

# BUSINESS ACTIVITY IN THE RUSSIAN FEDERATION

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## Abstract

Russia entered into the market economy, starting in 1991. It can be said that the small business in Russia was born thanks to the reforms. His birth date of July 18, 1991, the day of the issuance of Order No. 406 of the Government of the Russian Federation "on the support and development of small enterprises in the Russian Federation" which has defined the criteria for Small Enterprises and the general conditions of its operation.

The entrepreneurial class has emerged in Russia from nothing, immediately after the breakup of the Soviet Union. The rapid replacement of elites and the lack of information have led to a genuine distorted representation of the new class. In public opinion, the contractor was represented with images that caused fear because of misunderstanding. The press has begun to draw entrepreneurs "Class ghost."

The Russian entrepreneurship forms a social group relatively young (on the time of its existence). And that is why the people have not yet determined its attitude to this group. There are two extreme positions, aversion and complete sincere support to entrepreneurial activity. As a new class develops, it provokes ambivalent feelings in other social groups and shape public opinion in new myths and prejudices.

The image of the businessman in the consciousness of the Russians is the selfish person desiring only personal profit and the accumulation of wealth, "making money" for the money. It is believed that the income from entrepreneurial activity are immeasurably large compared to the actual expenditure of manpower.

Women's entrepreneurship in Russia develops contradictory. The economic and social difficulties faced by Russian companies, contribute to the stability of myths, according to which the female management can not be effective in the conditions of economic crisis.

Foreign entrepreneurs working with the Russians have created the legend that businessmen are Russians as "ours" in the business. They say they

are lambing, lazy, they can not adapt to changing economic conditions very quickly.

Despite all these rather hostile glances, almost 40% of Russians see entrepreneurs with kindness, 36.6% are neutral, 16.7% perceived very well and 6.7% are hostile.

## I. BUSINESS DEMOGRAPHY

In Russia, the perimeter of the small business is defined by the Federal Law No. 88-LF, June 14, 1995 "The state support of small business in the Russian Federation". This legislation includes:

- the Independent (without formation of a legal person);
- farmers;
- the companies of the legal person which meet the following requirements:

1. In the capital, the share of the property of the State of the Russian Federation and the subjects of the Russian Federation, the municipal property, public and religious organizations, and other charitable funds does not exceed 25%.

2. An average number of employees not exceeding the marginal level:

- in industry, construction and transport: 100;
- in agriculture and technological sphere: 60;
- in the retail and service life: 30;
- in other branches and the achievement of other areas of activity: 50 people.

Although the upper border of small businesses either legislatively established at the level of 100 people, but the amount of more than half (55.2%) of small firms does not exceed 5 persons.

According to the 2005 assessments, entrepreneurs without formation of a legal person represent 80.5% of the total number of small enterprises.

The number of small enterprises grew only by inputs of entrepreneurs without formation of a legal person.

The structure of small and medium business		
The categories	Size	Workforce
The small enterprise	micro	Up to 15 person
	small	from 16 to 100 person
The medium enterprise	average	from 101 to 250 person

Fig.1 The structure of small and medium business

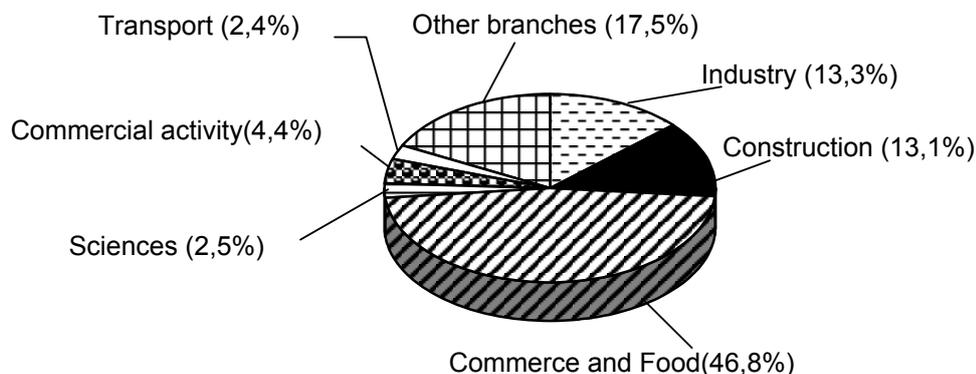


Fig.2 Distribution of number of small enterprises by economic sectors (For the year-end 2005, in the percents)

## II. DEMOGRAPHY CREATORS

In Russia the entrepreneurs are the part of the population which is not satisfied with its social and economic position.

Candidates for the creation and young entrepreneurs have an average of 33 to 40 years. The generation of 25-44 years is the most involved in the new market economy. The main reason for creation is the low level of income, 15% of independent entrepreneurs have indicated the lack of work as the engine for entrepreneur activity.

Entrepreneurs look for the realization of their creative abilities and economic freedom.

