“Survival” of Small Enterprises in a Vague Environment of Emerging Economy

Sergey Leonidovich Aksenov
Autonomous Non-Commercial Educational Institution of Higher Education “Regional Financial and Economic Institute”
17 Lomakin Street, Kursk 305029, Russia

Abstract

The article deals with the justification of the complex of factors that contribute to “survival” of small enterprises in an uncertain external environment of transitional economy. Small business is a relatively new form of organization of economic activity (especially in Russia), which explains the absence of a well-defined theoretical description of it. A special place in the structure of the regional economy is given to small enterprises that are objectively focused on meeting local needs of the regions. However, the effectiveness of small business in the Russian regions is largely pre-determined by the state of the business environment, the formation of which should be based on knowledge of the mechanism of functioning small enterprises. This raises the need for developing such economic mechanism that would allow small businesses to operate effectively in a vague external environment.

Keywords: survival strategy of small business, external environment, the regions of the country, small enterprises, small business, models of adaptive behavior of enterprises, the components of survival strategies.
Introduction

At its core, the national economic activity is concentrated in the regions of the country. Each region of Russia has a certain “set” of natural resources, peculiarities of their location, national and historical features, its economic structure, the level of economic development and specialization. Therefore, it occupies a definite place in the economic sector of the country by making a single economic unit. According to Yuryi Simachev [1], the regional economy plays a particularly important role in the scientific basis of the economic remaking of the country, the creation of a single national economic space, provided the rationalization of inter-regional relations, the formation of regional markets. And one would find difficulty to quarrel with the author’s opinion. We note only that the priority in this context becomes the formation of such a combination of forms of organization of economic activity which would adequately correspond to the structure of needs of the population and enterprises in the regions.

The development of elements of a survival strategy, strategic management of business entities at various levels and the formation of the so-called “strategic style” of management, “strategic behavior” of a small enterprise in the Russian reality are directly related to the transition from a centrally controlled to a market economy. The unpreparedness of the leaders of various levels to make reasoned, deliberate and considered policy decisions is, according to A. Kokorev, one of the major causes of these negative economic processes as the gap in economic ties, failure to comply with contractual obligations, mutual non-payments, drop in investment activity, slowdown in scientific and technological advance in the national economy, overall decline in industrial production [2].

Therefore, in recent years in the scientific circles there has been a lot of debate about the lines of further development of the regions. What is better for them to be in the future: highly specialized or diversified? Thomas Kemeny and Michael Storper [3] have devoted their scientific research to the solution of this problem. Small enterprises can play an important role in the affirmative answer to this question. The studies by English scientists Andrea Ascani, Riccardo Crescenzi, Simona Iammarino who have disclosed the lines of development of the regional economies in various countries around the world: in the EU countries and the USA, India, Brazil and others are devoted to the same research area [4].

As part of the regional economy, small business performs positive functions which become apparent in the inherent competitive strategies. And as the modern small enterprise forms, its contrasting with large economic entities disappears. Both begin to function effectively only on the conditions of rational cooperation and strategic partnership.

Russian scientists Yuryi Simachev and A. Kokorev and their foreign colleagues Thomas Kemeny, Michael Storper, Andrea Ascani, Riccardo Crescenzi, Simona Iammarino are not alone in their attitude to the problems of functioning of the regional economy and to the criteria of survival of small enterprises. The studies of many other foreign scientists are also devoted to the solution of these problems [5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20,21,22,23,24,25,26,27,28].

Methods

External environment and self-developing economic entities are two components of the economic system that actively interact with each other and motivate each other to optimal alterations and further development. Thus the development of entrepreneurship in the form of small businesses is a process of their adapting to environmental requirements, and specifically, according to A. Orlov, neutralizing its basic qualitative characteristics - uncertainty [29].
Just the problem of uncertainty of the environment was the subject of investigation by American historian of entrepreneurship A. Chandler [30] in the 50-ies of the last century. He studied the activities of firms in the first half of the XX century owing to a sharp increase in uncertainty of the external conditions of their functioning. A. Chandler revealed the typical reaction of entrepreneurs to rapidly changing external factors and offered appropriate forms of adaption of companies to rapidly changing environmental conditions (it was a kind of prototype of strategic planning).

The main deduction of the scientist was in that the companies as if resisting an abrupt strategically important change in external conditions, trying to ignore it until the change began to have a significant impact on the results of their activities [31].

