

Vladimir Aleksandrovich Davydenko, Professor, PhD
Tyumen State University
Gulnara Fatykhovna Romashkina, Professor, PhD
Tyumen State University
Ruzilia Maratovna Nasyrova, PhD
Tyumen Petroleum Research Centre

<https://doi.org/10.26366/PTE.ZG.2017.77>

Russian Government Activities During Social and Economic Space Formation of the Russian Retail¹

Abstract

The main reason of continuing discussions about differently oriented government actions during the formation of quite contradictory social and economic space of the Russian retail is that the dynamics of retail trade turnover and paid services to the population from the end of 2014 start to fall rapidly. The article presents the results of original research of relationship between government, business, and retail, in the context of key societal changes taking place in the Russian economy and politics. The government is represented as a special organization of political power, which has a special coercive power, and expresses the will and interests of the ruling group; is noted that the executive and legislative branches of government are both important in analyses of retail market. The article deals with the real impact of business projects during acceptance of amendments to the Federal Law No. 381-FZ "On the Fundamentals of State Regulation of Trade in the Russian Federation" on the basis of expert and statistical data. The article analyzes the consequences of informal practices of the new Russian national project to support small and medium-sized enterprises, using the terminology of R. Merton and P. Sztompka.

Keywords: economic space formation, Russia, retail

Działania rządu podczas tworzenia przestrzeni społecznej i ekonomicznej dla rosyjskiego handlu detalicznego

Streszczenie

Głównym powodem kontynuowania dyskusji o różnie ukierunkowanych działaniach rządu podczas tworzenia zupełnie sprzecznych społecznych i gospodarczych rosyjskich przestrzeni detalicznych jest to, że dynamika obrotów handlu detalicznego i płatnych usług dla ludności od końca 2014 roku zaczęła szybko spadać. W artykule przedstawiono wyniki oryginalnych badań relacji między rządem, biznesem i handlem detalicznym, w kontekście głównych zmian społecznych zachodzących w rosyjskiej gospodarce i polityce. Rząd jest reprezentowany jako specjalna organizacja władzy politycznej, która dysponuje szczególnie mocą przymusu, i wyraża wolę oraz interesy grupy rządzącej. Należy zauważyć, że zarówno władza wykonawcza, jak i ustawodawcza są ważne w analizach rynku detalicznego. Artykuł porusza problem rzeczywistego wpływu projektów biznesowych w odniesieniu do poprawek przyjętych do federalnej ustawy nr 381-FZ "O podstawach regulacji handlu w Federacji Rosyjskiej". Wykorzystano do tego dane statystyczne i eksperckie. W artykule, używając terminologii R. Mertona i P. Sztompki, analizuje się konsekwencje nieformalnych praktyk nowego rosyjskiego projektu wsparcia małych i średnich przedsiębiorstw.

Słowa kluczowe: kształtowanie przestrzeni gospodarczej, Rosja, rynek detaliczny

JEL CODE: M1, M2, M3

¹ The work was supported by the Russian Foundation for Humanities Fund, a project No. 16-030-00500. Tyumen State University.

Introduction

Russian retail developed without interference from the government regulations for a long time. The situation has changed radically in recent years; government controls the important market segments actively. However, the effectiveness of such controls is not clear. From the one side, retailers and suppliers form their own relationship of cooperation and trying to find new ways of mutual control over each other's activities. From the other side, almost all activities in retail, form both formal and informal relationships, which contribute to promote their products effectively, shifting the government representatives from this interaction process. This contradiction determines the actuality of present research.

The authors have formulated a hypothesis about the nature of the relationship between leading market participants and government institutions. This interaction does not have a definite character; it is manifest itself in the active government control over the trading sector, but in the disputed areas, unsupported by direct market participants. Such sensitive issues as the protection of small and medium-sized businesses, quality control of manufactured goods, the labor market in the area of trade and production remain open. The purpose of this work is to disclose conflicts of interaction between government, business, and retail, in the context of key societal changes, taking place in the Russian economy and politics.

