

Role of Small Business in Providing Employment in the Russian North*



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Abstract. The article is devoted to the study of the level and dynamics of small business in the Russian North in current conditions on the basis of official statistics and the author's sociological survey. The reasons of the functioning and development of small business in market conditions are revealed. Regions of the Far North and territories equated to such are studied. The object of the research is small business in the northern Russian regions. The subject of the research is the study of the features of business development in the northern Russian regions. The purpose of this work is the study of processes taking place in the sphere of employment in the small business sector and its development in the northern regions of Russia. The information basis of this paper consists of domestic and foreign economists' works, materials of periodicals, and Internet resources on this topic. The results of the study show that employment in small businesses in the northern Russian regions, which are characterized by the dominance of extractive industries in the economy, does not have a strong impact on overall employment which is caused by this sector's current insufficient advancement. There is a narrowing of the small business sector on studied territories. With a case study of one northern region (the Komi Republic), we showed a contribution of small business into the provision of employment. The impact of small business on primary socio-economic indicators of the region is revealed. The assessment was conducted, and a low level of residents' business activity was noted: northerners do not seek to open a business due to a low level of expectations associated with the improvement of the economic situation and understanding of spatial development

* The reported study was funded by RFBR and the Komi Republic, project no. 18-410-110002 "Employment of population in small business (case study of the Komi Republic)" for 2018–2020.

For citation: Terentyeva M.A. Role of small business in providing employment in the Russian North. *Economic and Social Changes: Facts, Trends, Forecast*, 2020, vol. 13, no. 4, pp. 108–124. DOI: 10.15838/esc.2020.4.70.6

problems on the territory of residence. The main reasons of northerners' low business activity are the lack of entrepreneurial skills, the lack of start-up capital and difficulties with its attraction. The key directions of the increase of employment in the small business sphere of the northern regions are highlighted.

Key words: small business, employment, unemployment, business activity, age, Russian North.

Introduction

Opinions of scientists on the role and significance of small business in the modern economy differ. Some give it a priority role, calling it an integral part of the modern economic world [1, p. 15]. Others believe that the government and large corporations in economic terms should pave a way for small forms, since the latter are not able to independently create a developed economic space [2]. The experience of developed countries that rely on small business shows that small business is a leader in the manufacturing sector. Its share in these countries' GDP exceeds 50%; as the result, small business determines the economic growth. In Russia, a current situation of economic development is as follows: up to 80% of GDP is created by large enterprises, which define development of socio-economic systems [3].

It is important to note that it is not necessary to speak unequivocally about the need to develop either small or only large economic entities. They are complementary: small businesses cannot develop without the government and large businesses' support, and, similarly, state structures and large enterprises require services of small businesses. In other words, all three structures – the state sector, large business (corporations), and the small business sector – should complement each other organically. The Nordic countries – Denmark, Norway, Finland, and Sweden – have this harmonious development. In Russia, small business plays a significant role, especially in an area of employment provision. However,

this task has not yet been implemented in our country and in most its regions, which is caused by a severe differentiation of entities in terms of socio-economic development [4]. For the regions of the Russian North, where life activity takes place in difficult natural and climatic conditions that make living costs rise, an even more noticeable degree of socio-economic differentiation is natural [5]. It is determined by a focal settlement pattern, small population, single-industry economy, a narrow sphere of labor application, transport underdevelopment, low living standards, and so on. Development of small businesses will solve some of these problems: first of all, ones related to territorial development.

Understanding of the importance of small business for economic development determined development and adoption of federal and regional government measures¹ to stimulate business activity. Measures to increase the impact of small business on employment have not yet caused significant changes in the country's economy [6]. However, foreign studies show that small business may be the main “producer” of jobs by providing stable employment [7]. The controversy of an issue of the small business' impact on the employment level and labor markets defined a choice of a research topic, its theoretical and practical significance.

¹ The national project “Small and medium-sized businesses and support for individual entrepreneurs”. *Official website of the Government of the Komi Republic*. Available at: <https://econom.rkomi.ru/nacionalnye-proekty> (accessed: May 28, 2020).

Based on the research relevance, its purpose was to study processes taking place in a sphere of employment in the small business sector, as well as development of small business in the Russian North. Research objectives: to assess the state of small business development in the country's northern regions; to determine the impact of small business on employment; to identify main problems of small business development. These objectives defined the following stages of work:

- review theoretical concepts of small business development and its role in providing employment;
- determine development dynamics of small business structures in the North;
- reveal small businesses' impact on employment in the northern Russian regions;
- identify key areas of small business development of in the Russian North.

Theory

Within Global Entrepreneurship Monitor (GEM), “entrepreneurship is an any attempt to create a new business or enterprise, such as an individual employment, a new commercial organization, or an expansion of an existing business, made by an individual, group of individuals, or pre-existing commercial organizations” [8]. The study of the entrepreneurial process, according to GEM, includes several stages, starting with the identification of potential entrepreneurs (assessing the population's entrepreneurial activity) to owners of already established businesses. In market conditions, while choosing a form of employment, qualities like an initiative, organizational skills, leadership qualities, etc., which are necessary for the implementation of entrepreneurial activity, become significant [9]. Its growth provides the increase of employment (emergence of new jobs).

Until the end of the 1970s, it was assumed that new jobs are created by large firms. However, J. Birch, with case study of USA, proved that large (“elephants”) and small (“mice”) enterprises grow slow and just slightly affect the increase of employment and GDP. According to his estimates, only 4% of certain enterprises called “gazelles” (a main requirement for assigning a firm to this category is, at least, 20% of annual income growth over four years and the presence of income of, at least, one hundred thousand dollars per year in the base year) are capable of creating 70% of jobs in a country [10]. At the same time, “gazelles” are not always innovation companies. The author conducted a comparative analysis on the basis of identifying a size of enterprises by a number of companies' employees and growth rates. He recommends implementing public policies aimed at supporting this type of enterprise. It should be mentioned that J. Birch's studies were seriously criticized because of the calculation method and the sole usage of the growth criterion in it. B. Kirchoff proposed a classification of enterprises, which was based not only on growth but also on the pace of innovations' implementation [11]. His calculations showed that firms with low innovation rates but high growth rates created the largest number of new jobs [12].

