

## ONE OF THE PROBLEMS OF SMALL ENTERPRISES IN THE REPUBLIC OF BELARUS

**Tamara ATAMANCHUK**

*The article considers the problem of small enterprise business planning. At present common regulations of implementation of business plans of investment projects for small, medium-sized and large-scale enterprises are established in Belarus. This article outlines the distinctive features of small enterprises. They prove the fact that it is impossible to apply business planning methodology reported in the Decree of Ministry of Economy of Belarus No. 158 on August 31, 2005 „Adoption of Regulations for Implementation of Business Plans of Investment Projects“ because these regulations are directed towards medium-sized and large-scale enterprises.*

*In this article we develop the idea of a simplified methodology of business planning for small enterprises worked out on the basis of the foregoing Decree of Ministry of Economy of Belarus No 158 with the use of international business planning experience. This simplified methodology is designed for small enterprises and its aims are as follows: argumentation of capital formation for starting entrepreneurial activity; current entrepreneurial activity planning; attraction of business associates.*

**Key words:** *enterprise (small, medium-sized, large-scale), business planning, business plan sections.*

In Belarus the concept ‘subject of small enterprise’ was first defined in the law „About National Assistance to Small Enterprises in the Republic of Belarus“ in 1996. According to this law, subjects of small enterprises are entrepreneurs that run their business without being a juridical person or juridical entities with the following staff size (Ilyin, Art. 3):

- in industry and transport – up to 100 people;
- in agriculture (including farming), scientific and technical sphere – up to 60 people;
- in building and wholesale – up to 50 people;
- in retail and domestic service – up to 30 people;
- in other nonproduction spheres – up to 25 people.

At present small entrepreneurship in Belarus is a promising sector of economy, which is gradually contributing towards economic growth. It forms a significant part of tax dollars, savings from salaries, as well as it provides a great part of population with cash facilities.

Nowadays small business contributes 10 % towards Belarusian GDP.

In general, the role of small business in national economy can be estimated in the following directions:

– *Economic mechanism.* Small business helps to struggle with monopolism as far as it has a competitive influence on medium-sized and large-scale enterprises. Due to small business activity public needs are satisfied much quicker and better. Small business fills the niches, which are ignored by medium-sized and large-scale enterprises because of insignificant economic cost efficiency.

– *The sphere of social psychology.* Small business gives proprietors a feeling of confidence, independence, possibilities of self-actualization, and workers’ self-sufficiency and a feeling of responsibility.

– *Social framework.* Small business is a base for middle class formation, which specific weight is not great in market economy.

– *Economy innovation development.* Small business entrepreneurs engage in development and introduction of technological, technical and organizational innovations more often than entrepreneurs of medium-sized and large-scale enterprises. It happens because without such innovations small business entrepreneurs can neither enter the market nor work efficiently in it (3, Art. 18). More than 30 % of small businesses are innovatively active (4, Art. 2). Small business has more advantages than large-scale enterprises. They seem to be more creative, initiative, flexible in reorganization, as well as they have a quicker response to market requirement change.

Business planning on small enterprises differs from business planning on medium-sized and large-scale enterprises in functionality and principles.

For medium-sized and large-scale enterprises *a business plan is a complex goal-oriented program including scientific and technical, technological, financial and economic aspects.* For small businesses *a business plan is a program of organizing, making a deal, which specific weight is the greatest and gaining maximum likely profit.*

In the essence of business plans differences are based on incomparability of *production volumes, volumes of fixed and circulating assets, volumes of credit, structures of economic risks on small and medium-sized (large-scale) enterprises.*

The Decree of Ministry of Economy of Belarus „About Adoption of Regulations for Implementation of Business Plans of Investment Projects“ (5), enacted on August 31, 2005, came into effect. The Decree provides common requirements in business planning for small, medium-sized and large-scale enterprises.

