

# STUDYING TRANSITION

## ATTITUDES TO GOVERNMENT ECONOMIC POLICY ON THE PART OF SMALL, MIDSIZE AND LARGE INDUSTRIAL ENTERPRISES

### V. PRIPISNOV

#### 1. Description of the Sample

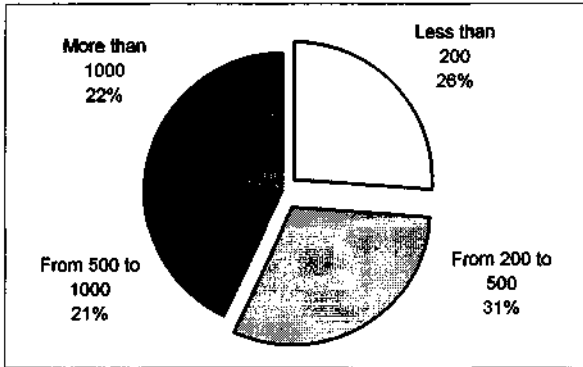
The study was based on four surveys of industrial enterprises conducted by the Russian Economic Barometer (REB) in April and October 2002 and 2003.. The total number of the surveyed enterprises was 654.

Classification of the enterprises by size was made by number of employees, including non-staff and contractual workers. The sample was divided into four groups of respondents, roughly equal in number: small firms (SF) employing less than 200; midsize firms (MF) employing from 200 to 500, and two groups of large firms (LF) employing from 500 to 1000 in the first group and more than 1000 in the second. This classification corresponds to standard methods of statistics of small, medium-sized and large enterprises in the EU member countries.

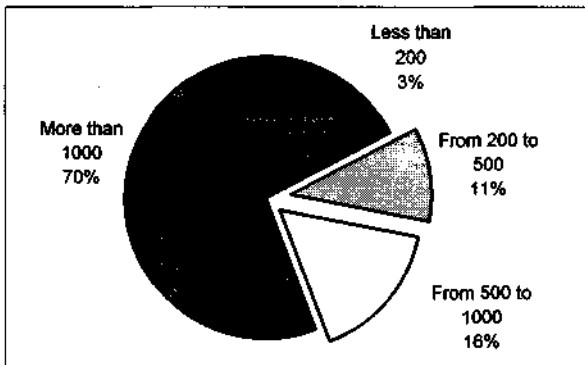
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**Diagram 1****Structure of Sample by Size of Firms**

Share in total number of respondents (%)



Share in total number of employees at surveyed firms (%)



## 2. Levels of Comprehension and Approval of Government Economic Policy by Managers of Large, Midsize and Small Firms

The REB survey data show that overwhelming majority of enterprise managers (72%) are running their businesses with no clear understanding of economic policy of the government. The share of the

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respondents that gave a more or less positive answer to the question about their perception of the government economic policy is only 28%, or slightly above the share of the respondents that gave a negative answer - 25%. Meanwhile, almost a half of the respondents (46%) failed to give any clear answer to this question. The integral «index of comprehension» calculated from the survey results is only 104 points for the total sample. The index is equal to 100 if the sum of positive estimations is equal to the sum of negative statements (see Table 1).

**Table 1**  
**Degree of Comprehension of Government Economic Policy by Industrial Enterprises**

Do you understand the government economic policy of previous 3-4 months?	Shares of respondents in groups of enterprises by number of employees (%):				Total sample (%)
	Less than 200	From 200 to 500	From 500 to 1000	1000 and more	
a) «Yes»	3,6	1,5	4,6	4,4	3,4
b) «Generally yes»	17,6	26,5	30,0	27,4	25,1
c) «Hard to say»	45,5	45,4	45,4	48,9	46,2
d) «Generally no»	22,4	20,4	16,9	14,8	19,0
e) «No»	10,9	6,2	3,1	4,5	6,3
Total	100	100	100	100	100
«Index of comprehension» of the government economic policy <sup>*)</sup>	85	102	122	118	104

*\*) «Index of comprehension» used in this paper is the sum of positive and neutral statements («Yes», «Generally yes» and «Hard to say») divided by the sum of relevant negative and neutral assessments («No», «Generally no» and «Hard to say») and multiplied by 100.*

*Source: REB Surveys of April and October 2002 and 2003.*

The results of the poll also show that levels of comprehension of the government economic policy by managers of industrial enterprises largely depend on the size of enterprises under their rule. Representatives of small businesses feel less competent in this issue than managers of midsize and large firms. In the group of small firms

with less than 200 employees, the share of respondents having declared that they understand economic policy of the government is only 21% against 32-35% in the two groups of large enterprises. At the same time, the share of respondents admitting that they do not understand economic policy of the government in the group of SFs reaches 33% against 19-20% in the groups of LFs. Among managers of midsize enterprises, the extent of comprehension of the government economic policy is in the interim between SFs and LFs.

