

## KEY VECTORS AND CONCERNS OF SMALL-SIZED ENTREPRENEURSHIP DEVELOPMENT IN THE RUSSIAN FEDERATION

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**Abstract.** *The objective of this article is to identify distinctive features of small-sized entrepreneurship development in the Russian Federation, and to develop key vectors of the small businesses development. While developing small-sized entrepreneurship development vectors, peculiarities of the small business sector development in the country are not taken into account. It is necessary to identify external threats and internal factors, affecting small business development. As a result of the study of small business development features in the country, practical recommendations on the small-sized entrepreneurship development vectors have been suggested. Practical recommendations on the small-sized entrepreneurship development have been issued. The use of the recommendations developed on the small-sized entrepreneurship development will make it possible to eliminate the management process imbalances and to identify priority development vectors, thus contributing to the increased production of goods, enlargement of the range of services, creation of new jobs, and unemployment reduction. Distinctive features of the small-sized entrepreneurship development in the Russian Federation have been defined, allowing us to identify external threats and internal small business development factors, and to suggest priority development vectors for further.*

**Keywords:** *Small business; development; socio-economic system; development vectors; efficiency; economic sector.*

## **Introduction**

Small business plays an important role in the economy, also being an inseparable element of the social and economic system of the state. The development of the entrepreneurship assists in creating favorable market conditions by involving a huge number of the state citizens in a system of interrelationships on own business startups, which in future will bring a high production efficiency through a narrow specialization and integration of production operations.

In the developed countries, e.g., in the United States, the small-sized entrepreneurship is responsible for about 40% of the gross product, ensuring the employment for almost half of the able-bodied population; also, it implements twice as many innovations as large firms. In Germany, Canada and Great Britain, the share of the small-sized entrepreneurship in production is 60-70% (Terebova, 2015).

Small enterprises create a comfortable climate for the economy rehabilitation: competitive environment ontogenesis takes place; market is saturated with goods and services; additional jobs are created in organizations; consumer sector becomes ever richer; local feedstock, financial and other resources as well as innovative and human potential are better used.

Small-sized entrepreneurship undertakes such a social function as the ability to absorb free labor force in large amounts, and to reduce social tension and unemployment.

## **Distinctive features of the small-sized entrepreneurship development in the Russian Federation**

In Russia, small business as a sector of the economy emerged about 25 years ago and now is being strengthening in the market. Small businesses are more preferable for the economy of the state due to the following reasons:

- Market, comprising a lot of enterprises, creates conditions for a competitive system development, which, in its turn, allows price reduction, and on the contrary, one large company, operating in the marketplace, prepares conditions for becoming a monopoly;
- Decentralization of the economic power generates a different range of goods and, therefore, a larger choice for customers, thus increasing customer satisfaction.

Each small business is an undertaking with its unique history and mode of operation, which forms preconditions for maintaining various applications and traditions. In Italy, 94.8% of companies employs fewer than 9 workers, which is 46% of the total number of active population. In Spain, 94.1% of companies also employs fewer than 9 workers, and this represents 38.5% of the total number of active population. Compare these data with those for the United Kingdom, for example, where 46.4% of the total number of active population works in companies with more than 250 workers, and only 18.6% of employees work in small enterprises. Thus, each history and community creates its own economic systemy.

In Russia, the situation is slightly different, because Russia's history and economic system differs from the European one. In Russia, small business develops unevenly due to geographic factors. In 2014, the Moscow regions accounted for 241,300 small enterprises (in 2010, this figure was lower by about 40,000 pcs); at the same time, all

Urals regions accounted for only 183,500 organizations in the same year (Federal State Statistics Service, 2013). First and foremost, it depends on the number of population that resides in the region, and its geographical location (availability of natural resources). The dependence of any region on raw material export tends to slow down the national economy development process.

