

# Institutional support of small and medium-sized businesses at various stages of development: Evidence from Russia

## Apoyo institucional de pequeñas y medianas empresas en diversas etapas de desarrollo: evidencia de Rusia

Lidia S. LEONTIEVA [1](#); Andrey B. ILIN [2](#); Yuliya S. SIZOVA [3](#)

Received: 11/03/2018 • Approved: 20/03/2018

### Content

[1. Introduction](#)

[2. Methodology](#)

[3. Results](#)

[4. Conclusions](#)

[Bibliographic references](#)

#### ABSTRACT:

On the basis of the institutionalist theory, the paper explores the institutional support being provided to small and medium-sized business enterprises in Russia. We review the main trends in the scholarly literature on the role of institutions in creating such an environment that is favorable for business enterprises, especially in the context of emerging and transition economies. The paper also summarizes the existing institutional support available to small and medium-sized businesses in Russia, particularly indicating the key type of financing. More than that, by combining institutional instruments and stages in economic enterprise's development, we provide a matrix that allows to better understand what type of institutional support is necessary at different stages in the development of business entities.

**Keywords:** institutionalism, business, Russia

#### RESUMEN:

Sobre la base de la teoría institucionalista, el documento explora el apoyo institucional que se brinda a las empresas pequeñas y medianas en Rusia. Revisamos las principales tendencias en la literatura académica sobre el papel de las instituciones en la creación de un entorno favorable para las empresas comerciales, especialmente en el contexto de las economías emergentes y en transición. El documento también resume el apoyo institucional existente disponible para las pequeñas y medianas empresas en Rusia, particularmente indicando el tipo clave de financiamiento. Más que eso, al combinar los instrumentos institucionales y las etapas en el desarrollo de las empresas económicas, proporcionamos una matriz que permite comprender mejor qué tipo de apoyo institucional es necesario en las diferentes etapas del desarrollo de las entidades comerciales.

**Palabras clave:** institucionalismo, negocios, Rusia

## 1. Introduction

After the collapse of the Soviet Union, Russia started intensively developing its market

economy and had to conduct major institutional and market-oriented reforms in the 90s, many of which were painful to the Russian economy, such as privatization (Florio, 2002; Buck et al, 1996). However, growing oil prices and the boom of economic growth made it possible for the country to be considered in the list of the world emerging economies, along with China, Brazil, and India. These countries clearly stand out in terms of their overall economic growth and dominance in the global economy. The key aspects of the reforms conducted in the BRIC economies was institution building with a purpose of achieving better economic growth and strengthening both domestic and international competitiveness. There is no doubt that each and every BRIC country had its own way in terms of reforms being conducted, but the governments of these countries had the key role in their economic success (Wilson & Purushothaman, 2006; Aidis et al., 2008; Kahn, 2011; Michailova & Jormanainen, 2011). Numerous researchers focused on the role of the government in creating an environment that would lead to greater business and economic growth (Fogel et al., 2006; Zhang & Thomas, 2009; Ahlstrom and Bruton, 2010). Another group of scholars also believes that poor institutions that do not encourage business growth and entrepreneurship, causing poor economic performance (Puffer et al., 2009; Peng, 2010; Puffer and McCarthy, 2011).

Puffer & McCarthy (2011) and Puffer et al (2009) state that scholarly literature is still underdeveloped with respect to economic achievements that Russia had in previous decade. The problem is that the influence of institutions on the behavior of Russian firms has not been precisely studied. Although many scholars believe that Russia's economic growth can be explained by the fact that important and necessary institutions were built in Russia after the collapse of the Soviet Union, and they greatly influenced the development of the and market economy (Ahlstrom & Bruton, 2010).

