

## INNOVATIVE SOLUTIONS REGARDING DEVELOPMENT OF SMALL AND MEDIUM-SIZE BUSINESS

*The article is devoted to the analysis of innovative solutions in development of a small and medium enterprise in Ekaterinburg. An increasing role in the regional economy of small and medium innovative enterprises and infrastructural organizations (technological park, innovative-technological focus, focus on transfer of technologies) is especially marked. Practice of realization of key measures of the strategic project «Ekaterinburg is a center of innovative activity and innovative services» and role of organs of local self-government is in-process considered in support of small and medium innovative business, and also perspective directions of development of innovative enterprise are certain in the economy of the large city in the coming years.*

Small and medium-sized innovative enterprises are becoming one of the priorities of reform and modernization of the economy. The Federal Law «On the Development of Small and Medium Business in Russia» from 24.07.2007 № 209-FZ, in Section 22 referred to the support of small and medium-sized businesses in the area of innovation and industrial production [1]. A special role will develop innovative activities aimed at improving product competitiveness. The significance of small innovative business is due to its specific characteristics such as: high pace, mobility and ability to quickly provide concentration of human, financial and organizational resources for the preparation and issuance of serial samples of new products.

In the current economic conditions the leading role belongs to the innovative vector of development, and an emphasis on fundamental modernization of technologies and industries that require serious financial investment from entrepreneurs and investors. A degree of innovation

risks is demonstrated by the fact that if the survival rate among all small businesses is 50% on the average, only one or two of every ten innovative small businesses achieve success. It is impossible to completely avoid the innovative business risks, as it is very difficult to predict if an innovation will be successful on the market, or not. However, risks can be reduced if innovative projects are carefully analyzed with experienced professionals and experts involved.

Analysis of trends in advanced economies in the world, and in particular in the U.S. economy, allows highlighting the most important conditions that ensure successful innovation development. First, it is time for the market of new high-demand products. Second, development of new manufacturing processes that enable production of highly advanced products. Third, identification of new sources to obtain the most effective source of industrial materials. Fourth, stimulating development of demand for new products. Fifth, improvement of an organizational structure of production management in order to reduce production costs [2].

If we analyze the state of development of small innovative entrepreneurship at a regional level, in the Sverdlovsk region, they will be characterized by the following indicators.

The greatest number of innovative activity of small enterprises is concentrated in engineering and metalworking, chemical, textile, food and woodworking industries. A priority of innovation of small and medium enterprises is acquisition of modern machinery and equipment. This kind of innovation refers to 100% of the costs in the steel industry and printing industry, from 95 to 99% in the light industry, chemical and wood industry. Every fourth small business is engaged in research

and development of new products and production processes. The index of small knowledge-intensive manufacturing innovation-active enterprises in 2008 amounted to an average of 6,4% (metal — 7,9%, production of medical equipment — 5,4%, non-ferrous metallurgy — 6,1%).

The share of innovation-active small enterprises at present (as of 2009) is only about 7% with a threshold of 25%.

In our view, a set of measures that eliminate barriers to effective and dynamic development of small and medium-sized innovative business should include the following main directions and activities:

- Targeted support for all entrepreneurs and businesses that operate in the innovation economy;

- Encouraging the development of innovations through effective tax policy and removal of bureaucratic constraints;

- Establishment of entrepreneurship in the development of innovations should take real economic and legal environment into account;

- Development of small and medium-sized innovative business requires high degree of professional skill of workers, their active participation in the production process.

- Selection to support and develop high-tech, innovative businesses as a priority.

A variety of measures in the field of fiscal management can play a significant role in stimulating development of small innovative and productive business. First of all, provision of «tax holidays» for newly formed innovative businesses and industries created as a result of investment in the form of capital investment (for example, a temporary exemption from taxes on income, property, land tax of enterprises operating in the common system of taxation, and temporary exemption from the uniform tax of enterprises operating under special tax treatment). To release a small business, it is more appropriate to reduce an overall tax burden on small businesses by reducing some taxes, including VAT and UST (unified social tax). An overall decline in tax burden for small and medium-sized innovative enterprises serves as a stimulus to growth and increased production of new products, and it will also help to reduce the informal sector.

A key normative instrument for determining the municipality «City of Ekaterinburg» guidelines and programs of economic development for the long term is the «Strategic Plan of Ekaterinburg», which was adopted in 2003 [3].

An economically sound strategic plan or project that includes effective target programs to support and develop productive and innovative businesses enables municipalities to provide these activities

as a priority and, consequently, to receive a stable income to the local budget.

The aim of the strategic project «Ekaterinburg — the center of innovations and innovative services» [4.] is to set conditions for accelerated development of innovation and innovative capacity of the city to significantly increase the proportion of modern high-tech products in total production. This project among others involves a series of activities aimed at supporting small innovative businesses.

If we compare the structure of financing of two strategic projects implemented in Ekaterinburg at present, the image will be as follows: the project «Development of small industrial business» involves business means — 47%, funds of foreign investors — 34%, means by the city's budget — 10%, investment funds and banks — 6%, means from federal and regional programs and projects — about 3%. The project «Ekaterinburg — the center of innovation and innovative services» involves means by companies and organizations — 95%, investment funds and banks — 2%, federal funds and regional programs — 1,8%, funds of foreign investors — 1%, means by the city's budget — 0,2%. No comment, as they say. This distribution was made possible only after the analysis: a) statistics on innovation activities of organizations of Ekaterinburg b) schemes to financial specific activities included in the project.

