

**Influence of the economic crisis on SMEs and their
management strategies**



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TIIVISTELMÄ

Tässä päättötyössä on tutkittu sitä, miten talouskriisi vaikuttaa pienyrittäjyyssubjekteihin ja miten yhtiöt, jotka ovat pienyrityksiä, pystyvät voittamaan kriisin kielteisen vaikuttamisen. Tässä työssä on esitetty talouskriisin vaikutusta venäläisen yhtiön esimerkillä mainitun yhtiön ollessa Pietarissa sijaitseva pienyritys nimeltään Restel Oy. Työn perustavoitteita ovat nykyhetken rahoitustilanteen ja yhtiön strategian arviointi, puutteellisuuden ymmärtäminen menestyksekkääseen kehittymiseen nähden sekä sen ymmärtäminen, mitä yhtiön on tehtävä tullakseen tuottavammaksi ja kilpailukykyisemmäksi.

Tämä päättötyö koostuu kahdesta osasta. Teoreettiseen osaan sisältyvät tutkimus koskien pien- ja keskiliikkeiden määrittelyn erilaisia lähestymistapoja, kehitysstrategian tärkeys, talouskriisin vaiheet ja pienliikkeelle kriisin aikana syntyviä ongelmia sekä talouskriisin peruspiirteet Venäjän markkinoilla. Työn valmistuksessa oli käytetty kolme laadullista perusmenetelmää: SWOT-analyysi, haastattelu yhtiön toimitusjohtajan kanssa ja rahoituksen perustuloksien arviot viime kolmen vuoden ajalta. On käyty läpi yhtiön tuloslaskelmasta ja tilinpäätöksestä otetut rahoituksen perustulokset vuosilta 2014, 2015, 2016.

Tämän päättötyön perustulos on siinä, että pienliiketoiminta kärsii ensimmäisenä talouskriisin vaikutuksia. Samaan aikaan pienyritykset löytävät aika nopeasti selviytymismahdollisuudet kriisin voittamiseen suuryhtiöihin verrattuna. Työssä on todettu rahoitusosoittimien huononemista talouskriisin vaikuttamisen tuloksena ja esitetty ongelmia yhtiön kehitysstrategiassa. On annettu suositukset kehitysstrategian kehittämiseksi.

Avainsanat talouskriisi, pien- ja keskiliiketoiminta, hallintostrategia

Sivut 51 sivua, joista liitteitä 13 sivua

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ABSTRACT

This thesis investigates how the economic crisis influences on the small sized company and how the SME can overcome negative impacts. This thesis researches the impact of economic crisis based on the example of the small Russian company which located in St. Petersburg and named JSC "Restel". The main goals of this thesis are to analyse current financial situation and strategy of the company, understand the lack of the successful development and define what company should change to be more profitable and more competitiveness.

The thesis consists of two parts. The theoretical part of the thesis explores different approaches to definitions of SME, importance of management strategy, stages of economic crisis, and challenges for SME during the period of economic crisis, and main features of economic crisis in Russian market. Three main qualitative methods were used in the practical part: SWOT-analyse, interview with CEO of the case company and analysis of key financial rates for the period of three last year. The key financial rates were analysed through reports of financial results and annual report of the case company for the 2014, 2015, 2016 years.

The result of this thesis is the SME is impacted by the economic crisis in first place. At the same time the SMEs are more flexible than large companies to overcome crisis period. It was identified deterioration of financial rates as a result of influence of the economic crisis and lack in the management strategy in the case company. Some suggestions were made to create clear management strategy for the company.

Keywords management strategy, SMEs, economic crisis.

Pages 51 pages including appendices 13 pages

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1 INTRODUCTION

1.1 Background

Small and medium-sized companies (SMEs) are the central part of the European Union economy and policies. The European Union established official definition for SME and divided all SMEs on three main types: micro, small and medium. Type of SME can be defined on the basis of three main components: quantity of employees, amount of annual turnover and number of annual balance sheet total. SMEs are recognized by the European Union as a crucial power to increase the economy and make better social environment. The European Union focuses on creating favorable conditions and new possibilities for operational activity of SMEs, its growth and improvement their strategy. (Czegledi, Fonger, & Reich 2015, 104.)

The government of Russia understands the important role of SMEs in economy of the country. The government of Russia has been creating the legal framework to support SMEs through establishing set of economic, political, legal measures. SMEs are considered as a part of national policy. The main goals of this police regarding SMEs are creating good conditions for development of SMEs, equal support for SMEs, tax benefits or special tax strategy for SMEs. The main problem for Russia is the majority of supporting measures for SMEs are not implemented. The government tried to solve this problem and establish some supporting enterprises like as Foundation for Assistance to Small Innovative Enterprises. (Sokolov & Rudnik n.d., 97.)

Economic crises have a great impact on successful activity and profitability of enterprises. It can be identified some hard periods of economic crises during recent years but the economic crisis of 2008 was the deepest of them. Distinctive features of economic crisis of 2008 were dramatically decrease of economy, reduction of workplaces and crash of financial market. (Hunter & Kazakoff 2012, 38.)

The impact of economic crisis can be deteriorated by any other factors such as bad leadership style, mistakes in strategic decisions, lack of response to changed conditions in management strategy. The control of financial system and management strategy is the main factor to decrease negative impact of economic crisis, to show risks and identify ways of support. (Rudolf 2011, 15.)

There are many publications about supporting business and improving economic situation. The European Union considers the supporting for SMEs during the economic crisis is key goal of Europe strategy. This

supporting strategy for SME was described in Small Business Act approved by the European Union in 2008. It includes assistance in different stages, areas, with various tools. The European Union emphasized not only on financial support but also on creating environment for productive activities of SMEs, opportunities for efficient communication. (Czegledi et al. 2015, 105.)

Meanwhile the creating new management strategy taking into account conditions of economic crisis is crucial for country's economy and enterprises. Strategic management in times of economic crisis can be defined as a special process to help to enterprises overcome influences of economic crisis. Strategic management should be focused on supporting business activity, overcoming obstacles and slipping away bankruptcy. Anti-crisis strategic management should start with awareness of crisis, analyzing current situation and, then, generation ways and methods to protect an enterprise. (Groh 2014, 51.)

Changes during anti-crisis strategic management concern all part of companies such as structure and strategy of an enterprise, operating system and management, culture of company. According to McKinsey Quarterly (2006) two main processes play a great role in successive implementation of strategy of companies are attracting and maintenance. Attracting includes such factors as identifying goals for long-term period, defining competitors and future threats. Maintenance involve such factors as implementation goals into main processes and structures of an enterprise, creating new opportunities, developing learning process and involving team in it. (McKinsey Quarterly 2006, 6.)

1.2 Problem discussion

There are different views on the impact of economic crisis on SMEs. Some researches consider that SMEs are the first of any enterprises suffering from the economic crisis. As evidence of this reason, two main features of SMEs are defined by researches: financial and other opportunities. Financial feature includes limited resources, inability to pay high rate of interest, necessity to loans for development business. Other opportunities involve disadvantages in structure of the organization, human and technological resources. It should be noted that limited market niches and dependence on customers are also suffering during the economic crisis. All of these decrease the ability of SMEs to resist negative influences form economic crisis. (Bourletidis 2013, 599.)

There is another point of view about the influence of economic crisis on SMEs. Researches who hold this opinion support that SMEs gain great advantages of economic crisis. According to this point of view SMEs are more flexible and able to react on negative impact of economic crisis

quickly. (Bourletidis 2013, 599.) Small enterprises have more chances to reduce risks and negative impacts of crisis, to avoid hard period or overcome it. (Varum, Rocha 2012, 97.)

A lot of researches reveal essential role of strategic management for SMEs and their successive development and competitiveness. Many researches note relationship between strategy of SME and successfulness. A great part of studies consider that management strategy of SME is based on internal or external objectives. Internal objectives concern product or services, organizational processes and structure, leadership style, financial goals, cost strategy. External objectives concern marketing and sales strategy, market expansion, focusing on customers. Previous studies show that SMEs prefer to base their management strategy on internal objectives. (McDowell, Harris, & Geho 2016, 1905.)

Some studies consider that SMEs have no a strong formulated management strategy. Their management strategy is characterized by dependence of personal leadership style of management or owners of SMEs, absence of formal clear plan with consecutive steps.

The economic crisis brings new challenges for SMEs that influence on management strategy. New conditions and obstacles must be reflected in new crisis management strategy. It is new style of management for companies with such special rules as early revealing the crisis and its impact on activity of the company, quick response on threats of economic crisis and take the steps to overcome crisis period. So, anti-crisis strategic management focuses on forecast of problems, analyzing and evaluation crisis period, decisions and steps to decrease problems. (Groh 2014, 51.)

1.3 Purpose

The purpose of this study is to decide what SMEs should change in their strategies to be more profitable and competitive during the economic crisis. This study is based on the example of Russian small company. This company has problems in current activity, profitability and has not clear strategy for further development.

To achieve this purpose the following research questions were determined:

- 1 What is the current situation in the company and how it differs from the period before the crisis?
- 2 Has the company's strategy changed when the economic crisis began?
- 3 What is necessary to do for further successful development?

1.4 Limitations

SMEs, its effectiveness and competitiveness, are affected by many negative factors during the economic crisis. The hard period of crisis requires paying attention to all sides of enterprises performance such as accounting, financial figures, structure, strategy. It should be emphasized that the present study is limited to the impact on SMEs and their management strategies from the economic crisis. The influence of the crisis on development of the company will be conducted through analyzing key financial ratios only.

2 SME IN THE CONTEXT OF ECONOMIC CRISIS

2.1 Economic crisis and its stages

The definition of economic crisis must be determined by different ways. An economic crisis is considered as a depression period with drastic decline of national income. The differences between real and unreal economy appear during the period of crisis. It is impossible or very difficult for enterprises to reach short-term and long-term goals. Such period require changes in developed strategy, strong and quick actions from managers or any decision makers. Other researches consider economic crisis as a period of economic decline appears unexpectedly or as a result of incorrect actions. All approaches for defining economic crises highlight lack of capacity for successful development for companies and economy. (Apak, Erol, & Atmaca 2011, 6833.)

Another point of view about economic crisis is represented it like a period of decrease goods and services, increase unemployment, fall down of investments and low consumption. (Boian 2016, 145.)

According to Shachmurove (2010), Detragiache in 1998, Laeven and Valencia in 2008 defined economic crisis as a period with three specific components mostly in banking sector. If the nationalization of banks appears as a method to solve the problems in banking area, the price of a government aims amount two percent of GDP and the relation between non-working capital and total capital in banking area is more than ten percent, it says about an economic crises. In contrast the above definition of economic crises, Boyd, Nicolo and Loukoianova (2009) emphasized that crises in banking sector is only about banking crises. (Shachmurove 2010, 364, 365.)

The economic crisis must be defined as a hard period for society, enterprises, business and country as whole. This hard period is characterized by increasing of costs and debts, unpredictable events, low

level of sales. According to Erol and Atmaka (2016) the core issues during the economic crisis are instability circumstances and growth of expenses. Increases in costs, decreases in demand and quantity of employees influence on productivity and level of sales of enterprises. Researches consider that enterprises should focus on following directions:

- Management strategy must be more effective
 - Developing the financial structure
 - Preserving production costs and paying attention for investments.
- (Erol & Atmaka 2016, 166.)

Speaking about general causes of economic crises, Kaminsky and Reinhart (1999) noted weakness of essential economic elements and, as a result, reduction of economy. It is undeniable that any economic crises become more heavily if the crisis in financial system, in banking system and crisis with currency are at the same time. (Shachmurove 2010, 365.)

All economic crises from nineteenth-century till nowadays have their unique reasons. Crises in nineteenth-century included two basic causes. It was problems in the railroad industry due to inability to pay their debts and financial crises as a result of downfall in banking sector. Researches consider that economic crises of the nineteenth-century happened because government could not control and regulate banking sector especially banking agents, branch offices. (Shachmurove 2010, 366.)

During the twentieth century new financial capabilities in real estate area, automobile industry, new electronic technology led to increase sharply of investments and involvement of financial organization in risky business deal. All of these factors were causes of economic crises. (Shachmurove 2010, 368.)

According to experts view, in last decades the economic crisis occurred in 2008 were the worst. Economic crisis of 2008 reveal how the problems with housing market in the United States were transferred in world financial crisis because one of the core causes of that economic crisis was the fall down in houses market in the United States. As a result all money investments from different foreign companies and governments in the United States economy were lost and crises spread to other countries. (Shachmurove 2010, 371.)

It can be identified four different stages during the period of crisis: initial, acute, economic and recovery. The first stage of the period of crisis named initial is a beginning of the crisis with its first features. It is very important to detect negative impacts as sooner as better, it helps to undertake necessary actions and reduce negative effects. The second stage called acute requires urgent measures. An enterprises face with real issues in this stage. In spite of immediate reaction during this stage it is impossible to avoid negative results. The third stage is economic crisis itself. But for enterprises it means to start analysis situation, negative

consequences and prepare for recovering process. The final stage is recovery. The main goal of this stage is to follow up the results of all actions during previous stages and ongoing monitoring in the future. (Apak et al. 2011, 6833.)

