

## The Analysis of Regional Features of the Institutional Development of Russian Small and Medium-Sized Enterprises

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### Abstract

*The paper deals with the problems of the market economy that shape the efficiency of small and medium-sized businesses. The authors have conducted an overview of the history of the problem of development of small and medium-sized business institutions, identified their critical points, and evaluated the regional development of small and medium-sized businesses. An assessment of the current situation in the development of small and medium-sized businesses leads to the conclusion that entrepreneurship is no longer only an economic but also a social function of the realization of the public good. For an entrepreneur, his activity remains the realization of his talents, skills, and abilities, bringing the public good, rather than a profitable occupation. Groupings that show the degree of regional differentiation are used to assess the regional development of small and medium-sized businesses. The paper assesses the impact of COVID-19 on small and medium-sized businesses.*

**Key-words:** Evaluation of Small and Enterprises, The Institutional Framework for the Development of Small and Medium Business in Russia, Institutions of Small and Medium Business, Functioning of Small and Medium-sized Business under Covid-19 Conditions.

### 1. Introduction

Small and medium-sized enterprises (SMEs) play an important role in the social and political life of the country. First, these forms of autonomous and innovative activity contribute to the emergence of a middle class that safeguards political stability and is a driving force of a market economy in a democratic society. Secondly, they help to reduce social tension and promote

entrepreneurial initiative and creativity among the general public. Third, from an economic point of view, SMEs increase the well-being of the society by narrowing the momentary gap, respond more rapidly to the changing needs of society and introduce and develop technical and organizational innovations than large companies, as their total volume is smaller, but the impact of the implementation can be substantial.

The conditions and factors impacting the development of small and medium-sized enterprises give them considerable advantages over other major economic entities. The ability to develop without relatively large upfront investments, a high degree of decision-making freedom, a flexible production structure and a relatively high rate of capital turnover contribute to the proliferation of this type of activity, as a result, helping to increase the employment, improve professional qualifications and the performance of an enterprise. But despite the significant share of SMEs in the gross value added of the economy, there are also a number of weaknesses in their business organization. These include the low market penetration, the relative instability of enterprises in the face of sudden changes in market conditions, the high intensity of labour, the difficulty of obtaining credit financing and a number of others.

Overall, small and medium-sized enterprises employ about 50 per cent of the world's working-age population. Moreover, the output in this sector is between 33 and 66 per cent of gross national product in most countries (Feinberg, 2019).

In this regard, the analysis of the institutional characteristics of the formation of small and medium-sized enterprises is very important and significant for the economy of all sectors in any country.

## **2. Theoretical and Methodological Bases and the Genesis of Contemporary Development of the Problem**

Modern Russian legislation does not include any concepts of small or medium-sized enterprises as organizational and legal forms. There are different approaches to assigning enterprises to the type of small or medium-sized enterprise, and unified criteria for the categories of entrepreneurial activity are being developed.

In foreign practice and gradually developing Russian practice, the concepts of small and medium-sized enterprises are unified, so they are included in a single concept of SMEs – “small and medium-sized enterprises” (SME).

Experience from different countries shows the increasing role of small-scale enterprises in the economic system through flexible and rapid adaptation to global economic changes. Until the early 1970s, there was the dogma of the progressiveness of large corporate enterprises (K. Galbraith), which under the conditions of the growth crisis of L. Greiner turned towards small businesses. As a result of the unbundling and restructuring of enterprises, 35 million new jobs were created in 1970-1985, while the number of people employed in large enterprises and state structures was reduced by 6 million.

In Russia, the status of small and medium-sized businesses is currently determined by Federal Act No. 209 of 24 July 2007 “On the development of small and medium-sized enterprises in the Russian Federation”. In accordance with its provisions, small and medium-sized enterprises may include:

- Legal persons registered in the Unified State Registry of Legal Entities (cooperatives, commercial organizations);
- Individuals registered in the Unified State Register of Individual Entrepreneurs;
- Peasant farm enterprises.

Table 1 presents the criteria for the classification of enterprises as medium and small.

