
The Role and Place of the Crisis Traps in the Development of the Small Business of the Forest Sector in the Russian Economy

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Abstract:

The article identifies the role and place of crisis traps in the development of the small business of the forest sector in the Russian Economy through the life cycle stages – origination stage (crisis innovative trap), formation stage (crisis organizing trap), growth stage (crisis financial trap), maturity stage (crisis marketing trap).

The emergence of crisis traps is connected with specific features of small forestry business development and functioning. Sustainable small forest business development depends on management actions on minimization and overcoming crisis manifestations. It is proved that it is possible to avoid the threat of falling into crisis traps, the crisis symptoms emergence, situations and processes in the small forestry business development due to forming program of the management actions and organizational tools to perform it.

Keywords: *Small business, development, forestry, crisis trap*

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Introduction

Entrepreneurial activity development in the economy's sector is an indispensable condition for the national economy growth, and small business support issues are paid much attention. At the same time the entrepreneurial activity level in the forestry sector remains low (Morkovina *et al.*, 2015; Tsvetkov *et al.*, 2015).

Small business is an economy sector which promotes the forming of balanced market structure and competitiveness as well as taxable basis for all budget levels, providing employment and saturating the market with various goods and services (Epifanova *et al.*, 2015; Sibirskaya *et al.*, 2016; Kormishkin *et al.*, 2016).

Every business structure faces the necessity to control its economic health: to determine the first signs of the developing crisis, to diagnose a crisis stage and its reasons, to identify their financial state. It mostly concerns small business as the most vulnerable one (Kupchinskiy *et al.*, 2015; Medvedeva *et al.*, 2016).

The crises, caused by external and internal reasons, happen in the life cycle of any business structure. Under modern conditions a huge number of small enterprises of the forest sector are balancing on the edge of survive being at the pre-crisis or crisis. The only way to overcome crisis is due to efficient risk management, which takes into consideration the peculiarities of crisis manifestations on the stages of life cycle of small business structures (Kusakina *et al.*, 2016; Tyaglov *et al.*, 2017).

The reason of unsatisfactory state and stagnation in the development of small business of the forest sector is both a low level of resistance and receptivity of small business to negative impacts of the business environment and lack of effective management solutions to prevent crisis situations. Consequently, to insure sustainable development it is necessary to develop the program of management measures to identify the crisis traps and, respectively, to neutralize problem situations (Theriou, 2015).

Methods

Using the survey method of the small business managers involving in the forest sector the ranking was done and the degree of how specifics of the company functioning according to their life cycle influences on the possibility for the crisis situations to emerge was identified. The methods of generalization by means of a summary and grouping of data to process the obtained information were used.

While doing research the methods of comparison, and observation in part:

- of analysis of state and development of small business in the forest sector of the Russian Federation;
- of consideration of theoretical grounds of crisis of small business
- of desk research, involving the development of management actions program to reveal crisis traps and neutralize problems.

Results

Small business structures of forest sector are small businesses whose goal is to get profit (entrepreneurial income) as the end result of its functioning (Khorev *et al.*, 2015). To assess small forest business development in Russia at present stage it is necessary to consider the main indicators presented in Table 1.

Table 1. *Main indicators of small forest business development in Russia*

Indicators	2011	2012	2013	2014
1. Number of small forest enterprises, thous.	22,8	25,5	25,5	24,8
2. Average number of employees of small enterprises of the forest sector, thousand people	158,2	169,2	165,6	156,0
3. turnover of small businesses of forest sector, bln rubles	110,3	135,4	145,5	151,1
4. Financial result (profit mines losses), bln rubles	444	24	1051	316
5. Specific weight of unprofitable small businesses in the total number of all small businesses of forest sector, %	26,3	27,6	22,4	21,5

In 2014 the number of small forest businesses reduced by 2.7%, average number of employees and financial result reduced as well. The turnover of small forest businesses is increasing. In a whole the development indicators of small forest businesses in Russia testify about unsatisfactory situation in the certain business structures, which is proved by a share of unprofitable small businesses in a total number of small forest businesses.

Despite apparent prosperity in the small business in 2014, significant share of small forest businesses is experiencing difficulties both in financial sphere and in production one. It can be explained by the fact that under present conditions it is absolutely impossible to solve complex problems by traditional search of working capital and raising investments for enterprises experiencing financial difficulties. Crises are inevitable in the development and activity of any company.