Groh (2014) define three main stages: pre-crisis period, economic crisis and post-crisis period. Each of these stages includes some steps to overcome problems. During the pre-crisis period, enterprises should analyze environment, negative impacts and take measures to avoid negative impacts. Enterprises involve in their strategy action to analyzing the type of crisis, steps to overcome negative impact of crisis during the crisis. And after crisis, enterprises should create and implement system of control of situation and develop new strategy. (Groh 2014, 55.)

Countries are suffering from economic crisis have to apply anti-crisis measures included three directions:

- making more active in demand. It means to pay attention to tax strategy, identifying quantity of things are offered for sales, or any programs.
- creating credit improvement programs to make financing enterprises more effectively.
- using measures in employees sector to decrease unemployment and its taxes.

There is another classification about supporting business from impacts of the economic crisis. According such classification supporting measures can be divided into three groups depending on area of financial problem of enterprises. The first group includes measures assisting in sales, cash flows. The second group involves measures to improve liquidity of companies. And the third group is measures for saving investments level for enterprises. (Visinescu & Micuda, 2009, 192, 193.)

Economic crisis create special circumstances and important influence on business, individuals and population. It leads to changing in social and economic area, but influence and results of economic crises can be different in different countries. (Kaplan 2012, 646.)

2.2 Definition of SME

Small and medium sized companies (SMEs) can be considered as main blocks in domestic economy. Their common features are mobility, flexibility, proximity to the customers, quick response to the changing of requirements of market and demands of consumers. According to the concludes of the European Commission SMEs create two out of every three jobs, nine out of ten companies are SMEs. So, supporting SMEs is an important and one of the central goals for the European Union which helps to regain jobs and growth. The clearly SMEs definition can help to

obtain support from European Union and European countries. (European commission 2015, 3.)

Researches identify two main criteria for SME definition: qualitative (or theoretical) and quantitative (another name is operational). Theoretical criteria include such indicators as independence of a company, involvement of the owners. The operational criteria are closer to empirical terms. Among the operational criteria can be selected the quantity of employees, turnover of the company, total balance sheet. Some researches include legal independence in this criterion; the others add net assets, initial capital, invested capital, industrial classification. The most approaches for definition SME combine qualitative and quantitative criteria. (ICSB 2008, 8, 9.)

The most famous criteria among quantitative approach are number of employees and turnover. The advantages of number of employees are easier to control and not depending on economic rate. Meanwhile some researches consider there is a link between number of employees and size of the company. It is necessary for company to get more employees for development. Turnover is known as realistic criteria but in its turn this criterion depends on economic situation and activity of the company. (Buculescu 2013, 107.)

Qualitative criteria are considered as additional and most of them are not suitable for real analysis and notion SMEs except only independent owners. (Buculescu 2013, 110.)

The definitions of SMEs can be determined with variety of ways in different countries. It includes different criteria and depends usually on quantity of employees, turnover of the company and Balance sheet total. For example, in USA definition SME involves type of activity, quantity of employees and cost of sales, in Canada the definition SME includes only type of activity and number of employees, capital value is added in Japan and, at last, in the European Union quantity of employees, turnover of the company and balance sheet total are included in this definition. (Onkelinx & Sleuwaegen 2008, 17.)

The European Commission approved the requirements to identify the general definitions for micro, small and medium-sized companies in European Union in 1996. Subsequently that definition was changed and new determination entered in force in 2005. The European Commission defined inside the SMEs the following company categories: micro, small and medium-sized. According to the European Commission:

- medium-sized companies must have fewer than 250 employees, a turnover of no more than 50 million euro and balance sheet total no more than 43 million euro;

- small-sized companies include fewer than 50 employees, a turnover of no more than 10 million euro and balance sheet total no more than 10 million euro;
- micro-sized companies involve fewer than 10 employees, a turnover of no more than 2 million euro and balance sheet total no more than 2 million euro. (European commission 2009, 2,3.)

Official definition SME is formulated by the European Union was adopted in other countries within European Union. The company is considered as small if number of employees less than 50 people, total balance sheet less than approximately 5 million euro and turnover less than at about 10 million euro in Austria, Denmark and Germany. In the Netherlands small company has to have less than 50 numbers of employees, total balance sheet is less than 4,400,000 euro and turnover less than 8,800,000 euro. These numbers in Slovenia, Belgium, United Kingdom, Spain and Sweden are even lower. Turnover must be less than 7,300,000 euro and total balance sheet less than 3,650,000 euro. (Buculescu 2013, 111.)

The size of the company with number of employees, turnover and balance total sheet are not enough to define company as an SME. Three important features might be identified for SME definition are additional resources, categories of companies and type of control. The one of more important feature to consider enterprise as an SME is access to additional resources. If the company has great additional including financial resources it cannot be considered as an SME. Three categories of companies are autonomous, partner and linked enterprises. The SME must be independent or has partnership in other companies less than 25 per cent. The companies is considered as a partners if possession with others enterprises is from 25 per cent to 50 per cent. An enterprise is not considered as SME if 25 per cent or more of its capital owned by any public companies. If the possession with others enterprises is over than 50 per cent, such companies are considered as linked. If the company has great ownership, partnership and linkages resources or it is not autonomous it cannot be considered as an SME. (European commission 2015, 7.)

The World Bank defines different measures for defining SMEs. According the World Bank small enterprise is a company with less than 50 employees, annual turnover and total balance sheet less than 3 million dollars. Organization for Economic Co-operation and Development identify only one criterion for defining small companies is number of employees (from 20 to 99). (Buculescu 2013, 106.)

According to Phil McCabe, media and PR manager at the Federation of Small Business, the main characteristic for identifying the company as a small is a quantity of employees. Their number must not bigger than 250. It is rather tough to find clear and typical definition for small company. All of them are different and unique but they have one common feature such

as capacity and necessity of the head of the company to decide and make all decisions. At the same time there is an opinion that company can be defined as a small due to what it is doing at the time regardless of number of employees and turnovers. (CRN staff 2011.)

There is another point of view on dividing and defining small and medium sized companies. According to this opinion there are two types of SMEs: traditional and new types. Traditional type of small company has a short-term strategy, limited market and ordinary product or service lines. New type of small company creates new high quality product and better services, implement innovations and expand markets. (Simionescu & Bica 2014, 80.)

Regarding to the size of the company, some researchers identify two factors: quantity and quality. The quantity factors are numbers of employees, profit and sales. Level of productivity, behavior, economic circumstances can be identified among the quality factors. Small and medium sized companies usually managed by one person who is owner of such company at the same time. So, it is important to pay attention for collaboration between company and its owner, style of management according the aims of the company. (Simionescu & Bica 2014, 79.)

European commission identifies four steps for companies to be considered as SME. During the first step enterprises must determine with their economic activity. The second step is checking out the compliance with three criteria such as number of employees, turnover and total balance sheet. Then it is necessary to decide what these criteria cover. And finally, it must be decided and calculated what enterprise is totally independent, partner or linked. (European commission 2015, 9-15.)

2.3 Challenges for SMEs during the economic crisis

Many researchers have been studying negative impacts on SMEs from economic crisis and challenges during the economic crisis. According research studies, different factors in SMEs can be affected by economic crisis. All studies can be divided in accordance to their influence to SMEs as follows.

Such researches as Erol, Kesimili and others consider that accounting, accounting principles and annex suffer from economic crisis most of all. To avoid the negative impact of economic crisis, enterprises should implement accounting measures with the main aims are to make cash flow more effective. It is more important for enterprises than any other measures such as cost cutting or increasing investments. (Erol & Atmaka 2016, 167.)

According to Erol & Atamaka (2016), other researches like Orhan suppose financial structure of enterprises, financial figures and financial decisions most affected by economic crisis. In this way, financial errors can be fatal for enterprises during the economic crisis and focusing on profitability of assets and attention for debts are important. (Erol & Atmaka 2016, 168.)

According to Hodorogel (2010), SMEs are the type of enterprises which will be the first to be getting damages by economic crisis. During this period, economic crisis creates a lot of negative impacts for SMEs. It is taught to overcome them. And at the same time, crisis period may obtain more advantages and useful conditions when SMEs begin to implement new services, products and systems. (Hodorogel 2010, 81.)

According to Erol & Atamaka (2016), Zatal in 2014 analyzed changes in capital structures of enterprises in comparison two periods: prior to crisis and after it. Iatridis and Dimitras in 2013, in turn, concluded that effective management strategy lead to more stability and profitability in times of economic crisis and must be changed primarily. (Erol & Atmaka 2016, 167.)

Among the significant impacts on SMEs from economic crisis, unexpected decrease in sales can be identified. The lack of working capital and decline in liquidity is increased by growth of receivables. At the same time, it should be noted level of negative impacts on small enterprises depends on country where the company located. (Visinescu & Micuda, 2009, 187.)

There are two approaches about relationship between size of the enterprises and its growth and conditions of economic crises. According to one approach small enterprises may be more able to prevent and eventually overcome negative effects during the economic crisis. The reasons why small companies are more flexible during the economic crisis are because stable to sunk costs, making decisions faster than large companies, using market niches and less using on formal credits. On the other approach small companies are more under the negative impacts during the economic crisis. There are several reasons for this suggestion such as restricted financial recourses, dependence on customers, bank lending, less access to foreign finance in comparison with large companies, weakness in different capabilities. All these factors may lead to increase negative impacts and decrease profitability of the enterprises. (Varum & Rocha 2013, 10,11.)

Financial stability encourages the development of the small companies and profit opportunities, creates good economic environment. On the other hand, economical crisis discourage any development and opportunities. The period of crisis can be defined as a period of uncertainty for small companies. Such special features as limited financial, restricted resources, dependence on customers and markets bring heaviest results for small companies during the period of crisis. On

the contrary, small enterprises have a better exit rates from crisis due to flexibility, using new market niches. (Varum & Rocha 2012, 94.)

During the economic crisis all enterprises and SMEs especially are under influenced by various negative factors which lead to damages in the process of development of the companies. It may be fails with market, customers and financing, bad corporate management. Researchers identify internal and external causes of any damages. All damages include economic and company fails, technical bankruptcy and bankruptcy. Economic fail is a situation when costs increase and incomes decrease at the same time. Company fail focuses on three types of factors: economic, financial and experience. These factors all together involve errors with chosen market area, debts and management experience. Technical bankruptcy is inability to pay debts. And eventually bankruptcy means finish of any activity of the company and liquidation. (Apak et al. 2011, 6834.)

According to Pal, Torstensson and Mattila (2014) three components of stability of an enterprises during the economic crisis can be identified. The first component is financial, social, material resources. The second component is competitiveness which can be reached via operational and strategic flexibility, oversupply of resources and strength, network. The last tool to reach competitiveness can help to create effective organizational relationship inside the company to more successful implementation of decisions. Operational flexibility means lean management, training programs, effective implementation materials and new processes. Strategic flexibility includes fast reaction on any changes, creating effective ways of interaction, power to fast decision making. And the third component is cultural of a company. This component is described through type of leadership and decision making of top managers, collectivity and well-being for employees. Stability of the company via the culture can be achieved by clear vision and mission, creating change processes, awareness the importance of the role of people, their motivation and involvement in working processes. (Pal et al. 2014, 412.)

Analyzing current situation is the first step to awareness the impact of economic crisis on SMEs. Some researches, for example Boian, consider that it is necessary to start with analysis financial balance of the enterprises through the monitoring five important financial criteria. He lists these main criteria as follows financial balance, net patrimony, working capital, working capital requirements, net treasury. According to Boian (2016), financial stability direct the way of development of the business and must be early revealed to stop and decrease the negative impacts. (Boian 2016, 146.)

Consequences of economic crisis may be also difficult to overcome for SMEs. The main challenges during the period after economic crisis are

decline the consumption of product and services, limited investment, small credit capacity, increase rate of inflation, growth prices of raw materials and energy. (Hodorogel 2010, 81.)

Bourletidis (2013) defined some indicators affecting on efficiency and productivity of SMEs during the period of economic crisis. The first indicator is the fast reaction to market demands to meet the requirements of local markets. It is very important to focus not only internal markets but external. Expanding markets helps SMEs to become more successive. SMEs have a limited capacity in resources, so the attention to raw materials is necessity. It is also crucial to take into consideration prices on goods and services in the same market and control obligations. Essential factor impacts on performance of SMEs is collecting information about market and creating strategic management for monitoring situation. (Bourletidis 2013, 600.)

