

Strategic Development of Small Businesses in Russian Regions

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Abstract

This article has been written to emphasize the significant role of small businesses in the development of different countries' economy. It defines the condition and various issues of small businesses' functioning in Russia and demonstrates the consequences of its oversight. The author's evaluation system for small business development is also provided from a regional standpoint. Also presented are the results of cluster analysis, the analysis goes on to discuss the strategic trends of small business in Russia, and it proposes mechanisms and instruments for its implementation depending on a region's attractiveness and competitiveness for small businesses.

Keywords: small business, cluster analysis, small and medium enterprises, strategic planning, regional development.

1. Introduction

The necessity of small business at a contemporary level is characterized by its significant role in the socio-economic and political development of countries. The most significant of which is the social role, which includes not only the possibility to provide occupations to broad layers of populations and the creation of jobs, but also the improvement of life in society, which, incidentally, is reflected on the level of an economy's development. One cannot underestimate the role of small business in establishing an innovative economy as entrepreneurs behave as innovators in the essence of their economic spirit and must constantly improve upon their production in order to develop a business.

Despite the fact that government authorities in Russia emphasize the necessity of the development of this economic sector, it nevertheless does not currently play a significant role in the economy (Table 1).

Table 1. Key small and medium enterprises indicators in the different countries' economy

Indicators	Russian Federation	European Union Countries	USA	APEC Region
% of total Enterprises	41.3	99.8	99.6	97 - 98.9
% of total Employment	19.8	66.5	49.8	50 - 79

Source: Federal State Statistics Service (Rosstat), 2013. European Commission (EC), 2013. The U.S. Small Business Administration (SBA), 2013. APEC, 2013.

The comparison of the development of small business in Russia with that of other countries indicates a low level of small business development in Russia. Annually, a multitude of programs and legal acts are developed, infrastructural development objects are created, and support is offered for small business. The programs undertaken by central and local governments are not carried out to completion, which is caused not only by economic and organizational issues. The main reasons include the lack a methodical basis for programs to develop along with the failure to establish an end goal and determine the steps that are to be taken to achieve such goal.

In the long run, despite everything that has been done, the effect of these actions does not correspond to the effort that has been put forth and the requirements for the development of an economy.

The aim of the given article is to determine strategic trends and contemporary conditions, mechanisms, and instruments for the development of small business in various regions of Russia.

2. The Role of Small Business in the Development of an Economy

Small business plays a significant role in the socio-economic, innovative, and political development of countries, which is determined by the fulfillment of significant functions.

Those of social significance include:

- the ability to create new jobs, which leads to the decline of unemployment and social tension in a country, especially during periods of economic downturn in a country;
- the development and integration of technological and technical innovations, which facilitate the development of progress in science and technology. Striving to survive in the battle of competition, small businesses are more frequently prone to take risks and implement new projects. Furthermore, favorable conditions for entrepreneurship and technology integration are created to a large degree for small businesses (Sahut & Peris-Ortiz, 2014);
- the formation of a broad layer of small owners (middle class) who are the guarantors of stability and a mobile force in the economy. Entrepreneurs form their own incomes independently and seek opportunities for improvement. People with low incomes have less chances to reach solutions to social issues as their actions are mainly directed toward the satisfaction of personal needs (Raagmaa, 2002);
- participation in sponsorship and the implementation of social projects in territories where entrepreneurial structures are located. Directors of small businesses determine strategic business reasons for the quality of the main basis for implementing favorable circumstances (Lähdesmäki & Takala, 2012).

