

Entrepreneurship: Problems of Development in the Modern Economy of the Russian Federation

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Abstract

The authors propose an interpretation of the "entrepreneurship" term that is relevant for the current moment with the aim of a new understanding and clarified interpretation. The article analyzes the industry specifics of the Russian national economy, identifies the problems of the development of small and medium-sized businesses in Russia. Weak representation in the economy as a whole, lack of drivers for growth, low innovation, and profitability. All this does not allow Russian small and medium-sized enterprises to take any significant place in society. Recommendations for changing the situation should begin with a deep diagnosis of problems. The authors present the first results of their initiative research.

Key-words: Entrepreneurship, Micro-entrepreneurship, Entrepreneurship Culture, Industry Structure, Administrative Barriers.

1. Introduction

Given the wide use of the "entrepreneurship" term in various contexts of modern life, it seems logical to turn to its content again and again for a new understanding and refined interpretation. This term is defined in Russian legislation: from the mention in the Constitution of the Russian Federation (Article 34) [5] to the strict definition in the Civil Code of the Russian Federation (Article 2) [3]. The legislation and Rosstat practically identify economic and entrepreneurial activities, and the boundary of differentiation of concepts is the economic activity of state and other institutions, the goals of which are to perform the functions of public administration and provide public services and not to make a profit. Legal experts discuss [4] the inclusion of particular aspects of content in this concept,

thereby trying to fill in certain legislative gaps. For example, it has been proposed [13] to supplement entrepreneurship with the qualities of initiative, professionalism, etc. However, one way or another, the economic content of such an important phenomenon in modern society should be considered the key one.

2. Methods

Thus, first of all, the main goal-setting of entrepreneurial activity, namely, making a profit, requires a new look [6]. Without insisting in any way on the exclusivity of the altruistic motives of modern (including Russian) entrepreneurs, it should be noted that this activity is more complex than its primitive-utilitarian nature. Profit (or in a broader sense – financial result or entrepreneurial income) has a twofold meaning in the traditional economic model of an economic entity: as the main motive of an entrepreneur and a condition for long-term business development at the same time. Several studies of the last decades confidently testify [1] to the creative, innovative nature of the emergence of a person's desire to be realized in his/her own business. Many pieces of research are also devoted [8] to the study of the role of the need for achievement in becoming an entrepreneur. Experimental attempts by some countries to introduce an unconditional basic income for the population, among other things, have shown that the motive for the active activity is often much more pronounced than the motive for satisfying primary needs. Consequently, the modern understanding of the goal-setting of entrepreneurial activity is much broader and more complex than the stereotypes of classical economics. We will also proceed from the fact that entrepreneurship is an activity based on a complex set of motives and aimed at making a profit and meeting other human needs.

The independence (for better or for worse) of entrepreneurship is inextricably linked with initiative, decision-making, and corresponding responsibility. Modern complex synthetic forms of ownership, especially for intangible assets (franchising, network structures, licensing agreements, etc.) involve the diversification of risks between participants of various kinds. Fundraising, cross founding, public-private partnership with the involvement of financial and credit organizations and investment funds, the transfer of social infrastructure facilities to the balance sheet of commercial organizations to maintain operational activities – this is a small list of actively developing forms of business financing, where property, decision-making rights, and risks are distributed among a significant number of participants.

A new way of combining resources (factors of production), expressed in new technology, as a sign of entrepreneurship [9], today becomes its most important characteristic. Moreover, the

uniqueness of this method is very fleeting, respectively, the entrepreneur – the owner of the technology – a high marginality is laid in the price of a product or service. In this sense, the time factor becomes a very important factor of the effectiveness of entrepreneurship and investment attractiveness. The concept of intellectual property protection has been practically devalued due to the openness of the information space. Even on the contrary, when high-tech companies bring to the market a completely new, revolutionary product, perhaps not quite clear and familiar to the consumer, they often "open" their developments to potential competitors (the Tesla company). This is done, first of all, because the efforts of one exclusive manufacturer are not enough to form a stable need and effective demand that allows reaching a return on investment. This requires a developed market.

Thus, it is possible to refer to certain changes in the content of the trivial concept of "entrepreneurship". Not that it has changed radically, but the degree of manifestation of textbook characteristics (according to J. Schumpeter) [15] changes significantly. We define this transformation vector as **"the movement from an explicit economic interest to an implicit one"**.

