ОПОРА РОССИИ

ОБЩЕРОССИЙСКАЯ ОБЩЕСТВЕННАЯ ОРГАНИЗАЦИЯ МАЛОГО И СРЕДНЕГО ПРЕДПРИНИМАТЕЛЬСТВА

ВЦИОМ

All-Russian Public Opinion Research Center (VCIOM)

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Preliminary Materials of All-Russian Survey

Innovative Small and Medium-Sized Entrepreneurship: Challenges of Development

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Introduction

In February 2006 OPORA RUSSIA and the All-Russian Public Opinion Research Center (VCIOM) conducted a survey of conditions and challenges of development of innovative small and medium-sized entrepreneurship.

Small and medium-sized innovative enterprises represent a unique resource, which combined with a rather strong research and educational potential of the country can become a key factor of sustainable economic growth of Russia.

The need to diversify the Russian economy provides for a necessity to significantly increase the number of small and medium-sized innovative enterprises. This task becomes even more critical in the light of coming re-organization of research and educational organizations of public sector, which may radically change the Russian system of research and developments (R&D). Significant reduction of research public sector should be performed in integral connection with taking complex organizational and economic and financial measures aimed at "easing" of painful process of re-organization of public organizations and preserving highly qualified research staff.

Small innovative companies (including spin-off and start-up companies created from public research organizations) should play a key role in this process. The world experience clearly shows that they are capable to fulfill orders for innovation technologies needed by the market, adapt R&D created by public research organizations to meet the demands of industry and ensure their commercialization. These small companies being an integral component of any developed innovation system would encourage development of effective relations between research, educational, industrial and financial sectors of economy and withstand a risk of inefficient bureaucratic organization of innovation processes.

The government of the Russian Federation undertakes certain efforts on encouragement of creation and development of small and medium-sized innovative enterprises. Nevertheless rates of growth, quantitative and qualitative indices of innovation sector yet do not correspond to the scale of the Russian economy and the task of its modernization. There are only few small and medium-sized innovative enterprises, and they are weakly built-in into the global division of labour. Today the growth of domestic innovation sector is connected in many respects with intensification of the process of creation of new small innovative companies, as well as further development of small innovation business by establishing stable contacts with research and industrial sectors and involvement of the Russian companies into the projects of the largest transnational corporations outsourcing a portion of developments. This is a process requiring a targeted support by the government.

At present, development of an effective system of measures aimed at solution of this task is complicated due to the lack of system policy on matters of innovation development of small and medium-sized enterprises (SMEs), which should be supported by research of issues of development of innovative SMEs allowing choose instruments of support adequate to the level of development of small and medium-sized innovation business.

Within the context of this survey the following aspects of development of small and medium-sized innovative entrepreneurship in Russia are reviewed:

- issues of access to the resources including financial, information, infrastructure, and personnel ones;
- plans of enterprises in the short term and main tasks they are facing;
- main problems and challenges including in the sphere of intellectual property rights (IPRs), and relationship with public services and agencies.

Description of a survey

The method of collection of data is individual formalized interviewing. On February 1-15 in the course of survey were interviewed 300 enterprises represented by respondents occupied in the position of General Directors and other top managers.
Enterprises represented the following cities and regions:

- Moscow (53)
- Moscow Region (49)
- St. Petersburg (42)
- Tula (20)
- Rostov-on-Don (38)
- Novosibirsk (50)
- Kazan (27)
- Yaroslavl (21).

From 300 enterprises:

- 202 small enterprises (number of staff up to 60 people), 98 medium-sized enterprises (60-500 people);
- 47 state-owned enterprises (among the founders are public or municipal organizations or institutions), 253 non-governmental enterprises.

Main results of the survey

Description of innovative enterprises

The overwhelming part of Russian small innovative companies was created early 90th (the average age of enterprises participated in the survey is 13 years). They represent a wide range of activity – from agriculture to ecology and energy. Some enterprises are operating in the field of geological prospecting, boring technologies, consulting and light industry. These small and medium-sized innovative enterprises are mainly specialized in R&D (76% of the total number of respondents) and experimental and design works (64 % of enterprises).
At present, most of these companies are not competitive at a global scale. The sales market of their goods and services is mainly limited with Russia (75% of enterprises). Only a quarter of all enterprises have buyers and clients in CIS countries and overseas.

