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Measures of Regulation of World Economic Crisis Effect on Small Business

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Measures of Regulation of World Economic Crisis Effect on Small Business

Summary: Crises are integral part of historical and spacial evolution of world economy. The present stage of world economy development inquires new form of examination of small and medium business role in innovative economy and the possibility of regulation of destructive processes of crises effect on their activity.

Keywords: crises, entrepreneurship, small enterprise, crisis regulation.

Introduction

Crises are an inalienable part of process of world economy historical and spatial evolution. The present stage of world economy development requires re-interpretation of role and place of small and medium business in innovative economy and possibilities of regulation of crisis consequences destroying processes for their activity. The aim of the article is to show the role of small and medium business in the economy; to analyze the impact of crises on small and medium business; to structure the primal measures of crisis regulation on macro-level. The main scientific methods: method of sociological research, analysis, colligation, analogy.

1. Transformation of small business and its role in economy

Worldwide used terms “small business” and “small enterprise” embraces different types and forms of entrepreneurship. Criteria of attribution of enterprise to this category are unidentical: capital value and sales volume (Great Britain, Italy, Japan); non-monopolistic market position (the USA); legal status (France); form of property

(Hungary), difference between handicraft and industrial firm (Germany); independent of dependent position in large-scale production structure (Japan) etc.

The concept of entrepreneurship nature has changed according to the changes of social order. The conditions and attitude to entrepreneurs' activity has transformed. The unchangeable in understanding of entrepreneurship nature is that the entrepreneur acts at his own risk and peril.

So-called "Boulton Commission" (Committee of UK Parliament) marks out three general features of small enterprise:

- small market area, which doesn't allow the enterprise to influence essentially the prices and values of selling goods;
- legal independence – the enterprise is controlled not by formalized management structure, but by the proprietor or the group of proprietors (partners), who control their business by themselves;
- enterprise management, that supposes that owners manage the enterprise without any external pressure.

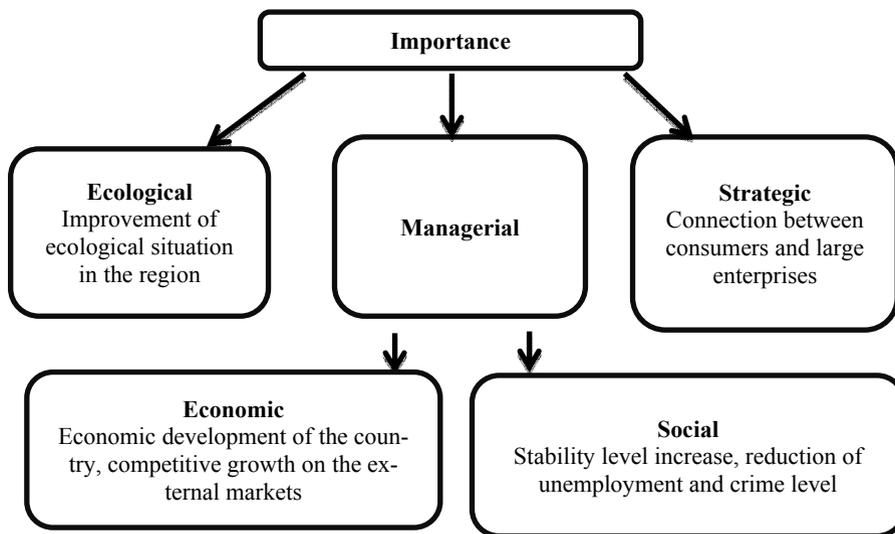


Fig. 1. Functional importance of small enterprises

The importance of small entrepreneurship can be interpreted from different points of view: managerial (including economic and social), ecological and strategic (Fig. 1).

2. Role of small enterprises in the economy of Poland

According to the Central Statistical Office about 1.78 million enterprises functioned in Poland in 2011, and absolute majority of these firms belongs to the

category of small and medium enterprises. This sector is presented, first of all, by micro enterprises, that account for 96% of all enterprises in Poland.

According to Eurostat data the share of employed in small and medium enterprises is 69%, and the share of employed in micro enterprises is 39% of all the employed population.

