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## Support of innovative entrepreneurship in Russia: institutional aspect

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### Abstract

This paper analyzes approaches to government regulation of innovation. In particular, the analysis of such indicators to assess factors in the development of a competitive environment as the impact of asymmetric information, of doing business, etc. based on an analysis of approaches to government regulation of Innovative Entrepreneurship identifying the most effective methods.

### Keywords

Small business, innovative entrepreneurship, government regulation, infrastructure, innovation.

### Introduction

Attention to the support of both small innovative business and the corresponding technological infrastructure has risen due to the fact the small companies appeared to be the less protected elements of innovation system amid the crisis. The growth has been observed as

of January 1, 2009<sup>1</sup> (in comparison to the data for January 1, 2008) in the sphere of small and middle-sized business in Russia: the number of small companies (including microcompanies) – by 20 %, the number of individual entrepreneurs – by

1 "Data of the Statistic Committee of Russia" ["Dannye Rosstata"], available at: [http://www.gks.ru/wps/portal/OSI\\_P/DEM](http://www.gks.ru/wps/portal/OSI_P/DEM)

10 %, average total number of employees in small companies – by 12 %, small companies' turnover – by 19 %, contribution of products, produced by small companies, to the total GDP – by 4 %.

Thus, the small and middle-sized business' contribution to the Russian economy may be characterized by the following indicators: the fifth part of GDP; and including individual entrepreneurs – every fifth, engaged in the economy; two of five business units are small ones. Thus, the influence of this sector on the national economy is quite significant.

### **Innovative entrepreneurship in Russia**

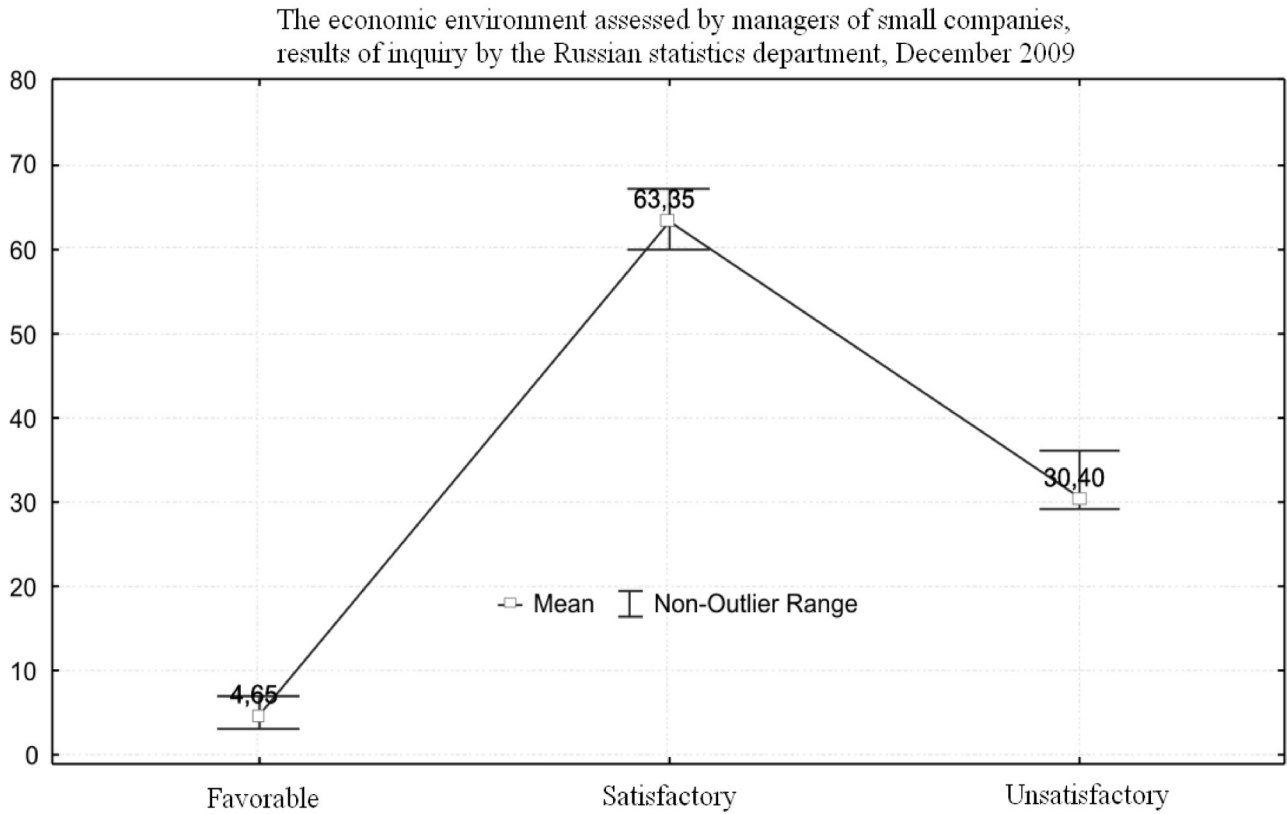
Innovative methods of management may be applied in various functional dimensions of a company. Models of money flows, financial leverage are developed in the sphere of financial management, and areas of business-processes establishment and reengineering are actively developed in the operational management field. The innovative methods may also be applied directly to the management process itself. For example, decentralization and switch from vertical links to horizontal ones are the innovative methods of management.