Where do locate main customers and buyers? % (sum of responses was more than 100%, since several variants of answer to this question were possible)

In the same region where the enterprise is located	76
In other regions of Russia	76
Ukraine	11
Belarussia	9
Europe	7
Kazakhstan	7
Kyrghyz Republic	4
Asia	4
CIS and Baltic States (without detailing)	3
Overseas	3
Latvia	2
Estonia	1
Lithuania	1
Uzbekistan	0,3
Moldavia	0,3
Georgia	0,3
South America	0,3

A quarter of innovative companies operate at their own facilities and another quarter in business incubators. Nearly half of enterprises are leasing facilities from organizations not being business incubators or other elements of innovation infrastructure. Thus, practically every second enterprise is not in a very favourable position in terms of facilities.
In their activities companies mainly use technological innovations, the overwhelming majority of which are R&D (81% of enterprises). It is remarkable that a portion of companies (35 %) purchase new technologies including those in the form of IPRs. In the share of organization innovations used by small innovative companies prevail modern methods of management on the basis of information technologies (35% of enterprises). At the same time, 21 % of enterprises never use organization innovations in their activity.

Access to resources

One of the key tasks of the survey was the issue of procurement of small innovative companies with necessary resources. In particular, financial, information and consulting, infrastructure and staff resources were highlighted.

Financial resources

Access to financial resources is the core topic of study devoted to problems of development of small entrepreneurship. In economically developed countries, where small business produces half of GDP and more, and fundamental issues of the mere existence of small entrepreneurship is solved this or other way, the funding remains in the focus of interest of researchers and governmental agencies responsible for this direction, as well as entrepreneurial organizations. In our country the problem of access to funding is the only one among numerous other problems, though the critical one.

If speak about past experience of financing, the main source of money for the Russian innovative enterprises is their own funds, although there are many enterprises which got funding from other sources.

Which sources of funding did you use before? %

Own funds	74
Direct investments; financing of a specific customer's project	50
Grants; gratuitous and non-repayable assistance	39
Banking credit	28
Non-banking credit or loan from lending and consumer cooperatives or other organizations	14
Venture investments; providing monetary funds in exchange of a share in an equity	4
None	2
I cannot answer	1

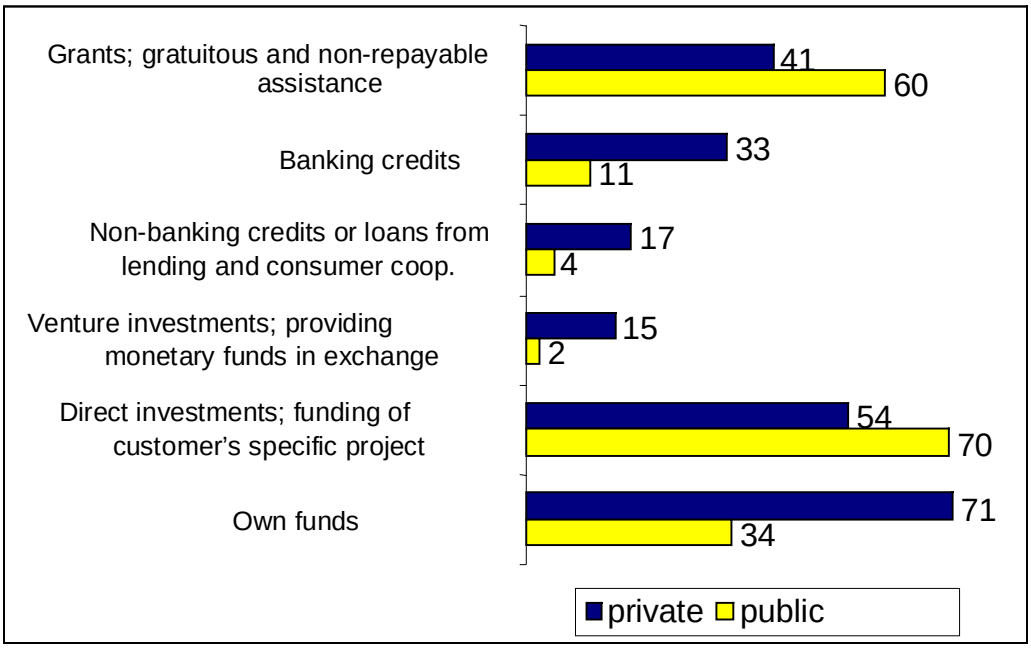
Grants are rather widespread, banking credits were used by a little more than a quarter of respondents. Venture investments are less common so far. State-owned organizations clearly more often get grants and direct investment in the form of funding of a specific project by the customer. Apparently, the customer for state-owned enterprises acts the state itself. Concerning grants, it makes sense to pay attention to a system of their distribution and see whether state-owned innovative enterprises are given preferences.