Small enterprises form about half of country GDP (48.4%) and micro enterprises produce about third of the GDP (30.4%)

About 30% of small and medium enterprises in Poland are the exporters of their production. Thus small and medium enterprises account for 88% of all polish export enterprises [1].

Small and medium enterprises are engaged generally in such branches as:

- wholesale and retail trade;
- services;
- civil engineering;
- industrial production;
- healthcare.

Small enterprises in Poland are actively supported by government. Financial support is realized both in the framework of state and regional programs. Currently a special attention is given to the programs of innovative economy, human capital and development of eastern regions of Poland.

In the framework of these programs it is possible to get:

- subventions on innovative activity and R&D;
- subventions on enterprises development;
- consulting and contribution to search of external financing.

In addition special economic zones, technological parks, business incubators and clusters are actively developed in Poland for assistance to the entrepreneurs [2].

3. Role of small enterprises in the economy of the Republic of Belarus

As of March, 2013 there were 100 535 small organizations in the Republic Belarus. The variation of small enterprises quantity is shown on the fig. 2.

Generally small and medium enterprises of the Republic of Belarus are engaged in such branches as:

1. trade – 31.7%;
2. production (industries) – 20.6%;
3. civil engineering – 15%;
4. transport and communications – 6.6%;
5. consumer services – 5.4%;
6. foodservice industry – 4.4%;
7. computer services – 3.4%;

8. other – 3.2%;
9. tourism – 2.9%;
10. printing and publishing – 2%;
11. real estate – 1.5%;
12. consulting services – 1.2%;
13. advertising – 1.2%;
14. education – 0.7%.

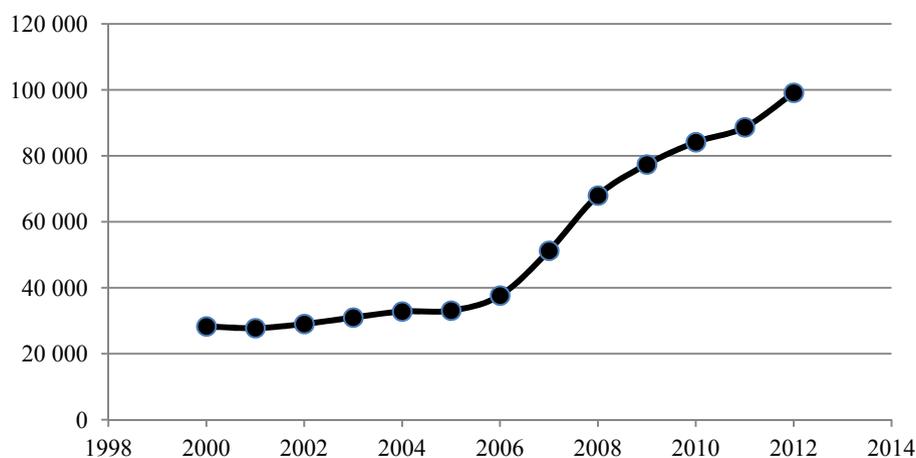


Fig. 2. Dynamics of small enterprises quantity [3]

Despite the presence of legal base, regulating the activity of small enterprises as well as governmental programs on small business of the Republic of Belarus support, number of small enterprises and their contribution to the economy of the Republic of Belarus is insignificant.

Table 1. Comparative characteristic of small businesses in different countries

| Country | SME share in the country's GDP, % | Share of employable population working in SME, % |
|---------------|-----------------------------------|--|
| USA | 52 | 54 |
| Great Britain | 49 | 79 |
| Germany | 41 | 70 |
| Japan | 55 | 80 |
| Poland | 48 | 69 |
| Kazakhstan | 16 | 20 |
| Russia | 25 | 27 |
| Belarus | 15 | 31 |

In the Republic of Belarus the institution of small entrepreneurship is on the formation stage. It is explained by short-time history of entrepreneurship functioning in the country, insufficient development of the entrepreneurship functioning environment.

