

Economic Security as a Principle of Designing a Basic Performance Strategy of a Business Entity

Kushubakova B.K.

Ufa State Petroleum Technological University

Abstract—The article analyzes changes happening in the economic environment for business entities in Russian economy's structure. Authors see performance strategy absence as one of additional factors hindering structural changes in the economy helping its resource dependence. It is claimed that economic security is the basic principle of implementing any strategy influencing a business entity's performance.

Keywords—Business (legal) entity, economic security, risks, basic strategy.

I. INTRODUCTION

Nowadays business entities exist in the economy that is, first of all, dynamic and complex with competitive environment, which are important to consider when trying to achieve business goals. Uncertainty is nowadays one of the major factors determining risks and threats that may bring more than just catastrophic financial losses or opportunities lost. These risks endanger the very viability of a business entity.

In Russia said above gets even more accurate due to the existence of both, objective and subjective factors and reasons. For objective reasons, we single out the hereditary structure of the economy, which hasn't seen any significant changes despite all the taken government attempts. Resource dependence and dominance of raw materials industry is the main feature of this economy, which creates environment beneficial for the so-called "natural monopolies". This feature not only determines the resource use distribution in the economy, but also the distribution, and redistribution, of the added value between sectors of the economy. Moreover, positions of the business entities belonging to natural monopolies are such that risks arising within the economic territory of a country are mostly distributed among those who are not part of the natural monopoly segment. Business entities that belong to natural monopolies function at both - domestic and foreign - markets simultaneously, which means they can transport risks from their foreign economic activity to the domestic market thus increasing the threat for economic security of all economic entities.

For subjective reasons we will single out the instability of the law and legislation formed by domestic institutions to be normative regulators. Another reason comes in the form of international regulations, i.e. sanctions. Where domestic standards and regulations stabilize the competitive environment, sanctions destroy the environment from the above which of course affect the economic security of business entities with economic territory of a country.

Table 1 given below shows the results of the calculations

based on the data provided by the Federal Statistics Service of the Russian Federation. According to Table 1, the economy structure is still very much dominated by raw materials and resource industries. Moreover, in 2005-2016 share of the entities engaged refining and processing had been decreasing steadily in both – total amount of business entities and in the GDP share. Meanwhile the amount of entities engaged in getting raw materials has risen by 67,1%.

The changes that has taken place in the economy structure are mostly due to business entities engaged in real estate market – their share in total amount of entities has risen in 2005-2016 by 42,1%, and their share in the GDP has risen by 93,8%. There have been major shifts in healthcare and education, too – the amount of entities engaged in has risen twice and three times, correspondingly.

It is also worth noting that the amount of agricultural business entities has decreased sharply, and that is an ongoing process still. At the same time the share of agricultural product in the GDP in 2016 has climbed back to its 2005 level after dropping down in 2010 and 2014 (by 21,75% and 15,7% correspondingly).

Agricultural business entities in 2005-2016 have lived through several threads of bankruptcies and organizational transformations across Russia, although the process differed from region to region and wasn't synchronic. The industry is still seeking for effective private land property forms, and lately agricultural entities has been revisiting cooperative forms of business.

We should mention that the data chosen to display structural changes in the economy were picked out considering those processes which had some time lag impact. For example, in 2005 the government launched high priority national projects which were designed to stabilize the economic situation and create positive environment for agricultural business, education and healthcare systems. Impact of world financial crisis of 2008 was mostly smoothed by 2010, and the economy was mostly recovered. The data of 2014 did not suffered effects of international sanctions. By 2016 the economy has adapted to the sanctions, and business entities not only preserved their markets but also found new niches and growth possibilities.

Based on the evidence above we can claim that Russian economy structure in 2005-2016 has evolved around getting raw materials, while share of manufacturing and processing entities has decreased and share of services sector has risen.

TABLE I. BUSINESS ENTITIES: TOTAL AMOUNT AND GDP SHARE IN CURRENT PRICES, BY INDUSTRIES

Industries	Share in total amount of entities**				GDP share, current prices (bln. rubles)			
	2005	2010	2014	2016	2005	2010	2014	2016
Agriculture, fishing and forestry	18,2	9,3	7,3	6,4	4,0	3,1	3,4	3,9
Mining and quarrying	1,7	2,5	2,8	2,9	9,6	8,3	7,9	8,6
Manufacturing (refining)	17,7	18,3	17,1	16,4	15,7	12,8	11,6	12,1
Electricity, gas, steam and air conditioning supply	4,8	6,6	7,1	7,1	2,8	3,3	2,5	2,8
Building/Construction	5,9	6,5	5,7	5,7	4,6	5,6	5,9	5,7
Wholesale and retail trade; repair of motor vehicles and motorcycles	17,6	16,2	16,4	15,2	16,7	17,3	14,1	13,2
Hotels and restaurants	2,5	2,3	1,8	1,8	0,8	0,9	0,8	0,8
Transport and communication	6,1	6,5	6,3	6,1	8,8	7,9	6,8	7,4
Real estate services	16,2	17,6	20,4	23,1	8,5	10,6	15,3	16,4
Education	2,2	5,9	6,5	6,9	2,3	2,7	2,3	2,3
Healthcare, public services, other services to population	1,1	1,4	1,6	1,8	4,1	4,7	4,8	4,9

