
State Stimulation of Development of Small Entrepreneurship in Developing Countries

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Abstract:

Purpose – This article offers a hypothesis that small business cannot activate in developing countries without state stimulation, as distortion of market mechanism does not allow creating necessary competitive environment and eliminating incoming barriers. The purpose of the article is to verify this hypothesis, determine perspective, and develop recommendations for state stimulation of development of small entrepreneurship in developing countries.

Design/methodology/approach – As methods of conduct of scientific research, this work uses the method of systemic, problem, comparative, and structural & functional analysis, as well as method of modeling and formalization.

Findings – The authors determine specifics and role of small entrepreneurship in developing countries. The work views practice of state regulation of development of small entrepreneurship in developing countries, which allowed determining positive and negative aspects of such management and barriers for development of small business.

Originality/value – The largest scientific novelty and value belongs to the developed proprietary model and recommendations for stimulation of development of small entrepreneurship in developing countries.

Key Words: state stimulation, development of entrepreneurship, small business, developing countries.

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Introduction

At present, developing countries are characterized by domination of information connections in economic system and ineffectiveness of institutional mechanisms in various spheres of economy, including the sphere of entrepreneurship. For this reason, instead of competition in developing countries, monopoly in most of the markets is established. Large market players oust small enterprises, and significant market barriers hinder their reorientation and entering new markets.

As a result, economy of developing countries is dominated by medium and large business, which – despite certain positive features – is characterized by low flexibility and insufficient innovational activity. Monopolistic market structure causes difficulty or even impossibility for transition of developing countries for innovations-oriented path of development of economy, which increases their underdevelopment from the developed countries and strengthens disproportions of economic systems in global scale.

Taking into account that in developed countries, small business performs the role of main employer in economy and stimulates reduction of unemployment, as is one of key taxpayers, it is possible to speak of existence of serious lost profit in developing countries. This lost profit is caused by underdevelopment of small business and primarily by shortfalls in potential tax payments into state budget, as well as ineffectiveness of labor market.

Thus, actuality of development of small entrepreneurship in developing countries grows. This article offers a hypothesis that small business cannot activate in developing countries without state stimulation, as distortion of market mechanism does not allow creating necessary competitive environment and eliminating incoming barriers. The purpose of the article is to verify this hypothesis, determine perspectives, and develop recommendations for state stimulation of development of small entrepreneurship in developing countries.

Specifics and role of small entrepreneurship in developing countries

Theoretical and methodological aspects of state stimulation of development of entrepreneurship are reflected in materials of research of such authors as (Shi, 2016), (Jerbashian & Kochanova, 2015), (Dzhindzholia et al., 2015), (Etienne, 2015) et al. Issues of functioning and development of small entrepreneurship are studied in works of such scientists as (Bartz & Winkler, 2016), (Andreeva et al., 2016), (Zengyi, 2016), (Spence, 2016), et al.

Peculiarities of developing countries, related to conduct of business and state regulation of economy, as well as work of market mechanism, are studied in multiple research, among which are works by (Lemma & Negash, 2016),

(Gnangnon, 2016), (Kratou & Goaid, 2016), (Popkova et al., 2013a), (Popkova et al., 2013b), etc.

Small entrepreneurship possesses a range of peculiarities and advantages, as compared to other forms of business. This determines its important role as an economic subject in any economic system. Firstly, such peculiarities include simplicity of creation of business. Starting small business requires minimal set of assets, due to which it is possible to create a large quantity of small enterprises.

Secondly, among peculiarities of small business, it is possible to distinguish simplicity of doing business. Accessibility of simplified system of financial accounting and taxation simplifies the process of small enterprise management. Thirdly, it is necessary to note a peculiarity related to simplicity of re-orientation of business. Minimal set of assets makes the procedure of change of targeted market very simple, and small scale of business allows it to re-orient depending on changes of clients' needs.

Specifics of small entrepreneurship in developing countries consists in its secondary character. In countries with developing economy, small business is viewed by society and state as economic subject that supplements large business. At that, small business in developed countries is the basis of economy and the most important targeted economic factor.

Share of small business in economy of developed countries constitutes more than 50%, while its share in economy of developing countries does not exceed 15-20% (Global entrepreneurship monitoring, 2016). In developing countries, small entrepreneurship performs the role of provision of population's self-employment.

Very often, the initiative of creation of small business belongs to the state and businessman. This happens within financing of startups by the unemployed, registered in employment office, who provided a perspective business plan. That is, the state, having no possibility to provide jobs for people, provides assets for them to start their own business. The results of comparative analysis of the position of small entrepreneurship in economy of developed and developing countries are given in Table 1.