Economic crisis influences on countries inside the European Union and outside the Europe. The economic growth and financial stability are the main aims for small enterprises in time of crisis. It is essential for the European Union to establish favorable conditions for development of the companies, make them more innovative and creative and for countries to establish and implement anti-crisis measures. Some countries such as Austria, Belgium, Germany, France, the Netherlands used state guarantees, control of banks and banks capitalization as measures for overcoming crisis. The others countries such as France, Germany, Italy, Spain made decision about supporting the famous and important industries. European Union was accepted the European Economic Recovery Plan in 2008. (Hodorogel 2010, 83.) Nowadays, European Union focuses on supporting business with innovation and analyzing the competitiveness of the economy in general. (Simionescu & Bica 2014, 76.)

To overcome negative impacts of the economic crisis is necessary for small companies to be more profitable and competitiveness. One way to reach profitability and competitiveness is making enterprises more creative. Based on empirical data, researches define external and internal features effecting on creativity of the small company. Among the external features, the following characteristics can be defined: attention to target market, key employees and ability to maintenance them, special product and service line. The most core features among the internal ones are ability of the head of the company to create, risk and experiments; supporting creativity and employees. As a result the creative small company has to have transparency to innovation, focus on creating and implementation new ideas. (Lavoie & Abdalnour 2015, 913,914.)

One of the most effective tools to overcome economic crisis is investment in innovation during economic crisis. It must be difficult for enterprises due to limited financial resources but enable to obtain additional opportunities in the market. Failure of innovations leads to decrease market and customers and eventually to lack of profitability of the

company. In contrast, focusing on the innovation creates competitive advantages for enterprises, affects on financial results. (Madrid-Guijarro, Garcia-Perez-de-Lema, & Van Auken 2016, 99.)

3 MANAGEMENT STRATEGY DURING THE ECONOMIC CRISIS

3.1 Management strategy in conditions of economic crisis

According to Johnson (2010) the definition of strategy is represented as a direction for companies for a long period in challenging surrounding to reach goals, customers and stakeholders expectations. (Crutzen 2011, 7.)

Zimmerer and Scarborough (2005) defined strategic management as a plan of process to reach goals, objectives, vision and mission and save it; to solve problems in more effective way; to set long-term goals (Karadag 2015, 29.)

Considering distinguishing features of SMEs, some researchers such as Ireland, Hitt (2011), described strategic management as a process of adjustment conditions to find out new opportunities, create new type of actions with evaluations of internal and external surroundings. (Abosedo, Obasan, & Alese 2016, 316.)

Researches described strategy in different ways. For instance, Chandler in 1962 understood strategy as a process of actions with long-term goals. Other researches such as Mintzberg considered that strategy was not only set of actions but can be represented as a plan, template, technique, goal and position. The more modern definitions of strategy understand it like a business planning process including all necessary elements such as market, competitors, and environment. The understanding of changing of the company is important for managers and employees. (Burke & Jarratt 2004, 126, 127.)

Initially, researches consider there are no differences in the strategy for enterprises depending on its size. According to Karadag (2015), Cohn and Lindberg were the first (1972) who explained it is necessary to create special strategy for small companies to make them more successive in business. After that, other researches began to hold the opinion that small companies have different resources and possibilities, unique style of managing business and making decision process in comparison with large enterprises. These differences lead to differences in management strategy for SMEs. (Karadag 2015, 29.)

There are many discussions about describing strategy in SMEs which differ from the strategy in large companies. The strategy in SMEs often

depends on personal leadership style of the manager and is not recognize as a formal business process. Several studies reveal that the family control is found in many small companies and influent on the company's strategy and its direction. In many cases, the strategy of SMEs do not represent as a formal clear plan with changing actions but set of intuitive steps for any changes. For defining strategy for SME is needed three main components: time, awareness company's productivity and evaluation current position. The strategy of SMEs must involve the following elements: exploration of markets and environment, analyzing competitors, implementation recourses and planning activities to reach aims. (Burke & Jarratt 2004, 128.)

Strategic management consists of two important parts: strategic planning and strategic thinking. Strategic planning means tools and processes to gather and analyze necessary information. Strategic planning helps to strategic thinking summarizes all obtained information to create new effective strategy for enterprises. (Abosedede et al. 2016, 316.)

It is important not only to gain information and create strategy but implement the strategy in a better way, so two core processes can be identified in strategic management: establishment of strategy and its implementation. The process of establishment of strategy starts form analyzing external and internal conditions around the company and finishes by setting goals and measures to overcome hard situation. This process concerns analyzing political, social, economic conditions in which an enterprises operates and weaknesses and strengthen of companies at the same time. The next important process is implementation of strategy. It reveals how all parts of the company are involved in changing process of reaching the goals and how this process is effective for organization. (Abosedede et al. 2016, 317.)

According to Abosedede et al. (2016) four strategic management theories can be defined. The first theory identifies the main reason for successful strategy is resources of the company. The second theory includes all tools to support and increase competitive advantages of the company. The third theory focuses on capacity of companies to changes and reaction rate to changing situations. The fourth theory considers that owner and the manager at the same time of an enterprise specify further direction of development. (Abosedede et al. 2016, 319.)

Crisis period requires changes in the strategy of the company. Strategic management in conditions of economic crisis focuses on identifying the weaknesses of activity of the company, creating necessary conditions to overcome and prevent all negative effects and eventually the possible bankruptcy. It represents as a set of successive steps from awareness the crises and its influence to stopping negative impacts and overcoming the period of crisis. All company's problems must be analyzed by managers who must also have a clear strategy vision. All problems which must be

decided by managers can be divided into four groups. The first one included all questions that concern prediction of the crisis period. The second ones described core activity of the company. The third group is a defining the set of problems for the company such as lack of developing and creative new strategy, staff qualification, deficiency of information and limited time. Solving this group of problems helps to analyze crisis situation. And the fourth group involves conclusions and decisions to decide crisis problems. (Groh 2014, 50, 51.)

To avoid crisis period and its impact on the companies efficiency managers have to make a decision which is considered as a process of choice to solve issues. All decisions must be divided into three types: strategic, administrative and operating. Strategic decisions show structure of activity in company, style of marketing, type of production and future direction for development. Administrative decisions are decisions about management, structure of the company, administrative processes. Operating decisions concern production, marketing, prices, new strategies for the company. (Apak et al. 2011, 6835.)

There are many measures which can help to make a right decision and must be involved in strategic plan. One of these measures is strategic measures. The most famous strategic measure is SWOT analysis helps to disclose strengths and weakness, opportunities and threats. It reveals real picture about current situation of a company. Planning as a strategic measure is a creation new plan or strategy for company based on the information of an enterprise. Product diversity and customer loyalty are essential parts of any plan for a company. It is impossible to forget about employees because people are the power can make the company successful or not. It is very important to motivate employees. However, it is required to use a cost cutting measures during the period of crisis. Many costs or unnecessary costs are a big problem for companies during the period of crisis, so cost cutting measures focus on reduction of unnecessary costs. Every company decides which costs can be cut, but it is usually costs such as number of employees, common costs, associated with non-profit areas of activity. (Apak et al. 2011, 6836.)

Gathering and analyzing information about market and current conditions is one of the crucial goals for strategic management. It gives advantages for SMEs because market information is the basis to see new opportunities for development, analyze situation, create and implement new strategy, and, eventually, to achieve more flexibility and productivity during the economic crisis. (Bourletidis 2013, 601.)

Groh (2014) defines two main groups of methods of crisis strategic management: tactical and strategic. Each of these groups of methods includes special techniques. Tactical method focuses on fast solution to correct the negative situation and involve structural adjustment, reducing and insolvency. Strategic method focuses on long-term goals and results

and uses much more techniques than tactical method such as mergers and acquisition, changing the structure of enterprises, organizing. The most famous techniques among strategic and tactical method are listed below:

- Reducing means program of cost cutting and includes declining expenses from number of employees to production prices. It enables to increase the performance of the company in short time.
- Structural adjustment concerns changes in financial system of enterprises and influence on financial growth.
- Organizing is a set of actions to create a system of planning and controlling. This technique enables to improve situation with market.
- Changing the management system to make the development more productivity.
(Groh 2014, 53.)

Management during the economic crisis should resolve the following problems: analyze causes of crisis and level of its impact on an enterprise, creating and implementation the anti-crisis strategic program, defining and analyzing results of implementation process of the anti-crisis strategic program. (Groh 2014, 55.)

Maintenance of competitive advantages, creating possibilities for growth and profitability depends on management strategy. It must be creative and innovative enough to bring more competitive advantages for enterprises. It is undoubtedly management strategy for SMEs differs from management strategy for large companies. (Huang n.d., 2.)

3.2 Requirements to SMEs for successful management strategy

It is necessary to take into account some essential requirements before creating strategy or making improvements in existing strategy. First of all, it is emotional requirements including optimistic behavior and thoughts, realistic approach to analysis environment and obtained information during the process of creation strategy. Team building is crucial for successful development. Then, SMEs can start to create clear strategy. Planning process should involve assessing strengths of company, direction to decrease impact of weaknesses, defining target products or services and target market. SMEs are small companies with limited resources and cannot spread their activity to all niches in whole market or produce a lot of goods or services. So, defining main products or services and target direction of activity are essential part of planning strategy. (Fasano 1990, 20.)

Many researches consider that SMEs have huge problems with implementing improvement programs and new management strategy. Such measures, improvement programs or new management strategy should base on needs of a company, size of enterprises and special features of entities. The successful management strategy depends on features of SMEs listed below:

- the strategic planning of SMEs is oriented on short-term goals mostly. It should be a formal process with putting as short-term goals and long-term goals at the same time.
- the main direction in SMEs orientation is internal. To reach more efficiency and productivity SMEs strategy should include not only internal orientation with short-term goals but external orientation with long-term goals too.
- flexibility of SMEs. It would be right to implement formal processes to succeed and control operational activity, but SMEs do not apply formal processes.
- managers have not high level of skills in management of SMEs and enterprises do not spend enough money for learning and training managers and employees to make them professionals skills upper.
- SMEs use limited all kind of resources. It concern employees, time, finance and soon. Such limitations lead to problems in payment and market observation, using new tools for implementation strategy and opportunities widely.
- style of managing of SMEs is determinated by owners. They decide the directions of development and make decisions about strategy of companies.

(Ates, Garengo, Cocca, & Bititci 2013, 35–38.)

Activities of enterprises can make the management strategy more successfully and include such activities as follows:

- ✓ financial and operational activities;
- ✓ everything that concern employees, including their development, coaching
- ✓ communicational processes
- ✓ creating and implementing development strategy and follow up the results
- ✓ control the direction of development to goals of a company and changing the direction if it is necessary.

(Ates et al. 2013, 38.)

Changing in management strategy requires special type of management. This type of management includes common and specific features. There are the following:

- ✓ analyzing financial activity of the company
- ✓ identifying real threats and fast reaction
- ✓ continuous monitoring of economic conditions
- ✓ creating and developing new management methods, financial and marketing strategy

✓ increasing employees motivation.
(Groh 2014, 51.)

Management skills and strategic leadership style are necessary conditions for successful strategy implementation and effective development of SMEs. Razak (2010) noticed that lack in leadership and management skills may be causes of ineffective operational activity of SMEs. Managers of all parts of enterprises must be leaders at the same time because their style of managerial activity influences on results of companies activity. (Özer & Tinaztepe 2014, 779.)

Özer and Tinaztepe (2014) represented three strategic leadership types of actions for managers of any company. These types of leadership impact on productivity of enterprises. Transformational type of leadership includes everything is connected with changes (personal, economic, organizational) and helps to promote further development. This type of leadership based on motivation, creating common mission and vision for company and working team and the further development with adherents is a central elements. Transactional type of leadership focuses on interaction to inspire people to achieve goals. Paternalistic type of leadership is considered as a process or system created to better collaboration inside working team, to control employees and establish strong relationship between employees, employees and managers. This type of leadership assist to create well being environment at the working place that leads to more effective work. (Özer & Tinaztepe 2014, 779.)

Clearly and creative communication are essential for managers within company during the changing process. Every change inside the company will be successful if the managers being able to engage employees in changing process at all level of company. For achieving this aim managers must not only create new strategy but define clear goals for long period and identify external threats. They have to change way of communication and make it more transparency. To successful involving employees in changing process, managers may offer inspiring view of long-term perspective. One of the main tools to remain achievements during the changing process is including goals into core processes.

4 ECONOMIC CRISIS AND SME IN RUSSIAN MARKET

4.1 Features of economic crisis in Russia

Over the past twenty years, Russian economy has suffered three times of crises. It is difficult to compare the current economic crisis with the crisis in 1998, economic decline of early 2000s and this crisis is not similar to the crisis in 2008. The crisis of 1998 affected all aspects of life of Russians,

but the rise in oil prices allowed the country fast enough to stabilize. The crisis situation of 2008-2009 was triggered mainly by the problems of the global financial system. The economic crisis which began in 2014 and its causes are quite different. (EURASIANET 2016.)

At the present time Russia is in the middle of a deep economic and developing crisis that affects all part of business area and all kind of enterprises. The crisis is a result of political strategy of Russia and connected with restrictions from European countries and the United States.

