
Internal Business Success Factors of Small and Medium-Sized Enterprises: Evidence from Russia

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ABSTRACT

The paper analyzes the internal success factors of a small and medium-sized business in Russia. Special attention is paid to the research of financial factors as the most significant in business performance. The authors find the effect of various financial indicators of corporate performance on business success using accounting statements. The analysis of a small and medium-sized business is conducted by federal districts of the Russian Federation. Key significant internal financial factors are revealed as ensuring the success of the small and medium-sized business. Based on the factors so revealed, recommendations are made for the improvement of a small and medium-sized business.

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1. INTRODUCTION

The study of small and medium-sized business matters today is one of the most popular kinds of research. Many theoretical and practical works are devoted to that sphere. And this is for a reason. It is the development of the small and medium-sized business, which is the opportunity of crisis recovery and further prosperity of developed and developing economies, as opined by many economists. The success issues of small and medium-sized business and related factors are paid too little attention. Most researchers in that area analyze the existing problems of a small and medium-sized business. In that connection, detailed analysis of small and medium-sized business success factors is required as well as stricter identification and assessment of the number of successful businesses by sectors and regions of the Russian Federation. This paper sets the goal to study the effect of internal factors on the success of small and medium-sized business in Russia.

Among the works devoted to corporate success, the following foreign scholars' researches may be specified: Romar (2009) found the ration of strategic expectations and corporate success, Sieger (2011) studied long-term success of family businesses. Jensen (2001) showed the ways to settle contradictions in two competing indicators of corporate success - maximization of capitalization and public welfare, Drucker (2007) introduced industrial success notion for manufacturing enterprises), Todeva (1998) introduced business success notion as a characteristic of its vitality in aggressive environment, Bronsteen et al., (2013) studied the new measure of business success - welfare analysis as an alternative to cost-benefit analysis. In Russia, business success was studied in a few works. In particular, the core approaches are developed in works by Barkhatov and Pletnyov (2014). Small and medium-sized business success abroad was studied by Hussain, & Yaqub (2010) developed a system of factors of micro company's success, Jasra et al., (2012) found the determinants of small and medium-sized business success. Some foreign scholars devoted their works to the internal factors of successful development of small and medium-sized business abroad: Hewa Wellalage & Locke (2012) analyzed of small and medium-sized business bankruptcies), Kearney et al., (2012) (research on small and medium-sized business capital structure), Anantadjaya (2009) assessment of human resources significance in small and medium-sized business and study of family business success factors.

The analysis of internal factors of small and medium-sized business development in Russia is represented in papers by Epifanova (2012a,b) analyzed of liquidity and solvency of small and medium-sized business, Chusina & Lenkova (2014) issued on using basic methods of business solvency, business activity, financial stability of small and medium-sized business, Hohol (2013) investigated small and medium-sized business financial analysis specifics, Mandrazhi & Abdiyeva (2013) developed methodology of small company's performance analysis), Usatova (2008) presented development of management analysis in a small company, Pinkovetskaya (2012) found dependencies of development of regional small and medium-sized business.

2. METHODOLOGY

The economic aspect of corporate business is studied accounting for a number of its characteristics: capital structure, interest burden, liquidity, commercial activity, return on resources, cost structure, transactional costs, etc. Economic factors are the most significant in the achievement of the company's goals, assessment, and prevention of internal risks and the successful company operation in general. For large companies, their study and consideration are urgent. Still more significant is their effect on the efficiency and success of the small and medium-sized business. The point is that large corporations can realize their influence in the market, administrative resource, and great financial flows for adjustment of the various negative impact of the corporate environment. Small and medium-sized business does not have such an opportunity. Therefore, top management's attention to the said economic elements of the corporate business will ensure the desired level of profitability and growth as well as market success. However, in the study of small and medium-sized business success factors, it should be a mistake to reduce the analysis to the economic aspect only.

