



International Journal of Applied Business and Economic Research

ISSN: 0972-7302

available at <http://www.serialsjournal.com>

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Volume 15 • Number 13 • 2017

The Role and Characteristics of the Enterprises' Working Conditions Before and After the Transition to Market Relations: A View from Macroeconomic Perspective

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ABSTRACT

A modern market economy is a complex mechanism of interaction between supply and demand, producers and buyers. It consists of a large number of diverse industrial, financial, commercial and information structures (co) operating within the framework adopted by the country's legal regulations. The market economy is under the influence of market forces or the so-called "invisible hand" (according to Adam Smith), as well as government regulation in one country or another. The core of any economy is the production, i.e. creation of economic output. Without production, there is no consumption, but merely eating through the produced. It is the companies that manufacture products, perform work and services, i.e., provide the basis for consumption and growth of national wealth. The health of the entire economy and the industrial power of the state depend on how effectively the company works, on their financial situation. If we schematically present the whole system of economic governance in the country in the form of a pyramid, the companies will form its base. State, regional, departmental management in relation to the processes taking place at the enterprise level, can be considered only as a superstructural phenomenon. Any changes to the economic management system are meaningless if they do not benefit the activity of the enterprise.

JEL Classifications: D02, D21, D24.

Keywords: Business economics, market economy, macroeconomic indicators.

1. INTRODUCTION

The core of any economy is production, the creation of economic output. Without production, there is no consumption, but merely eating through the produced. It is the companies that manufacture products, perform work and services, i.e., provide the basis for consumption and growth of national wealth.

The economy of state can be schematically depicted as a set of all enterprises interlinked by close co-operative commercial ties between themselves and the state. Any enterprise is an independent economic entity producing goods, performing work and providing services to meet the public's needs and make a profit.

2. MATERIALS AND METHODS

We used the methods of scientific knowledge, systems and factor analysis of administrative and economic processes in the enterprise. When solving specific tasks we used elements of management theory, methods of operations research and statistics, expert estimates.

Informational and empirical research bases were formed on the basis of official statistical data, summarizing the conceptual provisions of the role of management decisions to ensure economic efficiency of enterprises, as well as personal research.

Enterprise as the Health of the Entire Economy and the Industrial Power of the State

The health of the entire economy and the industrial power of the state depend on how effectively businesses operate, what is their financial condition. If we schematically present the whole system of economic governance in the country in the form of a pyramid, the companies will form its base. State, regional, departmental management in relation to the processes taking place at the enterprise level, can be considered only as a superstructural phenomenon. Any changes to the economic management system are meaningless if they do not benefit the activity of the enterprise.

Any enterprise is an independent economic entity producing goods, performing work and providing services in order to meet the public's needs and make a profit.

A company as a legal entity is an enterprise (organization, company, group) that meets certain criteria established by the legislation of the country.

Among the legal entity features are: the presence of own property; independent property responsibility; the right to acquire, use and dispose of the property, as well as to carry out on its behalf other actions permitted by law; right in their own name to sue and be sued in court and arbitration, have an independent balance sheet, current and other bank accounts.

In any type of economy, enterprises play a vital role in the economy state. From the macroeconomic point of the enterprise is the basis for:

- the increase in national income, gross domestic product, gross national product;
- the possibility of the existence of the entire state and the performance of its functions. This is due to the fact that a significant portion of the state budget is formed due to tax and business taxes;

- ensuring the defense of the state;
- simple and expanded reproduction;
- the development of national science and acceleration of the scientific-and-technological advance;
- improvement of the material well-being of all sectors of the country's citizens;
- the development of medicine, education and culture;
- a solution of the employment problem;
- solutions of many other social problems. This role of the enterprises will be performed effectively only if they function effectively.

The whole history of the development of social production shows and proves that the most efficient companies operate in civilized conditions of the market characterized by the presence of various forms of ownership, a healthy competition, de-monopolization of the economy, free pricing, availability of developed market infrastructure, consumer advantage over the manufacturer and other necessary attributes.