However, only specialists in economics who have wide experience in the sphere are able to work out a business plan using the methodology of the Decree. Consulting firms, which render business planning services, focus on medium-sized and large-scale enterprises. Thus small business entrepreneurs have to work out business plans on their own or apply for private individuals' assistance, the latter though are known for negligent performance of their duties. The process of business planning by an entrepreneur is a powerful means of self-education. In the course of such planning they get knowledge, experience, and professionalism, the feeling of self-confidence and seriousness of entrepreneurial initiative. By supporting the development of small enterprises, which favour the formation of small proprietors who provide their own welfare and create new workplaces, we can solve the problem of economical upturn and social development of the society. Thus it is necessary to work out a **simplified business planning methodology** to simplify business environment in the Republic of Belarus.

The development of a simplified business planning methodology including several stages is shown in Figure 1.

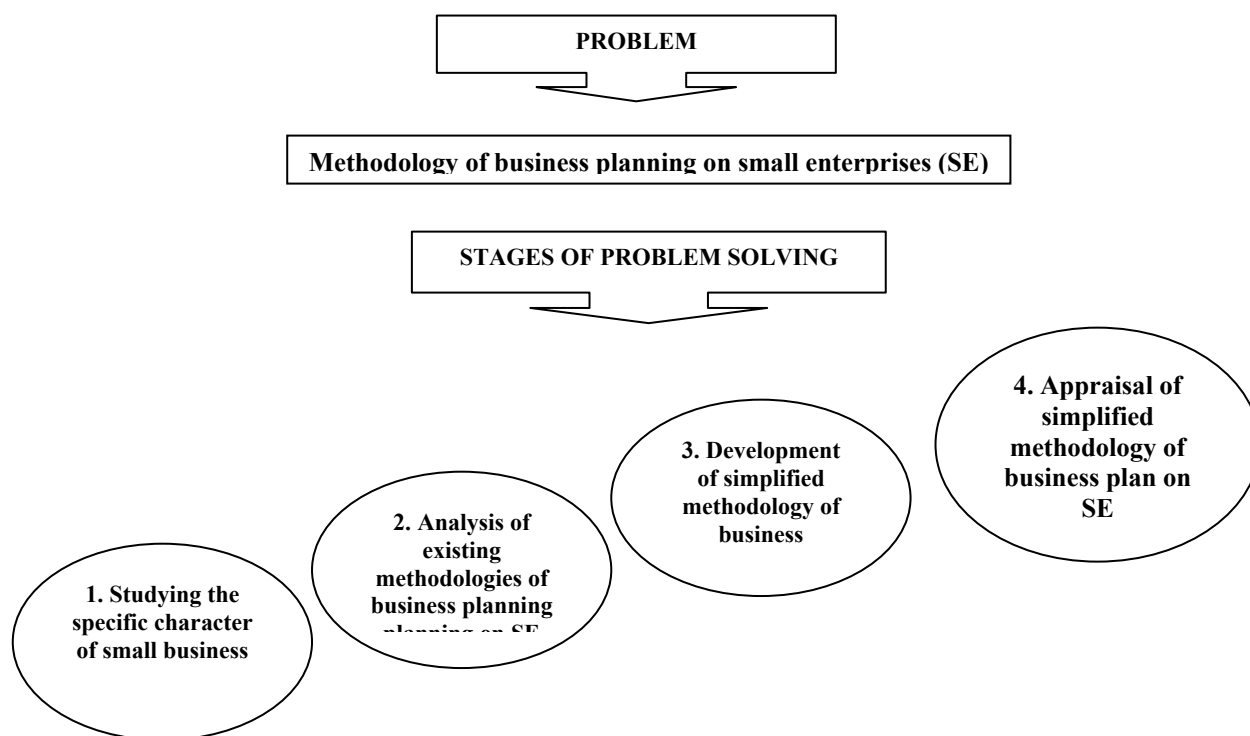


Fig. 1. **Stages of the development of a simplified business planning methodology**

Sociologists point out that 15 % - 17 % of failures in small entrepreneurship are connected with insufficient economic knowledge. This social group can be increased from 25 % to 29 % of working population and the specific weight in GDP can increase from 12 % to 14 % if entrepreneurs work out their business plans on their own according to an accessible simplified methodology. A business plan allows entrepreneurs to define their needs in financial, material, manpower and intellectual resources, losses from different types of random hazards, efficiency of their business projects, of use of resources.

