

Business Development and its Contradictions

Zhuravleva G.P.

Scientific School «Economic Theory»
Plekhanov Russian University of Economics (PRUE)
Moscow, Russia
galinaguravleva@rambler.ru

Mudrova S.V.

Academic Department of Political Economy and
History of Economic Science
Plekhanov Russian University of Economics (PRUE)
Moscow, Russia
Mudrova.SV@rea.ru

Ruzanov S.A.

Academic Department of History and Philosophy
Plekhanov Russian University of Economics (PRUE)
Moscow, Russia
Ruzanov.SA@rea.ru

Samokhina E.A.

Scientific School «Economic Theory»
Plekhanov Russian University of Economics (PRUE)
Moscow, Russia
sam29rea@yandex.ru

Skripnikova M.I.

Academic Department of Political Economy and History of Economic Science
Plekhanov Russian University of Economics (PRUE)
Moscow, Russia
Skripnikova.MI@rea.ru

Abstract — The article considers the evolution of a corporation as the dominant form of organization of material production, the features of modern corporations, which along with the state are responsible for welfare and safety of the society. The relevance of the article is due to the lack of a systematic approach to this issue in economics. Research methods were used in accordance with the need to dwell on the topic. These are general scientific methods of analysis, synthesis, induction and deduction, as well as materials from libraries and the work of scientific experts. The novelty of the research lies in the analysis of this research area. As a result of the study the business as one of the main sources of employment is considered.

Keywords — corporate sector, entrepreneurship, opportunities, threats, social state

I. INTRODUCTION

One of the main factors of creation of the full-fledged market environment in the conditions of the transformed economy is formation and development of a business sector [1, 2]. Any businessperson seeks first of all for the possibilities to maximize one's own profit as one's material wealth directly depends on results of economic activity of the firm.

Entrepreneurship is called the initiative-independent, economic and commercial activities of individual individuals and legal entities, focused entirely on making a profit (income). A number of positions that relate to business should be noted:

- Compliance with the legal framework. Registration of the necessary documents and state registration.
- Risk. Responsibility for decisions.
- Receiving a profit. Receiving regular income.

- Independence. The entrepreneur decides all working moments himself.

- Sources. Income can be associated with transactions with property, with the provision of services, with the production of products or with its sales.

If entrepreneurial activity does not correspond to one of the noted signs, then a suspicion arises that the business is conducted illegally, also for high quality and profitable organization of work processes certain skills, experience and education are required. All these skills will allow the entrepreneur to achieve success and prosperity.

Modern business activity is able to solve several important functions:

- Development and introduction of innovations, new technologies;
- Efficient use of limited and replicable resources;
- Ability of businesspersons to realize their potential and achieve their goals.

Entrepreneurial activity should develop more actively in Russia, since, while earning personal profits, an entrepreneur simultaneously produces goods and services necessary for the operation of society, creates new markets, provides new or maintains existing jobs. One is a buyer of goods and services created by others and pays the appropriate taxes to the state budget [3].

Thus, the more the businesspersons seek to benefit and successfully introduce innovations, the higher the welfare of society and vice versa.

II. TARGET SETTING

In Russia, business is just starting to revive. The legislative and regulatory bases of an entrepreneurial activity in countries with economies in transition were laid in the first years of economic reforms. A lot of work on the improvement of the legislation, proceeding from the accumulated experience of its practical implementation, is still to be done. Besides, creation of favorable economic conditions is necessary for support and active civilized development of business now.

The theory of business still has not been established in Russian economic literature [4, 5]. It is connected, on the one hand, with the fact that even in the West activity of the business innovator, such fundamental resources as work and the capital were considered as the certain independent parameter, which only indirectly influences productivity and economic development. Only rather recently, the latest theories have started to consider business as a key factor of economic progress and the main source of employment.

III. MATERIALS AND METHODS

The article presents a brief analysis of Russian and foreign literature. The following methods are used: a scientific abstraction method, a formalization method, a structural-functional method, and innovative methods of thinking and activity.

