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THE PROBLEMS OF THE FUNCTIONING AND DEVELOPMENT TREND OF SMALL AND MEDIUM-SIZED BUSINESSES

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Abstract

The article analyzes the problems faced by small and medium enterprises in Belgorod Region, Russia and the programs that the government of the region has put in place to help small and medium enterprises. The growth and development of small and medium enterprises in the region. The authors also recommend on a number of activities and programs that the government of Belgorod Region can undertake to help small and medium enterprises develop even further.

Keywords: Small and medium enterprises, capital, tax laws and regulations, qualified personnel, infrastructure.

Small and medium enterprises play an integral role in the economy of any country regardless of its socio-economic status (developed or underdeveloped) as they act as an employment creation venture that contributes to the GDP of the country and helps alleviate poverty. There are billions of businesses in the world and about 90% of these businesses are small and medium enterprises. In spite of the value that small and medium enterprises add to the growth of the economic sector, there are many challenges that small and medium enterprises face in almost of all the parts of the world. The problems range from political, economic, managerial and many others depending on the location and type of the enterprises. Different small and medium enterprises have specific problems according to the environment in which they are located. Apart from specific problems in different regions of the world, there are also common problems that small and medium enterprises face in almost of the parts of the world.

Small and medium enterprises maybe classified in different ways in different regions of the world according to the laws regulating business in that particular region. For example, table 1 shows the classification of MSMEs in Russia and in the European Union countries.

Table 1

Classification of micro, small and medium enterprises

Indicator	Micro		Small		Medium	
	Russia	EU	Russia	EU	Russia	EU
headcount	1-15	< 10	15-100	< 50	101-250	< 250
Turnover	Rub 60 million ≈ € 1.4 million	≤ € 2 million	Rub 400 million ≈ € 9.6 million	≤ € 10 m	Rub 1 billion ≈ € 24 million	≤ € 50 million

In the USA and Canada, small and medium enterprises include companies that take less than 500 employees (headcount).

Small and medium enterprises face internal and external problems in the market in which they operate from time to time depending on the nature of the business. Internal problems are those problems related to the locality of the business and largely influenced by the prevailing conditions and laws in that particular area whilst external problems are those problems that are as a result of changes on conditions on the international arena. The main problems faced by small and medium enterprises are:

Lack of available and accessible capital from financial institutions such as banks. This is one of the major problems that almost all the small and medium enterprises around the world face. Many small and medium enterprises have intentions to expand their operations but they fail to do so due to lack of funds. Many financial institutions are not willing to lend out money to small and medium enterprises due to the risks associated with the process. Small and medium enterprises do not meet most of the conditions required to get loans from banks, as they do not have assets that they can offer as collateral to secure the repayment of the loan. Apart from the difficulties related to collateral, the interest rates that offered by many financial institutions are very high for small and medium enterprises to be able to repay the money within a short time. In Russia, the average yearly interest rate for loans gotten by small and medium enterprises is in the range of 18 – 24 %. This makes it difficult for small and medium enterprises to borrow money from the banks and other financial institutions.

Lack of qualified personnel to manage the activities of the business. A qualified and experienced human resource plays an important role in the development of any organization regardless of its size, type of business and location. Many small and medium enterprises do not have experienced and qualified people to manage the day-to-day activities of the business. This is because they do not have the capacity to employ qualified personnel due to high wages and salaries that qualified personnel demand and those workers who gain experience whilst working for the small and medium enterprises prefer moving to work for bigger companies that offer them a lot of money for the services they provide. This greatly affects the running and development of small and medium enterprises in a negative manner.

Apart from not having qualified personnel, there are no strong laws that help sustain development of small and medium enterprises. This is because small and medium enterprises are not favored to remain in the business as they compete with big companies that tend to use their strong presence in the market to frustrate the development of small and medium enterprises. That is, small and medium enterprises are not able to compete with big companies and there are no laws to help them remain on the market that offers a lot of competition.

Tax laws and regulations also act as an hindrance to the development of small and medium enterprises in many parts of the world. Small and medium enterprises do not benefit from tax incentives in most cases to help them develop into bigger businesses and this increases the expenses of small and medium enterprises resulting in less capital expenditure and increased cost to pay tax experts to help them calculate the amount of tax to be paid.