Despite the conditional consensus in the understanding of the "entrepreneurship" term in the world expert community, entrepreneurship is primarily understood in Russian macroeconomic practice as its small and medium-sized forms. Strictly speaking, in the business sector (in terms of turnover, costs, etc.), Rosstat includes organizations with private ownership of the means of production and aimed at making a profit. Therewith, small and medium-sized enterprises (SMEs), differentiated from entrepreneurship as a whole according to Federal Law No. 209 of July 24, 2007 "On the development of small and medium-sized enterprises in the Russian Federation", are given priority attention in analytical reports. It has been considered that the share of participation of SMEs in the creation of national wealth is a factor of the socio-economic development of society as a whole. The national project for the development of small and medium-sized businesses assumes an increase in the share of SMEs in GDP to 32.5% by 2024. Rosstat in 2017 and 2018 estimated the share of SMEs in the Russian economy at 22% and 20.2%, respectively. This is a very low value compared to the same indicator in countries that demonstrate consistently high economic growth rates (Italy – 68%, Norway – 61%, Sweden – 58%, Great Britain – 51%, etc.) [14]. Therefore, we can talk **about the weak participation of a small-format entrepreneurial initiative** in the Russian economy.

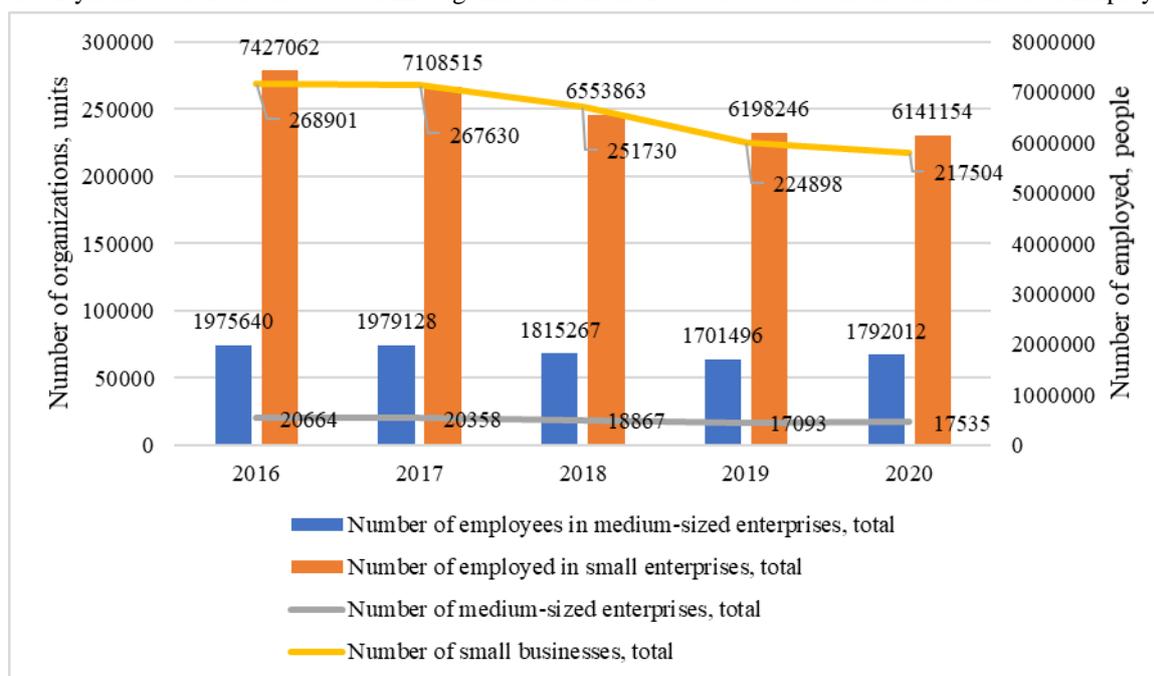
3. Results

One of the reasons for the weak development of SMEs in Russia is considered to be the industry specifics of the national economy, consisting of a low proportion of industries that do not

require serious innovations. Indeed, only from a third to a little more than 40% of the GDP of the Russian Federation is occupied by industries that are somehow based on complex technologies (manufacturing, information, and communication, etc.). The driving force of competition in technological markets and knowledge-intensive industries does not need additional evidence. Thus, another feature of Russian entrepreneurship is **the absence of fundamental reasons and a customer for modern types of entrepreneurship**: technological, innovative, venture, etc.

The dynamics of the number of SME organizations and the number of employees indicate a decrease in entrepreneurial initiatives in the Russian Federation (Figure 1).

