The Analysis of the Financial Condition of Small Business and the Ways of its Development in the Primorsky Territory

E V Levkina1, N Y Titova1

1Vladivostok State University of Economics and Service, Vladivostok, Russia

E-mail: Natalya.Titova@vvsu.ru

Abstract. Small business is the essence of development of any economy, providing the economic growth of the national economy and the welfare of the population. In the literature, the problems of assessing the financial condition of small businesses are highlighted recently, mainly on the example of countries with developed market economies. In conditions of internal structural reorganization, creation of territories for advanced development, improvement of the institutional environment, involvement of foreign investment in small business, the assessment of the current state of small business in Primorye is particularly significant. The purpose of the research is to study the theoretical, methodological and organizational issues of assessing the financial condition of small businesses in modern conditions and to propose ways of its development. Statistical and graphical methods of investigation are used in the work. Based on the study of methodological approaches for evaluating the financial condition of small business, the research presents a refined approach to a comprehensive reflection of the results of small business at the meso-level. According to the results of the analysis advantages and disadvantages of small business were identified, there was presented the evaluation of dynamics of main indicators characterizing the financial condition of small business in Primorsky region at the meso-level. Identification of factors of development of small business allows to suggest directions of sustainable business development.

1. Introduction

The current stage in the development of the Russian economy is characterized by increased food sanctions, unemployment and falling growth rates and it requires the introduction of import substitution mechanisms and a substantial strengthening of the foundation of the national entrepreneurial environment. A special place in the development of Russian business is taken by a small business. Various programs for the development of small businesses are being developed at the strategic and legislative levels.

In Primorye, the state program "Economic Development and Innovative Economy of Primorsky Region" as well as subsidized financing programs and subsidies for exporting enterprises are being implemented to support small businesses. However, there are still barriers that limit the spread of small business in the Primorye's economy. It is necessary to systematically evaluate the results of operations and the financial condition of the organization to define "narrow places" in the activity of small business entities. Objective results of the assessment of the financial condition of the organization will allow to develop management solutions for further development quickly.

In this regard, it is actual and important to improve approaches for evaluating the effectiveness of small business at the regional level. In our opinion, the system of state regulation of small business at
the regional level should be based on the development of forecast indicators. Its totality allows obtaining final indicators of the effectiveness of the innovative system of the national economy, the main operating conditions of which are: to ensure the production efficiency of small businesses; to create a system for monitoring the development of small business in the regions and a system for leveling deviations from established parameters.

The purpose of this study is to evaluate the condition of small business and develop a model for planning the main financial indicators.

To achieve this goal, first of all, it is necessary to introduce an analytical review of existing methodological approaches for assessing the financial condition of small businesses.

2. Theoretical aspects
The analysis of the conducted researches has shown that there are various methodical approaches for estimation of a financial condition of small business in practice. The authors offer a variety of criteria for evaluating the financial situation, identify group and integral indicators.

The most common approach to evaluate the financial condition of small businesses is the methodology of the Federal State Statistics Service. The dynamics of the number of enterprises, the average number of employees in small businesses, the turnover of small businesses, the valuation of capital and property and the dynamics of small business investment in fixed assets are used as indicators. In this way, this approach is dominated by absolute indicators. The disadvantage of this approach is the lack of relative indicators, as the main criteria for the effectiveness of the functioning of small businesses. The shestoperova's Methodical approach is based on the definition of a complex measure of the financial state of small businesses, namely, the definition of a coefficient of participation of small businesses in the economy. The author calculates the level of participation of small business in the economy as half of the share of small enterprises in GDP and small enterprises in the number of employed [7]. The advantage of the methodical approach is the availability of statistical data for the calculation of indicators and the increment of calculated criteria. The disadvantage of it is a lack of set of indicators and a lack of indicator's accounting of its significance for the result of the evaluation.

A common practice is the use of techniques based on the synergy of the two analyzes. For example, the Filimonova's methodical approach [5] is based on a matrix that combines the integral indicators of the region's attractiveness and the competitiveness of small business in the region.

The Konev's methodical approach [2] consists in grouping the criteria for the blocks:

- scale of development and density of distribution of small enterprises;
- degree of business activity;
- contribution to the country's future social and economical development;
- definition of investment activity of small business.

Based on the determination of the weights of the significance of each block of indicators, the author calculates the result indicator and suggests a scale of its criterial values:

- [0-0,24] - a small contribution of small businesses to the national economy;
- [0,24-0,47] - an average level of small business contribution to the development of the national economy;
- [0,48-1] - a high level of small business contribution to the development of the national economy [2].