Private enterprises experience difficulties with access to grants. Direct investments are used by nearly half of private enterprises, and that is many enough. Noticeable source of funding is banking credits: 32% of interviewed private enterprises used it. This can be regarded a rather high indicator, given that innovative small and medium-sized enterprises, as a rule, have little to offer as security. To compare, among state-owned enterprises only 7% used banking credits. Non-banking credits are also more often used by private enterprises.

Estimating which sources of financing could be used at present, respondents were based on their past experience and indicate what they used before. This shows that in the field of financing there were no significant changes lately. Thus, in the past banking credits were used by 28%, and now about 30% indicate it as a source of financing. In terms of other sources the picture is similar. We will state only that this time venture financing was indicated by 13% compared to 4% when asked about experience of use. It can be concluded that venture financing becomes either more accessible, or more attractive.

Comparison of state-owned and private enterprises provides a situation similar to one, which we have observed when reviewing past experience of financing. Again state-owned enterprises have (according to their estimates) higher chances to obtain grants and direct investments, while private enterprises count on banking credits – one third think that it is realistic to get it. We shall note that only 5% of private enterprises used venture funding however 15% think that they could get it. As earlier, own funds remain the main source for private enterprises.

Which sources of financing could you use? % from state-owned and private enterprises



The most preferred source of financing for small and medium-sized innovative companies is direct investments (funding of a specific project by the customer). One may assume that this can be explained by rather widespread positive experience of relationship, when a customer, in addition to payment of services for a certain fulfilled project, first, brings in his "market targets," organization standards and technologies, and second, becomes a permanent partner. In this sense, to get a customer for a certain project is more beneficial than grant. This tendency revealed as a result of survey in essence predetermined a need in information and consulting and labour resources, as well as infrastructure. It determined a low demand in resources of this type, given that it is a customer who bears responsibility to commercialize results of research and developments, market study, providing legal protection of intellectual property, etc. Enterprises, which approached the stage of mass sales more than others possess own funds for re-investment and they are prepared to use banking credits.

Further (in descending order) - grants and own funds. It should be highlighted that banking credits, non-banking credits and venture investments are very "unpopular" with the respondents. Thus, types of repayable funding (assuming payment of interest or sale of a portion of business in future) are less preferred for "innovative" entrepreneurs, which can be explained rather trivially. On the one hand, innovation business is characterized with high level of risk (which impedes obtaining borrowed funds or makes them more expensive), and on the other hand, business owners believe in commercial success as no one else and that is why they do not want to give away their share to outside investors today, assuming that tomorrow this will be huge money.

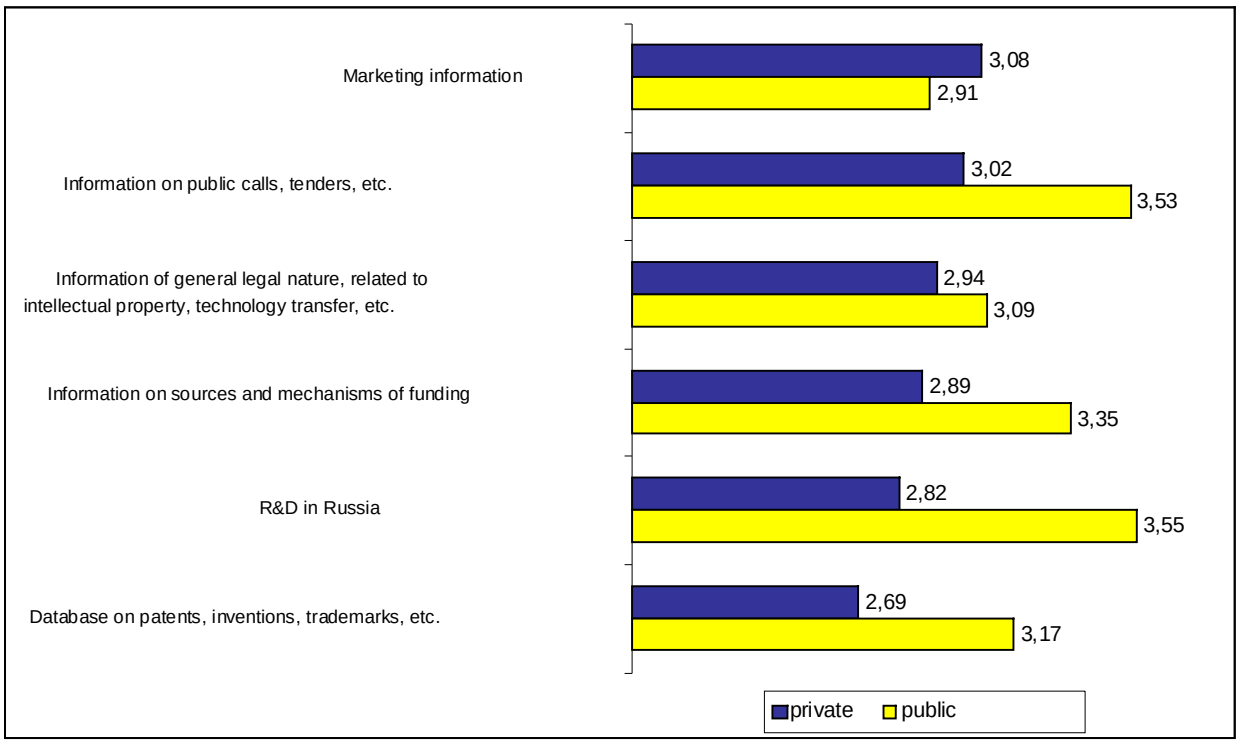
One may assume that use of these rather new for the Russian businessmen financial instruments in innovation sphere to significant degree is restrained by lack of relevant knowledge and experience and correspondingly, fear to lose the existing business. It should be also noted that in Russia infrastructure of venture financing lacks sufficient development: it lacks effective