In transitional economy the complexity and mobility of the external environment of enterprises primarily depends first of all on an imbalance of all its factors and, as a consequence, instability of the socio-political sphere.

Besides the socio-political and economic and legal spheres, where small enterprises are obliged to act, have essential features in the context of contemporary reality. Thus, the social environment of small business can be assessed as contentious, and in its capacity, alas, it is stable. Legislative environment is still highly unstable, and the very small enterprises are characterized by a low level of observing the Russian laws. This combination of factors led to the emergence of a specific type of economic unit of the whole economic system in Russia.

“At the cost” of systemic transformation of the socio-economic structure of the country there were a sharp decline in industrial production in the 90s years of the twentieth century and reduction in investment and reproduction processes and narrowing the scope of the industrial potential. These negative trends have not been completely overcome so far.

At the same time, according to the authors Kleiner G. B, Tambovtsev V. L, Kachalov R. M., at the microlevel, by turn, there is a dilemma: either small businesses to be restructured into effective market actors, able to adequately respond to market signals and have sufficient self-potential in a market economy, or the processes of intra- and inter-sectoral differentiation to lead to the destruction of small business as such, the breakdown of the technological structure of the national economic system and its criminalization[32].

Therefore, by solving the problem of survival of small business in a vague environment, the need to create a socio-economic mechanism of functioning of small enterprise in a particular region should be taken into account.

Main body

The transition to a market economy in the post-reform Russia, in I. N. Gerchikova’s strong opinion, took place on the basis of a special kind of economy, the individual elements and sub-systems of which were in some ways consistent with each other, forming an actually growing system, being although not sufficiently effective [33].

Why did it happen? Russian transitional economy is, unfortunately, very far from ordered and informational complete “mature” market economy. Significantly different from those in restrictive economy are either the very economic entity – an enterprise or a firm - in its relations with the state and municipal authorities, or the external environment of a small enterprise (price mechanism, financial and credit institutions, market price signals, economic cooperation and others ), with its traditions and customs of economic behavior and choice.

As the scope of the market economy, small entrepreneurship is presented by economic entities possessing the unity of ownership and management, organizing economic activities of low capital intensity and low number of employees, the flexibility of the profile and quick response to technological innovations; functioning in high-risky conditions and full economic
responsibility; ensuring the reproduction of the market relations in order to make profit by balancing demand and supply.

Impact of non-system, and sometimes even contradictory external factors of the Russian reality of 90s of the twentieth century gave rise to a rather plastic, but at the same time ugly economic system, the final transformation of which is far from complete.

In this connection, according to P. Drucker, the specific features of domestic small enterprises are related to the transition state of the Russian economy, the need to bridge over adaptation difficulties that arise by choosing a pattern of behavior in a situation of transformational uncertainty [34].

Analogous to the Russian problems are the problems of small enterprises in Greece. So, on the basis of scientific research, Greek scholars Konstantinos Bourletidis and Yiannis Triantafyllopoulos have come to the conclusion that the majority of ventures are small and very small. There work from 1 to 49 people (they are more than 90% of enterprises). Small enterprises during prolonged economic crises (Greece is “rich” in them in recent years) due to their limited financial resources are affected by economic downturns as their economic activities are dependent on bank loans for which you have to pay high interest rates. As a rule, the financial aspect may have disadvantages of small enterprises in terms of their limited technological, managerial and human capacities, which leads to a decrease in their capacity to overcome the economic crisis. Konstantinos Bourletidis and Yiannis Triantafyllopoulos also note their greater dependence on customers and suppliers. At the same time, the authors draw another conclusion on that there are the companies that, on the contrary, benefit from the crisis and use every prospect of success. This may happen in case of survival when small enterprises in the area of trade are developing alternative marketing strategies, innovative tactics and new concepts in the strategies of survival in extreme conditions. In addition, small enterprises can be more flexible in adapting to economic slack because they are less resistant to inertia, better able to make use of their existing and emerging market niches [35].
Fig. 1. Mechanism of functioning of small-scale enterprise in the region

Small enterprise with economic activities on personal, initiative, innovation, risk basis at full economic risk of the very entrepreneur

Saturation of differentiated and ascertained demand in the sphere of industrial and personal consumption to earn profit of enterprise

Institutional and legal structures

Budget and tax tools

Macrolevel

Employment creation
Formation of social layer of owners
Involvement of certain population groups into labor activity
Small banks creation for financing small enterprises

