

# Infrastructure Support for the Development of Small Businesses



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**Abstract:** For the purpose of sustainable development of small businesses, it is necessary to pay special attention to the formation of infrastructure for small businesses. This study uses an institutional approach which involves assessing the impact of formal and informal institutions on the development of small businesses. The author introduces the concept of the “frontier” institution as an institution, the operation of which is governed by the prescriptions of laws and established regulations, but the performance of certain functions is based on informal rules. This allows such an institution to more effectively perform the functions of a formal institution and makes it more capable and competitive in the market in a specific period of time. Furthermore, the study identifies the concepts of the institutional environment and institutional infrastructure. The author defines the institutional environment as a set of rules of conduct and institutional infrastructure as a set of institutions that form the rules of conduct and have an impact on small businesses. The impact is understood as the formation by institutional actors of rules of conduct that have incentive and disincentive effects on small businesses. This makes it possible to identify the causes of positive or negative deviations in the development of small businesses and to develop solutions aimed at solving the problems encountered. The article studies the organizational and economic mechanism that reflects the functioning of formal and informal institutions through which institutional infrastructure influences small businesses in order to achieve their goals.

**Keywords:** small businesses, infrastructure, formal and informal institutions, development of small businesses.

## I. INTRODUCTION

Formation and development of infrastructure for small businesses is necessary in order to ensure sustainable development. Infrastructure performs a number of important functions. The first function is to create general conditions for the effective functioning of small businesses in the national economy, in the regions, at enterprises and in the social sphere. The second function is systemic. Small businesses are important participants in the sphere of reproduction, ensuring unity in all reproduction phases of the national economy and its separate structural units. The third function of infrastructure is to provide the continuity of rational

commodity, money, information and other flows that create general conditions for dynamic sustainability of small businesses. Another important function of infrastructure is to support innovative development of small businesses.

There are various types of infrastructure that ensure functioning of small businesses: financial, institutional, informational, external-economic, social, market, investment, etc. In the context of using traditional management methods based on a multi-level system of management, including federal, regional and local levels and creating the hierarchy impeding the development of small businesses, it is necessary to focus on the institutional approach that is associated with the analysis of functioning of specific institutions and assessment of their impact on the development of small businesses.

## II. LITERATURE REVIEW

The term “infrastructure” (from Latin “infra” – “under”, “below” and “structura” – “location”, “structure”) was borrowed from the military sphere, but the consideration of infrastructure as a necessary condition for the production of wealth was reflected in the 18<sup>th</sup> - early 19<sup>th</sup> centuries) [1], [2]. In the field of entrepreneurship, the term “infrastructure” was introduced in 1955 as a set of general conditions that ensure favorable development of private entrepreneurship in major sectors of economy and satisfy the needs of the entire population [3]. Some scientists understand by infrastructure the amount of material, institutional and personal structures and conditions that are at the disposal of economic units and provide equal income for equal contributions of factors [4]. In the USSR, the term “infrastructure” was used from the point of view of a complex of industries that ensure the production of goods, works and services [5]. For small businesses, infrastructure can be viewed in general terms as a set of enterprises, organizations and institutions that directly provide normal living conditions and the process of reproduction of a small business as a whole. From the point of view of the institutional approach, infrastructure is a “complex of industries and fields of activity, carrying out macroeconomic regulation of the economy and supporting close to optimal macroeconomic proportions of the national economic development” [6]. It is important to distinguish the concepts of institutional infrastructure and institutional environment. The most commonly used definition of the institutional environment is a set of rules of conduct and norms. For example, the institutional environment is revealed as an environment for choosing social, legal and political “laws of the game” [7].

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The institutional structure of society includes formal and informal rules and mechanisms to enforce them [8]. The institutional environment is also defined as “the laws of the game, defining the context in which economic activity takes place. Basic political, social and legal norms form the basis of production, exchange and distribution” [9].

The author believes that institutional infrastructure includes a set of institutions that form the institutional environment. Institutional infrastructure influences small businesses and forms norms of conduct, as well as values for the creation of links between small businesses and institutions.

### III. PROPOSED METHODOLOGY

#### A. General description

The main task of institutions is to ensure sustainable development of small businesses through the effective use of limited economic resources. Formal institutions are based on officially adopted legal norms that regulate the behaviour of economic agents. Informal institutions include conventional norms of conduct that contain culture, mentality, traditions, faith, way of thinking, which determine the processes of development of systems in general and small businesses as a system in particular.