managing companies, specialists on technology assessment, protection and transfer of intellectual property, etc. Small size of the Russian innovation projects and lack of critical mass of SMEs failed to attract large Russian investors so far.

Information and consulting resources

Information resources is information on being performed or performed R&D in Russia (research works, experimental and design works, research papers, etc.) database on patents, inventions, trademarks, etc. as well as information on public calls, tenders, procurements and orders. In large degree this information is demanded by state-owned enterprises.
For private enterprises the most common answer is "needed, but we can do without it." This is explained by lack of rather high level of competition in scientific and technological (S&T) field, in which small innovative companies specialize. In particular, it is indirectly supported by a small number of patents owned by enterprises of small business, as well as cases of unfair competition and claims related to infringement of intellectual property rights (IPRs). For state-owned enterprises this information is also more available.

Need of private and state-owned enterprises in information of different kind. Average point by a four-point scale, where "4" – "extremely necessary", "1" – "completely unnecessary".



At present, activity of the overwhelming majority of small private companies consists only of "exhausting" of created sometime in the past (as a rule, at public research organizations) results of R&D; their research level is not high and there are significant reserves to increase it.
State-owned enterprises consider the most accessible:

- information on sources of financing;
- marketing information; and
- information on R&D.

Thus, given the estimate of importance of information, the most problematic information resource for state-owned companies is information on research and developments.
Private companies indicate as most accessible information

- on sources of financing; as well as
- information on R&D.

Relatively problematic is also access to data on public tenders and procurement. The latter could be highlighted as a problematic area for private enterprises, since this resource was indicated by private enterprises between two most important ones.

One cannot say that the need of small and medium-sized innovative enterprises in consultations is very high. In general the attitude can be expressed as "would be good, but we can do without it". Similar to the case with different information resources representatives of state-owned enterprises showed more interest compared to private enterprises.
Considerable more interest compared to private enterprises state-owned enterprises showed in consultations on search of partners and sub-contractors, as well as attracting investments.
For all enterprises the most critical are consultations on search of sub-contractors, attracting investments and marketing, and issues of protection of intellectual property and research are of less interest. Interestingly that for innovative enterprises the most critical were issues common for business in general, i.e. where to get money and how then sell, and specific topics are considered as secondary ones.
According to respondents, it is relatively easy to get practically all types of consultations, however majority of state-owned enterprises indicate that it is "rather difficult" to get consultations on issues of attracting investments. Private enterprises do not tend to identify any types of consultations as unambiguously problematic.
Private companies clearly estimate more highly accessibility of these or other consultations. The difference is peculiar great in estimates of accessibility of consultations on search of partners and attracting investments.
Less problematic is access to consultations on issues of research and protection of intellectual property. To remind, the same types of consultations were indicated as the less critical. Thus, the most demanded consultations on issues of search of sub-contractors, attracting investments and marketing are most difficult to get.
The reason of arising problems with accessibility of consultations representatives of public and private companies assess differently: if public companies in the first place clearly put high cost of consultation services, the private ones nearly in equal degree indicate both high price and low level of qualification of consultants.

If there are difficulties with obtaining consultations, what they are related to?

