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# The Role of Modern Technologies in the Development of Medium-Sized Businesses in Russia: Institutional and Cultural Constraints

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## ABSTRACT

**The research objective** of the article is to examine the institutional and technological constraints on the development of medium-sized businesses in Russia. The author introduces the concept of the “medium business trap” and analyses its relationship with digitalisation, monetary policy, and cultural context. The study analyses the factors supporting the persistence of this trap and assesses the potential for overcoming it by means of modern technologies, primarily, such as digital solutions, automation, and institutional reforms. Particular attention is paid to the cultural and historical factors, that shaped entrepreneurs’ economic behaviour, as well as to systemic constraints associated with money supply and labour productivity. **Scientific significance** of the article involves strategies for overcoming this trap based on institutional reforms and modern technologies, including blockchain, platform solutions, and automation.

**Keywords:** medium-sized business; institutional environment; digitalization; medium business trap; labor productivity; blockchain; money supply; automation

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### INTRODUCTION: CULTURAL CODE OF RUSSIAN ENTREPRENEURSHIP

It is impossible to consider the issue of development of medium-sized businesses in Russia beyond its cultural-historical context. As N. Y. Danilevsky justifiably pointed out in his work *Russia and Europe*, Russian civilization differs from Western European civilization not only in its geographical position but also in the logic of its societal development [1]. The Russian model of entrepreneurship was shaped within different institutions, with such ideas of priority as collectivism, paternalism, and underdeveloped horizontal networks. These specific features persist up to this day, manifesting in a very strong institutional distrust, skepticism about investment partnerships, and excessive state control.

Merchant E. N. Sivokhin<sup>1</sup> exemplified such a typical mentality and demonstrated a high economic discipline, financial calculation, and spiritual rootedness. Such entrepreneurs personified the image of a distinctive “cultural capital” of Russian business with such qualities as hard working, the ethics of one’s word, and autonomy from the state. P. I. Melnikov-Pechersky highlighted similar human qualities describing the Old-Believer’ society of Russian merchants as a foundation of business reliability and social responsibility [2].

Nowadays, despite evident progress in the spheres of digitalisation, automation, and the development of institutions of formal support in Russia, there still exists a range of institutional and behavioural traps. One of such phenomenon is the “medium business trap”: when a small enterprise, upon reaching a certain progress, experiences not institutional support, but rather an increased pressure: the loss of benefits, intensified control, credit obstacles, and isolation from large-scale contracts.

<sup>1</sup> Efrem Nikiforovich Sivokhin (1825–1889) — famous Russian philanthropist, state councilor, 1st guild merchant, hereditary honorary citizen and knight, founding member of the Imperial Orthodox Palestine Society (IOPS).

### INSTITUTIONAL CONSTRAINTS ON THE DEVELOPMENT OF MEDIUM- SIZED BUSINESSES IN RUSSIA

Currently, the process of development of medium-sized businesses in Russia experiences contradictory trends. On the one hand, strategic documents confirm the priority of the small and medium-sized enterprise (SME) sector as a driver of economic growth, innovation, and employment. Thus, according to the “Strategy for the Development of Small and Medium-Sized Entrepreneurship in the Russian Federation for the Period up to 2030”,<sup>2</sup> the state plan envisages increasing the share of SMEs in GDP to 40 per cent by the determined deadline. However, according to data reports of the Federal State Statistics Service,<sup>3</sup> the actual figures are 20–22 per cent and the share of medium-sized businesses is inadequately small: below 2 per cent. This situation indicates some systemic institutional constraints preventing small enterprises from transitioning to the higher medium-sized class.

Among all of them, institutional barriers perform a key role. Most dramatically, it occurs during the transition from small to medium-sized business. Companies lose benefits (simplified tax regimes, subsidies, and support programmes), as soon as they barely enter the new established phase in terms of headcount or revenue. Concurrently, they face intensified requirements for account reporting, control, certification, and obligatory checks of labour and sanitary norms. As researchers point out, these barriers are the second-tier institutional trap: formally operating institutions start generating extra-costs for businesses, impeding their development.