3. Data, methodology and results of experimental research
Having studied methodological approaches of the evaluation of the financial condition of small businesses, it was noted that there is no recommended indicator of effective development of small enterprises in Russia, which was the problem of this study. The author's approach is a combination of stages in evaluating the main results of small business and its influence at the socio-economic development of the region and the country. It is proposed to use enlarged and the most capacious indicators of the financial state of small business.
At the first stage of the analysis, the contribution of the role of small business in the economy of Primorsky Region and the contribution to the formation of the gross regional product are estimated. According to the criteria of the methodology of the Federal State Statistics Service, the small business sector makes a significant contribution to the economy of Primorsky Region. The small business of Primorye forms more than 40% of the gross regional product, while in Russia this figure is approximately 20%. According to the criterial values of the Konev's methodological approach, small business of Primorsky Region forms an average contribution to the formation of the region's GDP. Such results should be a signal for the authorities and the business sector in developing small business and stimulating new "business units" and start-ups.

At the second stage, the indicators characterizing the performance of small businesses need to be considered in Table 1. In 2016 in Primorye, around 45.8 thousand small enterprises operated, which is 46.4% of all enterprises in the region. It has to be noticed, that 88% of small business entities of Primorye are microenterprises.

![Figure 1](image1.png)

**Figure 1.** The share of small business in the formation of GDP, %.

According to the criteria of the methodology of the Federal State Statistics Service, the small business sector makes a significant contribution to the economy of Primorsky Region. The small business of Primorye forms more than 40% of the gross regional product, while in Russia this figure is approximately 20%. According to the criterial values of the Konev's methodological approach, small business of Primorsky Region forms an average contribution to the formation of the region's GDP. Such results should be a signal for the authorities and the business sector in developing small business and stimulating new "business units" and start-ups.

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During the period under review, the number of small enterprises increased by 72.2%. The development of the business sector is also confirmed by an increase in the volume of sales of goods, works and services by 3.5 times, investments - by 7.2 times and profits - by 3 times.

At the third stage, the results of small business are evaluated using standard indicators of financial analysis.
Table 1. The main indicators of small business development in the Primorye from 2009 to 2016.

| Year | \( Y \) | \( X1 \) | \( X2 \) | \( X3 \) | \( X4 \) | \( X5 \) |
|------|--------|--------|--------|--------|--------|--------|
|      | Turnover of enterprises in current prices, bln. rub. | Number of enterprises, thous. units | Average number of employees, thous. people. | Balanced financial result, bln. rub. | Investments in fixed capital, bln. rub. | Capital and reserves, bln. rub. |
| 2009 | 227    | 26,588 | 164    | 6.0    | 1.8    | 20.2   |
| 2010 | 305    | 29,627 | 174.4  | 9.0    | 2.16   | 26.3   |
| 2011 | 325.7  | 29,897 | 149.8  | 7.8    | 3.2    | 31.0   |
| 2012 | 352.00 | 30.6   | 143.9  | 12.6   | 4.5    | 39.5   |
| 2013 | 395.00 | 31.1   | 147    | 21.5   | 2.89   | 72.8   |
| 2014 | 410.00 | 31.7   | 147.6  | 17.2   | 3.49   | 81.9   |
| 2015 | 792.70 | 38.8   | 158.4  | 21.1   | 14.4   | 110.5  |
| 2016 | 796.30 | 45.8   | 152.2  | 35.3   | 13.01  | 149.3  |

Source: [compiled by the author according to the data of Primorsky State Statistics Service [Electronic resource] // - Access mode: http://www.primstat.gks.ru/].

Table 2. Indicators of business activity of small business in Primorye, bln. rub.

| Economic indicators | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------|------|------|------|------|------|
| Turnover of accounts payable, times | 2.5  | 1.74 | 1.66 | 2.41 | 2.21 |
| Turnover of accounts payable, days   | 144  | 207  | 217  | 149  | 163  |
| Asset turnover, times                | 0.70 | 0.51 | 0.51 | 0.88 | 0.78 |
| Asset turnover, days                 | 517  | 706  | 709  | 409  | 463  |
| Turnover of current assets, times    | 2.86 | 1.74 | 1.53 | 2.36 | 1.88 |
| Turnover of current assets, days     | 126  | 207  | 235  | 152  | 191  |
| Coefficient of autonomy, %           | 7.8  | 9.4  | 10.1 | 12.3 | 14.6 |
| Equity capital turnover, times       | 8.91 | 5.43 | 5.01 | 7.17 | 5.33 |
| Equity capital turnover, days        | 40   | 66   | 72   | 50   | 67   |
| Profitability of assets, %           | 0.63 | 0.18 | 0.22 | 0.73 | 0.59 |
| Profitability of main activity, %    | 0.51 | 0.14 | 0.18 | 0.59 | 0.47 |
| Profitability of sales, %            | 0.91 | 0.35 | 0.44 | 0.83 | 0.75 |
| Profitability of borrowed capital, % | 0.69 | 0.20 | 0.25 | 0.83 | 0.69 |
| Profitability of equity capital, %   | 8.10 | 1.92 | 2.20 | 5.97 | 4.02 |
| Absolute liquidity ratio             | 0.11 | 0.13 | 0.16 | 0.18 | 0.19 |
| Urgent liquidity ratio               | 0.56 | 0.61 | 0.7  | 0.72 | 0.75 |
| Current liquidity ratio              | 1.33 | 1.45 | 1.16 | 1.18 | 1.23 |