Lack of good infrastructure. Infrastructure is an important element in the effective running and performance of any business institution. Small and medium enterprises face a great challenge when it comes to infrastructure. The cost of building and constructing a business place is very high for most small and medium enterprises due to the rise in prices of building materials in the recent times. In addition, renting a place for business activities is also expensive in many places and this acts a setback to the development of small and medium and enterprises.

Distribution problems. Distribution is also one of the challenges faced by small and medium enterprises due to the high cost in transporting goods to the ready markets. The cost of cars used in the transportation of goods is very high and most small and medium enterprises cannot afford to buy them for

use in the business. This makes it difficult for small and medium enterprises to transport the goods to the market after being produced hence resulting in losses to some small and medium enterprises who are able to produce goods but are unable to transport goods to the market or transport the goods late resulting in perishable goods going bad.

Marketing problems. Marketing is an integral part in the growth of any business and it usually determines how far the business can go in a competitive market. Most small and medium enterprises do not have enough knowledge about the marketing strategies that might help their businesses excel and compete with the big companies on the market. This negatively affects the performance of small and medium enterprises when it comes to selling the goods they produce, as they are not able to reach out to the right consumers.

Lack of knowledge in the foreign trade. Small and medium enterprises make products that have great demand in different parts of the world from time-to-time but are not able to reach out to the consumers due to lack of knowledge on how to trade on the international market. This is because of the failure by small and medium enterprises to identify areas where there is high demand of the products they produce due to lack of technical expertise on how to trade at an international level and how to get contracts from companies and consumers outside the countries in which they operate.

Despite many challenges faced by small and medium enterprises, there has been some positive trends in the development of small and medium enterprises in many parts of the world. In Russia, one of the positive examples in the development of small and medium enterprises is Belgorod Region. In an effort to scale up the development of small and medium enterprises, the government of Belgorod region has been implementing various programs to support small and medium enterprises. The government of Belgorod region is implementing a program for small and medium enterprises called « The development and state help of small and medium enterprises in Belgorod region 2011-2016 ». The program aims at achieving the following:

- Increase the number of small and medium enterprises in Belgorod region in the period 2011-2016 by 16 thousand and will be distributed as shown in table 2.

Table 2

Number SMEs in Belgorod region

Year	2011	2012	2013	2014	2015	2016
Number of SMEs in thousands	2.0	2.5	2.6	2.9	3.0	3.0

- Increase the number of people employed by SMEs in the period 2011-2016 to 66 thousand people as shown in table 3.

Table 3

Increase in number of people employed by SMEs

Year	2011	2012	2013	2014	2015	2016
Number of people employed by SMEs in thousands	10.0	10.0	10.5	11.0	12.0	12.5

- Small and medium enterprises to provide about 35 % of the total employment in the region;
- Not less than 17.5 thousand new jobs to be created and 7 thousand to be saved by small and medium enterprises in the period 2011-2016;
- Increase in tax revenues from SMEs for all levels of special tax regimes by 10-15 percent annually as shown in table 4.

Table 4

Percentage increase in tax revenues from SMEs

Year	2011	2012	2013	2014	2015	2016
Percentage increase in tax revenues	10.0	10.0	15.0	15.0	15.0	15.0

- The total resource support program for the years 2011-2016 from all sources of funding of 13 858.90 million rubles as shown in table 5.

Table 5

Funding of SMEs for the years 2011-2016

Year	2011	2012	2013	2014	2015	2016
Amount in million rubles	1 641.0	2 215.4	2 035.5	2 646.9	2 656.6	2 663.5

There has been an increase in the number of small and medium enterprises in Belgorod region in recent years. This is due to government programs aimed at developing small and medium enterprises. Table 6 shows the number of small enterprises (including micro enterprises) in Belgorod region for the years 2009-2012.

