

Factors of Development of Small and Medium Entrepreneurship in the Region (by the Example of the Komi Republic)

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Abstract: The concept of "entrepreneurship" is identified in the article, its place and role in the economy are revealed. It is noted that entrepreneurship is a complex socioeconomic phenomenon that influences the macroeconomic situation of the country and those in need of support from the state, including from the regional and local government. Entrepreneurial activities in the territory of the Komi Republic have been analyzed, and trends in the development of small and medium entrepreneurship under the influence of the entrepreneurial climate have been considered. An analysis of internal and external factors influencing the development of small and medium-sized entrepreneurship is presented, the practice of entrepreneurship is analyzed, the problems and constraints the entrepreneurs face in their professional activities are identified, and the mechanisms divided into three groups (administrative, organizational, informational) that promote entrepreneurial climate development in the region are presented.

Index Terms: economic development, economy, entrepreneurship, entrepreneurship sector, gross regional product, region.

I. PLACE AND ROLE OF ENTREPRENEURSHIP IN THE ECONOMY

The development of small entrepreneurship is the key source of growth in the production efficiency, saturation of the market with necessary goods and services, and raising the living standards in the Russian economy at the moment.

Entrepreneurial activity is a special form of economic activity and a central element of the market economy, as it contributes to the strengthening of market relations, being the driving force for the development of a modern market economy, and generating an increase in the material and spiritual potential of society.

Economists were first to study the term "entrepreneurship". The meaning of the concept was initially identified as "the ability to begin" or "cover first" [1]. For example, R.

Cantillon first defines entrepreneurship as an economic activity where a balance of product supply and demand is achieved in a situation of constant risk, and defines an entrepreneur as an individual who takes risks [2].

A. Smith associates entrepreneurial activity with the entrepreneur's interest in personal enrichment and with assistance in meeting the needs of society, believing that the entrepreneur is only part of the market mechanism, and its role is rather insignificant [3].

The concept of "entrepreneur" appeared in the General Dictionary of Commerce in 1723 in the economic literature, which included a person undertaking "the obligation to produce or build an object".

D. McClelland was first among psychologists to analyze entrepreneurship. He justified the legitimacy of the motive to achievements as the greatest motivation for entrepreneurship, and defined entrepreneurs as individuals who undertook great responsibility [4].

J. Mair and I. Marty notice the prerequisites for the emergence of innovative activity, which is associated with the application of the existing potentials with the greatest benefit and the emergence of social entrepreneurship abroad in the 19th century [5].

G. Dees in the 20th century highlighted the factors that determined entrepreneurship in his writings: firstly, the enterprise's acceptance of the mission of establishing and preserving social benefit; secondly, the identification and use of new opportunities for the implementation of the chosen mission; and thirdly, the continuous process of introducing innovation and adaptation [6].

The objectives of the entrepreneurial activity were further expanded and modified. For example, entrepreneurship is identified with any business in a broad sense or with high-risk types of business in a narrow sense, related to the implementation of a significant and usually new idea, while an entrepreneur acts as a risk taker inclined to act independently in the face of uncertainty, focused on the search, disclosure and use of new combinations of production factors using the available resources.

Small entrepreneurship as a sector of the economy has existed for about 20 years in Russia, and is in its infancy. It has acquired a certain stability and sufficient breadth of distribution and turned into a fully independent sector of the national economy, where the sides of economic contradictions are clearly identified.

Manuscript published on 30 June 2019.

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The role of small and medium businesses in the modern market economy of the Russian Federation is quite significant. The share of the production of small enterprises in the GDP in developed countries ranges between 55 and 62%, while in Russia it is less than 12%. However, within the framework of the general strategy of the Russian economy development, the recommended values should be at least 50%, and should meet the established quantitative criteria characteristic of developed countries [7].

A regulatory framework for the activities of small enterprises was created, certain provisions of the state policy for their support were clarified, mechanisms of state support at the federal and regional levels were developed, and structures for its implementation were established.

