



**The historical background  
of entrepreneurship  
emergence in Russia**

## THE HISTORICAL BACKGROUND OF ENTREPRENEURSHIP EMERGENCE IN RUSSIA

### EL TRASFONDO HISTÓRICO DEL SURGIMIENTO DEL EMPRENDIMIENTO EN RUSIA

#### ABSTRACT

The paper covers the historical background of entrepreneurship emergence in Russia. The authors assume, that the tendencies contributing to the sole trade creation, had concrete reasons contingent on constant shortage and suppressing of sole trade constituent as well. They were characterized by a certain geographical position along with the people's public life and, what is more, international invasions. Examining some distinctive features of domestic finance formation and market conditions all over the world, Russia was gradually increasing its residents' entrepreneurial agility. However, historically grounded state-bureaucratic structure concerning the masses' interests protection and the businessmen activity regularly sustained that phenomenon. The more the government was striving to regulate and make social development "objective", the more controversial result it was. Instead of taking control over the situation, the public was involved in speculation first and then in egalitarian regression. Independence of entrepreneurial activity may exist if the former management system limits itself. The loss of entrepreneurial base negatively influenced not only the country's financial development, but its financial well-being. Russian traders and industrialists who were considered to be representatives of Russian sociality and culture more than other layers, did a lot in order to preserve it. Thus, a specific nature of entrepreneurship is imbued with cultural development of modern Russia from the times of Rus' and the Russian Empire breaking up to the October Revolution and current state with the market economy rebound.

KEYWORDS: entrepreneurship, business, economy, entrepreneur, entrepreneurial activity.

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#### RESUMEN

El artículo aborda los antecedentes históricos del surgimiento del emprendimiento en Rusia. Los autores suponen que las tendencias que contribuyen a la creación de comercio único, tenían razones concretas contingentes a la escasez constante y la supresión del componente de comercio único también. Se caracterizaban por una cierta posición geográfica junto con la vida pública de las personas y, lo que es más, las invasiones internacionales. Al examinar algunas características distintivas de la formación financiera nacional y las condiciones del mercado en todo el mundo, Rusia aumentó gradualmente la agilidad empresarial de sus residentes. Sin embargo, la estructura estatal-burocrática fundamentada históricamente en relación con la protección de los intereses de las masas y la actividad de los hombres de negocios regularmente sostuvo ese fenómeno. Cuanto más se esforzaba el gobierno por regular y hacer que el desarrollo social fuera "objetivo", el resultado más polémico fue. En lugar de tomar el control de la situación, el público participó en la especulación primero y luego en la regresión igualitaria. La independencia de la actividad empresarial puede existir si el sistema de gestión anterior se limita a sí mismo. La pérdida de la base empresarial influyó negativamente no solo en el desarrollo financiero del país, sino también en su bienestar financiero. Los comerciantes e industriales rusos que se consideraban representantes de la sociabilidad y la cultura rusa más que otras capas, hicieron mucho para preservarlo. Por lo tanto, una naturaleza específica de la iniciativa empresarial está impregnada del desarrollo cultural de la Rusia moderna desde los tiempos de Rus y el Imperio ruso hasta la Revolución de Octubre y el estado actual con el rebote de la economía de mercado.

PALABRAS CLAVE: emprendimiento, negocios, economía, emprendedor, actividad emprendedora.

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LILIYA RAISOVNA FAKHRUTDINOVA



Kazan Federal University, Russian Federation



nz99nz@yandex.ru



OLEG ALEKSANDROVICH BUNAKOV



Kazan Federal University, Russian Federation



BORIS MOJSHEVICH EIDELMAN



Kazan Federal University, Russian Federation



NIYAZ KAMILEVICH GABDRAKHMANOV



Kazan Federal University, Russian Federation



EKATERINA OLEGOVNA MURTAZINA



Kazan Federal University, Russian Federation

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## INTRODUCTION

Entrepreneurship in Russia has its own peculiarities connected with local mentality, cultural and historical development of economic affairs.