The paper analyzes the dependency of small and medium-sized business success indicators and internal factors represented by the financial and commercial activity of a company. As success factors of a small and medium-sized business, sales growth rate and sales profitability are used, as within the approach offered by Barkhatov and Pletnev (2014). In the study of profit factors on a single company's level, as a rule, factor analysis is used, to find the functional link between indicators. Quite often, corporate efficiency and success indicators are affected by several factors not related directly but affecting decision making, which may later cause corporate income growth. The effect of those factors should not be ignored, as well. For instance, in our previous research we found that growing level of transaction costs to a certain point will be accompanied by growing corporate profitability, but such a conclusion is not obvious as it is accepted to consider that growing costs cause growing profit and profitability (more detailed view is given in works of Pletnev et al., (2014a) and Pletnev et al., (2014b). For studying such kind of correlations, correlation and regression analysis are applied. Besides, in large-scale research and case of a lot of enterprises in the sample, factor analysis is complicated. In this paper, we applied correlation and regression analysis to find the significant internal factors of success.

Traditionally, in the course of the financial and commercial activity of a company, the following performance indicators are found and analyzed: liquidity, solvency and financial stability, business activity. Each of them may be represented by several parameters. In the preliminary analysis of small and medium-sized business, some 7 factors were specified in connection with sales profitability: interest coverage in prior period, working capital coverage in prior period, specific weight of equity capital in total capital (autonomy factor) in prior period, interest coverage in current year, specific weight of equity capital in total capital (autonomy factor) in current period, average turnover of accounts receivable in current period, average turnover of stock in current period. Also, three indicators were found in connection with the revenue growth rate in small companies: the specific weight of equity capital (autonomy factor) in the prior period, the average turnover of accounts receivable in the prior period, the average turnover of stock in the prior period.

In medium companies some 6 internal factors affecting sales profitability were found: specific weight of equity capital in total capital (autonomy factor) in prior period, current liquidity in prior period, average turnover of accounts receivable in prior period, interest coverage in current year, specific weight of equity capital in total capital (autonomy factor) in current period, average turnover of stock in prior period. Also, two indicators were found in connection with the revenue growth rate in medium companies: average turnover of accounts receivable in the prior period, the average turnover of stock in the prior period. The analysis was done separately for small companies and medium companies. In total, 37,233 small companies and 10,866 medium companies from 8 federal districts of the Russian Federation were studied. The analysis used the corporate accounting statements submitted by First independent rating agency FIRA.PRO (Informatsionno-analiticheskaya Sistema FIRA PRO). The analysis by federal districts was done to describe the specifics in the development of small and medium-sized business and find core problems in the regions as at the first stage of our research some great differences were found in the level of corporate success.

The special feature of this research is that the above factors were analyzed in 2012 and 2013. Meantime, their effect on the success parameters achieved in 2013 was assessed. We were based on our supposition that the company's success is ensured as a result of its activity in a few prior periods. Using correlation analysis, the interrelation of each factor was assessed with two success indicators, and the effect of internal factors in 2012 and 2013 separately was found.

3. RESULTS AND DISCUSSION

At the first stage, our research was done by federal districts, and we made eight samplings being objects of the analysis. Besides, the research results were different for small and medium companies so that further analysis will be done separately for these two groups. The analysis was done using linear correlation coefficients. For all the factors, correlation coefficients were checked using T-statistic, which proved the significance of coefficients at a 1% level of significance. It is important to note that out of 10 factors of small business success studied, six relate to prior periods of the company's financial and business activity. It again proves that business success is achieved within a few years and should be studied in dynamics. In the course of the research, some differences in the set of factors were noted, ensuring small business success in various federal districts. The table lists the analysis of factors affecting corporate profitability in 8 districts studied (correlation coefficients) (Table 1).