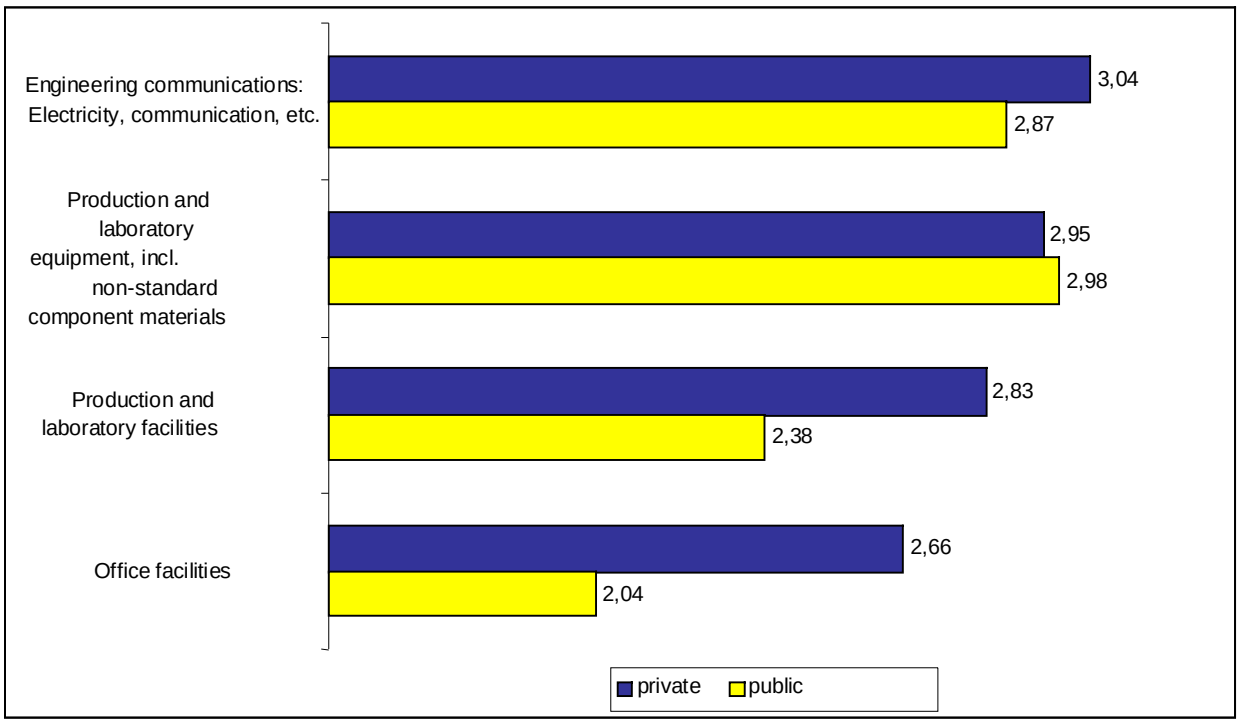
	Such services either no one provides or provide only few	Such services cost too high	Professional skills and knowledge of those providing consultations	I cannot answer
Private	25	39	43	24
Public	32	57	32	18
By all types of enterprises	26	42	42	24

Production and office facilities

The survey showed that only 26% of small enterprises has own facilities, while 23% are placed at areas of specialized infrastructure (technical parks and business incubators). That is, half of surveyed enterprises are rather well provided with this resource. Obviously, and survey confirms this, that state-owned enterprises are better provided with facilities.
From different items of infrastructure as necessary for purchase most often were specified engineering communications; at present, innovative enterprises need office facilities in minimal degree: only 30% of respondents said that this was "rather necessary, issue of survival", and nearly the same number of respondents reported that they were completely unnecessary to them.

At that, state-owned enterprises in terms of office and production facilities has more favourable situation compared to private enterprises.

Need in infrastructure resources. The average point by four-point scale, where "4" – "extremely necessary", "1" – "completely unnecessary".



Attention should be paid to the fact that many small innovative companies are located at incubators (29% compared to 11% of medium-sized enterprises) and get an access to facilities and engineering and technical communications within a rather long period, and not only at the stage of formation. Possibly, such incubators of "educational type" played a useful role at the early stage of transition period to market. But at present the leading mission they undertook, would be better fulfilled if administrative barriers preventing formation of new small and medium-sized enterprises and development of existing ones, were removed.

Personnel and educational resources

Enterprises mostly need engineering and technical staff, as well as researchers and IT-specialists, while state-owned enterprises show the highest demand. The least demand is in financial top managers, lawyers and patent attorneys.

