

Using International Experience for the Formation of Prerequisites for the Development of Innovative SMEs in the Regions of Modern Russia

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Abstract Article is devoted to the development issues of small and medium-sized, in particular, innovative, business in the regions of modern Russia. Urbanization of Russia continues. People move to the capital cities, as the development process occurs only in them, as many believe. This, as it seems to the author, is the primarily cause to the reduction in numbers of small and medium-sized enterprises in the Russian province. Deterioration of working conditions of business at all levels, slowing economic growth, economic and political sanctions are the causes of deterioration of the business climate in the country. Article emphasizes the need to preserve, enhance and further develop the various settlements on the territory of Russia, which is possible only by activating the economy. In turn, the economic recovery is only possible with the participation of the business. Economic slowdown adversely affects the prospects of the existence of small and medium-sized enterprises in the Russian Federation. Some measures to create conditions for the development of innovative small and medium-sized businesses in Russia are suggested.

Keywords: *innovation, economic slowdown, small and medium enterprises*

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1. Introduction

Today, small businesses in Russia face difficulties, and frankly, at an impasse. 20 million of economically active Russians operate outside the law (i.e. the shadow economy), 10% of individual entrepreneurs we have missed in the past six months, only 2% of respondents would like to become entrepreneurs, business activity of migrants from neighboring countries is twice higher than that of the Russians themselves. While that is not the whole list of urgent problems. Can they be solved? Certainly. To do this, the government needs to recognize that small business in addition to economic functions has an important social mission. Entrepreneur in a small town or village is a unit of social policy, which generates a well-being area. In settlements where small business is growing, there is life in the full sense of the word: infrastructure, jobs, social partnership of employers and local authorities. Lack of business leads to extinction and degradation of territories. According to the national census of 2010, Russia had more than 19 thousand settlements in which no single person lives (i.e. totally uninhabited) [2].

At the St. Petersburg G20 summit, it was stated that the main instrument to overcome the crisis should be an increase in investments. To date we see the fall in investment in the Russian economy, the growth of GDP has virtually stopped, industrial production growth is

negligible. This is due to the fact that we have accumulated a large number of problems in the past 20 years. While previously we have used to grow economically through exports of oil, today it is clear that it is no longer possible. Moreover, we most likely will fall. The price of oil is reducing, and the fact that the prices of oil could not hold at the previous level for a long time is clear to most economists.

Now the world economy is following such a way that the market overwhelmed with energy resources. In this context, our dependence on energy exports is an especially sensitive issue. We need to think about how to survive, how to remain independent and efficient economy, and stepping down from dependence on raw materials. The problem is not only in market prices for energy. Our costs are rising, and we can no longer afford to ourselves to stay at this level of prices. Problems, arising in the society, are not only of economic nature, but also social: oil corrupts and people stop working. They get money from the budget, sit on a salary or receive large social packages. There are very few people who want to work, to create something new, people who seek independence and economic self-sufficiency. This reduces our development potential.

It is much easier and calmer to live on a salary, and this applies not only to Russia. Entrepreneurship as a profession is very restless and even dangerous nowadays. In addition, it is troublesome – one must always move and worry. While one can be calm living on the salary, salaries are high these days, particularly in state-owned monopolies.

Business cannot even afford paying such wages, which some people get in the state-owned gas or oil companies, in government bodies, in the army, the police, etc. But the country cannot have a long development progress in this scenario. The energy should be released to the maximum.

2. The Review of the Russian Economy

Once Stolypin has transformed Russia in five - six years from a troubled country with a huge budget deficit, with the explosive social situation in to the prosperous exporter of grain and other agricultural products with a budget surplus. Russia has become one of the fastest growing countries in the world. What did Stolypin do? He freed the energy of the masses, gave people the opportunity to do business. As a result, in a very short period of time the country has grown – it is through entrepreneurship and energy of people. A similar situation was in 1991 – 1993 years, when the decline in oil prices led to a precipitous decline of the economy and stop of the industry. The country was dragged out of this economic crisis by people. Their entrepreneurial initiative was released. They first went to "shuttle" (i.e. private resale of imports), began to sell, and then produce for sale, as a result by the end of 1997 – 1998 the country has erected from a pool of problems.