Table 1. Factors Affecting Sales Profitability of the Small Business

Federal districts	Number of firms	k ₁	k ₂	k ₃	k ₄	k ₅	k ₆	k ₇
Volga Federal District	6248	0.047	0.014	0.109	0.072	0.102	-0.105	0.042
North-West Federal District	4383	0.068	-0.027	0.159	0.112	0.044	0.047	0.027
Siberian Federal District	3749	0.052	0.007	0.063	0.052	0.034	-0.026	-0.085
Ural Federal District	2976	0.134	-0.024	0.088	0.072	0.113	-0.373	0.013
South Federal District	2816	0.033	0.068	0.185	0.099	0.063	-0.64	0.068
North-Caucasus Federal District	606	0.031	0.122	0.269	0.133	0.343	0.126	0.189
Far-East Federal District	1286	0.053	0.178	0.112	0.07	0.223	-0.62	-0.606
Central Federal District	12613	0.019	-0.024	0.048	0.029	0.096	-0.034	0.029

Note:

k₁ – interest coverage in the prior period; k₂ – working capital coverage in the prior period;
 k₃ – specific weight of equity capital in total capital (autonomy factor) in the prior period; k₄ – interest coverage in the current year;
 k₅ – specific weight of equity capital in total capital (autonomy factor) in the current period;
 k₆ – average turnover of accounts receivable in the current period; k₇ – average turnover of stock in the prior period.

Thus, it is seen from the table which factors are significant for all the aggregates studied (federal districts); namely, specific weight of equity capital in total capital and interest coverage in the current year. In both cases, the relationship is positive. If we assume that in small and medium companies the specific weight of equity capital is stable, the result may be interpreted as follows: a high portion of equity capital (regardless from the period) corresponds to the high profitability of sales. Here, a reverse effect of financial leverage is seen. It is explained by the low autonomy factors of Russian companies. The average value in all the aggregate studied in 2013 was 0.104, which is critically low at the normative value of 0.5. Also, it should be noted that in many companies, that indicator is negative, which may evidence loss or unpaid equity capital. Therefore, the growth of equity capital's specific weight, in that case, is reasonable and will cause profitability to increase. Interest coverage and sales profitability are directly related, as both of them are relative characteristics of the company's profit. Other indicators did not show any trend for correlation with sales profitability. Further, we will submit detailed correlation analysis for the second success indicator – revenue growth rate in small business (Table 2).

Average turnover of accounts receivable in prior period in all districts affects positively the revenue growth rate which is most likely explained by the fact that growing terms for repayment of receivables move the receipt of money by a company from the current period to the next, thus increasing company's revenue in the next year. Therefore the effect of that factor may be considered negative (despite positive values of the linear correlation coefficient), as it points to the high dependency of a company on its loan policy and acts by debtors.

Table 2. Factors Affecting Growth Rate in Small Companies

Federal districts	NO. of firms	k ₅	k ₆	k ₇
Volga Federal District	6248	-0.031	0.879	0.367
North-West Federal District	4383	-0.039	0.45	0.297
Siberian Federal District	3749	-0.06	0.623	0.403
Ural Federal District	2976	-0.107	0.224	0.003
South Federal District	2816	-0.017	0.964	0.079
North-Caucasus Federal District	606	-0.201	0.138	0.127
Far-East Federal District	1286	-0.06	0.19	0.133
Central Federal District	12613	-0.007	0.701	0.009

Besides, virtually in all samplings, there was an interrelation of income growth rate and stock turnover in the prior period. It also may be explained by extension of corporate operation cycles, when stock is shipped with a delay causing a probable negative effect for companies. Autonomy factor in most of the districts does not have a material effect on small business sales profitability. For all the indicators selected, correlation coefficients were checked using T statistic, which proved the significance of coefficients at a 1% level of significance. Similar to small business, out of 8 internal factors of corporate success, 5 are the indicators of development in the prior operational period. Now we will come to a more detailed analysis of factors by samplings, i.e., federal districts. In Table 3, the values of correlation coefficients are listed with success indicator – sales profitability (Table 3).