Planned and administrative-command economy, as is shown by the historical experience of the Soviet Union and other CMEA countries (currently, the experience of North Korea and Cuba), does not create the conditions necessary for the effective functioning of enterprises primarily due to lack of competition, freedom of action in the entrepreneurial activity, underdeveloped small businesses and credit and financial relations, excessive government interference in the activities of the enterprise, and for a number of other reasons.

Under a planned economy conditions, the main objective of the company was to issue a specific product range and assortment based on the annual plan, which was, in its turn, derived from the five-year plan.

According to that plan the companies got necessary resources and specific providers, as well as information about consumers of the products, i.e., a company knew in advance what resources they possessed for a year from any business they receive and for how long. Beforehand, they knew where to sell their products and at what prices.

If we consider the conditions of the enterprises from this position, they seem to be ideal, because companies did not need to worry about where to get the resources and where to sell the products - everything was decided by the state represented by the State Planning Commission and State provision.



Figure 1: Scheme of enterprise operation in the conditions of planned economy

In this scheme, resources play the main part: they are the limitation for output volumes. Thus, the volume of output at the enterprises in the conditions of planned economy was mainly dependent on the government's ability to provide the company with the necessary resources.

But due to the fact that the five-year plans were systematically unfulfilled, the companies always suffered an acute need for resources. Therefore, the main concern of the first managers of enterprises under the planned economy was to get the resources of the state at all costs.

Under the conditions of the planned economy, the enterprises were not particularly interested in the production of high-quality products, as there was virtually no competition, and the companies knew that the sale of products would always be guaranteed.

The companies had no freedom of choice of suppliers: all was planned by State Planning Committee and State provision.

Enterprises did not seek to reduce the costs of production, as prices were established on the basis of actual costs and standard profit. In addition, the Damocles' sword of bankruptcy never hung over the company.

In addition, companies were not materially stimulated to improve production efficiency and always left a significant leeway for the implementation of the plan, so that it could always be done without much effort.

Implementation of the plan at the administrative-command system was the most important criterion in the evaluation of the enterprise. The work of the general manager was also assessed according to this criterion. Bonus system to stimulate employees was also closely linked to the implementation of the plan. In the planned economy there always was a deficit, especially that of consumer goods, as well as the advantage of the producer over the consumer. In these circumstances, the company, of course, did not seek to improve the quality of products and saturate the market with goods and services.

With the transition of Russian companies to market relations situation changed radically. Companies were forced to work according to a completely different scheme (Figure 2).

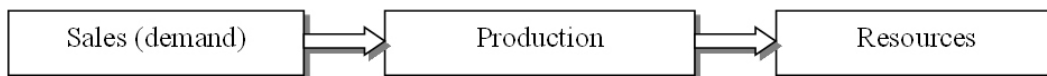


Figure 2: Scheme of enterprise operation in the conditions of market relations

The scheme on Figure 2 depicts the basic demand of customers as the engine to sell the produce. To do this, you must study the market conditions, customer demands, market capacity, product quality of potential competitors and other issues specific to the market relations. At the initial stage many domestic enterprises were not ready to work under this scheme for various reasons, with the main ones as follows:

Many business leaders were unable to work according to this scheme, and some of them did not take the ongoing reforms seriously, hoping and waiting for a return to a planned economy - where they felt in their element;

- the collapse of the Soviet Union led to the disruption of production and cooperative relations;
- the lack of competitiveness of domestic products of many companies;
- transition to market relations was accompanied by inflation and hyperinflation that did not contribute to favorable conditions for businesses, especially companies providing working capital;
- many businesses proved unable to adapt to a market economy;
- saturation of the Russian market with imported goods;

The state of the transition period did not create the necessary conditions for the functioning of a civilized market in Russia. No conditions were created for the healthy competition, the economy was not

properly demonopolized, bankruptcy system was not working, and proper market infrastructure had not been created as well.

