

# State and Peculiarities of Differentiation of Small and Individual Entrepreneurship in the Regions of Russia

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**Abstract**— the analysis of the state of small business (SB) is a "catalyst" of the state of economic relations in countries with a market economy. The revival of the SB in Russia has been more than a quarter of a century, but the potential advantages of the SB are still barely perceptible. Therefore, the monitoring of the state of small business is relevant for the adoption and implementation of effective differentiated support for SB in the regions of the country. **Methods of research:** statistical methods, methodical approach to the classification of Russian regions by key characteristics of the state of small business; a technique of construction of system of ratings of regions on a level of small business development that allows to receive the signal information about changes occurring in SB.

**Information base:** data from a full-scale Federal statistical observation of the state of the small business in Russia in 2010 and 2015. **Results:** the implementation of the proposed approach made it possible to carry out the typology of groups of regions that differ in the degree of balanced development of small business, assess the favorable business environment in the selected groups, identify a high degree of concentration of SB entities in the regions of Russia, and show that the dynamics of the small business sector as a whole across the country in decisive measure depends on its state in the regions-leaders.

**Keywords**— *Russian Federation, small business, individual entrepreneurship, small and medium entrepreneurship.*

## 1. INTRODUCTION

World experience shows that small business is an important part of the economy of both specific countries and individual regions, acting as an important factor in the social stability of society and reducing the territorial inequality of economic development, often determining the specialization and level of economic development of countries and territories (see Table 1).

In those countries and regions where the share of SB grows, the share of the middle class, initiative of the population, is growing. Small business (SB), understood as a synonym for small entrepreneurship (SE), contributes to the employment of the population, the receipt of funds by the budgetary system, ensures the growth of incomes of citizens [5; 6; 7]. At the same time, there are significant differences in the distribution of employment between enterprises of different sizes in developed countries. For example, in Portugal, Slovenia, Italy and Greece, more than 45% of employment is in

microenterprises, i.e. firms with fewer than 10 employees, while in the United States and Switzerland less than 20% of employed countries work in microenterprises [8].

Table 1. Level of development of small business (SB) in a number of countries

Index	Japan	People's Republic of China	The Republic of Korea
Number of employees SB (in % of total number)	88,0	75,0	87,7
Share of GDP of the country produced by the SB (%)	61,0	60,0	50,0

**Source:** compiled from [1-4]

Small business enterprises are a significant source of innovation, contributing to the development of production in technologically advanced areas [9]. The size of the firm is important for productivity. Larger firms are on average more productive than small firms, especially in the manufacturing sector, which partly reflects the benefits of revenue growth, for example, through capital-intensive production. However, this is not a generally accepted truth. For example, in Switzerland, medium-sized firms have higher productivity than large firms, which may reflect specialization in the production of products with higher added value [8].

In the Russian Federation, the revival of the SB has been on for more than a quarter of a century, but all the above-mentioned capabilities of the SB, despite their potential importance, are still barely perceptible in the country. The contribution of the SB to the GDP of Russia is 18-22% according to various estimates [7; 10, p.79], and not 50-60%, as in advanced economies (see Table 1).

Realizing that for a country as large as Russia, the SB can not become the backbone of the economy, but it can act as a connecting link ensuring the uninterrupted operation of large industrial enterprises, we will try to assess the dynamics of the small business and the features of differentiation of small business in the regions of modern Russia.

## 2. CONCEPT AND FEATURES OF THE DEFINITION OF THE SB IN THE RUSSIAN FEDERATION.

In most developed countries, the statistical accounting system is based on the ability to study the performance of economic entities, depending on their size. A flexible way of organizing statistical observation in the EU [11] and the US [12] allows monitoring of each size group, developing a differentiated policy and monitoring the effectiveness of decisions for any of the size groups of enterprises.

The concept of the SB used in the Russian Federation differs from the definition of SB in the EU or the US. In addition, the Russian criteria for the determination of SBs are not constant, they changed in 2005, 2009 and 2015, which makes it difficult to perform comparative analysis and regular assessments for this segment both in comparison with foreign countries and in identifying trends in the development of Russian SBs.

