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The Role of the Transaction Costs in the Business Success of Small and Medium Sized Enterprises in Russia

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Abstract

This article represents the results of a study of transaction costs and business success of small and medium sized enterprises. Based on empirical analysis, the authors introduce a comparative description of transaction costs in different sectors of the Russian economy and demonstrate their effect on the business success. The optimal level of cost for the transaction in each particular section is determined using statistical analysis.

1. Introduction

The Russian economy has been faced with the problem of developing small and medium sized businesses for many years. Scientists, as well as government officials and managers of enterprises, consider supporting small and medium sized businesses as a solution for a variety of social and economic problems. Suggestions and decisions are made concerning the ways of supporting and stimulating entrepreneurial activities in Russia at different levels of public authority. Based on the number of publications by governmental programs and other initiatives in this field (including social ones), this can certainly be considered one of the most pressing issues in our country. Due to their flexibility, fast decision making and high responsibility level, the peculiar features of small and medium sized enterprises are able to become one of the chief locomotives of economic growth. Moreover, the success of

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entrepreneurial activities is also a factor that helps remove social tension in the country to a certain extent, thanks to the growing employment and income of the people as well as the formation of the "middle class" in society.

According to the restricting or stimulating effect produced on small and medium sized enterprises, at present institutional factors are the most important. A lot of attention has been focused on various issues related to institutional factors and their influence on the efficiency of economic subjects in the works by Rutherford (1995), Coase (2005), Greif (2005), Hodgson (2000), Joskow (2008), Menard (2004), Murrel (2005) and Opper (2008). The authors emphasize the following factors as most relevant: high administrative barriers, artificial barriers forced at the stage of entering a sector, and limited access to financial and informational resources. The presence of the said obstacles and the necessity to overcome them is caused by considerable financial costs; they are usually called transaction costs.

The goal of this article is to study and provide a quantitative description of the effect produced by the institutional environment on indices of success for small and medium sized enterprises. In our study, the index describing the influence produced by institutional factors on an enterprise is calculated to be the level of transaction costs faced by the enterprise when organizing its external and internal operations. More details on the forms and estimation of transaction costs and on the effect they produce on the efficiency of enterprises can be found in works by (Williamson, 1979), (Maher, 1997), (Pessali, 2006), (Whinston, 2001), (Schmitz, 2006), (Bylund 2013) and (Miller, 2014).

Business success has many facets, both in terms of efficiency and stability as well as the ability to grow. A whole series of works, including the articles by (Bullen and Rockart, 1981), (Boyton and Zmud 1984), (Clarke and O'Connor, 2012) have been dedicated to the study of this phenomenon. In this study, we are deliberately focusing on one of the aspects of success, namely the efficiency value of an enterprise. We have selected the economic efficiency of the operating activities as the aspect for our discussion. Having estimated the transaction cost level and compared it to the values of success, i.e. the economic efficiency, we can demonstrate the effect of that factor and suggest our recommendations on optimizing the correlation of those values in a particular enterprise.

2. Methodology and data

In this article, the methods we used to estimate the level of the transaction cost were based on accounting report data. The methods were described and tested earlier in (Pletnev, Nikolaeva and Bitkulova, 2014), and (Pletnev, Nikolaeva and Lushnikov, 2014). Transaction costs of Russian enterprises are extremely difficult to measure directly because accounting mechanisms are not "sharpened" under their identification and assessment at present. In such conditions, a "level" method of assessment for transaction costs of the enterprise is possible. This method uses accounting data. These data are used to produce factors having a connection theoretically grounded with transaction costs. We propose to use three calculated indicators according to the balance sheet and income statement: the proportion of administrative and selling expenses in enterprise revenue, the period of assets turnover, and the share of stocks in the current asset value. Each factor is normalized and the average of the normalized indicators is calculated. The first factor reflects the explicit transaction costs; the other two are implicit factors recorded by the "slowing down" of the enterprise in comparison with its competitors (1):

$$\gamma_j = \frac{1}{\left(1 + \exp\left(-\sum_{i=1}^{n} \frac{f_{ij} - \overline{f}_i}{\sigma_i}\right)\right)} \tag{1}$$

Wherein,

f_{ij} – i-th value of the indicator (i varies from 1 to 3) for the j-th enterprise;

$\overline{f}_i$ – average value of the i-th sample indicator;

σ_i – standard deviation of the i-th sample indicator.

After the logistic transformation of this function all values convert into a convenient scale from 0 to 1. The closer the value of the transaction costs is to 1, the higher it is to the respective enterprise. Calculated in such a way, the