Figure 1 – Dynamics of the Number of SME Organizations in the Russian Federation and the Number of Employees [10]



A slight increase in the number of medium-sized enterprises and the number of employees in 2020 is likely to find a technical explanation later (for example, due to the transition of individual large organizations to the category of medium-sized ones). Nevertheless, we can talk about a long-term negative trend abstracting from such minor jumps at the moment. Quantitative indicators of entrepreneurial activity indicate **a negative long-term trend**.

The analysis of the nature of entrepreneurial activity in the Russian Federation deserves special attention. Table 1, which allows assessing the innovativeness of the financial and economic activities of the largest Russian companies (based on the official financial statements under RAS), indicates a relatively low share of the value of intangible assets (IA) of companies in the total value

of their assets. The industry affiliation of these companies (extraction, transport, and processing of raw materials) can hardly justify this situation since comparable foreign companies demonstrate a higher level of this indicator. In other words, **the low innovativeness of the national economy of the Russian Federation can also be traced at the level of large corporations**, which again confirms the thesis that there are no fundamental reasons and a customer for modern types of entrepreneurship (see above).

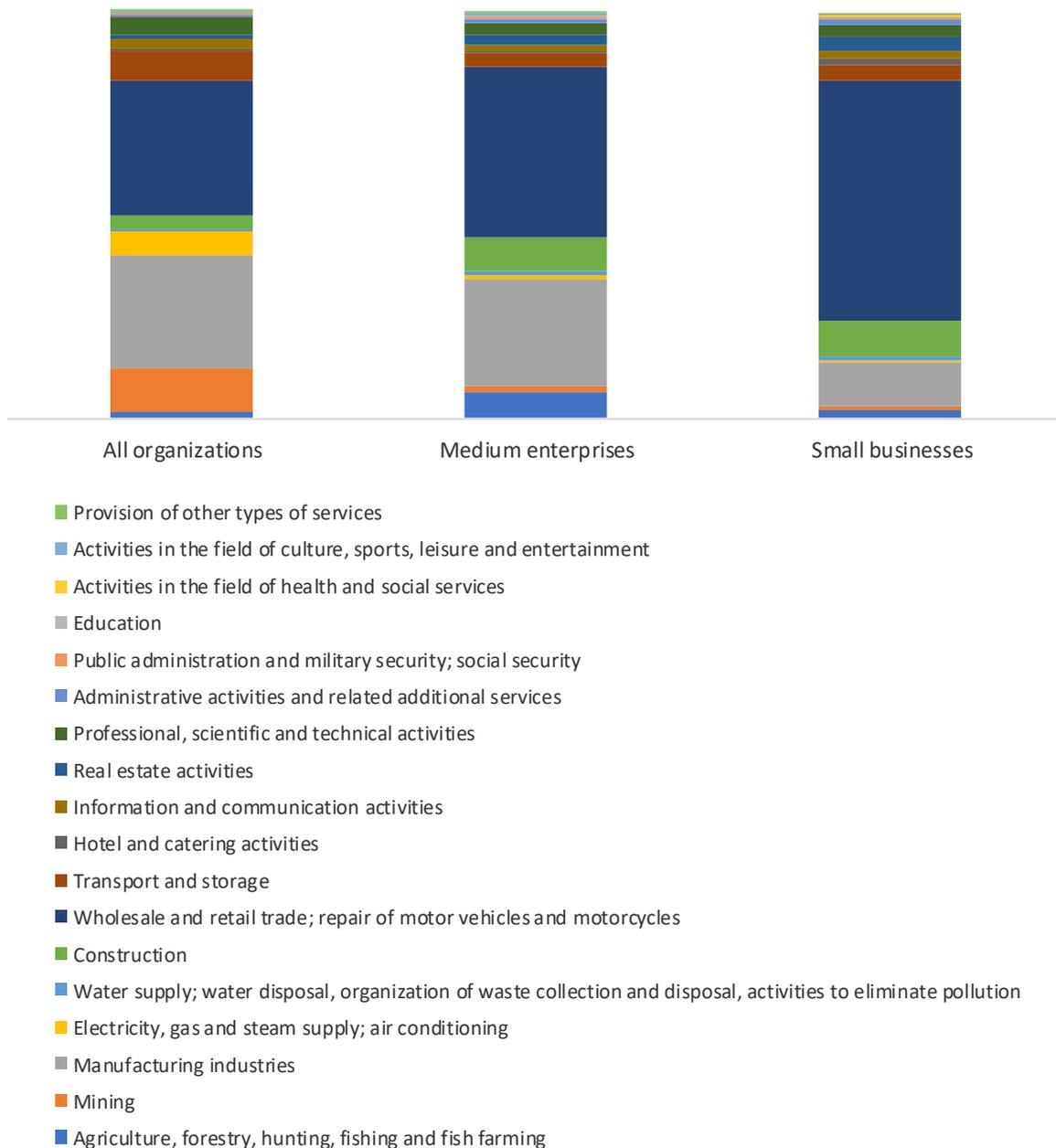
Table 1 – The Share of the Value of Intangible Assets in the Total Asset Value of the TOP 8 Large Manufacturing Companies in Russia in 2019 (Exxon Mobile – 4.5%)

