

## FACTORS DEFINING ENTERPRISE ACTIVITY

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**Key words:** enterprise activity; administrative barriers; external economic conditions; government regulation; licensing; competition; administrative resource; economic monopolism; small business; enterprise environment.

The question about interrelation between business placement and external economic conditions is illustrated in the article. Influence of administrative resource on the restriction of economic competition is analysed. The influence of quality of public administration on business placement has been researched. Nowadays it has practical significance. The main factors defining small business development and the most favorable regions for business development are indicated. The conclusion about the existence of stable interrelation between enterprise activity and the character of entrepreneurs' relationships with municipal and regional officials has been made.

It is a well-known fact that favorable economic conditions, i.e. conditions that provide maximum profit from entrepreneur's resources, cause enterprise activity. Maximality of profit depends for sure on entrepreneurial abilities of a person. This factor predetermines the existence of business itself, whereas the process of business placement depends mostly on external economic conditions. This article is devoted to the characteristic of some of them.

To begin with we will have to turn to the problem of administrative barriers. There have been a lot of debates about this problem but it doesn't lose its actuality.

The statements of E.V. Zhuravskaya<sup>1</sup> (the head of scientific programs of the centre of economic and financial researches in the framework of projects connected with monitoring of small enterprises' expenditure. The enterprises are connected with government regulation) support this thesis. During the years of the reform that started in 2002 the laws about inspections, licensing, registration and a simplified tax system for small enterprises were passed. 2000 enterprises in 20 regions of Russia were polled in the course of the project. The fifth round of the monitoring (the previous ones took place in spring and fall of 2001, 2002, 2003 and 2004) showed that the procedure of registration for small enterprises has been simplified, the number of checks and illegal licenses among registration documents has been reduced. Nevertheless a half of enterprises spends more time than 5 days provided by the government for registration. About 38% of the firms are demanded licenses in the spheres of activities that do not subject licensing and the fifth part of

the firm undergo illegal checks. In 2004 in comparison with 2003 the number of firms that had to give bribes to the inspecting organs increased. According to the entrepreneurs' esteem, some aspects of business climate became worse: economic instability increased, difficulties with capital formation appeared, unequal conditions of competition and corruption disturb work.

An outstanding economist R.M. Nureyev<sup>2</sup> highlighted the role of the administrative resource. He offered the following scheme of the administrative resource influence on the restriction of economic competition.

The administrative resource shows the imperfection of political market and forms economic monopolism. The facts of the preferences' existence (tax exemption and others) means that there is dualism of norms that leads to the restriction of competition in the region.

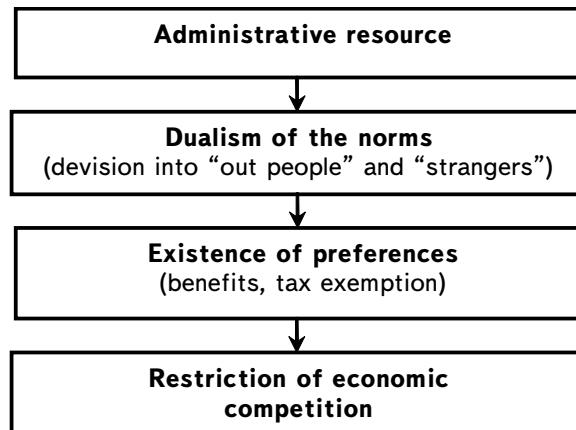
Really, the companies that use direct support and patronage of the governor often get considerable tax exemptions and other forms of financial help from administrative side.

Thus, the study of administrative resource has a big practical significance. The analysis of Russian political monopolism states the problem of government reform with the aim of creating of genuine competitive conditions on political market. It is possible to prevent regional separatism, which threat with the existing system is always actual, only having clear constitutional frames of government activity.

The lack of working lawful regulators of politicians' activity in Russia leads to the increase of the role of administrative resource. The features of autocratic regime

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*Pic. Influence of administrative resource on the restriction of economic competition*

when power is concentrated in one person's hands begin to appear.

The establishment of the fact of political monopolism existence and explanation of its main reasons create prerequisites for monopolism overcoming and political competition development.

Taking into account such a specificity there are many discussions nowadays concerning this topic among both entrepreneurs and officials. All-Russian Public Organization of Small and Medium Enterprise ("Support of Russia") in collaboration with All-Russian Centre of Public Opinion Study conducted an all-Russian research with the aim of finding out conditions and factors of small enterprise development in the regions. 5900 respondents from 75 Russian regions were polled in the process of researching. The results showed that the defining factors formulating enterprise environment in the regions are the following:

- ◆ the level of small business support showed in the steps to support small business;
- ◆ quality of legal protection, i.e. readiness of entrepreneurs to go to the law and protect their interests in the court if authorities and controlling instances are going to be the opponents;
- ◆ the level of safety meaning evaluation of power abuse from the part of authorities, controlling organs and Ministry of Internal Affairs and evaluation of the situation with extortion;
- ◆ political stability, i.e. influence of all the levels of authority and controlling and legal organs on small business;
- ◆ availability of financing showed in the esteem of availability of banking and non-banking financial sources;
- ◆ the extent of freedom of competition meaning the esteem of secrecy of some region-

al branches, preferences from the part of authorities and large companies;

- ◆ availability of property resources meaning the esteem of availability of business property for small enterprise;
- ◆ the extent of large business influence including the esteem of small business integration into the sphere of a large one.