To find out the most vital areas of management system development small modern companies have to analyze the value of external factors' influence on the business environment.

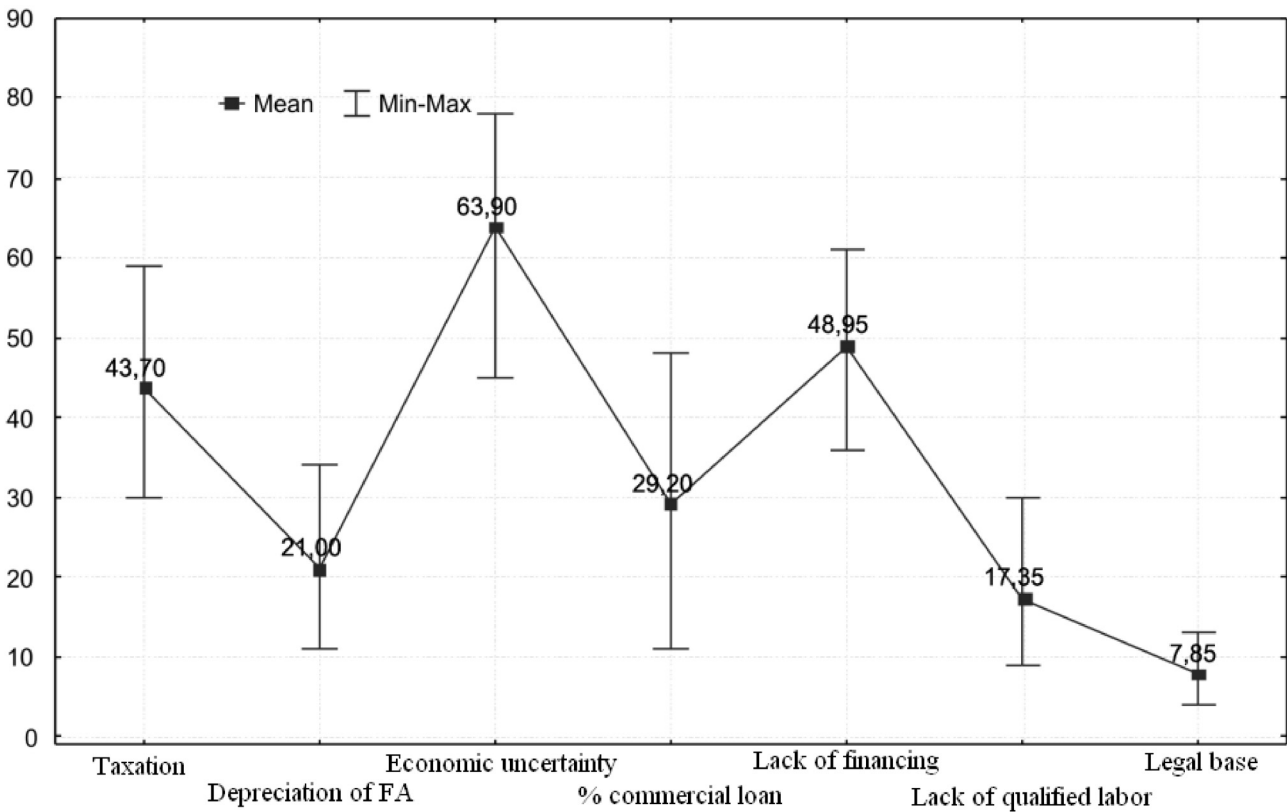
The data of inquiry on assessing various external factors, conducted among the small companies of the Russian Federation by the Russian statistics department, is used as the indicators.