Table 1. Comparative analysis of position of small entrepreneurship in economy of developed and developing countries

Criteria of comparison	Position of small entrepreneurship	
	In developed countries	In developing countries
Share in formation of GDP	>50%	<15-20%
Role in economy	Large employer, key taxpayer	Means of provision of self-employment of population

Conditions for doing business	Favorable	Unfavorable
Means of regulation of business	Market self-regulation	State regulation
Effectiveness of business	Business is profitable and official	Business is unprofitable
Transparency of business	Business is transparent	Unofficial, shade business
Necessity for support	Self-repayment of business	Subsidized character of business

As is seen from Table 1, in developing countries, conditions for doing small business are unfavorable. This is caused by difficulty in obtaining credit resources, high level of inflation and taxation, etc. That's why small entrepreneurship is often unprofitable. In order to minimize expenses, owners of small business take it into shade. The work of market mechanism is limited, so the state has to regulate (support) small business.

Practice of state regulation of development of small entrepreneurship in developing countries

In practice of economic activities in developing countries, the state uses wide diversity of tools of stimulation of small entrepreneurship development (Table 2).

Table 2. Instrumentarium of state stimulation of development of small entrepreneurship in developing countries

Type	Tool	Tool description
Indirect	Anti-monopoly regulation	state interferes with action of market mechanism to limit monopoly and stimulation of free competition
	Development of institutional and infrastructural environment	state creates and develops infrastructure and institutes necessary for development of business
	Consulting and teaching potential and operating small entrepreneurs	state creates special consulting and teaching organizations for potential and operating businessmen
Direct	Provision of subsidies	state allocates assets from state budget for free support for small business
	Subsidized crediting	state creates special credit establishments which issue subsidized credits for small business
	Subsidized taxation	state sets reduced tax rates for small business

Let us view the tools given in Table 2, in detail. State indirectly stimulates development of small entrepreneurship through anti-monopoly regulation of economy, development of institutional and infrastructural environment, and consulting and teaching potential and working small entrepreneurs the peculiarities of doing small business.

State also realizes direct measures of support for small business, through provision of subsidies, subsidized crediting, and subsidized taxation. It should be noted that despite the excess of available tools, they are often used ineffectively by the state and have a formal character.

It should be noted that despite realization of the policy of support for small entrepreneurship in developing countries, state also creates new barriers for its development. It is primarily instability of normative and legal basis of conduct of entrepreneurial activities.

Constant changes of laws are typical for developing countries. It is very difficult for small business to adapt to changes of normative and legal base, as it does not possess a possibility of having a lawyer and other necessary specialists in the company.

Such barriers include mandatory monitoring and certification of business. For the purpose of protection of rights and interests of consumers, state controls the activities of entrepreneurship, including small business. This procedure is normal and does not have any threat for business.

However, developing countries are peculiar for high level of corruption. That's why successful passing of such inspections requires more than simple observation of laws; it is necessary to bear corruption costs, which negatively influences small business, budget of which is very limited.

Another barrier is division of financial and tax accounting. For example, in modern Russia, which belongs to countries which developing economies, there are different rules in the sphere of tax and financial laws. That's why enterprises have to conduct double accounting. This leads to unjustified increase of costs and reduced profitability of small business.

As a rule, the state in developing countries does not realized the importance of small business. That's why practice of its stimulation is oriented at copying the developed countries and artificial formation of similar structure of entrepreneurship.

Model and recommendations for stimulation of development of small entrepreneurship in developing countries

This work offers a proprietary model of stimulation of development of small entrepreneurship in developing countries (Fig. 1).