Wherein, the crisis should be considered as objectively necessary and inevitable process, which creates opportunity for company intensive development. Crisis of small forest business is a time-limited process. It can be manageable and held within certain limits. The length, intensity, complexity and the severity of its consequences of the crisis processes can differ depending on an enterprise (Morkovina *et al.*, 2014).

We cannot fail to mention that crisis situations are dynamic in nature. Even smoothly working company always has different deviations resulting in the wrong direction of the development and lead to such an undesirable end as enterprise liquidation. If erroneous development is detected timely, the company can take measures and correct its actions. But one should not only possess the knowledge

about crisis situations but know about crisis process and its stages as well. Crisis process in a small forest business can be defined as consecutive development of the situation from simple to complex where destruction of old crisis situation and formation of a new one threatening the economy and further development is a distinctive feature (Morkovina *et al.*, 2014a). The notion “crisis” is closely connected with the notion “risk” which at some extends influences the methods of any management solution development. Consequently, it is possible to state that there is always a risk of crisis and it should be foreseen, forecasted, and a small business activity should be monitored. The possibility of a crisis is determined by the risky development manifested in the likelihood of a crisis situation (Morkovina *et al.*, 2011).

As small businesses are more vulnerable to crisis situations it is necessary to identify crisis symptoms at the first stage of crisis process to take proper management decisions. Negative tendencies in company activity are a crisis symptom. The symptoms are manifested in indicators and changes in the company performance and development. Thus, the analysis of a small business’s different subsystems can reveal its predisposition to crisis. Crisis development symptom can be either inconsistency of indicators to their regular ratio or their sharp drop in the certain time intervals. Symptoms are external manifestations of the beginning of the crisis of the organization.

Crisis overcoming is a manageable process. The success of management depends on how quick the crisis and symptoms are identified. Three variants of consequences are typical for small business crisis: liquidation as an extreme measure, crisis overcoming or company reorganization. Crisis overcoming means that the obsolete elements of a business under crisis are withdrawn and the new promising ones replace them. A quality leap, transition to a new stage in a company development or to a new enterprise is the most important final result of crisis overcoming.

The consequence of crisis is a combination of destructive negative elements with positive ones. At the same time, in the acute moment of the crisis, the negative elements dominate but then the positive ones take over (Morkovina *et al.*, 2014b).

Given everything said above we understand the small forest enterprise crisis as a very unstable, critical situation caused by certain symptoms, associated not only with negative consequences, but with a small enterprise renovation and development. Small businesses as a micro level of macroeconomic system also experience different stages of their life cycle, they originate, develop, reach a success, weaken and stop their existence. Practice shows, the crises in small forest enterprises are not only possible but they have their own pace of development of each enterprise which sometimes do not coincide with the pace of general development and other small business development (Morkovina *et al.*, 2014c; Pociovalisteanu, 2015).

And it is obvious that each small business has its own potential of development, its

own conditions to perform this development and is subject to laws of cyclical development of its social and economic system (Morkovina *et al.*, 2013; Dasanayaka and Sardana, 2015). Being related to country's economic cycle stages and counterpart enterprises, a life cycle of a small forest enterprise has different periodicity determined by the specifics of a given enterprise. Due to existing peculiarities of small forest enterprises such as instability caused by shortage of financing, strong competition and strong susceptibility to external factors, we consider that a specific approach to identify the life cycle stages of a small enterprise is necessary. As the consequences of the crisis of small forest enterprise are ambiguous (it is connected not only with liquidation, but with renovation, development) it is expediently to consider the life cycle according to the following stages: origination → formation → development → maturity → revival or outcome.

Crisis can take place at any stage of small business activity – at the stage of formation and development, at the stage of the intensive growth and activity expansion, at the beginning of recession. They can be single, and can become a chain, when the emerged crisis situation causes the development of subsequent and thus turns into a crisis process. There is always the danger of crisis in the small forest enterprise and depending on the enterprise, its structure; its innovative potential can differ in length, intensity, and the consequences of different degree.

Small businesses are more than medium and big ones vulnerable to the risk component in their activity. There is an entrepreneurial risk at any life cycle stage of the small enterprise and is manifested in “crisis traps”, which correspond to the certain stages of development and are a distinctive feature of small forest enterprises. Weak internal management of crisis traps and their unpredictable consequences are peculiarities of crisis traps. Every life cycle stage of a small forest enterprise has its own type of crisis trap (Table 2).

