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## Deformation Factors of the Entrepreneurship Development in the Industry Segments of the Economy of the Russian Federation

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**Abstract:**

*The article identifies the reasons for deformation of small business in the timber sector of the economy in the cross-section of three groups - social, ecological and economical (lack of financial resources, imperfect government regulation; high tax burden).*

*The evidence for such factors is seen in the increase of shadow volumes of timber flow, decrease in the quality and volumes of forest recreating activities and forest protection, decrease in tax revenues and payments, decrease in business and innovation activity in the sector. Stable business performance in the wood sector depends on the economic, ecological and social factors.*

*It is proven, that decreases in the scale of business deformation in the timber sector is possible, via forming a differentiated government policy to support entrepreneurship and organizational-economical tools.*

**Keywords:** entrepreneurship, timber sector, deformation of development.

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## **Introduction**

The support for effective development of entrepreneurship is a key condition for stable and secure economic development. In this case scenario, small business plays a crucial role (Khorev, 2015). Above all, this happens because small enterprises employ almost half of the labor-force in the population, and produces the greatest share of total GDP (Karpunina, 2014; Pociovalisteanu and Thalassinos, 2008; Tyaglov *et al.*, 2017). It is important to point out that in modern Europe, SMEs (small and medium enterprises) employ around 72% of the labor-force, and contribute around 50% towards the total GDP. Thus, elimination of entrepreneurship deformation in small business structures (which have become the most common form of enterprise) will provide for stable socio-economic development in the country.

Russia is the largest country in the world by territory, and possesses immense wood resources, having the largest forest territories and wood stock-piles in the world. However, enterprise development in this sector is one of the most problematic in the Russian economy. Business development of the Russian timber industry happened in a very tight time-frame. It should be pointed out, that together with changes in the timber-related legislation that occurred in a really short time period, various forms of deformation have occurred in the wooden industry, including enterprise deformation (Morkovina, 2014; Valma, 2014a; 2014b; Kossova *et al.*, 2014; Akopova *et al.*, 2016).

Despite this, the impact of entrepreneurship on the timber sector as well as the national economy is difficult to undervalue. It provides work places, diversifies the production assortment, lowers social tensions in the forest areas, increases tax and non-tax budget contributions at different levels, provides innovation and mobility. However there are a number of factors in the Russian timber industry that place constraints on the functionality and growth on SMEs (Popkova, 2013).

## **Methodology**

The analysis of deformation in the enterprise development of the timber sector in the Russian economy has been carried out within the context of the study. Using the survey of managers in the timber industry, authors produced a ranking and deducted the level of economic, ecological and social factor influence on the level of enterprise deformation. In order to analyze the collected data, the method of generalization and grouping has been used. After the results have been processed, the diagrams analyzing the deformation of SMEs in the timber sector of the economy have been produced.

The execution of the described procedures went in the following order:

1. Exposure of experts that are equipped with necessary competence to define the reasons for enterprise deformation: X: (1=1, n).

2. The obtained results of expert comparisons were used as inputs into matrices and constructed average systems of comparison.
3. Forming a square matrix  $C = C_{ij}$ , which represents a numerical result, measuring the supremacy of factor  $i$  over the factor  $j$ . As a result of comparative analysis, the following conditions hold:

$$\text{if } X_i > X_j, \text{ then } C_{ij} = 1,5 \quad (1)$$

$$\text{if } X_i = X_j, \text{ then } C_{ij} = 1 \quad (2)$$

$$\text{if } X_i < X_j, \text{ then } C_{ij} = 0,5 \quad (3)$$

4. Calculation regarding the relative weighting of factors has been performed, reflecting the significance of each factor.

During the course of the study, the methods of comparison, contrast and observation have been used in the parts:

- of questioning the representatives of the, timber business and scientific society, in the central chernozem region of the Russian Federation, regarding the questions; of defining deformation of enterprise development;
- of analysis of the conditions and the level of SMEs development in the timber sector of the Russian Federation;
- of cabinet research, including the definitions of public and private display of enterprise deformation in the timber sector.

## Results

Deformation in its common understanding - is change of form, after the exposure to external power, therefore preservation of outdated, ineffective elements of progressively evolving system is not always regarded as deformation. Often these remain themselves, due to the lack of necessary attention, which is required for modernization. In the timber sector of the economy, enterprise deformation is evident in the primary targets. Entrepreneurial activity is defined as independent, carried out with the readiness to bear risk, with aims to receive systematic profit from utilizing property, selling goods, providing services by registered and authorized individuals with accordance to the law.