Source: [compiled by the author according to the data of Primorsky State Statistics Service [Electronic resource] // - Access mode: http://www.primstat.gks.ru/].

According to Table 2, the following can be observed. The total capital turnover ratio increased by 11.4 in 2012-2016, while the capital turnover period in 2016 was reduced by 54 days. It means that in 2016 the small business was needed for 54 days less to convert the total capital into cash, i.e. the efficiency of the use of all the capital in 2012-2016 has improved. The ratio of turnover of accounts payable was reduced by 0.29 in 2016, while the turnover period increased by 19 days and amounted to 163, this is the period to pay off the accounts payable. Such dynamics is due to a more rapid growth of small business crediting in relation to the growth of small business incomes. Because of the
outstripping growth of equity capital over the turnover of small business, the ratio of turnover of equity capital decreases every year and the period of turnover in days increases.

In 2016 there is a negative dynamics of profitability indicators, relative to 2012, the best yield was observed in 2015. According to the results of the analysis, the following positive points can be singled out: there is an increase in sales proceeds, positive balance of income and expenses, which means that the small business has a positive financial result (net profit), i.e. activity is break-even. The analysis of profitability made it possible to identify the following shortcomings: low profitability of activities, which is a consequence of the small amount of profit and its low share in relation to the resources of the enterprise. The outstripping growth rate of property and capital in relation to the growth rate of the financial result is also negative. The next step in assessing the financial state is a prediction of the main indicators using correlation-regression analysis.

For the prediction of indicators of economic development of small businesses of Primorye authors suggest to construct a multiple regression model. For a basis it is necessary to take the data of the Federal State Statistics Service that are presented in Table 1. It is necessary to select factor indicators of small business development that can influence the efficiency factors in the selected areas. The choice of such parameters was carried out by a logical analysis of the facts, but was limited to the available information about the development of small business in the Primorye. In our view, the list size of workers in small enterprises indirectly influence on the result indicator, and "Enterprise turnover" and "Profit" are direct indicators that can significantly affect the results with the further creation of favorable conditions for the development of small business in the region. In order to verify the predictive capabilities of the model, the values of the indicators up to 2014 are taken into account in calculating the factors and the resulting indicator.

As a result of the calculations, the multiple regression equation was obtained: 

\[ y = -378,4664 + 26,3297x_1 - 0,6375x_2 + 0,8001x_3 - 3,5747x_4 + 0,5673x_5. \]

There is given an interpretation of the regression coefficients in Table 3.

### Table 3. Interpretation of the coefficients of the regression equation.

| Factor                                      | Coefficient of regression (β) | Interpretation of the coefficient                                      |
|---------------------------------------------|------------------------------|-----------------------------------------------------------------------|
| Number of enterprises, thousand units. (X1) | 26,3297                      | The increase in the number of enterprises per 1 thousand leads to an increase in the turnover of enterprises by an average of 26.33 billion rubles. |
| Average number of employees, thousand people. (X2) | 0,6375                      | The increase in the average number of employees per 1 thousand people leads to a decrease in turnover of enterprises by an average of 0.638 billion rubles. |
| Balanced financial result, bln. rub. (X3) | 0,8001                      | Increase in the balanced financial result by 1 bln. Rub. leads to an increase in the turnover of enterprises by an average of 0.8 billion rubles. |
| Investments in fixed assets, bln. rub. (X4) | 3,5747                      | Increase in investments in fixed assets by 1 billion rubles. leads to a decrease in turnover of enterprises by an average of 3.57 billion rubles. |
| Capital and reserves, bln. rub. (X5)       | 0,5673                      | Increase in capital and reserves by 1 billion rubles. leads to an increase in the turnover of enterprises by an average of 0.57 billion rubles. |
Looking the maximum coefficient \( \beta_1 = 0.712 \) it can be concluded that the greatest influence on the result is made by the factor of the number of small enterprises. The statistical significance and adequacy of the equation is verified by the determination coefficient and the Fisher criterion. In the situation under study it was found that 100% of the total variability of the effective indicator is due to a change in factors. It is also established that the parameters of the model are statistically significant. So, substituting in the equation the values of factors in 2016, we get the turnover of enterprises in the amount of 796.84 billion rubles, which is 99.9% of the real value of the resultant indicator in 2016.