Although the tremendous economic growth Russia demonstrated and its ability to build necessary institutions to back up such growth make Russia look a prosperous and innovative country with strong institutions, there are still considerable doubts that Russia has necessary institutional environment to support business enterprises that can further fuel Russia's economic growth (Puffer & McCarthy, 2011; Gyriev & Zhuravskaya, 2010; Aidis et al., 2008; De Clercq et al., 2010). In other words, despite the fact that Russia has been extensively growing over the last twenty years, the role of institutions affecting business entities remains poorly understood. At the same time, (Smallbone & Welter, 2009) state that one of the most difficult aspects of the reforms aimed at developing market-oriented economy and supporting business enterprises was the process of building institutions. "Effective institutions are central to the continued development of entrepreneurial capacity in transition economies, because of their costs for entrepreneurial activity" (Atherton & Smallbone, 2010, p. 226). There is a considerable amount of research that proves that external environment plays a key role in the development of business entities, especially in transition economies (Manolova et al., 2008; Peng and Heath, 1996; Peng, 2000, 2003; Radaev, 2001; Smallbone and Welter, 2001).

In this paper, we focus on small and medium-sized business enterprises and review the institutional support for them existing in Russia. There are a few reasons to devote our attention to small and medium-sized enterprises. Small and medium business is one of the most important subsystems of the market economy, creating prerequisites for its sustainable development. They create jobs with low capital costs, saturate the market with goods and services, pay taxes to budgets of all levels, develop human capital, accelerate innovations, and improve living standards and social stability. In addition, Russia faces the challenge of transition to an innovative economy. Therefore, support for small and medium-sized businesses is one of the top priorities in Russia.

This paper contributes to the scholarly literature in two ways. First, we advance the discussion on how institutions work in transition economies in order to support business enterprises, as well as touch upon the challenges and limitations of such policies. Second, we contribute to the literature on the role of the state in the development of institutions that support small and medium business enterprises.

The paper is structured as follows. In the next section, we explain our theoretical framework

and methodology used. Then we review the institutional support that exists in Russia for medium and small business enterprises. We also provide a matrix that links a number of institutional instruments with the stages in business enterprises' development. Finally, we conclude with final thoughts.

---

## 2. Methodology

We build our research on a theoretical framework developed by Baumol (1990, 1993, 2005) and North (1990, 1994, 1997, 2005), who focused their research on the relationship between the institutional environment and entrepreneurial development. According to North (1994), business enterprises are the main actors of change, which adapt their activities and strategies in order to better fit the opportunities and limitations provided by formal and informal institutions. In turn, Baumol (1993) states that different institutions give life to various types of entrepreneurship. In other words, institutions are the structures that provide necessary incentives for different types of business enterprises. Their research is very relevant for the current situation in Russia. Any private commercial activity was not welcomed by the communist ideology, and this type of attitude towards entrepreneurship lasted even after the collapse of the Soviet Union, in the "transition" period, leading to, for example, a punishment-oriented culture coming from the law enforcement agencies towards business entities (Aidis et al, 2008, p. 658). Thus, the institutionalist theory provides a framework that clearly shows the impact external factors have on business enterprises, in which the role of the state is also emphasized.

In this research, we rely on the method of case studies. We consider Russia as a separate case in the range of post-communist and transition countries and review the level of institutional support for small and medium-sized enterprises in the country. Russia is an excellent case of a country that switched from a centrally planned economy to a free market system. Following the analytical framework outlined above, we review (a) an institute of support, (b) a form of support, and (d) a key type of financing. Then we build a matrix by combining institutional instruments and stages in economic enterprise's development. This allows us to better understand what type of institutional support is necessary at different stages in the development of business entities.

---

## 3. Results

### 3.1. An overview of institutional support for small and medium-sized businesses in Russia.

Institutional support can be provided by provided by both state-owned and private organizations. In Table 1 we summarize all the forms of the institutional support available for small and medium-sized companies in Russia and indicates their types of financing. As the institutions of business infrastructure, state organizations perform the following functions: (i) elaborate, accept and organize the execution of legislative rules and norms, which contributes to the development of legal business and stabilizes the relations between companies based on uniform legal principles; (ii) form the priorities of activities of various companies, which function in particular sectors of market economy. Such priorities are based on the interests of national security, objective necessity of integrating national economies into the international economic area, supporting socially significant activities, maintaining and developing a social structure, in particular, smoothing social conflicts; (iii) stimulate innovation activity in exploring new market niches, business content and technologies of its management; (iv) ensure stable functioning and development of activity through anti-inflationary and antimonopoly policies, emission, tax, investment, monetary, credit, and budgetary control methods, as well as influence employment of population; (v) inspection of the entrepreneurs' activity.