In line with Article 2 of the Civil Code of the Russian Federation entrepreneurial activity is an independent activity carried out at its own risk aimed at the systematic receipt of profits from the use of property, the sale of goods, the performance of work or the services rendering by persons registered as such in the manner prescribed by law.

Also, the term “entrepreneurship” is closely related to the term “business”, which means absolutely any activity aimed at making a profit.

Based on these definitions, it is worth saying that the main differences between business and entrepreneurship are the innovative nature and the presence of risk on the part of the entrepreneur, as well as state registration of the latter one [1].

At the same time, state registration takes place as formation of one of the organizational and legal forms of entrepreneurship envisaged in the legislation. This may be entrepreneurship without a legal entity formation (IP(entrepreneurship)), and a joint-stock company (PAO (or Public Limited Company), JSC (a joint-stock company), and a partnership, which the authors will consider in more detail further.

These provisions are applied to entrepreneurship in all sectors of economy.

## 2. RESULTS AND DISCUSSION

Let us consider the historical background of entrepreneurship emergence in Russia, which has influenced the structure of a future mar-

ket, business ethics, entrepreneurs and population’s mentality.

Investigating the chronology of the entrepreneurship formation, it is necessary to distinguish that in Ancient Rus’ the Slavs demonstrated themselves as energetic and courageous traders, capable of working in the interests of the Prince, the country and individual circumstances.

Unfortunately, the socio-political, military and geographic prerequisites by no means enabled the Slavs to improve their entrepreneurial opportunities. This would allow Kievan Rus’ to enter a number of European developed countries at the expense of its rich natural resources, flowering cities and talented people, and, in addition, there would be a chance to evade the Tatar-Mongol ruin [2].

Favorable conditions developing in the Novgorod Republic, especially clearly demonstrated entrepreneurial talents of Russian people.

The principles of autonomy, the independence of groups, strata, personalities, are poorly combined with centralization; but they are necessary for entrepreneurship. Mongol-Tatars adversely affected the formation of domestic entrepreneurship, having braked it for centuries.

Until the XVI century entrepreneurship was expressed only in the form of agrarian crafts, fishing and hunting, tar distillation, forestry, salt production. Then there was a noticeable rise in trade. Fur, leather, wax, hemp, flax, metal goods became the core products. Since that time a well-known Nizhny Novgorod Fair was born.

Since the XVI century there was a rise of commercial and industrial entrepreneurship in the Moscow State as a consequence of the Moscow merchant class actions. There were the whole dynasties of entrepreneurs. The first of these is the Stroganovs family, who became the largest traders and industrialists. A domestic business model is the business life of monasteries. Monastic colonies in Kirillo-Belozersky, Trinity-Sergius, Solovetsky monasteries became sources of economic and entrepreneurial work and demonstrated examples of entrepreneurial economies development. According to the testimony of historians, one can find out that domestic entre-

preneurs were associated with a combination of prudence and imagination, hard work and the ability to relax, the desire to show themselves, the presence of deep introspection for a long time.

A significant growth of entrepreneurial activity in Ancient Rus' was characterized by extensive formation of credit relationships. Novgorod businessman, merchant Clement, who lived at the end of the 12th – the beginning of the 13th century, was able to combine his extensive trade work with the allowance of credits. As for the entrepreneurial loan in Russia, there was a special position. Taking large interest was considered to be shameful. After a while, Vladimir Monomakh introduced the Charter, which contained the amount of interest paid according to the loan (no more than 20% per year).

At the end of the XVI century patrimonial business was superseded by the most independent municipal one, which led to an increase in commodity-money relations. Carpenters and masons, weavers and tailors were being hired. In Novgorod, Kazan, Serpukhov, approximately 200 kinds of handicraft trades have been glorified. The basic principles of the forthcoming manufactory production awoke, the distribution of work and its qualification as well such as kaftanniks, armeniks, shubniks are increasing. The majority of specialties was getting narrower: single specialists sewn loops, pockets, buttons. Settlements were famous for its craft rows such as collar, fur coat, cap. It should be note that fairs were getting extensive promotion. In the middle of the XVI century Tthe Makariyev Fair opened, big fairs also took place in the Holopievo city in Mologa, in the village of Simonov Monastery of Vesi-Egonsk.