Those of economic significance include:

- economic integration by means of searching for both the heightening and disappearing needs of a population. In other words, the economy would acquire a patchwork nature as some would have needs due to which one could create a large-scale, profitable production and thus would be fully satisfied, meanwhile others who do not respond to these needs would not be satisfied.
- formation of competition. The significance of small business is large in conditions of a forming open economy, which is based on the efficient adaptation of production to its consumers by means of uninterrupted renewal of products issues in small batches and stimulates the development of flexible specialization (Nesterenko, 2010);
- the expansion of production of consumer goods and services with the use of local raw material sources, bringing them closer to consumers, and implementing raw material sources and the financial sources of a population into production previously used exclusively for personal consumption. On the other hand, small business utilizes resources from the local market, while others implement production also on the territory of their location. Thus, small business is oriented toward the local market and its development is very tightly connected to the socio-economic conditions featured in the region (Sholokh, 2011);
- a source of creating budgets, including regional and municipal budgets.

Those of innovational significance include:

- the creation of special innovative organizations of small forms. As evidenced by world experience, small businesses are created on various stages of the innovative process connected with the birth of new ideas, their realization, and bringing innovations to the consumer or a large business. Its wholesomeness rests with the fact that expenses are lowered in this highly risky form of business;
- the confidence of a consumer's expectations toward a business (Blyakhman, 2013). Small businesses have no difficulty in getting feedback from the market and even provoke customers to express their preferences and expectations, on the contrary, in order to become the most successful, since the satisfaction of such demands is a precursor to the achievement of a higher level of income.

Those of political significance include:

- the formation of political views. As the class that is highest in quantity, representatives of small business either form their own political views or become an object of a struggle of various political forces for the electors votes (Gorshkov & Torzhinsky, 2013).
- the reduction of social gaps. Small business is the fundamental basis for the formation of the middle class and consequently facilitates the weakening of the existing market economy in social layering.

As a whole, entrepreneurial activity facilitates the development of an entire society and region. Company organizations in the form of small, medium-size, and large businesses have their own advantages and disadvantages, which arise on the basis of comparison with one another. In order for normal socio-economic development to exist, there needs to be a coexistence of small, medium-size, and large business.

In Russia, small business is developing in quite a harsh, aggressive environment, in a limited volume of monetary resources in the conditions of fierce competition resulting from low consumer opportunities of population. There is a deflux of employment in the official economic sector in the shadows. A population undertakes various types of business without any necessity of documentation. According to the data from the Federal Service of Government Statistics, the quantity of small business subjects, including microcompanies from 2008 up to 2013 has risen by 48.6 %, since the average occupation for the same period has risen by 3 % (Rosstat, 2009, 2013).

In Russia, the main issues in the development of small business according to data from the all-Russian public organization of small and medium-size business Opora Russia are located outside the bounds of business as such (table 2).

Table 2. The Problems of Russian Small and Medium Enterprises in 2012

Issue	Proportion of those surveyed, %
1. Low quality of public administration	25.7
2. Government corruption	31
3. High taxes	32.7
4. High administrative barriers	34.5
5. Growth of price	38
6. Lack of qualified labour force	44.4

Source: Russian Union of Industrialists and Entrepreneurs, 2013.

In light of the issues characterized by an unstable situation in the Russian economy, entrepreneurs are limited in their strategic behavior. They do not pursue strategic goals, firstly because the first years of a market economy's formation have developed under the influence of a huge benefit in the sphere of distribution and the financial sector. Secondly, there is a large gap between the profitability of long-term investments into production and short-term financial operations.

There is no possible way that such circumstances would not be reflected on the socio-psychological norms, stereotypes in mentality, and behavior. If the entrepreneurial spirit of highly developed foreign countries assumes mutual responsibility, obligation in business relationships from which a high level of reliability in the business relations sphere arises, then the signature in Russia of official documents, in which the mutual obligations of parties are discussed, does not guarantee the implementation of competitive agreement. As a result, there is a problem in the safety of transactions and the difficulty of attracting foreign investments into the country's economy, which in turn is reflected on the development of domestic small business, in which there are insufficient personal means.

Thus, the condition and issues in the development of small business in Russia evidence its underestimation as a strategic factor in conducting market transformations and raising the level of the economy's development as a whole.