Scientific methods of theoretical and applied research, including systematic, comparative analysis, statistical data, and study of database materials: Ebsco, Elibrary, Emerald, Scopus, Web of Science, data from Federal State Statistics Service (Rosstat) were used by authors. Paper includes main economic and sociological theories about interaction between government and business in retail sector, analyzes actual information about Russian retail market in figures, present subject-object scheme of regulation in retail sector, describes its elements and discuss about consequence of government regulation in retail with some challenges and its solutions.

Economic and sociological concept of government, business and retail interaction

The theoretical base in the study of government and business interaction is the institutional research (Brown 1987, pp. 5-36; Commons 1924, 1931, pp. 69-76; Veblen 1984, 2007). Institutionalism representatives focuses on the problems of authority, vertical mobility, property, monopolization, increasing government intervention in social and economic processes, in the context of economic realities research (Blaug 1992, 1994; Stiglitz 2000, 2012). Developments in the institutional dynamics and deformalization of rules are also interest for researchers (Radaev 2007, 2008, pp. 20-50, 2009, pp. 3-30, 2011). Issues relating to the impact of government policy on the development of economy and society, conflicts of different interest groups in the economy (Akhmedzyanova 2013, pp. 84-96; Davydenko, Romashkina, 2013, pp. 95-104; Kaźmierczyk 2013, p. 65).

The discrepancy between the formal ideology of market reforms and the real socio-economic environment directs a large numbers of people to self-interpretation of the shared expectations and the search of appropriate adaptation forms on the basis of formed ideas and experience. R. Merton conclusion made as a result of explicit and latent institutions functions analysis, according to which the functional defects of official organizations generate alternative, informal structure for implement existing needs with more effective way is seems appropriate (Merton 1968, 1976). Most of social relationships, including economic ones, are informal. The formation of an informal organization within the formal structure contributes to more efficient functioning and to meet the needs of its members in some cases (Sztompka 1993, 1999, 2005). The scale of informal economic relations primarily associated with ineffectiveness of formal institutions, constraining the process of implementing its activities by

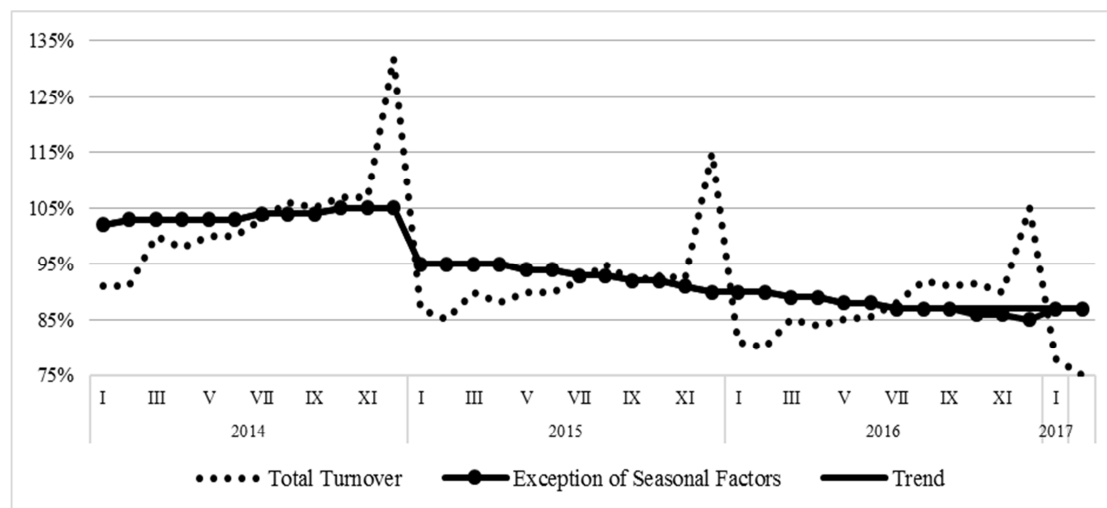
market participants, according to the Hernando de Soto's neoinstitutional theory (de Soto 1989, 2000, 2006).