Over the past 15 years, Russia has a resource-based economy and sells their natural resources such as oil, gas and others. Not surprisingly, the sharp decrease in the price of oil had a negative impact on the Russian economy and its GDP immediately. On the other hand it is impossible to create a high-tech product, which can be sold on the world market, as the developed countries of Europe and America do because there is no really a market economy in Russia and there are a lot of gaps in the legal system. (EURASIANET 2016.)

The figure below shows the level of economic expectations in Russia in 1998 – 2014.

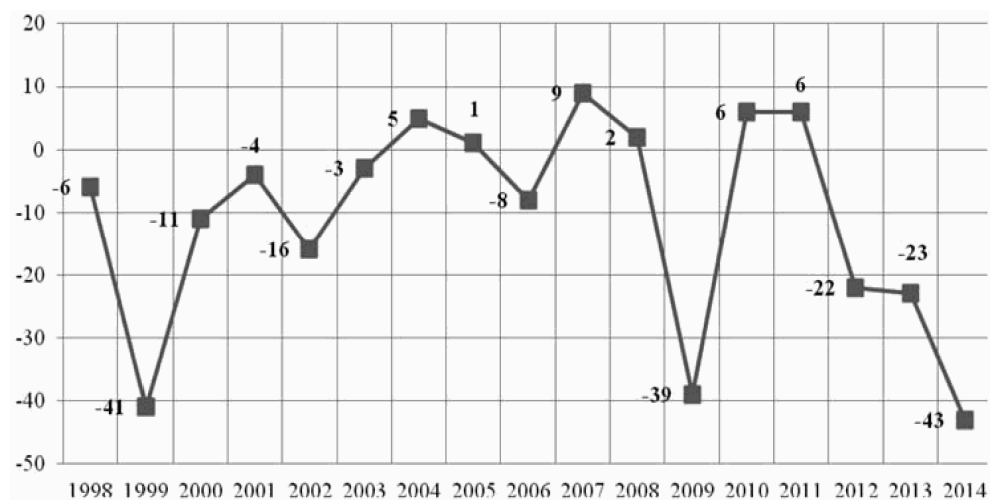


Figure 1. Indicator of economic expectations in Russia in 1998 – 2014. (Alimova 2014, 74)

The indicator of economic expectations is monthly report based on the national mood on the current situation and the degree of consumer hopes or doubts for the future. It reveals the real attitude of Russian citizens to the economic situation in the country. (Alimova 2014, 74.)

Nowadays Russia is one step away from international isolation, which may be more restrictive than in the eighties. And the cause of the current situation was only the intention of Ukraine to sign the Association

agreement with the EU. President of Russia recently assessed the possible losses of Russia from the Association of Ukraine with the EU that was 100 billion rubles. That is less than \$ 3 billion. As a consequence Russia got Western sanctions and damage to the Russian economy from these sanctions is much higher than the above \$ 3 billion. (EURASIANET 2016.)

There are external and internal causes in the Russian economic crisis. The main external reasons for the weakening of the Russian economy are geopolitical factors, the fall in oil prices and the decline in the ruble exchange rate. Among internal causes can be identified such as a large number of subsidized regions of Russia, the salary level of individual occupations exceeded the efficiency of work, unfavorable conditions for development of small- and medium-sized business. (EURASIANET 2016.)

For economic recovery, the government has chosen the following areas: the development of agriculture, high-tech industries and military equipments. It is also expected to provide an opportunity to invest in a small business that will not rely on foreign goods and investments.

4.2 Challenges for Russian SMEs during the period of economic crisis

Small and medium enterprises are an integral and primary element of the Russian market economy. According to the Ministry of Economic Development of the Russian Federation, 95% of commercial organizations in the Russian Federation are small or medium-sized business entities. The Federal State Statistics Service data testify the negative dynamics of development of small and medium-sized enterprises in the Russian economy. The decline in the share of small and medium-sized companies in terms of turnover in 2014, compared to 2013, was 1.8%. The innovation activity of small and medium-sized enterprises is low. (Vaypan 2016, 9.)

The terms of qualifying legal entities and individual entrepreneurs as SME are defined in the Law on development of small and medium-sized entrepreneurship in the Russian Federation and include:

1) requirements to the structure of authorized (share) capital of a legal entity (the share of state participation in a limited liability company doesn't exceed 25% and of large-scale Russian and foreign business - not more than 49%);

2) average number of employees for the preceding calendar year that should not exceed the following limit values of the average numbers of employees established for each category of SME:

a) from 101 to 250 persons inclusive - for medium-sized enterprises;

b) up to 100 persons inclusive - for small companies; for a category of microenterprises - maximum 15 persons;

3) proceeds from sale of goods (work, services) for the preceding calendar year net of value-added tax which should not exceed the limit

values comprising 120 million rubles for microenterprises, 800 million rubles for small companies, 2 billion rubles for medium-sized enterprises. (Semenov 2016, 71.)

At the same time, in order to take advantage of the preferences provided for SMEs, it is not sufficient for their representatives to independently assess their activities in terms of meeting the above conditions. The information about such entities must be included in the Unified Register of Small and Medium-Sized Enterprises.

The legislation provides for a number of indulgences for SMEs. Most of them apply only to microenterprises or small businesses. They enjoy allowances in various spheres - from accounting and cash regulations to non-tax audits. Medium-sized enterprises can count on leniency in case of committing an offence for the first time, or on benefits when renting the federal real estate. The list of benefits for SMEs includes:

- ✓ simplified system of accounting and reporting
- ✓ no prescribed cash balance limit in the cash register
- ✓ moratorium on planned non-tax inspections to the end of the year 2018
- ✓ no fine for the first violation, if the administrative offence did not cause any serious harm or danger of its occurrence.
- ✓ financial support from regional or local authorities.

(Suchovskaya 2016, 88-90.)

Quite recently, SMEs Development strategy in the Russian Federation for the period until 2030 has been approved by the Russian Government's order No. 1083-p as of 02.06.2016. One of its sections envisages improvement of policy in the field of taxation and non-taxable payments. The measures in relation to SME, taken as part of the tax policy, should be aimed, on the one hand, at creating due conditions for legal entrepreneurial activity, and on the other hand, at stimulating entrepreneurial activity and increasing competitiveness of existing economic entities. It is planned to implement particular measures to improve special taxation schemes. It is also planned to create additional fiscal incentives for the development of a high-tech sector of small and medium-sized businesses. It is envisaged to realize a gradual transition to the use of software that allows to transfer information in electronic form. The entrepreneurs shifting to the use of the new-type check-out equipment will be subject to tax deductions. (Semenov 2016, 75-77.)

One can distinguish three main groups of issues to the development and activities of SME in the context of the economic crisis:

1 Administrative barriers

Numerous unjustified restrictions continue to exist in respect of SME. A number of measures have been implemented, such as increasing insurance payments, abolishing tax privileges on corporate property for special tax regime payers; introducing a trade fee, presenting new

requirements for special assessment of work conditions, arbitrary changing the layout of non-stationary retail facilities in certain regions of the Russian Federation entailing numerical reduction of such objects, etc. (Vaypan 2016, 12)

2 Economic restrictions

- lending

Currently, lending to business entities has become virtually impossible, considering that overcoming the crisis is directly connected with support, stimulation and development of real production. The short-term loans are great important for small businesses, but banks do not lend or lend under the huge bank interest rate.

- restricting SMEs access to orders for goods, works and services from large state organizations

- unequal conditions with other subjects of natural monopolies

For instance, SME have to pay for electricity under energy supply agreements not only for the actual consumption, but also for the declared capacity. In addition, payment for electricity, heat and natural gas, as a rule, should be made by them in advance.

3 Political problems

Russia has a very unpredictable political policy that affect on economy as whole and small enterprises in particular. SMEs in Russia depend on economy and try to overcome negative impacts, Russian economy, in turns, depend on political direction of the Russian government.

(Lisiza 2009, 24, 25.)

Following trouble of small business is its dependence on the demand in Russia. Domestic demand is very low, which leads to a decrease in working capital. There is a need to reduce production costs, the decline in production. The risk of suspension of production activities increases.

In the conditions of absence of funds and demand, small businesses will be forced to reduce the scale of operation. In such conditions it is possible exit of small business in the shadows. To release additional funds, many small companies will minimize the tax revenue; make the efforts for cost savings, including hiding their own incomes.

With regard to crediting, it is necessary to note a rapid drop in lending scope. The total loan portfolio within the year decreased by 5.7% (minus 1% in 2014), and amounted to 4.8 trillion rubles as of January 1, 2016. Lending to individual entrepreneurs decreased even more: the volume of loans issued in this segment decreased almost 2 times, and the share in the total SME lending volume fell from 8.3% to 6% within the year. (Istomin 2016, 67.)

The reasons of the shrinkage of small and medium-sized business lending market lie in two planes. On the one hand, there is a reduction in the entrepreneurs' demand for credit resources. Against the backdrop of the economic downturn, the enterprises are forced to optimize their

expenses and reorient towards the use of own funds for development of business. In addition, because of the rise in the cost of borrowed resources, the entrepreneurs have increasingly begun to take out loans secured by real estate in their names as individuals. On the other hand, the banks' interest in lending to SME is falling. In 2015, the banks toughened their approach to risk assessment and proceeded to assessing the state of business on an individual basis. The devaluation of the ruble exchange rate at the end of 2014, the decline in the incomes and purchasing power of the population along with the decline of the economy destabilized significantly the financial position of small and medium-sized enterprises. The share of overdue debts in 2015 almost doubled: from 7.7 to 13.8%. By January 1, 2017, the SMEs loan delinquency amounted to 13.7%, and the same in respect of individual entrepreneurs – 14.9%. In the long view, the key negative factors affecting the small and medium-sized enterprise lending market will be: continued trends of business activity recession, decrease in consumer demand and purchasing power of the population and increased tax burden. (Istomin 2016, 68.)

The hard economic conditions has influenced on the activity of SMEs. The figure below shows the situation with SMEs in Russia.

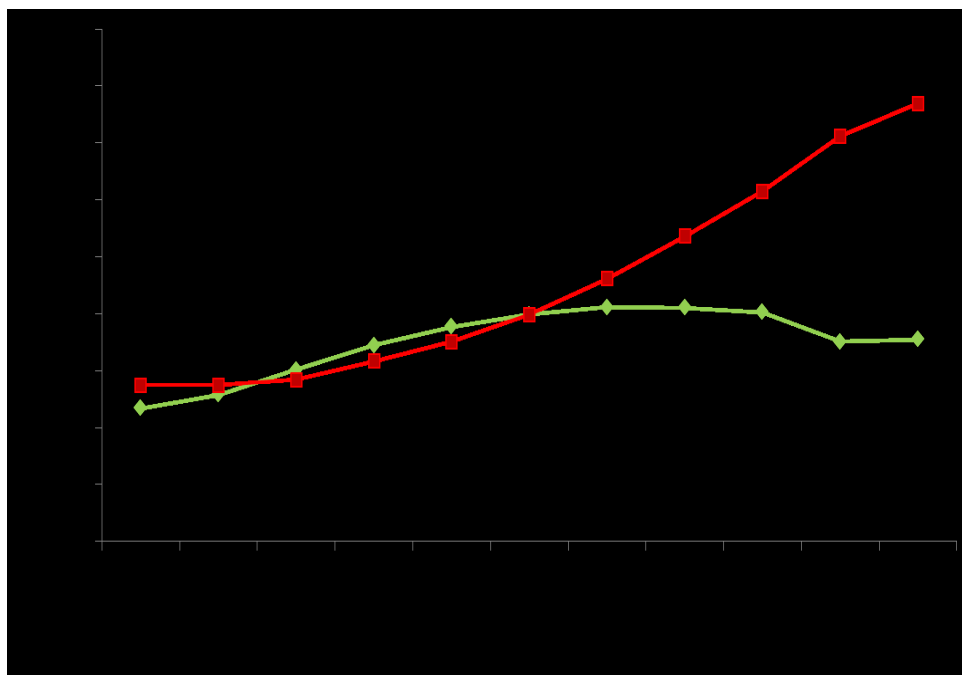


Figure 2. The number of SMEs which were established and finished their operational activity. (Byrkova 2015.)

The green line shows how many SMEs were established in the period from 2005 to 2015 and the red line reveals the quantity of SMEs finished their operational activity at the same time. The 2015 was the worst year

for SMEs and rates of SMEs which finished their activity were highest. (Byrkova 2015.)

The whole world experience shows that the economy, even in the most developed countries, the major part of the gross domestic product is created by a large number of small and medium enterprises. They are the guarantee of flexibility and dynamism of the economy, a powerful tool to meet the needs of the population in work, salary and social services. The activity of small and medium enterprises focused most heavily on addressing local needs, regional development and solving social and economic problems.

5 METHODOLOGY

Research work is conducted by using special methods which assist to achieve the goals and objectives of the study. So, the research methodology is an integral part of the research including appropriate methods and dedicated to answer the research questions, clarify and confirm theoretical positions and verify theory in practice. (Shahalizadeh, Amirjamshidi & Shahalizadeh 2009, 108.)

