizens in the USSR" (Muravyov, Ignatiev, & Krutik, 2001). In 1987, the number of cooperatives began to appear and actively develop, and their number increased 2.6 times in 1989, reaching more than 102,000 on January 1, 1990 and 132,000 by January 1, 1991 (Gubin & Parashchuk, 2003).

Support from the state plays an important role in the development of small business. On 14 June 1995, the Federal Act on State support for small businesses in the Russian Federation was adopted. It also included individuals who were engaged in business without formation of a legal entity. However, there were some difficulties related to the fact that these forms of entrepreneurship were not taken into account in the state planning, thus complicating the inflow of resources into the sphere under consideration, which negatively affected its competitiveness, delayed the registration of enterprises, especially joint ones, due to bureaucratic delays, which could sometimes take more than 1 year to overcome. The imperfection of the legislation in the field of private entrepreneurship, which eventually led to the fact that the share of private companies in the total production volume in these years was only a few percent, was also a barrier to the development of entrepreneurial structures in the country. Thus, in 1998, 6% of Russians over 15 years of age were successfully engaged in entrepreneurial activity (Alexandrova, Ovcharova, & Shishkin 2003). There was also a rather high differentiation among Russian regions in terms of the level of development of small business structures, the index of which reached up to 10 times. Thus, according to the data for 1999, the Central Federal District had the largest share of small businesses – 34.2% of them in Moscow – 19.8%, and the smallest share was noted in the Far Eastern Federal District – 4.3% (Aliyev, 2006).

The main role in the development of market processes in the new Russia was assigned to privatization, during which the private sector was to become the dominant sector in the country's economy. It is worth noting that in Russia, the privatization process began even before the collapse of the Soviet Union in the form of shadow withdrawal of resources from state-owned enterprises. Table 1 shows the stages of privatization in the country.

**Table 01.** Russian Privatization Strategy (Andreff, 2004)

Privatization Stages	Periods	Main Methods	Winning Groups
Spontaneous Privatization	1987-1991	Withdrawal Of Assets	Nomenclature, Komsomol.
Mass Privatization	1992-1994	Voucher Distribution	Insiders (Managers And Employees)
Monetary Privatization	1994-1997	Sale And Resale Of Assets	Outsiders And Some Insiders (Managers)
Pledge Schemes	1995-1996	Fraudulent Sale To Banks	Oligarchs

Break In Privatization	1997-2000	-	Oligarchs
"Spot" Privatization	Since 2001	Sale Of Assets	Oligarchs, Foreign Investors, Outsiders.

Even before the official start of the privatization process in 1992, a large number of enterprises in the light industry and service sector were actually private (Andreff, 2004). Spontaneous privatization took place in the form of official buyout of company assets by managers and employees at a book value that was significantly lower than the market value. This process was a result of the growth of real powers of the management and representatives of local and regional power structures at the enterprises.

It should be noted that in transition from a command economy to a market economy, there emerged and began to actively spread such a type of small and medium business, which in general could be defined as "airborne", i.e. it did not produce products, but made a profit from the sale of goods of state-owned enterprises at market prices, purchasing them at factory (transfer) prices, often packing and gluing labels to them.

The state support provided to small and medium businesses in Russia in the form of preferential taxation, reduced contributions to extra-budgetary funds, easier access to cheaper sources, and accelerated depreciation contributed to an increase in the number of small and medium-sized companies through the unbundling of a large firm and the allocation of legally more profitable subdivisions under the guise of small and medium businesses. As a result of all this, the tax base and tax revenues decreased, as such an increase in the number of small and medium-sized businesses was based on a decrease in the number of disaggregate parent companies of large businesses. In the late fifties and early sixties of the 20th century similar processes were observed in the U.S. economy in the conditions of providing substantial government support to small business (Progress, 2002). Therefore, there is a need to strengthen the targeting of small and medium-sized businesses when providing benefits to them.