D. North's approach seems to be more effective. Three interrelated elements regulating specific areas of public relations were singled out in the internal structure of any institution. There are systems of formal and legal, administrative and organizational norms and rules established and regulated by the authoritative and administrative structures; informal rules, embedded in the culture of each society; norms and patterns of behavior and legal mechanisms of social control and the implementation of these rules. Correlation between the effectiveness and extent of presented elements define those institutional constraints could realize own free activity (North 1997; North, Wallis, Weingast 2011). Theories of modern researchers reveal the problems of trust between market participants, their interaction in different types of economies (Rippe, Weisfeld-Spolter, Dubinsky, Arndt, Thakkar 2016, pp. 344-362); formation of strategic alliance between market actors (Butigan, Benic 2016, pp. 77-112); different business strategies of retailers, manufactures, government structures (Binkley, Chen 2016, pp. 557-584). Author's research complements the analysis of interaction between government and business on an example of contradictions disclosure arising between the key participants at retail market, demonstrates the effects of government regulations during the formation of social and economic space of the Russian retail.

Russian retail market dynamics

The main reason for the continuing discussions about divergent government actions during the formation of quite contradictory social and economic space of the Russian retail is that the dynamics of retail trade turnover and paid services to the population began to fall rapidly at the end of 2014. Retail trade turnover fell by 10% at the end of 2015, it was the worst figure in the last years of statistical surveys. Further decline in retail trade turnover in 2017 is observed (Figure 1).

Figure 1. Dynamics of retail trade turnover in Russia, 2014-2017, in % (2013 = 100%)

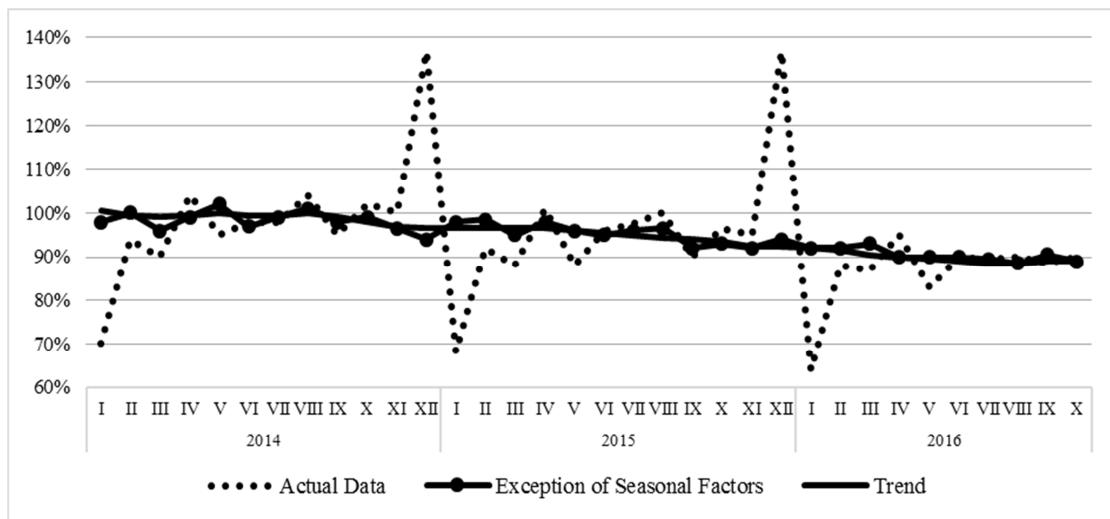


Source: Rosstat (Federal State Statistics Service) website, accessed 25th April 2017, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/retail/#.

The rate of monthly reduction of retail trade remains one of the most alarming indicators for the Russian economy. Retail turnover was lower by 5.3% in November 2016 than in November 2015. The rate of retail sales falling ranged in the interval from minus 6.4% to minus 4.9% with no apparent signs of slowing down since the beginning of 2015. The average reduction in retail trade turnover was minus 5.6% in the first seven months of 2016, according

to Rosstat. This statistic takes into account the decline in sales of both food and non-food goods. Moreover, the rate of non-food goods sales drops slightly higher – from minus 7.1% to minus 5%; while sales of food products decreased with a rate of minus 3.2% to minus 6%, from the beginning of the year. Retail trade turnover is falling during two consecutive years. Decrease is stable by 5-6% at last few months to the previous year, according to Rosstat data (Figure 1). Considering that, retail sector has been one of the most rapidly developing in Russia and its dynamics were strictly positive from 2000 to 2014 (except the period of financial and economic crisis in 2009)². The increase from 4% to 7% was observed during this period, and therefore the falling trend of the retail business in Russia causes a strong concern in last two years³.