Thus, small forms of enterprises play a crucial role in creating new jobs and ensuring sustainable employment. In China, more than 75% of able-bodied population works at small enterprises, in Germany and the European Union – more than 70%, in the USA – slightly over 52% [13, 14]. The share of people employed at small enterprises in Russia is below developed countries' indicators: it was 15% in 2018 [15]. Regions of the Russian Federation are largely differentiated by socio-

economic development and, as the result, by the development level of small firms [16]. There are three theoretical models that explain the growth of small businesses considering regional specifics [17; 18]. First, there is a model of small business growth due to the emergence of new technologies and innovations. Second, it is a revenue growth model that proves the growth of small business due to increased demand for products and services. Third, it is a model of economic decline, which considers unemployment as a factor of small businesses' growth. Various authors add other factors: government expenditures on infrastructure maintenance [19], openness of the information space, availability of research results, including ones related to new technologies [20], a degree of business risks [21], and availability of human capital, the sectoral structure of the regional economy [22].

According to the first theoretical model, the growth of a number of small forms of enterprises is caused by the emergence of innovations. W. Baumol suggests creating a favorable innovation climate in regions which would contribute to territorial development. In this regard, one of the elements of the government and municipalities' social policy should be the provision of a favorable innovation climate. All of this will not lead to full development of small business; it is necessary to promote it by increasing economic competition by using the potential of possible entrepreneurs [7]. We should add that, in the terminology of W. Baumol [23], only productive entrepreneurship develops due to innovation activities which require labor-intensive work of government structures.

Within the second model, the growth of small enterprises is driven by changes (increase) of demand for products and services. It is caused by the growth of incomes among

population. The third theoretical model shows that the growth of small forms of enterprises is possible due to the economic downturn and the increase of the unemployment rate. A problem of unemployment is a social one. Let us take a look at it in details. A number of scientific papers show that small enterprises make the greatest contribution to the creation and elimination of jobs in the region [24]. Often, government policies to support small businesses in this aspect are considered and implemented as a counteraction to unemployment.

Foreign and domestic authors agree that small businesses contribute to development of self-employment thereby easing tensions on the labor market [17; 25–27]. It helps the government to significantly reduce financial costs of maintaining a proper level of unemployment in the regions.

D. Audretsch and R. Thurik note that, at a low level of entrepreneurial development, the growth of small firms will lead to the increase of corporate incomes and, ultimately, to the decline of unemployment [28]. They suggest that the government should monitor compliance with low barriers of business entry/exit, which is necessary for the maintenance of market balance.

It is important to look at development of small business from the position of the third theoretical model, in which unemployment is considered to be a factor of small business' growth. In comparison with national numbers, the northern Russian regions have fairly high unemployment rates. Thus, in 2018, the unemployment rate in the North was 6.8%, which is 2% higher than a national average value. We see the solution of this unemployment problem in development of small businesses. It will allow expanding employment opportunities for population (its individual groups) and improve the quality of life.

Further, we attempt to analyze and evaluate the level of small business' development in the regions of the Russian North.

Methods

To analyze and evaluate development of small business in regions, an approach based on natural and climatic characteristics was chosen: northern regions with specific features that affect the assessment of socio-economic development were identified. In the European part of the Russian North, these also include Karelia and Komi republics, Arkhangelsk and Murmansk regions, and the Nenets Autonomous Okrug. In the Asian part, these are Khanty-Mansi, Yamalo-Nenets, and Chukotka Autonomous okrugs, Tuva and Sakha (Yakutia) republics, Kamchatka Krai, Magadan and Sakhalin oblasts.

The information basis of the research consists of data of Federal State Statistics Service and regional statistical authorities; materials of a sociological survey, legislative and regulatory acts; information from periodicals, scientific publications, conferences, the Internet, and other research results. Methods of dynamic and static analysis of employment in small business are used.

The problem of employment in small business in the northern Russian territories is more thoroughly examined with case study of the Komi Republic – a region with unfavorable climatic conditions but a significant natural resource potential. The share of extractive industries in the structure of the Komi GRP exceeds 33%, while the share of people employed in these industries slightly exceeds 6%, and unemployment is quite high: the unemployment rate is almost 3% higher than a national average value.

To characterize entrepreneurial work, the study defines the entrepreneurial activity of regional population by assessing the share

of population who belong to potential entrepreneurs – those who see opportunities in the external environment to create their own business and are confident with knowledge necessary to manage their own company.

To assess entrepreneurial activity, a sociological method (a survey) was used. It was conducted by the Komi Research Center of the Ural Branch of RAS in the fourth quarter of 2018 in four cities of the Komi Republic – single-industry towns (Vorkuta, Inta, Usinsk) and a capital (Syktyvkar). These towns combined have population of 413.1 thousand people (or 76.1% of Komi population). The survey involved people aged 16–60 and older (at the age of economic activity); a total sample size was 640 respondents. The sample is targeted, quota-based, and coordinated with the general totality of towns' residents by gender and age. The sampling error did not exceed 5%.

The survey was conducted with a questionnaire. In the context of studied issue, the most interesting information is how respondents assess a set of conditions for doing business and development prospects. The questionnaire included a set of questions: 1) socio-demographic characteristics (gender, age, education, marital status, income level); 2) labor biography (works/does not work, sphere of labor, experience, implements/does not implement professional knowledge, skills); 3) assessment of entrepreneurial activity (willingness/unwillingness to organize own business, reasons of willingness/unwillingness, assessment of the level of citizens' awareness about existing mechanisms for supporting entrepreneurial activity).