According to statistical data, 54.8% of jobs in Russia are created by large enterprises. For comparison, in European countries, large enterprises are responsible for the employment of only 34.2% of the able-bodied population. A share of medium-sized enterprises in total employment in Russia is 23.4%. And only 11% and 10% of jobs are provided by small enterprises and individual entrepreneurship, respectively. (Golubkov, 2013)

When the distribution of subjects of small and average business in the Russian regions as of 2017, you can see that the share of enterprises accounted for three of the County: 28.2% of the enterprises in the Central Federal district, 21, 8% on Privalsky Federal district and 12.9% in the Siberian Federal district (Federal State Statistics Service, 2017).

The structure of economic activities of small and medium-sized businesses by the average number of employees is as follows:

- 25.2% is wholesale and retail trade, repair of motor vehicles of other household products;
- 20.9% is accounted for operations with real estate, lease and provision of services;
- 17.7% are in manufacturing;
- 12.1% is for strotelstvo;
- 34.1 per cent are transport and communications, mining, agriculture and other economic activities.

The bulk of the revenue of small and medium-sized enterprises 54.4% accounted for wholesale and retail trade (Federal State Statistics Service, 2017).

The share of small and medium-sized businesses in Russia's GDP is about 20% , in 2017 there is a significant increase of 1.7% (Federal State Statistics Service. 2017), which is a positive trend, while according to the strategy of small business development, their share should grow to 40%. In addition, small and medium-sized businesses have significant competitive advantages over large businesses. The sector under consideration is able to quickly meet small volumes and non-standard needs of the environment. For example, enterprises personally interact with the buyer in accordance with the peculiarities of the technological process. Increased competition is generated by copying and developing a small-scale and specialized market that is inaccessible to large-scale production. The generation of innovation activity is achieved through the rapid introduction of innovation in production and management.

Small business development is particularly affected by a legal framework established in the region concerned. High dependence from market fluctuations, requiring a multifaceted state support for volatility mitigation, is a specific feature of the small business development in Russia. For a given time interval, small business acquired certain stability of development and sufficient breadth of distribution, having turned

into an independent sector of the state economy with clearly visible features (Usmanov, 2016) (Table 1).

**Table 1. Russian small business features**

<b>Russia</b>	<b>Developed countries</b>
Integration of several business vectors and activities in one small enterprise	Narrow specialization of small enterprises
Human potential integration at a low level of furnishing of many small enterprises with high-tech equipment	Integration of a low level of employees' innovative potential at a high level of furnishing of many small enterprises with high-tech equipment
Availability of a high level of general and professional education and qualification of managers of small enterprises, combined with a shortage or lack of experience in making managerial decisions on commercial activities at volatile market conditions	High level of managerial and commercial experience, almost complete absence of a shortage or lack of experience in making managerial decisions on commercial activities at volatile market conditions
High level of small enterprise adaptation to a rapidly changing market environment at a disorganized state control system, which results in the shortage of timely, comprehensive and reliable information on the market state, trends and conditions	Stable economic environment, availability of updated, exhaustive and reliable information on the market state and trends
Virtually complete unavailability of integration and interactions with large, medium and other small enterprises.	Availability of integration and interactions with large businesses, medium and other small enterprises.

These Russian small business features predefined an individual path of development, different from the way generally accepted in a classical market economy.

On May 12, 1995, the Russian State Duma adopted the first law "On the State Support of Small Entrepreneurship in the Russian Federation". In 2007, the Federal Law "On the Development of Small and Medium-Sized Entrepreneurship in the Russian Federation" was adopted. This law expressly defines the size and revenue of enterprise, etc. Small businesses need to pass various inspections and submit business activity reports to many authorities. These manipulations severely hamper the development of the enterprise.

### **External threats and internal factors, affecting the small-sized entrepreneurship development**

In its turn, the state is trying to help small businesses through a continuous development of special programs to support small businesses (e.g., a simplified taxation and accounting system).