Federal Law 209-FL "On the Development of Small and Medium-Sized Enterprises in the Russian Federation" of July 24, 2007 (as amended on December 31, 2012) determines the size of small and medium-sized businesses in Russia as follows (see Table 2).

Table 2. Definition of small and medium-sized business in the Russian Federation

Type of enterprise	Number of employees, person	Income amount, million rubles
Micro-	Up to 15	Up to 120
Small	16-100	Up to 800
Medium	101-250	Up to 2000

The latest version of FL-209 limits the revenue from sales of goods (works, services) used for the classification of small and medium entrepreneurship (SME) subjects were increased by 2 times. It can be assumed that such a growth in revenue limits was made in order to increase the participation of high-performing business entities in state support programs. The logic of the organization of a new basis for mutually beneficial cooperation between Russian and foreign companies, the creation of new technological links, includes the recognition from October 1, 2013 of small and medium-sized enterprises created by foreign citizens. Prior to this, it was believed that if the share of a foreign citizen in the authorized capital of the company exceeded 25%, this company was deprived of the SME status. According to existing information [13], the Government of the Russian Federation is considering the abolition of restrictions on the share of foreign capital in SMEs and inclusion of foreign companies in the unified register of SMEs.

## 3. INFORMATION BASE AND STATISTICAL PROBLEMS

In the Russian Federation, the accounting of small enterprises is carried out through sample surveys. Quarterly

data have been tracked since 2008, but only for small enterprises, employing more than 15 people. Such statistical accounting leads to the fact that quarterly monitoring covers only 14-15% of enterprises employing less than half of workers in small businesses. It seems that such a sample gives only a very general idea of the state of small business. The drawbacks of information about the SB include the fact that Rosstat publishes annual information only after a year, and this data is also not the result of a continuous survey.

Since August 2016, the Unified Register of Small and Medium-Sized Entities (the website: <https://ofd.nalog.ru/>), started on the basis of information on economic entities contained in the information systems of the Federal Tax Service of Russia. However, the data contained in the Single Register is incommensurable with statistical information on the subjects of the SB formed by Rosstat in previous periods. This is due both to the size of the sample (from 5 to 40% of the subjects of the SB, depending on the category, while the Federal Tax Service of Russia automatically processes information on all economic entities) and significant changes in the criteria for classifying business entities as SBs, as noted above.

Therefore, as an information base in the work selected data of two rounds of full-scale Federal statistical observation of small and medium-sized businesses, conducted by Rosstat in 2010 and 2015. The final results of the last of the complete statistical observation were published in late 2017. The data of the complete observation allow us to analyze the trends developing in different categories of SME, as well as to consider the situation with small business in Russia in general and in the regions of the country for 2010-2015.

## 4. METHODOLOGY AND METHODS OF RESEARCH

The approach to monitoring the development of the SB in the regions of the Russian Federation is complex and takes into account enlarged thematic groups (blocks) of indicators that characterize the state of both individual entrepreneurs and individual entrepreneurship.

A general approach to assessing the economic potential of SBs in the regions can be illustrated with the help of a multilevel "pyramid" based on a set of initial indicators, then - private indicators (subindexes) leading to the top of the "pyramid" - a composite estimate of the index of the economic potential of small business in region (subject of the Russian Federation or the federal district).

Thus, the methodology for assessing and analyzing the regional economic potential of small business is based on a number of stages:

- the formation of a system of benchmarks for 2010 and 2015, with their subsequent consolidation into enlarged thematic groups (blocks) characterizing the state of individual entrepreneurs and small entrepreneurship;
- on the basis of the "maximin criterion" [14, p. 81-85], private indicators (subindexes) that comprehensively reflect the economic state of both individual entrepreneurs

(individuals) and small entrepreneurship (legal entities) in the regions are calculated;

- calculation of the composite index of the state of small business of the regions on the basis of a "convolution" of private indices, followed by the construction of a ranking (ranking) of Russian regions as of the state of the SB in 2010 and 2015.