Table 2. *Types of crisis traps at life cycle stage of a small forest enterprise*

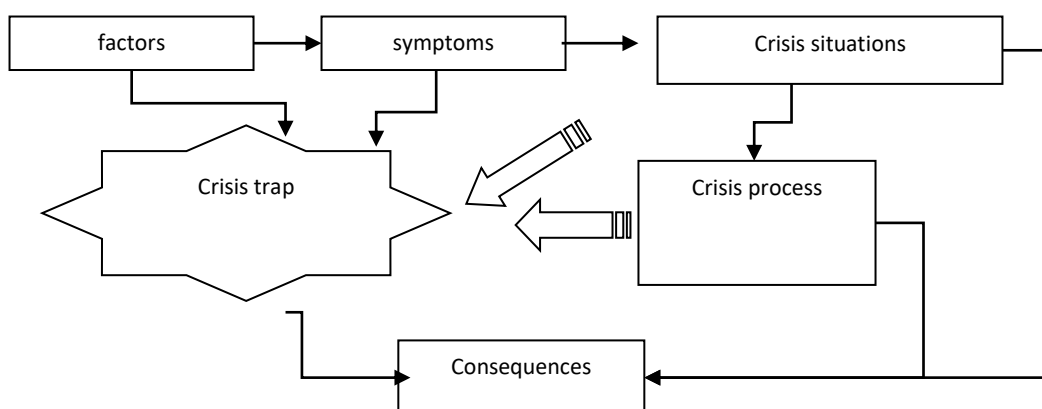
The name of the life cycle stage of a small forest enterprise	Characteristic features of the life cycle stage of a small forest enterprise	The type of crisis trap corresponding to the life cycle stage of a small forest sector enterprise
Origination	Innovative idea. The role of the entrepreneur's personality is high. Production, tangible and labor resources are limited. Strong marketing, establishing relationships with suppliers and customers.	High innovative risk. Innovative crisis trap
Formation	Simple non-formal organizational structure, powers are concentrated in the owner's hands. The complexity of setting up production, marketing, strong influence of external factors on	High organizational risk. Organizational crisis trap

	an enterprise.	
Development	Emphasis on sales increase, desire to take maximum advantages, shift of organizational structure to functional type, delegation of some powers to managers, procedures formalization starts.	High financial risk. Financial crisis trap
Maturity	Sale growth stabilization, partial bureaucratization of the organizational structure, a decrease in innovation activity, the desire to improve the efficiency of functioning and uniform development	High marketing risk. marketing crisis trap

Crisis trap is a connecting link of different stages of a small forest enterprise life cycle, emerging at the rising stages it can be a reason for transition to a recession stage, in case this risky event is over-come the enterprise either will be going through the next stage or will transit to a higher life cycle stage.

While identifying a crisis trap with internally unmanageable risky event it is necessary to mention the following: a small forest enterprise can find oneself in a crisis trap due to negative factors in its development and at any stage of crisis state: crisis symptoms, crisis situations, crisis process (Figure 1).

Figure 1. Factors and crises of a small forest enterprise



The consequences of crisis traps and crisis states differ significantly: if the enterprise can overcome crisis situations and crisis process using internal resources and possibilities, then to get out of crisis trap the company needs external regulation.

Conclusions and recommendations

Resulting from the identification of role and place of crisis traps in the development of a small forest enterprise in the Russian Federation economy the following aspects were revealed.

First, a small forest enterprise as the most vulnerable sector of economy has to control its operation and development: identify production and financial situation, identify the first signs of the developing crisis (crisis symptoms), and diagnose the crisis stage (crisis situation, crisis process) and its reasons, take managing measures to provide sustainable development.

