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**ORGANISATIONAL AND ECONOMIC MECHANISMS FOR SMALL AND MIDDLE
ENTREPRENEURSHIP STIMULATION IN THE ARCTIC**

Dr. Arif Pirvelievich Shikverdiev

Pitirim Sorokin Syktyvkar State University, Russia
ORCID 0000-0002-2969-3053
shikverdiev@yandex.ru

Ph. D. (C) Andrey Anatolyevich Vishnyakov

Pitirim Sorokin Syktyvkar State University Russia
ORCID: 0000-0003-1532-1010
aavishnyakov@mail.ru

Ph. D. (C) Nina Aleksandrovna Oganezova

Pitirim Sorokin Syktyvkar State University, Russia
ORCID: 0000-0001-6189-6021
ninok0112@rambler.ru

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Pitirim Sorokin Syktyvkar State University, Russia
ORCID: 0000-0001-8419-2609
obrezkov-n@mail.ru

Ph. D. (C) Dmitriy Aleksandrovich Pleshev

Pitirim Sorokin Syktyvkar State University, Russia
Saint-Petersburg State Forest Technical University Named After S. M. Kirov, Russia
ORCID: 0000-0002-5259-1346
dpleshev@gmail.com

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Abstract

The paper analyses the issues of small and medium entrepreneurship development in the Arctic environment and proposes ways to solve them. The proposed mechanisms of organisational and economic stimulation of small and medium entrepreneurship in the Arctic refer to the theoretical and institutional foundations considering not only the elements of market relations but also — given the features of the Arctic — the principal role of the state. The methodology and capabilities of government stimulation of small and medium entrepreneurship in the Arctic are employed, as well as innovation-driven approaches, particularly the development of Arctic venture as a specific instrument. An analysis of the developmental factors of small and medium entrepreneurship in the Arctic environment highlights the governance aspects, particularly, the major role of efficient public, municipal and corporate governance, as well as the need to improve social and environmental responsibility standards. The possibility of establishment of special (free) economic zones is substantiated with a view to transforming the Arctic areas as a special tax and administrative zone and easing the conditions of doing business.

Keywords

Small and medium entrepreneurship – The Arctic – Innovation – Public-private partnership

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Introduction

The analysed aspects of small entrepreneurship development in the North and Arctic regions mark a new dimension in the subject area and should be viewed as highly-relevant in the current socioeconomic conditions.

The strategic development of the Arctic zone of the Russian Federation centres on the specific regional role in the decision-making and implementation of government policies. The regional level accommodates the coordination of efforts of the federal government, businesses and non-Arctic subjects contributing their expertise.

The principal highlights are the aspects of environmental safety in Arctic projects and ensuring the interests of northern populations, personnel development, youth engagement and fostering mentorship, preservation of cultural heritage, entrepreneurship support, development of technology, digitisation of the economy and international non-governmental cooperation. These and other issues of public importance gain an Arctic dimension to them.

Given Russia's current aspirations toward breakthrough progress (small entrepreneurship), North and Arctic development (resource base, military space shield), requirements of transitioning from the resource and material development scenario to the innovation-driven social scenario, these objectives call for a differentiated approach considering the northern and Arctic specifics and the need to support small entrepreneurship as a potential developmental force, future driver of economic growth and pillar of social stability¹.

Arctic development poses a challenge in ensuring business competitiveness. It takes both reasonable measures of protectionist support to be provided by the government, ensuring contract work opportunities for small businesses in partnership with major businesses (specifically those depending on supplies from other regions and from abroad) and, further, engagement in the operations of major companies. There should be a government policy in place to secure the efficient interaction and mutual interests of major companies and small entrepreneurship in the Arctic territories.

No sound solution of the current problems can be provided in a future development model without addressing or at least identifying the cited global issues, which is specifically true for the presidential priority of small entrepreneurship development as the powerhouse of economic growth and progress, particularly in the Arctic.