Results and discussion

The northern regions of Russia are characterized by difficult working conditions due to a natural and climatic factor, but the northern territories have vast natural resources, and

their strategic importance for the country is huge. According to Rosstat, studied northern regions accounted for only 3.3% of the Russian turnover of small and micro-enterprises and 4.1% of the average number of employees, excluding external part-timers, in 2018.

Small business has a dual impact on employment processes. Thus, the growth of small business enterprises provides jobs for a free labor force, but it is characterized by a fierce competition (between small business enterprises and between medium and large businesses) and a high dependence on external conditions (high risks, uncertainty on domestic and foreign markets, low availability of basic financial resources, etc.). It often leads to bankruptcy resulting in job lay-offs. In this regard, it is necessary to create a favorable business climate where employment growth would be constant [29].

Employment in the North is characterized by a downward trend. A number of people, employed in the northern regions, decreased by 2.3% in 2008–2018. The share of people who worked at small enterprises in 2018 was 10.3% (*Tab. 1*).

Despite the decline of a number of unemployed people, coupled with the decline of general unemployment in 2008–2018, the unemployment rate in the North increased (the increase was 1.4 p. p.). However, over the last three years (2016–2018), it has decreased (*Tab. 1*).

In the Russian North, there is a negative trend concerning general employment and employment in small business (*Tab. 2*).

In the sphere of business activity without legal entity formation, employment has had positive trends until 2012. After the adoption of Federal Law no. 243-FZ “On amendments to certain legislative acts of the Russian Federation on compulsory social security” by the State Duma on December 3, 2012, a number of people employed in individual entrepreneurship began to decline, because insurance payments were significantly increased for individual entrepreneurs. 8.5% increase of people employed in individual entrepreneurship in 2016, in comparison with 2015, could be explained by the adoption of Federal Law no. 477 “Amendments to article 346 and chapter 26 of part two of the Tax Code of the Russian

Table 1. Dynamics of a number of employees in the northern Russian regions, 2008–2018

| Year | Number of people employed in the economy, thousand people | including a number of employees at small enterprises | | Unemployment level, %* | |
|------|---|--|------|------------------------|------------------|
| | | thousand people | % | RF | Northern regions |
| 2008 | 4342.2 | 408.2 | 9.4 | 6.2 | 8.2 |
| 2009 | 4310.3 | 449.1 | 10.4 | 8.3 | 8.9 |
| 2010 | 4259.7 | 512.6 | 12.0 | 7.3 | 8.4 |
| 2011 | 4253.8 | 506.5 | 11.9 | 6.5 | 7.7 |
| 2012 | 4258.7 | 482.3 | 11.3 | 5.5 | 6.9 |
| 2013 | 4235.0 | 475.4 | 11.2 | 5.5 | 6.9 |
| 2014 | 4197.7 | 454.6 | 10.8 | 5.2 | 6.6 |
| 2015 | 4262.0 | 476.9 | 11.2 | 5.6 | 7.0 |
| 2016 | 4223.0 | 421.8 | 10.0 | 5.5 | 7.0 |
| 2017 | 4260.9 | 458.4 | 10.8 | 5.2 | 6.8 |
| 2018 | 4244.9 | 436.2 | 10.3 | 4.8 | 6.2 |

* A number of unemployed people is defined according to ILO methodology.

Calculated according to: *Regions of Russia. Social and Economic Indicators, 2009–2019*. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020).

Table 2. Employment dynamics in the northern regions of Russia, 2008–2018

| Indicator | Years | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Annual increase of total employment, % | - | 99.3 | 98.8 | 99.9 | 100.1 | 99.4 | 99.1 | 101.5 | 99.1 | 100.9 | 99.6 |
| Annual growth of employment in small enterprises, % | - | 96.3 | 97.7 | 99.0 | 100.3 | 99.0 | 98.3 | 97.8 | 98.6 | 98.2 | 95.2 |
| A number of employed in the sphere of entrepreneurial activities without forming a legal entity, thousand people | 357.5 | 332.3 | 359.2 | 323.8 | 371.7 | 342.4 | 338.2 | 315.7 | 342.6 | 330.2 | 331.5 |
| Annual increase (decrease) of people employed in business activities without legal entity formation, % | - | 93.0 | 108.1 | 90.1 | 114.8 | 92.1 | 98.8 | 93.3 | 108.5 | 93.2 | 100.4 |
| Total annual increase of employment in small business sphere, including organizations and entrepreneurs without legal entity formation, % | - | 95.9 | 98.8 | 98.1 | 101.8 | 98.2 | 98.4 | 97.3 | 99.6 | 97.6 | 97.4 |

Calculated according to: *Regions of Russia. Social and Economic Indicators, 2009–2019*. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020); *Small and Medium Business in Russia, 2009–2019*. Available at: <https://www.gks.ru/folder/210/document/13223> (accessed: May 21, 2020).

Federation” on December 29, 2014. According to the document, individual entrepreneurs, who open their business in the industrial, social, and scientific spheres, may be exempted from taxes for two tax periods. Moreover, there was the adoption of Government Decree no. 98-p “On priority measures to ensure sustainable economic development and social stability in 2015”, which also envisioned a number of tax benefits for small and medium business. Despite these benefits, employment in individual entrepreneurship declines. In 2008–2018, in general, a number of people employed in individual entrepreneurship decreased by 7.5%.