The genesis of the interaction of formal and informal institutions has been investigated, which allows revealing the causes of the emergence and development of institutions. Both positive and negative characteristics of formal institutions have been revealed. The positive characteristics are as follows: the rules of interaction determine equal conditions for doing business, reduce the risks of default by actors and counteract discrimination arising in certain social relations. The negative features are manifested in the long process of introducing, changing or abolishing certain legal norms. They do not give an opportunity to cover the whole variety of dynamically developing public relations and fill them with the rules contained in customs and traditions, which creates a prerequisite for regulating economic relations with the help of informal institutions. It is concluded that strengthening of the negative characteristics of formal institutions leads to the appearance of informal ones.

For the research purposes informal institutions have been divided into two types: those having a positive connotation presented in the form of customs, traditions, behavioral stereotypes and those having a negative connotation expressed in such phenomena as corruption, racketeering, raiding, economic lobbying, tax evasion, etc. Positive characteristics of informal institutions include flexibility and the ability to quickly adapt to changing external conditions. The disadvantages of informal institutions are ambiguity, multivariate interpretation of rules, reduced effectiveness of sanctions and emergence of discriminatory rules of conduct. It was concluded that in some cases, for example, in the event of an economic crisis, the existence and functioning of informal institutions is positive for stabilizing national and regional economy, but in a stable economic situation its influence is more of a negative nature.

The author introduces the concept of the “frontier”

institution, which makes it possible to trace the transition of a formal institution into an informal one. The “frontier” institution is an institution whose operation is governed by the prescriptions of laws and other regulatory acts, but the performance of certain functions is based on informal rules, which allows to more effectively perform the impaired functions of a formal institution and makes it more viable and competitive in the market in a specific period of time.

The concept of the “frontier” institution is important for understanding the causes of incompetence and lack of competitiveness of formal structures, the identification of formal and informal relationships, barriers and their influence on the relationship between actors. Institutions that complement each other ultimately form a single institutional space. Practically all institutions are coherent; they are “linked” with each other, layered together and reinforce the overall effect of each other. Coherence determines the stability of the institutional system.

The study conducted in line with the institutional approach allows distinguishing between the goals of impact of formal and informal institutions on small businesses. The goal of impact of formal institutions is to provide infrastructure aimed at sustainable development of small business entities through the effective use of limited economic resources, as well as create economic, financial and organizational prerequisites that encourage entrepreneurs to expand and improve production activities for sustainable development and minimize internal and external risks. In contrast to formal institutions, informal ones primarily pursue personal goals aimed at satisfying their own interests, but sustainable development of small businesses can also be targeted if this contributes to the functioning of informal institutions themselves.

The institutional environment in the study falls within the traditional approach and is understood as a set of political, economic, moral, legal and other norms and rules of conduct that ensure interaction between actors. The author believes that this environment is created under the influence of formal and informal institutions that establish institutional infrastructure.

The impact on small businesses is carried out through the organizational and economic mechanism that coordinates and motivates the actions of small businesses during the implementation of their activities. The main task of formal and informal institutions is creation of conditions for the effective behaviour of small business actors, which is to make an aggregate of economic, social, political and regulatory rules formed for social production, exchange and consumption.

#### B. Algorithm

The author distinguishes between the use of the mechanism by formal and informal institutions for small businesses, which allows identifying the features of the mechanism in relation to specific institutions.

The objectives are traditionally subdivided into strategic, tactical and operative.

However, it is revealed that only formal institutions use strategic objectives in their activities, which allows determining the long-term perspective for the development of small businesses both in the country and in particular regions, taking into account positive and negative factors of external and internal environment, calculating possible risks of doing business and rationally allocating available resources.

Strategic goals are necessarily taken into account and are based on the socio-economic and political priorities of the state.

The set of principles allows small businesses to achieve their goals, as well as select the most effective methods to do this. It can be said that the principles stipulate certain methods that can be transformed depending on the change of the principles and existing conditions.

