THE ROLE OF SMALL AND MEDIUM BUSINESS IN BELARUSIAN ECONOMY AND ITS IMPACT ON INNOVATIONS

by

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ABSTRACT

The article contains the analysis of the dynamics of Human Development Index, Global Innovation Index for Belarus and its rankings in Doing Business. The interrelation between these indexes and the small and medium business development in Belarus is investigated. The innovation component of Belarusian small and medium business development is studied. Based on the analysis carried out, assumptions concerning the role of small and medium business in innovation component of economic growth of Belarus are suggested.

Keywords: Human Development Index, Innovations, small and medium enterprises, economic growth, entrepreneurship

INTRODUCTION

Nowadays nobody argues the role of innovations in the economic growth and the role of human development in national innovation systems. On the other hand, the depression suffered by Belarusian economy in 2014-2015 and the later stagnation have resulted in deformation of these factors' impact on each other.

Small business is a business based on the entrepreneurial activity of small firms, small enterprises that are not formally included in associations. The development of small and medium-sized businesses in recent years has become not only an economic, but also a political task. The seeming insignificance of small business in the overall scale of innovation is deceptive, since it is small businesses that offer new products, technologies and business models that have a distinct upward trend and open up new markets. This allows to diversify the technological basis of the economy, and also solves social problems, including contributing to the formation of a competitive environment, saturates the market with goods and services, provides employment, increases tax revenues to budgets of all levels *(Ivanova, p. 7).*

The political influence of small business in various countries is quite large, because this social group is one of the key groups forming so called middle class, the most representative in its size and expressing the political preferences of a significant part of the population *(Mkhitaryan, p.273).*

On this basis, the governments are aware of the need to form a national innovation system that links science with the educational sector and small business and involves a streamlined process of commercializing R&D results.

The aim of the research was to suggest the assumptions concerning the role of small and medium business in innovation component of economic growth of Belarus. To reach this goal, the analysis of the dynamics of Human Development Index, Educational Index and Global Innovation Index for Belarus was carried out. The correlation between these indexes and the small and medium business development was investigated, and the innovation component of Belarusian small and medium business development was studied.

METHODOLOGY

The basic assumption for the research was that Innovations as an element of economic development depend heavily on Entrepreneurship, and the entrepreneurial resource of the nation is reflected via the role of SMEs in national economy.

The basic method of the research was the official data analysis.

Firstly, we've analyzed the data for 2014-2019, taken from official sources for Human Development Index and Innovations Index, to track the trends in these factors of economic development of Belarus. We've also analyzed the position of Belarus in Doing Business ranking of 2019.

Secondly, we've systematized and the data for Belarusian SMEs development indicators from Belarusian National Statistics Committee. The analysis of the trends was carried out.

Thirdly, we've outlined possible qualitative factors of current trends in entrepreneurship development in Belarus and suggested the key directions of policy measures to stimulate the entrepreneurial resource development in Belarus as a driver of Innovations.

RESULTS

As the quantitative analysis carried out previously had shown, there's no interrelation between Human Development Index and GDP per capita in Belarusian economy within the period 2013-2017. The same is true for the interrelation between GDP per capita and ICT Development Index.

Tracking the dynamics of Human Development Index and the Innovations Index for Belarus, we can find, that for Belarus the Innovations Index decreased from 37,1 in 2014 to 32,07 in 2019, with changing trends within the period (table 1). The Human Development Index data in 2014-2017 was rather stable, varying from 0,786 to 0,808.

Table 1. The dynamics of Innovations Index* and Human Development Index** for Belarus in 2014-2019

	Indicator		***2014***	***2015***	***2016***	***2017***	***2018***	***2019***
BELARUS	Innovations index	Rank	**⬆58**	**⬆53**	**⬇79**	**⬇88**	**⬆86**	**⬆72**
		Value	37,1	38,23	30,39	29,98	29,4	32,07
	Human Development Index	Rank	**⬇51**	**⬇52**	**⬆50**	**⬇53**	**x**	**X**
		Value	0,786	0,796	0,798	0,808	**x**	**X**

* - data source - https://www.globalinnovationindex.org/

** - data source - http://hdr.undp.org/en/content/human-development-index-hdi;

The answer to the question about the causes of such situation may be the specific legal, organizational and structural features of Belarusian economy as a whole as well as the structure of its National innovation system.

