

## Essential features of small and medium business

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**Abstract.** This article discusses the essential features of the development of small and medium-sized businesses, as well as issues of forming a regional innovation cluster. In modern conditions the majority small and part of medium-sized enterprises are created from the ground up, and the first way which not so long ago was the basic. The second way is closely connected with the first, but also is defined by rates of demonopolization in various fields of activity. The third – restraints by disinterest of businessmen in investment that is connected with adverse general economic situation.

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### Introduction

As world and domestic practice shows, the main indicator on the basis of which the enterprises of various organizational and legal forms treat subjects of small and average business is first of all, the average number of the workers engaged at the enterprise for the reporting period. In a number of scientific works small business is understood as activity which is carried out by rather small group of persons, or the enterprise operated by one owner [1].

According to the Federal law No. 209 of 24.07.2007 "About development of small and medium enterprises in the Russian Federation" subjects of small and medium enterprise include consumer cooperatives and commercial organizations brought in the unified state register of legal entities (except for the state and municipal unitary enterprises), and also physical entities who are brought in the Unified State Register of Private Entrepreneurs and carrying out business activity without formation of legal entity, the country (farmer) farms corresponding to the following conditions:

1) the average number of workers for previous calendar year shouldn't exceed the following limit values of average number of workers for each category of subjects of small and medium business:

a) 101 to 250 people inclusive for medium-sized enterprises;

b) to 100 people inclusive for small enterprises; the microenterprises are distinguished from small enterprises – to 15 people;

- the proceeds from sales of goods (works, services) without a value added tax or balance cost of assets (the residual cost of fixed assets and intangible assets) for previous calendar year shouldn't exceed limit values: the microenterprises – 60 million rubles;

small enterprises – 400 million rubles; medium-sized enterprises – 1000 million rubles.

### Method

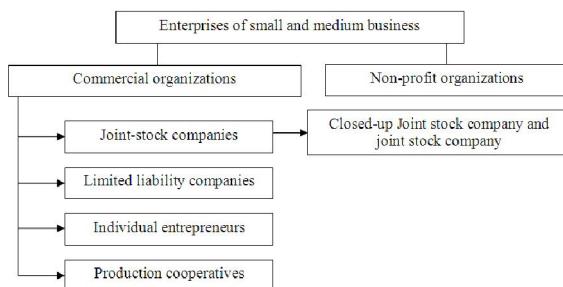
In economic literature medium business isn't allocated as independent unit of economic relations. Completely there are no signs on which enterprise can be referred to object of medium business, and also, how specifically medium business differs from small and large. At the high importance of medium business for economy (if country's gross production of goods and services of large business companies makes 50%, and small – 15%, and gross production by the enterprises of medium business is 1/3 part of all goods and services) there is lack of the researches devoted to medium business only.

It is possible to define three ways of creation of small and medium-sized enterprises: transition of enterprises from state in a private property by privatization; allocation of enterprises from large by demonopolization, disaggregation and privatization; creation of new small and medium-sized enterprises.

In modern conditions the majority small and part of medium-sized enterprises are created from the ground up, and the first way which not so long ago was the basic, stopped being that [2, 3]. The second way is closely connected with the first, but also is defined by rates of demonopolization in various fields of activity. The third – restraints by disinterest of businessmen in investment that is connected with adverse general economic situation.

The main organizational and legal forms of small and medium business are presented in figure 1. According to the Civil Code of the Russian Federation, all small business enterprises are classified as commercial (a main goal – receiving profit) and noncommercial. Medium business is most

often organized in the form of limited liability companies.



**Fig. 1. Forms of the organization of small business**

It is an economic society, founded by one or several natural (legal) persons which authorized capital is divided into shares. However in reality the small enterprise in the form of open company has one founder (natural person), and authorized capital of such open company is brought in the minimum size determined by the legislation.

One of forms of organization of small business – the individual entrepreneur. These are the natural persons who are registered in order established by the law and carrying out business activity without formation of legal entity. The important sign – according to the obligations

connected with business, the individual entrepreneur answers in accordance with general practice, i.e. all property belonging to it. Often small business is organized in the form of production or branch cooperative. His founders bear subsidiary responsibility for activity and cooperative property. The last is formed by introduction of deposits (shares) of participants [4, 5].

The sizes of enterprises also depend on specifics of branches, their knowledge intensity and technological features, on action of effect of scale, concentration of production. There are plenty of small and medium-sized enterprises especially in retail trade, and also in the branches connected with socially – consumer services and production of consumer goods. Small production is promoted by differentiation and demand individualization in the sphere of production and personal consumption.

Certain shortcomings are inherent in small and medium business: higher risk level, therefore high degree of instability of position in the market; high dependence on large companies; weak competence of heads; hypersensitivity to changes of conditions of managing; difficulties in loan of additional financial means and receiving the credits, etc. (see table. 1).

**Table 1. Advantages and shortcomings of small and medium business**

Strengths of small and medium business	Weaknesses of small and medium business
<ul style="list-style-type: none"> <li>- Flexibility</li> <li>- Higher profitability in comparison with large business</li> <li>- Use of unoccupied resources on the informal markets</li> <li>- Dependence on support of major companies and state.</li> </ul>	<ul style="list-style-type: none"> <li>- High-risky character</li> <li>- Intuitive character and unspecialized management</li> <li>- Limited access to high-quality resources</li> <li>- Lack of the financial resources, difficult access to information and achievements of research and development</li> </ul>

Thus, small and medium business represents the special model of business limited to such conditions, as number of employed, the capital sizes, production scale. Small business functioning in the local market, fast response to environment change in that market, active interaction with the consumer, narrow specialization of production, a low capital intensity of business – these advantages increase stability in domestic market. However fast response of small and medium-sized enterprises to changes of operating conditions makes it, on the one hand, more mobile and adapted, on the other – dependent on market condition, on dynamics of external social and economic and political conditions [6, 7]. The small capital narrows production framework, limits possibility of attraction of additional scientific and technical, financial, production, manpower resources.