Energy of the masses, the energy of entrepreneurs needs to be released, then we will once again develop a competitive, private, alternative to raw materials economy. Whereas we are constantly, since 2008, are trying to regulate, grip the business with high taxes, high tariffs; even a small business is being suppressed. Nearly half a million entrepreneurs have left the market only in the last year after the introduction of the new rates on insurance premiums to non-budgetary funds. We are doing everything against small and medium-sized enterprises, which is a lifesaver for Russia, not an enemy.

We need to take a few steps. Free small business: to introduce a single payment that would be an extremely easy method of payment, to ensure that this payment goes to the budget of local government, and to avoid any additional issues and claims towards business. Only then it will begin to develop and quickly take over all niches. But not to regulate it, not to sit on its neck.

Why is this not being done, if everything is so simple and clear? Why, for example, insurance premiums are being raised? The Ministry of Finance believes that it will bring in the economy up to 50 – 60 billion rubles. But in the total volume of the country this figure is at 10% of the profits of "Gazprom". Because of these billions, the question arose as to whether we should raise the fees for individual entrepreneurs. The same situation is with regards to small businesses. Small business, starting to work freely, will create jobs, providing everyone with decent services, which are now a deficit in the market, because the hairdressers, taxi and all other services at the local level are unavailable to ordinary people. Half of the enterprises work in black market, 42% of companies are in the 'shade', according to the estimates of the World Bank. If we had at least half taken out of the shadow economy, it would already be a significant increase in the GDP and budget revenues. Instead of various tax exemptions, the State Duma of the Russian Parliament discuss yet another

tax for service sector. We shall hope that common sense will prevail and the law will not pass the next hearing, business – community does a lot for it.

Simplifying the activity of SMEs is contrary to the economic policy that was implemented. Up to a point, it was very helpful. It is the policy for restoring the order after 1990s, a certain type of a crisis management: every penny counts; prior to that time the taxes were not paid by anyone, now everyone is paying taxes. As a result of this Kudrin's policy the things were placed in order, the taxes really began to be paid, started to deduct money from oil exports in favor of the budget. But we need to understand that this is a temporary anti-crisis policy, then it was necessary to develop. Somewhere in 2006 – 2007, it became clear that we have succeeded, we won over the 1990s, but no, instead of going in to the investment model of development, we continued to clamp the business.

In order to stimulate economic growth the state is trying to develop several large projects – the railway modernization and development of the Far East. A sort of a crisis mechanism, when the state initiates investments of a large pool of public money in the hope that they will stimulate business and enterprises, giving impetus to economic development. World experience shows that in difficult situations other countries are using the same mechanism. However, it is important for these projects to be necessary to the national economy, so that they all worked on the development of the industry. To do this, something else needs to be changed, as not to import all products for the sake of developing the domestic production of these projects. The tax, tariff, and a proper migration policy changes are needed to make these infrastructure projects bring real results for the economy [6].

It is evident, that the situation in the economy teetering at the critical point: the business activity is negative for obvious reasons – the interest on loans, the cost of labor, the tax burden, on which Russia holds the 156th place in the world – and all of this is against the backdrop of high corruption and administrative barriers, and low infrastructure development. All would be fine if, as before, until 2008, all of our risks and costs would be offset by the main driver of the economic growth in Russia – his majesty 'the growing domestic demand', which is based on the distribution of income from the export of raw materials, increasing the purchasing power of the population. But, unfortunately, today things have changed: oil stagnates, the purchasing power of the population is not growing, the demand in the domestic market begins to decline, the main growth driver stops working. Meanwhile, the negative factors and risks are the same, if not higher. Rates are already higher than in the USA, not to mention China, the interest rates hit record once again, the tax burden – at what cost was the increase of insurance premiums up to 30%, which has forced more than a quarter of wages to be paid in the 'postal envelopes' (i.e. cash) once again. Here is yet another – an increasing competition with Belarus and Kazakhstan as a result of joining the Common Economic Space, or the WTO, which jeopardized one of the fastest growing sectors of the Russian economy – the pig-breeding, together with no less dynamic poultry; and what was the cost the latest solutions for entrepreneurs and small businesses. As a result – it used to be "dangerous" and "uncomfortable" to do business in Russia, now it is also "unprofitable".