Table 1- Criteria for Classifying Enterprises as Small and Medium-sized Enterprises (SMEs) in Russia

<i>Criterion</i>	<i>Meaning</i>
1. Share in authorized (folding) capital: <ul style="list-style-type: none"> <li>• total participation of the Russian Federation, the constituent entities of the Russian Federation, municipal entities, foreign legal entities, foreign citizens, public and religious organizations, charitable and other foundations;</li> <li>• percentage of participation belonging to one or more legal entities other than small and medium-sized enterprises</li> </ul>	For limited liability companies: a) total participation of the Russian Federation, the constituent entities of the Russian Federation and State and public organizations does not exceed 25 per cent; b) total participation of foreign organizations or organizations other than SMEs does not exceed 49 per cent. For stock companies: a) shares traded in the organized stock market are classified as shares in the high-tech (innovative) sector of the economy; b) shareholders - the Russian Federation, the constituent entities of the Russian Federation, municipal entities, voluntary and religious organizations (associations), charitable and other foundations (except investment funds) own not more than 25 per cent of the voting shares, and shareholders - foreign organizations or organizations which are non-SMEs holding no more than 49% of voting shares. For organizations with a “special” founder, Skolkovo's residents, “intelligent companies” peculiarities are listed in the Federal Law No. 209 of 24 July 2007 (State Duma of the Federal Assembly of the Russian Federation, 2007)
2. Average number of employees in the previous calendar year for: <ul style="list-style-type: none"> <li>• Medium-sized enterprises;</li> <li>• Small enterprises;</li> <li>• Microenterprises</li> </ul>	101 to 250 persons inclusive Up to 100 persons inclusive Up to 15 people
3. Sales of goods (work, services) excluding value added tax deductions for the previous calendar year: <ul style="list-style-type: none"> <li>• Medium-sized enterprises;</li> <li>• Small enterprises;</li> <li>• Microenterprises</li> </ul>	1000 million rubles 400 million rubles 60 million rubles

\*worked by the authors on the basis of Rosstat and the Federal Law No. 209 of 24 July 2007

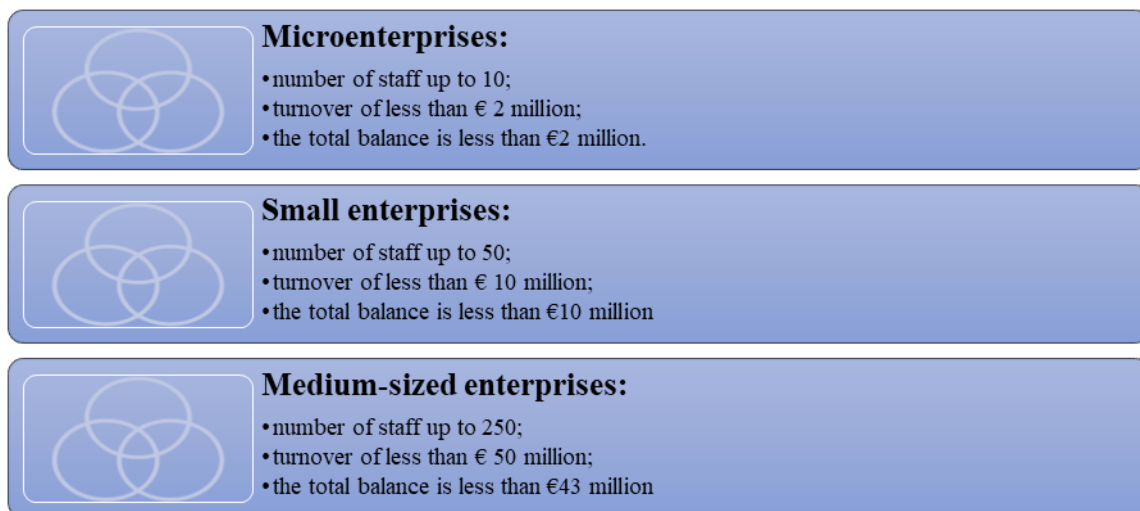
Enterprises are differentiated according to the criteria set out in Table 1. This list makes it possible to regulate the legal conditions for small and medium-sized businesses and the granting of privileges and preferences (Walczak & Voss, 2013, pp. 13-14).

In most European countries, there are three parameters that define small and medium-sized businesses:

- Microenterprises have up to 10 employees;
- Small businesses include up to 50 employees;
- Medium-sized enterprises - up to 250 people.

In some EU countries, SME attribution criteria also include turnover and (or) balance sheet data (Fig. 1).

Figure 1- Criteria for the Designation of Enterprises as Small and Medium-sized (SMEs) in the European Union



The US tax authorities classify small businesses as having assets of \$10 million or less, and large enterprises as companies with assets of more than \$10 million. However, differences in the institutional framework for business organization in the US and Europe should be taken into account, as well as the lack of industry identity, including at the level of the System of National Accounts (SNA) which generates gross value added in the sectors of the economy.