The extreme climate conditions in the Arctic drive the costs of economic activities higher compared to other Russian regions. Potential entrepreneurs and investors may view it as an obstacle to doing business in the Arctic region.

¹ Government Resolution No. 366 "On Adoption of the State Programme "Socioeconomic Development of the Arctic Zone of the Russian Federation"". April 21, 2014; Strategy for the Development of the Arctic Zone of the Russian Federation and National Security up to 2020 approved by the President of Russia on 8 February 2013, No. Pr-232 y Policy of the Russian Federation in the Arctic in the Period Until 2020 and in the Longer Perspective approved by the President of Russia on 18 September 2008, No. Pr-1969

Global practice indicates that a requisite condition for small business development is the proposition that small entrepreneurship needs full and steady government support.

Both Russian and foreign sources offer varying views on public policies regarding business. On the one hand, the government is presumed to withhold from interference with the free market and entrepreneurship development. This is primarily a proposition of foreign researchers, such as H. Horn, L. Persson, D.B. Audretsch and W.J. Baumol².

On the other hand, the government should directly engage in enterprise development. We support the view that the influence of government policies should be meaningful and tailored to stimulate and improve the conditions of small and medium entrepreneurship in the Arctic environment, to relieve administrative barriers and enhance the entrepreneurial contribution to the development of the Arctic territories.

Generally, government policies to support enterprise are addressed by many Russian and foreign researchers. For example, A. Huges, A. Strange, C.B. Brown and J.L. Medoff draw a comparison of policies concerned with small and medium entrepreneurship and measures of support across a variety of sectors (information and consulting, etc.) by countries³.

The papers by D.J. Storey, L.G. Marfina and M.F. Shvedova point at the need for systemic monitoring and evaluation of government support, which should be itself established as a systemic approach⁴.

The papers of N.A. Kulik, N.G. Onishchenko, M.V. Zhuravleva, P.D. Reynolds and W.R. Maki comprehensively address the dimensions, instruments and mechanisms of government support of entrepreneurship⁵.

The issues of development of the Russian North are covered by the Corresponding Member of the Russian Academy of Sciences V.N. Lazhentsev. In his view, the practice of

² H. Horn y L. Persson, "The Equilibrium Ownership of an International Oligopoly", *Journal of International Economics*, Vol: 53 num 2 (2001): 307-333 y D. B. Audretsch; W. J. Baumol y A. E. Burke, "Competition Policy in Dynamic Markets", *International Journal of Industrial Organization*, Vol: 19 num 5 (2001): 613 – 634.

³ A. Hughes, *Small Firms and Employment*. ESRC Centre for Business Research WP 71 (University of Cambridge, 1997); A. Strange y D. J. Storey, "Entrepreneurship in Cleveland 1979-1989; A Study of the Effects of the Enterprise Culture", *Employment Department, Research Series*, num 3 (1992) y Cb. Brown y J. Medoff, "The employer size-wage effect", *Journal of Political Economy*, Vol: 97 num 5 (1989): 1027-1059.

⁴ D. Storey, *Analiz vliyaniya gosudarstvennoi politiki podderzhki na малыi biznes v razvitykh ekonomikakh. Sovremennye klassiki teorii predprinimatelstva* (Moscow: Publishing house of the Higher School of Economics, 2013); L. G. Marfina, "Gosudarstvennaya politika podderzhki malogo predprinimatelstva v Rossii", *Vestnik Kostromskogo gosudarstvennogo universiteta im. N.A. Nekrasova* num 3 (2009): 267-269 y M. F. Shvedova, "Struktura gosudarstvennoi podderzhki malogo biznesa: teoreticheskii aspekt sistemnogo podkhoda", *Fundamentalnye issledovaniya* num 9 (2012): 135-139.