Moreover, the structure of state support is initially oriented to deal with extremes: either large corporations or micro-businesses and start-ups. Medium-sized entities often hardly manage to fit into the format of programmes aimed to either grand investments or easier procedures of applications. The scientific literature makes a

<sup>2</sup> URL: [https://www.consultant.ru/document/cons\\_doc\\_LAW\\_199462/f3fa9da4fab9fba49fc9e0d938761ccffdd288bd/](https://www.consultant.ru/document/cons_doc_LAW_199462/f3fa9da4fab9fba49fc9e0d938761ccffdd288bd/)

<sup>3</sup> URL: [www.rosstat.gov.ru](http://www.rosstat.gov.ru)



special emphasis on the fact, that medium-sized businesses are estranged from the main venues of state procurement distribution, particularly within the centralised procurement system, where suppliers are selected predominantly with formal criteria unavailable for such companies.

Moreover, informal institutions generate serious hindrances due to the absence of stable relationship of trust, institutional paternalism, and low legal security for entrepreneurs. The research by A. A. Auzan<sup>4</sup> illustrates a highly asymmetric environment of the Russian business: competitive advantages, not inventiveness, or growth potential in business provide access to administrative resources.

All the factors mentioned above create threshold traps, which make enterprises “stuck” between the support measures for small business and their inability to compete with larger corporations. This is aggravated by ineffectiveness of collective action institutions that demonstrate a low level of cooperation, clustering, and weakly institutionalised business associations reducing the opportunities to overcome barriers.

Thus, in contemporary Russia, medium-sized businesses turns out to operate in institutional compression: due to excessive costs of formal procedures and lack of growth mechanisms. This requires finding new adaptation tools, primarily based on digital technologies.

### **MODERN TECHNOLOGIES AS A POTENTIAL DRIVER FOR ESCAPING THE TRAP**

The development of modern technologies provides a chance for a breakthrough in the medium-sized business sector, especially in view of institutional constraints. Digitalisation, automation, blockchain systems, and platform solutions facilitate mitigating drawbacks in the external environment by reducing transaction costs, increasing the transparency of operations and business processes.

<sup>4</sup> Tambovtsev V. L., Auzan A. A., Doroshenko V. E. (edit). Institutional Economics. New Institutional Economic Theory. Textbook. Moscow: Infra-M; 2011. 447 p.

Nobel laureate D. North pointed out that institutional changes require not only legislative reform but also the introduction of technologies, which transform interaction rules and behavioural models [3]. The latter act in this logic as institutional meta-factors, generating new norms and standards even despite any political reform.

However, the problem is that technological transformation and institutional modernisation happen not simultaneously in Russia. The level of introduction of digital solutions in the real sector is extremely low (among only 32 per cent of companies) despite the existence of strong scientific schools, especially in applied mathematics, programming, and cybersecurity. The domestic IT sphere makes a good example: scientific groundwork is high, but the level of industrial implementation is quite limited, especially in small and medium-sized businesses.

As Finnish philosopher P. Himanen has emphasised, the information efficacy of the society depends on an ethic of openness and cooperation [4]. However, the Russian business society is often reserved and distrustful of collective management, which manifests in entrepreneurs’ hesitation to attract external investments or join partnership projects, including those of digital transformation.

Another barrier is related to the fear of losing operational control: entrepreneurs reluctantly expand the share of other participants (investors, funds), thus, preferring a family or quasi-family type of management. As D. Conley and W. O’Barr note in their ethnographic studies of American business, this factor is closely linked to narratives of a “personal path” and rejections of developing complex structures. In Russia, such a model is combined with problematic access to venture capital, which leads to stagnation in business scale [5].