As mentioned above, the business support institutions are not always state-owned; these can include commercial banks, consulting and marketing companies, i.e. business units and

private investors similar in the set of formal and informal rules. In general, they can be grouped into the notion of *intercompany business infrastructure* (Rubin 2016, p. 319-320) — a set of organizations outside the entrepreneurial firms themselves. Communications with infrastructure help business owners to maintain activity and reach consensus with the environment more efficiently. For example, the infrastructure of the industrial business includes: (i) commercial banks, which extend loan and other financing facilities; (ii) commercial enterprises engaged in wholesale and retail trade; (iii) specialized firms providing consulting, legal and accounting services; (iv) business incubators, business accelerators and technological clusters necessary for successful start-ups; (v) educational institutions providing training of employees of various qualification; (vi) recruitment companies engaged in staff selection and employment; (vii) marketing companies engaged in the promotion of works, goods and services of the company; (viii) transportation companies performing the orders on cargo shipment and transportation; (ix) insurance companies; (x) communication providers; (xi) public service companies providing water, heat, and energy supply, and cleaning.

State organizations and establishments are the important element of the intercompany business infrastructure. Development of the modern business is impossible without the elaboration and centralized carrying out antimonopoly and custom policy, organization of budgetary, emissive-monetary and tax activity, forecasting and centralized support of employment and labor migration, control over audit (valuation) activities, state support of business development.

**Table 1**  
Institutional forms of support of small and medium-sized businesses in Russia

| <b>Institute of support</b>  | <b>Form of support</b>  | <b>Key type of financing</b>                  |
|--|---|---|
| Business incubator   | Supporting start-ups, assistance in creating viable commercial goods and services, their commercialization, rent of premises  | Federal budget                                |
| Technological cluster  | Creating conditions for favourable business activities and establishment of small and medium-sized knowledge-based enterprises, providing with buildings and equipment, financial and staff support | Federal budget, regional budget               |
| Venture fund   | Financing of high risk operations with a view to further profit-making  | Private investments                           |
| Business support programs (federal, regional, municipal)                   | Consulting, training sessions, administrative aid with the search of leasing offices/municipal immovable property (informational-consulting aid and material support of business)                   | Federal budget, regional budget, local budget |
| Commercial banks   | Microloans, loan guarantees or a preferential loan, leasing   | Private investments                           |
| Federal Corporation for the Development of Small and Medium-sized Business | Financial, infrastructural, material, legal and methodological aid; supporting investment projects; fund raising; a unified centre of financial and lending support                                 | Federal budget                                |
| Institutions of Innovative Activity Development,                           | Project support at the seed stage via grant mechanisms; financing; business scaling   | Federal budget                                |

|   |   |                |
|---|---|----------------|
| scientific grants (RVC, Skolkovo, and others) |   |                |
| The Russian Export Center                     | Supporting export-centered projects of an economic entity through a developed specialized mechanism | Federal budget |

### 3.2. Small and medium-sized business development and institutional instruments: A matrix

In its economic activity, any organization goes through a number of stages of its life cycle, from the creation to the termination of business activity. This issue remains understudied in the Russian practice, and business owners (founders) are ready to resist decisively the changes associated with the implementation of the models of an organization's life cycle. The following stage of birth can be identified: (1) birth; (2) growth; (3) development (maturity); (4) decline (decrease); (5) and collapse. It is reasonable to select appropriate aspects of a company's strategic planning, corporate and organizational culture, and organizational structure at each of these stages.

Business culture is to be considered adaptive if institutional forms of economic entities support are able to ensure in an integrated manner small and medium-sized business entities functioning ("changing just one institution in an attempt to get the desired performance is always an incomplete and sometimes a counter-productive activity" (North 2005, p. 157) at different stages of their life cycle. The model principles proposed by the authors should also be taken into account: attitude to the property, resource management, attitude to their own and employed human capital, attitude to the income and principles of its distribution, attitude to the social responsibility, implemented principles of business ethics.