⁵ N. A. Kulik y N. G. Onishchenko, "Gosudarstvennaya podderzhka malogo biznesa v Rossii", *Sibirskii torgovo-ekonomicheskii zhurnal* num 11 (2010): 28-36; M. V. Zhuravlev, *Gosudarstvennaya politika podderzhki malogo predprinimatelstva i mekhanizmy ee realizatsii* (Moscow: Etnosotsium, 2011) y P. D. Reynolds y W. R. Maki, *Business Volatility and Economic Growth. Final Report* (Washington: DC: Small Business Administration, 1990).

northern studies has shown the methodological need in combining the spatial development theory with planning by objectives and the geosystemic approach to identifying and resolving socioeconomic problems⁶.

The issues of small and medium entrepreneurship development in the northern regions are addressed in the papers by A.G. Shelomentsev, L.V. Voronina, O.A. Kozlova, V.E. Toskunina and A.V. Karmankulova, discussing the role of small and medium entrepreneurship in the development of the northern regions and the specific issues of small businesses in the North⁷.

A specific aspect of the Russian Arctic is the great number of single-industry municipalities relying on one or several technologically linked enterprises. Such reliance is fraught with risks. A solution to the problem of mono-towns could be the diversification of jobs and production by small businesses.

Another important aspect of small business, as we already mentioned, is its high innovative activity. Exploiting this capability might help to improve the efficiency of Arctic resource development, create value added and enhance the Arctic share in the total output of goods, services and works in the GDP.

Small entrepreneurship development in the Arctic can also directly influence the share of technology and research-intensive industries and the relative share of regional research-intensive innovation products in the total output, which hopefully could mean the efficient operation of this form of entrepreneurship in the specific conditions of the Arctic zone.

Small entrepreneurship helps to build and expand the middle class as a share of the regional population and, thus, mitigate the gap between the rich and poor in the Arctic zone.

Even if a business fails to turn a profit, it may still be meaningful in the social aspect. For instance, the northern regions record higher-than-average population outflows and unemployment levels. Specifically, small businesses could provide employment opportunities and attract personnel to the localities.

Government support offered to family household operations of the low-numbered indigenous peoples of the North would improve the overall living standards and also life expectancy.

⁶ V. N. Lazhentsev, *Sever Rossii: voprosy prostranstvennogo i territorialnogo razvitiya* (Syktyvkar: Institute of Socio-Economic and Energy Problems of the North / Komi Science Center, Ural Branch of RAS, 2015).

⁷ O. A. Kozlova; V. E. Toskunina; A. G. Shelomentsev; A. V. Karmakulova y L. V. Voronina, "Perspektivy zanyatosti v malom predprinimatelstve severnykh regionov Rossii. Korporativnoe upravlenie i innovatsionnoe razvitie ekonomiki Severa", *Bulletin of Research Center of Corporate Law, Management and Venture Investment of Syktyvkar State University*, num 2 (2013): 11–31; L. V. Voronina, "Sravnitelnye otsenki programm razvitiya i podderzhki predprinimatelstva v severnykh regionakh Rossii", *Ekonomika i predprinimatelstvo* num 8 (2014): 894-900 y L. V. Voronina, *Gosudarstvennaya politika v sfere predprinimatelstva v severnykh regionakh Rossii*, monograph / edited by prof. A. G. Shelomentsev, Doctor of Economics, assistant prof. E. D. Isaeva, Candidate of Economics (Arkhangelsk: Izdatelskii tsentr AZ+, OOO, 2017).

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Thus, the development of small entrepreneurship would help to improve the socioeconomic development profile in the Arctic, which is viewed as the efficiency criteria of government strategy in the region.

Small and medium entrepreneurship represents a specific economic object developing in the northern areas under multiple natural and social constraints and powered by the inherent human inclination to independent business activity, implementation of creative business ideas and innovative search. Its development faces many difficulties and multiple natural and man-made obstacles. However, it also provides a major contribution to new job creation, improvement of the dynamics and flexibility, as well as improved innovation profile of Russia's Arctic economy.