Simplification of business planning methodology is based on application of structural method of planning. This method runs as follows: calculations on separate goods are the most stable and reliable. That is why the starting point of methodology simplification is an interest in a product or service that is to become a base for business or to bring the biggest success. In further business plan calculations we use

the specific weight of a product chosen in an estimated income for determination of the total size of financial indexes.

The author offers the following **parts** of a simplified business plan presented on Figure 2.

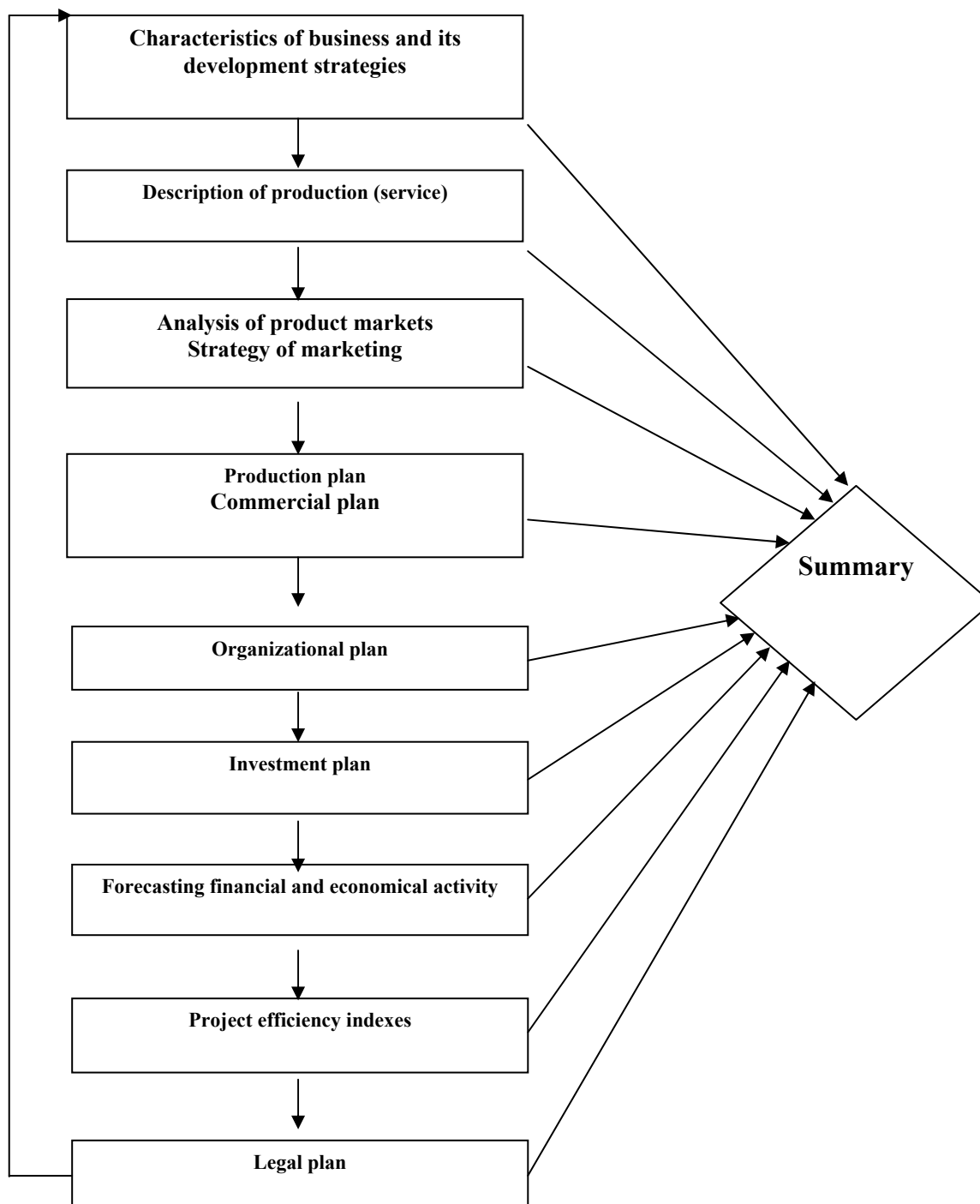


Fig. 2. **Parts of a simplified business plan**

**The Contents** of the sections and the summary of a simplified business plan are supposed to include:

- In **the Summary** besides the requirements of the Rules how to work out business plans of investment projects, it is suggested to include the data about entrepreneurs (age, education, marital status, and the motives of setting up a business);
- in **Section 1 “The characteristics of business and its development strategy”** it is advisable:
  - to describe the fields, in which entrepreneurs will work,

- to reflect the peculiarities of the chosen sphere (e.g., seasonal nature and so on), as well as weak and strong sides of the future business,
- to place a list of products (services) that will be manufactured (provided), bought and sold by the entrepreneurs,
- to reflect technical potential necessary to organize this business: to point out fixed and working capital,
- to describe the development strategy of entrepreneurship,
- to show the significance of this business for the economic and social development of the region or country.
- the contents of **Section 2 “The description of the products(services)”** presupposes:
  - the description of such goods that is supposed to become the business basis or to bring in the success, estimation of its share in the expected receipts;
  - the confirmation of meeting the quality standards;
- in **Section 3 of the business plan “ The analysis of commodity markets. The marketing strategy”** the following subsections are presupposed:
  - *Commodity markets* that contain a description of the market the entrepreneurs are going to take, the segments of the market. The main objective of consumer market is to find the steady differences of consumers in order to work out a range of products and services that provide competitive advantages.
  - *Competition* where competitive environment is described, marketing niche is defined with the account of revealed competitors and the competitive capacity of business is analysed and evaluated;
  - *Marketing strategy* where the two elements of marketing mix (place, promotion) are worked out, they are the channels of the movement of goods and promotion to the customer as well as sales strategy. It is also reasonable to develop the advertising program and to evaluate the effectiveness of the advertisement;

Note 1: If we take into account the fact that nowadays small business entrepreneurship is mainly concentrated in commerce, we should give the contents of both production and commercial sections of the business plan.

- **Section 4 “Production plan”** presupposes the descriptions and calculations on the following subsections:
  - *The program of manufacturing and selling products(services)* where the production program is supposed to be worked out on the basis of iterational process, according to which you should make alternative prognoses with optimistic and pessimistic variants of project development;
  - *The material and technical basis.* This subsection describes how to provide economic activity with materials (main and auxiliary), complementary and spare parts;
  - *Manufacturing and selling costs* where it is necessary to ground each element or item of the cost taking into account the peculiarities of the branches. It is reasonable to describe the methods of calculation of the most popular types of production activity:
    1. *production and sales expenses* according to Resolution of the Ministry of Economics RB „Regulations of the Procedure of the Formation and Application of Prices and Tariffs“ No. 166, enacted on September 28, 2005.
    2. *transportation expenses* according to „Regulations of the Procedure of Forming Tariffs on Cargos and Passengers’ Transportation Using Motor Transport in the Republic of Belarus“ (edited by the resolutions of the Ministry of Economics, the Ministry of Transport on February 19, 2003 No. 50/5, and on May 15, 2004 No. 212/37).

It is possible to foresee the following forms of amortization: ordinary and accelerated in the business plan.