Microlevel

Realization of economic functions

Realization of social functions

Entrepreneurial

Realization of economic functions

Developing and using local source of raw material
Establishing competitive market relations
Diversification and improvement of product quality
Approach of commodities and services to competitive consumers
Generation of alternative strategies of marketing, innovation tactics, and new conceptions in the strategy of survival

Finance and credit institutes

Infrastructure

The role of small enterprises in the life of the inhabitants of the whole Earth is extremely high. Thus, according to Antonio Vives, in Latin America the small and medium-sized enterprises which provide between 40 and 60% of all jobs presented in these parts of the Earth make up more than 95% of the total number of all firms and give about 30 to 50% of national produce [36].

The Australian scientists as Nguyen Nga, Beeton Robert J.S, Halog Anthony, St Lucia Campus, Brisbane Qld are also in no doubt about the fact that small enterprises play an important role in the global economy. They are, according to the authors, the engines of growth in any economy. Small and medium-sized enterprises account for about 99% of all European businesses, provide two out of three jobs in a private sector and contribute to the production of more than half of the total add value created by the enterprises in the EU.

At the same time, the authors conclude that the pressure on small and medium enterprises in emerging economies is huge. Especially when they are trying to adapt their production and management to industrial eco-standards that are actual in a country [37]. As a consequence, the responsible behavior of these firms could exercise a significant influence on the population and the environment of the entire planet.

Since small enterprises have limited human, material and financial resources, they often happen to face the challenge of an effort to find resources to maximize short-term benefits, which, according to a Canadian scientist Heather C. Banham, often makes them adequately respond to outside influences. The analysis of external environment is an important step in the process of strategic planning, which requires the SWOT-analysis, i. e. The analysis of strengths and weaknesses in the functioning of the enterprise, the potential threats [38].

According to Elizabeth Laderman, small enterprises do not always manage to obtain a credit from the major banks. In this respect, smaller banks may gain a comparative advantage over big banks in lending to such enterprises. Especially significant social implication is in crediting young and newly established small enterprises that create new jobs, which is important for stabilizing the economy [39]. Therefore, it may become necessary to build at the macro level small banks for financing small business.

The mechanism of functioning of small-scale enterprise in the region is shown in Figure 1.

In the strategic field of activity a small enterprise should conduct single-point modernization of equipment; acquire and deploy Western technologies and “know-how”; clearly position its products, brand, style; actively cooperate with a traditional client, expand the range of services, after-sales services, repair and modernization; search for new responsible customers, to seek those in the related industries and approach foreign markets; move from mass production to flexible oriented to individual customer needs; obviate unprofitable ( unpromising) practice areas; use leading foreign projects, utility, raw materials; have flexible behavior on the market, use trademarks of the partners.

All this has allowed H. Mingazova to conclude that under these conditions, adaptation to environmental factors is an extremely urgent problem of the modern small business. The ability of firms to adjust to rapidly changing market environment is considered to be an essential condition to survive and the main criterion for the effectiveness and efficiency of modern production management decisions [40] (see the table).

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Types of the models of adaptive behavior of firms</th>
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<td></td>
<td>Model of conservative behavior</td>
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<tr>
<td>I Product policy</td>
<td>Retention of previous structure of production output</td>
</tr>
<tr>
<td>II System of business relations</td>
<td>Retention of traditional relations, orientation to the existing pattern of consumers and suppliers</td>
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<td>II Relation investment projects</td>
<td>Cutting down all investments</td>
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<td>III Orientation to possible sources of financing</td>
<td>Expectation for government support and easy credits</td>
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<td>III Organization framework</td>
<td>Retention of the adopted control scheme, fragmentary alterations</td>
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<td>IV Manpower policy</td>
<td>Retention of full personnel</td>
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<td>IV Strategy</td>
<td>The strategy is practically absent, fuzzy objectives</td>
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Under these conditions, the effectiveness of management of a small enterprise depends to a great extent on the competence and goal-directedness of the entrepreneur; at that there is a high probability of prevalence of the goals as his personal enrichment to the detriment of economic activities, neglect of business interests and, as a consequence, low economic efficiency of the internal functioning of the enterprise.

J. O. Shaughnessy divides the strategy of survival of small businesses into several components: institutional, market, competitive, productive and financial constituents [42] which are presented in Figure 2.

