

Development of Small and Medium-Sized Enterprises on the Example of the Russian Federation and the Slovak Republic

Askar N. Mustafin*

Kazan Federal University, Institute of Management, Economics and Finance, senior lecturer of the department of Economic Theory and Econometrics

Jaroslav Gonos

University of Presov, Faculty of Management, PhD, lecturer of the Department of Economic Sciences and Economy

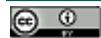
Katarína Čulková

Technical University in Kosice, Institute of Earth Resources, PhD, associate professor of the Faculty of Mining, Ecology, Process Control and Geotechnology

Abstract

Small and medium-sized enterprises in the modern market economy play the role of one of the main sectors that determine the vector and rates of economic growth of the gross domestic product. All developed countries strongly support the small and medium-sized business sector, since the structure and quality of GDP directly depends on it. This article examines the impact of small and medium-sized businesses on the economy of the Russian Federation and the Slovak Republic. The article compares the analysis and identifies the necessary conditions for starting business in the countries under consideration. The authors provide statistical data on the structure of small and medium-sized businesses identifies problems that slow down the development of small businesses and suggests ways to solve existing problems in this sector of the economy.

Keywords: Small and medium-sized business; Small business; Strategy 2030; GDP; Russian federation; Slovak republic.



CC BY: [Creative Commons Attribution License 4.0](https://creativecommons.org/licenses/by/4.0/)

1. Introduction

Small and medium-sized business is a structural element in a modern market economy, but this sector is the basis for developing the market environment in the economy. Actually, the economic conjuncture is beginning to develop with low-turnover entrepreneurship. In consequence, a large business is formed, interacting constructively with all elements of the economic structure. Small and medium-sized enterprises adapt more quickly to the constantly changing market conditions, they make a significant contribution to the development of the regions, and are also able to quickly introduce technical innovations and update the production base. In Russia and Slovakia, small businesses are still very young, and so far this sector of the economy does not show the results that are expected of it. In the Slovak Republic, it is the small and medium-sized business sector that determines the growth of the national product and the creation of new jobs. In Russia, these figures are much lower. However, it should be noted that a major step in the development of small and medium-sized business in Russia was the signing of an order approving the development of small and medium-sized business in the Russian Federation for the period up to 2030. Adoption of this strategy by the leadership of the state is a far-sighted decision that can and should bring small business to a new level, which in turn should become the mainstay of the economy in the short term.

1.2. Present State of Problem Solving

Entrepreneurship plays a huge role in the life of society. The notion of special insolvency rules for small and medium-sized enterprises (SMEs) has attracted attention in international spheres (Boraine and Van, 2015). There is also necessary to study factors, influencing SMEs growth, such as access to credit, working spaces and marketing premises, as well as human capital factors, including entrepreneur's education, business skills, and training. SMEs have very high importance for sustainable development, which is largely dependent on the firm's perceptions of the advantages of sustainability strategies and consequent practices (Asfaw, 2016). From this view social, economic and formal practices dimensions of sustainability positively affect competitive advantage, mediated by corporate reputation, customer satisfaction and organizational commitment of manufacturing small businesses in a country

Business success in SMEs had been studied from the view of mentioned factors by number of authors (Chittithaworn *et al.*, 2011), including factors as - SMEs characteristic, management and know-how, products and services, Customer and Market, the way of doing business and cooperation, resources and finance, Strategy, and external environment (Cantele and Zardini, 2018). Baranova and Paterson studied SMEs position in the East Midlands region of the UK, and aims to explore small and medium sized enterprises environmental practices, environmental capabilities and awareness of the regional support for green growth. Environmental capabilities, which are considered to have a direct positive impact on cost reduction, are found to be attracting the highest demand from small and medium sized enterprises.