All principles are divided into general and special ones [10] - [13]. The general principles of influence on small businesses include the principles of science, legality, efficiency, complexity and the principle of combining centralization and decentralization. The principle of science is inherent in formal actors, since it implies scientific validity of the decisions made and the use of modern scientific achievements and information technology. The principle of legality is also inherent only in formal actors and means that the decisions and actions are in compliance with the requirements of the legislation. Violation of this principle by “discretionary interpretation” of regulatory acts provokes the possibility of using bureaucratic and corruption schemes. The principle of efficiency is characteristic of all institutional actors and involves the achievement of specified results with the optimal use of time and money. In case of decrease in the effectiveness of formal actors’ activities, a “frontier” and informal actors may appear. The principle of combining centralization and decentralization provides for a reasonable distribution of power between central and regional authorities on decision-making in relation to small business entities and is inherent in more formal institutions, but can be used in complex corruption schemes by “frontier” and informal ones. The principle of complexity is inherent in all institutions and allows one to take into account all external and internal factors affecting the effectiveness of decisions, which is especially important for small businesses, because they are sensitive to the environment and even small changes in legislation, economic policy of the state or territory can significantly affect their functioning. Special principles are determined by the conditions of functioning of institutions. For formal institutions the author of the study uses the principle of innovation protectionism, which means creation of special conditions for innovation activities of small businesses, stimulating their motivation and allowing them to create prerequisites for the formation of the desired behaviour. For “frontier” and informal institutions, the principle of “mutually beneficial relationship” was introduced based on the nature of these institutions. It means that these institutions will function only if cooperation brings material benefits. Factors affecting small businesses are divided into external (national priorities, regulatory framework, state and territorial policy for socio-economic development) and internal ones (economic environment, resource base, motivational mechanism). Interrelated external and internal

factors determine the state of the environment.

The author has found out that formal institutions can use direct methods to influence small businesses, since these methods are stipulated by legal acts, formalized rules and norms of conduct. The methods of influence of “frontier” and informal institutions include financial, price, loan and organizational ones. The tools of informal impact are personal connections, kickbacks, tax shelters, illegal takeovers, unmotivated use of joint-stock rights, usury. Thus, formal and informal institutions with the help of the organizational and economic mechanisms, reflecting the peculiarities of their functioning, form special rules of conduct for small business entities and influence their development.

#### IV. RESULT ANALYSIS

Thus, the author believes that the institutional environment can be considered as a set of rules of conduct and institutional infrastructure is a set of institutions that form the rules of conduct and influence small businesses. This influence is understood as the formation of rules of conduct by institutional actors. This makes it possible to identify the causes of positive or negative deviations in the development of small businesses and to develop solutions aimed at solving the problems encountered. Infrastructure, including a set of formal and informal institutions, has both an incentive and a disincentive effect on small businesses. It has been found out that formal institutions, unlike informal ones, are characterized by setting strategic goals, using the possibility of direct influence on small businesses and have a larger number of influence methods, such as administrative, tax, credit and insurance ones. Formal institutions can use a wider range of impact instruments (subsidies, preferential loans, special tax regimes, loan guarantees, leasing, participation in government contracts, conversion into a joint-stock company, etc.). At the same time, informal institutions, unlike formal ones, have specific tools for influencing small businesses. These include personal ties, kickbacks, tax shelters, usury, unmotivated use of shareholder rights, etc.

The institutional approach to ensuring the development of small businesses allows us to describe the functioning of institutional infrastructure. Each institution performs its inherent functions. Consequently, it can be revealed violation of which functions has an incentive (positive) effect on an object or a disincentive (negative) effect. For example, taxation as a formal institution has fiscal, regulatory, social (distributional), control and incentive functions. Violation of the regulatory function is manifested in the form of increase in tax rates, toughening of sanctions for violating tax legislation, complication of administration, etc. This leads to the emergence of the “frontier” institution, which manifests itself in a tax shelter: renunciation of citizenship, emigration, refusal to register with tax authorities. Similarly, violations occur in other institutions (pricing, private property, government support, etc.).

The study of the impaired functions will make it possible to determine the “transition points” of the formal institution into the “frontier” and informal one.



The “transition point” is the moment of transition of the function of the formal institution into a dysfunction (as well as the reverse process). The transition process can be tracked through the indicators characterizing each institution.

### V. CONCLUSION

The study of the infrastructural support for the development of small businesses from the point of view of the institutional approach leads to the following conclusions:

Firstly, it is necessary to form infrastructure that contributes to the creation of economic, financial and organizational prerequisites associated with the involvement of population in small businesses and entrepreneurial activities, stimulating entrepreneurs to expand and improve production.

Secondly, the institutional approach should be used in analyzing the formation and development of infrastructure, which allows overcoming the barriers that hinder the development of small businesses and explain why the same measures lead to completely different consequences in different regions. Institutions define incentives and restrictions for the conduct of actors, the boundaries of their economic choice, set the framework for the functioning of the economy and society for a certain period of time.

Thirdly, formal and informal institutions influence the development of small businesses, which is both of incentive and disincentive nature. Institutional infrastructure should be examined through the structuring of indicators characterizing the institutions in order to assess their incentive and disincentive effects on the development of small businesses.

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