Meanwhile economic powers supporting the economists of the monetarist school with an unflagging persistence are trying to convince us that the main thing are macroeconomic indicators, the most important task of the state – target the inflation, to keep the exchange rate of the ruble and in any case not a step back any taxes nor fees or in the system of refinancing of banks – that is the percentage of the loan. But such a policy works with one important condition – it is successful only when there is a constant, rather, an increasing source of budget replenishment. In our case it was revenues from oil and gas exports. By the way, we always had the priority, and it still remains in the energy lobby, in the financing of investment programs, and in setting tariffs in the domestic market, and in almost everything else. And almost always at the expense of other sectors – industrial consumers, who in all respects for all this time were clamped and squeezed. Finally squeezed to such an extent that the economy has stopped growing. Today the situation is different, it is impossible to survive in the old paradigm. Oil is not the same, and the costs are increasing, a single soccer World Cup was at a cost.

It is necessary to target not inflation but economic growth. The success of the financial, tax, tariff and monetary policy should not be measured by low inflation rate (although it should not be loose), and indicators of economic growth. We suggest to target not even the economic growth but the growth of a highly-efficient employment. In order to achieve the objectives of 25 million jobs with revenues of 3 million rubles per person. We will have to change the paradigm of development, as not give priority to producers but consumers of energy and create a new, modern diversified economy of Russia.

High performance employment means well paid, and that means social well-being. Of course, the growth requires investments in the development of new and modernization of old plants. One workplace is worth at least 100 thousand USD of investments. The main part, if the right conditions are created, will come from the market of the business. Massive injections from the state are not needed, in spite of what are telling us the supporters of ‘belt-tightening’. State should not provide the money but the conditions: not to peel the business as sticky, but make sure that production was safe, convenient, and profitable. Public investments are needed substantially only in infrastructure under the terms of public - private partnership – a shame of being with such roads in the XXI century.

3. Revitalization of SMEs in Russia: the Triple Helix Approach

A lot of changes a required – taxes, except from replenishing the budget, must be configured in such a way as for the business to be profitable to invest in development of production facilities, and not to let the money on consumption, rates. The length of the loan must be no worse than those of our competitors and prices should not rise above inflation each year [10].

The actions on urgent revival of SMEs cannot be delayed, especially in the provinces where people lost all desire to start a business. According to the Russian Public Opinion Research Center (VCIOM), in the last four years,

Russians have become more critical to evaluate the conditions for doing business in the region: in 2009, these conditions were evaluated as bad by 44% of respondents, in 2013 – already by 55%. The vast majority of respondents (72%) who do not have their own business, do not intend to acquire it in the future. Only 16% of respondents think about the career of an entrepreneur. Moreover, these are often the Russians aged 18 – 24 years old, while it is youth who tend to build large-scale plans being not always embodying in real life. While the bad experience of entrepreneurship had 7% of respondents. Only 1% of respondents are engaged in business at the moment.

The ranks of entrepreneurs, already being bot too many, are rapidly thinning, and new entrants are almost none. The question remains: who will create the country’s new jobs and pay taxes in the not so distant future? After all the appetites of the state steadily increase and revenues have not kept pace with them [11].

The major role in the formation and implementation of new ideas and technologies can and should play regional universities. As one of the most important missions of the university, in addition to education and science today are innovation, leading universities need to change the priorities in the direction of research budgets. This conclusion is led by the study of the world best practice in creating such systems, primarily of North American. The most striking examples of this series – New England and Northern California, where it is university research potential (Harvard, MIT, and later the Stanford) was used for the development of local industry. Professors and students become part of the process of formation of new firms. Then the graduates of local universities stay to work in companies with venture capital. As a result, the relationship between universities, business and government have become the basis for a new management model, and the university, by increasing the commercialization of research, became the engine of the “triple helix” (i.e. the concept of H. Etzkowitz and L. Leydesdorff).