SMEs place in developing countries must be investigated from various views. For example Crick et al. (2018) studied adaptation of SMEs to climate risks with aim to distinguish between sustainable and unsustainable adaptation. The ability of firms to respond to climate risks depends in no small measure on factors such as business environment that can be shaped through policy intervention (Chittithaworn *et al.*, 2011). Chen *et al.* (2017) studied relocation of small and medium-sized enterprises into industrial parks, since presently there is a new phenomenon where interfirm alliances have started to facilitate local government in promoting the relocation of small enterprises to industrial parks (Crick *et al.*, 2018). Also the market factor of alliances affects family-owned SMEs much more than it does for other enterprises. Moreover SMEs are seen as engines of job creation, growth and generation of income. But we have known since the 1980s that this assumption needed to be looked at critically. Research in developing countries revealed that graduation hardly existed there. Kraaij and Molenaar (2017) made research in the Netherlands, focusing on graduation and job creation in SMEs, finding of the paper is that graduation hardly existed and only 8.3 per cent created jobs over the course of four years (Chen *et al.*, 2017).

2. Methods of Research

Methodology of the research is represented by comparative macroeconomic analysis, synthesis, and connection of historical and logical, normative and positive analysis.

The main objective of this research is to address

the development of small and medium-sized businesses in the Russian Federation and the Slovak Republic at the present stage. The development had been followed up also by potential of business in the countries, when potential businessmen are individuals that perceive good possibilities for business initiation and presently they trust to have necessary abilities to make a business. The analysis had been filled by searching intension of business, defined as a rate of individuals in adult population (from among non-business) that is expected to make a business in next three years.

On the territory of the Russian Federation, there are 3 varieties of small and medium-sized businesses: microenterprises, small businesses and medium-sized enterprises. The classification is based on the limiting value of revenue from the sale of goods without VAT for the year. It is worth noting that for 2017 the share of GDP attributable to small and medium-sized businesses was 20%; the number of SMEs on the territory of the Russian Federation is 5.99 million units; the number of employees - 16.1 million people. The small business sector is concentrated mainly in the sphere of trade and provision of services to the population. Medium-sized enterprises are more represented in areas with higher added value - in the manufacturing industry, agriculture, construction. In 2017, the share of exports of small and medium-sized enterprises in the total volume of Russian exports was about 6%. The contribution of small and medium-sized enterprises to exports in a larger amount - their share in total exports varies from 25 to 35%. In some developing countries, the contribution of this sector of the economy to the export of products is even higher, in South Korea - about 40%, in China - more than 50%.

On June 2, 2016, D.A. Medvedev signed an order on the approval of strategies for the development of small and medium-sized businesses in the Russian Federation for the period until 2030. The mission of the Strategy is to create a competitive global economy, a flexible modern economy that will ensure a high level of individualization of goods and services, a high rate of technological renewal and stable employment of the population. This goal of the government can be achieved through the development of small and medium-sized enterprises that contributes to the sustainable improvement of the quality of life and the growth of the number of citizens belonging to the middle class.

In the Slovak Republic there are several agencies that solve the problems of small and medium-sized businesses. Among them: Slovak Business Agency (SBA, Slovak Business Agency), the oldest specialized non-profit organization to support small and medium-sized enterprises (SMEs). It was founded in 1993 on a single initiative of the European Union and the Government of the Slovak Republic (Kraaij and Molenaar, 2017). The Slovak Investment and Trade Development Agency (SARIO) is a government funded organization that operates under the supervision of the Ministry of Economy of the Slovak Republic. They are engaged in supporting the export business of Slovak business (Zavadská, 2017).

In the Russian Federation, federal, regional and municipal programs for the development of small and medium-sized businesses are also being developed and implemented for small and medium-sized businesses. Many government bodies of the Russian Federation and its subjects, as well as local governments are tasked with supporting small and medium-sized businesses

3. Results of the Research

According to the Federal Tax Service of Russia on December 10, 2017, the largest number of small and medium-sized businesses was concentrated in the Central Federal District, and then the Volga Region Federal District was located. The data on the number of legal entities and individual entrepreneurs as of December 10, 2017 is presented in Table 1 .

Table-1. Number of legal entities and individual entrepreneurs as of 10.12.2017

	Total	of them	
		Jur. Persons	Sole proprietors
		Total	Total
Russian Federation	5 998 371	2 789 991	3 208 380
Central Federal District	1 841 413	989 749	851 664
Volga Region Federal District	1 077 698	479 615	598 083

According to the national rating of the most attractive regions for investments in the Russian Federation in 2017, the Republic of Tatarstan and the Chuvash Republic are on the first place; Moscow is the third in the list of most attractive regions for investment (Absalyamov *et al.*, 2017). It is worth noting that Tatarstan ranks first for the third consecutive year.