The most severe external threats to the small business development are as follows (Small business and support of individual entrepreneurial initiatives" project, 2017):

- High tax rates;
- Low staff availability;
- Crisis, volatile market conditions;
- High competition;
- Administrative barriers, corruption;

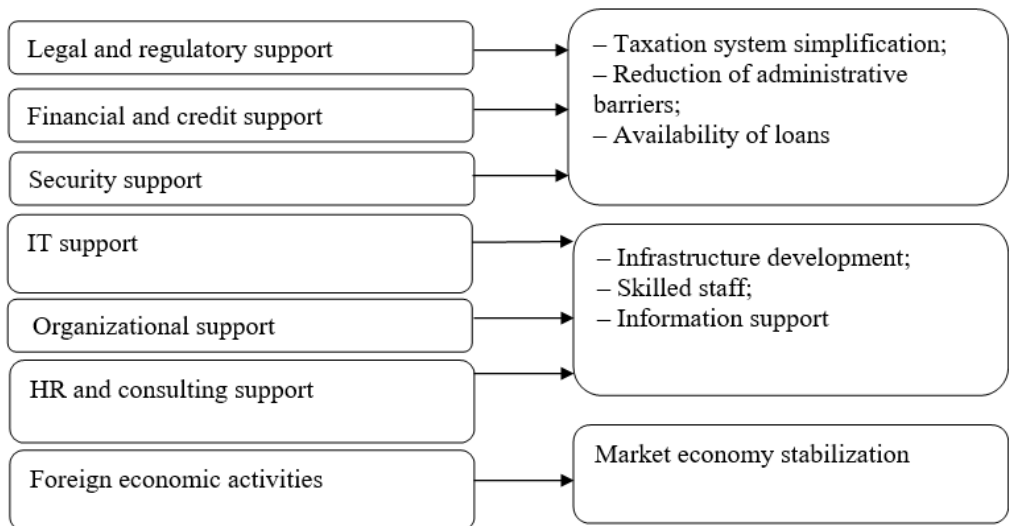
- Poor infrastructure development;
- Inaccessibility of loans and other financial facilities;
- Low accessibility of premises.

Also, there is a number of internal factors, threatening successful implementation of entrepreneurial projects, i.e. (Terebova, 2015):

- Ineffective distribution of financial resources;
- Entrepreneurs do not have sufficient experience in management;
- Lack of a marketing development strategy and an action item plan for future enterprise development.

To increase the efficiency of economic development of the region, certain measures shall be implemented by municipal authorities. Local authorities have acquired exhaustive and reliable information about resources, production and economic potential of organizations on the controlled territory. In many regions, large industrial enterprises play a major role in the economy, and local authorities need to establish a procedure for interaction between such enterprises and small business organizations for a long-term period, since this will result in a higher economic effect.

For the time being, the small business development in Russia is still fledging, considering existing system of legal and organizational support of small business organizations as a separate sector of the country's economy. Neither effective operation of the existing small business motivation system is mastered, nor procedures and mechanisms for supporting these enterprises are in place. The below mentioned model for small business development in Russia is suggested (see Fig. 1).



**Figure1. Small business development vectors**

At present, the state program fails to formulate clear action mechanisms and procedures in the monetary and tax policy, inventory and technical support, and system of official guarantees. Strict adherence to these mechanisms would ensure equal start-up conditions for entrepreneurship activity development in the small business.

## Conclusion

An action plan for market infrastructure institutions, commodity market and securities market, investment and venture entrepreneurship as well as for information, consulting and audit activities shall be developed. It is advisable to integrate various state and public small business support systems, and the integrated system shall include advanced staff training and retraining.

A list of activities to support foreign economic activity and attract foreign investments for small businesses development shall be compiled. To implement these programs, not only the state budget funds, but also the inflow of private domestic and foreign capital are required. The state resources should be focused on insurance and granting loan guarantees.

Financial, credit and investment assistance to the small business shall combine optimization of tax benefits, the development of a lending system and the organization of comfortable investment conditions, with the involvement of specialized funds and other financial institutions. Combining direct and indirect assistance to small businesses should form a required start-up capital for new organizations, develop already functioning small undertakings, and overcome entrepreneurs' desire to evade taxation. Tax privileges for small business enterprises, established under applicable laws, should be kept. Also, it's important to optimize the accounting and reporting system for small business organizations with the aim to obtain basic information required for resolving taxation issues.

At this small business development stage, it's critical to develop a new model for Russian small-scaled entrepreneurship development as well as procedures for providing effective functioning of the state small business support systems. Placing the emphasis on a stable operation of small, medium and large business associations is of top priority.

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