5.1 Research approaches

There are different classifications of research approaches. Traditionally, research approaches can be divided on qualitative and quantitative. Some researchers are based on methods from qualitative, quantitative approaches, or both of them. The qualitative approach enables to investigate research problems carefully and makes the case study more comprehensible. The quantitative approach makes the comparison and summarizing data easier through receiving response from respondents. A lot of researches consider that two approaches using together provide better effect to collect and analyze data. (Shahalizadeh et al. 2009, 110.)

The interesting classification of research approaches was proposed by Miller and Cameron (2011). According this classification, all research approaches can be divided as follows:

- only qualitative and only quantitative.

According to this type of research approaches, it can be chosen one or more methods among qualitative or quantitative respectively.

- combined with prevalence qualitative and combined with prevalence quantitative.

It may be applied combinations of two approaches but one of them may be more important for the research.

- equal mixture of qualitative and quantitative approaches.

This type of approaches is used by researchers if it does not matter what methods will be applied to reach goals of the research, collect data and prove main positions.

(Miller & Cameron 2011, 393.)

There are many studies about qualitative and quantitative approaches in science. But a lot of researchers began to highlight the importance of equal mixed method considering it much more interesting especially in business area. It increases the comprehensive of problems of the research but this method is not the same with plural. The difference between these methods is the plural method decides research questions but mixed method integrated in the study. (Miller & Cameron 2011, 389-393.)

5.1.1 Qualitative approach

Qualitative approach is considered as a best method to develop research and to prove main concepts of the study. This approach can be applied by using such tools as interview, surveillance, analyzing documents, field research. The main goal of this approach is gathering and analyzing the data to connect them with the core concepts of the study. (Khan 2014, 229.)

Creswel (2007) defined five research methods among qualitative approach. The first one is descriptive method. This type of research focuses on individuals, facts of them life through interview and documents. If the researcher wants to find out the meaning of experience, the phenomenon enables to reach it. This method is applied through interview or/and surveillance. The method named ethnography analyses and describes cultural features of the similar group during the period of time. The next method focuses on analyzing process, action, collaboration between individuals and named as a grounded theory. This method is aimed on exploration data and interpretation them. And the last method is description of case study. This method analyses data using interview, documents, surveillance. (Khan 2014, 226.)

According to Shahalizadeh (2009), Yin (1994) considered that all data could be divided on main data and additional information. Main data are gathered special according the topic of research. Additional data are literature, company's information, other internet resources. Yin (1994) defined some different and the same (if compare with written above) core methods for data collection. There are interview, work with archive files, observation, using material evidences. (Shahalizadeh et al. 2009, 110.)

Two measures enable to evaluate correctness of chosen methods and collected data. The first measure is robustness. It means that used methods achieve the same results in comparison with subsequent tests. Yin (1994) defined main goal of robustness is to decrease mistakes. The second measure is validity. This definition is very close to the robustness but not the same. The validity evaluates the suitability of the method for measuring and effectiveness of chosen method. There are three type of validity:

a. Construct validity

It means a way to set up the relevant operational measures in the study.

b. External validity

This type focuses on summarizing findings of the research in such way that findings become common and suitable for other cases.

c. Internal validity

This type focuses on studying the causal relationship. It is determined by influences of uncontrolled situational factors. The amount of such factors should be as small as possible and in this way the validity will be high and the research findings will be more accurate.

(Shahalizadeh et al. 2009, 111.)

5.2 Research methods in practice

For illustration theoretical points written in the first part of this study, it was applied such methods from qualitative approach as interview, working with documents, description of the case study and special technique like SWOT and PEST analysis.

5.2.1 Case study

The most informative qualitative method to comprehend situation is a case study. It is explanation the system as whole or any part of system. According to Shahalizadeh (2009), Yin (1994) defined four main types of configuration of case study: single and plural, holistic and integrated. It is more useful for research to apply plural case study than single because it makes analysis more powerful in spite of this method is more volumetric in terms of time and resources. Holistic and integrated methods have advantages and disadvantages. The integrated method focuses on exploration departments or branches and has a lack in collecting and analyzing total data. The holistic method aims on whole system. The danger of this method is to make a study very abstract. (Shahalizadeh et al. 2009, 109.)

Case study as a method of the research work enables to obtain more knowledge about situation.

Regarding this study a small Russian company was selected to analysis and answers the research questions. The joint stock company "Restel" was founded in 2006. The JSC "Restel" has been working in the market of office real estate since 2007. The main activity of the company is the management of the Business Center Gromov, namely, ensuring the profit for the owner through renting, the management of technical operation and the maintenance of the Business Center.

Currently, the Business Center includes four buildings with a total area of 20,000 m². This Business Center is located not far away from the center of the city, have a well developed infrastructure and a high level of transport accessibility. The buildings of the Business Center were built in 1963 and reconstructed into a business center in 2007. Thanks to the professional reconstruction and repairs, the buildings are probably quite comfortable buildings in St. Petersburg today.

According to Russian legislation, the JSC “Restel” is a small enterprise. As mentioned earlier, a small company has to include fewer than 100 employees, a turnover of no more than 800 million rubles, and no more than 49% in structure of authorized (share) capital of another entity. The JSC “Restel” has the following characteristics of SME:

Number of employees	27
balance sheet total for 2016 year, rubles	74 298 000
authorized (share) capital in another entity,%	10

Table 1. SME indicators of JSC “Restel”

All characteristics of the JSC “Restel” satisfy the requirements of SME established by the legislation.

Market conditions are very challenging, caused by economic crisis in the country, decrease in demand in the rental market, high energy prices and taxes. So, it was very interesting to explore in this case study how the company will overcome difficult conditions.

5.2.2 Interview

One of the most popular, important and useful method among qualitative approach is interview. Researchers who use qualitative methods consider that interview is very effective method following the mandatory rules of the interview. There is another point of view from quantitative researchers. They think that this method is just a conversation and does not give objective data. (Qu & Dumay 2011, 238.)

According to Qu and Dumay (2011), Alvesson (2003) defined three approaches on research interview in the theoretical science: neopositivism, romanticism and localism. The first one focuses on exploration facts, the second aims on investigation meaning and the third approach includes critical view on the core part of research topic. (Qu & Dumay 2011, 241.)

The interview can be conducted in many different forms with individuals or focusing group. For instance, interview may be face-to face interview, by telephone, audi recorded or written. (Khan 2014, 229.)

According to Qu and Dumay (2011), Alvesson (2003) defined three types of interview. They are listed below:

- Structured interview

The distinctive feature of this type of interview is the interviewer prepares questions with limited number of answers and interviewees must answer the questions in a certain order.

- Unstructured interview

It is very informal type of interview which focuses on creating comfortable conditions to conduct interview process.

- Semi-structured interview

This type of interview combines features from structured and unstructured types of interview. It is rather frequent type. Some researchers such as Kvale and Brinkmann (2009) consider it is more effective method to reach goals and reveal hidden facts. (Qu & Dumay 2011, 244–246.)

The successiveness of the interview process depends on preparing. This process should include the following steps:

- Who and how many will be respondents
- What type of interview to choose
- What goals the interview to strive to achieve
- How obtained data will be analyzed

The interview process can involve different type of questions such as introducing questions, direct and indirect questions, specific or test questions. Including the type of question in the interview depends on purpose of interviewer because every question has specific target. For example, introducing questions focus on starting the interview process, test questions focus on receiving more additional information. (Qu & Dumay 2011, 249.)

This study used interview method with CEO of the JSC “Restail”. The interview was conducted in writing type with pre-defined questions to find out the opinion of management of the case company about market situation, its influences on the company and possibilities for further development, style of leadership.

5.2.3 Documents analysis method

Collecting data can be reached by the documents analysis method. It is another method among qualitative approach. According to Bohnsack (2010) knowledge may be two levels: practical and theoretical. This method includes all level of knowledge. (Trautrim, Grant, Cunliffe & Wong 2012, 828.)

To obtain the understanding about the situation, conditions of the performance of the company, some documents and several methods of analysis were used in this study. Applied documents and methods are listed below:

Name of methods	Purpose of study
SWOT analysis	To define current situation of the company, their opportunities, threats, weakness.
The report of financial results for 2014, 2015 and 2016 years	To compare financial indicators before crisis and during the period of crisis
The annual report for 2014, 2015 and 2016 years	To find out additional information about the company and its internal conditions

Table 2. Applied methods for analysis.

These methods enable:

- Disclose key financial ratios for the period before economic crisis and during economic crisis
- Compare financial indicators
- Make the conclusion about financial position of the case company and changes during the period over three years
- Answer the research questions and creating some suggestions for improvement situation.

6 ANALYSIS AND RESULTS

6.1 Results of SWOT-analysis

SWOT analysis was based on the Extract of annual report for 2014, 2015 and 2016 years and the interview with general director of the JSC "Restel". The aims of SWOT analysis were to find out advantages and disadvantages of the company, define external conditions and create the basis for future successful strategy.

The following strengths of the JSC "Restel" can be selected:

- Location

The business center is located near the center of St. Petersburg and metro station.

- Variety of premises

The business center has premises of different size - from 18 sq. m. to 100 sq. m. and different types of premises: for offices and for storages.

- Own parking area

The parking area includes approximately 350 places for cars.

- Not a high rental rates

Rental rates fluctuate within form 935 rub./sq. m. per month for premises for offices and 420 rub./sq. m. per month for premises for storages.

- Individual approach

The company has individual approach to customers. For instance, it is possible to make individual planning of premises.

- Opened art space

Art space focuses on holding exhibitions, other art events and meetings.

- Created logotype of the Business center and new website

This logotype makes the business center different from other business centers.

The weaknesses of the company are listed below:

- Dependence of high rates of energy resources
- The energy resources are delivered by private enterprises which raise rates constantly.
- A lot of competitors on the rental market
- High level of expenses and their increase every year
- Some credit agreements and large amount of debts with growing interest rates.

The following possibilities can be defined:

- Using free spaces
- Attract additional services
- Restrain the rapid growth of rent rate.

The next threats can be identified:

- Unpredictable political strategy of the government
- Economic restrictions
- A large number of administrative inspections and penalties.

6.2 Analysis of key financial ratios

6.2.1 The year 2014 in brief

The main risks factors associated with the activity of the company in 2014 were unpredictable sharp growth of energy costs, damages of premises, and decrease in demand in the market.

In spite of these factors, the JSC "Restel" revenue was 71.6 million rubles in the 2014 year (69.5 million rubles in 2013). The sales profit was 10.2 million rub. (11.2 million rub. in 2013) and the results before taxes was 7.7 million rub. (8.5 million rub. in 2013) during the review period. Net cash flow from operating activities was 72.7 million rub. (69.7 million rub. in 2013) in the review period. The dividends for the 2013 year were paid in the amount of 4 million rubles. The main financial ratios in 2014 year listed in the Table 3. (App. 4.)

Revenue	71 576
Sales profit	10 156
Net profit	6 061
Net asset value	20 247
Gross profit	17 182
Commercial expenses	54
Managing expenses	6 972
Other expenses	650
Other revenue	0
Percent for paying	1 842

Table 3. Key financial ratios for 2014 in thousands rubles.

The expenses in 2014 increased. The highest rates were for managing expenses and amounted 6.9 million rub. and the smallest rates were for commercial expenses and amounted 54 thousand rub. The growth of costs and differences in types of costs are shown below.

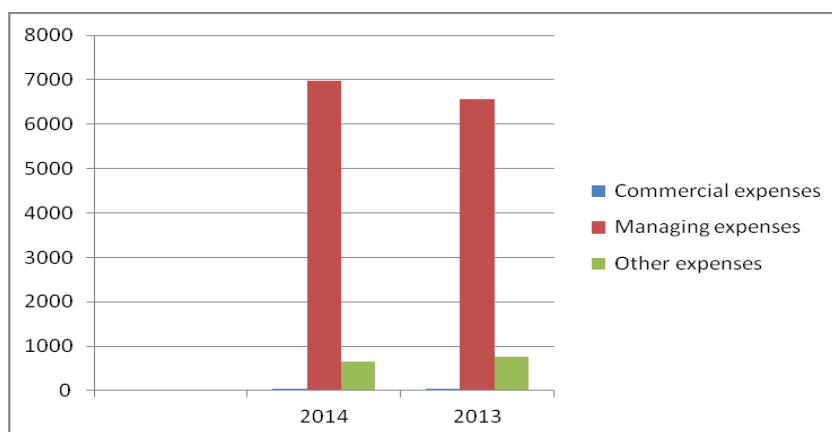


Figure 3. Expenses in 2014 and 2013 in thousands rubles.

The high level of expenses affected on decreasing net profit. It was decreased in the second quarter of the year to 1.1 million rubles and then increased slightly to 1.6 million rubles by the end of the year. (App. 1–4.)