- **Section 4 “Commercial plan”** includes basing the following subsections:
  - *annual volume of purchases and sales*, where it is recommended
    1. to estimate the volume of purchases and sales on the basis of optimistic and pessimistic prognoses;

2. to determine the availability of the stock at the warehouse according to the system „minimum-maximum“:
  - *transportation and sales costs* of the goods, where it is recommended to calculate the costs of the commercial activity in accordance to the Resolution of the Ministry of Economics of the Republic of Belarus „Regulations of the Procedure of the Formation and Application of Prices and Tariffs“ No. 166, enacted on September 28, 2005;
- in **Section 5 “Organization plan”** it is advisable to cite such aspects as
  - the grounds of labour workforce, their qualifications and functions;
  - management structure;
  - the important aspect of **Section 6 “Investment plan”** is
    - to calculate the demand for money pointing out the sources of financing;
    - to calculate the due date and terms of credit payment;
- **Section 7 “Forecasting financial and economic activity”** sums up all the information of the previous sections of the business plan and shows them in monetary terms. It is suggested to include the following subsections in it:
  - *The calculation of prices and tariffs* where you should determine the upper and lower limits of selling price or transportation tariffs – for productive activity, and retail price – for commercial activity.

Note 2: you should calculate the price and tariff of the basic goods. This price is compared to the market price (tariff) of goods and it is corrected if necessary.

- *The calculation of profit* presupposes the determination of
  1. the profit by selling basic and accompanying goods,
  2. the profit at the organisation’s disposal.
- *To calculate taxes* you need in order
  1. to estimate the size of the tax imposed on the entrepreneurship;
  2. to calculate assignments on social insurance.
- Forecasting receipts and expenditures requires evaluating monetary funds that are necessary to be invested before entrepreneur activity every month of the first managing year. It is obligatory to synchronise the influx and outflow of money and the index of the flow of money for each period of time should be positive.

Note 3: It is reasonable to cite the calculation of the amount of money at the beginning of entrepreneur activity both for those who start their business and for those who set up business anew.

- *The estimation of entrepreneur’s risks* contains a list of the most probable risks that can appear when business project is realised (production, commercial and financial risks, admissible, critical and disastrous risks), the calculation of the loses caused by these risks and the evaluation of the level of total losses from risks with the use of the prototype of program product “Economical risks” worked out by the author;

– in **Section 8 “Indices of the project effectiveness”** it is suggested to ground financial and economical expediency of the realisation of the business project on the basis of the following indices of *economical effectiveness*:

- flow of actual money;
- the profitability of the sold goods;
- the share of capital in investment;
- capital structure index;
- energy-output ratio;
- payback time;
- break-even level, which it is reasonable to define with the help of the interface of the program “Break-even Analysis” worked out by the author and *social efficiency* indices:
  - the share of taxes in the revenue;
  - social effect from environmental protection;
  - the quantity of working positions;
  - the average salary of hired workers;
- in **Section 9 “Legal plan”** it is suggested to deal with the following aspects:
  - organisational legal form of entrepreneurship;

○ legalised procedure of organisation's (entrepreneur's) official registration in state instances.

Note 4: the underlined information is adopted from foreign methods of business planning.

**Conclusion.** In terms of market economy you can have a successful business only if you plan its effective development and constantly analyse the information about your own prospects and opportunities, about the state of the markets you are aimed at, competitors' position on them, etc. Even inexperienced entrepreneurs can achieve high effectiveness of their activity using business planning. To run business in a competent way entrepreneurs are required to use knowledge in the sphere of technology, management, certification, marketing, finance and business planning. While working out a business plan, an entrepreneur simulates his/her future producing and commercial activity, thinks it over thoroughly, consults with competent specialists and as a result he/she avoids useless expenses and risks. And, vice versa, experience proves that the business plan worked out without entrepreneur is superficial and different from the first idea. Entrepreneurs are given an opportunity to understand the peculiarities of business and to provide conditions for successful realisation of the plans with the help of their business plan. Used in practice, business planning allows regulating and systemising business as a business plan includes such elements as finance, calculation, marketing, management, economics and logistics. To sum up, simplified methods of business planning in small entrepreneurship will favour to interest and will attract entrepreneurs to work out business plan as well as will assist to increase the effectiveness of small business activity.