Thus, for example, the range of economic situation assessments is shown in the Fig. 1 according to the data of December 2009. According to the diagram managers of small companies think the current economic situation is satisfactory, i.e. it allows to get the economically justified rate of return to proceed business activities, however about average 5 % of managers in different branches consider the actual conditions being favorable. The prevailing proportion indicates the necessity of introducing the innovative methods of management.

Let us indicate top-priority areas on the basis of factors assessments (fig. 2). As the diagram demonstrates the most important factors for the national small business are uncertainties of economic situation and a small demand on production. Such factors as credit rates and tax burden are of less importance. One should note that the less impact on



**Fig. 1. The economic situation assessed by managers of small companies**



**Fig. 2. Range of indicators value variability for the inquiry of small companies in 2009**

activities of small companies' is exerted by depreciation of main funds, influence of foreign competition and level of demand on production and services abroad.

As one may see from the assessments, the conditions of real economic sector development are limited by the foreign competition factor, reinforced by the gap between the infrastructural conditions of business in Russia and countries with the developed economy. To achieve a constant economic growth in these conditions it's necessary to establish strong competitive advantages by developing competition clusters on separate regional markets in frames of national economy. Thus, it is the development of a company within a specific competition cluster that may become a basic concept for innovative management methods unification.

The problems specific for the mechanisms of small innovative entrepreneurship support deteriorated amid the crisis. First of all, the government paid its attention to incompliance of organizational and legal form of activities carried out by the main state Fund, which supported small innovative companies, as well as the Fund for the promotion of small companies in scientific and technical sphere (the Fund for the promotion), to the regulations of Civil and Fiscal Codes.

Secondly, the new technological infrastructure did not work appropriately (technological development zones (TDZ), tech parks), and the interdepartmental delegation of responsibility for its development was initiated at the end of 2009. For the time being the Fund for the Promotion acts according to the Provision on Fund that states it is a national non-commercial organization without organizational and legal form being specified. The fund is a budget managing unit, but according to the Fiscal Code (article 38.1 "Procedure of budget expenditure departmentalization") it may allocate funds only to organization under its subordination. The Fund for the Promotion does not have subordinate organizations and allocates funds on R&D on the basis of tenders, concluding agreements (on the basis of Federal Law on July 21, 2005 No. 94-FL on "Placing orders on products delivery, provision of services for national and municipal needs") with winning organization regardless of their subordination procedure.

However, activities of national funds to support science and innovations (first of all it concerns the RFFI and RNTF) was legal, as their time to make appropriate adjustments to the documents was extended by January 1, 2010

by the Federal Law on April 26, 2007 No. 63-FL "On introducing amendments to the Fiscal Code of the Russian Federation in framework of budget process regulation and adjustment of separate legislative acts of the Russian Federation in accordance with the Fiscal legislation of the Russian Federation". Basically this clause did not concern the Fund for Promotion, however, the latter is in the regulative uncertainty zone, i.e. in the risk zone because of acting on the basis of the provision which does not state clearly whether the Fund for Promotion is a state-financed or autonomous institution or operates in some other organizational and legal form.

Technological infrastructure having been developed as special projects since 2006 – IT-parks in nine regions of the state, and four technical development zones – turned out to be so ineffective that management of these projects was delegated to new establishments. The Federal agency for special economic zones management (RusSEZ) was liquidated, and its authorities were delegated to the Ministry of economic development.