IV. ACTUAL SCIENTIFIC RESEARCH AND ISSUES ANALYSIS

Works of such scientists as R. Kanntilyon, A. Smith, K. Marx, I. Schumpeter, F. von Hayek, J. Gelbrecht are the cornerstone of the modern theory of business. Separate aspects of development of an entrepreneurial activity were investigated by L.I. Abalkin, V.S. Balabanov, P.G. Bunich, A. Buzgalin, A.V. Busygin, V.Sh. Kaganov, et al.

The scientific bases devoted to processes of formation and development of business in certain spheres of economy in economies of transitional type in the conditions of social and economic crises are developed insufficiently.

Business actually constantly faces new problems and calls, threats and risks that causes need of further development of scientific approaches (in theoretical and methodological plans) studying of a phenomenon of business, adaptation, specification and revision of the separate scientific provisions drafted earlier, developments and applications of the new approaches adequate to modern social and economic, political, technological and other realities.

V. RESULTS

Throughout the 20th – early 21st centuries many works of the authors belonging to the most various schools and the directions of an economic thought were devoted to problems of corporation and contradictions generated by it.

One of these representatives was T. Veblen. Thorstein Bunde Veblen (1857-1929) was a famous American economist, sociologist, journalist, founder of the institutional direction in political economy.

Institutionalism or institutional economics (English institutional economics) is a school of economic theory that studies the evolution of social institutions such as traditions, morality, law, family, public associations, the state, etc., and their influence on the formation of people's economic behavior.

At the end of the 20th century, the so-called new institutional economics began to take shape - an integral part of neoclassical economic theory, which had serious methodological differences with traditional institutional economics [6].

The concept of institutionalism includes two aspects: "institutions" - norms, customs of behavior in society, and "institutions" - the consolidation of norms and customs in the form of laws, organizations, institutions.

The meaning of the institutional approach is not to limit the analysis of economic categories and processes in a pure form, but to include institutions in the analysis, to take into account non-economic factors.

Institutionalism analyzes not only economic categories and processes in a pure form, but also institutions and external economic factors.

In the works of institutionalists can not find hobbies complex formulas, graphs. Their arguments are usually based on experience, statistics. The focus is not on the analysis of prices, supply and demand, but a wider problem. They are concerned not with purely economic problems, but with economic problems in conjunction with social, political, ethical and legal problems [7].

T. Veblen suggested considering the corporation as the large organization of a corporate (joint-stock) form, indicating prevalence in modern to it to economy "...concerns of rather big size to become something big, than the enterprise of local value..." [8, p. 108]. At the same time, it considered a basis of success of corporation its institutionalization; a measure of what is "good-will", set of the intangible assets of corporation determined by its business contacts, patents "untwisted" by trademarks, existence of a lobby in public authorities.

T. Veblen notes the irreversible nature of alienation of owners (shareholders) from management of corporations connected with reduction of a share of common stocks in the cumulative capital. The corporation, "living on credit", does not belong to itself, to the internal subjects, and is the "general" property of both creditors, and suppliers to whom the corporation has to for the goods consumed by it.

In addition, T. Veblen indicates structures of world economy; the contradiction of actually economic targets is pursued by owners of the capital. They are expressed in increasing production and an intensification of scientific and technical progress, and the purposes of political, connected with preservation of the sustainable geopolitical situation, including personified generated by mechanical production. These are connected with control of growth in economic strength of "progressive" capitalists.

Thus, the corporation, according to T. Veblen, could only develop steadily, institutionally a necessary subject of

economy, requirement for which would be felt by all (or at least the majority), interacting with subjects.

A. Berle and G. Means in their work "The Modern Corporation and Private Property" (1932) considered the corporation of the 30s of the 20th century and allocated qualitatively new contradictions generated by it – a contradiction between nominal, legally fixed, and the actual distribution of ownership rights in the corporation [9].

Owing to the increase in scales of corporation activity the number of co-owners, shareholders grows, and the share of everybody in its capital is reduced. It brings to "dispersion" of power owners in the corporation and its actual "capture" by hired top managers who use the corporation for maximizing their own welfare.

Overcoming the revealed contradiction, in the opinion of A. Berle and G. Means is possible through development of the control mechanisms, which are built in capitalist economy: the developed stock market and labor market of top managers. The former has to have property of information efficiency and adequately react to the decrease in the share price accepted by managers of the decisions, contradicting interests of shareholders. The latter are to reduce the transactional expenses arising during dismissal of top managers.