3. Methods of Research

As a basis for developing strategic trends in developing small business in various regions, one proposition is to use the "region attractiveness" matrix – "the competitiveness of small entrepreneurship in a region".

The informational basis for choosing strategic trends of socio-economic development of various regions shall be a collection of indicators unveiling the strategic potential of a territory, which shall determine its competitive advantages.

The attractiveness of a region is viewed as an integral characteristic determined on the basis of factors estimated according to the following criteria:

- the production factor (the volume of external turnover, the financial wealth of a region, the total volume of retail product and paid services turnover to the population depending on the spirit of the population),
- the resource and infrastructure factor (the volume of investments into the main capital, main funds of economic sectors, and the coefficient of density in roads),
- the social factor (the level of officially registered unemployment, the correlation between the per capita income and the per capita poverty level, the percent of the population with incomes under the poverty line, and the graduation of specialists from higher and state middle-level educational institutions).

The calculation has been produced according to the data of the Federal State Statistics Service (Rosstat).

The integral competitiveness index of small business in a region is calculated based on the definition of small business's place in an economy (the quantity of people employed in small businesses in relation to the total quantity of people employed in an economy and the proportion of revenue in small entrepreneurship in relation to the total revenue volume according to the sectors of the economy).

Evaluation of a region according to various indicators has been produced on the basis of its comparison of the current situation with the maximum possible value. The index (I_{ij}) characterized by the socio-economic standing of a region has been defined by the following formula:

$$I_{ij} = \frac{x_{ij} - x_{j\min}}{x_{j\max} - x_{j\min}} \quad (1)$$

where x_{ij} is the quantitative indicator of the i region for the j condition;

$x_{j\max}$ is the maximum value for the j condition;

$x_{j\min}$ is the minimum value for the j condition.

I_{ij} may bear a value between 0 and 1. The closer it is to 1, the better the economic condition of the region according to the given condition, and vice versa.

All indicators are ordered according to one vector (from lowest to highest) with consideration of the meaning of such indicators as the level of officially registered unemployment and the population proportion with incomes under the poverty line. The relative integral estimation has been received as the medium arithmetic factor for all calculated indexes. The standardization of separate indicators "impersonalizing" natural and cost indicators creates possibilities for their integration into a relative (or general) rating of the i region:

$$I_i = \frac{\sum_{j=1}^n I_{ij}}{m} \quad (2)$$

where n is the quantity of regions in the sample;

m is the quantity of indicators.

4. Results

To determine a region's position in the two-dimensional matrix "regional attractiveness: the competitiveness of small business in a region, an interval distribution has been produced reflecting the levels of favorability of an external environment (a region's attractiveness) and the competitiveness of small business according to the following graduating scale: high, medium, and low. As a result, the following matrix has been produced (figure 1).

An analysis of the results produced has enabled the following conclusions to be made:

- the group of regions characterized by a relatively high level of development and a level above medium is represented by the subjects of the federation with the highest developed financial, economic, and social

potential. Among them, the largest financial, economic, and industrial centers are Moscow City and Saint Petersburg City; the largest regions of industrial concentration – the Samara Region, the Moscow Region, and the Republic of Tatarstan; and regions mainly concentrating on the extraction and export of resources. The possession of natural resources (oil, gas, forests, etc.) gives regions the opportunity to become the largest economic producers in Russia. The Chukotka Autonomous District possesses a high level of development according to official statistics, however a population's standard of living remains quite low. The situation in the given district is not typical, thus according to economic research rules, the given region is excluded from classification, since the development of specific development strategies of small entrepreneurship is required for it;

- a large portion of the regions is concentrated in quadrant 2B. Meanwhile, for the majority of regions of the given group, the economic constituent is also above medium level, which evidences the existence of potential opportunities to raise the standard of living and resolution of social issues;
- the heightening of socio-economic development by attracting only large companies and business groups according to methods developed by the Regional Economics Department of the Ministry of Economic Growth is an insufficient basis. Regions with a leading role in large business are located in different quadrants (from high level to low level).
- In analyzing the regional differences, one can conclude that regions with a high level of income include territories of oil and gas extraction, meanwhile regions with a low level of income include regions lacking in resources along with agrarian territories.