One of the key features of Belarusian economy is a domination of state-owned enterprises in both manufacturing and services, and, as a consequence, high level of centralization in

industrial policy. For all the importance of large business in society, it carries more of the resource burden - the investment, and also provides a resource basis for innovation.

The social and entrepreneurial component is more reflected in small and medium-sized businesses, through its attractiveness to various sectors of society. With targeted regulation, the economic potential and social status of small and medium-sized businesses becomes decisive in the formation of GDP, as evidenced by the experience of developed countries.

The entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist. *Shane and Venkataraman* defined entrepreneurship as the process by which „opportunities to create future goods and services are discovered, evaluated and exploited". As *Gutterman* underlines, this definition "recognizes that entrepreneurship is based on "creativity", which can include not only uncovering new ideas and knowledge but also arranging resources in ways that have not been done before".

Gries and Naudé define entrepreneurship as "the resource, process and state of being through and in which individuals utilize positive opportunities in the market by creating and growing new business firms".

As a resource, entrepreneurship has the instrumental value that it is accorded in economics; as process it accords to the attention given in management studies on the start-up, growth and exit of firms and as state-of-being it recognizes that entrepreneurship is not limited to being instrumental, it is often valued in itself.

As Cuervo at al. suggests, entrepreneurship is an essential element for economic progress as it manifests its fundamental importance in different ways:

a) by identifying, assessing and exploiting business opportunities;

b) by creating new firms and/or renewing existing ones by making them more dynamic; and

c) by driving the economy forward – through innovation, competence, job creation- and by generally improving the wellbeing of society.

In essence, a new type of social behavior is adapting wide sections of the population during the transition to radical changes in the life support system. Entrepreneurial resources become the basis for the implementation of the private property institute in society, which consolidates market relations. The capital generation process involves a powerful entrepreneurial resource,

the most diverse in its socio-economic composition, formed from various social strata and areas of economic activity.

The effective development of entrepreneurship is one of the key problems in the structuring of economic systems and their rational integration into the global market economy. The key point in entrepreneurship is a high incentive to organize this or that production on the basis of the implementation of a labor initiative (enterprise), which is oriented adequately to a high final result. In essence, such an incentive is the driving force for progressive transformations in society.

The higher the level of this incentive, or in another way - the level of business activity in society - the more effective are the social and economic transformations. In the genesis of entrepreneurship, the activation of small and medium-sized businesses stage is stressed, since it is both a specific program goal in government regulation and a special "anti-crisis" regulator in certain periods of national development.

This comes to the very socio-economic nature of entrepreneurship, which concentrates a special resource that characterizes the ability to optimally organize production and is formed on the basis of the implementation of such features of this ability as business initiative and the flexibility of economic behavior.

An entrepreneurial resource concentrates a constantly growing business activity, on the one hand, and on the other hand, has a clearly defined economic focus. In combination with other resources of society, an entrepreneurial resource provides a high degree of their use, purposeful application and the dynamic nature of functioning.

This triad sees a special sign of an entrepreneurial resource - productivity, without which it remains a nominal resource that does not have a factor value. Moreover, as the entrepreneurial resource is actively involved in the economy, the latter becomes more stable due to the multilateral social stimulus embedded in it. This is due, of course, to the fact that the carrier of this resource is an entrepreneur who has a clearly defined society and focused labor motivation *(Abuziarova, p.15).*

It is obvious that a "strong" entrepreneur provides a powerful entrepreneurial resource, which becomes the driving force behind the development of society. For this, the regulatory environment and a developed competitive environment are objectively necessary. Signs that define entrepreneurship form a special entrepreneurial resource that has specific

features, such as mobility, progressiveness and focus, and provides, more than other resources, the sustainable development of the economic system.

To trigger the structural changes, in recent years government has adopted several changes in legislation, as well as a national programme for promotion of entrepreneurship which is aimed at facilitation of SME's creation and boosting market-driven innovation processes in private sector.