The alternative point of view on the corporation, its place in the course of globalization of economies was offered by J. Bakan [10]. He notes that evolution of corporation for the 20th century turned it into the uncontrollable saving subject, which acquired legitimate right to pursue one's own economic interests irrespective of how harmful, can be their consequences for society. It generates a contradiction between corporation and society, which is most brightly shown in relationship of the state with corporation and society.

According to J. Bakan, by the beginning of the 21st century between the corporation and the state there is the most important institutes of modern economy "partnership". They were put into practice in the form of the state imperatives, became stronger, and based on replacement of the purposes of society in the broadest understanding including interests of corporations.

Alienation of society from assignment in such conditions becomes not a private affair of owners of corporations and is often built in state mechanisms of capitalist economy, and government institutions are subordinates in relation to the corporation. J. Bakan sees the solution of this problem in strengthening of the regulatory system, political democracy, refusal of global liberalism and strengthening of public institutes. The question on how to implement the offered actions by efforts of the state remains the main unresolved problem.

Besides, the beginning of the 21st century can be characterized as the period of active development of interaction of public authorities, business structures and the population, formation of corporate social responsibility, including improvement of forms of business investments to development of society and evolution of social partnership.

The modern diversity of interactions between state, civil institutions and the market becomes the basis of cooperation

and the joint creation of common value, and also raises the question of what methods and means can achieve synergies in the use of resources, competences and knowledge of the state, the market and civil society.

In the economic literature, there is a variety of interpretations of the concept of state entrepreneurship, reflecting different approaches to understanding the role and importance of the state in the implementation of economic activity. In our opinion, state entrepreneurship can be represented as a form of regulation, management and stimulation of the economy through various forms of state participation in economic activity. It is significant to note that state property does not function as a national treasure, but as capital, that is, as a property that makes a profit in the conditions of market competition.

State entrepreneurship today manifests itself in various forms. These are both public enterprises based on close interaction of state and private property within the boundaries of individual enterprises, various projects based on public-private partnership, and a contract system for placing government orders. Obviously, this multivariate should be reflected in the definition of the state enterprise. [11, p.263-264]

In view of the above, state enterprise should be understood as purposeful activity involving the use of state property, carried out by companies with state participation, as well as through the formation of a market supply of state capital in various areas of economic activity not prohibited by law in order to meet the needs of society and its citizens in goods, works and services, and making a profit on a systematic basis, without required for self-development of a business entity and ensuring financial obligations to other business entities.

The modern economy is characterized by increasing the diversity of state participation in business. In the conditions of a new economic reality, it is necessary to consolidate the concept of "state entrepreneurship" in existing regulatory legal acts. [11, p.264]

Social responsibility of business represents the concept according to which the organizations consider interests of society, assuming responsibility for influence of their activity on customers, suppliers, workers, shareholders, local communities and other interested parties of the public sphere.

These obligations are beyond the minimum of compliance with the law established by the law and assume that the organizations voluntarily take additional measures for improvement of quality of life of workers and their families, and also local community and society in general.

Modern Russian practice of social responsibility is difficult and many-sided and often is a subject of numerous disputes and criticism. Certain researchers claim that there is a strong economic justification of corporate social responsibility, and the companies get numerous advantages from the fact that work for broader prospect, than own short-term profit.

Critics in turn prove that social responsibility of business distracts the companies from a fundamental economic role of business. Existence of such versatile points of view on a

phenomenon of corporate social responsibility proves relevance and the importance of the studied phenomena and processes.

VI. DISCUSSION

The detailed analysis of functioning of large corporations leads to one more important conclusion: the free market understood as spontaneous interaction of supply and demand and establishment of the equilibrium price is not favorable to none of the social groups considered above.

Even consumers would prefer the planned mechanism to the free market. Planned character means predictability. In the predictable market it is easier to live and plan the future. The state especially is interested in the stable and planned nature of the market guaranteeing implementation of obligations to society.

VII. CONCLUSION

Playing a role of the institute on ensuring stability and safety of the market for consumers, shareholders, partners, society and employees, the corporation is urged to align the purposes and interests of all these groups. The purposes (motives) of social groups have to be coordinated with the purposes of corporation. The similar purpose can be expressed in terms of growth of corporation.