Consumer cooperatives and commercial organizations (except for state and municipal unitary enterprises), individuals listed in the unified State Register of Individual Entrepreneurs and carrying out entrepreneurial activities without forming a legal entity (hereinafter – individual entrepreneurs), and family farms belong to small and medium-sized entrepreneurship, in accordance with the law "On the development of small and medium-sized entrepreneurship in the Russian Federation" [8].

The peculiarities of small entrepreneurship that influence employment are the following today: ability to create more jobs with lower capital costs (it is no coincidence that more small businesses are created in the service industry) and lower technical and, therefore, organic structure of the operating capital.

The unit of constant capital accounts for more units of labor in small entrepreneurship (as compared to large), the development of small entrepreneurship makes labor market more flexible; there are the prevailing development of small entrepreneurship in industries with quick payback; and ease of creating a business entity.

II. ANALYSIS OF FACTORS FOR THE SMALL AND MEDIUM ENTREPRENEURSHIP DEVELOPMENT IN THE REGION

As the President of the Russian Federation V.V. Putin emphasized in his Address to the Federal Assembly, the development of small entrepreneurship plays a special role in improving the economic growth of the country [9]. However, the development of macroeconomic components is impossible without the development of the mesolevel economy, since regional entrepreneurship is a catalyst for overall development setting the pace of rapid adaptation to changing environmental conditions, compared to large businesses, to the use of new technologies, and employment.

The Komi Republic is one of such regions with infrastructural peculiarities for business development, where a growth trend in the number of small businesses is confirmed by their annual growth of 3 – 5% over the period from 2015 to 2018 [10].

To improve the entrepreneurial climate of the region and maintain a positive growth trend in 2018, the authors of the article ran expert polls for representatives of small and medium-sized businesses, where the main experts were the current entrepreneurs operating in the territory of 11 municipalities in the Komi Republic.

The key research methods used by the authors are system

analysis, data grouping, method of comparison and analogies, generalization method, and project approach within the practice of substantiation and implementation of managerial decisions.

The questionnaire as a research tool summarized the problematic questions about promising changes in entrepreneurship, the current problems impeding its development, and other significant questions for determining the forecast of economic development.

As part of the questionnaire, respondents were asked to answer two sets of questions separated by the authors for convenience:

Set 1 – Assessment of the level of small and medium entrepreneurship development; and

Set 2 – Prospects for the small and medium entrepreneurship development.

75 operating entrepreneurs took part in the poll, of which: 37% of respondents were representatives of trade, 13% – the industrial sector, 10% – household services, 8% – construction, 9% – agriculture, 6% – transport and communications, 6% – utilities, 5% – public catering, and 6% – others.

As for their age, most organizations have existed for a long time in the relevant sector of the market, as evidenced by the respondents' answers: 31% more than ten years, 38% from five to ten years, 24% from three to five years, and 7% less than three years.

1. The first set of questions focused on identifying factors impeding the small and medium entrepreneurship development in the region. The respondents noted the following most significant factors: high taxes (15%), administrative barriers (14%), and financial problems (13%) (Fig. 1).