The results of entrepreneurship stimulation policies can be tracked via World Bank Doing Business rankings. The data of 2019 (figure 1) shows, that although the position of Belarus is better, than the ranking of Ukraine (64), or the ranking of Greece (79), Belarus is behing such neighboring countries, as Poland (40), Russian Federation (28), Latvia (19) or Lithuania (11). Even Belarus partner in Eurasian Economic Union – Kazakhstan (25).

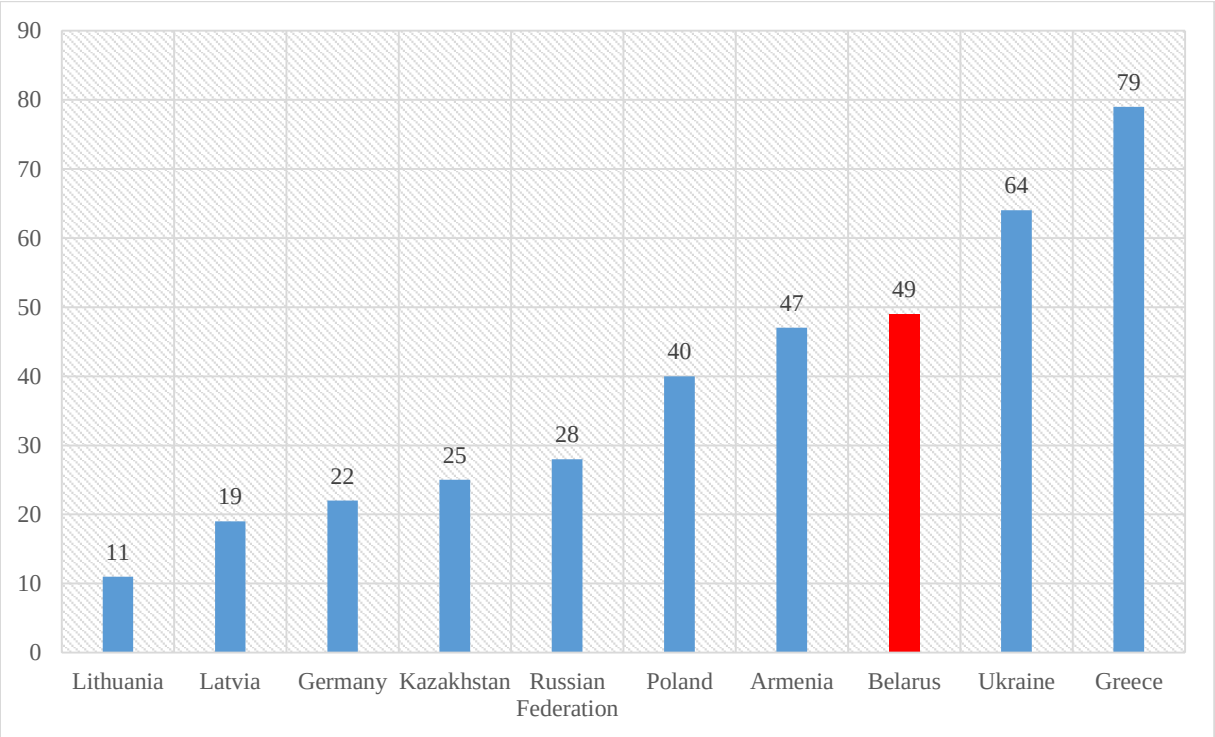

Figure 1 – Doing business rankings in 2019 (data source - https://www.doingbusiness.org/en/rankings)

Speaking about the SMEs, we can see, that despite rather high ranking in Doing Business, the official statistic shows that the number of SME's, functioning in the Belarusian economy, during the period 2013-2017 varied from 108 689 in 2013 to 107 726 in 2017, with changing trends within the period studied (figure 2).