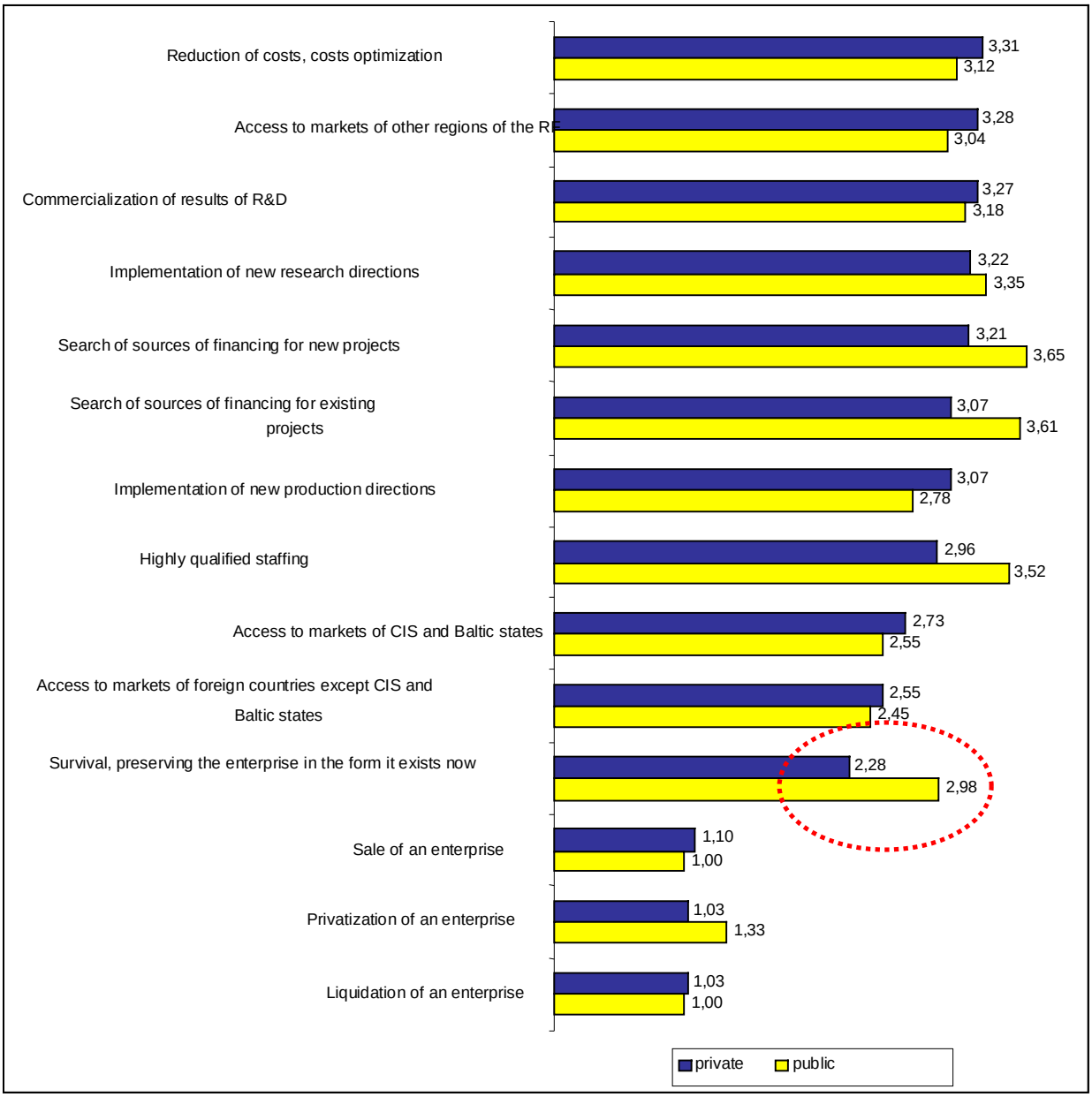
The most problematic is retaining specialists, which are mostly demanded: engineering and technical staff and researchers). Only third of those surveyed answered that they had no problems retaining these specialists.

Concerning specific difficulties, there are two of them: financial possibilities of the enterprise itself and state of the labour market, which offers specialists either in small numbers (and this entails high cost of manpower), or of low quality. State of labour market if spoken about two most deficit specialties, in general is the most important problem that impossibility to pay required salary. If state-owned enterprises as their main problem specify impossibility to pay required salary, the private ones in equal degree indicate both amount of salary and shortage of specialists and their level of training.