## RESULTS

At the first stage of the work, a comparative analysis of the state of SMEs in the Russian Federation for 2010-2015 was carried out according to the full-scale Federal statistical observations (Table 3).

Due to a change (increase) over the observed period of the threshold value of classifying production as an SME, the number of SMEs in the Russian Federation increased from 4.6 million in 2010 to 5 million in 2015.

If in 2010 63.7% of the total number of SME entities were individual entrepreneurs, in 2015 their share decreased to 55.5%.

In the structure of small and medium-sized enterprises, the number of entities is dominated by micro enterprises, the share of which in SMEs increased by 8.7 percentage points over the period (from 30.8% to 39.5%).

With the general growth in the number of business entities, the number of people employed in small and medium-sized businesses declined from 19.1 million in 2010 to 18.44 million in 2015. There was a noticeable shift towards an increase in the number of employed at micro enterprises (from 20.4% to 25%). This shift is explained by a decrease in both the total number and the proportion of those employed in the remaining categories of SMEs. During the period under review, the volume and share of revenues received by microenterprises in total SME revenues increased sharply (from 18.2% in 2010 to 30% in 2015). In 2015, labor productivity at micro enterprises (4.04 million rubles / person) exceeded productivity in small enterprises (3.79 million rubles) and accounted for more than 85% of labor productivity in medium-sized enterprises.

In reality, Russian small business is not small, but micro-entrepreneurship, represented by enterprises with a staff of up to 15 people.

At the second stage of the study, it was taken into account that the regions (federal districts and subjects of the Federation) vary greatly in size, population and economic potential. The highly differentiated social and economic conditions of the Russian regions predetermine the uneven and multidirectional nature of small business development. It is influenced by the diversity of local economic, social, political conditions. As a consequence, the reaction of individual entrepreneurs and small businesses to changes in the economic situation in the federal districts for 2010-2015 showed multidirectional dynamics.

As regards the state of individual entrepreneurship in the federal districts, a relatively homogeneous situation is observed. In the country, the number of individual

entrepreneurs during the period between continuous surveys decreased from 2.93 to 2.79 million. Among the federal districts, only the Southern Federal District showed an increase in the number (by 19%) and density of individual entrepreneurs per 10 thousand residents in 2010-2015. In other federal districts, there was a decline in both the total number of individual entrepreneurs and their density.

Table 3. Main characteristics of SME based on the results of the full-scale Federal statistical observations of the state of the SB in Russia in 2010 and 2015

Category of SME	The structure of SME in the Russian Federation					
	by number of SME		by number of employees		on proceeds from the sale of goods, works, services	
	2010	2015	2010	2015	2010	2015
Total	4,6 million n.	5,0 million .	19,1 million people	18,44 million people	30,84 trillion rubles.	62,1 trillion rubles .
in total,%	100	100	100	100	100	100
- individual entrepreneurs	63,7	55,5	28,0	26,7	14,6	12,2
- micro enterprises	30,8	39,5	20,4	25,0	18,2	30,0
- small-sized enterprises	5,0	4,6	38,1	36,5	43,2	41,1
- medium-sized enterprises	0,5	0,4	13,5	11,8	24,0	16,7

Source: calculated by [15; 16]

In the part of small enterprises for the period 2010-2015 growth in both their numbers and in all federal districts was observed. Leaders in the number of small enterprises throughout the period were the Central and Volga federal districts. This distribution of the number of small enterprises as a whole fits into the general picture of the distribution of the population and the economy of Russia.

In the regions of the Federation, the concentration of individual entrepreneurs and small enterprises looking more diverse than in the federal districts (see Table 4).

More than half of small enterprises are concentrated in twelve constituent entities of the Russian Federation. Leaders in the number of small businesses throughout the period were Moscow and St. Petersburg.