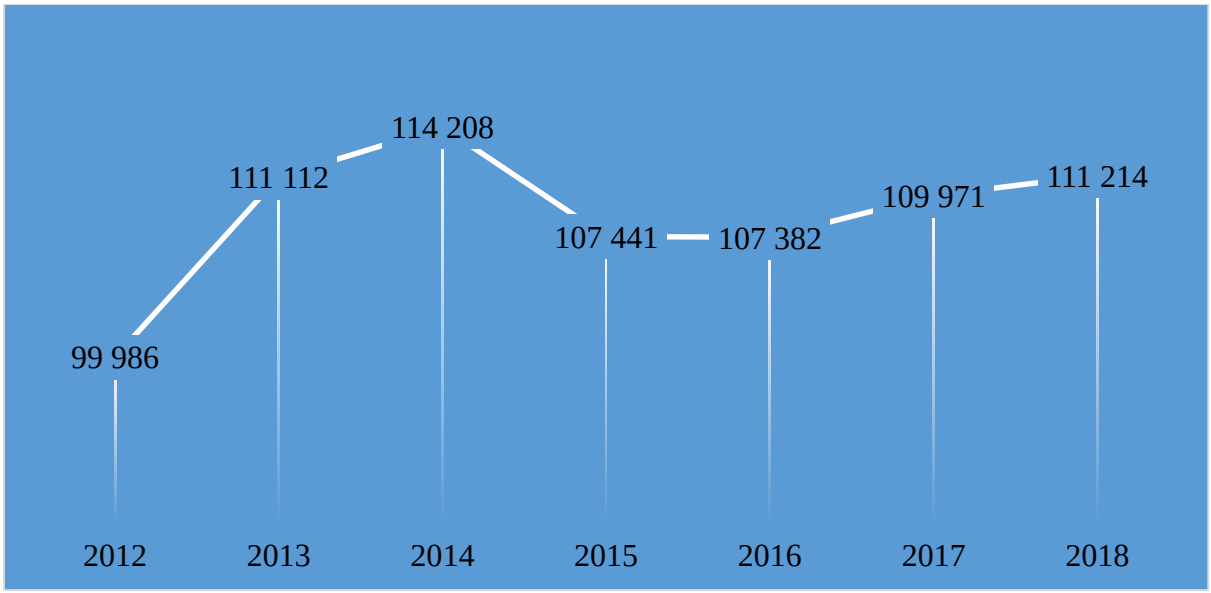

Figure 2 – The number of SME's in Belarusian economy

One of the improtant indicators, showing the role of SMEs in the national economy, is the share of SMEs' employees in the total number of employed (figure 3). Although decreased in 2015, the share of SME's employees in total number of employees in Belarus is increasing, reaching 33,9% in 2018.