All these and other reasons eventually led to the deterioration of the financial situation of many enterprises and the protracted economic crisis in the country. The transition period in Russia from a planned economy to a market was long.

This was also due to the political and social tensions in the country. Many citizens, especially middle-aged and elderly, were psychologically not ready for the transition to market relations, during this period they lost much in the material (they lost their savings) and in social terms.

Naturally, many of them were strongly against the transition to market relations. In Russia, there are also quite significant political forces that are against the market and in favor of a return to socialism.

The transition period in Russia was characterized not only by negative consequences, it also had some positive moments. The positive aspects should primarily include:

- more and more enterprises were gradually adapting to the market and started to produce the products that the customer is really satisfied with. Adaptation of economic activities of enterprises to market conditions is the key problem of the Russian economy; its solutions determine both immediate and long-term prospects of social and economic development of the country;
- government and executive authorities increasingly began to understand the role of government in market conditions for the stabilization and improvement of the national economy;
- the necessary infrastructure for the proper functioning of the commercial organizations in the conditions of the market was created;
- to some extent overcome the economic crisis, achieved stabilization and created the basis for the recovery of the national economy;
- markets were saturated with goods, in some sectors of the economy there appeared healthy competition;

There increased the number of specialists in different fields able to effectively manage the enterprise in market conditions, etc.

It can be concluded that certain conditions for the functioning of a market economy have been created in Russia. The faster its formation is realized, the better for the economy of the country and of each individual enterprise.

The Enterprise as the Subject of a Market Economy

The main subjects of economic activity in a market economy are households, businesses, and government agencies.

A household as the economic image of the average family is a standard unit of consumer services on the one hand, and on the other, it represents the owners of economic resources.

Companies and public institutions are a structural component of the second-main sphere of human activity in the economy - the sphere of business people.

Interacting with each other, the main business entities perform a continuous cycle of resources, products, and revenues. Following R. McConnell and Brue, let us schematically represent this circuit in Figure 3.

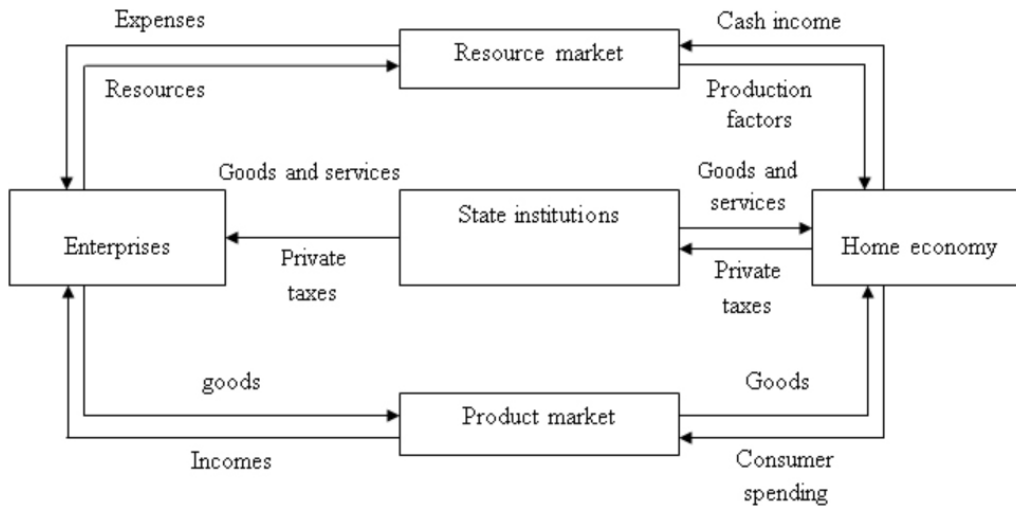


Figure 3: Continuous circulation of resources, products, and revenues

As it can be seen from Figure 3, enterprises, having paid for the factors of production on the resource market, produce goods and services. This is the main function of the enterprises. The stream of goods and services come further to households and public institutions to meet the entire range of individual and social needs. Payments are made by the enterprise for economic resources (labor, capital, entrepreneurial ability), are production costs (costs of the enterprise). But at the same time, these same payments are flows of wages, interest, and profit in the household, supplying these resources.