The stimulation of small and medium entrepreneurship development in the Arctic requires an adjustment of the existing expanded reproduction model relying on growing volumes of natural resource development and marketing of upstream products. The currently available incomes from natural resources should be redistributed to support the development of innovation-driven technology sector engaging small and medium entrepreneurship and to encourage major companies and the public sector to pursue the same goal. The theoretical and institutional foundations underlying the organisational mechanism of stimulating small and medium entrepreneurship in the Arctic environment should not only engage the elements of the market mechanism but also, given the specific Arctic profile, the mechanisms of direct public stimulus based on both Russian and foreign practice as showcased by Russia's geopolitical partners.

Given the aforementioned, the following topical issues can be identified: the development of strategic and institutional approaches to small and medium entrepreneurship development in the Arctic; evaluation of business climate and improvement of the investment attractiveness profile of the Arctic territories; support of entrepreneurship among the low-numbered indigenous peoples of the North; the role of public-private business in the Arctic environment; use of project management methodologies as a factor of small and medium entrepreneurship development in the Arctic environment; development and refinement of the regulatory framework to support small and medium entrepreneurship development in the Arctic; social and environmental responsibility of small and medium entrepreneurship in the Arctic; financial aspects and economic incentives of business development in the Arctic; innovation-driven development of small and medium entrepreneurship in the Arctic; talent management policies and productivity improvement in small businesses in the Arctic; good corporate governance practices as a factor of competitiveness of small and medium entrepreneurship in the Arctic; infrastructure development and transport links for small and medium entrepreneurship development in the Arctic; promoting the Arctic tourism; the role of small and medium entrepreneurship in the Arctic for economic security; application of modern all-digital technology by small and medium entrepreneurship; efficient public governance in small and medium entrepreneurship development.

Main part

To analyse the current economic outlook of Russia's Arctic areas, we conducted an expert survey in 2019, engaging the actors of small and medium entrepreneurship operating in three federal subjects of the Russian Federation in the Arctic zone (the Arkhangelsk region, the Murmansk region and the Republic of Komi).

The scope of specific objectives spans the northern and Arctic regions of Russia (as exemplified by the Republic of Komi, the Murmansk region, the Arkhangelsk region and the Republic of Karelia). A complex approach should cover every aspect of small and medium entrepreneurship stimulation to secure a breakthrough in the socioeconomic development of Russia's northern regions and the Arctic, relying on convergence, economic and mathematical methods, international collaboration and global best practices.

The primary research methods employed by us include systems analysis, aggregation, the comparative and analogy methods, generalisation, as well as project-oriented methods underlying practical analysis and implementation of managerial decisions. Questionnaires as a research mechanism helped to aggregate the issues concerning the entrepreneurial outlook and pressing challenges in its development, as well as measures to stimulate economic development in the Arctic. More than 100 active entrepreneurs took part in the survey, including 41% in retail, 13% in industrial production, 12% in construction, 8% in household services, 7% in agriculture, 5% in transportation and communications, 5% in utilities, 4% in public catering and 5% in other sectors. The findings indicate that most respondents had been long active in their business, with 34% operating in the market for more than 10 years, 36% between 5 and 10 years, 25% between 3 and 5 years and 5% less than 3 years.

A major research concern was to identify which small and medium entrepreneurship support measures in the Arctic could be the most helpful. The respondents believed the most important mechanisms were government subsidies (47%) and tax reliefs (40%). They also emphasised material support (32%) and eased access to borrowing (32%) and grants (31%). The potentially least helpful mechanism was thought to be the provision of training programs (9%) (Figure 1).