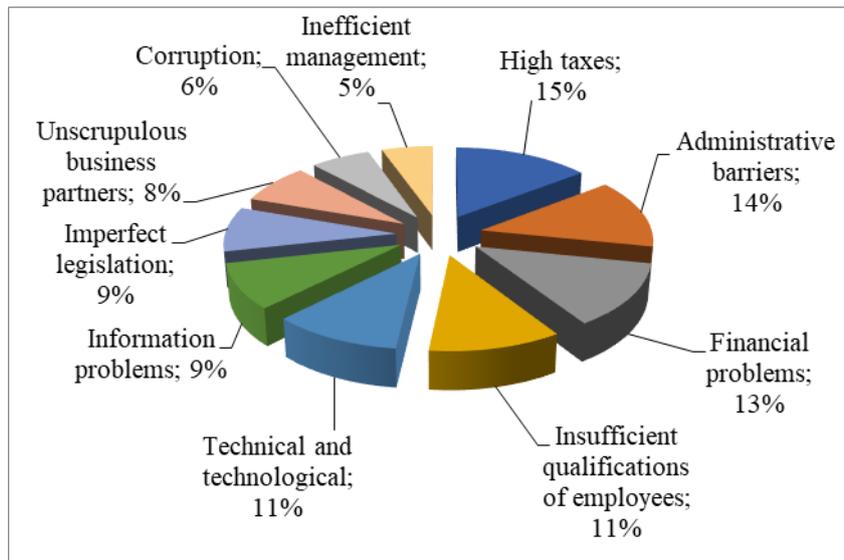


Fig. 1. Factors impeding the small and medium entrepreneurship development in the region

Among the internal factors, the most important ones were considered to be the following: insufficient qualifications of personnel at the enterprise (28%), incomplete information about the situation in priority markets (20%), lack of independent innovative developments (19%), and insufficient level of modernization and green production (16%).

At the same time, only 9% noted the significance of the inefficiency of interaction with the authorities, and 3% noted the inefficiency of the management system in the enterprise. 5% of the votes of the respondents were given for other options: unfavorable territorial location and high risk of low profitability of potential investments.

The most important external factors include high taxes (27%) and expensive loans (20%). Limited access to other sources of funding (14%) and constantly changing "rules of

the game" with poor information from the authorities (14%) were considered equally significant factors. At the same time, the lack of qualification of personnel in the labor market was noted less often than the similar factor within the enterprise (11%). A relatively small proportion of respondents also considered unscrupulousness of business partners (8%) and administrative barriers (6%) to be relevant in this issue.

The poll also has allowed to find out that the key tools of state regulation in the small and medium business development that entrepreneurs use in practice are subsidies (27%) and leasing schemes for the purchase of machinery and equipment (15%), while other means of support turned out to be relevant only for a small proportion of respondents. It must be noted that almost a third of respondents (30%) stated that they did not use the tools of state regulation at all (Fig. 2).

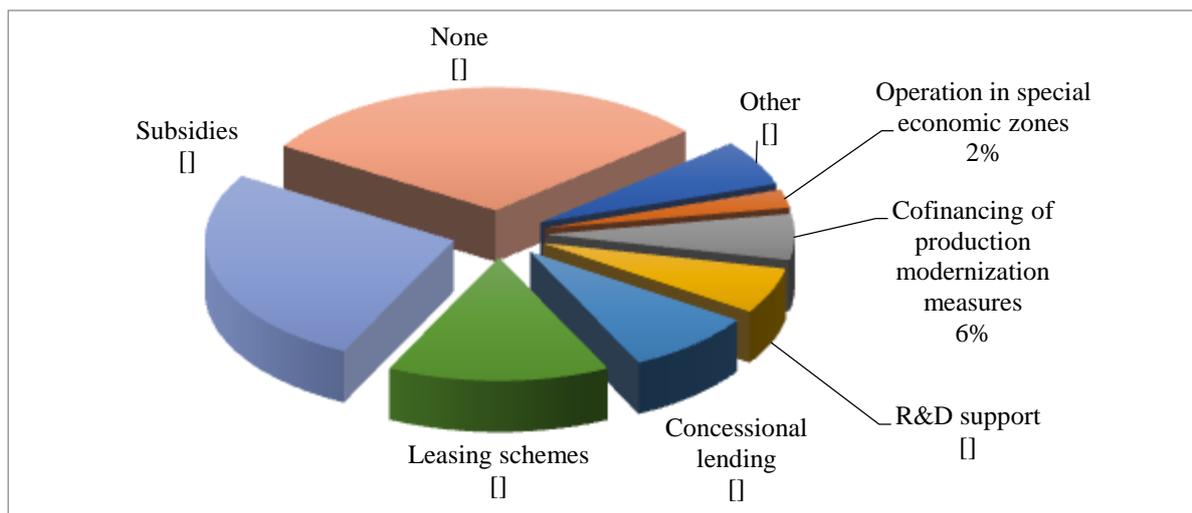


Fig. 2. Tools of state support for business used in practice

The subjective assessment of respondents on the problems and limitations of the potential capabilities of the region that impede the development of small and medium-sized businesses is as follows:

- 1) demographic potential:

population decline (29%), population migration (24%), population aging (23%), population health (15%), changes in the age and sex structure (9%);

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2) labor potential:

low level of education and qualifications (26%), poverty of the population (25%), decrease in the share of able-bodied citizens (21%), weak entrepreneurial activity (15%), low labor mobility (13%);

3) production potential:

financial instability of small businesses and entrepreneurship (34%), insufficient financial stability (31%), predominance of state-funded employment (14%), insufficient size of enterprises and organizations (12%), production profile of enterprises and organizations (9%);

4) infrastructure potential:

poor roads' condition (37%), remoteness (20%), low comfort of the social environment (20%), poor connectivity with centers (14%), and limited production location due to lack of energy supply (9%); and

5) natural and cultural potential:

lag in the new activities' development (35%), restrictions and barriers to the use of resources (27%), poor development of the sociocultural area (22%), and poor environmental conditions (16%).

Assessing the compliance of production technologies and product sales to the level of international companies, 29% of respondents note that technologies are lagging behind, but there are opportunities to achieve this level, while 24% of respondents claim they do not know the technologies of similar foreign enterprises. A significant share of entrepreneurs (23%) also believe that the technologies at their enterprises are lagging behind and there is no possibility of reaching the level of international companies in this field in the coming years.

Unfortunately, entrepreneurs generally note only a satisfactory level for most of the proposed options regarding the efficiency of the existing mechanisms for supporting small businesses in the Komi Republic (Fig. 3).