The organizational component of survival strategies has in turn several variants:

1. The entry of small enterprises into vertical structures (corporate groups), converted from sectoral management structures or created anew. They usually help in supplying and marketing, establishing economic relations between the CIS states. Such associations create their own financial institutions; exert lobbying pressure on the government and the Central Bank, etc.

2. Integration of small enterprises into a variety of horizontal associations such as corporations, partnerships under the joint investment and production projects. There are also associations such as cartels within the framework of agreements between small enterprises on the minimum level of prices. Parasitizing small enterprises in the state property by specializing in the sale of raw produce and materials from the reserve funds of enterprises, leasing unused premises, etc.
Types of the components of survival

- Organizational component
  - Entry of small enterprises into vertical structures
  - Integration of small businesses into different horizontal associations
  - Parasitizing small enterprise in public domain
  - Privatization
- Market aspect
  - Pursuing the policy of orientation and switching over customer demand
- Competitive aspect
  - Improvement of goods quality, i.e., nonprice competition
  - Thorough examination of future contractors, their reliability and perspectives in relation to contacts with new commercial market structures, etc.
- Production component
  - "Engineering ethics"
  - Realization of inadmissibility of degradation in production quality in present conditions
  - Regular pressure of many inspecting agencies — water service, environmental protection, boiler inspectorate, etc.

Financial constituent of the strategy of survival

- Associations of small enterprises exert pressure on government to gain give-and-take, benefits (for example, preferential interest rate) — in forming financial resources
- Financial constituent implies application of internal efforts on regulating financial situation of enterprise предприятия
- The leaders of small enterprises have become aware of tight restrictions being determinative in making key financial decisions

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Fig. 2. The components of the strategy of survival of small enterprise.
3. Privatization which allows to escape from the control of government officials, acquisition opportunities to take flexible economic solutions (the positive aspect of privatization), to assume uncontrolled leadership based on personal ambitions and interests (negative aspect of privatization). Anyway, implementation of the privatization pursues an aim to preserve and strengthen the enterprise control, avoid a “third-party shareholders” control.

4. Market aspect of survival strategy, or selling strategy, is essential, according to the majority of entrepreneurs. However, it has been developed by few enterprises so far because of slight knowledge of managers, lack of qualified specialists – marketers, lack of experience in the development of such a strategy, etc. Within the selling strategy, small enterprises should pursue a policy of orientation and shift to customer demand, a careful study of the future contractors, their reliability and the prospects for new contacts with commercial entities on the market, etc.

The competitive aspect of the survival strategy of modern small enterprises involves mainly improving quality of the goods, i. e. nonprice competition.

The financial component of survival strategies, on the one hand, reproduces the habits of the past - the associations of small enterprises put pressure upon the government, trying to get concessions, benefits (for example, seeking after preferential interest rates) – by formation of financial resources, on the other hand, assumes making its own efforts to regulate the company's financial situation. The managers of small enterprises have felt that the active financial constraints become decisive when making major financial decisions.

The production component of the survival strategy takes aim primarily at maintaining the technological level of entrepreneurial activity. According to the experts, it reflects a kind of “engineering ethics” (the majority of the leaders have technical education) and understanding of that lowering the product quality in the current environment is clearly unacceptable, and the constant pressure of many inspecting agencies - water supply, environmental protection, boiler inspection, and so on.

All in all, within the framework of the survival strategy the transition from the simplified representations and passive expectations of entrepreneurs to understanding complex and diverse character of the business strategy of small enterprise and ways of economic behavior is typical.

Analyzing the list of adaptation activities of a typical small enterprise in a transition economy, Professor A. N. Folomyev and a number of other scientists distinguish the following main features:
— purely situational nature of the list of adaptation changes in the transitional economy, characterized by essentially a set of local activities;
— lack of a systematic approach to building a common strategic program for small enterprise in the period ahead and a plan of general structural adaptation to the external environment;
— development of the activities that exclude explicit global changes in the targets: the concept of “survival” is formed in simplistic solution of the problems, the lack of the goal of global innovative long-term renewal;
— sporadic consideration of individual entrepreneurs for a qualitative system of informational support and accounting of expenditures, which produces changes of fragmentary, opportunistic-local nature in this sphere;
— reorganization of the staff policy that virtually ignores the activities on developing creative and professional potential of employees, pays attention to a prompt retraining of certain categories of staff.