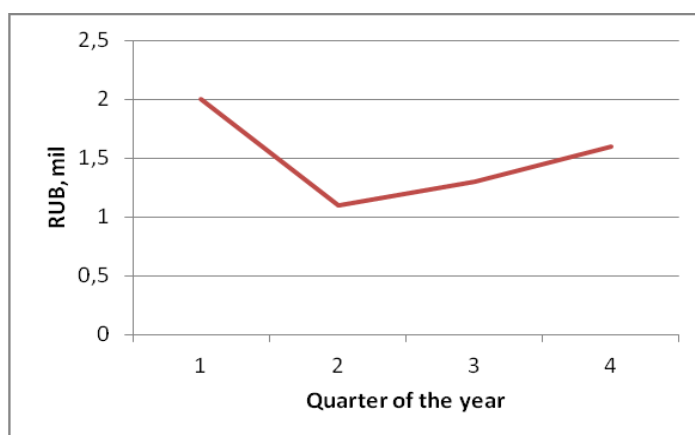


Figure 4. Net profit in 2014 quarterly.

The operating profit for aims of this study was calculated by the formula below:

$$OP = GR - CE - ME - OE + OR + PC \quad (1)$$

GR – gross profit

CE – commercial expenses

ME - managing expenses

OE – other expenses

OR – other revenue

PC – percent

The operating profit of the company was 11.3 million rubles in 2014 totally.

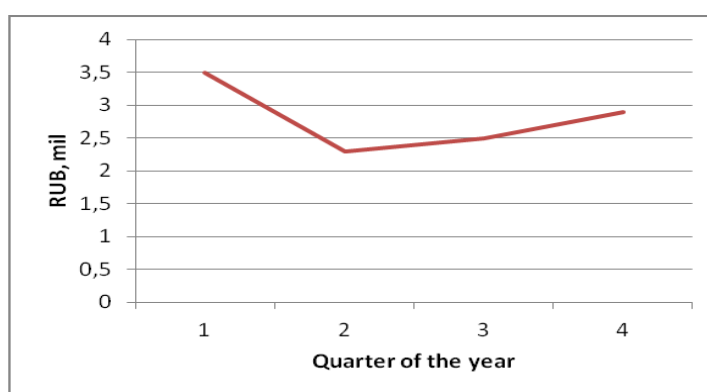


Figure 5. Operating profit in 2014 quarterly.

The graph above shows that during the period of that year, the operating profit gradual declined from 3.5 million rubles in the first quarter of the year to 2.9 million rubles by the end of the year. But after drastic decline in the second quarter of 2014 (2.3 mil rubles), the operating profit increased slightly. (App. 9.)

The company had some credit agreements. The credit agreements of the company included interest-bearing debt and repayment terms. The total amount of the debt under these credit agreements was 25.6 million rub. The time of payment of these credit obligations had arrived and creditors may require the payment of a debt at any time. (App. 10.)

Payment deadline up to 30 days	
The type of debt	The amount of debt in thousand rub.
Credit agreements	25 625
Other creditors	3 541
Prepayment received	4 966
Total	34 132

Table 4. Payment deadline in 2014.

The management of the company estimated that the company would not be able to pay credits if the creditors require the payment of the debts. (App. 10.)

Unfortunately, this company did not create any improvement programs or programs for further development. But management of the company made some steps to improve situation and make the company more sustainable. Firstly, the company continued to carry out work to repair areas intended for rental. Secondly, the management of this company intended to hold negotiations for restructuring of debts. (App. 10.)

6.2.2 The year 2015 in brief

The year 2015 was the first year of the beginning of the economic crisis due to political situation and political decisions of the government of Russia. This year was characterized by liquidation of the significant number of enterprises, reduction the size of companies and, eventually, increasing number of vacant premises for rent.

These factors led to decrease in revenue and totalled 67 million rub. in 2015. The sales profit was 6.2 million rub. and the results before taxes was 4.7 million rub. during the review period totally. The operating profit totalled 7.1 million rub. The main financial ratios in 2015 year calculated in thousand rubles and listed in the Table 5 below. (App. 2.)

Revenue	67 043
Sales profit	6 245
Net profit	3 780
Net asset value	20 027
Gross profit	14 054
Commercial expenses	37
Managing expenses	7 772
Other expenses	512
Other revenue	361
Percent for paying	1 735

Table 5. Key financial ratios in 2015 totally.

In spite of the numbers of sales profit for the year overall, during the 2015 sales profit fluctuated considerably.

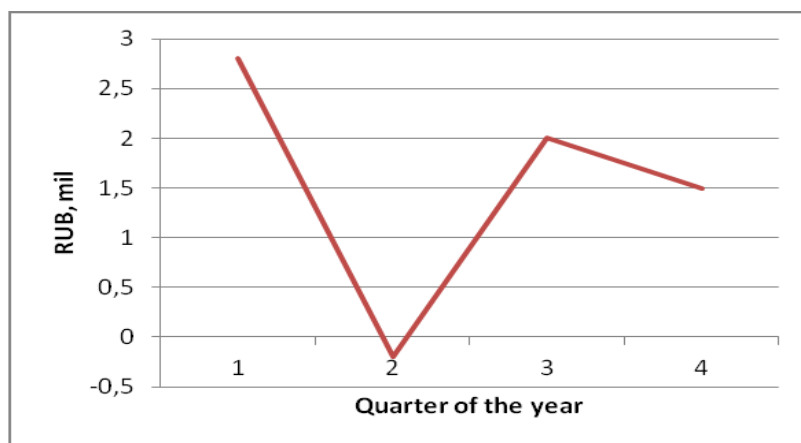


Figure 6. Sales profit in 2015 quarterly.

The graph above reveals that figures of sales profit decreased sharply in the second quarter of the year (-0.2 million rubles), after that increased rapidly in the third quarter of the year (2 million rubles) and dipped briefly again (1.5 million rubles). (App. 1-4.)

Such fluctuations in sales affected on the net profit and the operating profit in 2015. The operating profit decreased constantly during the year with sharp decline in the second quarter of the year (0.8 million rubles). The same situation happened with net profit.

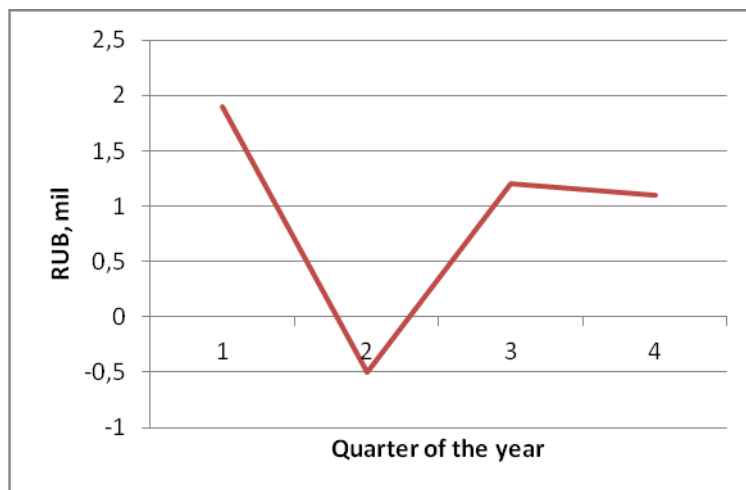


Figure 7. Net profit in 2015 quarterly.

As shown on the graph above, net profit dramatically decreased in the second quarter of the year, after that increased, but could not reach indicators as at the beginning of the 2015. (App. 1-4.)

The expenses in 2015 remained constantly high. The highest rates were for managing expenses and amounted 7.7 million rub. and the smallest rates were for commercial expenses and amounted 37 thousand rub. The

growth of costs and differences in types of costs are shown below. (App. 4.)

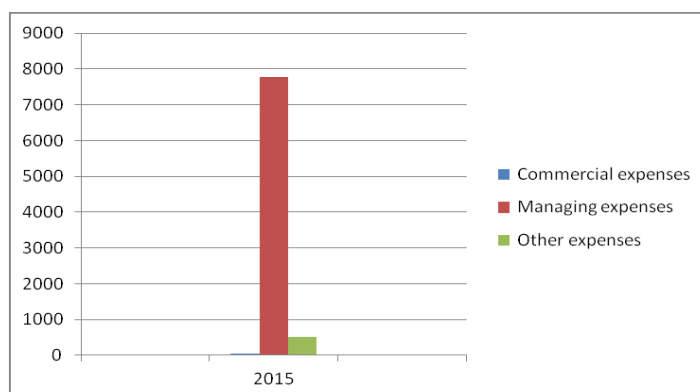


Figure 8. Expenses totalled in 2015 in thousand rubles.

The company had some credit agreements. The credit agreements of the company included interest-bearing debt and repayment terms. The total amount of the debts according to these credit agreements was 27.4 million rub. (App.11.)

Payment deadline	
The type of debt	The amount of debt in thousand rubles
Credit agreements	27 359
Other creditors	2 000
Prepayment received	5 079
Other debts	2 508
Total	36 948

Table 6. Payment deadline in 2015.

Negotiations about changing the period of debt payment were held by managers of the company. It was decided to move the period of debt payment for one year. (App. 11.)

In this period, the owner required to create the strategy for further development to reduce the negative impact of economic crisis and make the company more profitability. The head of the company considered that the company should focus on maintaining the current level of development and did not any step because all of those steps would be unpredictable. It was start of the conflict between the owner and the head of the company. (App. 13.)

6.2.3 The year 2016 in brief

In the year of 2016 the company was under the pressure of following negative factors: high energy costs, the decrease in the number of sales. The revenue totalled 74 million rub. in 2016. The sales profit was 6.3 million rub. and the results before taxes was 4.7 million rub. during the review period totally. The main financial ratios in 2016 year calculated in thousand rubles and listed in the Table 7 below. (App. 8.)

Revenue	70 298
Sales profit	6 316
Net profit	3 573
Net asset value	20 600
Gross profit	14 465
Commercial expenses	8
Managing expenses	8 141
Other expenses	641
Other revenue	1 217
Percent for paying	1 923

Table 7. Key financial ratios in 2016 totally.

The high figures in revenue did not affected on indicators of sales profit and net sales in 2016.

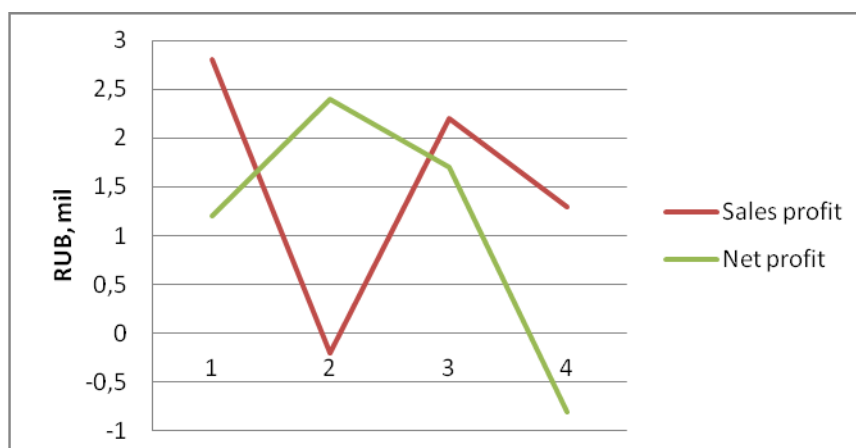


Figure 9. Sales profit and net profit in 2016 quarterly.

The sales profit decreased sharply in the second quarter of the year, but the net profit of the same period decreased. The opposite situation happened in the fourth quarter of the year. The sales profit decreased slightly in the fourth quarter of the year in comparison with previous quarters. At the same quarter the net profit decreased considerably. (App. 5-8.)

Operating profit was 2.2 million rubles at the beginning of the year and decreased steadily during the next quarters to -0.2 million rubles.

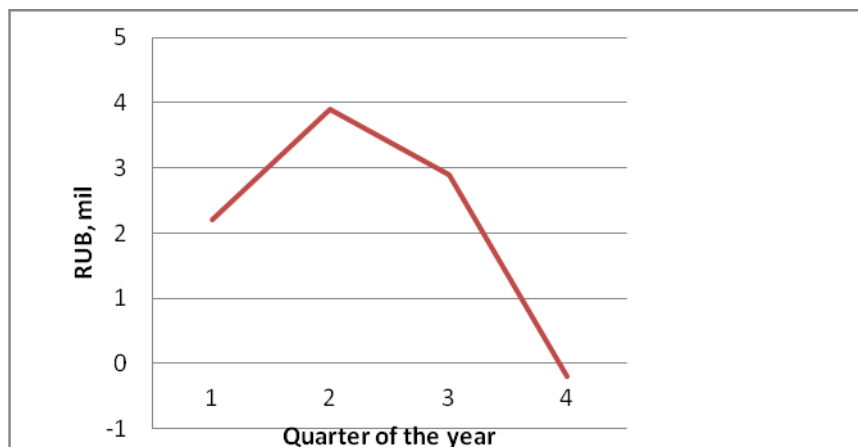


Figure 10. Operating profit in 2016 quarterly.