Tasks of an enterprise

There is a significant difference in priorities between public and private enterprises. One may say that tasks of private enterprises are more ambitious, more oriented towards goals of development. Among tasks the first place is given to costs optimization, which can be also understood as an issue of development: expenses management – means not only reducing staff's costs, but also search of more beneficial contractors, introducing resource-saving technologies, etc.

On solution of which tasks the enterprise will be concentrated the next two years? The average point by a four-point scale, where "4" – "undoubtedly this will be our main task", "1" – "we do not face such a task"



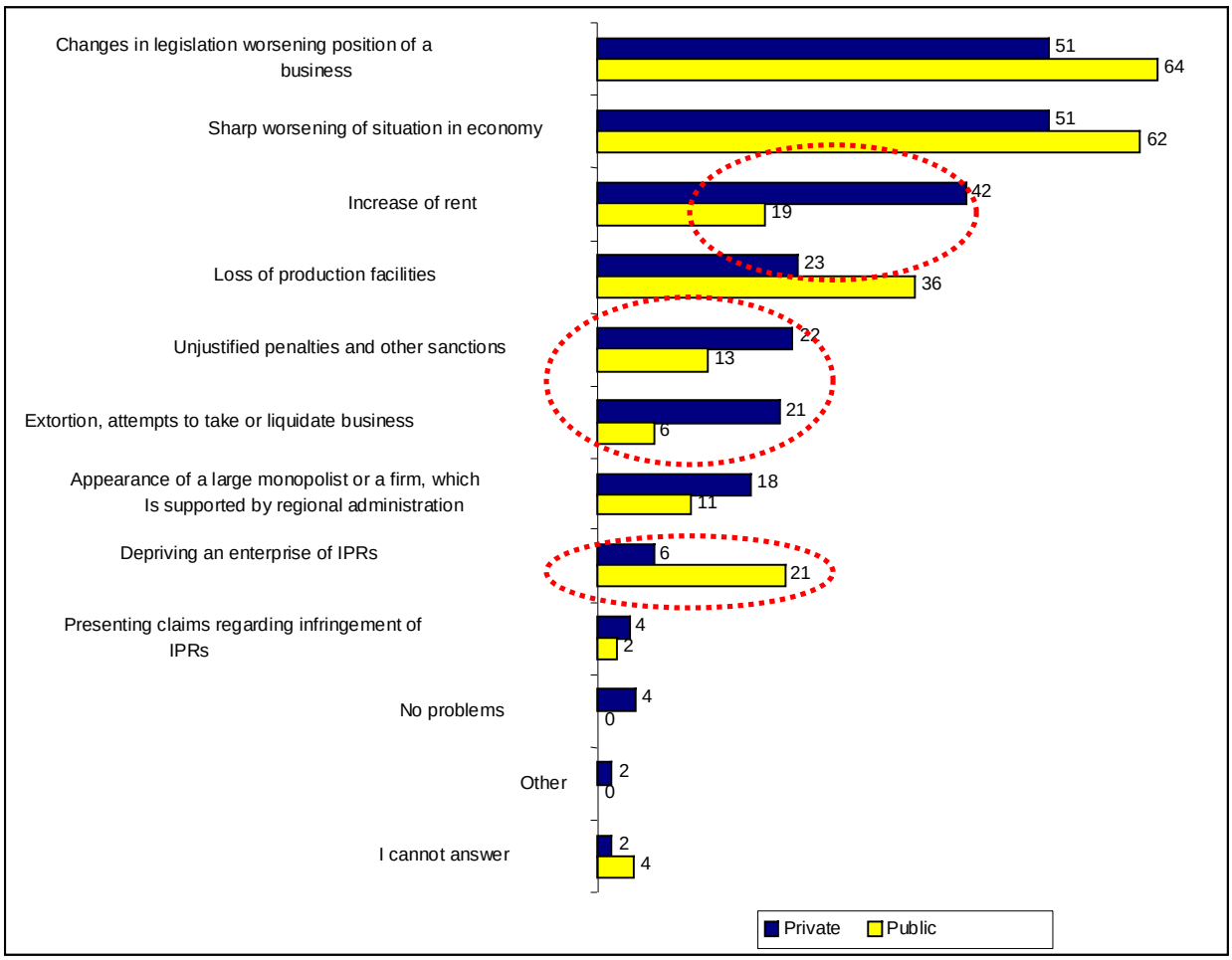
Such tasks as an access to markets of other regions of the RF, commercialization of developments and implementation of new research directions obviously position goals of development of business of the given enterprise.