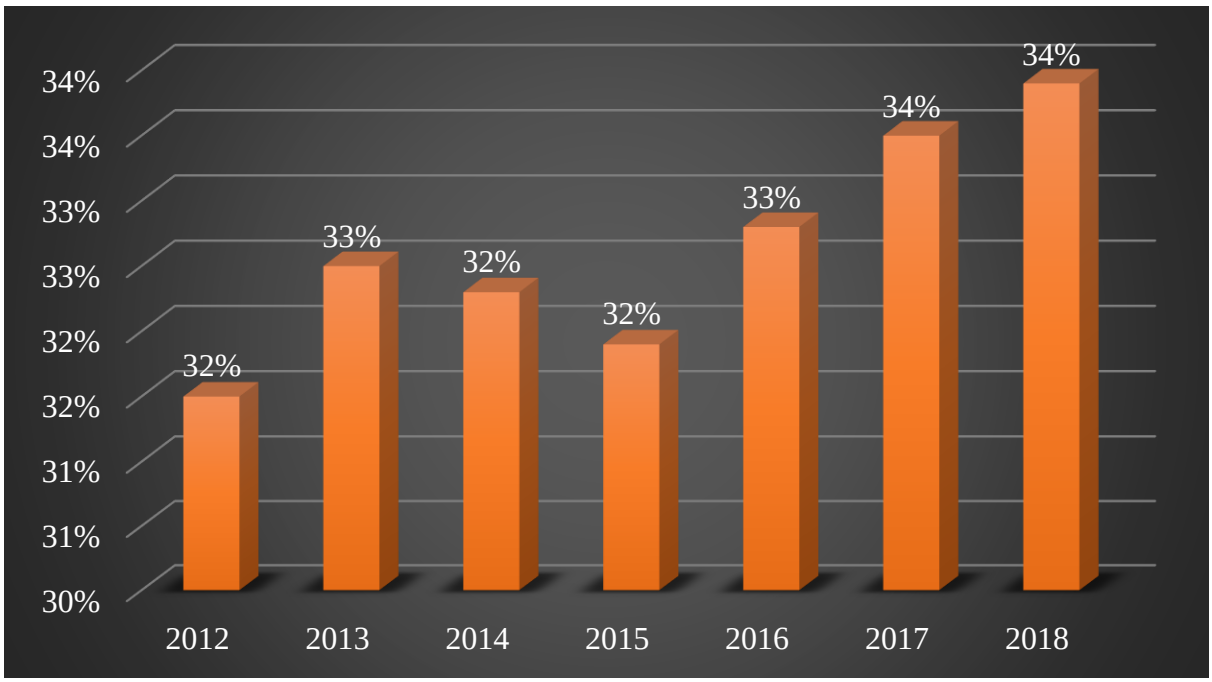

Figure 3 – Share of SMEs' employees in total number of employed in Belarus

To compare the role of SME's from the societal point of view, we've calculated the index of SME's per 1000 inhabitants for Belarus, some neighboring and some EU countries (figure 4).

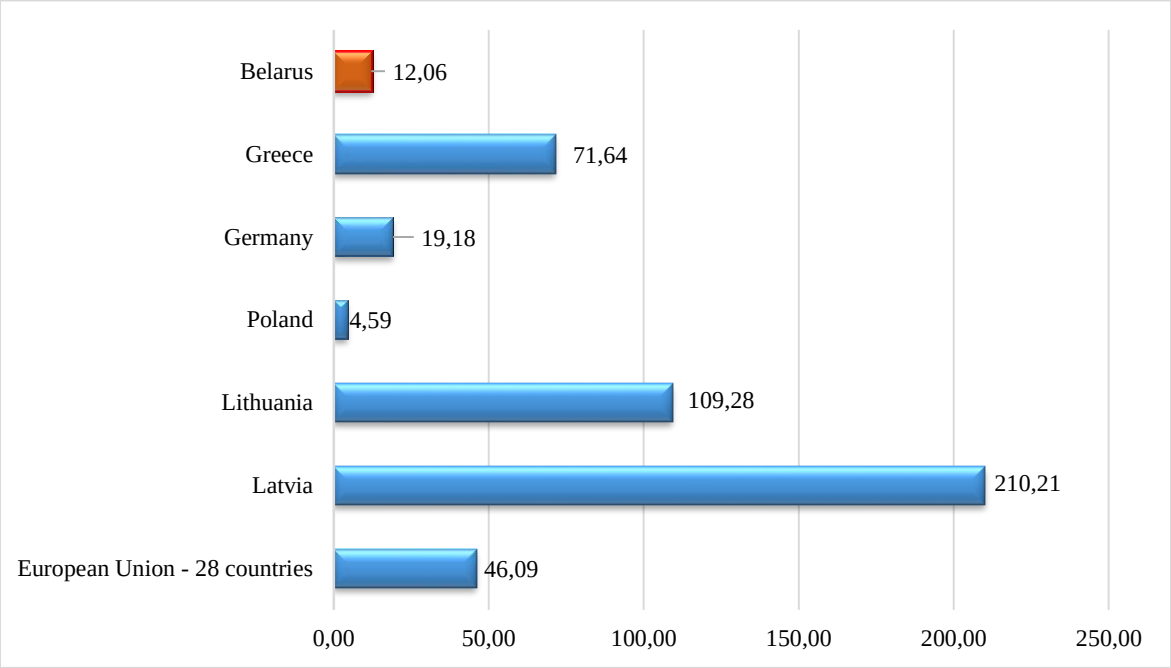

Figure 4 – Number of SME's per 1000 of population for chosen economies in 2014

The share of Belarusian GDP, produced by SME's, is rather stable (21,1% in 2013, 21,6% in 2017).