Summarizing the results of this stage, it is necessary to highlight that the formation of entrepreneurship in the XVI century in Russia was extremely ambiguous. Quickness of work as well as high-quality complication of its configurations were taken into consideration. Entrepreneurs appeared in the truest sense of the word. This process was not a result, but a reverse side of current circumstances, demonstrating

due not because of, but in defiance of existing circumstances, again showing the ineradicableness of the financial and other initia-

tive of people. In a similar way, in the Middle Ages Russia was formed back and forth in the sphere of entrepreneurship [3]. In Russia, there were adherents of gradational reform, but the specific historical preconditions and the desire to have everyone immediately sent Russia on a different path.

Back in the XVI-XVII centuries Russia had a mature trading network. In settlements, villages, near monasteries numerous merchants and traders actively sold their goods at the fairs, high-intensity barter took place between separate zones of the state. All these contributed to the all-Russian market emergence.

During the reign of Peter I a powerful stimulus was given to the formation of entrepreneurship: the number of manufactories increased from 10 to 220 pieces. The sons and descendants of the founder of the Demidov family built over forty plants, in which about 40% of all Russian pig iron was produced.

Hereafter entrepreneurship dynamically accelerated its growth. Under Peter the Great's rule there were still certain restrictions on the independence of trade, however, under Catherine II, the need to obtain "permissive decrees" in order to set up the business was eliminated. Catherine II founded the most appropriate circumstances to form Russian entrepreneurship. She canceled all permissible limits and declared the liquidation of monopolies and the introduction of absolute independence of trade. The reforms of the 1860s and 1870s divided the history of Russia into two stages: pre-reform and post-reform once.

The post-reform period, which lasted until 1913, can be characterized by the golden age of entrepreneurship. Elimination of serfdom freed peasants, giving them a chance to train in entrepreneurship. The prospective reforms motivated to rapidly expand the factory concept based on the use of machines and steam engines, as a result of which the 1880s ended up with industrial changes in the main sectors of the economy: metallurgical, coal and mining ones. Concentration of manufacturing led to the emergence of monopoly organizations.

The emergence of joint-stock companies is also worth mentioning as they are the main

institution of the market economy, which provides the opportunity to accumulate fixed capital, with the purpose of maintaining the present economy. The expression “joint-stock company” itself, as well as the legal rule, which it is based on (the limitation of the shareholder’s liability at the cost of his proprietary shares) is familiar to Russia since the 18th century, during which a number of joint-stock companies functioned in the state.

The post-October period seems to be the forcible imposition of a market economy corresponding to the current industrial production, anti-market, natural trends through a managerial division of resources and finished goods. But even at these stages, if the anti-market direction was conducted more swiftly (including the period of “military communism”), the leadership of the state could not eliminate the market with its all characteristic features. Such household attributes as a banking organization, a currency organization, and several general companies operated during that period.

The forced transformation from “military communism” to the newest economic policy (NEP) based on the application of management market principles, partly of commercial work, was, first of all, illogical, and secondly, regarded as a compulsory, short-term deviation from the “right” anti-market strategy. Municipal enterprises began to lose their economic support, subsidies were reduced, current inefficient production was closed, the nation-wide industry was re-established. There were the concentration of manufacturing in the best firms. Trusts were considered as municipal industrial companies, to which the government gives independence in manufacture in accordance with the confirmed charter for each participant and which function with the aim of extracting income [4]. There was a certain revival of individual business, which increased the ability to intensify business work.