On the other hand, if technological process runs properly, this can serve as a growth driver. Research work by M. E. Makarov [6], M. A. Afonasyova [7], and A. V. Klechikov [8] indicates that blockchain and smart contracts allow decrease of administrative burden, automate audit, logistics, and document flow processes. Digital platforms

and electronic trading systems also facilitate access to new markets for medium-sized businesses, bypassing traditional barriers, such as territorial remoteness and operational bottlenecks. Empirical research confirms that digital transformation and process automation become key factors in boosting the competitiveness of SMEs in a post-crisis economy [9].

Finally, integration into network forms is important, including digital clusters, sectoral platforms, and distributed databases. The experience of China and South Korea indicates: it is medium-sized businesses, integrated into value-added chains through digital interfaces, which ensure productivity growth and competitiveness.

Thus, modern technologies are not only automation tools: they become an alternative to non-productive institutions, as they give medium-sized businesses a chance to avoid the trap by enhancing transparency, flexibility, and network interaction.

### THE MONETARY-CREDIT TRAP AND THE ROLE OF MONEY SUPPLY

One of the key factors restricting the growth of medium-sized businesses in Russia is the insufficient monetisation of the economy. Academician Abalkin emphasised, that a low level of economic monetisation (an insufficient quantity of money supply relative to the production volume) leads to a shortage of working capital for enterprises, especially for small and medium-size entities [10], which hinders their development, narrows investment opportunities, and reduces all-round economic growth. According to the Central Bank of Russia, the level of money supply (aggregate M2) in Russia compared to GDP fluctuates about 45 or 50 per cent, while in most developed countries this indicator exceeds 100 per cent, and in China — 200 per cent. This indicates a limited nature of internal sources of liquidity and reduced investment potential in real sector.<sup>5</sup>

Monetarist economists M. Friedman and A. Schwartz emphasised the direct dependence between the growth of money supply and eco-

nomic activity, particularly regarding scarcely-monetised economies [11]. However, a purely monetarist approach can only undermine the Russian economy. A critical factor for stagnation among medium-sized enterprises becomes lack of liquidity together with high transaction costs and limited access to borrowed capital.

For example, in 1995–1996, the Russian government resorted to temporary liberalization of monetary circulation despite a strict fiscal policy. As a result, the economy obtained huge funds previously available in the black market. This generated a short-term increase in investments, reduced inflation, and enhanced productivity, although on an unstable basis. However, this mechanism confirmed an important concept: the intensity of capital turnover and access to financing are drastically vital for economic growth.

Large business has access to stock markets and preferential bank lending, small business operates with a simplified system and support of grants. Medium-sized business is unable to reach both forms of access mentioned above: it faces too high requirements and diminished opportunities. Therefore, it is particularly vulnerable to the restrictions mentioned above.

Similarly, regarding the concept of the “middle-income trap”, one can define this as a “monetary trap for medium-sized business”, involving a structural segment unable to boost investments, enter new markets, or automate processes due to a shortage of available credit and working capital.

According to Russian economists A.A. Auzan<sup>6</sup> and V.M. Polterovich [12], institutional conditions for lending in Russia are still associated with concern, not growth: banks demand tough guarantees and demonstrate distrust instead of partnership. This increases informal risks, the cost of borrowed capital, and, consequently, curbs development.

In the sphere of digitalisation, the problem can be partially mitigated by means of access to alternative forms of financing, namely: crowdfunding, digital peer-to-peer (P2P) lending platforms,

<sup>5</sup> URL: [https://cbr.ru/statistics/macro\\_itm/dkfs/monetary\\_agg/](https://cbr.ru/statistics/macro_itm/dkfs/monetary_agg/)

<sup>6</sup> Auzan A. A., Doroshenko M. E., Kalyagin G. V. Institutional Economics. New Institutional Economic Theory. Textbook. Moscow: Prospect; 2020. p. 448.



blockchain-based smart contracts, regional-level digital bonds. However, institutional support and legal adaptation are necessary for large-scale implementation of these forms of financing.