Figure 2. Real incomes of the Russian population, 2014-2016, in % (2013 = 100%)



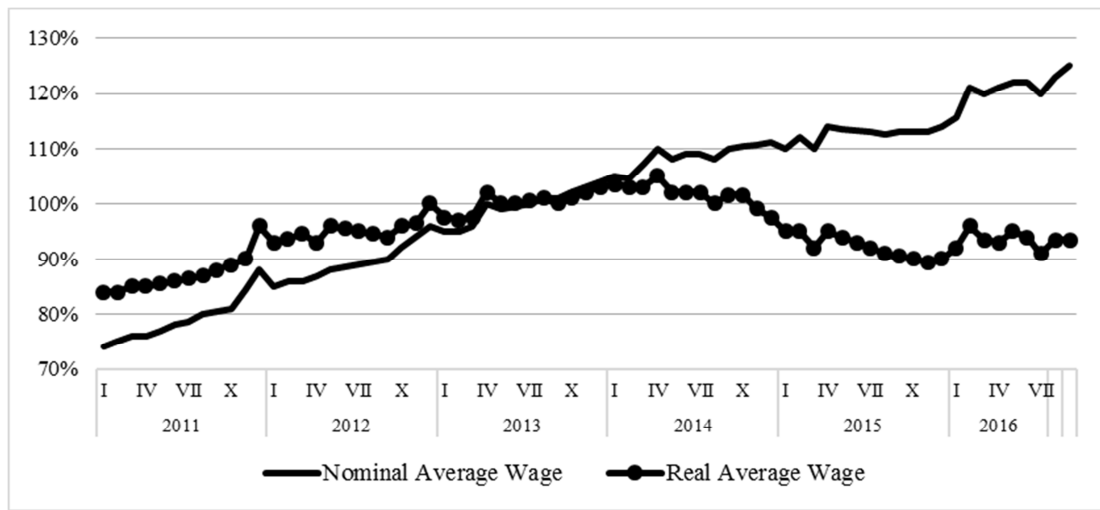
Source: Rosstat (Federal State Statistics Service) website, accessed 25th April 2017, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/population/level/#.

It makes a sense to compare trend of falling retail business with dynamics of household income in Russia. Real disposable income (after obligatory payments deduction) continuously falling during last two years (2015-2016), according to Rosstat (Figure 2). These values decreased by 5.9% year-over-year in October 2016, which is twice more than in September 2016. Peak of falling was in August 2016, when Russian incomes fell by 8.3%, it is the maximum since 2008. In turn, the negative trend of real wages dynamics (Figure 3) decreases the possibility of a recovery in demand among Russian consumers.

² According to the data of Federal State Statistics Service, section Retail trade, public services, tourism http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/retail/#. (Accessed: 25th April 2017).

³ According to the data of Federal State Statistics Service, section Retail trade, public services, tourism http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/retail/#. (Accessed: 25th April 2017).

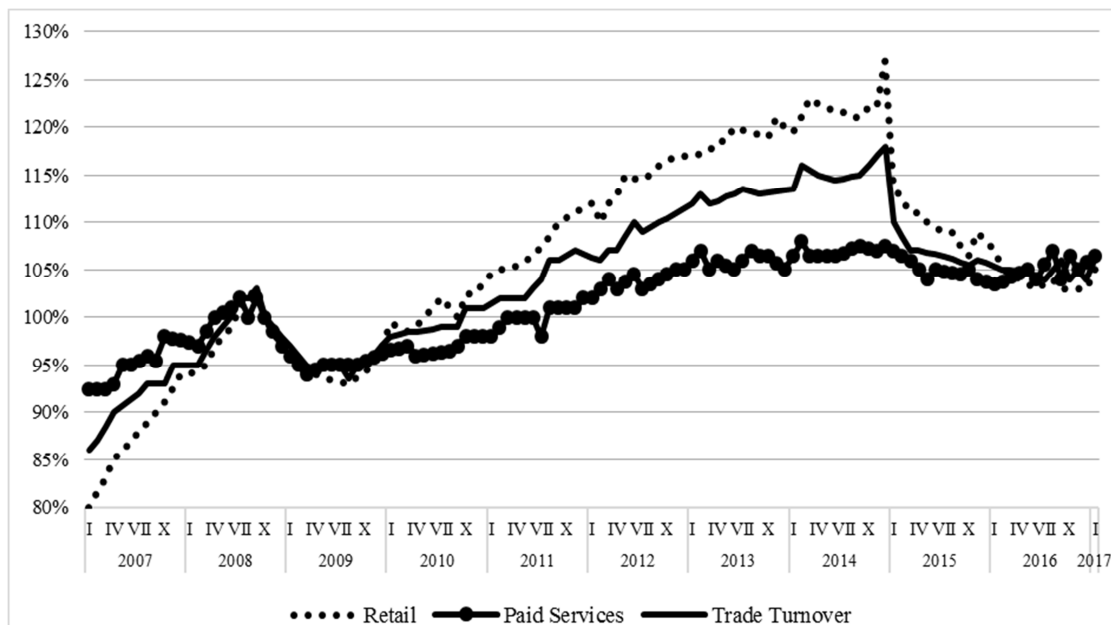
Figure 3. Dynamics of average nominal and real wages in the Russia, 2011-2016 (seasonally adjusted, 2013 = 100%)