5. Direction of Small Business Development in Russian Regions

It must be noted that in order to achieve goals on various levels of management, different factors may be applied. The proposed methods adopt a basis for choosing a general strategy of small business development, on a federal level, in different regions of Russia.

A formal model of the matrix is presented in figure 2.

The implementation of different strategic trends of small business with different goals may require the use of identical mechanisms. A choice of a small entrepreneurship strategy is characterized by the level of attractiveness of the region.

Strategies for the development of small entrepreneurship are proposed for different regions depending on the quadrant:

1A. The strategy of concentric diversification is recommended for regions when a reduction in the quantity of small businesses is taking place, their place in the regional economic system is insignificant, and the level of competition is high. The main instruments for implementing such a strategy are financial support by means of tax benefits, deregulation intended to help them overcome numerous barriers, and reduced taxes.

1B. The strategy of internal growth is suitable for regions where there is a large quantity of large companies, internal reserves for growth, and a high standard of living. The main instruments in such case are measures of indirect stimulation: the creation of a more liberal style of functioning on the part of economic objects and a simplified method of registration and accountability of companies.

1C. The strategy of offensive defense from large businesses might be taken by regions where the socio-economic development level is compatible with the level of development of foreign countries, there is a large quantity of large companies, and it is characterized by a high level of competition in various sectors, the market is monopolized, and there is a highly developed infrastructure. In the given case, the main instrument will be the legal support of small business with the goal of not allowing it to be squeezed out of the market, business community organization, the creation and development of tech park structures, the development of electronic business, and assistance to small business in making it onto the external market.

2A. The focusing strategy is recommended for regions with a medium level of investment attractiveness or a low level of small business development. The instruments for the implementation of strategic trends will be the determination of points of growth and selective financing.

2B. The strategy of conglomerate diversification is suitable for regions with financial capital, and the market for products and services is saturated. The selective stimulation of the development of small entrepreneurship in the priority sectors of the economy depending on the specifics of the region and the development of new technology using the potential of small business will be the main instruments of strategic implementation.

2C. Vertical integration (clusterization) is applicable in regions where small businesses play an essential role. The main instruments for implementing the given strategy will be establishing an interaction between small business and large business (outsourcing, subcontracting, tech parks, and clusters).

3A. Anti-recession strategies are recommended for regions where an economic downturn is taking place and there is a high level of unemployment, a low infrastructure quality, and high risks. The main mechanisms to implement such a strategy are: determining development reserves, hiring specialists, and creating entrepreneurship zones where an opportunity will be presented for the implementation of a complex of measures aimed toward stimulating entrepreneurship (tax benefits, the presentation of land for new construction, the transfer of old facilities for rent at reduced rates for under reconstruction, etc.) on the basis of legal acts by local authorities. This will present the opportunity to create new jobs, provide an influx of capital into depressed regions, and, as a result, reduce the level of unemployment by people commuting as well as improve the image of the region as a whole.