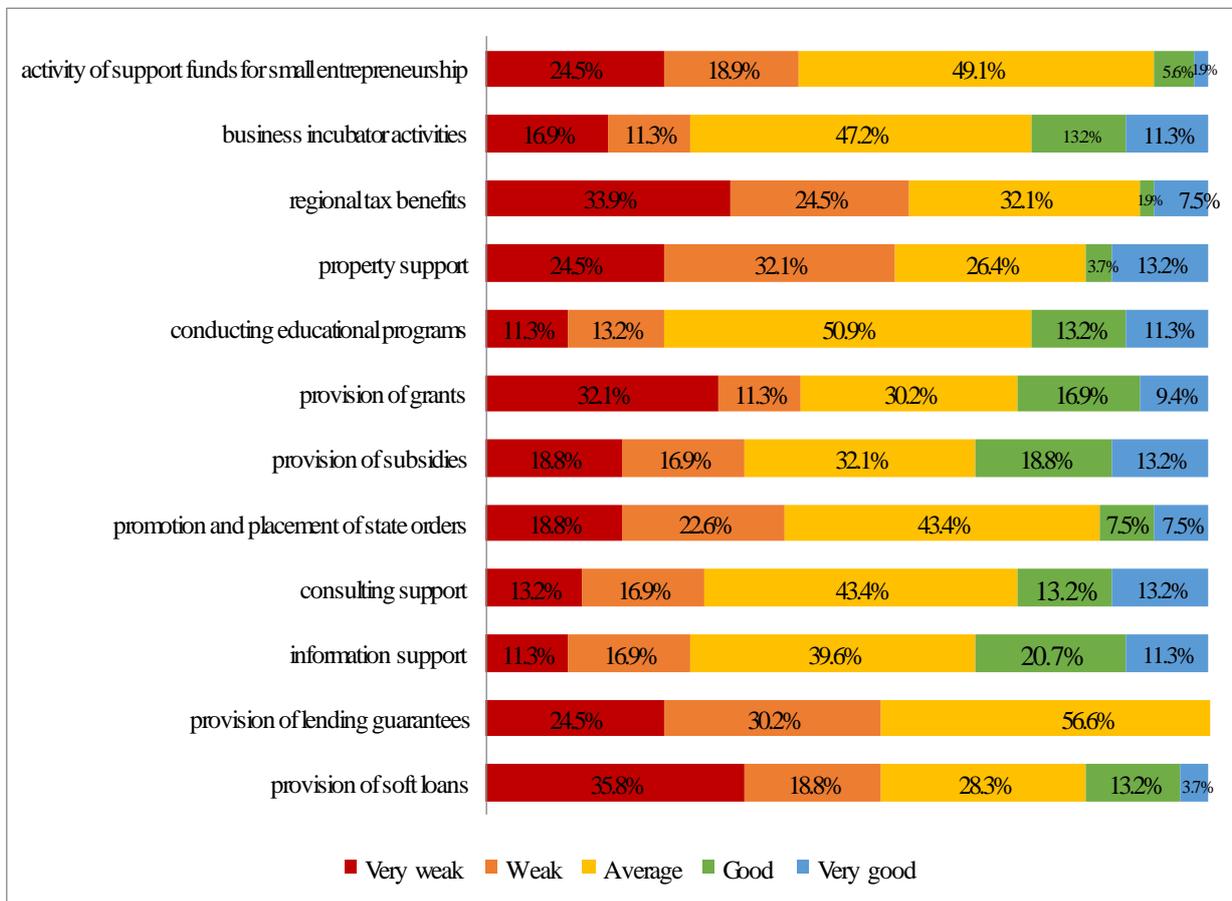


Fig. 3. Assessing the efficiency of support mechanisms for small businesses in the Komi Republic for 2018

It must be noted that when comparing the poll results with the similar study conducted in 2015 [11], the efficiency of support mechanisms for small businesses in the Komi Republic has basically increased due to the increased attention from the state to the problem of supporting small businesses as an organic part of the economy.

2. The second set of questions was aimed at identifying the prospects and mechanisms for the small and medium entrepreneurship development in the region.

For example, the prospective vision of respondents on the

possibility of business development and projecting their positions for the future allowed to identify the following activities: targeted lending at low interest rates (34%) and creation of information and consulting support centers operating according to the one stop principle (22%).



At the same time, the majority of respondents note that the interest reduction should be quite substantial and amount to 5 – 7% on average. Many respondents also note the need to provide financial aid as subsidies for cost recovery (17%) and as grants for business development in general (17%).

According to the poll results, protection from foreign competitors at a nonregional level for small and medium entrepreneurship now plays an insignificant role (5%); the same applies to other support measures (Fig. 4).