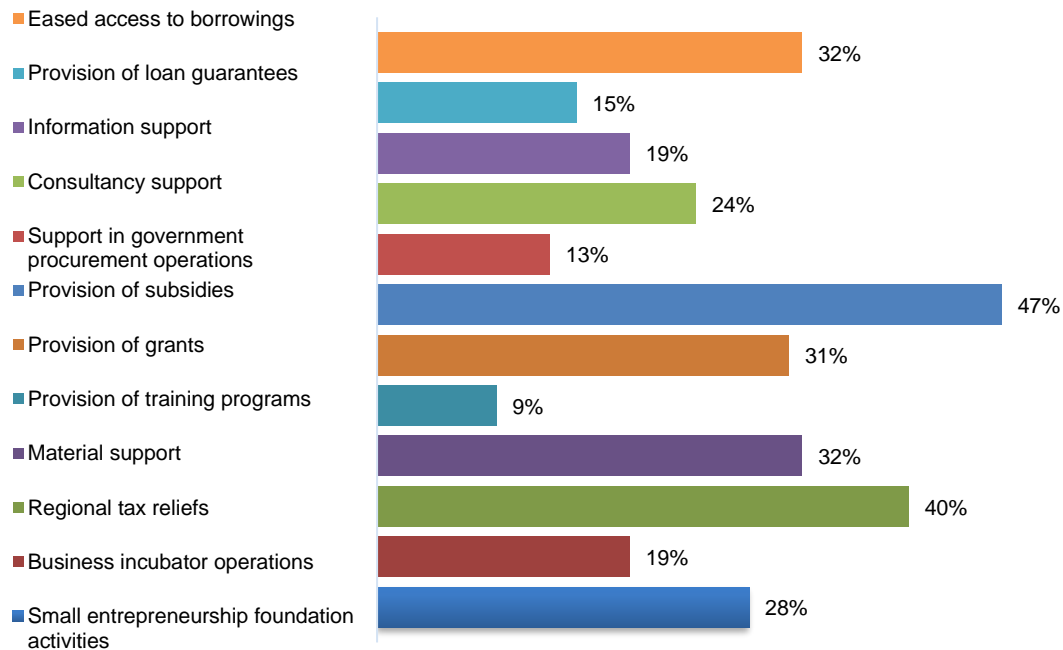


Figure 1
Potentially helpful mechanisms of small and medium entrepreneurship support in the Arctic

A third of the respondents, however, stated that they never used any instruments of state support in practice. 30% noted they had to apply for subsidies and only a small fraction of entrepreneurs employed such elements as leasing (14%), borrowing on special terms (8%), co-funding of production modernisation (8%) and support of R&D (6%).

The questionnaire also covered the aspects of the development of innovation-led and knowledge-intensive production operations in the Arctic area. Business leaders primarily emphasised the availability of funding and legal support among the factors potentially supporting such operations (Figure 2). Meanwhile, the development of education, information technology and direct state support were cited as potentially most helpful measures (Figure 3).

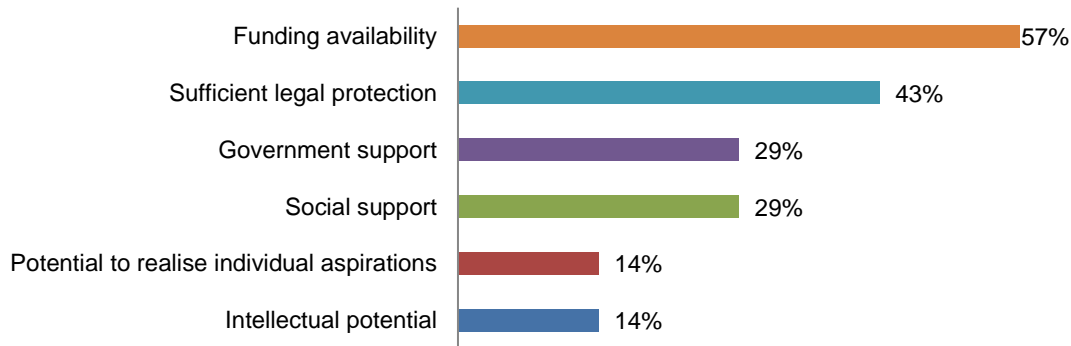


Figure 2
Factors influencing the potential of establishing knowledge-driven high-tech production operations in the Arctic