General level of approval of economic policy of the government, i. e., of admission that it is correct, is much lower than the extent of comprehension of economic course of the government. In the total sample, negative evaluations of the government policy are largely prevailing against positive appraisals. The share of approving statements is just 14%, which is less than a half of the share of negative assessments - 32% (see Table 2).

**Table 2**  
**Degree of Approval of Government Economic Policy by Industrial Enterprises**

Do you believe that the government economic policy of previous 3-4 months has been correct?	Shares of respondents in groups of enterprises by number of employees (%):				Total sample (%)
	Less than 200	From 200 to 500	From 500 to 1000	1000 and more	
a) «Yes»	1,3	0,5	0	0	0,5
b) «Generally yes»	12,0	9,4	15,4	17,9	13,2
c) «Hard to say»	51,3	53,2	53,8	61,9	54,7
d) «Generally no»	22,2	28,6	18,5	14,9	21,8
e) «No»	13,2	8,3	12,3	5,3	9,8
Total	100,0	100,0	100,0	100,0	100,0
«Index of approval» of the government economic policy <sup>*)</sup>	74	70	82	97	79

<sup>\*)</sup>«Index of approval» used in this paper was calculated in the same way as the «index of comprehension» (see Table 1).

Source: REB Surveys of April and October 2002 and 2003.

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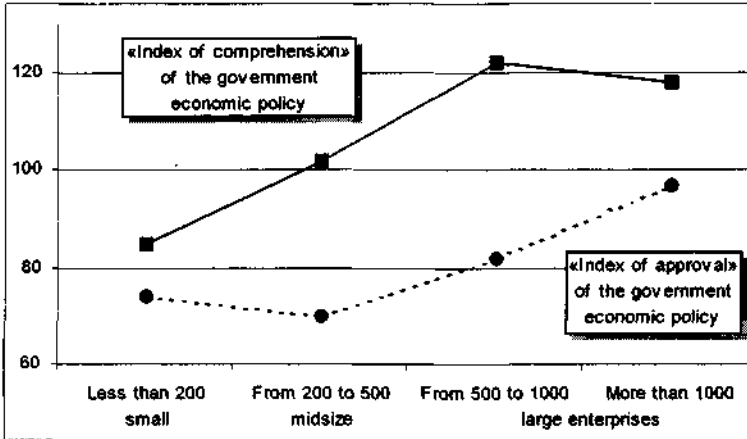
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The sense of uncertainty in enterprise managers' assessment of how correct has the government economic policy been is rather high — more than a half of the respondents (55%) could not give a straightforward answer to the question «Do you believe that this policy is correct?», choosing to answer «Hard to say». As a result, the integral «index of approval of the government economic policy happened to be 25 points lower than the «index of comprehension» (79 against 104, respectively).

Dissatisfaction with the government economic policy is especially strong on the part of small and midsize firms. More than a third of the surveyed industrial SFs and MFs (35-36%) believe that the government economic policy is more or less incorrect. Among the managers of the LFs with more than 1000 employees, only 20% of the respondents express disagreement about the government policy.

According to the data of all four surveys, positive assessments of the government policy were given by the SFs and MFs half as less frequently, on average, than by the LFs. The share of managers of the SFs and MFs who believe that the government policy is correct is only 11 % against 17% on the part of the LFs.

In terms of the integral «index of approval» of the government economic policy, the SFs and MFs are at about the same low level. However, along with a shift to the LFs, this indicator begins to rise in a rough proportion to the enterprise size. On the other hand, dependence of comprehension of the government economic policy on enterprise size is in an inverse image position. «Index of comprehension» of the government economic policy in the two groups of LFs is almost equally high, but on the shift to smaller firms, it declines in proportion to their size (see Diagram 2).

**Diagram 2****Dependence of Levels of Comprehension and Approval of Government Economic Policy on Enterprise Size**

Source: REB Surveys of April and October 2002 and 2003.