Therefore, the entrepreneurial university is the key to future development, creating jobs, achieving economic growth and stability. If the traditional rules of the game cannot be changed, so that talented young scientists will be able to engage in independent research, there is a second way – to open a completely new universities and research institutes as an alternative to the existing ones. Basic terms of innovative development – scientists and cultural elite. In Russia they are is still very strong and famous throughout the world. It remains only to provide them with the necessary conditions and allow to work effectively in their own country. It is through this approach, Stanford university became great: there were recruited many talented young researchers into new industries and new businesses.

One of the ways to create high-quality modern universities – concentration of resources by merging universities. The Chinese have gone on this way. Additionally, they skillfully attract their foreign diasporas as to transfer modern technology and knowledge back to home country. The main difference between Russia and China – in the direction: advanced ideas are funneling from Russia as to find further development and implementation in the West, primarily in the United States.

In the Chinese model it is the opposite direction: they all learn anything new, promising, bring new ideas and developments in China, develop and commercialize them at 'home'. Therefore, Russia is even in a better position since starting from a higher level – already having these developments inside. At large, for Russia, and for the rest of Europe the problem is not how to invent advanced technology or open new businesses – incubators – now everyone seems to have learned to make them. The question is: how to grow a world technology leader from a small company? Today the shortest way to success is to send a new technology from, let's say, Tomsk to Silicon Valley, where it will be modified by our compatriots living in the United States. Then this technology will go to large American companies that will provide rapid growth in production of a new product. The next step – to figure out how to do it here in Russia. How, without stopping the process that is already debugged in the United States, create our own Silicon Valley. If we succeed, then the progressive ideas and their developers will flock to Russia in a turbulent flow, including from North America. After all, the US also has a bunch of great ideas, but does not always have the resources for their implementation.

So this strategy – not a one-way street, it can work in both directions. The Russian president, visiting Silicon Valley, spoke about the creation of the Skolkovo so that the impression was made that he wants to organize the same valley near Moscow in almost a day time. But miracles do not happen. Leaders from different countries visit this valley for over fifty years. See here the offices of successful companies, laboratories, high-tech enterprises and, of course, want to use this experience at home. For example, after the arrival of General de Gaulle to the Silicon Valley, the French built a science park Sophia Antipolis, which managed to attract subsidiaries of large international companies. But after a little while almost all of them left. And only after that the French finally learned that they themselves must also make some contribution to the development of the project.

The main thing is to place the emphasis on creating a fundamentally new university model in Russia – entrepreneurial. This means engaging young people – students, graduates, fellows in the research and innovation work. We need to give young researchers the freedom of creativity and at the same time encourage them to continue research work at the university, and help in the establishment of new firms. The same principle should be applied to students during their studies. While the process of learning should not just be an academic – that is, not just reading books. It should be a transfer of knowledge, skills, experience, incentives, entrepreneurship, innovation [4].

Unfortunately, in the Russian regions these proposals are less and less applicable. Speaking specifically about the Volgograd region, there is a steady decline in production. Volgograd was one of the 28 fastest-endangered cities in the world, and students, barely graduating from university, rush to Moscow for employment. Meanwhile, it is the youth who was assigns a leading role in the rise of the entrepreneurial and innovative consciousness by the H. Etzkowitz.

There are two approaches to creating an innovative system – resource and institutional. When you first implies that everything is being poured with money, oil and gas, and then wait to for something new and advanced

to originate. At the institutional approach the conditions are being creates. The “triple helix” is the institutional approach. Development and strengthening of institutions – private property, information and intellectual rights, justice, civil society, expert community – that is what we want from the government, as well as of a decent funding for science and innovation, which currently amounts for less than 5% of GDP. A key requirement towards the university is to become entrepreneurial [7]. Criteria for such a university H. Etzkowitz has described very accurately. First of all, a high level of research budget. For example, at Stanford, where H. Etzkowitz works himself, this level is 85%. Although our financial resources are much more modest than in the USA, the leading Russian universities should change the priorities in the direction of research budgets. And of course, it should always be kept in mind that in addition to the two traditional missions of the university – education and science, its third most important mission is innovation.