At the same time there were some changes in the field of legal regulation and the establishment of a new financial infrastructure to support small innovative business, especially from the start.

One of the main changes is the adoption of a new federal law in August 2009. According to the latter the state-financed academic institutions, including ones within the system of state academies of science, as well as universities, which are state-financed institutions, may be founders of companies established to commercialize intellectual property results through a notification procedure. Despite of various risks and serious shortcomings, including inconsistency between this Law and the Budget and Tax Codes, its adoption should contribute to the growth of small innovative enterprises segment.

Institutions may transfer rights on their intellectual property as a contribution to the charter capital of small companies. Adoption of this Law is complemented by the new regulations on limited liability companies (LLC). According to a new edition of the Law on Limited Liability Companies having come into effect since 1 July 2009 payment of the charter capital share by the means of property rights should be allowed. Moreover, mechanisms of public participation in the innovation business are being developed. Possibilities and limitations of large state companies derive both from its belonging to governmental property, and from its size.

The advantages of the large state-run company are as followed:

- The state may have an impact on the current social and economic development of the country through the operation of large state-run companies without any additional burden and risks to the budgetary system in several areas (eg, pricing, financing, implementation of specific investment projects, etc.);

- Unifying internal resources of several smaller business entities and concentrating them to invest in areas which, according to the state, should provide structural changes and damping of market failures being of vital importance for the state economy as a whole;

- Cumulative effect of predictability and stability of economic relations increasing for all the major holding companies, reduction of transaction costs, expansion of planning horizons at a corporate level, increase of competitive stability by controlling a larger share of the market;

- Possibility to achieve economies on scale by consolidating smaller business entities into a single integrated structure (increase of output and savings on it, unification and sharing of distribution channels, centralization and diversification of supply, orders redistribution, maneuver with temporarily available resources, in-

cluding money and staff, transfer of technical documentation, R & D and intellectual property rights within the large structure);

- Financial Effects of large integrated structures (larger chances of getting access to external financing through bank lending and the stock market compared to individual economic actors, the potential of working with large investors and lenders, growth of capitalization, wider and diversified opportunities for mortgage transactions, mutual guarantees of participants combined into an integrated structure, the image of the borrower with lower risks and the opportunity to get a favorable credit rating).

Much of disadvantages typical of large state-run companies are the continuation of the abovementioned advantages:

- Operation of any major economic structure carries risks of the effectiveness decrease after its business' having exceeded a certain threshold; there are a lot of examples in the private sector as well, when large corporations eventually lost their flexibility, the propensity to innovate, and in case of state-run companies, these risks are compounded by specific disadvantages;

- From a managing point of view, the state controls the management of the company less effective, that leads to corruption;

– The risk of political interference by the government can make the company's management focus on non-commercial issues, different from profit maximization, to the prejudice of the latter;

– Natural relationships with the state apparatus that allow getting the budget or other government support (bank loans, public order, etc.), creating the effect of soft budget constraints, devaluing the threat of bankruptcy and acquisitions that disciplines managers in the private sector, contribute to the inequality of competitive conditions for a variety of businesses.

### Conclusion

Striving to strengthen monopoly positions of a company is not separately highlighted among the negative aspects of large state companies' operation due to the fact that this motivation is typical of the activities of large companies regardless of ownership.

The most valuable advantage of the large state-run companies in the domestic environment is the possibility to restore disturbed 90th. economic relations in its framework (for example, between production and R&D), provide access to specific, unique resources being available only for one of the integrable

business entities, to exchange information and results of R&D.

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## **Поддержка инновационного предпринимательства в России: институциональный аспект**

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### **Аннотация**

В работе анализируются подходы к государственному регулированию инновационной деятельности. В частности, анализируются такие показатели оценки факторов развития конкурентной среды, как воздействие асимметричной информации, условия осуществления предпринимательской деятельности и т. д. На основе анализа подходов к государственному регулированию инновационного предпринимательства выявляются наиболее эффективные методы.

### **Ключевые слова**

Малый бизнес, инновационное предпринимательство, государственное регулирование, инфраструктура инновационной деятельности.

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