Thus, Russian and European practice suggest several SME criteria: either the number of employees or the turnover of an enterprise. In addition, national business support systems in the EU allow enterprise owners to use tax treatment, subsidies and public transfers in a differentiated and

flexible manner, depending on the proposed criteria (Walczak & Voss, 2013; Mitrut & Constantin, 2015; Narooz & Child, 2017; Strielkowski et al., 2016; Tewari et al., 2018; Toomsalu et al., 2019).

Based on research by domestic economists, including the one by T.V. Epifanova, the overall system of performance indicators for SMEs consists of two parts:

- Performance at the enterprise level as a whole;
- Performance of selected SME resources.

In general, the system of SME performance indicators should show the performance of the initial, intermediate and final stages of an enterprise. In addition, economic efficiency should include both internal aspects - estimation and measurement of values for a given economic entity, and external aspects affecting comparisons of performance with other SME enterprises. In addition, the business demography of SMEs should be monitored for business segmentation and targeted government support.

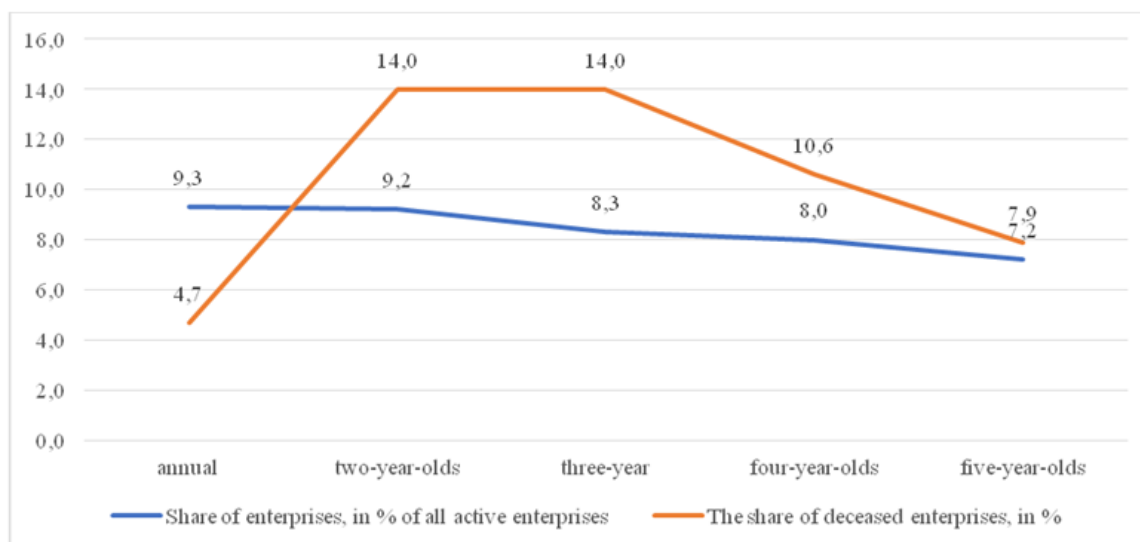
### **3. Results**

The compilation of business demography indicators is carried out using the information fund of the Automated System for the General Collection of Federal Statistical Observation Facilities. The objects of monitoring are SMEs listed in the Unified State Register of Legal Entities. They operate in all sectors of the economy (except public administration, households, non-profit organizations serving households and enterprises with extraterritorial advantages).

The main indicators collected by the Automated System for the General Collection of Federal Statistical Observation Facilities are birth rates and official elimination rates. The birth rate of an organization is the ratio of the number of organizations registered during the reporting period to the average number of organizations recorded in the Rosstat Statistical Register, expressed in parts per thousand (PM, promille). The rate of official liquidation of organizations is the ratio of the number of organizations officially liquidated during the reporting period to the average number of organizations, expressed in parts per thousand (PM, promille). The number of active enterprises varies according to the number of years of operation. The number of enterprises liquidated during the year is also taken into account by the number of full years of operation preceding liquidation. In 2019, two-year and three-year enterprises were the main among the liquidated ones. It was they who were unable to

operate successfully and strategize their development in the current context of the financial crisis (Fig. 2).

Figure 2- The Share of Operating Enterprises in Terms of Duration of Activity, as a Percentage of the Total Number of Active Enterprises and the Share of Enterprises that have Died by Duration of Activity, as a Percentage of the Total Number of Deaths in 2019 in Russia (Calculated by the authors based upon Rosstat Data)



The number of liquidated (deceased) small and medium-sized enterprises must be compared with the number of births. It is this indicator that should demonstrate the recovery of SME demography. Liquidated enterprises should be compensated by new ones that are more viable and flexible. However, the compensation for liquidated enterprises by enterprises newly established is very different across the territory of the Russian Federation (Table 2).