### 3. The Importance of Transparency of the Government Economic Policy for Better Performance of Industrial Enterprises

The survey data indicate that understanding of the government economic policy by managers is an important factor in the improvement of profitability of the industrial enterprises they are running. In the group of respondents who gave positive answer to the question about comprehension of the government policy, the number of profitable firms was more than twice as large as the number of loss-makers (the parity was 2,3:1).

Whenever the response was negative, numbers of profit-makers and loss-makers were nearly the same (1,2:1). In the most numerous group of respondents who could not definitely say whether they did or did not understand the government economic policy, the number of profitable firms was about a half as large as the number of loss-makers (1,6:1).

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So, in the total sample, the factor of comprehension of the government economic policy stimulated an about two-fold improvement in the index of enterprise profitability, from 117 to 226 points (see Table 3).

**Table 3**  
**Dependence of Successful Performance of Small, Midsize and Large Firms on Their Managers' Comprehension of Government Economic Policy**

Do you understand the government economic policy of previous 3-4 months?	«Index of profitability»*			Total sample
	SF (less than 200 employees)	MF (from 200 to 500 employees)	LF (500 and more employees)	
«Yes» or «Generally yes»	250	157	271	226
«Hard to say»	160	152	154	155
«No» or «Generally no»	80	192	118	117
Average in each group	136	163	173	159

\* «Index of profitability» is the number of profitable firms divided by the number of loss-making firms and multiplied by 100.

Source: RBB Surveys of April and October 2002 and 2003.

Comprehension of the government economic policy is the most important factor for the activities of small and large firms. According to the survey results, the index of profitability has more than tripled under its influence at the SFs (from 80 to 250 points) and has gone 2.3 times up at the LFs (from 118 to 271 points). For the activities of the MFs, impact of this factor on the index of profitability is one order of magnitude weaker, and also has a less clear direction. This may have happened because of a concealing effect of other factors, which are more important to the activities of the MFs.

How this poor understanding of what the government is doing can be explained? Our experience of enterprise studies (based on the earlier projects we had happened to take part in) indicates that for the most part, this is related to inadequate competence of many Russian industrialists. Taking into account that the overwhelming majority of the surveyed enterprise managers have a relatively low level of

understanding of the government economic policy, we can assume that on the macroeconomic scale, lack of adequate competence on the part of enterprise managers is a serious obstacle to development of domestic industries.

At the same time, this means that if relatively small input is made into retraining of top managers, and if public authorities provide them with unrestricted access to relevant information, this cost could be repaid a hundredfold by its contribution to industrial development. This is particularly true of small business, considering that in the first place, the SF managers have much poorer understanding of the government economic policy, and in the second, that their performance depends a great deal on this factor.

To be fair, we have to point out that entrepreneurs and enterprise managers are not sitting on their hands waiting for manna from heaven.

A number of trade associations and unions based on self-organization of entrepreneurs are devoting considerable efforts to build bridges and exchange information between the entrepreneurs, on the one hand, and public agencies, on the other (for a detailed account of this activity, see *The Russian Economic Barometer* 2002, #3, pp. 3-23).

However, the initiative coming "from the bottom" is far from always getting endorsement "from above", i. e., by numerous bodies of public administration. In spite of a widely advertised campaign against "administrative barriers", bureaucratic agencies hold on their tendency to conceal the information that is absolutely essential for the business community. For example, in early February 2004 the Ministry of Taxation of the Russian Federation classified its own recommendations on tax calculation, as open only "for administrative use" (see: "Vremya novosti", February 9, 2004).

Hereafter, tax inspectors have the chance to charge fines on entrepreneurs for any involuntary break or nonfulfilment of secret regulations issued by the Ministry of Taxation. In other words, the

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entrepreneurs can be punished for not knowing the information they are prohibited from knowing!

Obviously, such novelties raise fierce opposition in the business community, and this resentment, according to the REB survey data, is expressed in predominantly negative attitude of enterprise managers to the government economic policy.

#### **4. The Importance of Co-ordination of the Government Economic Policy with Interests of Entrepreneurs for Enhancement of Small and Midsize Industrial Firms**

According to the survey data, the number of profit makers in the group of the respondents that believe the government economic policy has been more or less "correct", is more than three times as large as the number of loss makers (the parity was 3,3:1). In the group of those disagreeing with the government economic policy, the number of profit makers is roughly equal to the number of loss makers (see Table 4).