Table 6

Number of small enterprises in Belgorod region 2009-2012

Year	2009	2010	2011	2012
Number of small enterprises (including micro enterprises)	15 902	16 981	18 602	21 941
Increase in the number of SMEs	-	1 079	1 621	3 339
Rate of increase (%)	-	6.79	9.55	17.95

The data in table 6 shows that the number of small enterprises in Belgorod from the year 2009 to the year 2012 has been increasing year after year. The biggest percentage increase is 17.95% representing an increase of 3 339 small enterprises between the years 2011-2012 and going beyond the government's target of increasing the number of small and medium enterprises by about 2 000 for the year 2011. This shows that the number of new small enterprises in the region was 1 339 more than the planned 2 000 in the year 2012 whilst in the year 2011 only 1 621 new small enterprises were created representing 379 small enterprises less than the targeted 2 000 small enterprises.

The number of people employed by small enterprises in Belgorod region has been increasing year in year out as seen from the data in table 7. This is in line with the government's plan to ensure that small and medium enterprises in the region employ more people.

Table 7

Number of people employed small enterprises 2009-2012

Year	2009	2010	2011	2012
Average number of employees	91 788	93 637	102 022	103 330
Increase in the number of employees (new jobs created)	-	1 849	8 385	1 308
Rate of increase (%)	-	2.01	8.95	1.28

11 542 new jobs were created in the years 2009-2012 in Belgorod region with the year 2011 having 8 385 new jobs created representing an increase of 8.95% in comparison to the previous year, 2010. The year 2011 being the first year under the implementation of the program, « The development and state help of small and medium enterprises in Belgorod region 2011-2016 » showed tremendous results with a 217.90% increase of the planned 2 000 new jobs. However, the year 2012 showed negative results as only 1 308 new jobs were created against the planned 2 000 new jobs.

In order to enhance the development of small and medium enterprises, there is need for consented efforts from all the players in the economic activities of the country to come together and help solve the problems facing small and medium enterprises. It should however be noted that the government plays a vital role in the development and protection of small and medium enterprises and hence the need for the government to come up with regulatory instruments that will positively affect the growth and development of small and medium enterprises. In our view, it is appropriate to recommend that the government should undertake the following measures in order to help small and medium enterprises:

- ✓ Introduce revolving funds for small and medium enterprises which will be repayable at small interest rates and work together with existing commercial banks to help reduce the interest rates;
- ✓ Come up with regulations that protect small and medium enterprises from exploitation by big companies;
- ✓ Introduce centers where upcoming entrepreneurs can be taught about the current methods of effectively running small and medium enterprises;
- ✓ Organize exhibitions where foreign companies will be invited to showcase their products and technologies to help small and medium enterprises understand how to trade on the international market and become updated with the latest methods of trade;
- ✓ Introduce subjects on entrepreneurship in schools to help impart knowledge about how to run businesses in the modern times;
- ✓ Remove or reduce import duty on machines and other equipment that is needed for effective running of small and medium enterprises and;
- ✓ Introduce tax incentives for newly formed small and medium enterprises to help them develop.

In conclusion, small and medium enterprises play a very significant role in the growth of the world economy. The development of small and medium enterprises will greatly contribute to the reduction of the poverty and unemployment levels in the world hence the need for all the players of the world economy to come together and help the development of small and medium enterprises. Finally, we recommend that the government should be in the forefront in promoting the growth and the sustainability of small and medium enterprises by implementing laws and regulations that will effectively help the development of small and medium enterprises.

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PROBLEM OF UNDERESTIMATION OF INTANGIBLE ASSETS IN RUSSIA

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Abstract

Economic growth rates depend on the level of intangible assets. Its condition nowadays in Russia is marked by measurable underestimation. Underestimation of intangible assets leads to its illegal exploitation. Solution of problems is connected with improvement of legislation, development of patent offices, habits formation of legal and natural entities in relation to intangible assets.

Keywords: intangible assets, innovation activity, innovation monopoly, economic growth, underestimation, exclusivity, intellectual property, assessment, patent agent, illegal exploitation, intangible assets market.

Аннотация

Темпы экономического роста зависят от уровня развития нематериальных активов. Их современное состояние в России характеризуется значительной недооценкой. Недооценка нематериальных активов приводит к их неправомерному использованию. Решение проблем связано с усовершенствованием законодательства, развитием патентных служб, формированием стереотипов поведения юридических и физических лиц по отношению к нематериальным активам.

Ключевые слова: нематериальные активы, инновационная деятельность, инновационная монополия, экономический рост, недооценка, исключительные права, объекты интеллектуальной