Table 3. Factors Affecting Sales Profitability of the Medium-Sized Business

Federal districts	Number of firms	k ₃	k ₈	k ₆	k ₄	k ₅	k ₇
Volga Federal District	1634	0.209	0.015	0.067	0.072	0.211	0.041
North-West Federal District	1277	0.192	0.225	0.152	0.085	0.278	0.092
Siberian Federal District	992	0.225	0.006	0.042	0.105	0.208	0.019
Ural Federal District	622	0.156	0.186	0.077	0.059	0.145	0.257
South Federal District	785	0.183	0.126	0.063	0.054	0.269	0.201
North-Caucasus Federal District	169	0.471	0.155	-0.064	-0.021	0.471	0.223
Far-East Federal District	391	0.014	0.059	0.028	0.062	0.034	0.027
Central Federal District	4010	0.087	0.105	0.042	0.055	0.231	0.041

Note: k₈ – current liquidity in prior period.

From the table, it follows that all the factors had direct interrelation with corporate sales profitability. The most stable trend of interrelation with sales profitability is seen in the specific weight of equity capital in total capital (autonomy factor) in prior and current periods, which is direct. Like in the case of small business, it points to the need to increase equity capital, which is about 22% for medium companies. It is of interest that this parameter, both for small and medium companies, was the lowest in Central federal district. The highest average specific weight of equity capital was in small and medium companies of Far-Eastern federal district. Also, the analysis showed that the autonomy factor (equity capital) was negative in many small companies of all districts and seldom was below zero in medium companies. Other indicators did not have so clear trend, but among significant ones, average turnover of stock in current period may be mentioned. It is notable that the interrelation of that indicator with profitability is also direct, i.e., an increased period of stock turnover is positively reflected on the current profitability. That contradicts to corporate business activity principles.

It is of interest that in Far-Eastern federal district, none of the factors studied affected the profitability of the sales of the medium-sized business. Extra analysis of companies of that federal district allowed finding one more indicator affecting the profitability of sales – working capital coverage in the current period. Further, we assessed the relationship between internal factors and revenue growth rates of a medium-sized business. As noted above, only two factors were characterized by interrelation with revenue growth rate – average turnover of accounts receivable in the prior period and an average turnover of stock in the prior period. Table 4 lists the correlation analysis of those factors by federal districts.

Table 4. Factors Affecting Revenue Growth Rate in Medium Companies

Federal districts	Number of firms	k ₆	k ₇
Volga Federal District	1634	0.407	0.055
North-West Federal District	1277	0.52	0.13
Siberian Federal District	992	0.243	0.089
Ural Federal District	622	0.656	0.169
South Federal District	785	0.738	0.705
North-Caucasus Federal District	169	0.067	0.093
Far-East Federal District	391	0.504	0.503
Central Federal District	4010	0.462	0.068

In most of the districts studied, the effect of the above success factors was positive for most of the medium size companies. The effect of the above two business activity indicators was direct, while, like in case of small companies, both indicators were from the prior period. It also may point to extending the production and financial cycles of a company and evidence the delay of real money receipt. However, on the other hand, the extension of the accounts receivable payment period may be used by companies as a temporary method of sales growth.

4. CONCLUSIONS

The paper presents the results of corporate success internal factors analysis. The empirical analysis allowed to specify the number of factors greatly affecting the success indicators of small and medium-sized businesses and characterizing various aspects of the financial and commercial activity of a company (liquidity, financial stability, and solvency, business activity). Such factors are interest coverage, working capital coverage, specific weight of equity capital in total capital (autonomy factor), the average turnover of accounts receivable, the average turnover of stock. The above indicators have different effect level on success indicators. Besides, there are differences in the set of financial factors of success, depending on the federal district studied. The analysis allowed to find the specifics of small and medium-sized businesses from various districts. Among all the factors studied, the most significant in success indicators is the specific weight of equity capital and interest coverage – affecting sales profitability; average turnover of accounts receivable and an average turnover of stock greatly affect the growth rate of revenue from sales.

To achieve success, small and medium-sized businesses need to pay special attention to some elements of their financial policies. In particular, in capital structure, small and medium-sized businesses should try to decrease the portion of borrowings as the analysis showed that it is one of the bottlenecks of corporate financial policies. Besides, in the development of their loan policy, companies should not permit significant extension of financial cycles. Although it may be a good tool for sales growth, in the long term (especially in an economic recession), such a policy will probably be dangerous for a small business as the most sensitive and unprotected market player.

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