The share of small and medium-sized businesses in the economy of modern Russia is significantly lower compared to developed European countries and amounts to approximately 20% of GDP, while for developed European countries it exceeds 50% (Zemtsov & Bukov, 2016). In the economy of modern Russia, small business as a subject has existed for more than twenty years, playing an increasingly important role in the socio-economic development of the country. For the successful development of small business structures, despite the existing economic advantages and the significance of the solved social tasks, there is a need for appropriate state support, contributing to the emergence of the necessary legal, political and economic conditions for this activity, as evidenced by the experience of foreign countries (Aliyev, 2006). The goals of the state policy of support and development of small business structures in Russia are:

- Providing favourable political, legal and economic conditions for small businesses;
- Growth in the number of small businesses operating in the region;
- Increasing the competitiveness of small businesses;
- Increasing the efficiency of social activities of small businesses, which is reflected in the growth of the number of employees they employ, an increase in their income and social security, and the development of the middle class, which is the guarantee of political stability in society;
- Increasing the pace of development of small business, which is one of the strategic conditions for the socio-economic development of the state, increasing the share of small businesses in the formation of

all components of the gross domestic product of the country, expanding the spheres of economic activity of small companies and their economic strengthening (State Council of the Russian Federation, 2001).

In the process of managing the development of the territories, the activity of entrepreneurial entities is always taken into account. An important factor at the local level for municipal entities is the activity of entrepreneurial entities classified as small businesses. According to the EU Small Business Policy Paper of 1995, targeted assistance for small businesses is seen as the most beneficial way to create new workplaces (European Union Commission, 1998).

## 7. Conclusion

In all countries of the world it is possible to observe state regulation of entrepreneurial activity. In some countries, for example, Italy, the Netherlands and Russia, the regulatory framework for entrepreneurial activity is included in the civil law, in other countries – France, Germany, Portugal – these norms are considered as a separate industry, there are countries where these norms are codified, i.e. Trade codes are in force alongside the Civil Code. But common to all these states is the separation of entrepreneurial activities as a regulatory area that contributes to a better understanding of the specifics of these activities and, consequently, their development (Makarov & Ryabov, 2003). Financial infrastructure of small and medium business in all countries is considered by the state as the most important element of the national economy.

## References

- Alexandrova, A. L., Ovcharova, L. N., & Shishkin, S. V. (2003). *Income of population and availability of social services*. Moscow: IFE "SPROS" ConfOP.
- Aliyev, E. (2006). From small to large. Features of small business development in the social sphere. *Social policy and social partnership*, 7, 24.
- Andreff, V. (2004). Russian privatization: approaches and consequences. *Economic issues*, 6, 57.
- Basareva, V. G. (2006). Small Business in the Regional Economy: Consequences of the Industrial Decline. *Regional Economy: Theory and Practice*, 17(110), 65.
- European Union Commission (1998). *Integrated Program of the EU Commission for the Support of SMEs and Handicraft Enterprises*. Moscow: IP Resource Center.
- Gishkaeva, L. L. (2013). Some provisions of the theory of entrepreneurship. *Russian Entrepreneurship*, 23(245), 120.
- Gryadov, S. I., Podgorbunskikh, P. E., & Uralov, V. A. (2003). *Organization of entrepreneurial activity*. Moscow: Kolos.
- Gubin, E. P., & Parashchuk, S. A. (2003). *Entrepreneurial Law of the Russian Federation. Collection of normative legal acts*. Moscow: Yurist'.
- Holostova, E. I. (2006). *Social policy and social partnership*. Moscow: Dashkov and K0.
- Lenin, V. I. (1986). *Development of capitalism in Russia*. Moscow: Political Literature.
- Makarov, N. D., & Ryabov, E. B. (2003). *Entrepreneurial Law*. Moscow: Forum-Infra-M.
- Muravyov, A. I., Ignatiev, A. M., & Krutik, A. B. (2001). *Entrepreneurship*. St. Petersburg: Lan'.
- Nikulina, O. V. (2009). Innovative cluster approach to the development of the region based on the creation of a business incubator. *Regional Economics: Theory and Practice*, 41(134), 79.
- Pavlov, K. V., & Andreeva, I. G. (2009). Development of small business in Belgorod region through the prism of analysis of all-Russian tendencies. *Regional Economics: Theory and Practice*, 11(104), 2.
- Porokhovskiy. (2002). Russian Market Model: The Way of Realization. *Problems of economics*, 10, 36.
- Progress (2002). About the structure of small business and peculiarities of its motivation. *Problems of economics*, 7, 147–149.

State Council of the Russian Federation (2001). *Concept of the state policy of support and development of small business in the Russian Federation*. Moscow.

Vanyukov, D. A. (2008). *Stagnation era*. Moscow: World of Book.

Zemtsov, S. P., & Bukov, D. V. (2016). Methods of identifying small and medium business clusters. *Regional Economics: Theory and Practice*, 3(426), 104.