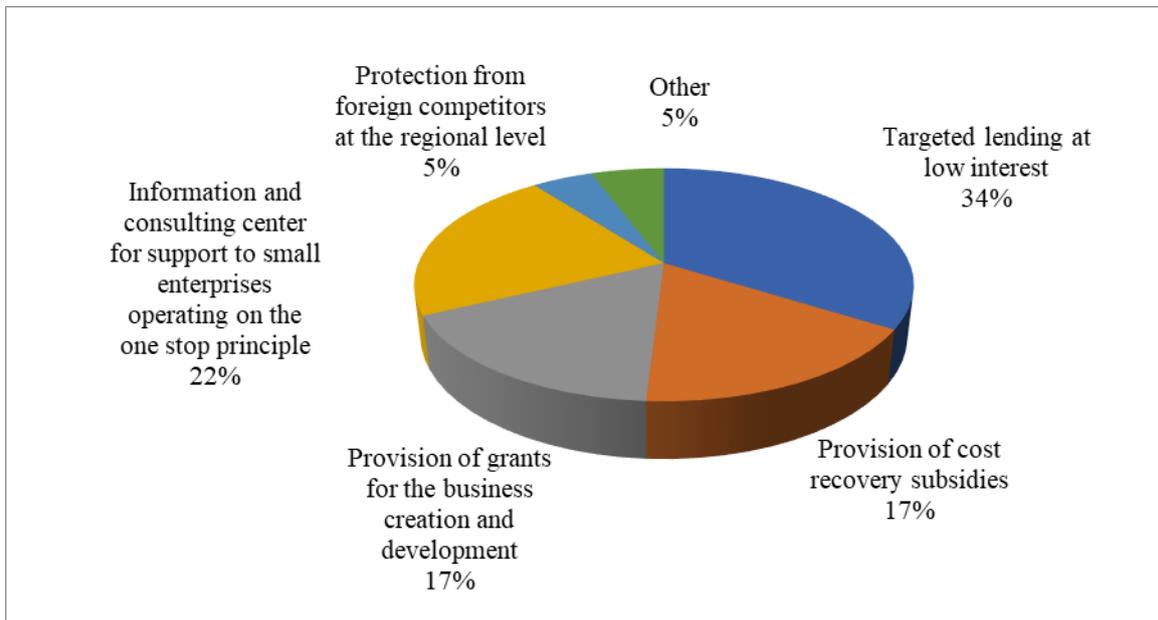


Fig. 4. Measures to promote the business support and development

The respondents choose infrastructure improvements regarding the improvement of the region potential first of all: roads, social services, and energy supply (24%), as well as the implementation of new projects at the expense of local, regional and federal assets (21%) and improved mechanisms to overcome barriers: legislative, financial, and organizational (21%). Restructuring of the existing production base (15%) and the improvement of access to information and training of people for the implementation of projects were also considered as significant options (12%). The respondents note that the most appropriate forms of interaction between businesses and the state, which would contribute to the development of entrepreneurship are information and legal consulting centers under the regional and local governments – 28%; holding conferences, scientific and practical workshops and round tables – 23%, joint retraining and advanced training programs – 21%; publication of reference and analytical materials – 14%; development of public-private partnerships – 11%; and creation of joint nonprofit organizations – 3%.

The following results were obtained in response to the urgent question of which services small businesses had been most interested in: legal assistance – 14%, training (workshops, webinars) – 13%, participation in exhibitions – 11%, assistance in entering new domestic and foreign markets – 9%, marketing research – 8%, informational support – 7%, assistance in working with public procurement – 7%, organization of business meetings and business delegations with business representatives from other regions and foreign countries – 4%, expertise services – 4%, trademark services – 4%, and services of processing foreign trade documentation – 2%.

III. CONCLUSION

As such, the following three groups of mechanisms will contribute to the development of entrepreneurship in the region, according to this research and preferences of the respondents:

Administrative

- Formation of programs of concessional lending for small and medium businesses together with banks; and
- Intensification of interaction between the state authorities and the development institutions in order to facilitate access of economic entities to financial resources;

Organizational

- Formation of the efficient system of informing entrepreneurs about changes in the regulatory framework for economic activity;
- Simplification of the documents' collection for state support;
- Support in promotion of products to new markets;
- Building a system of continuous improvement of the quality of managers and personnel at the enterprise;
- Introduction of the modern technologies of energy efficiency and waste-free production; and
- Creation of a single center for the development of small and medium businesses in the Komi Republic.

Information

- Formation of the information base of analytical materials on regional markets and the need for goods and services;
- Intensive use of the financial and consulting support from regional authorities;

- Intensive application of various forms of outsourcing to optimize operations; and
- Increasing the role of information technology in the development of business processes at the enterprise.

The above measures will help increase the number of entrepreneurs and the availability of economic resources, which, in turn, will create favorable conditions for building up the turnover of businesses, resulting in an increase in the gross regional product.

ACKNOWLEDGMENT

The team of the authors express their gratitude to the Russian Foundation for Basic Research for supporting grant No. 18-310-10016 Mechanisms for the Development of Entrepreneurship in Modern Conditions, due to which the study was conducted and this article was written.

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