In 2017, the share of small and medium-sized businesses in Tatarstan was 25%, this mark has not moved for 5 years, although the Ministry of Economy of the Republic of Tatarstan stipulated that small and medium-sized business will grow to 34% by 2015, it was not possible to achieve because of the development of large-scale entrepreneurship. The general picture of innovative processes in the Republic identifies industrial complexes, which account for about 90% of all the innovative organizations. Investment attractiveness hampers the development of small and medium-sized businesses, as only large business and foreign sector develops investment in the region. Perhaps this factor played a key role in the fact that small business in the republic occupies a quarter and slightly more than a third of GRP. It is believed that small and medium-sized business is the engine of the economy, but, unfortunately, in the Republic of Tatarstan, as in the Russian Federation, this has not yet been observed (Mustafin, 2016).

It is worth noting that this problem is very immediate in modern conditions, since stagnation in the development of this sector hinders the development of the economy as a whole.

Now we turn to the analysis of small and medium-sized businesses in the Slovak Republic. According to the Slovak Business Agency in 2017, there were 531,729 business entities operating in the Slovak Republic, of which 531,063 were from small and medium-sized businesses. The indicators are presented in Table 2.

Table-2. Number of small and medium-sized businesses in the Slovak Republic for 2017

The Slovak Republic		
Microenterprises	Small enterprises	Medium-sized enterprises
515 236	12 984	2 843

Speaking about Slovakia, it is worth noting that the private non-farm sector of the GDP (Gross Domestic Product) is about 50% (Michna and Bednarz, 2005). If we compare the small business of Russia and Slovakia, we can see that Russia is ahead of Slovakia in terms of the number of SMEs, but it should be noted that Slovakia is much ahead of Russia in terms of the share of employed in small and medium-sized businesses from the total number of employed citizens in the state (Table 3).

Table-3. Small and medium-sized enterprises in the Russian Federation and the Slovak Republic.

	Russian Federation	The Slovak Republic
Number of SMEs (million)	5,99	0,531
Number of employees in SMEs (million)	16,1	73.6% of the number of employees

Nevertheless, in recent years Russia has done a lot for small business. Just look at the introduction of special tax regimes, simplifying of the procedure for creating a small business, various benefits, loans, etc.

Are they effective? This is another question. Therefore, we believe that the Russian economy as a whole and its regions in particular need to search for new management, organizational solutions, which are based on a systematic approach to innovative modernization and new management mechanisms, naturally built into all types of innovative processes of economic life in the center and in places (Mustafin and Gira, 2016).

The enterprises in Russia and Slovakia are also different. Decree of the Government of the Russian Federation of 04.04.2016 N 265 "On the marginal values of income received from the implementation of entrepreneurial activities, for each category of small and medium-sized businesses" were doubled indicators for small and medium-sized businesses. Since that time, micro-level enterprises include organizations with revenues of up to 120 million rubles, to small ones - with revenues of up to 800 million rubles, to medium-sized enterprises - up to 2 billion rubles (Fedor, 2017).

Prerequisites for classifying small and medium-sized enterprises in the Slovak Republic: microenterprises - assets of not more than 350 thousand euros, net profit up to 700 thousand euros, up to 10 employees; small businesses - assets of more than 350 thousand euros, but less than 4 million euros, net income of 700 thousand euros, but less than 8 million euros, 11 to 50 employees; medium - assets of more than 4 million euros, net profit of more than 8 million euros, more than 50 employees.

Now we will analyze the procedure for issuing loans for the development of small and medium-sized businesses in the countries in question, since the level of functioning of this sector of the economy directly depends on their size and quality. In the Slovak Republic, in order to obtain a loan, you must provide the bank: business plan, data on

business owners, permission to conduct business, etc. The interest rate on a loan for a business in Slovakia's largest commercial bank "Slovenská sporiteľňa" varies from 4% to 9% , while in Russia it is twice as high. In Sberbank, the interest rate on a loan for small businesses ranges from 15.5% to 18.5% (Potapova, 2015).