**Table 4**

#### **Dependence of Successful Performance of Small, Midsize and Large Firms on Consideration of Their Interests in Government Economic Policy**

Do you believe the government economic policy of previous 3-4 months has been correct?	«Index of profitability»*			Total sample
	SF (less than 200 employees)	MF (from 200 to 500 employees)	LF (500 and more employees)	
«Yes» or «Generally yes»	800	450	210	329
«Hard to say»	174	155	147	156
«No» or «Generally no»	56	147	213	124
Average in each group	137	164.	170	158

\* The number of profitable firms divided by the number of loss-making firms and multiplied by 100.

Source: REB Surveys of April and October 2002 and 2003.

The factor of co-ordination of economic course of the government with interests of entrepreneurs is of primary importance to small and

midsize businesses. According to the survey results, «index of profitability» at the SFs has a 14-fold range of variation (from 56 to 800 points!), and at the MFs, a 3-fold range (from 147 to 450 points).

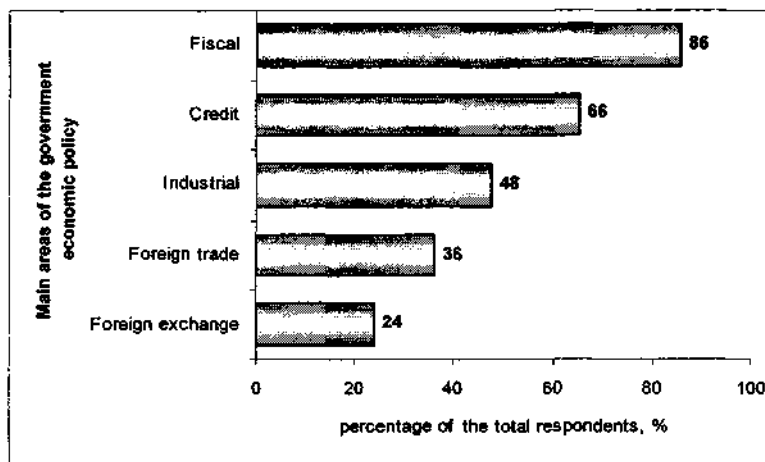
In the group of large firms, no influence of this factor on the «profitability index» has been found.

Current economic policy of the government is more or less approved of by no more than one out of ten respondents, who represent small and midsize enterprises. Consequently, establishing a reasonable balance between public interests and benefits of top managers of industrial enterprises in the government economic policy is a necessary condition for survival of the SFs and MFs in the Russian industry.

Taking into account how much profitability of small and midsize firms depends on economic policy of the government, we can say with reasonable confidence that co-ordination of the government economic policy with the interests of SFs and MFs could before long make an important contribution to acceleration of economic growth in Russia and to improvement in social and economic situation in this country.

### **5. Major Measures of the State Support for Industrial Enterprises**

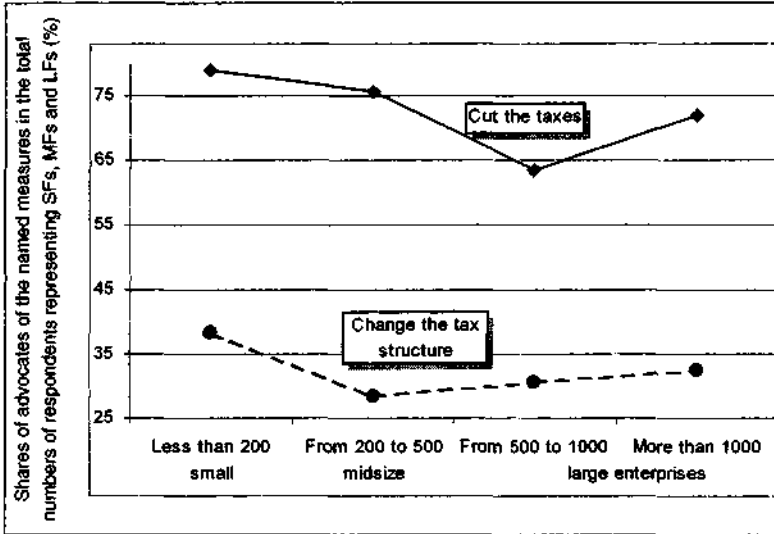
According to the results of these surveys, we can outline five guidelines of the government economic policy that are of prime interest for domestic industrial enterprises. The vast majority of our respondents favor reforming the tax system as the first priority. Two thirds of the surveyed enterprises are interested in the improvement of lending policy of the government. About a half of the respondents express their interest in measures of direct support and promotion of industry by the state. Activities of the government in foreign trade and foreign exchange market are a matter of importance for a third and a quarter of the respondents, respectively (see Diagram 3).