| | IA, thousand rubles. | Assets, total, thousand rubles. | IA in assets, % |
|----------------|----------------------|---------------------------------|-----------------|
| Gazprom | 17,102,648 | 15,916,355,497 | 0.11% |
| Rosneft | 44,331,957 | 12,323,497,743 | 0.36% |
| LUKOIL | 1,722,130 | 2,209,166,567 | 0.08% |
| Sugrutneftegaz | 420,364 | 4,553,686,428 | 0.01% |
| NOVATEK | 368,101 | 899,787,613 | 0.04% |
| Transneft | 9,989,458 | 1,067,189,905 | 0.94% |
| Norilsk Nickel | 13,847,477 | 1,282,702,319 | 1.08% |
| Tatneft | 1,854,480 | 816,544,112 | 0.23% |

It is very interesting to trace the sectoral structure of SMEs not only and not so much in absolute values but in comparison with the sectoral structure of other sectors and the economy as a whole (Figure 2). To ensure the comparability of the compared indicators, official statistics on the turnover of enterprises were used [11]. The inverse relationship between the size of the enterprise and the likelihood that, according to OKVED, it will be a trading enterprise, should be noted, although this area is dominant in all groups of enterprises. Wholesale and retail trade, as well as the repair of motor vehicles, account for more than half (59%) of the turnover of small enterprises. Therewith, the profitability of trading ranges from 4% to 7%. Almost a third of the industrial structure of the turnover of all, including medium-sized enterprises, is occupied by manufacturing industries (27.6% and 26%, respectively). Given the fact that only 11% of the turnover among small enterprises is provided by manufacturing enterprises, we can say that large enterprises still have a decisive influence in this area. The profitability of manufacturing industries is higher than in trade – about 11-12%. Small and medium-sized businesses are probably "not allowed" into mining. If the turnover of this industry for all enterprises is almost 11%, then a similar industry in the format of medium-sized enterprises occupies 1.64%, and small enterprises – 0.66%. It should be noted that the profitability of this industry, even in conditions of not very favorable market conditions, does not decrease below

20%. SMEs look good in the construction sector (small enterprises – 9.1%, medium-sized enterprises – 8.4%). However, construction, with all the opacity of pricing and cash flows, is considered a low – profitable area – no more than 3%. Large enterprises also make a more noticeable contribution in the fields of information and communications, as well as in healthcare. Thus, **SMEs in Russia today are mainly represented in industries that poorly generate financial results.**

Figure 2 – Industry Structure of Turnover of Enterprises of the Russian Federation in 2019



4. Discussion

Many experts call one of the main problems of SME development in Russia [2] **the lack of financial resources and the unavailability of credit resources**. Should this be considered the root cause? After all, as is known, there is enough liquidity (in this case, liquidity in the financial market) in the Russian economy. This money supply is not directed to the SME sector due to the low attractiveness of the latter as an object of investment and lending. The insufficient level of collateral and guarantees of credit obligations, the lack of stable basic contracts for the supply of finished products and established technological chains, the insecurity of a few innovative ideas and technologies – this is a far incomplete list of reasons for the low interest of financing entities in SMEs. Although in 2019, it was recorded that banks issued loans to SMEs in the total amount of 7.8 trillion rubles, which is a record since 2014 [12]. Therewith, the volume of loans is growing for the third year in a row –loans were granted by 15% more in 2019, than in 2018. The number of SMEs that use credit facilities has also increased. There is no doubt that the active reduction of the key rate of the Central Bank of the Russian Federation played a significant role in this fact. The current situation of forced restrictions due to the coronavirus pandemic, a decrease in consumer demand for non-food products and non-essential services, and an imbalance in the world energy markets, most likely, does not allow remaining optimistic about the positive trend in the SME lending market. Even noticeable new measures of state support (expansion of the format of the Russian Government Decree No. 1764 of December 30, 2018, the introduction of two new types of loans) are unlikely to offset the negative impact of macroeconomic factors.