		Small Business Competitiveness		
		Low	Medium	High
Regional Attractiveness	High	Tver Region; Republic of Tatarstan 1A	Lipetsk Region; Republic of Bashkortostan; Belgorod Region; Tumensk Region; Perm Region; Novgorod Region; Republic of Komi; Yaroslavl Region 1B	Sverdlov Region; Samara Region; Saint Petersburg; City; Moscow City 1C
	Medium	Republic of Mordovia; Kostroma Region; Republic of Altai; Republic of North Osetia; Republic of Adygea; Tambov Region; Vladimir Region; Tula Region; Kursk Region; Bryansk Region; Ivanovo Region; Chuvash Republic; Smolensk Region; Orenburg Region 2A	Kirov Region; Republic of Udmurt; Volgograd Region; Astrakhan Region; Krasnoyarsk Region; Republic of Sakha (Yakutia); Penza Region; Irkutsk Region; Murmansk Region; Omsk Region; Pskov Region; Sakhalin Region; Vologda Region; Leningrad Region; Tomsk Region; Ryazan Region; Saratov Region; Stavropol Region; Krasnodar Krai; Kaluga Region; Kharabovsk Krai; Orel Region; Voronezh Region; Republic of Karelia; Novosibirsk Region; Chelyabinsk Region 2B	Kaliningrad Region; Kemerov Region; Moscow Region; Rostov Region; Nizhny Novgorod Region; Magadan Region 2C
	Low	Republic of Dagestan; Republic of Kalmykia; Ingush Republic; Chita Region; Jewish Autonomous Region; Kabardino-Balkarian Region; Republic of Tyva; Karachayevo Cherkess Republic; Republic of Khakassia; Kurgan Region; Mari El Republic; Republic of Buratia; Altai Krai; Amur Region 3A	Ulyanovsk Region; Primorsky Krai; Kamchatka Region; Arkhangelsk Region 3B	- 3C

Figure 1. Matrix “Regional Attractiveness and the Competitiveness of Small Entrepreneurship”

3B. Horizontal integration is recommended for regions where there is a low development level of the economy and a lack of personal means. The main instruments will be the attraction of small business into the business of large companies on the same stage of the valuable creation chain, the merger of small companies, and the attraction of external resources.

3C. The reorganization of business is proposed for regions with low levels of economic development and efficiency or lack of large companies, thus by means of distinguishing small businesses from large businesses, the level of development of the given regions can be heightened.

		Competitiveness of Small Entrepreneurship		
		Low	Medium	High
Regional Attractiveness	High	Strategy of concentric diversification 1A	Strategy of internal growth 1B	Strategy of offensive defense from large business 1C
	Medium	Focusing strategy 2A	Strategy of conglomerate diversification 2B	Vertical integration (clusterization) 2C
	Low	Anti-recessionary strategies 3A	Horizontal integration 3B	Reorganization of business 3C

Figure 2. "Regional Attractiveness: the Competitiveness of Small Entrepreneurship" Matrix

The strategy of small business development in various regions must be directed toward the elimination or levelling of reproduction disproportions and aimed toward forming new proportions taking into account the features and points of growth of the regional economy. The development strategy of the subjects of the federation is adopted to fulfill integrative functions directed toward the provision of interaction on different levels of management and economic subjects.

6. Conclusion

Small companies, in fulfilling highly significant functions, run into various difficulties due to their size. For this reason, the creation of favorable conditions is one of the most significant functions in implementing support for small business. The lack of a distinct political goal in this area may lead to the disappearance of this economic sector.

There is currently no unified conceptual approach in Russia to the creation and development of a support system for small entrepreneurship and it still is not characterized by a wholesome and systematic nature. The majority of system elements is created either by acts of god, under a certain foreign aid program, or in accordance with the demands of certain entrepreneur groups and unions, whereby there is practically no adequate support in resources on the part of government authorities and the management of the subjects of the Russian Federation. Separate projects for the creation of infrastructure elements are event included in the corresponding programs, but are not brought into implementation due to the poor concurrence of actions, errors in organization, violation of financial events, and lack of resources.

A mentality of domestic entrepreneurs that has formed characterized by the current reaction to demands, market challenges, and their lack of desire to adapt to strategic reference points.

Support for small business on the part of government structures must be aimed toward the creation of conditions for the self-development of companies and favorable external environment. The development and implementation of such an approach must be based on the constant implementation of dialogue between government and entrepreneurs as well as the exercise of mechanisms between support structures.

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