*Business Performance***Diagram 3****Distribution of requirements addressed to the government on main areas of economic policy in 2002-2003**

Source: REB Surveys of April and October 2002 and 2003.

The greatest difficulty in elaboration and implementation of economic policy in co-ordination with industrial firms is that interests of large groups of enterprises are far from complete coincidence. In particular, interests in many policy measures may considerably differ by the enterprise size.

In fiscal policy, the vast majority of the respondents are unanimous about the priority of tax cuts. Meanwhile, the shares of respondents who are seeking tax cuts in the SF and MF groups are somewhat higher than in the LF groups. Moreover, the SFs are much more interested in changes in the tax structure (see Diagram 4).

**Diagram 4****Degrees of Enterprise Support of Government Measures in Fiscal Policy**

Source: REB Surveys of April and October 2002 and 2003.

Concerning measures of direct support of industry by the state, the largest firms (those with 1000 and more employees) express keen interest in getting public orders (see Diagram 5).

## Diagram 5

## Degree of Enterprise Support of Main Government Economic Policies

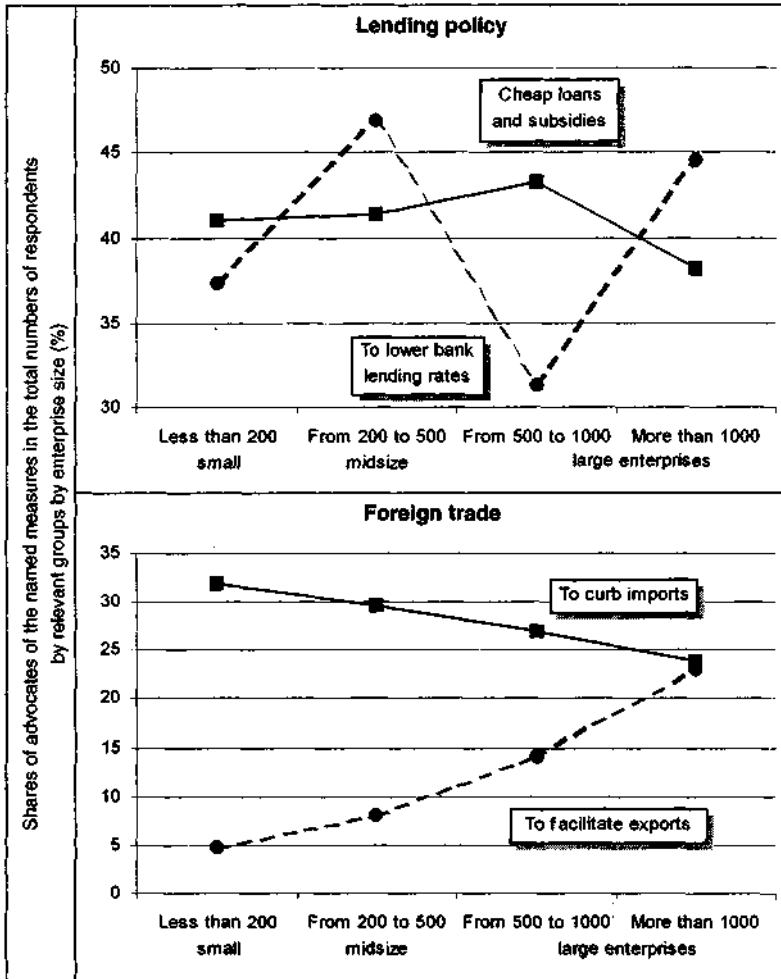
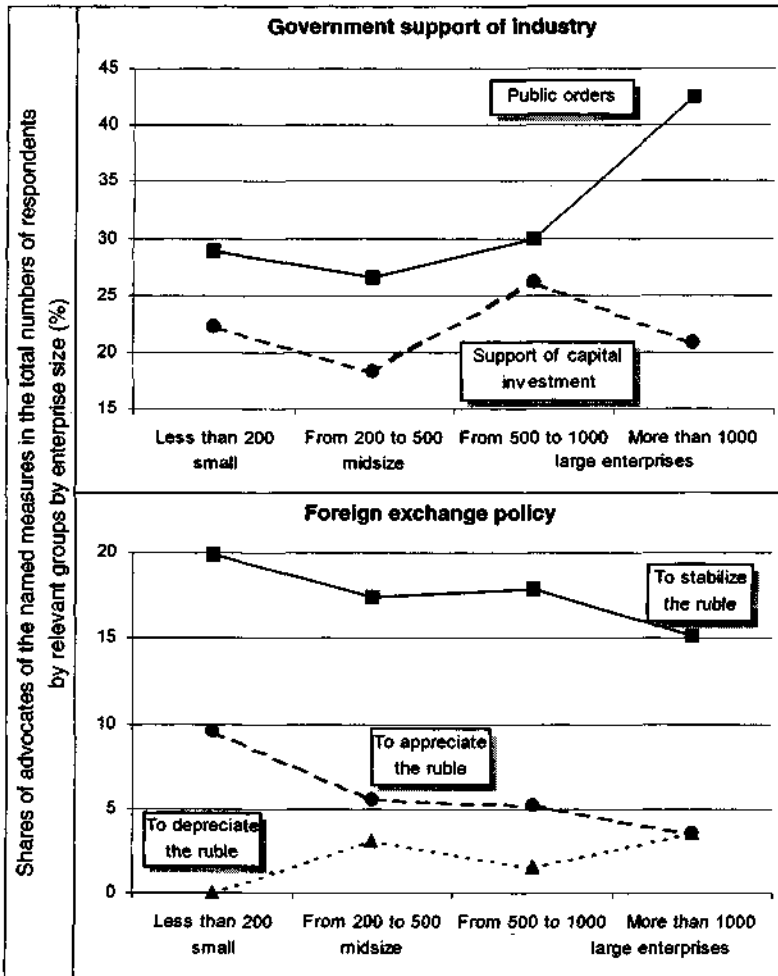