The distribution of individual entrepreneurs by age in 2018 shows that an average entrepreneur is a person aged 30–49 (in total, their share exceeded 60%). Individual entrepreneurship is not common among young people in the North, which is usually related to these people’s absence or insufficiency of finances to start a business up (*Tab. 3*).

In 2008–2018, a number of Russian small businesses doubled; the increase was slightly more significant in the Northern regions. The 2.3 times increase of a number of small businesses in the North in 2008–2018 led to the 6.8% increase of employment in this area [30]. The turnover of small businesses in the Northern regions has doubled over this period [30].

The dynamics of small business development in the North is unstable (*Tab. 4*).

The complexity of this sector’s formation is associated with problems of business and society criminalization, excessive interference of the state policy, and a number of others [31]. Data for the country’s northern regions, given in table 4, show that the growth of a number of small businesses took place in 2010 and 2012, but it was insignificant in general. The increase of a number of officially registered small enterprises may largely be explained by “injections” of public finances, which are not

Table 3. Distribution of a number of individual entrepreneurs by age in the northern Russian regions, 2018, %

| Region | Total, people | including age (years) | | | | |
|--------------------------------|---------------|-----------------------|-------------|-------------|-------------|------------|
| | | 15–29 | 30–39 | 40–49 | 50–59 | 60–72 |
| European North | 64367 | 13.1 | 32.4 | 28.5 | 19.5 | 6.4 |
| Republic of Karelia | 12242 | 12.2 | 34.9 | 28.9 | 17.1 | 7.0 |
| Komi Republic | 14937 | 16.3 | 27.6 | 23.5 | 28.1 | 4.5 |
| Arkhangelsk Oblast | 23660 | 11.3 | 33.7 | 28.0 | 21.2 | 5.8 |
| Nenets Autonomous Okrug | 411 | 11.7 | 30.9 | 35.5 | 21.9 | - |
| Murmansk Oblast | 13117 | 13.7 | 33.3 | 34.6 | 9.0 | 9.4 |
| Asian North | 87759 | 14.5 | 27.6 | 31.7 | 21.0 | 5.3 |
| Khanty-Mansi Autonomous Okrug | 23799 | 14.7 | 26.5 | 31.7 | 24.8 | 2.3 |
| Yamalo-Nenets Autonomous Okrug | 5309 | 5.2 | 27.0 | 40.4 | 18.5 | 8.9 |
| Tyva Republic | 9886 | 14.4 | 35.5 | 30.5 | 14.4 | 5.3 |
| Republic of Sakha (Yakutia) | 29950 | 18.0 | 26.1 | 30.1 | 22.7 | 3.1 |
| Kamchatka Krai | 5503 | 9.1 | 29.5 | 29.1 | 21.4 | 10.9 |
| Magadan Oblast | 2848 | 8.2 | 27.0 | 39.4 | 18.3 | 7.2 |
| Sakhalin Oblast | 9965 | 13.9 | 26.7 | 32.0 | 14.2 | 13.2 |

Complied according to: *Results of Labor Force Sample Survey*, 2019. Available at: <https://www.gks.ru/compendium/document/13265> (accessed: May 21, 2020).

Table 4. Dynamics of a number of small businesses (Russian North), 2008–2018

| Indicator | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Total businesses, thousand people | 45.3 | 52.1 | 76.2 | 83.2 | 95.9 | 105.4 | 110.8 | 109.7 | 105.6 | 114.4 | 107.6 |
| Increase of a number of businesses, % (2008 – 100%) | - | 46.3 | 59.7 | 84.1 | 102.3 | 112.7 | 110.6 | 102.7 | 119.6 | 106.5 | 99.4 |

Calculated according to: *Regions of Russia. Social and Economic Indicators*, 2009–2019. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020).

Table 5. Share of all enterprises in the Russian North in the service sector in 2018, units

| Indicator | All enterprises | Including a number of employed people. | | | |
|---|-----------------|--|--------|---------|--------------|
| | | until 15 | 16–100 | 101–250 | 251 and more |
| Number of enterprises in all sectors | 182804 | 87156 | 583066 | 453927 | 1152372 |
| Number of enterprises in the service sector | 136173 | 78887 | 498650 | 341088 | 579913 |

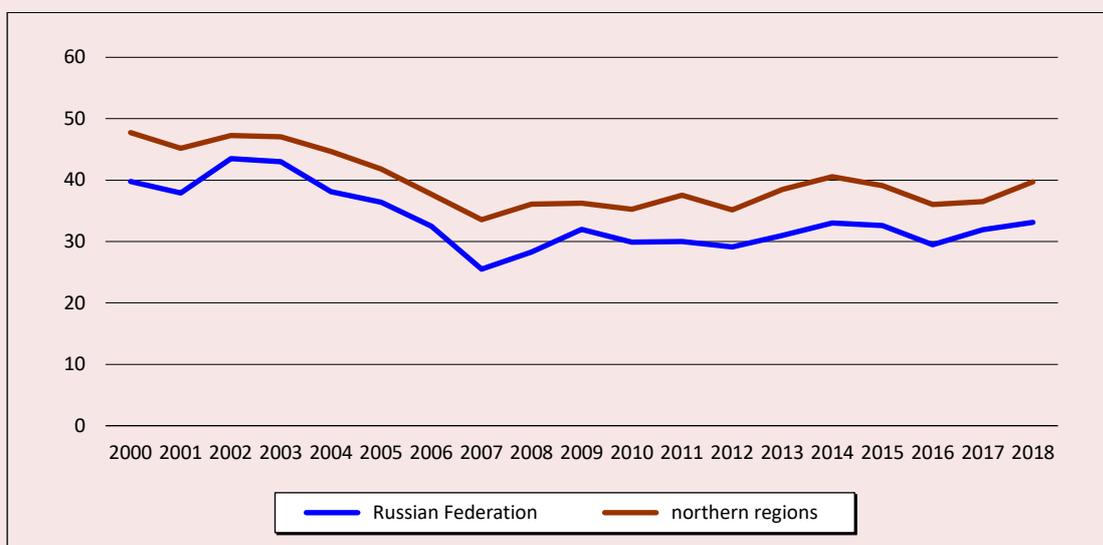
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systemic. It is worth noting that most often the state policy on business development is aimed at startups [32], which does not contribute to the creation of a significant number of jobs. For example, in the United States, at least 43 people need to start their own business in order to have 9 stable jobs in 10 years [7]. The specifics of small business development include its accumulation in the service sector, since it does not require significant investments

in the organization of the production process. *Table 5* data for 2018 show that more than a half of enterprises in the North (74.4%) operate in the service sector, while the share of small enterprises in the service sector was 64.3%.