The research shows, that for business, functioning in the timber sphere, the following problems leading to deformation are common:

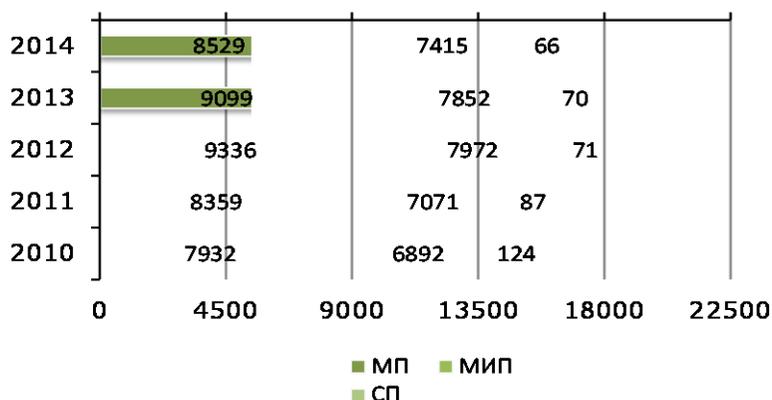
- 1) High level of unstable development, especially in the first years of establishment, which is explained by unstable external environment (correlates with crisis conditions and macroeconomic instability). Such instability is further explained by lack of government support. Thus, government support for the subjects of SMEs, carried out on federal and regional levels is implemented via the following programs and events: Ministry for Economic Development of the Russian Federation Program for government support of SMEs, including farms; Ministry of Labor and Social Welfare Program of the Russian Federation for support of small business development and self-employment of citizens; events organized by the Ministry of Agriculture of the Russian Federation, to support the subjects of SMEs in the agricultural sector; complex measures provided by the Ministry of Education and Science of the Russian Federation, targeting the support for SMEs in the scientific and technological sphere (Parahina, 2013; Ryzhkova and Prosvirkin, 2015). As we can see, there are no events of programs that specifically target the support for small enterprises in the timber sector;
- 2) Decrease in the volumes of activity of small enterprises. Such phenomenon is common for all small enterprises: even for those, that have been present in a market for some time already. This is explained by the global crisis;
- 3) Low effectiveness of activity. This phenomenon is seen as the result of previously explained tendency. High fiscal pressure (rent, tax payments, payments into the funds), as well as unstable external environment result in insufficient profitability growth (compared to the growth of volumes and revenues of small enterprises);
- 4) Decrease in the amount of people engaged in small business. On the one hand, such decrease is defined by the decrease in effectiveness in functionality and free labor force. On the other hand, decrease in the level of confidence and trust from the population towards this sphere of activity, and high levels of associated risk (Korchagin, 2014).

Necessary attention, while studying the development of small enterprises in the timber sector, should be focused on the volumes of budget arrears. First of all, the growth in the volumes of the arrears, suggests the crisis environment in timber sector enterprise development (not only in SMEs), secondly, the increase in the volumes of arrears, suggests the increase in the levels of economic security in the timber sector and in the whole economy in general, due to decrease in the levels of revenue, coming into the federal budget. To prove this, we will introduce some statistical data in the timber industry (Figure 1).

In the five years of Forest Codex presence, the targets to create stable entrepreneurship in the timber industry remain unsolved. The number of enterprises for the period between 2010 and 2015 has grown until 2012 (mainly due to reforms in timber-related legislation and the process of obtaining the access to renting the

land under control of the Forest Fund), resulting in record number of small enterprises (9336). At the same time the growth rate of emerging enterprises structures has slowed down, and by the end of 2013 the timber industry experienced a significant decline.

**Figure 1.** Dynamics of population of SMEs in the timber sector (units)



In regard of the medium-sized enterprises, there is a persistent tendency of decreasing entrepreneurial interest and firm shut-down. At first glance, the stagnation of the timber sector should become the case for stimulus of business activity, development of measures at all levels of executive power, targeting the support of the industry. Moreover, there is a number of special programs at regional level, targeting enterprise support.

However, since the implementation of reforms regarding the timber industry, not a single law or act related to development of entrepreneurship in the wood sector has been passed. Therefore, after the application of matrix method of expert evaluation, the following has been conducted.

Among the reasons, that increase the deformation of small enterprises in the timber sector, the authors point out: lack of financial resources, imperfect legislation (timber-related, administrative), and high tax burden. Thus, according to the authors, the above-mentioned reasons have the greatest impact on small enterprise deformation in the timber sector of the economy.

Lack of financial resources contributes towards the search for cost minimization of business structures, amongst which the main alternative is shadow activity, or even illegal activity regarding wood-cutting and wood-trading.

Imperfect legislation, opposes efficient use of forest resources, makes commercial utilization of forests unprofitable and opposes the elimination of the shadow sector within the industry (Epifanova, 2015).