Besides the decent funding, universities must effectively spend their budgets. This is also not as simple as it seems. The problem, however, is not a purely regional, metropolitan universities are equally inefficient, but the organization of work of the higher school in Russia demands a radical change. Some steps in this direction are being made, but the activities of universities and their governance still lacks transparency and efficiency.

The authorities often substitute the organization of comfortable business environment with financing of strange projects and support unknown entrepreneurs. This is a vicious practice, but its abandonment seems only possible with a significant budget deficit at all levels. In this regard, the Ministry of Economic Development of Russia has announced the results of the competition on the distribution of federal funds for co-financing of regional programs to support small and medium-sized businesses in 2012. The maximum amount allocated to Moscow – nearly 1.5 billion rubles. This is followed by Moscow region with the amount of support 610 million rubles. Third place is Rostov region (596), the fourth – the Republic of Tatarstan (585), closes the top five of the amount of funds raised is Perm region (476). Information on the volume of distribution of federal funds for co-financing of regional programs to support SME in the Southern Federal District see Table 1 and Figure 1.

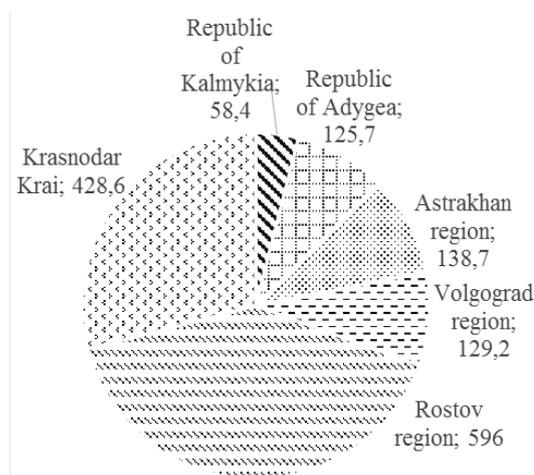


Figure 1. Co-financing of regional programs to support SME in the regions of the Southern Federal District, mln. Rubles

Table 1. Distribution of federal funds within the Southern Federal District aimed at co-financing regional programs of SME support

Regions of the Southern Federal District	Volume of funds, mln.rub.
Republic of Kalmykia	58,4
Republic of Adygea	125,7
Astrakhan region	138,7
Volgograd region	129,2
Rostov region	596,0
Krasnodar Krai	428,6

In total the Ministry of Economic Development sends out to the regions over 18.5 billion rubles. These funds are intended to co-finance local programs to support entrepreneurship. The volume of federal subsidies depends on the amounts included in the development of business in the budget of the subject: as a rule, the more funds the region allocates from its own sources, the more money it gets from the federal treasury. The mechanism for obtaining grants is simple: the subject sends an application to the Ministry of Economic Development, the competitive commission of the Ministry considers each application, does the examination and render its decision on each project. The application shall include specific targets for the requested funds and the amount of these funds. The effectiveness of usage is once again unevident.

4. Conclusion

Funds are used to provide accessible credits for SMEs, the creation of business incubators and other elements of business support infrastructure, information activities with the purpose of enhancing the prestige of entrepreneurship. All forms of state support for SMEs ultimately aim to increase its share in the economy. Due to its mobility, small companies and businesses are able to respond quickly to the crisis and pull the economy when it is needed. In addition, they act as one of the largest employers – about 23% of the economically active population of Russia is employed in the sphere of small and medium-sized businesses. In today's economy, small

businesses must give 60 – 70% of the gross regional product. While, for example, in the Krasnodar region, the share of such taxes in the structure of payments to the budgetary system is less than 7%. Even fewer share is given by the revenue from local taxes 2 – 2,5%. Program of business support in the Kuban region is more than 800 million rubles [8]. This means that after all things need to be done the Etzkowitz way.

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