The viability and sustainability of small business in modern Russian conditions remain relevant issues. The share of loss-making small businesses in the North in 2018 was 39.7%,

Figure 1. Dynamics of unprofitable small enterprises in the northern regions of Russia, 2000–2018, %



Source: *Regions of Russia. Social and Economic Indicators*, 2019. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020).

which is 6.6% higher than an average value for the Russian Federation (*Fig. 1*). Over the last 20 years, a number of unprofitable small businesses has decreased by 8%. A striking example of a high dependence of small businesses on external factors is the reduction of unprofitable enterprises in 2002–2007, when there was a stable and sustainable economic situation in the country. The decrease in the studied indicator in the northern regions was 13.7%; in the Russian Federation in general it was 18%.

Small business in the North is subjected to significant risks associated with underdeveloped market relations, insufficient financial resources, high taxation and high cost of credit resources, low level of property rights protection, high inflation, instability of the country's economic situation, and bureaucratic pressure in the industry [33]. In addition, along with all-Russian problems, small businesses in studied regions are affected by the northern specifics: higher products' prices because of natural and climatic conditions, remoteness,

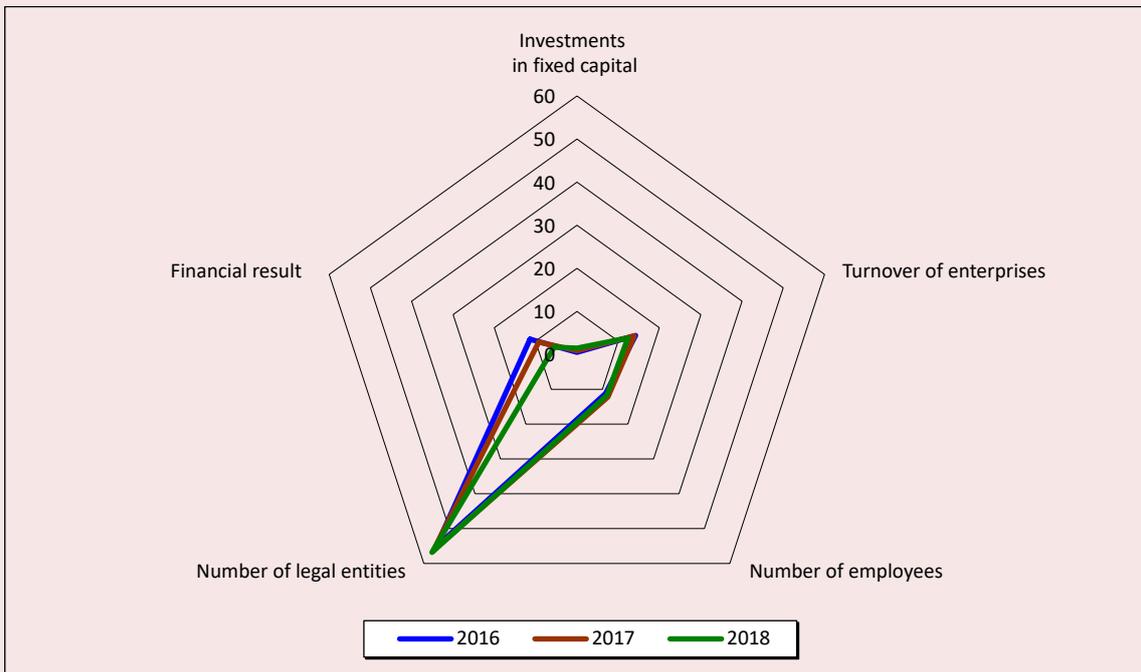
etc. Small enterprises' contribution to main economic indicators in the Russian North is still insignificant (*Fig. 2*).

Thus, employment in small business does not yet have a significant impact on the socio-economic situation in the Northern regions. Over the analyzed years, the share of population employed in the small business sector in a total number of employed population has been decreasing, the decline was 13.8%.

Next, let us examine one of northern Russian regions – the Komi Republic. There, 2008–2018 were the years of general employment decrease (by 1.18 years)²; in 2008–2016, unemployment level rose by 1.6%. This is the highest growth rate among the northern regions of Russia. Komi is a region that has a single-profile specialization of many settlements, which causes a high risk of unemployment subsequently leading to the extinction of single-