It should be mentioned that during the NEP period a number of operations were carried out, which contributed to the revitalization of entrepreneurship. But it is necessary to accept the fact that not all restrictions on entrepreneurial activity were removed, because it wasn’t the very task. However, the adopted resolutions that contributed to the formation of entrepreneurship were randomly introdu-

ced into life-sustaining activity, or were not carried out at all, especially in the component which the district administrations were responsible for. Ultimately, NEP envisaged both the entrepreneurship formation and its settlement, as well as its repression. The return to commodity-money relations and the activation of entrepreneurial work was then viewed as an unpleasant, forced and short-term deviation from the deliberately correct strategic direction for the eradication of individual property, individual entrepreneurship, and the market formation of the economy [5], by the policy-makers themselves. Since the very founding of the NEP in the industry management, some rules are being formed, which are difficult to reconcile not only with entrepreneurship, but also with actual financial relationships.

Companies started to be classified into profitable and unprofitable. For instance, the companies of the military industry, river fleet, railway transport, state farm, and eventually all the heavy industry can be referred to unprofitable ones. These were self-supporting companies operating on generally applicable principles and rules of self-sufficiency at that time in Russia.

Along with this, the State Central Bank as the newest mechanism for regulating the economy, mainly its state division got into the disposal of the country. And for the purposes of the bank and municipal trusts, it was such a time period that corresponded to the essence of their relations, based on financial regulation and trade calculation. The Central Bank, in an established measure, took upon itself the resumption and formation of a nation-wide industry and accomplished this much more successfully than administrative management organizations [6].

The economic situation in Soviet Russia formed quite poor opportunities for expanding and maintaining individual trade. The main obstacle for the individual trade formation was the lack of products, the collapse in industry. Resale has captured all areas of population, and to a significant extent, of working people. This was due to the fact that the wages of employees of state companies were presented in kind - up to 90%. Even after the nationalization of trade occurred, the large and middle classes basically stopped all legal activity. Most of the businessmen either

emigrated abroad, took their own capitals, or found jobs in Soviet institutions, not creating or producing, but using social products, or spending their savings waiting for the best times. The maximum number of residents of private trade in the NEP period were illiterate, or semi-literate merchants, who were representatives of the older generation, mostly women [7].

The tendencies that were observed in the formation of entrepreneurship, had specific reasons associated with a stable deficit and, in particular, with the suppression of the entrepreneurial work component. Such features as geographical location and social life of the population, and, finally, foreign invasions were quite distinctive for them. Investigating the characteristic features of domestic financial formation and the conditions of the world market, Russia increased the entrepreneurial dynamism of its citizens over time. However, this move was regularly maintained by the historically established mission of state-bureaucratic structures to "protect the interests of the masses", the trusteeship of the businessmen themselves [8]. The more the government sought to settle, to make "social" development "objective" (according to the declared goals, but in practice it turned out to be much worse) [9,10], the more contradictory and reverse output was obtained. As a result, instead of the situation control, the public was involved first into speculation, and then into equalitarian regression. The independence of entrepreneurial work can exist only if the old management system limits itself. In Russia the course of economic emancipation was delayed. In 1913 entrepreneurship is prohibited on pain of death. A whole layer of professional instigators of the economy was eliminated. The loss of the entrepreneurial layer has irreparably affected the financial development of Russia, not only its financial state. Russian merchants and industrialists, to a greater extent than the other strata, were considered to be the bearers of Russian sociality and culture, did all their best to save it. It is necessary to renew the foundations of Russian business, in which state features and financial performance were combined.

In 1987, the Decree on personal work activity, gave birth to the development of the newest domestic entrepreneur. Two periods can be noted in the restoration of entrepreneurship. The main one is the period of peo-

ple's work who, taking risks started a new business. They set up their own business: they opened stores, video salons, individual insurance companies, and produced printed publications. The next stage of the entrepreneurship restoration begins in 1992, when government of the Russian Federation announced a radical transformation into the market. Another state was formed, in which business and entrepreneurs were considered to be a significant and necessary component.

### 3 CONCLUSIONS

Thus, the specificity of entrepreneurial activity has been penetrated with the cultural formation of modern Russia from the times of Rus' and the Russian Empire fragmentation to the transitional period of the October Revolution and the present state with a market economy.

This, in its turn, allows us to talk about the incompletely formed entrepreneurial culture, the ever-changing legal and economic environment, as well as the weighty influence of political aspects on market conditions, which undoubtedly found its reflection in the tourism services market.

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