In this case, sustainable development of business structures will be based on the participation of support institutions taking into account a key type of financing in the context of creating business environment for all Russian business units. Besides, there will be a change in the inter-corporate culture (organizational, corporate, and cross-cultural) and attitude to business activity among young people who doubt in their professional business competences and their possibility to apply them in practice. (Thus, only 4.7 % of capable citizens in Russian are beginning businessmen (GEM 2015); there is a low level of company survival in Russia: the share of firms that act in the market more than 3.5 years is 33 %, while in Western European countries it is over 50 % (Ilin, Leontieva, 2016, p. 14)).

The ideal model of infrastructural stakeholders functioning implies the adaptation to every level of the life cycle of business structure development (Table 2). It is necessary in the first place because in practice, an imitational support of business is still observed: e.g., the programs of small and medium-sized business entities support at the municipal level are often limited to organization of free training courses on creating business plans, and when seeking to receive a subsidy for business development and defending a strategic document for obtaining investments, one very often encounters corruption.

The proposed matrix of the measures aimed at the transformation of business support institutions in accordance with the degree of their participation in raising business activity enables business organizations to use the institutions of the infrastructure rationally and precisely. Besides, it enables the state to estimate the efficiency of their work. In other words, each and every organization is an institutional element: each of them has its own life cycle, strategic, tactic and operative goals of development, factors of success and obstacles, which are largely conditioned by the development level of the institution.

**Table 2**

Matrix of the ratio of principles of using institutional instruments for an adaptive business culture at various stages of a life cycle.

|  |  |  |
|--|--|--|
|  |  |  |
|--|--|--|

|                        | <b>Principles</b>   |   |  |   |   |                               |
|------------------------|---|---|--|---|---|-------------------------------|
| Stages of a life cycle | Attitude to the property  | Resource management                                       | Attitude to the entity's own and employed human capital                  | Attitude to the income and principles of its distribution           | Attitude to the social responsibility   | Principles of business ethics |
| Birth                  | Aid in the property registration; leasing; providing preferential lease; issuing building permits | Connection to energy resources, issuing loans             | HR-services for recruiting a competent staff                             | Preferential system of taxation; consulting on competent accounting | Explaining the principles of business ethics of a businessman for creating his or her ideal image |                               |
| Growth                 | Providing preferential lease  | Consulting, commercialization of viable products          | Grants for the development of knowledge-based production and innovations | Preferential system of taxation                                     | -   | -                             |
| Maturity               | Aid in the business expansion, and, respectively, with obtaining building permits                 | -   | -  | Entering international organizations; export-oriented activity      | Creating state-private partnership  | -                             |
| Decrease               | No increase of leasing rate if possible   | Looking for new businesses, consulting, training seminars | -  | Providing with state and municipal contracts                        | Maintaining investment projects   | -                             |
| Collapse               | Realization of the immovable property   | Financial and legal support                               | HR-services for moving personnel to other organizations                  | Settling insolvency   | -   | -                             |

As shown in Table 2, institutional forms of support are mostly necessary at the *stage of the birth* of an enterprise. The practice of organizing business activity shows that beginning businessmen need support in registering an enterprise, property, consultations on choosing a taxation system adaptive for the enterprise, accounting (including taxation, financial and management accounting), help with elaboration of a strategic plan of development and motivation of new personnel. Nowadays, these business processes are also supported by business incubators and consulting companies under the programs of support of small and medium-sized business entities at the macro-, meso- and micro-level.

At the *stage of growth*, the support of businessmen from institutional forms of support is even more necessary, since, as it has been shown above, the survival rate of small and medium-sized enterprises at the initial stage of business development in Russian conditions is low. This stage of a life cycle requires a support with preferential leasing and taxation, support of knowledge-based and innovation production in the form of grants, ventures, and

commercialization of rights for the results of intellectual activity.

In spite of the achieved viability of the business, at the *stage of maturity*, business structures need infrastructural mechanisms in production expansion, development of export-centered activities and import substitution as one of the key state tasks (here the support from the Russian Export Center is meant). Since the business has already shown itself as a reliable business-partner, it is possible to develop business relations by means of state-private partnership to confirm a long-term status of a "mature" company.