Diagram 5 (Continued)



Source: REB Surveys of April and October 2002 and 2003.

As for foreign trade, there is a clear correlation: the larger are the firms, the less they are concerned about restrictive import policies, and the more they insist upon establishment of more favorable conditions for

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exports of goods. In the total sample, the share of respondents supporting protection of domestic market is almost three times as large as the share of those who advocate liberalization and promotion of exports. This gap is particularly great in the group of SFs, where the number of supporters of protectionism is more than six times as large as the number of advocates of liberalization of exports. A balance between supporters of protectionism and liberalization of foreign trade is achieved only in the group of the largest firms.

Concerning the prospects of Russia's joining the WTO, according to the survey results, the Russian industrial SFs and MFs would clearly prefer to delay this event as long as possible.

Among the largest industrial firms (with more than 1000 employees), there is a rough parity between numbers of active advocates and adversaries of this course. In general, more than a half of top managers of large companies take active position about foreign trade issues. The rest probably attach little importance to this event.

As for foreign exchange area, opinions expressed by most surveyed managers of industrial enterprises add up to the need to stabilize the exchange rate of the ruble. Only a small part of the respondents (10%) expressed their interest in changes in the ruble exchange rate, mostly wishing for its appreciation. This wish is most apparent on the part of small businesses.

## **6. Conclusions and Recommendations**

A great majority of managers of industrial enterprises have no clear perception of the government economic policy, and representatives of small business are less competent in this issue than managers of midsize and especially large firms.

The level of approval of the government economic policy is much lower than the level of its comprehension, and discontent about the government economic policy is most strongly displayed on the part of small and midsize firms.

Comprehension of the government economic policy by enterprise managers is visibly (and positively) related to levels of profitability of the firms they run, particularly in the activities of small and large enterprises. Lack of relevant competence of top managers of greater part of enterprises is a powerful limitation to development of domestic industry.

Establishment of a reasonable balance in the economic policy between the government and enterprise interests is a necessary condition for survival of SFs and MFs in the Russian industry.

Fiscal policy is the area of the government economic policy, which is of utmost importance to industrial enterprises. The great majority of enterprises demand that their tax burden should be lessened, and this necessity is stronger for small and midsize businesses than for large firms. Besides, small enterprises are much more than the others concerned about changes in the structure of taxes.

In the area of direct support of industry by the state, the largest firms express keen interest in getting public orders.

In foreign trade, there is a strict correlation: the larger are the firms, the less they are concerned about restrictive import policies, and the more they insist upon establishment of more favorable conditions for exports of goods.

In the foreign exchange area, the majority of enterprise managers are interested in stabilization of the ruble exchange rate.