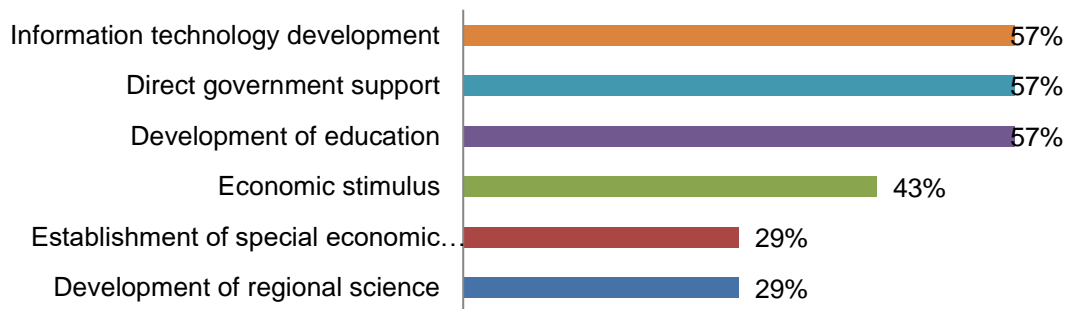


Figure 3
Measures capable to stimulate the development of innovation-driven production operations in the Arctic

The primary obstacles hindering business development in the Arctic area included high taxes (17%), administrative barriers (13%) and financial challenges (13%).

The most significant factors preventing productive potential growth were seen to be the businesses' unstable financial positions (18%), high interest rates on loans (12%) and high costs in services (11%).

When asked about potentially helpful activation steps in the Arctic area to resolve the existing challenges of enterprise development in the Arctic area, most respondents referred to infrastructure improvement (24%), new projects utilising local assets (21%) and overcoming legal and financial barriers (19%) (Figure 4).

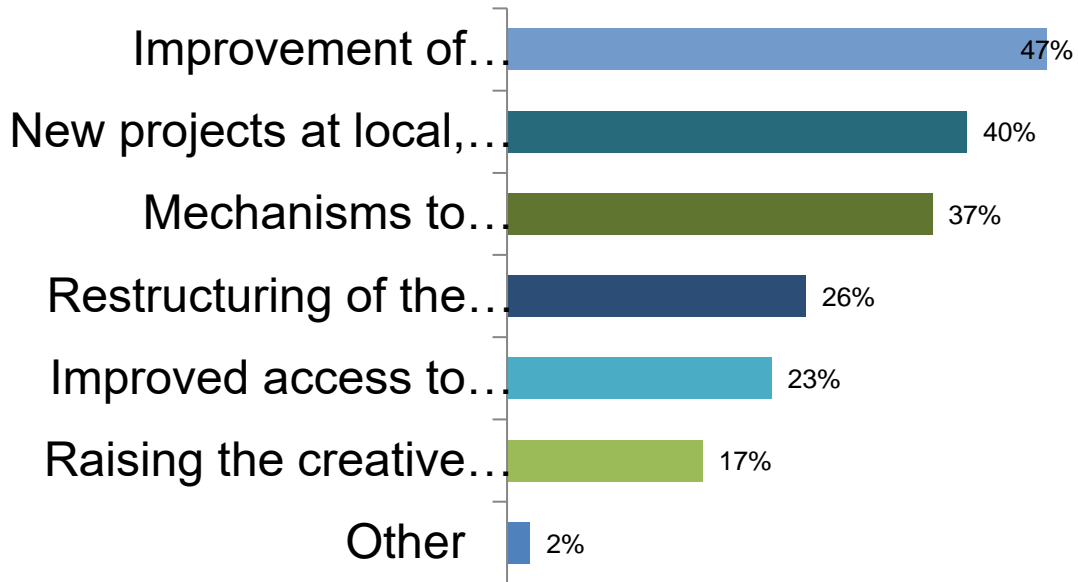


Figure 4
Helpful directions of activation of the Arctic regional potential to solve the existing problems of small and medium entrepreneurship development

Meanwhile, a major view among the respondents was that it was necessary to ensure cooperation between the state and businesses by arranging round tables and conferences (29%) and running joint retraining and refresher courses (24%). A fraction also showed interest in public-private partnership (16%) and educational and analytical reference publications (15%).