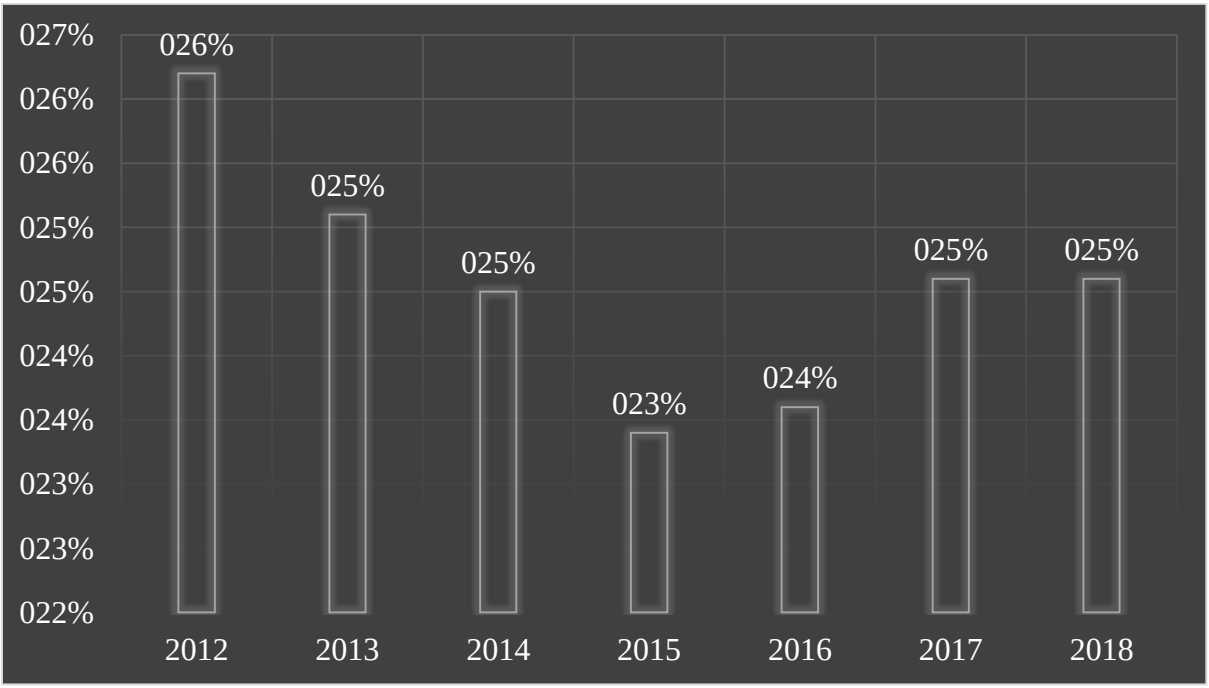

Figure 5 – The share of GDP produced by SMEs in total GDP of Belarus

Among the SME's producing goods only about 66 enterprises were introducing innovations. The share of innovative products in total production of SME's in 2017 was about 6,9% (figure 6).