Source: Institute Development Centre, Higher School of Economics (2016) Comments about the state and the business. No. 122.

Dynamics of trade turnover and paid services to the population in 2007-2016 (seasonally adjusted, 2008 = 100%) for the following positions: retail trade, paid services, trade and services is shown in Figure 4. Dynamics of retail trade, paid services to the population and trade turnover in Russia, were positive from July 2009 to January 2015, but then there was their failure – in July 2016, all three trends fell below the level of July 2012 (Figure 4).

Figure 4. Dynamics of retail trade turnover in Russia, 2007-2017 (seasonally adjusted, 2008 = 100%)



Source: Institute Development Centre, Higher School of Economics (2017) Comments about the state and the business. No. 130.

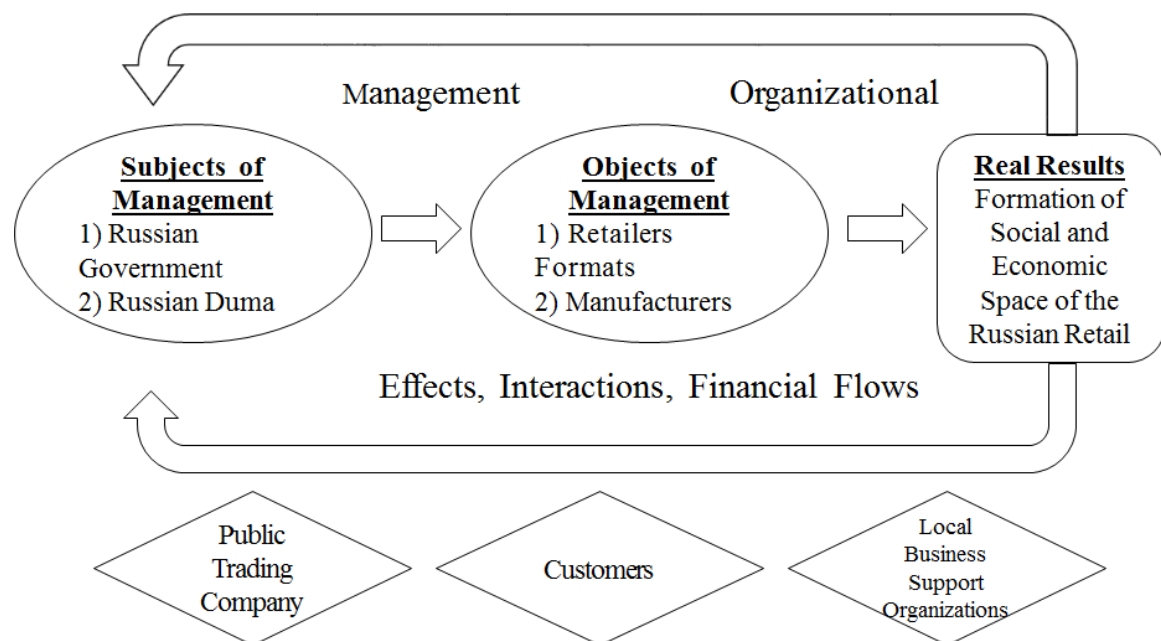
This decline is particularly strong when compared with January 2015: the scale of the fall was about 15% to the average level of 2014. Strictly positive dynamics in December 2014 and in January 2015 is caused by consumer excitement because of the weakening ruble to record