In the process of spending money, income households express their demand for necessary goods and services to them.

The relative impact of supply and demand determines the prices of companies for products and services. From the perspective of companies, the flow of consumer spending on goods and services form the stream of income from the sale of these goods and services.

It is worth mentioning the fact that households and businesses act in both markets: on the resource and market products. However, their roles are opposed in each case. On the resource market enterprises act on the demand side, that is, as buyers and households are on the demand side and the enterprises are on the supply side.

State Regulation in Modern Social Market Economy

As it can be seen in Figure 1, all types of business entities operate in the same market. However, the nature of the relationship “the enterprise - households” and “enterprises - government agencies” is different.

In the consumer market between enterprises’ supply and households’ demand for specific goods and services, there is the interaction of the classical type: the price is formed after the production of goods. At the same time, the company is to a large extent exposed to the risk of not getting the forecast income, even having interested the customers with lower prices or benefits via intensive advertising.

Unlike the situation in the consumer market, the bulk of State purchases is carried out through a system of “state order”. Then the price of products and services can be set up prior to producing them. In this case, the risk for companies is minimal, because you can specify in advance the price, the quantity and delivery terms. However, public institutions can purchase goods not only on the market products, but also on the resource market. For example, it can be stationery goods, computers, food and industrial goods for the army, Interior Ministry troops, and others.

The term “government regulation” is much wider in the modern socially-oriented market economy, than the term “public order”. The government, first and foremost through the state institutions:

- carries out the struggle against monopoly and inflation, as well as a cleaner environment;
- protects the rights of all forms of ownership;
- changes the distribution of income and regulates economic activity;
- implements macroeconomic stabilization policy, and economic growth;
- forms market economy institutions and infrastructure.

The emergence and functioning of the market, within which the circuit resources, income and products are possible in the presence of a number of conditions. The most important among them are:

- the social division of labor, which will inevitably lead to the exchange of products and services;
- the economic isolation of the producers, as a precondition for equivalent exchange;
- the freedom of entrepreneurship.

Enterprises Can Exist in a Market Economy

All business entities in the relationship are an integrated economic mechanism of society. However, one can note a great role of such a component as “enterprise”, for an equivalent market exchange is possible only in the presence of industrial products and services. Hence there is the need for a more detailed presentation of the features of formation and functioning of enterprises.

Enterprises may exist not only in conditions of market economy but also in a centrally-controlled economy. Therefore, we can highlight the features that define those enterprises which do not depend on of the economic system and those which depend on it (Table 1).

Table 1
Features of the enterprises non-dependent of the economic system, and those dependent on it

<i>Features of the enterprise</i>		
Non-dependent on the economic system	Dependent on the economic system	
Using production factors	Market economy	The centralized-managed economy
Economy	Autonomy	The subordination to the central authority
	Profitability for the actual result	Implementation of the plan at any price
	Private property	Public property
Financial balance	Market price	State-set price

Each enterprise production factors (resources, human labor) must be combined with each other to provide output.

At the same time, in any case, the company operates in conditions of limited production resources. Therefore, according to its economic feature an enterprise can:

1. Maximize its results: the highest output should be achieved for a given volume of productive resources;
2. Minimize its result: a certain amount of output must be implemented with the least expenditure of productive resources;
3. Optimize its result: costs and benefits are in a certain optimal combination.

Any enterprise should be in financial equilibrium: to meet their payment obligations to the budget, personnel, and material resources suppliers.

Table 1 shows the factors determining the enterprise in a centrally-planned economy: the subordination to the central authority, the mandatory implementation of the plan at all costs, the establishment of the state the price at which the finished product will be realized. Of course, this is possible only by the fundamental role of public ownership.