4. Economic crises and their impact on small business

Economic crises have followed humankind in over the course of its economic development. Therewith after the society transformation into industrialization epoch crises began to be characterized by cyclicity. Due to the economic linkage of countries and similarity of their technical-economic development level, crises, originating in one country, come to the other countries, and the closer this linkage is the more comprehensive character the crises have.

Governments of countries respond to the negative aspects of crises through the set of measures, often combined into governmental programs of crises regulation. The governments of different countries, being aware of small enterprises importance to the economic development, support them by different means; therewith the higher is the level of governmental support of small enterprises the higher is the level of their efficiency that can be expressed in their contribution to GDP and the share of employed in small enterprises. When large enterprises, with successful pre-crisis activity, have certain safety factor, small enterprises in the period of crises face more difficulties. They try to survive in the conditions of small demand, lack of credits and decrease of orders from large companies.

World economic crisis of 2008–2012 affected both large and small companies of all forms of propriety. However the crisis impact on small enterprises should be considered individually, because micro, small and medium enterprises form 90% of all enterprises of all the countries and are important source of production and working places. In the countries with high incomes 62% of employees is hired on these enterprises, and in the countries with low incomes – 33% of employees of formal economy.

Crises negatively reflected in the activity of small enterprises of both developed and developing countries, revealing itself in the number of consequences, that can be limited to the following:

4.1. Lack of financing

In the majority of countries toughening of credit obtaining conditions was observed. During the crises governments of many countries put down policy rates, reduced the norms of reserve coverage in banks and called on creditors to decrease credit rates for their clients. However very few countries determine rates, collected by commercial banks, therefore even the reduction of rates on interbank markets didn't improve the position of commercial banks' clients.

In addition the reduction of loan supply from creditors became an important factor. Banks and non-bank financial institutions, especially in the period of crisis, try to improve their financial position through the accumulation of reserve as precautionary measure against default and bankruptcy. These measures led to the reduction of credit disbursement and prolongation of continuing facilities. Besides in the period of recession credit institution face difficulties in credit scoring of clients as even stable companies can experience the impact of crisis effects, especially when demand on their products declines.

4.2. Reduction in demand and decline in employment

Barriers to credit access for the enterprises and households in conjunction with growing uncertainty led to slashing of demand in USA and spread gradually on the other countries. In developing countries export-oriented enterprises suffered first of all.

Demand reduction brought serious pressure on the activity of enterprises and as a consequence induced them to take measures to cut the costs. According to International Labour Organization the number of unemployed increased on 11 million in 2009, and to the September of 2010 reached its historical maximum and accounted for 210 million of people.

Crises affected also the demand for labor migrants, since the attractiveness of foreign countries as potentially winning place for employment decreased. In 2009 the value of migrants remittances reduced on 6.5% and it was first annual reduction within recent 25 years.

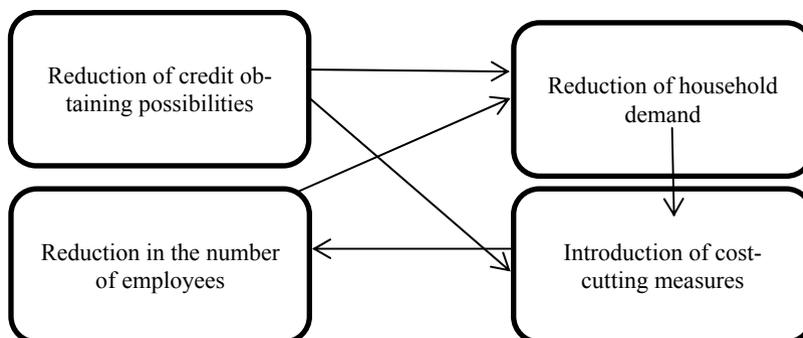


Fig. 3. Major crisis consequences for small enterprises

5. Crisis regulation of small enterprises activity

In order to struggle the crisis governments take a variety of measures, most often combined into the programs of financial stimulation [4]. These measures

are directed towards stabilization of financial sector along with support of companies and employees in the sphere of real economy. Many of them are emphasized on the support of enterprises of all sizes, others are oriented on the support of micro, small and medium enterprises sector. Besides the measures of separate sectors support (export-oriented, for example), where high proportion of production is carried out by small enterprises, are developed.