In the Russian Federation in recent years, there has been a positive trend in the strengthening of monopolization. Thus, according to the Federal Antimonopoly Service, during the period from 2005 to 2015, the share of the state and state-owned companies

in GDP increased from 35% to 70% (Pakšiová, 2016). Perceiving of good business possibilities is decreasing also due to the decrease of business potential. Following table 4 illustrates values of business potential in Slovakia, comparing with Europe.

Table-4 Business potential in Slovakia and in Europe(%)

Potential businessmen	2015	2016	2017
Slovakia	11,3	8,7	8,0
Europe (average)	12,9	12,7	
Perceiving of good business possibilities	2015	2016	2017
Slovakia	23,1	17,8	16,1
Europe (average)	32,7	31,7	30,1
Business self confidence	2015	2016	2017
Slovakia	52,9	49,7	51,0
Europe (average)	42,9	48,9	42,1

Source: www.edata.sk, FINSTAT, 2015

According Table 4 Slovakia has lower number of potential businessmen. Business self-confidence is not very changing. Worsening perceiving of good business possibilities causes decrease of business potential. But in spite of mentioned Slovakia has still increasing aim to initiate business. Share of potential businessmen is multiplied, since also individuals that do not see possibilities, or do not trust their business skills, plan to make a business, when motive could be probably necessity. The situation in Slovakia in comparing with Europe is given by Table 5.

Table-5. Intention to start a business in Slovakia and in Europe(%)

	2015	2016	2017
Slovakia	17,0	11,2	15,8
Europe (average)	12,2	12,3	

Source: www.edata.sk, FINSTAT, 2015

Data in the Table show intention to start a business in Slovakia is considered as above average and high in European context (Jelínek, 2017).

4. Discussion

SMEs are inseparable part of companies' spectrum in majority of countries in the world. The reason of their importance growth is positive contribution to given group of small enterprises to the development of countries economy, which relates also to the economy of Russian Federation and Slovak Republic. Development of SMEs business presents result of economy transformation, rising of private ownership, as well as restructuring of industry and market mechanism of demand and offer of some goods and services. SMEs are one of the important factors of transforming economy and initiative, leading to the SMEs rising and development. Economic vitality of business can be seen as ability of the company to hold market position during changing conditions and at the same time ability of the company as a whole to produce profit with regard to the clients or market demands to provide basic needs, necessary for further survival and development. With aim to hold economic vitality of the company there is necessary to provide at least middle term profitable relation between financial sources and economic results of the company (Pilková and Holienka, 2014).

Process of business is followed up by GEM – (Global Entrepreneurship Monitor), presenting worldwide biggest academic study, orientated to the searching and evaluation of business dynamics and conditions of business. Business potential is first period of monitor, since mainly according good business possibilities and at the same time trust in own business skills and abilities, roots for business activity in individuals are rising. The results of such aim is not only business potential of individuals, but also their evaluation (if available), as well as support and situation of business environment, in which planed business should operate. Business activity is different from the view of business process. Initial activity consists from individuals in rising period of business (individuals rise the business actively, business generate incomes more than three months, but not more than 3,5 year). Finally after successful survival of rising and new business we can speak about established business activity, including individuals owning and leading business more than 3,5 year (Gausdal, 2015).

Policies worldwide need to be reassessed and reviewed in order to bring them in line with reality. Such analysis can be done from global and detail point of view, from the view of individual countries and regions. Such results can serve as basis for increasing of SMEs development and their future contribution to the economy. There are existing foreign and international policy guidelines, rules and regimes in developed jurisdictions that can serve as pointers in this regard. From the view of SMEs development there is necessary to provide their innovativeness, initiating

knowledge mobility and support the development, In this area there is possible to support the emergence and development of SME networks from the outside, building on the participants' knowledge and history.

5. Conclusion

A positive feature of small business is the mobility of this type of enterprise. This affects the effectiveness of small businesses, as it allows quickly filling the niches that are formed in the consumer sector and quickly pay off in comparison with large enterprises. For the Russian.