Thus, medium-sized businesses will survive rather than expand until the problem of insufficient monetisation of the economy is resolved at the macro-policy level involving easy credit constraints, support of refinancing, and implementation of digital instruments.

### **MEDIUM BUSINESS TRAP AS AN INSTITUTIONAL PROBLEM**

The idea of a “trap” in economic science terminology is traditionally associated with the concept of a suboptimal equilibrium, when a system or its element jammed in a stable but low-efficiency position. I. Gill and H. Kharas described [13] that countries of a middle-income level often face a situation with previous sources of growth exhausted, while some new ones are still inaccessible due to institutional and technological inertia. This approach can be easily adapted to the level of enterprises, and it is exactly in this context that “the medium business trap” turned out to be discussed more often over the recent years.

We propose interpreting this term in light of a situation when an entity has crossed the threshold of small business (in terms of headcount, revenue, or taxation type) and encounters barriers in sustainable transition into the large business category. Concurrently, a number of institutional and behavioural constraints persist leading to stagnation or return to a smaller scale activity. The following aspects manifest such a situation:

- loss of preferential regimes (such as simplified taxation system, patents, subsidies) and transition to the general taxation system with subsequent reporting and fiscal risks;
- increased burden from supervisory and control bodies, like Rospirodnadzor, Rospotrebnadzor, labour inspectorate, etc.
- lack of human, managerial, and technological resources, preventing the introduction of professional business processes at the level of a large company;

- limited access to credit and investment resources: lack of collateral, credit history, and institutional maturity;

- fear of losing control, avoiding partnership or external investment, which is characteristic for entrepreneurs of the traditional Russian style of management;

- lack of faith in the state as a support institution: expectation of repressive rather than stimulating measures.

As a result, a self-sustaining equilibrium is formed: a sort of “institutional trap”. D. North [3] described it, as a system of formal freedom to conduct business, but informal constraints, transaction costs, and entrepreneurs’ hopes narrow down the potential for the growth.

V.M. Polterovich noted in his research, that many entrepreneurs consciously do not strive for growth, considering it a source of potential risks and instability [12]. This can be called behavioural inertia, aggravated by institutional signals: the larger the business, the tougher is administrative pressure and the less support.

Such situation is particularly dangerous in the absence of network cooperation. When medium-sized business is not involved into value-added chains (neither vertical nor horizontal), such isolation leads to its forced competition simultaneously with small (more flexible) and large (better-capitalised) businesses. It creates the vacuum of institutional trust and economic integration.

As a result, a paradoxical situation occurs: the state declares support for the growth of SME, but the current institutional configuration generates barriers instead of removing them. This is proved by numerous cases when businesses start fragmentation, restrain revenues on paper, or split enterprise’ structures to retain “small” status.

Thus, “the medium business trap” in Russia is not merely an economic but an institutional and behavioural problem, which indicates the weakness of scaling institutions, the obscurity of rules, and distrust in the institutional environment. The solution requires not only applying digitalisation tools but also a deep-rooted transformation of

administrative and fiscal logic, a reframing from fiscal control to economic growth.

### EXIT STRATEGIES: TECHNOLOGISATION AND INSTITUTIONAL REFORMS

Escaping the medium business trap requires a comprehensive approach, which combines institutional reforms and an active introduction of modern technologies to create an environment, where business develops without administrative risks and transaction costs, so that it is regarded as the norm encouraged by both the state and the business community.

#### **Institutional Reforms:**

##### **from Fiscal Control to Development**

As D. North and O. Williamson emphasise [3, 14], the efficacy of institutions is determined not only by their legal content but also by the quality of operation, predictability, and the level of transaction costs. In Russian practice, many formal institutions (the tax system, the procurement sphere, licensing) operate focusing on control-and-suspicion logic, rather than support tracking and development.