In spite of the overall decrease during the year, the operating profit totalled 6.4 million rub. in 2016. (App. 9.)

The managing expenses were increasing during the 2016. It totalled 8.1 million rub. The smallest rates were for commercial expenses and other expenses, amounted 8 and 641 thousand rubles respectively. The chart below shows the growth of costs and differences in types of costs.

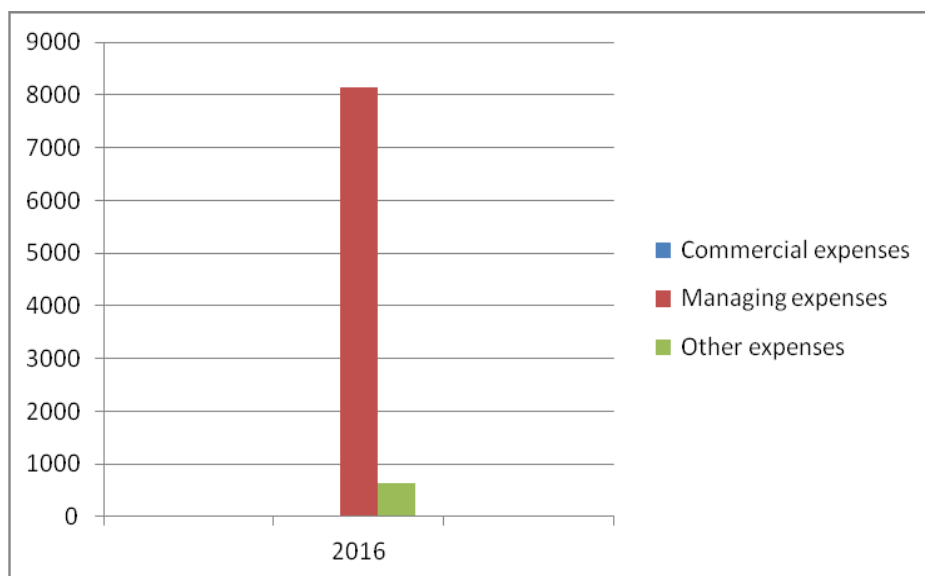


Figure 11. Total expenses in 2016.

The total amount of the debts according to the credit agreements was 29.2 million rub. The company had a debt to the shareholder for unpaid dividends in the amount of 1.5 million rubles. It should be noted that the debt payment period was changed to 2021. (App. 12.)

Payment deadline	
The type of debt	The amount of debt in thousand rubles
Credit agreements	29 283
Other creditors	1 500
Prepayment received	6 232
Other debts	4 362
Total	41 377

Table 8. Payment deadline totally in 2016.

The head of the company was dismissed by shareholder. It was a tough decision for owner of the company to hand over the directing reins. The former director could not do their job to the level it require and take into account the opinion of shareholder. The new director created some changes for further development and started its implementation. It was not a real strategy, but measures to overcome difficulties have been taken. The changes campaign included following actions:

- Attention to the information are published in the website
- Changes in advertising campaign
- Additional services in business center
- Open spaces for exhibitions and meetings.

(App. 13.)

6.2.4 Comparison of financial ratios and results

The 2014 was more successful year for the enterprise, but the political situation in the country was changed by the end of the year that predicted economical problems for the enterprise. Economical restrictions, political position of the government and currency fluctuations affected on the profitability of the company.

It should be noted that indicator of revenue in 2016 was the most in comparison with indicators of two previous years. The 2015 is characterized by sharp decline in revenue from 71.5 million rubles in 2014 to 67 million rubles in 2015. The revenue in 2016 was increased surprisingly. The table below shows differences in revenue calculated in million rubles. (App. 4, 8.)

2014	2015	2016
71.5	67	74.2

Table 9. Revenue in 2014 – 2016 totally

During the years these indicators fluctuated as shown below.

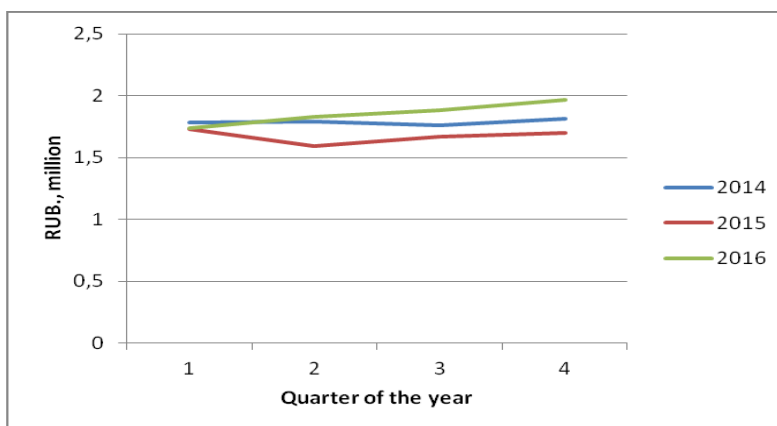


Figure 12. Revenue in 2014, 2015 and 2016 quarterly.

Fluctuation of revenue were not considerably, but all figures during 2016 were upper than figures during the 2014 and 2015. The worst year for revenue was 2015. Revenue reduced slightly in the second quarter of 2015. (App. 4, 8.)

In spite of high numbers in revenue especially in 2016, the sales profit decreased from 10.1 million rubles in 2014 to 6.3 million rubles in 2016 like shown below. (See App. 4, 8)

2014	2015	2016
10.1	6.2	6.3

Table 10. Comparison of sales profit in 2014, 2015 and 2016 totally.

During the years fluctuations of sales profit were significant.

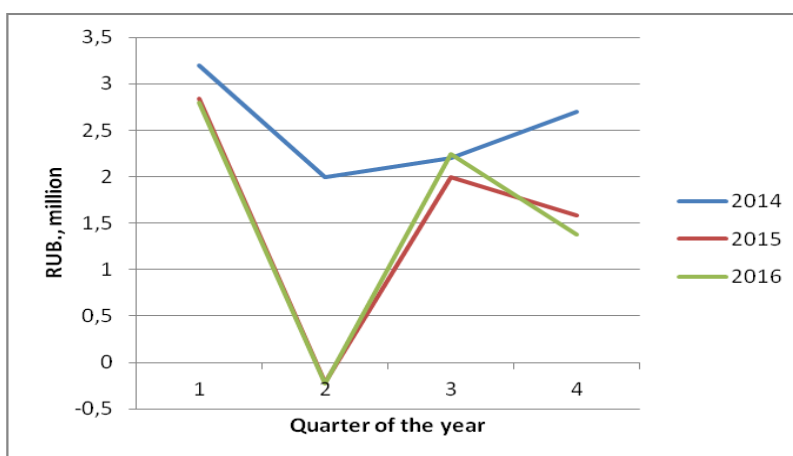


Figure 13. Fluctuations of sales profit in 2014 – 2015 quarterly.

The sales profit in the first quarter of 2015 and 2016 were the same (2.84 million rubles) but lower than at the beginning of the 2014 (3.16 million rubles). After high indicators of sales profit at the beginning of those years, the decrease started. In the second quarter of 2015 and 2016, sales profit decreased sharply: -0.22 and -0.23 million rubles respectively. In the same period of 2014 sales profit decreased but not so much (2 million rubles). Sales profit in third quarter of 2015 and 2016 dramatically increased 2 and 2.2 million rubles respectively. The sales profit at the end of 2015 and 2016 dipped briefly but at the end of 2014 it increased. (App. 1-8.)

The same situation is observed in net profit. The indicators of net profit decreased from 6 million rubles in 2014 to 4.5 million rubles in 2016.

2014	2015	2016
6.0	3.7	4.5

Table 11. Comparison of net profit in 2014 – 2016 totally, in million rubles.

Net profit decreased considerably in 2015 in comparison with net profit in 2014 and it started to increase in 2016 but there was less than indicators in 2014. (App. 4, 8.)

Fluctuations of net profit during the year are shown in the graph below.

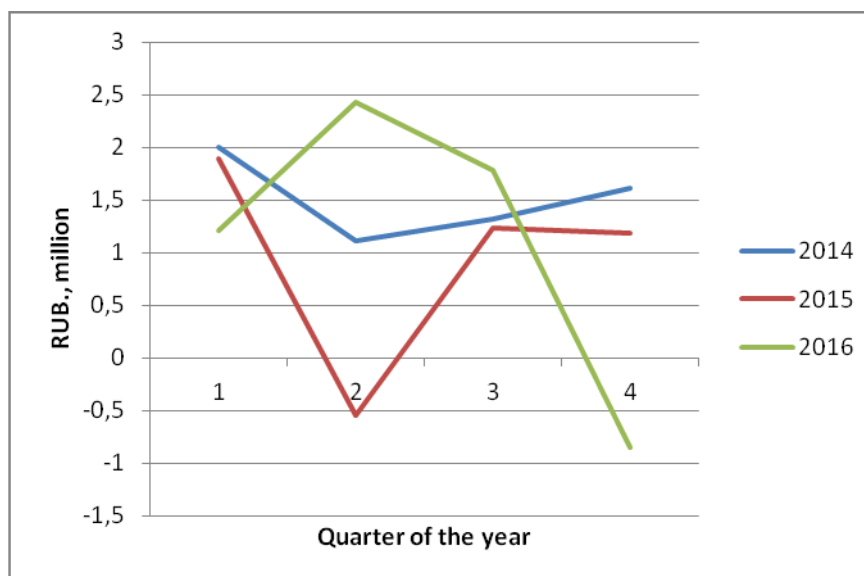


Figure 14. Fluctuations of net profit during the three years quarterly.

In spite of the company had a net profit, there were very significant fluctuations and differences in numbers of net profit. Net profit in 2015 was lowest of the three years with drastic decline in the second quarter of the year. On the contrary, the rates of net profit were high during the

third quarters of the year and decreased sharply at the end of the year. The rates of net profit fluctuated within from 1.2 to -0,85 million rubles in 2016. (App. 1-8.)

Operating profit in these periods fluctuated as well as other indicators such as sales profit and net profit.

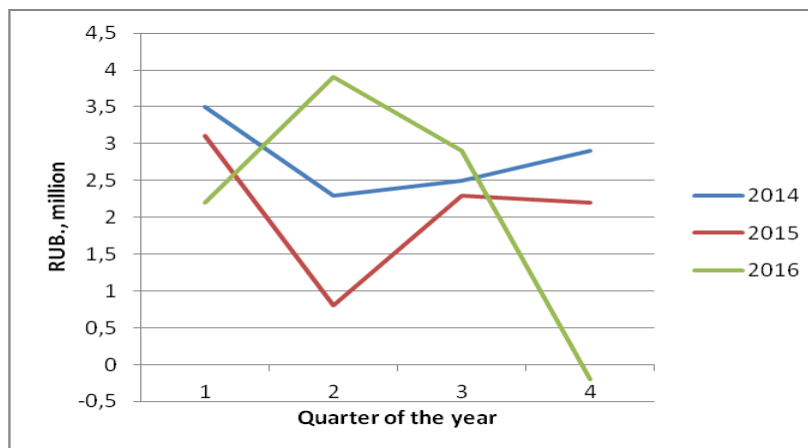


Figure 15. Operating profit in 2014, 2015 and 2016 quarterly.

The operating profit decreased in the second quarter of 2014 and 2015 years and increased at the same period in 2016. The precipitous decline in operating profit noted in the fourth quarter of 2016 despite the high rates in previous quarters. The highest rates of operating profit were in 2014 with slight decrease in the second quarter of the 2014 and gradual increase in the third and fourth quarters of the year. (App. 9.)

The next key financial indicator is expenses. Traditionally, the amount of expenses was high and especially managing expenses.

Expenses	2014 year	2015 year	2016 year
Commercial	54	37	8
Managing	6 972	7 772	8 141
Other	650	512	641
Total	7 676	8 321	8 790

Table 12. Expenses in 2014, 2015 and 2016 totally in thousand rubles.

Total rates of expenses increased from 7.6 million rubles in 2014 to 8.7 million rubles in 2016. The highest rates of expenses are in managing expenses. This type of expenses increased steadily from 6.9 million rubles in 2014 to 8.1 million rubles in 2016. Managing expenses fluctuated during the years as shown below.