These measures can be divided into 3 groups according to the problems that small enterprises faced under the impact of crisis.

5.1. Measures of financial resources attraction by small enterprises

Investment crediting

Many countries tried to provide special financial institutions with sufficient resources for small borrowers crediting. For example, the Central Bank of India has granted to Small Industries Development Bank of India \$1.45 billion for revealing the consequences of crisis. Chinese government cancelled lending ceiling for commercial banks in order to direct the additional flows of credits into different spheres, including small business sector, and stimulate investment into technical innovations. The European Investment Bank, that previously granted to banks about €5 billion increased this amount to €7.5 billion per year for the period 2008-2011. Additional financial resources have been allocated for support of small and medium business sector in the period of global economic crisis along with ensuring of these enterprises efficient activity in the long run.

Credit guarantees

In the course of crisis governments worked out new and broadened previous programs on governmental credit guarantees extension. For example, the loan sum, ensuring through the program of credit guarantees in India, was doubled and accounted for \$200.000. Guarantee was provided for a half of a credit sum, and when speaking about micro-loans (up to \$10.000) for 85% of a sum.

In the United Kingdom there are 2 major programs of small enterprises support:

- Working Capital Scheme that provides governmental guarantee on 50% of short-term loan sum, provided by commercial banks, this program covers companies with annual turnover up to £ 500 million.
- Enterprise Finance Scheme that is intended for smaller companies with turnover up to £25 million for investment credits amounting to £ 1 million.

Governmental equity participation in banks and enterprises

In many countries governments purchased shares in stock capital of banks and, in some cases, of financial companies. This measure allowed enterprises to convert their debts into stock capital and thereby strengthen their financial posi-

tion. For example in Mauritius government purchased block of shares of production enterprises, especially small and medium textile factories that were in need of restructuration because of low international demand on their production. In the United Kingdom financing of commercial debt into stock conversion was carried out by “Capital for Enterprise Fund”. For this purpose £ 75 million was allocated by the government, and £25 million – by commercial banks.

Export financing

Economic recession in developed countries led to export reduction from developing countries and, as follows, to the decrease of international trade. Especially markedly crisis affected those products of developing countries that insure high employment, particularly in private sectors with high share of small enterprises. Textile industry in India, China and a number of other countries was greatly affected. To facilitate the situation of exporters government of India granted them subsidies in the form of 2% allowances for pre-shipment and post-shipment export credits. These subsidies were granted to export-oriented enterprises, insuring high employment, and small and medium enterprises.

5.2. Measures for demand creation and stimulation along with employment support

State purchases

Some measures, carried out by the governments of the countries, were directed on expansion of small enterprises’ share in production for governmental needs. For example Mexican program of stimulation provides for government to make at least 20% of its purchases from small and medium enterprises.

Possibilities for small enterprises surviving can be extended also through small tenders organizing and decentralization of decision-making processes in the sphere of purchases. Government of the United Kingdom in the height of crisis started campaign to register small enterprises on its web portal for purchases. In the February of 2009 the number of possible deliveries was above 100 000, and the cost of many contracts was less than £ 100 thousand

Infrastructure development

Many of financing stimulation programs, realized in the time of crisis, include measures on infrastructure development , for example road construction, laying the service lines, construction of schools and houses. This stimulation form is not brand-new, since similar measure took place in the USA in the time of Great Depression. Such stimuli insure employment in construction organization along with enterprises, producing equipment and materials for such projects.

Lowering of tax burden

Tax cut leads to the improvement of situation with current capital for enterprises and customers demand growth. As taxes are collected on different levels (profit tax, production tax, VAT, sales tax, import tax), governments have ample opportunities for their reduction. Many of such measures can be addressed to the enterprises of all sizes, however governments understand that in many cases micro, small and medium business would benefit from them.

In the time of crises tax cut and optimization of their payment is especially important for the enterprises. Certainly such reduction would lead to the losses of government revenue, However frequently governments are not afraid of budget deficit, especially in the time of crisis, since these measures improve business activity and preserve employment.