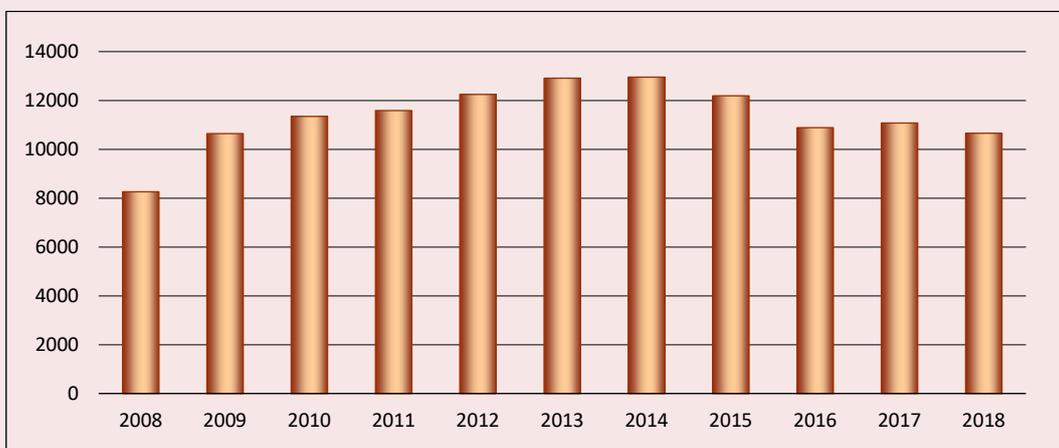
² *Results of Labor Force Sample Survey, 2009–2019*. Available at: <https://www.gks.ru/compendium/document/13265>

Figure 2. Share of small business in main economic indicators of the Russian North for 2016–2018, %



Source: *Regions of Russia. Social and Economic Indicators, 2019*. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020).

Figure 3. Dynamics of a number of small enterprises in the Komi Republic, units

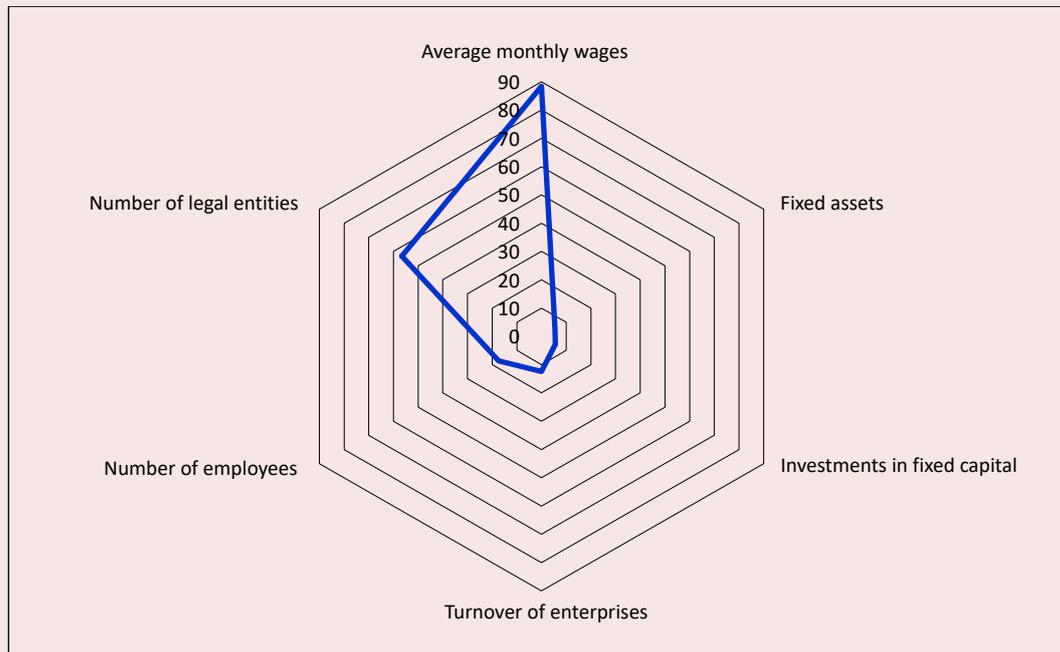


Source: *Regions of Russia. Social and Economic Indicators, 2019*. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156 (accessed: May 21, 2020).

industry towns and workers’ settlements, mass migration into other regions [34]. Development of small business will help smooth out these trends.

Over the last ten years, the republic has seen nearly two times decrease of the employment level in small business due to the reduction of small enterprises (*Fig. 3*).

Figure 4. Share of small business entities in main economic indicators of the Komi Republic, 2018, %



Source: *Statistical Yearbook of the Komi Republic. 2019: Stat. Coll.* Syktyvkar: Komistat, 2019. 347 p.

The growth of a number of small enterprises in the republic, observed in certain years, was caused by the state policy to support startups.

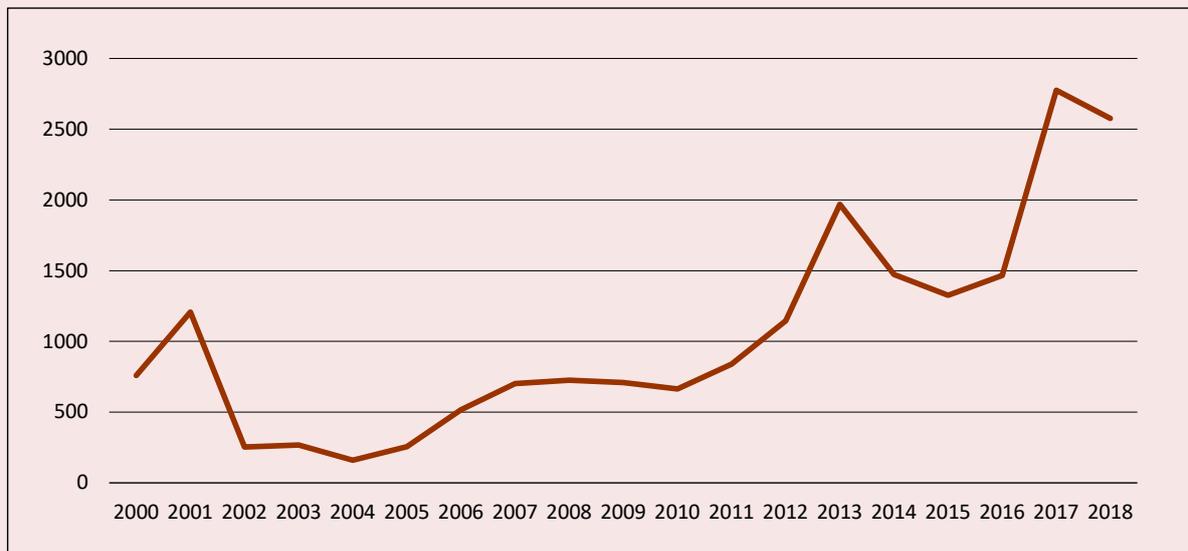
According to statistical data (Fig. 4), in 2018, the share of indicators of a number of small enterprises in overall economic indicators of the Komi Republic was 57%. A comparison of an average monthly income for small business and a full range of enterprises and organizations shows a gap of incomes in small business, and it reaches 12%. Low average incomes in the business sector reduce an ability to attract highly qualified specialists.