The key directions for institutional reform should be the following:

- tailored support for medium-sized businesses by adapting programmes of wage funds, guarantee agencies, and development funds to meet the needs of medium-sized enterprises.
- modification of the tax system by the possibility to use elements of a simplified regime or tax credit for enterprises that have moved to the medium-sized level.
- demarcation of control functions by determining predictable and straight inspection procedures, implication a risk-oriented approach.
- support for cooperation by developing network structures (clusters, sectoral unions, digital platforms), including tax preferences and administrative benefits for integrated businesses.

#### **Anti-Crisis Tool: Digital Technologies**

Digitalisation in the given context is not regarded as just an auxiliary factor but as an alternative to

administrative pressure. L.V. Cherkashina and V.V. Tekouchev showed in their analysis [15], that introduction of blockchain technologies, smart contracts, and digital document management can reduce control costs, eliminate corruption risks, and simplify business interaction with the state. Concurrently, the following measures are necessary too:

- support of platform solutions greenlighting small and medium-sized entities to integrate into virtual value chains;
- introduction of digital identification, credit, and tax profiles for access to financing based on such objective information;
- digital transformation of state procedures: licensing, subsidising and tenders altogether in a “single window” format based on transparent data and algorithmic risk analysis.

#### **The Model of Development Through Labour Productivity**

As T. Piketty points out, enhanced labour productivity becomes the main source of expanding GDP per capita in the countries with slow population growth. However, it does not solve *per se* the problem of disparity without proper institutional mechanisms of redistribution [16]. Medium-sized business, by its very nature, is the most sensitive to the cost-effectiveness of use of resources: it is too large-scale to use manual labour and not strong enough to afford excess resources. This is why it becomes a natural platform to implement automation, digital management tools, CRM, and ERP systems. Besides technological solutions in the production sphere, it is of paramount importance to digitalise management and personnel processes, including HR analytics and recruitment automation, which enhances the all-round effectiveness of entities [17].

However, as the experience of the Russian IT sector indicates, such implementation is hindered by low financing, weak institutional support, and reluctance of technological transparency.

Consequently, it is essential not only to subsidise the application of IT solutions but also to create an ecosystem of trust: from guaranteed



conditions for digital protection to a legally established status of digital contracts.

To transform the medium-sized businesses into a cornerstone for the Russian economy, it is necessary to advance beyond short-term support measures. Technological policy in adjacent sectors, ranging from industry to space, indicates that digital autonomy and the development of domestic technologies are becoming core elements of strategic sovereignty [18]. It is required to reboot regulatory mindset: from hindrance to assistance, from fiscal centralisation to institutional partnership. Modern technologies are not the goal in this process, but a tool for erasing old barriers and creating a new environment.

## CONCLUSIONS

Medium-sized business in Russia is not only an underused resource for development, it is a key link capable of overcoming institutional and technological stagnation. Due to a lack of support tools, its position between small and large businesses makes it vulnerable. However, concurrently, it is strategically significant, thanks to its taxable base, potential to generate employment and increase productivity.

The image of the Old Believer merchant, traditions of trustworthy management, and responsi-

bility to society, represent cultural and historical aspects, which indicate that entrepreneurship in Russia can rely on deep-rooted archetypes compatible with modern digital ethics. However, institutional mistrust, fiscal centralisation, and unfair redistribution of risks often dominate over this potential.

Modern technologies ranging from digital platforms and automation to blockchain systems can become not just a move towards modernisation, they can constitute an institutional clearance of the barriers which hinder growth. Digital tools can ensure transparency, reduce costs, and restore entrepreneurs' feeling of security in the existing atmosphere of mistrust for state institutions.

Withdrawal from the medium business trap signifies "breaking the vicious cycle" of stagnation, where every step generates new risks. This is possible only by means of rebooting institutional mindset: that transforms administrative oversight into partnership, bureaucracy into technological rationality, isolation into network forms of collaboration. Medium-sized business is able to become the core of Russia's new production economy only if its growth is regarded not as a threat, but as the foundation for sustainable and harmonious development.

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