Results

The above analysis indicates the need for developing efficient mechanisms to support small and medium entrepreneurship as an institutional framework and driver of breakthrough progress in the socioeconomic development of Russia's northern regions and Arctic development.

The foundation of such organisational and economic stimulation mechanism for small and medium entrepreneurship in the Arctic environment should be built around the modern Strategy for the Development of the North and Arctic Zone, considering the existing challenges and priorities and based on the principles of economic geography and smooth science-based distribution of population and resources across the country areas.

An analysis of the future outlook of the Arctic regions in the context of Russia's long-term development shows the need to put in place a national economic model charting the Arctic development under the government authority and exercised in a planned, science-based and legislative mode. The existing market model operates with big capital

seeking to maximise profits and avoid significant costs. The result is the risk of losing the northern and Arctic regions because of migration outflows and lack of investment in the northern and Arctic infrastructure.

The theoretical and institutional foundations of small and medium entrepreneurship in the northern and Arctic environment only considering the market economy model and overlooking the specifics of the territories fail to address the current challenges and circumstances. In our view, a potential solution may be in finding a balance with the government planned economy, the use of direct government regulation and stimulation, considering both local practice and international expertise of our geopolitical partners.

The mechanism of small and medium entrepreneurship development in the Arctic should prioritise measures to improve the legal and regulatory framework underlying business operation in the Arctic, which should involve provisioning for the regional specifics of the Arctic zone in the whole body of federal laws. This would require expert analyses of statutory stimulation measures to support small and medium entrepreneurship.

The potential of small and medium entrepreneurship as a key actor in the implementation of the Strategy for the Development of the Arctic Zone of the Russian Federation and National Security would depend on maintaining a level playing field for economic entities in all areas across the Arctic area of the Russian Federation. This calls for a special complex of economic policies for the northern and Arctic areas.

In terms of legislation, there needs to be an economic guideline charting support areas in the small business sector in the Arctic, including targeted support across various budget levels.

An important element is the institute of public-private partnership.

Meanwhile, it requires a refined mechanism to spur the cooperation between the government and businesses in order to improve the competitive and investment profile of small and medium entrepreneurship in the Arctic, particularly in the innovation and social sector⁸.

To address small entrepreneurship development in the Arctic area and raise the revenues and volumes of works (services), measures are required to ensure access to funding. Arctic operation requires long-term and sufficient investment and financial resources, which calls for a specified concept on developing national and regional financial markets as a mechanism to transform savings as an alternative source of funding for small and medium entrepreneurship and a meaningful element in the stimulation mechanism.

Efforts should be focused on developing a set of measures to encourage major businesses to engage in mutually beneficial cooperation with small and medium

⁸ A. P. Shikhverdiev; A. A. Vishnyakov y N. A. Oganezova, "Mekhanizmy effektivnogo gosudarstvennogo upravleniya depressivnymi territoriyami regiona dlya obespecheniya ikh sotsialno-ekonomicheskogo razvitiya", Korporativnoe upravlenie i innovatsionnoe razvitie ekonomiki Severa: Vestnik Nauchno-issledovatel'skogo tsentra korporativnogo prava, upravleniya i venchurnogo investirovaniya Syktyvkarskogo gosudarstvennogo universiteta, num 3 (2018): 41-53. Available at: <http://vestnik-ku.ru/images/2018/3/2018-3-4.pdf>

entrepreneurship and to engage small businesses in major operations in the fuel and energy sector, which calls for a framework model of such cooperation with a clearly determined government role in securing and protecting competition.

For the fragile Arctic environment, where reckless human operation would pose great danger, high social and environmental responsibility is an objective priority. That may primarily be achieved by implementing the Principles of the United Nations Global Compact on corporate social responsibility.