Individual entrepreneurship at the level of the subjects of the Federation is less concentrated, in comparison with the location of small enterprises. Regions-leaders gravitate to the south of Russia (the Krasnodar Territory and the Rostov Region).

The current distribution of small business by region is generally objective and subjective in the Russian Federation. The latter include the absence of a national regional policy and the plurality of subjects of the Federation that have considerable rights to organize the local legal and economic environment. This led to the fact that in some regions the available opportunities were used, but in others - not.

Table 4. TOP-3 regions of Russia by the number of small businesses

Index	Individual entrepreneurs		Small enterprises	
	2010	2015	2010	2015
The number of RF subjects that concentrate more than 50% of small business entities	21	18	12	12
Regions leaders (TOP-3) by the number of small business entities *)	Krasnodar Territory (176)	Krasnodar Territory (196)	Moscow (202) St.	Moscow (295) St.
	Rostov region (106)	Rostov area (117)	Petersburg (119)	Petersburg (166)
	Stavropol Territory (88)	Moscow region (97)	Moscow region (68)	Sverdlovsk Region (87)

\*) in brackets - the number of small businesses in the region (thousand pieces)

Source: calculated by [15; 16]

At the third stage, multidirectional trends in the development of individual entrepreneurship and small enterprises with the help of a minimax criterion were "collapsed" into a composite index of the state of small business in the regions.

The calculations were based on three indicators characterizing the state of individual entrepreneurship in the region (the density of individual entrepreneurs per 10,000 inhabitants, the average number of employees and the proceeds from the sale of goods, works and services) and three indicators describing the state of small enterprises (density per 10 thousand residents, the average number of employees and the proceeds from the sale of goods, works and services).

For each of the selected indicators, the place of the region was determined on the normed ruler of values for the analyzed regions of the Russian Federation, that is, the local rating for each selected private indicator was calculated. The obtained local rating characterized the lag of the regional value of each selected indicator from the maximum value of the indicator among the analyzed regions. This gap (the "size of the gap") was measured in percentage points. This approach allowed the regions to be placed on a standardized range of values and after that, using percentage points, to calculate the

consolidated rating of the state of small business in the regions of Russia (see Table 5).

Table 5. Consolidated index of the development of small business (in percentage points of the best possible state)

Federal District	2010	2015
Russian Federation	46,4	49,0
Central Federal District	50,8	53,9
North-West Federal District	46,9	53,2
Southern Federal District	44,6	46,4
North-Caucasian Federal District	31,9	34,4
Volga Federal District	47,0	47,4
Ural federal district	48,6	49,2
Siberian Federal District	43,3	45,5
Far Eastern Federal District	51,1	55,5

Source: calculated by [15; 16]

The composite index shows the level of the region's lagging behind the conditionally better ("ideal") region of Russia as measured by the percentage of small businesses in terms of percentage points.

As can be seen from the data in Table 5, the situation in the Southern, North-Caucasian and Siberian Federal Districts in terms of the state of small business throughout the observation period 2010-2015. was worse than the average Russian. In the Volga Federal District in 2015, it deteriorated compared with the national average. Against this background, a group of macro regions with relatively favorable conditions for small business development formed the Central, North-Western, Ural and Far Eastern Federal Districts.

#### SUMMARY

It is shown that Russian small business is micro-entrepreneurship, represented by enterprises with a staff of up to 15 people.

A high degree of concentration of small business entities in the regions of Russia is revealed, when in twelve regions of the Federation more than half of the country's small enterprises concentrate, and the dynamics of the small business sector in Russia as a whole depends to a decisive degree on its state in the leading regions.

Multidirectional tendencies of development of individual entrepreneurship and small enterprises in the subjects of the Federation are indicated. It is shown that individual entrepreneurship is less concentrated and more sensitive to crisis changes in the economic situation than small businesses.

In general, the implemented approach to assessing the potential of small business in the federal districts of Russia allowed to assess the state of the business environment in the regions considered as not effective enough for the development of small business.

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