The barriers interfering development of small business, can be divided conditionally on external and internal for the enterprises.

Negative external barriers are generally connected with backwardness of legal system, the relations of property and weak security of the businessman, insufficient definiteness and unpredictability of macroeconomic situation, inadequacy of financial infrastructure and historically developed monopolism in many markets. Internal barriers – low level of enterprise and management culture, heritage of old structure and the maintenance of economic education

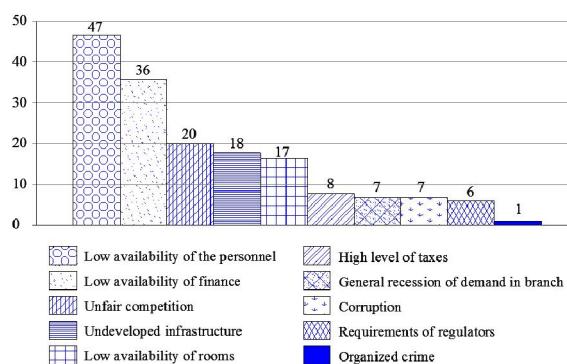
There are problems which subjects of small business have in the field of property support: lack of access to information on existence of the state and municipal property leased, subject to sale

(privatization); duration and complexity of procedure of registration and registration by subjects of small business of transactions on property use; high cost of transactions on rent and property sale; lack of a long-term and stable lease term.

There are no real opportunities for businessmen in receiving of necessary information on a wide range of questions: the normative legal acts regulating an order and conditions of activity of subjects of small business, and also powers of supervisory authorities; about a condition of the market and the competition, resources (including raw), necessary for activity of small enterprises; about the state property leased and offered for sale; about the state order and conditions of carrying out competitions [8, 9].

To provide access of businessmen to the credits – means not only to support existing sector of small business and to bring him out of “shadow”, but also to stimulate emergence of the new enterprises. According to data of the conducted researches, only about 13-15 thousand small enterprises from 880 thousand annually have access to financial resources. It means that today in Russia the organizations providing businessmen with financial services cover less than 1% of the potential market.

There is a number of problems making essential impact on development of average and small business, the main of them are presented in figure 2.



**Fig. 2. Main problems of small and medium business, %**

Development of small business goes very slow because banks aren't ready to provide large sums to such enterprises therefore small business always doesn't have money for development and expansion. The general direction of bank reform has to correspond to a state policy of support of small business, first of all, because the outlined tendency in understanding of bank reform can lead to violent “washing away” of small banks and, as a result, to

negative consequences for financing and service of the small business

## Result

The most important instrument of the state impact on business in market economy – the tax policy which is carrying out two main functions: fiscal, connected with need of formation of the income of state and local budgets, and stimulating, directed on support of particular fields of activity, sectors and managing subjects. In the Russian economy the state, first of all, implement fiscal function. Since 1992 in all polls of representatives of small business as a whole and its various groups the taxation problem strongly wins the first place.

Now in Russia three systems of the taxation are applied concerning subjects of small business: standard and two particular treatments (the simplified system of the taxation, the account and the reporting; system of the taxation of imputed income) [10, 11]. Use of the standard and simplified system of the taxation is limited to action of “a uniform tax” on imputed income, transition on which is obligatory for considerable number of kinds of activity in case of acceptance in the territory of the region of the relevant law. Today regional laws are adopted in the majority of subjects of the Russian Federation.

The majority of subjects of small business is assessed taxes on the standard system, that is they pay operating taxes of all types (with some privileges differing on regions). By the last estimates, the number of small enterprises working on this system, made about 500 thousand, the number of individual entrepreneurs without formation of legal entity – about 2,5 million people. On the simplified system work only 50 thousand small enterprises (or about 6% of number of all registered SE) and 110 thousand individual entrepreneurs (or only 3% of their total number).

However introduction of a uniform tax on imputed income liquidated possibility of use of the simplified system of the taxation, the account and the reporting for a wide range of subjects of small business. Today the uniform tax on imputed income works in more than 80 subjects of the Russian Federation.

## Conclusion

The basic principles of a state policy in the field of development of small and medium business in the Russian Federation are:

1. Delineation of powers on support of subjects of small and medium business between federal public authorities, public authorities of subjects of the Russian Federation and local governments.

2. Responsibility of federal public authorities, public authorities of subjects of the Russian Federation, local governments for providing favorable conditions for development of subjects of small and medium business.

3. Participation of representatives of subjects of small and medium business, the non-profit organizations expressing interests of subjects of small and medium business, in formation and implementation of a state policy in the field of development of small and medium business, examination of drafts of regulations of the Russian Federation, regulations of subjects of the Russian Federation, legal acts of the local governments regulating development of small and medium business;

Ensuring equal access of subjects of small and medium business to receiving support according to conditions of its granting, established by federal programs of development of small and medium business, regional programs of development of small and medium business and municipal programs of development of small and medium business.

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