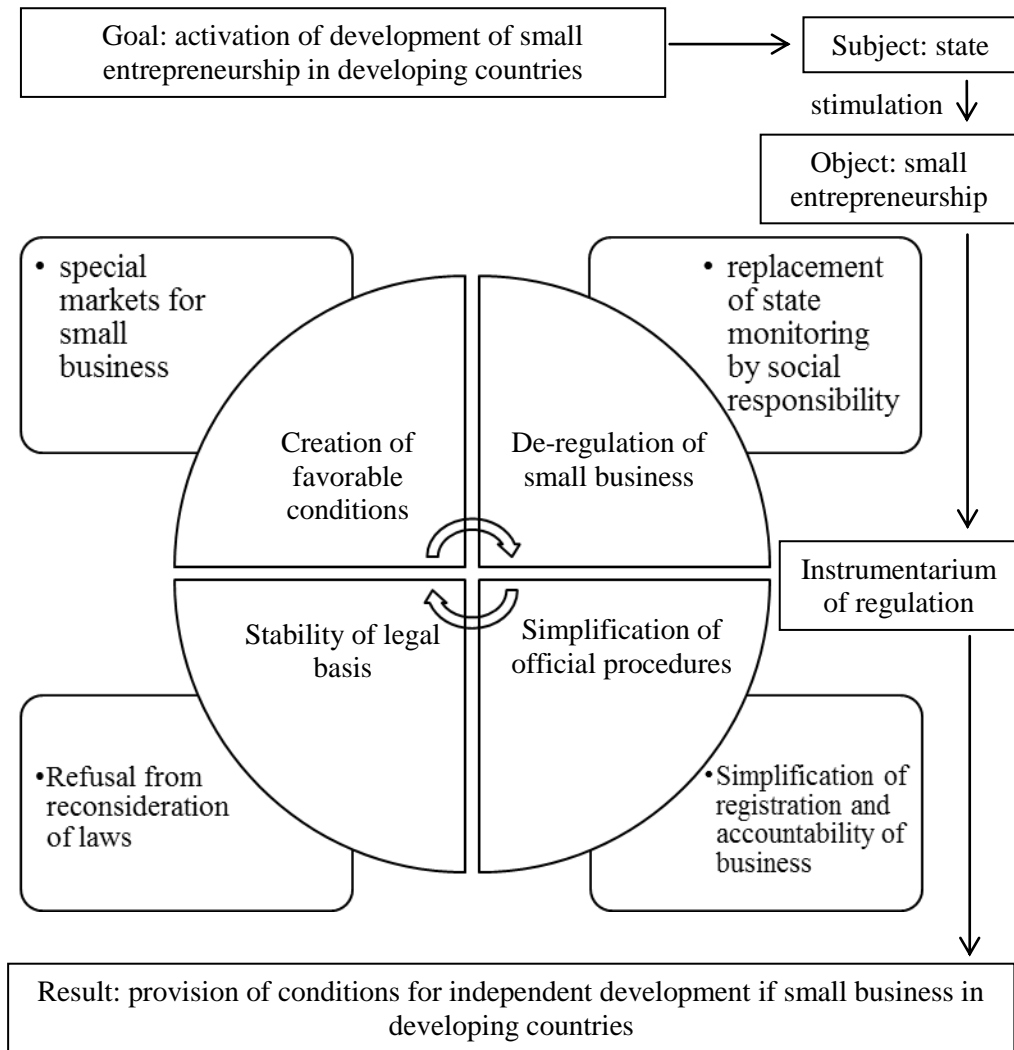


Figure 1. Model of stimulation of development of small entrepreneurship in developing countries

As is seen from Fig. 1, the purpose of the offered mechanism of activation of development of small entrepreneurship in developing countries. The object is state, and subject of stimulation is small entrepreneurship. Instrumentarium of stimulation includes creation of favorable conditions for doing small business.

If it is impossible to ensure high level of competition in all markets in developing countries, it is expedient to determine special markets oriented at small business and characterized by low barriers of entering and highly competitive market environment.

Another tool is de-regulation of small business. In view of high corruption component in economy of developing countries, it is expedient to replace state monitoring by stimulation of social responsibility of business, through increase of consciousness and exigence of consumers.

Another tool is simplification of official procedures – registration and accountability of small business. Despite the fact that this measure is proclaimed as the method of support for small entrepreneurship in developing countries, it is formal. It is necessary to further simplify the procedure of registration of small business and to refuse from the system of double accounting, i.e., unification of tax and financial accounting for small enterprises.

The offered tools include also provision of stability of legal base. In view of general instability of normative and legal base in developing countries, it is necessary to ensure stability of legal base for small business.

As a result of realization of this model, it is possible to provide conditions for independent development of small business in developing countries, which will allow reducing state's participation due to strengthening of action of market mechanism. For successful realization of the model, the authors of the article offer the following recommendations for stimulation of development of small entrepreneurship in developing countries:

- shift of accents in the sphere of entrepreneurship for strengthening of positions of small entrepreneurship and its consideration as a basis for development of business in developing countries;
- increase of accountability of realization of measures for support for small entrepreneurship for provision of their high effectiveness;
- strengthening of interaction of state and small business for improvement of information exchange and creation of possibility for dialog and close cooperation.

Summary and conclusion

The conducted research confirmed the offered hypothesis – small business does experience certain difficulties in developing countries, elimination of which requires improvement of the practice of state stimulation and perfection of work of market mechanism.

The practice of state regulation of development of small entrepreneurship in developing countries is contradictory. On the one hand, state uses various measures for support for small business. On the other hand, consequences of state regulation could negatively influence the functioning and development of small business.

Perspectives of improvement of state stimulation of development of small entrepreneurship in developing countries are related to change of attitude to small

business. The offered model and developed recommendations will allow increasing effectiveness of the practice of support for small business and provide favorable conditions for its development in developing countries.

Limitations of the performed research include generalized approach to consideration of developing countries. In view of their wide diversity and significant influence of national peculiarities on the practice of state management of development of small entrepreneurship, increase of precision of analysis requires their segmentation and narrower consideration by the example of specific countries.

Perspectives of further development of the theory of small entrepreneurship in developing countries are related to development of practical mechanisms of application of corresponding instrumentarium of elimination of barriers for development of small business and increase of its role and meaning in economy.

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