Table 2- Grouping of Regions by Born and Liquidated (Deceased) Small and Medium-sized Enterprises (SMEs) in Russia

Regional groups by ratio of births to deaths, %	Number of regions per group	Number of enterprises			Ratio of births to deaths in enterprises	Proportion of births in active enterprises
		Active	born	deceased		
15.5-38.3	20	1160971	100058	295949	33.8	8.6
38.3-61.1	44	1703076	140677	286424	49.1	8.3
61.1-83.9	11	188204	17058	23062	74.0	9.1
83.9-106.7	4	35291	3059	3330	91.9	8.7
106.7 и более	3	34098	3732	2966	125.8	10.9
Total and average across Russia	82	3121865	264595	611755	43.3	8.5

(calculated by the authors based upon Rosstat data)

The regional estimate shows that the number of factories born exceeds the number of liquidated enterprises in the Republic of Buryatia, the Chukotka Autonomous Region, the Republic of Ingushetia, the Chechen Republic and the Leningrad Oblast. It is in these regions that the “boom” of enterprises takes place.

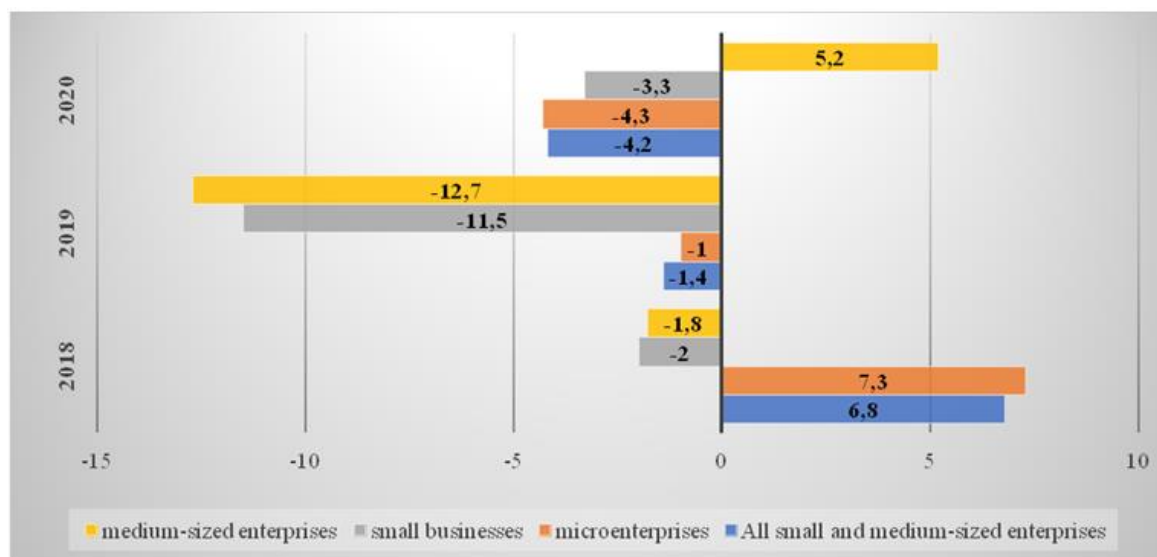
The biggest crisis and liquidation of enterprises are observed in the Murmansk and Kaliningrad Oblasts, the Stavropol Krai, the Republics of Mari El, Altai, Kalmykia, Komi, the Jewish Autonomous Oblast, the Krasnodar Krai, Moscow.

This situation is due, firstly, to the updating of the SME register and the struggle of the Ministry of Finance with short-term firms; secondly, to the difficult situation of income and purchasing power of the population; thirdly, to the complex pandemic situation.

It should be noted that quarantine measures have had the greatest impact on small businesses, micro-businesses and households. By early August, 1,095,423 micro, small and medium-sized enterprises (SMEs), or almost one in five businesses in Russia had closed in the preceding 12 months. More often than not, the number of medium-sized companies has increased - the analysis service of the international audit and consulting network FinExpertiza (2020) has discovered.

During the same period, 848,500 new SMEs have been established in the country. As a result, the total number of SMEs fell by more than 240,000, or by 4.2 per cent, to 5.6 million. This is the second consecutive year-on-year decline, with the number of SMEs falling by 1.4 per cent annually in August 2019. Thus, the decline in SMEs has increased threefold.