Approximately one sixth part of population, employed in the Komi economy, works in the small business sector. Small business is characterized by low shares of investment indicators in fixed capital, fixed assets, and enterprises' turnover. However, in general, for 2000–2018, financial results of small enterprises in the Republic had a positive dynamics (Fig. 5).

The chart shows that financial results of small enterprises were seriously affected by the economic crisis of 2014 caused by the ruble devaluation, lower prices for hydrocarbons, and adverse external conditions, which resulted in a drop of turnover from 1472.1 mil. rub. in 2015 to 1326.6 mil. rub. in 2016³. In 2017, there was a significant increase of profit amounts by 47.1%, in 2018 – another 7.1% decrease. Economic crises are cyclical and inevitable but its impact on the region's economy may be mitigated by timely measures. Thus, measures, taken in Komi to support small business, are implemented within the framework of targeted programs of federal significance, state programs of the Komi Republic, and departmental subprograms. A national program “Economic development” for 2013–2021 and

³ Data used: *Statistical Yearbook of the Komi Republic, 2009–2019*. Available at: <https://komi.gks.ru/statistical-compilation/document/67052>

Figure 5. Dynamics of financial results of small enterprises of the Komi Republic for 2000–2018, mil. rub. (in prices of 2000)



Source: *Small and Medium Business in Russia, 2009–2019*. Available at: <https://www.gks.ru/folder/210/document/13223>; *Statistical Yearbook of the Komi Republic, 2009–2019*. Available at: <https://komi.gks.ru/statistical-compilation/document/67052>

a subprogram “Small and medium business in the Komi Republic” function there. The budget for 2013–2021, according to the program, is 1.668.585.6 thousand rubles, including federal budget funds is 1.151.043.9 thousand rubles. Within the framework of this sub-program, target indicators for increasing employment are the growth of the share of an average number of employees (without external part-timers) at micro-enterprises and small enterprises in a total number of employed population. However, for example, such important indicator as a number of newly created jobs (including newly registered individual entrepreneurs) by small businesses that received the state assistance, with the support of municipal programs (subprograms) containing activities aimed at the development of small business was excluded from January 1, 2018.

The following approaches are used to support small businesses in the republic: 1) in

2016, direct financial support was provided to small business; 2) in 2017, a project approach was used; 3) in 2018 until now, a “patchwork” model; 4) by 2024, it is planned to switch to a centralized model of support for small business.

In recent years, support for small businesses has been provided in order to reduce administrative burden on small businesses, expand property support for small business entities, create favorable conditions for self-employed citizens, develop infrastructure, and promote entrepreneurship (regional and municipal business support centers, business incubators, industrial parks, guarantee funds, microfinance funds, etc.). Activities of these structures allowed increasing the entrepreneurial activity of the region’s population in some way.

Evaluation of population’s entrepreneurial activity in the Komi Republic, a region with a high level of involuntary unemployment and

population's high economic activity [35], the results of a poll, conducted in Komi towns by employees of the Research Center of RAS Ural Branch in the fourth quarter of 2018, showed that 70.1% of respondents, including economically active population, have a positive attitude toward business (this number exceeded 80% across Russia⁴). While analyzing opportunities for business development in towns, opinions of respondents, their perception of prospects for opening a business in the next five years in terms of development of a territory where they live were considered. Thus, a majority (44.2%) noted existing difficulties of territorial development which are quite solvable, 28.8% of people said that the situation in the town was not good, and there will be no changes, and 25.9% of respondents pointed out that there will be changes for the worse. Only 10.3% of people see positive prospects for the town, and they link it with development of industrial production (41.2%), small business (24.1%), and the service sector (18.7%).

The definition of conditions for development of entrepreneurial activity shows its insufficiency. Thus, 31.5% of respondents point out unfavorable situation with territorial development and note that these trends will remain unchanged. 44.3% of active citizens noticed that existing problems of territorial development are quite solvable.

The level of entrepreneurial activity is influenced by population's prevailing perceptions of business opportunities, abilities and competencies to run business. Within economic crises, this assessment is influenced by a competence self-assessment. In other words, the higher the entrepreneurial activity is, the

higher the respondents' assessment of their competencies becomes [36]. In the Komi Republic, 25.2% of able-bodied respondents, living in urban areas, would like to do business. Moreover, men have 10% higher level of entrepreneurial activity than women. If we compare entrepreneurial activity of population from single-industry towns (Vorkuta, Inta) and the administrative center (Syktyvkar), the situation is as follows: it is higher in a capital. The figures were 30% and 21%, respectively.

Citizens indicated the following reasons for their reluctance to start business: lack of business experience (25.4%), lack of initial capital (24.9%), uncertainty about success (15.4%), delay of business startup for the future (12.1%), lack of connections and ignorance of business information (10.6%), other reasons include lack of entrepreneurship interest (6.5%), age restrictions (4.8%).