levels. Trends on the figures 3 and 4 can be explained by: the sanctions confrontation; the dependence of the Russian economy on currency jumps; the inability of the Russian industry for large scale substitution of banned import of goods; the high increase of the goods and services prices in different categories as a consequence. Such macroeconomic factors obviously have a significant impact on the interaction of all market participants. The question arises: what does happen in Russia during last two years (2015-2016), so are we seeing a long-term level of recession in considered parameters? Are there any other reasons except economic dependence on resources and Western innovation?

Model of Russian retail management

It makes a sense to identify the most important players and their special interests in the research process from the standpoint of the subject-object management analysis of retailing in Russia for a more precise description of the current and forecasted situation (Figure 5). Government actions and real results during the formation of social and economic space of the Russian retail market can be represented in the form of three large blocks of subject-object retailing management scheme in Russia with feedback, using the known methodology of system analysis (Optner 1965; Van Gigch 1978).

Figure 5. Subject-object scheme of Russian retail management



Source: compiled by the authors.

Substantial elements of the "Block 1", management subjects as regulators constitute the concept of "government activity": (1) Government of the Russian Federation, represented by the Ministry of Economic Development, Ministry of Industry and Trade, the Ministry of Finance, Ministry of Transport, the Federal Antimonopoly Service, each of which carries targeted and quite fundamental impact on retail as object of management; (2) State Duma, which generates the basic laws for the retail sector. "Block 2", management objects include: (1) retail, retail formats, stores and their representatives, (2) manufacturers.

Public trade organizations are particularly important: Retail Companies Association (AKORT), which brings together the largest retailers; Regional Chambers of Commerce and Industry, which bring together representatives of the business community and the administration in order to promote the development of regional economies; Intersectoral Expert Coun-

cil on development of the consumer market (MES), which includes both retailers and suppliers, and which supports the principles of self-regulation of markets, reflecting the honest, transparent and fair retailers-suppliers relationships both at formal and informal levels. Social and political organization of business support, protecting business interests are also important ("Russian Union of Industrialists and Entrepreneurs", "Support of Russia", "Business Russia" and others). "Consumers" are essential in the developed subject-object retailing management scheme. They buy and consume all the variety of products, goods and services, providing by retailing, pay for it, and thereby generate cash flows which influence by absolutely life-saving fundamental way on all of the components provided by represent model (Figure 5).

All communications – both direct and inverse – expressed not only in the management and organizational impacts and interactions, but most importantly – in the financial flows, which are fixed between the subjects and objects of management, in the form of actual results of their interaction. "Block 3" includes actual results in the considered subject-object management scheme – it's the results that factually obtained or will be obtained in the process of subjects and objects management's interaction. The real results of the proposed conceptual identification are dynamic data which are presented in Figures 1-4, namely, dynamics of retail trade turnover, dynamics of real disposable income, dynamics of the average nominal and real wages, dynamics of trade turnover and paid services to population – all that are consequences of interaction between presented subjects and objects of management in Russia.

Government regulations for retail business

According to the expert survey, conducted by order of the Federal Antimonopoly Service among the representatives of business, 51% of respondents consider procedures of trading activities control as effective (Federal Antimonopoly Service, 2016). Only a third of respondents positively evaluate the impact of sectoral business associations on the development of competition. It is noted that companies often have to apply for explanations of trade law application in particular situations. However, the answers are usually formal, in particular, only the citation of the law articles. Experts believe that the application of the trade law is still shifted toward retailers, while ignoring the large suppliers with significant negotiating power, and able to put pressure on the retailers. It should be noted the absence of coordinated action at different levels of government regulation in trade sector. Also, according to experts, government regulators should focus in crises on stimulating measures to support the economy and avoid attempts to introduce strict regulation at the legislative level, in particular related to issues, which can be resolved by stimulating measures or on self-regulatory level (Federal Antimonopoly Service 2016).