Figure 3- Trends in SMEs by Categories in the Russian Federation (Calculated by the Authors based upon Rosstat Data)



The number of micro-enterprises decreased by 4.3 per cent (to 5.35 million), small enterprises by 3.3 per cent (to 218.5 thousand), while medium enterprises increased by 5.2 per cent (now 17.6 thousand) (Fig. 3).

Overall, the state has identified nine sectors that have been most affected by the worsening economic situation caused by the coronavirus. They are most in need of state assistance. These industries include:

- Air transport, airports, road transportation;
- Culture, leisure and entertainment;
- Fitness and sports;
- Activities of travel agencies and other tourism service providers;
- Hotel business;
- Public catering;
- Supplementary education organizations, non-governmental educational institutions;
- Organization of conferences and exhibitions;
- Provision of domestic services to the public (repair, laundry, dry cleaning, hairdressing and beauty salons).

In this connection, measures have been proposed to alleviate the difficult situation of the business: the affected small business entities are provided with refinancing of credit and soft loans for payment of wages. In addition, small and medium-sized enterprises are exempt from all taxes for up to six months (except value added tax) if they can prove that they have lost their income. Such measures should contribute not only to the development of small and medium-sized enterprises, but also, and above all, to the improvement of the public good itself, i.e. the realization of the individual's own potential in society, his or her human potential, skills, abilities and talents. This is precisely what the reform of the business models of the State and its economy should aim to achieve. Institutional reform ultimately contributes to the realization of the social and public good and not only to economic efficiency (Arhiereev, 2012; Acs & Armington, 2006; Terziovski, 2010; Shirokova, 2010; Davletova et al., 2013; Kochergin et al., 2020; Akhmadullin et al., 2020; Deev et al., 2020; Kondaurova et al., 2020; Kapeljushnikov, 2012; Kondaurova, 2017).



#### **4. Discussion**

In other countries, public support measures were more pronounced. In the United States, for example, companies with quarantined facilities with up to 500 employees could receive grants of up to \$10 million to cover fixed costs. The German government has provided SMEs with €500 billion business support. British small and medium-sized enterprises with an annual turnover of less than £45 million will receive interest-free loans of up to £5 million. Compared to other countries' measures to support SMEs, the solutions offered by our state are insufficient. The monetary equivalent of the proposed business support measures is less than 3% of the GDP of the Russian economy, and the business will receive them not directly, but indirectly - through tax cuts and preferential credit terms. And the conditions for obtaining an amount equal to the minimum wage are becoming impossible for many small and micro enterprises.

Thus, the structure of the volume of GDP for 2020 shows a strong decline relative to the previous year. For example, in the second quarter, the volume index of GDP in the catering and hotel industries declined by 56.9 per cent, and the volume decline was 28 per cent in sports, culture, leisure and entertainment services. Other services declined by 28.6 per cent over the same period. Meanwhile, there are industries that have benefited. Rosstat also points out that positive growth in the structure of the GDP volume index occurred in the insurance and financial services sector - 9.8 per cent, in public administration and military security – 2.6 per cent, and in agriculture, where the increase was 0.4 per cent in the second quarter of 2020 (Federal State Statistic Service, 2020).

#### **5. Conclusion**

Overall, 2020 was one of the most difficult years for business, especially for small businesses. In the situation of quarantine and a total fall in demand, many small companies failed to survive the crisis. At the same time, the situation in the SME sector could be much worse. The number of people employed by SMEs did not decrease during the year but increased by 129,000 to 15.5 million. Thus, public anti-crisis employment measures have made a positive contribution, although they have not been able to fully offset the fall in workers' incomes, particularly the dramatic decline in the SME segment (Kapeljushnikov, 2012; Kondaurova, 2017; Grinberg et al., 2018; Gagarina et al., 2017; Polterovich, 2017; Bednyi & Chuprunov, 2019; Abdikeev et al., 2019; Decree of the President of the Russian Federation, 2018).

In this way, the state must create effective institutions that will facilitate the development of small and medium-sized businesses. The use of scientific and the educational infrastructure of the regional economy as a promising micro-environment for the functioning and development of SME entities, based on the predominance of extra-budgetary sources of financing, the formation of integrated localized structures, ensuring systemic and meaningful performance and growth for the economy of a region.

## Acknowledgments

This study was carried out in the framework of research work on the topic of "Development of methodological tools for assessing the quality of the institutional reforms in the field of entrepreneurship in terms of development the digital environment (for example, branches of trade, manufacturing industries, etc.)" from the funds of the Plekhanov Russian University of Economics (order No. 642 of 01.06.2020 G.).

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