Thus, the main problem of small business adaptation to dynamic environmental conditions is in the ability of managers of small enterprises to work out effective measures that are appropriate for external environment to survive. In other words, we are talking about the inner adaptation capacities of small enterprises in transitional economy. However, the mechanism of self-organization begins to operate only at the relevant environmental conditions [43].

At the same time, V. Ikes, R. Riterman take a slightly different view and believe that the relation between the elements of the economic “population” does not support the stability of its existence in
general, so the main task of the companies (including small ones) on the whole is “survival” [44]. Therefore, gradual evolution that is consistent with the external environment, according to these scientists, is impossible, and the decision-making regulations in the company, having been barely formed, break under the pressure of stressful situations in which the entrepreneur, the organizer of a small business, finds himself too often. Under these conditions, the authors are here categorical too. The entrepreneur makes a decision at his own risk, relying only on short self-profit and a desire to strengthen his own stability and, if possible, an uncontrolled situation (in fact - to reserve his position as “rent holder”).

Socio-economic and normative legal instability, accumulation of “criminal” activities of the managers of small enterprises and their close links with organized crime makes the position of the “survival-oriented” managers unsustainable. Under the influence of criminal, financial and federal structures there takes place a process of redistribution of economic power in the country. So "the rent holders" will soon be replaced by any effective managers or effective owners.

In addition to the increasing complexity of the structure of factors, the external environment of economic entities in any national economy is characterized by a high rate of changes. In the market economy the environment mobility is explained, above all, by high saturation of consumer demand, its individualized and dynamic, multifarious character. Constantly changing demands dictate shifts of other environmental factors: technologies, communication, social relations, etc. So, M. H. Meskon, M. Albert, F. Heduori make an unambiguous conclusion that rapid and far-going changes should be made by small businesses, adapting to the external environment [45].

Based on the study mentioned above we can conclude that the mechanism of functioning of small entrepreneurship in the region is rather complex phenomenon that involves not only a branched mechanism of functioning of small business, including both internal and external environment in a particular region, but various components of the strategy of survival of each individual small enterprise, the model of its adaptive behavior inherent only to the enterprise in the emerging economy (see Figures 1 and 2, and the table).

**Conclusion**

Thus, as a result of scientific debate we have revealed the main criteria of the strategy of survival for small business in an uncertain external environment, the main of which are the development of the mechanism of functioning a particular small enterprise in the region, as well as the choice of appropriate socio-economic activities of the model of adaptive behavior and the system of strategy components of its survival in transitional economy.

**Summary**

We have to take into account a variety of factors to develop the strategies for survival of small business in an uncertain environment. The following main groups are among them:

1. The mechanism of functioning of small businesses in the region that includes the following main factors: a) active functioning in a strategic area aimed at point equipment upgrading; purchasing and pushing western technology and “know-how”; clear positioning of the internal products, brands, style, etc.; b) realizing social functions (creating additional jobs, forming social layer of owners engaging certain groups of the population in labor activity); c) implementing economic functions (developing and using local sources of raw materials, forming a competitive market economy, expanding the range and quality of goods, approaching the production of goods and services to specific users); d) the elements of the environment such as institutional and legal frameworks, fiscal instruments and financial and credit institutions, and infrastructure.

2. The components of the strategy of survival of small enterprise:
a) organizational component (entry of small enterprises into vertical structures, integration of small enterprises in different horizontal associations, parasitizing small business in public domain, privatization);

b) production component (“engineering ethics”; realization that the reduction in the quality of products in the current environment is unacceptable; the constant pressure of many inspecting organizations - water supply, environmental protection, boiler inspection, etc.);

c) the financial component of the strategy of survival (associations of small enterprises exert pressure on the government, trying to gain concessions, benefits (for example, seeking preferential rates of interest) - by forming financial resources, the financial component involves the application of own efforts to regulate the company's financial situation, the managers of small businesses have felt that tight financial restrictions become determinative in making major financial decisions);

d). market aspect of the strategy of survival (implementation of a policy of orientation and switching to a consumer demand, thorough examination of counter-agents, their reliability and prospects for contacts with new commercial structures in the market), etc.;

e) the competitive aspect of the strategy of survival (improvement of the quality of the goods, i.e., non-price competition).

3. The models of adaptive behavior of firms (the model of conservative behavior, the model of active behavior, the mixed model) and their characteristics.

It is possible for a small enterprise to achieve economic benefits from its activity and “survive” in an uncertain external environment of emerging economy if we consider these factors in complex and indissoluble connection with each other.
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