In this article, the authors would like to draw attention to one of the key management decisions during the formation of public social and economic space of the Russian retail market, namely approval of amendments to the Federal Law No. 381-FZ "On the Fundamentals of State Regulation of Trade in the Russian Federation" by the Federation Council in June 29, 2016 adopted earlier (in June 24, 2016) by the State Duma. Market participants continue to adapt themselves to the new environment, despite the fact that every law published amendment toughens the activities of retail chains. And rise in goods prices and its reduction takes place instead of fullness shopping shelves with cheap and quality goods. The new version of trade law was published in July 3, 2016. One of its key provisions is the next revision of the contractual relationships between retail chains and goods suppliers.

The concept of "trade network" is specified, which is now recognized as a combination of two or more commercial properties. Thus, the effect of trade law applies to a larger number of trade objects. The total remuneration paid to the retail chains by suppliers for the purchase of certain amount of product is limited to 5% (Federal Trade Law 2009). At the same time the value added tax and excise duties are excluded from the calculation of this total amount. Var-

ious payments figured in the supply agreement previously, for example, charges for marketing and payment product placement on shelves, different bonus payments, and their sizes were unlimited. In accordance with the new editing maximum payment postponement for retail chains is reduced in favor of goods suppliers, for 4 days, on average, for different categories of goods (Federal Trade Law 2009).

According to analysts, reduction of goods payment delays will lead to growth of leverage for the major retailers, growth of average debt for retailers. Decrease of the size of bonuses from suppliers will lead to a decrease in profits and profitability of retailers in the short term. Although the major operators of retail chains have more opportunities for adapt to new rules than the small, the adopted amendments will have an impact on them also. Retailers will be limited in the ability to compensate lost bonuses through rising prices, because of the low purchasing power of Russians and increased competition. They will have difficulties with changing suppliers, due to the current food embargo. Trade formats will require additional investments in working capital as a result. The limitation period for bringing to administrative responsibility for violation of legislation is also increased from 2 months to 3 years, with the purpose of tightening control (Federal Trade Law 2009). The formulations of offenses and sanctions for their fulfillment are clarified.

Nevertheless, market participants continue to find for new ways for working around the rules, for example, the signing of contracts with suppliers about marketing promotion of goods, contracting supplies through subsidiaries and so forth. All this, of course, increases the volume of document circulation, all payments have been registered in one supply agreement previously, but now retailers signed several contracts with supplier, and thereby tries to comply the terms of authorized amendments of the trade law. In addition, retail chains are deprived of the creditors, which had been previously suppliers and looking for new ways of recover the losses, including an attempt to shift the costs on consumers.

Conclusion

The analysis of Russian government action and its real results during the formation of social and economic space of the Russian retail sector make it possible to conclude with few clear conceptual theses. The growing distance between the subjects affecting on the market, representatives of legislative and executive authorities and the subject of trade sector, including small medium business, leads to misunderstanding and rejection of the state institutions, which can lead to their deformation. It should be understood that all retail formats, including retail chains – are complex socio-economic organism, huge and branched, the main advantage of which is to provide the widest assortment of goods with affordable prices to consumer, and appropriate distributing of manufactures' goods, which certainly promotes development of consumer culture and the expansion of the retail market. Consequently, management and regulatory actions, according to the authors, from all control subjects should be directed at maintaining the activity of retailers and retail sector, rather than trying to implement support for manufacturers at expense of retail formats. It is obvious that in order to increase the competitiveness of production, especially food products, it requires additional investments in production.

References

Akhmedzyanova R. (2013), *Formation and maintenance of partnerships in the retail sector*, "Journal of Economic Sociology", 1, pp. 84-96.

Binkley J., Chen S. (2016), *Consumer Shopping Strategies and Prices Paid in Retail Food Markets*, "Fall", 50 (3), pp. 557-584.

Blaug M. (1992), *The Methodology of Economics or how economists explain*, Cambridge University Press, Cambridge.

Blaug M. (1994), *Economic Theory in Retrospect*, Business, Moscow.

Brown S. (1987), *Institutional change in retailing: a review and synthesis*, "European Journal of Marketing", 21 (6), pp. 5-36.