The *stage of decline* of the economic entity, from the viewpoint of the need for support from institutional forms, repeats to a certain extent the stage of growth. On the one hand, the business structure gradually enters a stage of management crisis, when creative ideas of the company's management do not allow them to diversify services provided and/or goods produced. In this respect, the support of small and medium-sized business entities should aim at consulting on a search for new business; it needs training workshops on marketing for elaborating the strategies of promoting the company and production. On the other hand, the company faces a material crisis. To avoid serious financial losses, it is necessary to preserve preferential conditions of leasing (which means that business incubators should not support only beginning businessmen but also socially responsible business structures), providing with state and municipal contracts (under the programs of support of small and medium-sized business entities at the federal, regional and local levels), support of the investment projects of the company itself, as well as by means of the targeted projects for assisting certain business, first of all social.

The *stage of collapse* is inevitable for any economic entity. Terminating business activity implies businessmen' voluntary and involuntary exit from business; escape from business; passing on the business to others; direct sale of the business; sale through the IPO; free transfer of the business to the others; businessmen' exit from business through the liquidation of the company; liquidation of the company through the declaration of bankruptcy. In any case, the process of the liquidation of a legal body is complicated by bureaucratic barriers. Experts assume that it is more difficult to execute this process than to register a firm. In this respect, the support from institutional forms should involve legal assistance with sales of immovable property, fixed assets, addressing the issues of insolvency; in order to maintain a good psychological of the employees forced to leave the company, consulting HR-agencies should find a new job for them.

As for the implemented principles of business ethics, support from institutional forms implies elaboration of the Code of a Socially Responsible Businessman, which should become the basis of the company's development from the stage of its birth. Then, business ethics of the organization should be respected through formal local acts and employees' informal values

We devote our attention to the stages of growth and decline, since it is at these stages of a life cycle that business units find themselves at the crossroad of their further existence, and it is at these stages when efficient institutional support is necessary. The stage of birth is accompanied by almost all types of the support institutes represented in Table 1. The stage of collapse is not supported by institutional forms at all.

---

## 4. Conclusions

The analysis of the theoretical aspects of using infrastructural elements for providing support to small and medium-sized business entities support makes it possible to draw several conclusions. A shift from administrative command economy to market economy in the beginning of the 1990s forced the Russian government to conduct necessary reforms aimed at building market-oriented economy. These measures laid foundations for tremendous economic growth. At the same time, Russia still has weak institutions that do not support small and medium-sized businesses effectively. We propose to focus on building business culture (which may be also considered an informal institution) that should imply a set of elements aimed at forming favourable cultural business environment for developing business activity at the micro-level (a level of an economic entity), meso-level (between partners/counteragents), and micro-level (at the state level). At the micro-level, business culture will contribute to more efficient production, better quality of products and services

and, consequently, higher business income. At the meso-level, it will contribute to the creation of favourable conditions and performance of duties for developing active business environment. At the macro-level, it will help to support business entities including institutional mechanisms and infrastructural elements. Also, small and medium-sized business entities need an efficient institutional support at the growth and decline stages of their life cycle.