The level of their education is often higher than the bachelor's degree. It seems that the Russians have an ability to learn very fast. 70-80% of entrepreneurs have the technical education (they are mainly promoted Senior of Technical University), and 7 to 10% of the entrepreneurs have university education.

Russians entrepreneurs are often men who have a family support and resources. This is necessary because in Russia the main source of funding is personal savings.

According to foreign partners, Russians entrepreneurs are very direct, they have a spirit rather Western. It remains to get used to the slow pace of administrative and cumbersome bureaucracy.

The studies on women's entrepreneurship in Russia it is fair to say that the woman becomes a figure of growing importance in the new Russian economy. But because of the instability of the

economy the Russian business world remains male, as is the success achieved by people with a strong character and even aggressive. Women must be fitted with a strong character. According to the results of the sociological study the variety of female small enterprises in the regions is about 30%.

## III. THE NATIONAL SUPPORT OF ENTREPRENEURSHIP

In Russia, entrepreneurship is at the stage of becoming. Its development is related to the transition period of the economy, which gives the company a series of social and economic missions increasingly important, such as the formation of the new economic structure, the emergence of the middle class, the alleviation of unemployment and the guarantee of political stability in society. The decision of these missions is still in the legislatures and executive authority that designs support by the development of entrepreneurship.

Despite programs to assist small entrepreneurs, developed by the Russian government since 1995, all problems facing small business have not been solved by present time. The system of public support and State Small Business exists but needs to be reinforced by "national priority" projects, which are designed to improve the standard of living of the population.

In this area, the authorities are pursuing a dual policy. On the one hand they retain control of strategic sectors of the Russian economy (energy and metallurgy included). On the other hand they stimulate the small enterprises sector by their liberal economic policies. Some entrepreneurs are trying to

share their experiences with the State in carrying out joint projects.

A new law about "the development of small and medium enterprises in the Russian Federation" concedes that small enterprises in the country as a whole need a law which clearly defines the main axes of government support for entrepreneurship." This law aims at the development of small enterprises to maintain employment of the rural population.

Currently, direct aid to business increase, but it's remaining grossly inadequate. While experts believe that the need for resources sector exceeds 1,000 billion rubles, the Ministry of Finance is expected to devote 3 billion rubles only in 2007.

In the opinion of the entrepreneurs themselves, 64% think that we need support, above all intellectual production (information technology, science, art) and 39% in the production of consumer goods and equipment.

The individual contribution of 100% is still needed even though 3% of the population would be business-angels. One of the main reasons that hold the development of a small business is the limited access to external finance. Unfortunately, it is evident support of state and a bank loan still inadequate. The banking legislation establishes requirements rigid to potential borrowers. The traditional banking system at the moment is not ready to credited the citizens who intend to become entrepreneurs or small businesses. But Russians banks, primarily regional, actively begin to control this niche; they understood that funding for the small business credit can strengthen their competitive positions. Thus, according to official statistics the share of loans given to small businesses in the banking for the last year has grown from 22.3% to 25.6%.

In Russia there is a huge niche for micro finance. Customers of micro credits are entrepreneurs

who will start their own business, and the company is experiencing financial difficulties. The Centre for Russian Micro financing has been created by the government in 2002 for giving information to persons who want to start their own business by obtaining a micro credit.

Russian women are a target group of micro financial organizations. For the moment, demand for micro financial resources is estimated at 1 billion rubles.

The concept of clusters, technology parks, business incubators, presented for many years in the developed economies, was still unknown a few years ago in Russia. They are now at the heart of discussions on strengthening the international competitiveness of the Russian economy. The years 2005-2006 marked a turning point. It was finally stopped to consider the small and medium enterprises as something exotic, which might or might not survive. The sector has survived. In 2005-2006, according to the Ministry of Economic Development and Trade, 93 institutions and business incubators have been created.

#### IV. INFORMATION SUPPORT FOR BUSINESS ACTIVITY

In Russia, the information for entrepreneurs is provided through a system of regional agencies that make legal services, accounting and consulting, and elaboration of marketing plan.

These agencies provide legislative information through the Internet, the daily publication, fast and free in exchange rates of currency and various auxiliary information. The market of information services, consulting and support for the creation lies at the stage of becoming.

Type of information	The origin of information		
	Federal	Regional	In Moscow
Legislative Information			
The financial information and business news			
The proposals for business and the prices of goods and services			
The information and addresses			
The archives periodicals			
The integrated information systems			
Information networks to support small enterprises			

Conventional signs: (in the % on the fullness of the information available)



Fig.3 Table of information, which disposes the entrepreneurs in Russia, compared to the all world.

It shows that information is more accessible in Moscow and in the regions that are endowed with agencies whose responsibility it is.

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## LEGISLATION

Federal Law 14.06.1995 n°88 «The national support of small business in the Russian Federation »