Thus, criterion function of corporation is not maximizing profit or minimization of transactional expenses, but the stable growth of business providing safe development for all social groups concerning corporation.

Such understanding of the purposes of corporation will be coordinated with the modern concept of the new institutional economic theory proclaiming cultural education a main objective of the modern person whose desires are also defined by culture. According to it the corporation has to seek to become the most socialized institute which serves, first of all, for the common goals of society connected with stable social development and safety.

Moreover, it is possible to note that the modern companies cannot develop without interacting with the social sphere: every day the number of the civil associations, initiative groups and the public organizations, which are forming the public opinion and which are actively influencing business, increases. Social responsibility of corporate associations in modern conditions promotes stability of economic development, improvement of welfare of society.

Social activity of the companies has a set of manifestations and forms. Depending on specifics of business, it is possible to concentrate on improvement of working conditions of personnel, to be engaged in development of socially important services or goods, to reduce or eliminate environmental pollution, to support sport and public events and the initiatives, etc.

At the same time care for socially important issues should be organized. It is very important that such activity becomes the integral and public part of business. Excessive activity can cause a boomerang effect and be regarded as a desire of the enterprise to advertise [12, p.62].

The corporation has to give the main priority in elaboration of the strategy of the development to society. Being by the nature a social and market institute, the socially oriented corporation has to care for respect for social safety, first of all. The following importance is the priority of consumers, employees, shareholders and partners of corporation in business.

Thus, socialization of business and social responsibility of corporate associations in the conditions of market economy gain great value. They have to enter into the organization of management as a motivational and restrictive factor, as means of achievement of success and a criterion of efficiency of business. Only in this case the market economy will really be able to be socially oriented.

References

- [1] Ya.S. Yadgarov and E.V. Aleksandrova, "Features of theories of productive labor in economics of the end of the XVIII - beginning of the XIX century," *Standardization and compensation in industry*, No. 11, pp. 57-62, 2013.
- [2] E.V. Aleksandrova, G.P. Zhuravleva and M.I. Skripnikova, "Behavioral economics as a new branch of economics," *International Journal of Applied and Fundamental Research*, No. 2, p. 66, 2016.
- [3] V.V. Maslennikov, I.A. Kalinina, K.V. Ekimova, I.M. Kornilova and E.A. Samokhina, "Survey of public awareness of services provided by employment centers," *European Research Studies Journal*, vol. 20, No. 2B, pp. 411-428, 2017.
- [4] V.N. Kovnir, "Assessment and Comparison of Economic Systems in the Modern World Economy," *Economist*, No. 6, pp. 67-75, 2008.
- [5] V.N. Kovnir and K.F. Shaykhirardanov, "The relationship of credit ratings of countries and the volume of foreign investment," *Humanitarian Gazette*, No. 8 (10), p. 2, 2013.
- [6] Walton H. Hamilton, "The Institutional Approach to Economic Theory," *American Economic Review*, vol. 9(1), Supplement, p. 309-318, 1919. Reprinted in R. Albeda, C. Gunn and W. Waller, "Alternatives to Economic Orthodoxy: A Reader in Political Economy," 1987, pp. 204-212.
- [7] I. Rozmainsky and K. Kholodilin, "Institutionalism. History of Economic Analysis in the West," St Petersburg, 2000.
- [8] T. Veblen, "The Theory of Business Enterprise," New Brunswick, New Jersey, 1904.
- [9] A. Berle and G. Means, "The Modern Corporation and Private Property," New York: The Macmillan Company, 1932.
- [10] J. Bakan, "The Corporation. The Pathological Pursuit of Profit and Power," Moscow, 2007.
- [11] V.Yu. Nagalin, "Modern approaches to the development of state entrepreneurship in the Russian economy," *Theory and practice of management: answers to the challenges of innovative development: materials of the VII International Scientific and Practical Conference of Students, Master Students, Postgraduates and Young Scientists*. Moscow: REU named after G.V. Plekhanov, pp. 263-265, 2017.
- [12] Yu. Yu. Petrunin, "Corporate social responsibility in modern Russia: institutionalization problems," *Bulletin of Moscow University. Ser. 21. Management (state and society)*, No. 1, pp. 61-68, 2012.