A separate element of the mechanism is the block responsible for addressing innovation-driven development of small and medium entrepreneurship in the Arctic, involving the development of appropriate infrastructure to sustain the progress and stimulate innovative activities. A principal requirement is government support and engagement in the projects of small and medium entrepreneurship, as well as addressing tax reliefs for newly established enterprises and sole entrepreneurs engaging in innovation-driven operations.

One of the important development issues of small and medium innovation-driven entrepreneurship in the Arctic is attracting venture investment. The Arctic venture can become a high-tech instrument for advancing innovation. Given the importance of pursuing the innovation scenario in small and medium entrepreneurship development in the Arctic, the approaches to attracting venture financing in this sector should be adjusted and simplified through more active engagement with international venture business facilities and adaptation of international models and practice.

A promising dimension is the development of Arctic tourism, starting with the establishment of the regulatory framework. The objective is to shape an economic and geographical case and a scientific approach to Arctic tourism development. Tourism should become an economic, rather than a cultural category. Inbound tourism should be specifically a focus. It calls for a roadmap charting the existing barriers in tourism development and a clearly-set regulatory framework. Thus, a strategy is required for the development of Arctic tourism as a promising dimension for small and medium entrepreneurship. In view of the position of the business community, there is the issue of establishing special (free) economic zones in the Arctic. One of the options is to assign special tax and administrative status for the Arctic and adjacent areas and to ease the issuance of construction and power grid connection permits, customs clearance and equipment imports, etc. This would require a complex of steps to create northern and Arctic agglomerations in order to establish the area as a special tax and administrative territory and to ease the issuance of construction and power grid connection permits, customs clearance and equipment imports, etc. A government-sponsored stimulation mechanism for small and medium entrepreneurship in the Arctic should involve clearly-set efficiency criteria governing decision-making⁹. This means setting clear criteria in terms of economic security, as well as the parameters of economic outlook to sustain economic security in the northern and Arctic territories.

⁹ A. P. Shikhverdiev; A. A. Vishnyakov y N. A. Oganezova, Puti povysheniya ekonomicheskogo rosta. Korporativnoe upravlenie i innovatsionnoe razvitie ekonomiki Severa: Vestnik Nauchno-issledovatel'skogo tsentra korporativnogo prava, upravleniya i venchurnogo investirovaniya Syktyvkarskogo gosudarstvennogo universiteta, num 2 (2016): 12-22. Available at: <http://vestnik-ku.ru/images/2016/2/2016-2-1.pdf>

Such measures to potentially ease some challenges in attaining a breakthrough in socioeconomic development in the northern and Arctic areas can be facilitated through modelling developmental scenarios and risk assessments with modern information and communication technology and databases engaging expertise, analyses of historical data and pattern identification in econometric, situation and imitation modelling and Big Data techniques.

In such context, the proposed solution is the implementation of a new and more efficient public governance system in the Arctic and adjacent areas at the federal level with the provision of required resources and powers at the regional and local levels.

Conclusion

The scholarly and practical importance of creating an organisational and economic mechanism for stimulating small and medium entrepreneurship to ensure a breakthrough in the socioeconomic development of Russia's northern regions and Arctic reflects the requirement of facilitating breakthrough progress in the country and the meaningful role of the northern territories and the Arctic for that goal: the need for more efficient exploitation of the northern and Arctic potential and the objective to advance small and medium entrepreneurship as a national priority project; the need for establishing an innovation-driven and socially-oriented economy, innovation infrastructure building; the issues of financial support; the persistence of unresolved social and environmental problems, migration outflows and the resultant issues of economic security.

The development of organisational and economic mechanisms using mathematical and information tools and decision-making techniques is an important factor for the efficiency, quality and rationality of the resulting decisions in creating the environment for breakthrough progress of the country and its northern and Arctic territories. In terms of convergence, an important priority is the creation of an information system for complex assessment of regional socioeconomic potential, knowledge base development for socioeconomic processes, as well as building an updated mathematical model for the dynamics of small and medium entrepreneurship considering the northern and Arctic specifics.

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