Stressing the production function of the company, aimed at making a profit, we need to present it as an organization within which the separate individuals are functioning with their individual interests. In this regard, the company is a social system in which it is necessary to coordinate the interests of various individuals and groups on the basis of a compromise acceptable to all parties.

The Main Objectives and Functions of the Enterprise in Market Conditions

In many textbooks, it is stated that the main purpose of the enterprise in the conditions of the market is making a profit. An equally important goal of any enterprise in market conditions is to ensure a stable financial stability in its work. It is more difficult to achieve the goal which includes not only profit, but also the stability of its receipt, and to achieve this it is not so simple.

Enterprises can achieve this purpose provided they adheres to certain principles and perform the necessary functions.

A prominent German economist G. Schmalen allocates the following “cornerstones” of enterprise management: efficiency, financial stability, and profit.

Efficiency principle requires that the following be achieved:

- certain results at the lowest cost: minimization principle;
- the maximum result for a given amount of costs: the maximization principle.

Therefore, the cost-effectiveness principle basically imposes a requirement inherent to all enterprises: do not waste the factors of production (resources), i.e. work “efficiently”.

The principle of financial stability means such a company’s activity, in which it could at any time pay off their debts using either their own means, or by delaying, or by obtaining a loan.

The ultimate goal of business is exceeding the results of the cost, i.e., achieving the greatest possible profit or a higher profitability possible. The ideal is a situation where profit maximization also provides higher profitability.

To achieve this goal the company must:

- produce high-quality products, it is systematically updated and provide services in line with demand and available production capacity;
- efficiently use production resources in view of the interchangeability;
- develop strategy and tactics of enterprise behavior and adjust them according to the changing circumstances;
- systematically introduce everything new and advanced in production, work organization and management;
- take care of employees, increase their skills and qualifications, improving their living standards, creating a favorable social and psychological climate in the workplace;
- ensure the competitiveness of enterprises and products to maintain a high image of the company;
- carry out flexible pricing and other functions.

But it is very important that all functions of the company are focused on the implementation of the strategy and the achievement of this goal.

Development of a successful strategy begins with the definition of the company's "mission". The goals of the enterprise may change. It all depends on the specific commitments. For example, the main purpose of the company at a certain point may not be to maximize profits and gain market share. In this case, the maximum profit is moved to the background, but in the future, in the case of winning the market, the company can more than compensate for lost profits.

In modern conditions, many domestic enterprises may have completely different goals and objectives, and the profit is far from being in the first place. Leaders of many companies believe that their main task at this stage is the sale of products, the possibility of payment of wages to employees, and staying afloat.

3. CONCLUSION

The company is an independent economic entity, a producer of goods and services, the main market agent, entering into various business relationships with other subjects.

The specific objective of the enterprise in the conditions of the market is making a profit. But no less important goal of the market is to ensure a stable financial stability in its work. It is more difficult to achieve this goal, which includes not only profit but also the stability. The ultimate goal of business is to exceed the results over the cost, i.e. to achieve as higher return as possible.

The company philosophy is very simple: the manufacturer must produce such products the sales of which are guaranteed with the desired level of profitability and the mass of profit.

In modern conditions many domestic enterprises face completely different goals and objectives, and the profit is far from being in the first place. Leaders of many companies believe that their main task at this stage is the sale of products, the payment of wages to employees, and staying afloat.

The effectiveness of the enterprise depends on how deeply and correctly it use progressive social forms of organization of production, such as concentration, specialization, cooperative and combined production.

In the present conditions it is the state that largely predetermines the efficiency of the activities of Russian companies, especially the creation of civilized market, and the market rules of the game in this market, i.e. a legal framework to ensure the proper rule of law in the country and its national security, stabilization of the economy, ensuring social security, economic stabilization, social protection and social security, the protection of competition, the development, adoption and implementation of the organization of economic legislation.

Hopefully, the difficult period in the economy will soon pass, the companies will begin to work normally, to solve problems, achieve goals characteristic of a market economy, will pay more attention to the use of such advanced forms of social organization of production as concentration, specialization, and co-production.

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