#### **Small-scale entrepreneurship – the platform of private business**

The humanity has been worried with entrepreneurship as a type of work activity since the XVIth century. The German philosopher, sociologist and historian Max Weber gave four points of view on choosing this career:

**Entrepreneurship out of despair** – „... a pattern that has been working up to now: national and religious minorities forcedly reject political power / influence and political activity and concentrate all their efforts on / in the sphere of entrepreneurship: thus the most gifted of them aspire to satisfy their ambition, which does not find application in public service“ [1, p.64].

**Entrepreneurship by vocation** – „outstanding performance of secular duties in away, which is defined for every person by their place in life: thus these duties become the person's "vocation" [1, p.97].

**Entrepreneurship as profits** – „Remember that time is money, remember that credit is money. A person who lets somebody else have his money some time after the latter had to give it back presents him percent, and these can make up a big sum of money.“

**Entrepreneurship as a necessity under the existing social and economic conditions** – „Thus, capitalism that has achieved supremacy / domination in modern economic life, brings up and creates the economic subjects it needs – or entrepreneurs – by economic selection“ (Ilyin, 2005, 2005).

M. Weber expressed the essence of the capitalistic entrepreneurship ethics as a system of the following values:

- vocation and profession,
- money and efficiency,
- education and upbringing.

At the same time the German scientist wanted to constitute a link between entrepreneurship and biological, natural (genetic) peculiarity of man – on one side as well as entrepreneurship and socio-historical peculiarity of human activity – on the other side.

Nowadays **entrepreneurship** is defined as a specific type of socially useful economic activity aimed at getting profit, connected with the risk of establishing new and developing already existing businesses as well as finding more efficient ways of using resources, while observing all legal and ethical regulations. Today more than two thirds of the population estimate the role of entrepreneurship as positive.

Belarusian national economy can be presented as two sectors in the ratio of 1:3/ This is 25 % of private and 75 % of state property / ownership (About the statement... , 2005).

In private business the priority belongs to small-scale entrepreneurship (Orlova, 2005, p.12).

The advantages of small-scale business are as follows:

- low capital requirements;
- opportunity of making decisions in a flexible and dynamic way;

- efficient capital mobility due to insignificant irrevocable losses;
- reduced reserve stocks;
- short production cycle;
- quick adaptability to the market;
- steady production distribution due to orientation toward local market needs and regular customers.

Besides, small-scale business creates competitive environment, thus contributing to price-cutting and quality growth of products and services.

On the territory of the Republic of Belarus the formation of small-scale entrepreneurship began at the end of 80s – the beginning of 90s. During the first stage of market economy development small-scale business contributed to the efficient use of the country's resources.

It rented small areas from state enterprises, purchased depreciated but still useful equipment, tailored it to its needs and involved not only all suitable materials but also waste products in the economic cycle. Flexibility, mobility, quick reaction to demand, low capital intensity and high productivity of small-scale entrepreneurship let it develop economic niches that were inaccessible to big business.

In 1999 a recession of small-scale business began but since 2000 there has been growth of entrepreneurship structures in this sector of economy. The growth of small-scale entrepreneurship continues until the process of transferring factors of production from state sector into private sector finishes. If the share of small-scale business is 40 % of the workforce, it will testify that the process of restructuring state sector has been completed and favourable investment conditions have been created (The statistical given and ..., p.7). At the end of 2006 in small-scale business 670 800 people were employed in Belarus, which is 15.4 % of people employed in the sphere of economy.

The number of subjects of small-scale entrepreneurship of all forms of ownership was 37 660 enterprises at the end of 2006, which is 3 businesses per thousand of people, while in the EU countries it is 45 and in Russia – over 6 (Gulin, p.35].