Butigan N., Benic D. (2016), *Determinants of Capital Integration among Strategic Alliance Members in the Retail Sector: Evidence from Central and Southeast European Countries*, "Croatian Economic Survey", 18 (2), pp. 77-112.

Commons J.R. (1924), *Legal Foundations of capitalism*, Higher School of Economics, Moscow.

Commons J.R. (1931), *Institutional Economics*, "Terra Economicus", 10 (3), pp. 69-76.

Davydenko V., Romashkina G. (2013), *Economic mechanisms of formation and reproduction of the social structure of the region*, "Vesntik TSU. Sociology", 8, pp. 95-104.

De Soto H. (1989), *The Other Path: The Economic Answer to Terrorism*, Harper&Row Publishers, Inc, New York.

De Soto H. (2000), *The Mystery of Capital*, Random House Group Ltd, London.

De Soto H., Cheneval F. (2006), *Realizing Property Rights*, Rüffer&Rub, Zurich.

Federal Antimonopoly Service (2016), *Report on competition policy*, Federal Antimonopoly Service, Moscow.

Federal Trade Law (2009), No. 381-FZ "On the Fundamentals of State Regulation of Trade in the Russian Federation", Garant-Press, Moscow.

Institute Development Centre, Higher School of Economics (2016), *Comments about the state and the business*, No. 110.

Institute Development Centre, Higher School of Economics (2017), *Comments about the state and the business*, No. 130.

Kaźmierczyk J. (2013), *Konsensus Poznański i Konsensus Azjatycki – jak daleko do Konsensusu Waszyngtońskiego? Analiza porównawcza. Pierwsze spostrzeżenia*, in: *Ekonomia dla przyszłości: odkrywać naturę i przyczyny zjawisk gospodarczych: IX Kongres Ekonomistów Polskich*, Polskie Towarzystwo Ekonomiczne, Warszawa, p. 65.

Merton R. (1968), *Social Theory and Social Structure*, Free Press, New York.

Merton R. (1976), *Sociological Ambivalence and other Essays*, The Free Press, New York.

North D. (1997), *Institutions, Institutional Change and Economic Performance*, Economic Foundation Book, Moscow

North D., Wallis D., Weingast B. (2011), *Violence and social orders. Conceptual framework for the interpretation of the humanity written history*, Publishing Gaidar Institute, Moscow.

Optner S. (1965), *Systems analysis for business and industrial problem solving*, Prentice Hall, New Jersey.

Radaev V.V. (2007), *Capture the Russian territory: the new competitive situation in the retail trade*, HSE Publishing House, Moscow.

Radaev V.V. (2008), *Modern economic and sociological concept of the market*, "Economic Sociology", 1, pp. 20-50.

Radaev V. (2009), *Market authorities and market exchanges: suppliers-retailers relationships*, "Russian Journal of Management", 2 (7), pp. 3-30.

Radaev V. (2011), *Who holds power in consumer markets: the relationship between retailers and suppliers in modern Russia: the ratio of retailers and suppliers in modern Russia*, Higher School of Economics, Moscow.

Retail trade, public services, tourism (2017) Federal State Statistics Service, http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/retail/#. (Accessed: 25th April 2017).

Rippe C., Weisfeld-Spolter S., Dubinsky A., Arndt A., Thakkar M. (2016), *Selling in an asymmetric retail world: perspectives from India, Russia, and the US on buyer – seller information differential, perceived adaptive selling, and purchase intention*, “Journal of Personal Selling & Sales Management”, 36 (4), pp. 344–362.

Stiglitz J. (2000), *Economics of the Public Sector*, W.W. Norton&Company.

Stiglitz J. (2012), *The Price of Inequality*, W.W. Norton&Company.

Sztompka P. (1993), *The Sociology of Social Change*, Blackwell, Oxford – Cambridge.

Sztompka P. (1999), *Trust: A Sociological Theory*, Cambridge University Press, Cambridge.

Sztompka P. (2005), *Sociology. Analysis of Modern Society*, Logos, Moscow.

Van Gigch J. (1978), *Applied General Systems Theory*, Harper&Row, New York.

Veblen T. (1984), *The Theory of Leisure Class*, Progress, Moscow.

Veblen T. (2007), *The Theory of Business Enterprise*, Business, Moscow.