Federation and Slovak Republic, it remains relevant to continue implementing the state policy on the expansion and development of small and medium-sized businesses. However, the main problem remains that the subjects of small and medium-sized businesses prefer to go into the shadow economy. In this regard, a special role is played by the issue of public confidence in the state. Any innovations should be analyzed in terms of their impact on the business environment in general. Also of great importance is the development of competition in the economy and the country as a whole. For this, the state needs first of all to find levers for legalizing shadow small business, motivating entrepreneurs to the advantages of legal functioning. But one needs to understand that all these measures will take time, significant costs, and concerted efforts of various departments. The result of such measures cannot be obtained immediately. But there is no other way, in our opinion. The development of small and medium-sized business is a priority objective of the economic development of the Russian Federation and the Slovak Republic.

Acknowledgements

The work is carried out according to the Russian Government's Program of Competitive Growth of Kazan Federal University. Contribution is partial results of projects solving No 1/0515/18 „The decision-making model of process of evaluating raw material policy of regions” and 1/0651/2018 “Research of institutional environment influence to the corporate social responsibility, consumers satisfaction and performance of the company”.

References

- Absalyamov, T., Kundakchyan, R., Zulfakarova, L. and Zapparova, Z. (2017). Modeling the assessment of the economic factors impact on the development of social entrepreneurship. *Journal of Physics, Conference Series*, 936(1): 012059.
- Asfaw, Y. A. (2016). Growth determinants of manufacturing micro-and small enterprises in Ethiopia, an empirical study of tigray province. *Enterprise Development and Microfinance*, 27(4): 237-97.
- Boraine, A. and Van, W., J. (2015). Various aspects to consider with regard to special insolvency rules for small and medium-sized.
- Cantele, S. and Zardini, A. (2018). Is sustainability a competitive advantage for small businesses? An empirical analysis of possible mediators in the sustainability–financial performance relationship. *Journal of Cleaner Production*, 182: 166-76.
- Chen, L., Zhou, Y., Zhou, D. and Xue, L. (2017). Clustering enterprises into eco-industrial parks, Can interfirm alliances help small and medium-sized enterprises? *Journal of Cleaner Production*, 168: 1070-79.
- Chittithaworn, C., Islam, M. A., Keawchana, T. and Yusuf, D. H. M. (2011). Factors affecting business success of small & medium enterprises (SMEs) in Thailand. *Asian Social Science*, 7(5): 180.
- Crick, F., Eskander, S. M., Fankhauser, S. and Diop, M. (2018). How do african SMEs respond to climate risks? Evidence from Kenya and senegal. *World Development*, 108: 157-68.
- Fedor, S. (2017). A study of ipo activity, Evidence from Russia.
- Gausdal, A. H. (2015). Methods for developing innovative SME networks. *Journal of the Knowledge Economy*, 6(4): 978-1000.
- Jelínek, V. (2017). Podnikatelský plán, Doctoral dissertation, Masarykova univerzita, Ekonomicko-správní fakulta.
- Kraaij, A. and Molenaar, K. (2017). Graduation rates of micro and small enterprises in the Netherlands, It's all about our missing memory. *Enterprise Development and Microfinance*, 28(4): 342-54.
- Michna, J. and Bednarz, L. M. (2005). Small business in the USA. *International Journal of Entrepreneurship and Innovation Management*, 6(1-2): 4-17.
- Mustafin, A. N. (2016). Incentives and factors affecting the improvement of the human capital quality in the innovative economy. *Journal of Economics and Economic Education Research*, 17: 128.
- Mustafin, A. N. and Gira, M. D. (2016). Features of russian economy in the context of innovative modernization and increasing role of human capital. *Academy of Strategic Management Journal*, 15: 71.
- Pakšiová, R. (2016). CSR reporting in Slovakia. *European Integration*: 698.
- Pilková, A. and Holienka, M. (2014). Business activity in Slovakia 2011-2013 (in Slovak). In, Periodikum Slovenskej asociácie podnikových finančníkov, 2014, Bratislava. Available: <http://asocfin.sk/wp-content/uploads/2012/07/FM-JAR-2014.pdf>
- Potapova, E. (2015). Webstore marketing in Russia.
- Zavadska, D. (2017). Evaluation of innovative development of Ukrainian economy and determination of the mechanisms of its support. *Technology Audit and Production Reserves*, 2(5): 36-44.