The unavailability of high technologies for SMEs is, among other things, a consequence of the above-mentioned reasons. But not only that. The sanctions regime of Western countries and the reduction of budget revenues from the export of raw materials also do not add optimism to the prospects for the development of this sector. Unfortunately, it is not yet possible to completely replace Western technologies with domestic ones. This is a complex evolutionary process that requires not only expert knowledge but also fine-tuning of the entire innovation process from fundamental research and development to marketing new products. Relatively inexpensive Asian equipment and technologies, which are often not the highest quality "tracing paper" of Western ones, do not give the required competitive advantages in the process of purchasing through numerous intermediaries, paying customs duties, delivery, installation, commissioning, etc.

It was believed until recently that one of the central problems of Russian small businesses is insufficient infrastructure support and, above all, **expensive rental of not always high-quality**

commercial real estate. As is known, the main user of commercial real estate is a business associated with the physical presence of customers in the company's premises: catering, shops, hotels, gyms, the beauty and health industry, etc. The trend is changing. Since traditional trade is under pressure from e-commerce, there are alternatives to traditional food service (delivery, catering, etc.), an increasing number of people prefer individual online training, then naturally (even without taking into account the impact of the coronavirus pandemic) the long-term demand for commercial real estate is falling. Moreover, a material asset in the 21st century is increasingly becoming a burden rather than a virtue since information resources (knowledge, technologies, competencies, etc.) are becoming the main factor of production and efficiency. In Russia, the main commercial real estate objects are most often owned by the state or large companies (developers, corporations). The state, as a rule, owns the land and industrial facilities that have a construction date before the 90s of the last century. Large developers build, operate, and lease, first of all, business and shopping and entertainment centers, and large joint-stock companies try to lease unused production and warehouse space and equipment. As a result, the offer on the commercial real estate market is poorly balanced in terms of the "price-quality" ratio: as a rule, the proposed objects are either expensive and inaccessible to small businesses or do not meet aesthetic and other requirements. Although 2020 has made significant adjustments to the supply and demand in the rental market, the supply today exceeds the demand for most items, which should have affected rental rates. Analysts do not fix this yet [7].

Administrative barriers, as one of the significant reasons for low entrepreneurial activity in Russia, have begun to significantly decrease. The introduction of a risk-based approach in control and supervisory bodies, the regulation of control and verification procedures, ensuring transparency through automation and informatization – all this has given the necessary effect. Therewith, the requirements for architectural objects, facades, entrance groups, outdoor advertising, and signage have recently been tightened, as well as the not always justified requirements of Rospotrebnadzor for measures to ensure an anti-epidemic regime at facilities and in premises. There are still contradictions in the standards of the fire services of the Ministry of Emergency Situations, anti-terrorist commissions (the notorious bars on the windows). Therefore, it is still **too early to talk about the complete overcoming of administrative barriers at all levels.**

There were active discussions about the effectiveness of measures to support **the participation of SMEs in public procurement and on corporate trading platforms until recently.** Summarizing the press releases of such discussions allows drawing several conclusions.

1. In general, such efficiency is recorded, but expectations were overestimated.
2. SMEs cannot always win price competition due to the lack of economies of scale.

3. The cost of presence on electronic trading platforms does not depend on the availability of concluded contracts, which is an unjustified financial burden for SMEs.
4. There is a stereotype about the low professional level of SME specialists in the field of procurement.

Another important aspect, but already related to the social sphere, is the culture of entrepreneurship. Social disunity, fragmentation of society, the inability to form a social group of entrepreneurs with common interests, lack of partnership skills, distrust of each other – unfortunately, these are the features of modern Russian entrepreneurship. Overcoming these traits is impossible in a short period. This is a difficult area to manage, unlike legislative, financial, infrastructure, and tax support measures, which are also difficult, but when they are applied, it is possible to count on a visible effect. The culture of entrepreneurship is formed over several generations in a favorable environment.

5. Conclusion

Thus, summarizing, it can be noted that the "entrepreneurship" term, although it does not significantly change its content over time, however, some of its characteristics acquire a new color. The specifics of SMEs in Russia should be added to this: weak representation in the economy as a whole, lack of drivers for growth, low innovation, and profitability. The reasons for this are diverse: some of them are difficult to overcome in the long term, some are temporary. In any case, it is difficult to imagine a strong and steadily growing national economy without the development of the entrepreneurial sphere and SMEs.

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