During the period of functioning of small-scale business on the national territory considerable changes have occurred, not only in the number but also in the quality of entrepreneurship structures as well as in the legal and economic conditions of their activity. Research of small-scale business development in the republic shows stable growth of small-scale business, which can be reinforced with the following figures:

- The weight of the gross domestic product produced by subjects of small-scale entrepreneurship was 8.8 % (in 2005 – 8.1 %) of the total volume of gross domestic product;
- The subjects of small-scale entrepreneurship produced:
  - 8.1 % (7.6 %) of the total volume of products and services;
  - 7.5 % (7.0 %) of total volume of product manufacturing (... industrial services);
  - 10.2 % (10.1 %) of total volume of retail turnover, including catering;
  - 23.9 % (in 2005 – 21.2 %) of total volume of foreign trade turnover.
- The share of small-scale entrepreneurship in the total volume of profits from the realization of products, operations and services in the sphere of national economy was 22.8 % in 2006 (21.2 % in 2005).

At present the Program of national assistance to small-scale entrepreneurship has been worked out; its purpose is further development of small-scale entrepreneurship in the Republic of Belarus, assistance in increasing its share in the total volume of profits from the realisation of products and services and increasing the number of subjects of small-scale entrepreneurship as well as creating new workplaces. The following priority lines of entrepreneurship development have been defined by the government: scientific innovative activity, introduction of new technologies, export of products and services, production activity in industry and construction, processing of agricultural production and providing services in rural area.

## Conclusions

1. Even inexperienced entrepreneurs can achieve high effectiveness of their activity using business planning. It covers the role of business-plans in achieving efficient results of entrepreneurial activity and indicates the purpose of business plans. To run business in a competent way entrepreneurs are required to use knowledge in the sphere of technology, management, certification, marketing, finance

and business planning. Entrepreneurs are given an opportunity to understand the peculiarities of business and to provide conditions for successful realization of the plans with the help of their business plan. Used in practice, business planning allows regulating and systemizing business as a business plan includes such elements as finance, calculation, marketing, management, economics and logistics. To sum up, simplified methods of business planning in small entrepreneurship will favor to interest and will attract entrepreneurs to work out business plan as well as will assist to increase the effectiveness of small business activity.

2. Nowadays entrepreneurship is defined as a specific type of socially useful economic activity aimed at getting profit, connected with the risk of establishing new and developing already existing businesses as well as finding more efficient ways of using resources, while observing all legal and ethical regulations. The entrepreneurship activity in Byelorussia is low. The number of subjects of small-scale entrepreneurship of all forms of ownership was 37 660 enterprises at the end of 2006, which is 3 businesses per thousand of people, while in the EU countries it is 45 and in Russia – over 6. The following priority lines of entrepreneurship development have been defined by the government: scientific innovative activity, introduction of new technologies, export of products and services, production activity in industry and construction, processing of agricultural production and providing services in rural area.

#### REFERENCES

1. Ilyin A.I. Planning at the enterprise / A.I. Ilyin. – Minsk: the Higher school, 2005. – 50 p.
2. About the statement of rules on working out of business plans of investment projects: the decision of the Ministry of Economics of Belarus: August, 31, 2005, №158 // the National register of legal certificates of Belarus. – 2005. – №158. – 8/13184.
3. Orlova E.R. Business – the plan. – M.: OMEGA-L, 2005. – 149p.
4. The statistical given and expert estimations of probabilities of occurrence of losses in commercial in industrial business: Questionnaires / IPK and personal computer UO “The Moscow State University of A.A. Kuleshov”. – Mogilyov, 2005-2007.
5. Gulin V.N. Enterprise business office. – Mn., BSEU, 2004. – 279p.
6. Karyagin V.M. The development of business in Belarus / V.M. Karyagin // Business in Belarus: experience of formation and development prospect: materials of the international scientific-practical conference, Minsk, June 13-13<sup>th</sup> 2007: in 2 ch. / Institute of enterprise activity; editorial boards: V.L. Tsybovsky. – Minsk, 2007. – Ch.1. – p.12-21.
7. Data of management of business of committee of economy in Mogilyov. – Mogilyov, 2007.