**Table 1.** *Grouping of factors of enterprise deformation in the timber sector of the economy*

Economic	<ol style="list-style-type: none"> <li>1. Lack of financial resources.</li> <li>2. High tax burden.</li> <li>3. Imperfections in the order of claiming of forest fees.</li> </ol>
Social	<ol style="list-style-type: none"> <li>1. Imperfections of government forest usage management.</li> <li>2. Poor legal regulation of government forest fund utilization, including the utilization in the interests of population.</li> </ol>
Ecological	<ol style="list-style-type: none"> <li>1. Imperfect legislation (forest, ecological).</li> <li>2. Non-rational forest preparation. Concentration of enterprise activity in the spheres of wood preparation.</li> </ol>

High tax burden, acts as a factor that encourages small businesses to engage in shadow activity, and to hide real volumes of business activity (pointed out by 61% of surveyed entrepreneurs). Given this, there was a greater number of positively inclined responses in 2014, compared to 2013. Positively inclined respondents saw more opportunities for expansion of business volumes in the nearest future. Moreover, the existing system of wood-farm management mainly fulfills accounting functions, without serious influence on enterprise development, whereas low enterprise activity as a result, limits the development of new branches and sectors of the timber industry (Morkovina, 2015).

The established factors define the crisis development of enterprise, bankruptcy, shadow activity, hidden material benefits. The results of lower stability in timber sector development are seen in the following:

- decreasing economic activity of the enterprises;
- number of shutting-down enterprises prevails over the number of newly emerged ones;
- increased number of cases of bankruptcy, decreasing relative weighting of structures, that survived for 3 years after establishment;
- decreasing numbers of self-employed population;
- decrease in volumes of the subjects of small enterprises.

All of these lead to serious deformation in enterprise development (Table 2).

**Table 2.** *Forms of small business deformation in the timber sector of the economy*

Evidence of enterprise deformation under the influence of factors		
Social	Ecological	Economical

Decreasing attractiveness of timber-related education. Decrease in the numbers of qualified human resources.	Unfulfilled targets in volumes of timber production: - forest recreation - forest protection - forest preparation	Hidden enterprise income, shadow activity.
Concealment of workers wages.	Breaking the norms of preparation of forest resources.	Decrease in timber related taxation, debt against the fiscal system, fictitious bankruptcy
Growth of «forced enterprises» in the forest areas	Breaking the rules of forest usage	Trade of illegally prepared wood
Rising levels of rule breaking and business criminalization.	Implementation of illegal ways of forest utilization, that damage local ecosystems	Wood preparation under the excuse of using the product for the population needs

## Results and Recommendations

Forest enterprise activity significantly differs from enterprises in the spheres of nature utilization (Gusev, 2006). Key difference is that in timber business, it is necessary to use the product to the maximum possible extent, at the same time creating conditions for development of new trees, as well as other plant organisms. The features of forest, when compared to natural mineral resources for instance are that forest is considered the most renewed natural resource. Enterprise activity in timber sector is carried out with the necessity to provide for multi-targeted, rational, continuous, sustainable usage of forests in order to satisfy the needs of society in wood resources.

Forest enterprise activity is targeted at: 1) full satisfaction of economic needs of the country regarding wood and other timber products; 2) all-round usage and strengthening of special functions of the forest as an important environmental factor - water-preserving, soil-preserving, field-preserving, climate-regulating, hygienic and recreational; 3) increasing the productivity of forests via optimizing the species composition, as well as decreasing the time for producing «ripe» wood; 4) organization of effective forest preservation; 5) integration of new technological achievements into the timber industry; 6) increasing the intensity and profitability of timber production.

The definition of stable functioning of enterprises in the timber sector depends of economic, ecological and social factors. They are the top of the «triangle», resembling the resource, protective and social function of forests. Neglecting one of these factors makes the whole triangle collapse.

Undoubtedly, this doesn't mean that under certain economic and natural conditions one or the other sides can be of greater preference. However, the unity of the whole system should not be lost, as each factor is equally important and supported by the others. Apart from what has been stated above, stability of enterprise development in the timber sector is defined by other factors: territorial, regional, time, as well as other prioritized of forms of forest utilization, a so called choice of prioritized timber product. The influence of deformation factors on timber enterprise development is significant. Special place in the system of measures targeting the neutralization of resulting negative effects should be devoted to government support. Without necessary amendments to legislation in the sphere of forest utilization and increased support for timber business, the tendency of increasing deformation of enterprise activity will persist. Stable development of timber business can be achieved in the case of solving the following problems: 1) revealing the problems of increased deformation of enterprise activity in the timber sector of the economy; 2) formation of methodical instruments to differentiate government policy of enterprise support; 3) development of organizational-economic instruments of implementation.

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