The level of entrepreneurial activity in Komi towns decreases with the increase of respondents' age⁵: youth of 16–29 – 28.2%, average age of 30–44 – 24%, 45–50/54 years old – 4.9%, older than 50/54 – 1.4%; in other words, it significantly decreases with age. Young people are ready to do business, but the lack of financial capital is often the reason that they do not want to proceed with it. A low level of entrepreneurial activity in older ages is associated with a “reluctance” to start something new again, with or without financial resources.

The distribution of responses to a question about the implementation of professional knowledge, skills, and abilities showed that those who have the highest level of knowledge

⁴ Analytical review “Business in Russia: Trust, barriers, and success factors”. VCIOM. Available at: <https://wciom.ru/index.php?id=236&uid=116444> (accessed: May 21, 2020).

⁵ This indicator was calculated as a specific weight of population who plan to open their own business in a total number of population positively responding to a question “Would You like to start your own business?” (in a total number of those planning to open their own business and taking active actions to organize it).

Table 6. Assessment of labor market opportunities in Komi towns in 2018

| Indicator | Overall for the sample | Syktvykar | Vorkuta | Inta | Usinsk |
|---|------------------------|-----------|---------|------|--------|
| 1. Availability of jobs | 2.3 | 2.3 | 2.2 | 1.7 | 3.0 |
| 2. Variety of jobs | 2.1 | 2.6 | 2.1 | 1.7 | 2.7 |
| 3. Opportunities for professional realization | 2.3 | 2.5 | 2.3 | 2.1 | 2.9 |
| 4. Career opportunities | 2.5 | 2.7 | 2.4 | 2.2 | 3.2 |
| 5. Population's living standards in towns | 2.5 | 2.7 | 2.4 | 2.3 | 3.4 |

Note: evaluation from 0 to 5 points: 5 – very good, 4 – good, 3 – satisfactory, 2 – bad, 1 – very bad.

implement it the least (a respond “implement only a small part” was given by every third respondent). At the same time, the lack of funds (about 30%) restrains respondents the most. The respondents’ assessment of such factor as the availability of local labor market opportunities showed that it is dominated by low values. Only residents of Usinsk estimate labor market higher. In comparison with other towns, their average estimations are 3 points higher (*Tab. 6*).

As a part of our survey, we assessed the level of population’s awareness about measures of state support for entrepreneurship. The results of the study among young people of the republic showed that 42.1% of them lack information on all issues related to starting a business. One third of young respondents said that they do not know anything about government programs aimed at supporting local business and population (34.6%). 15.6% of them said that they had heard something about government programs but did not delve into its essence. Only 7.7% of respondents were aware of programs and projects aimed at developing entrepreneurship.

Thus, in the Republic of Komi as a whole, over the last 10 years, there has been the increase of a number of small enterprises coupled with a steady increase of its financial results, and the average number of employees at small enterprises has decreased. In 2018, a number of small enterprises in the Komi Republic increased by 28.6% in comparison with 2008. The average number of employees

at small enterprises decreased by 29.4% over the studied years, and the proportion of employees at small enterprises in the total average number of employees was 17% in 2018. According to the survey of urban population, conducted in 2018 for the assessment of entrepreneurial activity, it may be noted that its level in northern single-industry towns (Vorkuta, Inta, and Usinsk) is below values of the same indicator in an administrative town (Syktvykar). The entrepreneurial activity of citizens decreases with age in all studied cities. There is a low share of potential entrepreneurs, and population is poorly informed about state and municipal authorities’ measures to support small business. Northern factors (market limits, underdeveloped infrastructure), as well as citizens’ low assessment of their entrepreneurial skills and lack of startup capital, have a significant impact on this situation.

Conclusions

Summing up, it should be noted that each historical stage of economic development has its own characteristics. Modern trends of global economy development, which is characterized by rapid advancement of high technologies, show that small forms of economic entities are the most successful. As the result, employment in this sector in foreign countries sharply increased. The Russian reality is different. The country is dominated by large-scale economic forms, and, respectively, employment at large enterprises is common. The purpose of this study was to study population’s employment

at small businesses in the North of Russia. The results of the analysis showed that the dynamics of small business development in the North is uneven, small businesses primarily develop in the service sector, and overall employment in the North has been declining over the last ten years. In certain years (2010 and 2012), the Russian North has seen the increase of a number of small enterprises which could be explained by the following statement: this type of economic entities has developed not because of the increase of incomes but due to the economic downturn, the increase of the unemployment rate in regions. In this case, the role belongs to the state policy that prevents the growth of unemployment but does not solve the problem of creating jobs, the growth of which was impacted by self-employment in the North.

Case study of one northern region (Komi Republic) shows that the role of small business in the economy is still insignificant, a number of small businesses and employees declines, and an amount of small business profits for 2008–2018, in comparable prices adjusted for inflation, decreased.

Data of our own sociological survey show a low level of entrepreneurial activity of urban

population in the Komi Republic, which is caused by the northern specifics of life (transport underdevelopment, remoteness, “small” size of markets, infrastructure, etc.). As the result, northerners assess the prospects of territorial development and labor market opportunities as low; at the same time, they have a generally positive attitude toward entrepreneurship.

Therefore, as a part of the state support for small businesses in the North, it is necessary to: 1) continue work on promoting entrepreneurship; 2) continue information and advisory work with small businesses; 3) continue reducing administrative barriers; 4) monitor small businesses to determine a possibility of their expansion (creating new jobs).

The research results contribute to development of the economic analysis theory (reveal of the specifics of small business formation and highlighting of the impact of small business on employment in the northern regions). The practical significance of the work is caused by a possibility to use the results in drafting regional programs to stimulate entrepreneurial activity and small business development.

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Received October 8, 2019.