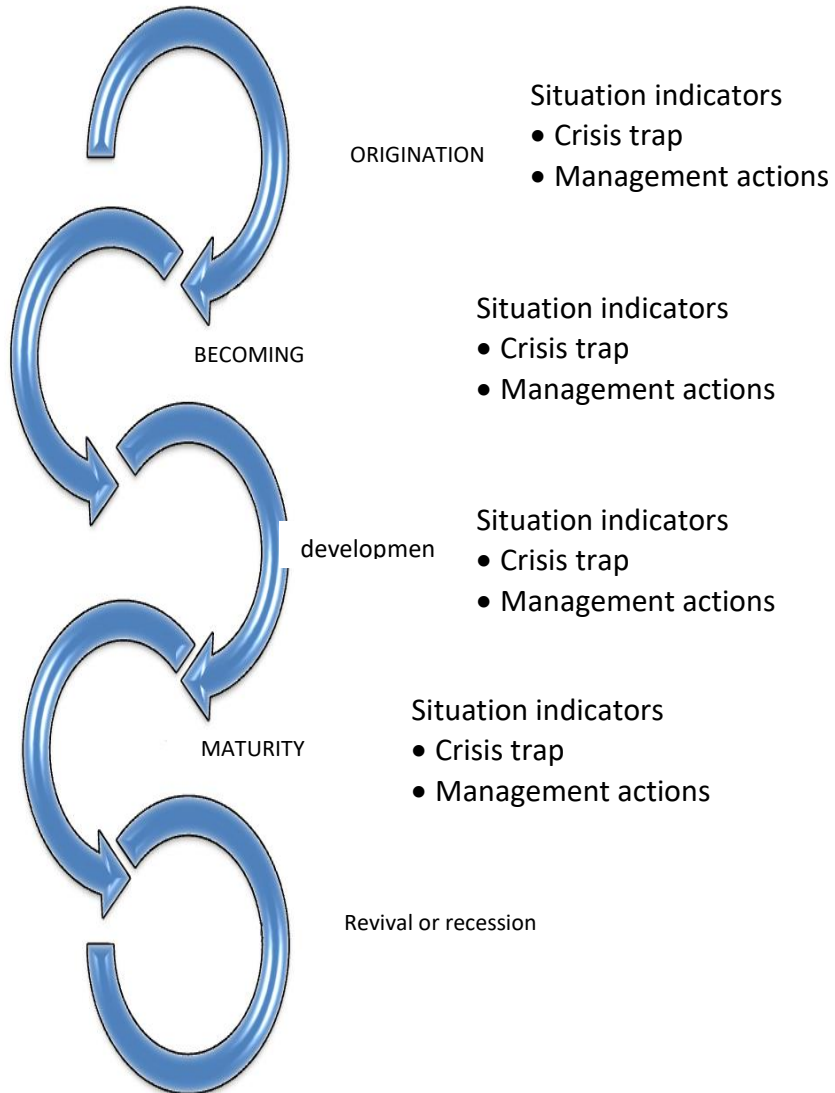
Second, the following crisis states applicable for small forest enterprises are singled out: crisis symptoms, crisis situation, and crisis process. A crisis symptom means the appearance of negative tendencies in company performance. They are manifested in inconsistency of indicators and regular ratios or sharp drop in their values at the certain time intervals. The crisis situation is a number of symptoms causing the significant deviations in the company ability to resist.

The crisis process of the small forest enterprise is a consecutive development of the situation from a simple one to complex whose distinctive feature is destruction of the previous crisis situation and formation of a new one which threatens economy and further development.

Third, peculiarities of each life cycle stage are considered, risk components are identified and it is manifested in “crisis traps” which correspond to certain development stages and are a distinctive feature of small forest enterprises. Certain types of traps are identified for each life cycle stage: innovative crisis trap (origination stage), organizational crisis trap (formation stage), financial crisis trap (growth stage), and marketing crisis tarp (maturity stage). Crisis traps are identified with the result of appearance of the internally unmanageable risk event in the operation of a small forest enterprise, and they are a connecting link of the different life cycle stages.

The danger for a crisis trap to emerge exists in both negative and favorable economy of small forest business structures. The small forest business depends on close connection among factors, that determine performance and also provoke crisis traps appearance, and a small enterprise life cycle. Life cycle stages sequence and place of crisis traps are presented in Figure 2.

Figure 2. Crisis trap identification at a small forest enterprise life cycle stages and direction of management actions to avoid crisis traps



The presented figure shows the direction of management actions to avoid crisis traps as well. The management program depending on life cycle stage comprises a number of complex sets of management actions which will allow to increase significantly a small forest enterprise efficiency.

Life cycle concept and small forest enterprise management program include four complex sets of management actions:

- 1) actions to rationalize an innovative idea of small forest enterprise establishment at the origination stage;
- 2) actions to improve management organization at the formation stage of a small business;
- 3) actions to modernize financial system at the growth stage;
- 4) actions to improve marketing organization at the maturity stage of a small business.

The mentioned above complex sets of management actions are aimed at structural adjustment of production, financial, marketing and organizational activities taking into account analytical assessment of small forest enterprises economy to avoid crisis traps and other negative tendencies. Each of four sets consists of smaller elements (actual management actions) necessary for the small forest enterprises to function and develop and that are applicable to neutralize the threat of crisis traps, crisis symptoms, situations and processes.

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