In 2008–2009 governments of many countries reduced their taxes in different ways. For example, VAT in India was lowered by \$%, in China Vat for small enterprises was cut from 4–6% to uniform rate of 3%.

Some countries stimulated export through reduction of export production tax or through import duty drawbacks on goods, used in production of export goods. Special attention is given to the sectors, most affected by crisis. China, for example, raised tax privilege for exporters of textile and sewing goods by about a factor of four.

In Korea in 2009 tax rate for small enterprises lowered by 2% to 11%, and the next year it lowered for another 1%. For large enterprises the rate lowered by 3% to 22%, than it was lowered to 20%.

In Canada, for small businesses the amount of income taxable at the reduced rate of 11%, increased from 400 thousand to 500 thousand Canadian dollars.

Thus, in the height of crisis, the states stimulated economic activity by reducing taxes and broadening the sphere of preferential tax systems.

Employment stimulation

Though layoffs can reduce business costs, they have a negative effect on consumption and thus prolong the crisis. Therefore, efforts to support employment are advantageous both to preserve the welfare of workers, and to reduce the crisis effects in this sphere.

To avoid layoffs during the crisis, many companies in different countries have resorted to reduction of working hours. Although this measure cuts wages (thereby reducing the burden of payroll), yet workers had the opportunity to work and earn wages.

In some countries, workers with reduced working week had the right to use the unemployment insurance scheme. For example, in Canada, an employee whose working week was reduced to four days could receive unemployment benefits for the fifth day.

In Singapore, Japan and the United Kingdom governments provided subsidies to companies to preserve existing and create new jobs. For each permanent employee, saved during the recession, the government provided a subsidy of 12% on the first S \$ 2,500 in wages.

Japan established a program of comprehensive measures worth \$16 billion, aimed at expanding the training of unemployed, benefits to terminated employees who are not covered by unemployment insurance, providing subsidies to companies to preserve jobs, expanding job creation.

Another way to reduce unemployment is self-employment support. Many countries have already recognized the importance of beginning entrepreneurs in reduction of the economic crisis effects. However, these young businesses are especially prone to the risk of ruin, and they particularly need the government support.

Ideas for new enterprises should be based on the real needs of the market, so the concept of local economic development is useful in this regard. According to this concept local authorities have to determine the potential of the local market.

For example, the Philippines government has opened in all provinces so-called information bureaus to assign returning migrants to new jobs and give them recommendations on the question of self-employment.

In China, the government encouraged the return of displaced workers from the cities and industrial zones to rural areas and helped them to build their business by providing loans and rendering other assistance. In Canada, the government stimulation program provided 10 million Canadian dollars for Canadian youth business foundation, which organizes trainings for beginning entrepreneurs.

It can be concluded that the world economic crisis has negatively affected small businesses in both developed and developing countries. In the developing countries export-oriented enterprises were most affected, due to their dependence on demand from developed countries. The main factors that adversely affected the status of small businesses during the crisis were lack of financing, reduction in demand and decline in employment.

Conclusion

Search of ways to prevent economic crises has become a problem of the international community. Crisis can determine significant quantitative restriction of small business, i.e. withdrawal from the market of the small businesses, forced to phase out temporarily or quit completely their economic activity, reduction in the number of small enterprises employees, decrease of turnover and decline in fixed capital investment in small businesses. However, the further economic development is impossible without crises, as they are indicators of false decisions in the various spheres of society and lead to the restructuring of

social relationships. It were large-scale crises that gave impetus to the formation of a new structure, which is essential for the further development of the economy and society as a whole.

Literature

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Regulacje światowe kryzysu gospodarczego i ich wpływ na małe przedsiębiorstwa

Synopsis: Kryzysy są integralną częścią historycznego i przestrzennego rozwoju gospodarki światowej. Obecny etap rozwoju gospodarki światowej pyta o nową formę i rolę małych i średnich przedsiębiorstw w innowacyjnej gospodarce oraz o możliwość regulacji procesów destrukcyjnych kryzysów i ich wpływu na działalność.

Słowa kluczowe: kryzys, przedsiębiorczość, małe przedsiębiorstwo, regulacje kryzysowe.