For state-owned enterprises the most vital are different tasks, and majority of respondents representing state-owned companies indicate them. First of all these are search of financing for

existing and new projects, then retaining of qualified personnel. For private enterprises these problems are less critical and one can believe more or less successfully resolved. We shall also note that for many state-owned enterprises compared to the private ones a problem of surviving and preserving the enterprise in existing form is of importance. If the majority of state-owned enterprises set such a task for the next two years, this represents other tasks in different light.
On the other hand, task of liquidation or sale of an enterprise is hardly faced by both private and state-owned enterprises. We shall also note that state-owned enterprises are not going to be privatized.

Problems

In general one cannot say that innovative enterprises face problems suggested for estimation on regular basis. Practically all these problems and difficulties are met by innovative enterprises rather rarely – particularly compared to common for all Russian entrepreneurship difficulties, such as unfair competition in the market and excessive control of the state. Interestingly, that extortion of governmental bodies – another common problem of the Russian business – is met not so frequently as one may expect.
Of particular interest is hierarchy of common problems of business among them are only two problems related to intellectual property, in particular, in terms of types of ownership.
What problems related to conducting your business do you fear of most? %



- Both for private and public enterprises the biggest threats are unfavourable changes in legislation and worsening of macroeconomic environment.
- State-owned enterprises are relatively little concerned with a problem of increase of rent, while for the private ones it is of the most important.

- Unjustified penalties and attempts to take or liquidate business most frequently concern private enterprises.
- In return, public enterprises are more concerned with a problem of losing offices and depriving of right for intellectual property created using funds of the federal budget.

Conclusions and recommendations

As a result of conducted survey the main problematic areas of development of small innovative entrepreneurship can be identified:
- Organization and economic, legal and financial instruments of support of small innovative business, in particular venture funds, proposed by the state do not correspond to the level of development and real demand of companies of this sector. Respectively, a "degree of perception" of innovation policy conducted by the state by small companies is low, which evidences its ineffectiveness.
- Small number of small innovative companies efficiently using instruments of business management, related in particular, to attracting financial sources, technological upgrading, protection of intellectual property, development of business contacts, formation of new sales markets for their products, adequate to modern economic environment.
- Considerable share of small innovative companies, the activity of which mainly consists of "exhausting" of once created (as a rule, at public research organizations) results of research and developments and is supported by supply of qualitative innovation products at low prices mainly to Russia and CIS countries.
- There is no permanent demand for products and services of small innovation business at domestic market. At the same time, the Russian economy is characterized with significant internal requirements in technological development, which however are satisfied primarily at the account of supply of imported technologies, and not always the most updated, which predetermined technological backwardness of Russian in general.
- Competitiveness of Russian small innovative companies at international markets is very low. At the same time, due to market environment, the major part of demand for Russian R&D will be formed at more capacious world markets, at least in the short and middle term. However the overwhelming majority of Russian small and medium-sized innovative companies lacks managerial experience, financial resources and reputation of a producer of high quality goods and services, which are necessary to successfully compete with western companies at the world market.

- Weak relationship between small and big business, as well as lack of sustainable contacts with education and research sectors of Russian predetermines creation of "innovation gap" and impedes formation of effective national innovation system, the driving force of which is small innovative business.

In combination, these problems give rise to lack of development of national innovation system and create serious danger to economic and technological security of the nation.

Among other results of the survey let us note the following:

- Only 10-15% of innovative companies are active: they are interested in access to special information, they are involved in problems of protection and enforcement of intellectual property, retain staff of financial and innovation management, etc.
- Majority of companies of innovation sector are utilizing research and innovation potential accumulated already back in the Soviet era (judging by the average age of surveyed companies 13 years – for all or 10 years – for non-governmental).
- Their main strategy is to find a good customer (direct investment).
- Innovative companies are evidently "stay too long" in business incubators.
- State-owned companies are more provided with facilities, infrastructure, but they lack financial resources and they do not get accustomed to look for them at the market. Their

strategies target search of funds for existing and future projects and maintaining highly qualified staff.

- Private companies as one should expect more business oriented, they are busy with reducing costs, winning the markets. But, traditionally for the Russian business, they experience difficulties of financial and property nature, etc.

In this regard the challenge not only for public but private innovative enterprises as well lies with forthcoming reduction of public sphere of applied R&D. Public enterprises will undergo re-engineering, which will be performed in integral connection with a set of organizational and economic and financial measures aimed at "softening" of painful process of re-organization of labour of highly qualified research staff. Obviously, a process of "spurring out" of small innovative companies (spin-offs and start-ups) will sharply activate, and this will create additional competitive movement at innovation market. A range of market players possessing in their strategy aggressive marketing and increased entrepreneurial risk of implementing (attracting) investment will be expanded.