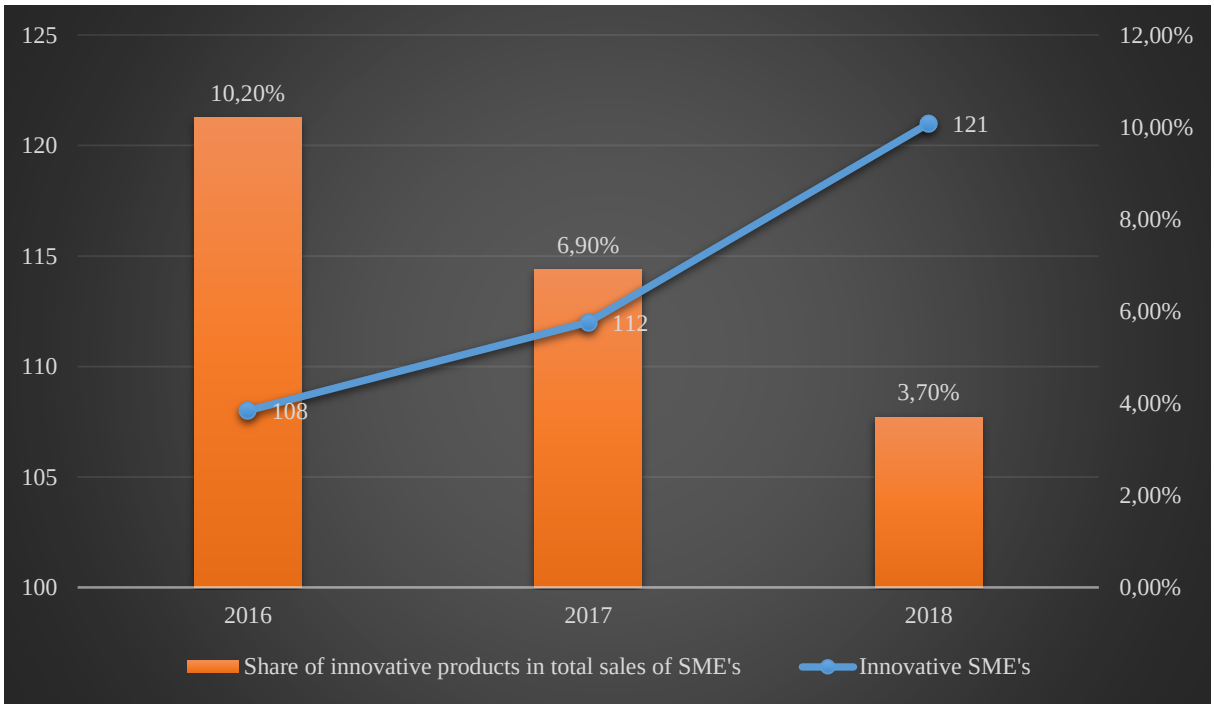

Figure 6 – Innovative SMEs among manufacturing enterprises and the share of innovative goods produced by manufacturing SMEs

So, we see that despite relatively high level of Human Development Index and its positive dynamics, both innovations and the entrepreneurship in Belarus remain stable and doesn't show significant correlation with the human capital development and economic growth, at least within the last 4-5 years.

POSSIBLE QUALITATIVE FACTORS

This situation may be explained by several groups of factors, namely:

1. Market factors:
- low volume of domestic market;
- tariff and non-tariff barriers of entrance into both EU and Russian Federation markets, especially for SME's.
2. Policy factors:
- top-down model of innovation activities and entrepreneurship stimulation;

- lack of coordinated state, private and public plans for entrepreneurship development;
- deficit of legal, consultative, informational and media support and promotion of local small and medium business initiatives

3. Cultural factors:

- local mentality does not have the private initiative as a central point;
- low tolerance for change

4. Personal factors:

- lack of entrepreneurial competences of people.

LIMITATIONS

As the research was based on quantitative analysis, the qualitative aspects are less grounded. To validate the assumptions, additional study based on the questionnaires among the target groups is needed. The other aspect of the improvement is adding such cross-cutting issue as legislation review, which might help to identify the legal aspects of the situation.

CONCLUSIONS, PRACTICAL IMPLICATIONS AND FUTURE RESEARCH

The research carried out allows to draw several basic conclusions:

Firstly, in short-term prospective current policies does not seem to initiate large-scale transformation of the economy structure.

Secondly, despite high level of human development, neither public, nor private sector is innovative enough to boost the economic growth.

To cope with the situation two key directions of policy measures might be thought of:

1) the activities aimed at increasing local market volume and getting wider access to target markets, which might provide more economic stimuli for market-driven innovations; and

2) the activities aimed at the inception of entrepreneurial thinking and entrepreneurial competences, as well as more tolerance for change within the local mentality, which are the issues to be tackled either by the education system than the economic and financial policy.

NOVELTY / VALUE

Despite the abovementioned limitations, the research contributes to better understanding of the actual factors and mechanisms of Belarusian National Innovation System. It proves the fact

that the influence of the traditional factors on the innovations and the economic growth in Belarus differs from expected in theory and confirms the necessity of further qualitative and policy research.

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