4 groups of regions were defined according to this classification:

- 1) regions of stable development of small business;
- 2) regions of unused opportunities
- 3) unstable well-being of small business;
- 4) depressive regions.

Speaking about enterprise activity it would be expedient to define it as an important factor of business placement conditioned by internal environment (enterprise) and external environment (quality of government regulation as a whole and entrepreneurship in particular). According to the results of researches made by the "Support of Russia" organization, the concentration of factors and conditions favorable for business and formed by the regional authorities can be seen in the following regions: Tatarstan, Khanty-Mansisk Autonomous District, Perm region, Novosibirsk region, Yamal-Nenets Autonomous District, Belgorod, Lipetsk, Samara, Ryazan, Leningrad, Chelyabinsk, Murmansk, Tomsk, Tyumen regions, Republic Karelia, city-subject Moscow.

Tambov, Omsk, Irkutsk, Kirov, Kemerovo, Arkhangelsk, Novgorod, Bryansk, Sakhalin, Penza, Chita, Magadan, Nizhniy Novgorod, Tver, Kostroma, Saratov, Kurgan, Ulyanovsk regions, Republics Mari El, Komi, Chivash Republic, Altai and Stavropol Kray.

**Existence of restriction of small business activity  
with the division according to years and enterprise location, %\***

Index	2005		2006	
	Capital	Region	Capital	Region
The use of the official position by the representatives of administration in a region for creation of favorable conditions for some firms.	41	27	57	42
The existence of economic branches with the limited entrance for some enterprises in a region	53	44	67	52

Rostov, Moscow regions, Bashkortostan Republic, Krasnodar, Krasnoyarsk Krays, city-subject St. Petersburg are the regions with low enterprise activity according to the external factors (relatively low quality of government regulation of enterprise).

Ivanov, Vladimir, Volgograd, Pskov, Kursk, Orenburg, Kaluga, Tula, Voronezh, Smolensk, Amursk, Kaliningrad, Orlov regions, Republics Kabardino-Balkaria, Khabarovsk, Primorsk Krays, Karachayevo-Cherkessk Autonomous District are the regions with low enterprise activity according to both internal (quality of enterprise management, workforce quality etc.) and external factors (relatively low quality of government regulation of enterprise).

The factor of a firm's location, i.e. the extent of its nearness to the centre or to the rim, is an important moment in the sphere of enterprise activity. According to the researches of "Support of Russia", enterprises located in the central cities are financially more successful because of the bigger market, more solvent population and developed infrastructure. And it is easier for them to get support from different financial structures.

In spite of the better financial position of small business in the regional centre, administrative pressure is higher there than at the rim. For example, there is a more skeptic approach in the capital to the idea of having legal proceedings with the authorities. 50% of capital entrepreneurs think that the majority of entrepreneurs will not go to the law if their rights are infringed but only 46% of provincial entrepreneurs hold to this opinion.

The influence of regional and municipal administrations on the activity of commercial organizations in the capitals is more obvious. For example, the fact of creating of favorable conditions for some enterprises is more often mentioned by the regional entrepreneurs(57%) than by the provincial ones (42%). There is the same

situation with the limits in some spheres of economy - 67% of capitals' inhabitants think that there are obstacles on the way to the market, whereas 52% of provincial population think the same. It says about the fact that more and more representatives of small business have to face administrative restrictions (table).

There is approximately the same situation with the practice of problem solving with regional official with the help of bribery. 46% of capitals' respondents think that this practice is actively applied in their regions, whereas only 32% of provincial respondents agree with it. It is caused by a more formal administrative approach from the part of authorities.

Taking into consideration all aforesaid, we can draw a conclusion that small business in the province is more loyal to the authorities than in the capitals. It is connected with fact that this question if more formalized in the capitals and it is easier to deal with this problem at the rim where the enterprises having good relations with the authorities survive.

Thus, we can make a conclusion about a stable interrelation of enterprise activity and about the character of enterprise relations with municipal and regional authority.

<sup>1</sup> Zhuravskaya E.N. Monitoring of Administrative Barriers// Modernization of Economy and Globalization: Materials of IX international scientific conference, State University-High School of Economy, 1-3 April. 2008. Moscow 2008.

<sup>2</sup> Nureyev R.M., Shulgin S.G. Administrative Resource and Its Role in Formation of Political Business Cycle in Russia// Modernization of Economy and Globalization: Materials of IX international scientific conference, State University-High School of Economy, 1-3 April. 2008. Moscow 2008.

<sup>3</sup> Gordeyeva O.V. Influence of Taxation on the Condition of the Basic Branches of Regional economy// Vestnik of Samara State University of Economy. № 12. 2007.