It is obvious that a project to develop innovative activities depends primarily on the literacy project financing of the companies and organizations, as here, unfortunately, apart from the general figures on the volume, we never see anything. And only with clearly defined mechanisms for attracting investors, the main and additional sources of funding, justification timing of repayment of borrowed funds are expected to attract investments in the required quantities.

For example, to stimulate the development of small industrial and business innovation in Ekaterinburg, a program of building block modules for small and medium enterprises (size 10–11 sq m each) is being implemented; first, in terms of participation of the city allocation of sites for construction and engineering services, as well as attracting foreign investment on an equal footing (approximate cost of one unit module will be 135–140 million rubles), and 9 — on the basis of equity participation of entrepreneurs and foreign investors. It is planned that each of the block-modules will have its own branch orientation: manufacture of electronic medical equipment, modern environmentally friendly construction materials engineering. The program has taken over 70 small and medium-sized enterprises, half of them

are planning to invest their funds in construction financing. After implementing this program in full (and it is 100,000 sq ft manufacturing and office space) not less than 90 small and medium-sized innovative and productive enterprises will be located in block-modules.

The main incentive for attracting private investment in this project was the decision by the Administration of Ekaterinburg to participate in its implementation and the allocation of land for the construction of a total area of 66.5 hectares. The most important and time-consuming issues considered by the city authorities are: land design, surveying, design work, coordination of technical specifications and engineering communications. In 2008–2010 15 million rubles from the city budget have been allocated for implementation of the given work; in 2011 construction of engineering communications is planned, and the given work will be financed by entrepreneurs and investors. Total project cost is estimated at 1.5 billion rubles.

At present, promising directions for the development of small and medium industrial and business innovation of the city are:

- Engineering;
- Manufacture of electronic and optical equipment;
- Information technology;
- Production of resource-saving and energy-saving equipment.

Successful development of new activities will require allocation of land for construction of industrial zones, industrial sector and industrial parks that will be created in a special territory. The given zones are already defined on the general plan of the city. For organization and coordination of the industrial park activities management companies (in the form ELN — autonomous non-profit organizations or NP — non-profit) will be specially created, small businesses will be the founders. Currently, NP «Scientific-Production Park» Ekaterinburg» is in the process of registration, and ANO «Management Company» has already registered and started to work at construction of the block-modules for small and medium-sized enterprises.

As part of the activities referred to development of small industrial and business innovation, emphasis was placed on few basic ways:

1. Attraction of entrepreneurs to participate in programs and projects of the Strategic Plan of Ekaterinburg and in implementation of the municipal and public order.

2. Placement of small and medium-sized innovative and productive business at free production areas of the city enterprises, promotion

of subcontracting and cooperative ties of small and large businesses.

3. Exploring the possibility of granting, primarily to small business innovation and production incentives for the use of the municipal property and the application of reduction factors for rental of industrial and office space, as well as land.

4. Involvement of small and medium manufacturing businesses to participate in conferences, competitions and exhibitions, including federal and international, to promote innovation and hi-tech products into new markets.

The determining factor of success regarding this approach is participation of local governments in development and implementation of programs and projects aimed at retention and promotion of small industrial and innovative companies and enterprises in the city. The degree of participation of local authorities can vary from activities that have a recommendation before making judgments and decisions, binding on all the scopes of entrepreneurial activity in the field of production and innovation.

An essential point is application of real mechanisms that are at the disposal of municipal authorities, which are capable of implementing it based on the current regulatory framework. And it is impossible to prepare and take the appropriate documents with lack of necessary legislation aimed at promoting and supporting small and medium-sized businesses. The experience of the city of Ekaterinburg and the Sverdlovsk region, through effective small and medium-sized manufacturing business regional authorities have an opportunity to cope with such problems as: enhancement of the local business communities and development of healthy competitive environment; removal of inefficient industries and businesses from the local market, as well as maximum approximation of a consumer of goods and services [5].

The task of local governments is to create institutional and regulatory conditions, to give the necessary impetus for effective and sustainable development of small innovative and productive businesses. And most of the costs should be borne by entrepreneurs. In essence, the industrial business may be as much as it is for the territories, and because allocation of land and vacant industrial sites is becoming the main issue to be resolved not only at the municipal, but also at regional and federal levels of government.

The main forms of cooperation of small and large businesses are business incubators, industrial and technological parks, established on the basis of large enterprises of the city. But the most productive approach to building industrial parks may be the

branch principle. The result of such structures will be not only prototypes of innovative products, but also organization of their production.

Now, according to this principle several clusters were formed in Ekaterinburg. For example, the Chkalov district is to develop a large industrial zone, production of ceramic products by OJSC “Uktus” (manufacture of bricks), «Plant ceramics” (sanitary ware, tiles), JSC Piastrella» (production of ceramic products on Italian equipment).

In the present crisis, development of small and medium-sized innovative and productive enterprises is of particular importance for regions and major cities, since, working primarily in local markets, they contribute to a range of socio-economic problems, particularly employment and incomes, and they create more favorable conditions for regulation of the regional and municipal economy, as more dependent on local authorities than large and medium-sized enterprises.

Prospects for development of small and medium-sized innovative and productive business largely depends on clear and consistent state and municipal policies aimed at encouraging entrepreneurs engaged in production of modern high-tech products. We

conclude that the state and municipal regulation and support of innovative and productive enterprise should be systematic, comprehensive. Growth and development of new small businesses will largely depend on creating favorable conditions for entry into the market, protectionist policies of authorities with regard to products, goods and services produced by local entrepreneurs.

### References

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