Checking the model for adequacy and statistical significance allows its use for making predictions. Calculation of the prognosis is carried out by substituting the expected value of the factorial characteristics in the equation. When the trend and the error of the trend model of each factor are calculated, the prediction for 2018 and 2020 can be built according to pessimistic, realistic and optimistic scenarios.

### Table 4. Auxiliary table for calculating the predicted values of the factor characteristics.

| Year | Type of prognosis | X1 | X2 | X3 | X4 | X5 | Prediction value Y |
|------|-------------------|----|----|----|----|----|-------------------|
| 2018 | optimistic        | 47.25 | 155.04 | 41.14 | 20.58 | 179.17 | 827.77 |
|      | realistic         | 42.99 | 145.76 | 32.53 | 13.12 | 147.37 | 723.26 |
|      | pessimistic       | 38.73 | 136.49 | 23.92 | 5.67  | 115.57 | 618.70 |
| 2020 | optimistic        | 49.69 | 152.93 | 45.69 | 23.17 | 201.03 | 900.14 |
|      | realistic         | 45.21 | 143.79 | 36.13 | 14.78 | 165.35 | 790.11 |
|      | pessimistic       | 40.73 | 134.64 | 26.57 | 6.39  | 129.67 | 680.09 |

After the construction the trend for the indicator "Investments in fixed assets", the prediction error turned out to be at 56%, which shows that it is impossible to verify the forecast for this variable. For the other factors, the error values did not exceed 6%. Based on the prediction values of the resultant indicator, it should be noted that the prognosis of the turnover of enterprises in 2018 under the optimistic scenario is 827.77 billion rubles, which is 3.94% higher than the current value of the indicator.

### 4. Conclusion

In the conclusion of this brief study of the reasons and the real economic situation of development and support of small businesses in the region, it should be noted that only an effective development infrastructure that is appropriate to the realities of economic relations and support for small businesses in the region will help to find a competitive and favorable economic environment for these subjects of economic relations. In general it will lead to the economic growth of the entire economy of the country [22].

Thus, the activities of small businesses are close to meeting the needs of the end user. They can quickly adapt to the specific needs of the market, meet its immediate needs. In this regard, small businesses participate in the filling of local markets with goods, works and services more than bigger ones, as they are satisfied with small profits. The success of small business in local markets is achieved by relative cheapness of the products, works, and services sold, which is connected with:
- economical use of resources;
- narrow specialization of activity;
- a small number of employees;
- low administrative costs [23].

The activities of small businesses have a pronounced social orientation, since it helps to increase the level of employment of the population, including self-employment as a result of the creation of their own business.

Small business serves the purposes of long-term economic development and represents an important lever for the recovery of the entire economy.
Due to its important socio-economic role associated with a rapid response to market demands and the ability to quickly mobilize resources for the development of promising areas, small business is the object of state support. Simplicity in management in connection with simplification of organizational structures, efficiency in making decisions provide an opportunity of their fast re-profiling. As a consequence, small business is distinguished by economic and technological flexibility in the implementation of innovative ideas.

Firstly, it is necessary to improve the investment climate of the regions for small business development by attracting private investments, including foreign investments. A powerful impetus to the development of Primorsky Region and improvement of the investment climate is the adoption of the law "Free Port Vladivostok" and recognition that this region is a territory of advanced development. The purpose of the organization of the territory of advanced development: the formation of favorable conditions for attracting investments, ensuring rapid social and economic development and creating comfortable conditions for ensuring the vital activity of the population. The list of registered residents of the Territory of advanced development includes 56 organizations. Thirdly, an important factor in the development of small and medium-sized businesses is a creation of regional venture funds [18], business incubators and regional guarantee funds.

Despite a huge number of published works on problems of small business, so far the discussion point is the approaches to assessing the financial condition of small businesses at the regional level.

The author grouped the main indicators of the financial state of small businesses at the meso level. The systematic assessment of the financial state of small business at the meso level contributes to its sustainability and the growth of the economy as a whole. The resulted system of indicators of a financial condition of small business at the meso level can be used for an estimation of results of realization of development programs of small and average business, and also various statistical and consulting organizations.

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