---

## Bibliographic references

- Ahlstrom, D., & Bruton, G. (2010), Rapid institutional shifts and the co-evolution of entrepreneurial firms in transition economies. *Entrepreneurship Theory and Practice*, 34(3), 531-54.
- Aidis, R., Estrin, S., & Mickiewicz, T. (2008). Institutional and entrepreneurship development in Russia: A comparative perspective. *Journal of Business Venturing*, 23(6), 656-72.
- Atheron, A., & Smallbone, D. (2010). State promotion of SME development at the local level in China: An examination of two cases. *Journal of Chinese Entrepreneurship*, 2(3), 225-241.
- Baumol, W. (1990). Entrepreneurship: productive, unproductive and destructive. *The Journal of Political Economy*, 98(5), 893-921.
- Baumol, W. (1993). *Entrepreneurship, management and the structure of payoffs*. London: The MIT Press,.
- Baumol, W. (2005). *The free-market innovation machine: Analyzing the growth miracle of capitalism*. Princeton: Princeton University Press.
- Buck, T., Filatotchev, I., Wright, M., & Frausum, Y. (1996). The process and impact of privatization in Russia and Ukraine. *Comparative Economic Studies*, 38(2-3), 45-69.
- De Clercq, D., Danis, W., & Dakhli, M. (2010). The moderating effect of institutional context on the relationship between associational activity and new business activity in emerging economies. *International Business Review*, 19(1), 85-101.
- Florio, M. (2002). Economists, privatization in Russia and the waning of the 'Washington consensus'. *Review of International Political Economy*, 9(2), 374-415.
- GEM, Global Entrepreneurship Monitoring. (2014). Global Report – 2015. Retrieved from <http://gemconsortium.org/report/49079>.
- Guriev, S., & Zhuravskaya, E. (2010). Why Russia is not South Korea. *Journal of International Affairs*, 63(2), 125-39.
- Hayek, F. (1989). Konkurentsia kak protsedura otkrytiya [Competitiveness as a discovery procedure]. *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, 12, 47-56. (Russian)
- Ilin, A. B., & Leontieva, L. S. (2016). *Organizatsiya predprinimatelskoy deyatel'nosti: uchebnyk* [Business undertakin: Manual]. Moscow: Plekhanov Russian University of Economics. (Russian)
- Kahn, M. (2011). The fall of the wall, the rise of the BRICs and the new scramble for Africa. *Foresight*, 13(3), 38-49.
- Manolova, T., Eunni, R., & Gyoshev, B. (2008). Institutional environments for entrepreneurship: evidence from emerging economies in Eastern Europe. *Entrepreneurship Theory & Practice*, 32(1), 203-18.
- Michailova, S., & Jormanainen, I. (2011). Knowledge transfer between Russian and Western firms: Whose absorptive capacity is in question? *Critical Perspectives on International Business*, 7(3), 250-70.
- North, D. (1990) *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
- North, D. (1994). Economic performance over time. *American Economic Review* 84, 359-368.
- North, D. (1997). *The contribution of the new institutional economics to an understanding of the transitional problem*. Retrieved from <https://www.wider.unu.edu/sites/default/files/AL01->



1997.pdf

North, D. (2005). *Understanding the process of economic change*. Princeton University Press, Princeton.

Peng, M. (2000). *Business strategies in transition economies*. Thousand Oaks, CA: Sage.

Peng, M. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), 275-86.

Peng, M., & Heath, P.S. (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2), 492-528.

Puffer, S., & McCarthy, D. (2011). Two decades of Russian business and management research: An institutional theory perspective. *Academy of Management Perspectives*, 25(2), 21-36.

Puffer, S., McCarthy, D., & Boisot, M. (2009), Entrepreneurship in Russia and China: the impact of formal institutional voids. *Entrepreneurship Theory and Practice*, 34(3), 441-67.

Radaev, V. (2001). The development of small entrepreneurship in Russia. *United Nations University/WIDER Discussion Paper No. 2001/135*. Helsinki: UN World Institute for Development Economics Research.

Rubin Yu. B. *Osnovy predprinimatelstva [Fundamentals of Entrepreneurship]*. Moscow: Sinergiya, 2016. (Russian)

Smallbone, D., & Welter, F. (2009). *Entrepreneurship and small business development in post socialist economies*. London: Routledge.

Wilson, D., & Purushothaman, R. (2006). Dreaming with BRICS: the path to 2050. In Jain, S. (Ed.), *Emerging Economies and the Transformation of International Business: Brazil, Russia, India, and China (BRICs)*. Cheltenham, UK: Edward Elgar Publishing.

Zhang, Y., & Thomas, M. (2009). Regulatory reform and governance: A survey of selected developing and transition economies. *Public Administration and Development*, 29, 330-9.

---

1. Plekhanov Russian University of Economics, 36 Stremyanny lane, 115054 Moscow, Russia, Email: [lldom@mail.ru](mailto:lldom@mail.ru)

2. Moscow University of Finance and Industry "Synergy", 80 Leningradsky prospect, 125315, Moscow, Russia, Email: [AI-1988@yandex.ru](mailto:AI-1988@yandex.ru)

3. Plekhanov Russian University of Economics, 36 Stremyanny lane, 115054 Moscow, Russia, Email: [ju-si@mail.ru](mailto:ju-si@mail.ru)

---

Revista ESPACIOS. ISSN 0798 1015  
Vol. 39 (Number 24) Year 2018

[Index]

[In case you find any errors on this site, notify us sending an e-mail to [webmaster](mailto:webmaster)]

©2018. revistaESPACIOS.com • ®Rights Reserved