*Calculations made based on the data by the Federal Statistics Service of the Russian Federation. Sections. Internet access: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/

** Total amount of entities (legal entities) doesn't small business, budgetary entities, banks, insurance and financial entities

Based on the experience gained from working with entities on setting up managerial accounting, budget planning and tax planning, it is possible to claim that significant reduction of entities engaged in processing and refining, in both - number and share, was caused by the fact that those entities had permanently occupied a wait-and-see attitude without developing a long-term strategy. At best, higher management of such entities set up managerial accounting, seeing budget planning and management as nothing more than a detailed costs lists. This had allowed to control costs, which benefited to managing money and resource flows, but without a thoroughly designed strategy, any decisions, even those based on budgeting tools, had fragmentary base and could not give a full effect benefit.

Looking back to the post-industrial US after the 1950s and calling it an age of rapid change, Ansoff I. quotes Peter Drucker who defined the era as "age of discontinuity" (p. 12). Economic environment for business entities in Russia in the past two decades had, too, symptoms of the "age of discontinuity", and created the mistaken impression of meaningless strategy development.

Any economy is always going through changes, and rate of those changes is only increasing as international business ties get wider and deeper with every year. For a domestic economy this means faster pace of global trends integrating into it, and with Russia adopting course to an open and digital economy business entities have to be prepared for challenges and risks, and that means having effective risks management systems able to adapt to the risks and challenges, which is impossible without designing a long-term strategy.

Traditionally, strategy is defined as a long-term and focused development direction of an entity, about its scope, means and forms of activities, relationships within the entity, and its place

in the surrounding environment. [4, 10, p. 231]. Here, we see the nature of a strategy as the certainty of entity's performance for a long-term period along the path of achieving activity goals.

It is known that the most common strategies, tested on practice, are called basic or model strategies. A basic strategy is formed considering changes happening in the external and internal environment, which makes strategy a sort of a general performance route of an enterprise, subject to the activity goals.

It is important to bear in mind that each business entity develops its strategy on the basis of typical, model ones. However, such entity's strategy will have certain differences, determined by the its activity goals and objectives, its business features. Accordingly, there are no identical performance recipes for a business entity, either in space or in time.

Aside from that, academic textbooks claim that basic strategy includes growth strategies, stability strategies, survival strategies and reduction strategies. Moreover, there are possible variations of multiple numbers within those strategies. For example, growth strategy might have differential growth strategy and integrative growth strategy. It seems that the number of possible strategies variations is determined by a combination of the following elements and their states: entity's products; market; industry branch; entity's position within the industry; production technology. Combinations of those elements, considering their level and formed of sets that define strategy content, can form as many options as it is possible to build indifference curves for securities portfolio, taking into account possible profitability and risk options.

Similarly, when developing a strategy, the variation of solutions makes it possible to not necessarily choose a strategy that provides maximum profit, accompanied by a high level of risk,

which reduces the economic security.

From the economic security point of view, an optimal level of yield and risk ratio is important. First of all, this means that developing and choosing a strategy should be based on principle of combining the highest profitability of the resources used with the minimum risk of losses. Secondly, the development and selection of a strategy should be based on the principle of economic security of an economic entity. This means that any implemented strategy should exclude a threat to economic security.

Economic security of an enterprise is usually perceived as protection measures for specific parameters of entity's activity in the form of effective resources use and protecting resources from economic threats. Those threats are seemed as certain processes, phenomena that has the potent to hinder achieving certain performance goals [7, p. 138]. Alternatively, enterprise's economic security is understood as the state of the enterprise, determined by its ability to function normally and achieve its goals under existing, and to certain level varying, external conditions [5, p. 21].

II. CONCLUSIONS

Thus, economic security is tightly associated with achieving enterprise's performance goals, or with means used to achieve those goals.

Multiple approaches and definitions of economic security show the interrelation of parameter with a complex of quantitative parameters displaying entity's performance, and there is no single parameter which can fully reflect entity's state as a stand-alone value. It is fair to say that economic security is the

main requirement when developing and accepting any managerial decisions in a market competition economy. It is compliance with the economic security requirements that makes it possible to make managerial decisions that exclude economic threats. As a basic requirement to decision-making, economic security is the defining principle for developing and implementing any chosen strategy of activity.

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