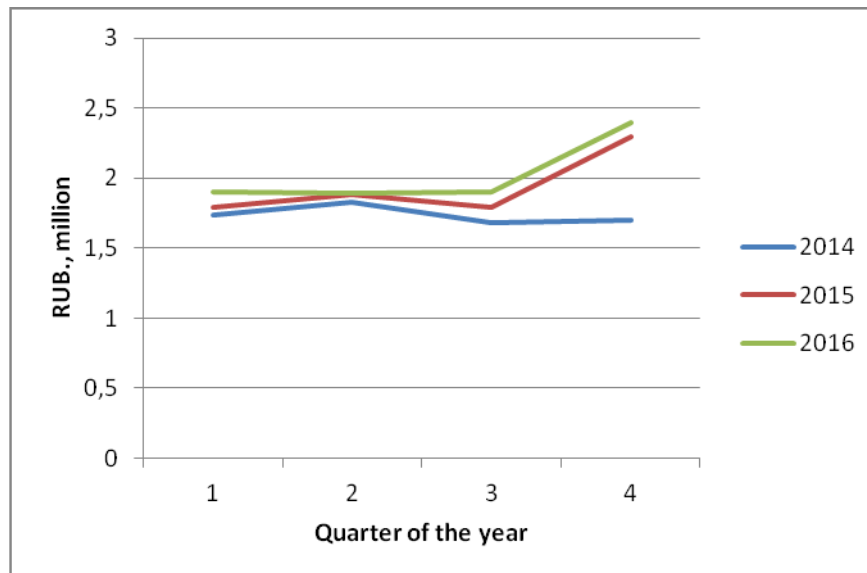


Figure 16. Managing expenses in 2014, 2015, 2016 quarterly.

Managing expenses fluctuated within 1.9 million rubles and 2.4 million rubles in 2016. These indicators were the highest as compared with rates of managing expenses in 2014 and 2015. The managing expenses increased sharply in the fourth quarter of the 2015 and 2016 and amounted 2.3 million rubles and 2.4 million rubles respectively. (App. 4, 8.)

Revenue includes income that the company has from its normal business activities, particularly from the sale of services to customers and rent real property to tenants. The low levels of revenue in 2015 can be explained by the following causes:

- Rate of exchange was changed dramatically in December of 2014 and remained constantly high during the 2015
- The expenses of the company increased dramatically
- The management of the company decided to keep the rental rate at the level of 2014.

Nevertheless, in 2016 the decision was made by managers to increase the rental rate, prices for additional services (for example, for parking) and price of energy recourses for tenants. It enabled to increase the amount of revenue totally.

In spite of revenue increased, the expenses rose predictably all three years. The indicators of sales profit have been showing further decline. The company had some credit liabilities. All of these factors influence on net profit and operational profit as well.

6.3 Interview analysis

This interview was conducted at 17/04/2017 with Ogorodnikov A. who is the head of the JSC “Restel”. He started to work as a general director in October of 2016 because previous CEO was dismissed by the owner of the company.

The main goals of the interview with the head of the company were to explore internal conditions of the company and find out more about strategy of the company. The data about weaknesses and strengths of the company were listed by the general director during the interview used for SWOT analysis.

The director of the company was asked the following questions:

- 1 Did the economic crisis influence on the development of the company?
- 2 What are the weakness and strengthen of the company?
- 3 What do you think about the strategy of the company?
- 4 Do you intend to take any measures in the future?

According to the opinion of the head of the company, the JSC “Restel” is under the negative impact of economic crisis and political situation. Among economical negative factors were named changeable rate of exchange, low payable capacity of tenants, high energy rates.

It must be noted that the company has not been having any clear strategy. The previous director of the company was characterized by hard style of leadership and he was against any changes in strategy of the company. There were not any changes in the company until October of 2016. After the new director of the company started working, it was made a lot of steps to improve situation and increase the profitability of the company. The steps included activities in the following directions:

- Leadership style
- Advertising campaign
- Upgrading the website of the company and creating the brand mark of the company
- Creative approach to use spaces.

In spite of any creative steps, it is necessary to have a clear strategy for successive development of the company.

7 CONCLUSION

This chapter consists of two parts and includes key findings and recommendations according to the research questions. The key findings of this thesis are represented in this chapter, reflect the common conclusions of theoretical studies and reveal difficulties in the situation of the company after economic crisis compared with the period before crisis. The third research question was the most important for further development of the case company. So, recommendations include the necessary actions for the case company to be more effective.

7.1 Key findings

The economic crisis has influenced on the activity of the case company, its profitability and competitiveness. Current situation of the case company is complicated by the lack of analysis financial indicators and comparison key financial rates in different periods. Meanwhile, the financial indicators enabled to reveal the current problems with profit, sales and expenses and differences with these financial rates before crisis.

The declined financial results of 2015 shows that economic crisis influenced on the company. The sales and revenue from sales were affected by economic crisis most of all. As a consequence, the profit suffered as well. JSC "Restel" is a small company and based on its example, it can be confirmed that SMEs affected by economic crisis mostly.

At the same time, it is necessary to note that the financial results of the company were better in 2016 compared with the financial results in 2015. It enables to make a conclusion that the company adapted to the conditions of economic crisis rather quickly.

It is undeniable that the strategy of the development is essential for further development. The negative impacts of economic crisis could be reversed if the management of the company take measures to solve problems. The management strategy should be changed and taken into account all conditions: external and internal. When the management of the company started to make steps for changing strategy, the results of the company began to improve.

According to example of the strategy of the case company, it can be also confirmed that the strategy of SME is main tool to overcome negative influences of the economic crisis. And the management strategy should be changed in accordance with the changed environment and market conditions.

7.2 Recommendations

According to Alimova (2014), Ostrobrod, the owner and president of the SELA, defined the following tools as the most effective in conditions of economic crisis:

- ✓ Promotion of sales
- ✓ Employees motivation system
- ✓ Creating a unique, unforgettable style

(Alimova 2014, 68.)

To overcome negative impacts of economic crisis, it can be recommended to the case company the following actions:

- Conduct a set of activities for optimisation expenses of the company
- Create and implement the strategy of discounts and promotions in the business center to avoid the decrease of quantity of tenants and the increase of free premises
- Continue the active advertising campaign.

Meanwhile, during the process of cost cutting it is essential to analyse all expenses and define necessary and unnecessary expenses. After that, the company should remove all unnecessary costs and invest in the promotion of the necessary expenses. The costs for advertising campaign cannot be reduced. The advertising campaign should be continued through online and offline.

Permanent monitoring of receivables and payables is one of the key points to optimize performance of the company and improve profitability.

The next important step is to analyse profitable actions of the company and their promotions. It is very useful to focus on strengthening of their promotion.

The team of the company have a value. So, it is important to focus on motivation programs and studying programs for employees. Weekly meeting is a good opportunity to motivate employees, increase their results and, eventually, make the company more profitable.

The most important recommendation is to create the clear strategy of further development and include all the above advices in the strategy.

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Appendix 1

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – MARCH 2015

The report of financial results
for January — March 2015

		OKUD Form	0710002		
		Date (day, month, year)	31	3	2015
Company	Joint Stock Company "Restel"	OKPO code	94657982		
Taxpayer's identification number		INN	7806339507		
Field of activity	income form propositions for rent own real property	OKVED code	70.20.2		
Legal form/ form of ownership	JSC / Private	OKOPF/OKFS code	67	16	
Unit of measurement	thousands rubles	OKEI code	384		

Explanations	Name of indicators	code	for January-March 2015	for January-March 2014
	Revenue	2110	17 327	17 820
	Costs of goods, work, services sold	2120	-12 675	-12 888
	Gross profit	2100	4 652	4 932
	Commercial expenses	2210	-14	-22
	Managing expenses	2220	-1 792	-1 749
	Sales profit (loss)	2200	2 846	3 161
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	75	-
	Percent for paying	2330	-428	-497
	Other income	2340	-	-
	Other expenses	2350	-122	-138
	Profit before taxes	2300	2 371	2 526
	Current income tax	2410	-478	-512
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	1 893	2 014

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – JUNE 2015

The report of financial results
for January — June 2015

Company <u>Joint Stock Company "Restel"</u>		OKUD Form	Codes	
Taxpayer's identification number		Date (day, month, year)	30	6 2015
Field of activity <u>income from propositions for rent own real property</u>		OKPO code	94657982	
Legal form/ form of ownership <u>JSC / Private</u>		INN	7806339507	
Unit of measurement thousands rubles		OKVED code	70.20.2	
		OKOPF/OKFS code	67	16
		OKEI code	384	

Explanations	Name of indicators	code	for January-June 2015	for January-June 2014
	Revenue	2110	33 314	35 691
	Costs of goods, work, services sold	2120	-26 999	-26 890
	Gross profit	2100	6 315	8 801
	Commercial expenses	2210	-24	-42
	Managing expenses	2220	-3 674	-3 582
	Sales profit (loss)	2200	2 617	5 177
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	154	-
	Percent for paying	2330	-860	-968
	Other income	2340	-	-
	Other expenses	2350	-243	-291
	Profit before taxes	2300	1 668	3 918
	Current income tax	2410	-322	-794
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	1 346	3 124

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – SEPTEMBER 2015

The report of financial results
for January — September 2015

Company <u>Joint Stock Company "Restel"</u>		OKUD Form	Codes	
Taxpayer's identification number		Date (day, month, year)	30	9 2015
Field of activity <u>income from propositions for rent own real property</u>		OKPO code	94657982	
Legal form/ form of ownership <u>JSC / Private</u>		INN	7806339507	
Unit of measurement thousands rubles		OKVED code	70.20.2	
		OKOPF/OKFS code	67	16
		OKEI code	384	

Explanations	Name of indicators	code	for January- September 2015	for January- September 2014
	Revenue	2110	50 041	53 386
	Costs of goods, work, services sold	2120	-39 878	-40 673
	Gross profit	2100	10 163	12 713
	Commercial expenses	2210	-29	-45
	Managing expenses	2220	-5 470	-5 267
	Sales profit (loss)	2200	4 664	7 401
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	243	-
	Percent for paying	2330	-1 297	-1 405
	Other income	2340	-	-
	Other expenses	2350	-360	-426
	Profit before taxes	2300	3 250	5 570
	Current income tax	2410	-660	-1 126
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	2 590	4 444

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – DECEMBER 2015

The report of financial results
for January - December 2015

Company <u>Joint Stock Company "Restel"</u>		OKUD Form	Codes	
Taxpayer's identification number		Date (day, month, year)	0710002	
Field of activity <u>income from propositions for rent own real property</u>		OKPO code	31	12 2015
Legal form/ form of ownership <u>JSC / Private</u>		INN	94657982	
Unit of measurement <u>thousands rubles</u>		OKVED code	7806339507	
		OKOPF/OKFS code	70.20.2	
		OKEI code	67	16
			384	

Explanations	Name od indicators	code	for January- December 2015	for January- December 2014
	Revenue	2110	67 043	71 576
	Costs of goods, work, services sold	2120	(52 989)	(54 394)
	Gross profit	2100	14 054	17 182
	Commercial expenses	2210	(37)	(54)
	Managing expenses	2220	(7 772)	(6 972)
	Sales profit (loss)	2200	6 245	10 156
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	366	38
	Percent for paying	2330	(1 735)	(1 842)
	Other income	2340	361	-
	Other expenses	2350	(512)	(650)
	Profit before taxes	2300	4 725	7 702
	Current income tax	2410	(945)	(1 641)
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	3 780	6 061

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – MARCH 2016

The report of financial results
for January — March 2016

		OKUD Form	Codes	
		Date (day, month, year)	31	3 2016
Company	Joint Stock Company "Restel"	OKPO code	94657982	
Taxpayer's identification number		INN	7806339507	
Field of activity	income from propositions for rent own real property	OKVED code	70.20.2	
Legal form/ form of ownership	JSC / Private	OKOPF/OKFS code	67	16
Unit of measurement	thousands rubles	OKEI code	384	

Explanations	Name od indicators	code	for January-March 2016	for January-March 2015
	Revenue	2110	17 448	17 327
	Costs of goods, work, services sold	2120	-14 141	-12 675
	Gross profit	2100	3 307	4 652
	Commercial espenses	2210	-6	-14
	Managing expenses	2220	-1 914	-1 792
	Sales profit (loss)	2200	1 387	2 846
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	164	75
	Percent for paying	2330	-431	-428
	Other income	2340	531	-
	Other expenses	2350	-126	-122
	Profit before taxes	2300	1 525	2 371
	Current income tax	2410	-312	-478
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	1 213	1 893

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – JUNE 2016

The report of financial results
for January — June 2016

		Codes	
		0710002	
Company	<u>Joint Stock Company "Restel"</u>	OKUD Form	30 6 2016
Taxpayer's identification number		Date (day, month, year)	
		OKPO code	94657982
		INN	7806339507
Field of activity	<u>income from propositions for rent own real property</u>	OKVED code	70.20.2
Legal form/ form of ownership	<u>JSC / Private</u>	OKOPF/OKFS code	67 16
Unit of measurement	thousands rubles	OKEI code	384

Explanations	Name od indicators	code	for January-June 2016	for January-June 2015
	Revenue	2110	35 768	33 314
	Costs of goods, work, services sold	2120	-27 208	-27 003
	Gross profit	2100	8 560	6 311
	Commercial expenses	2210	-7	-24
	Managing expenses	2220	-3 807	-3 674
	Sales profit (loss)	2200	4 746	2 613
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	367	154
	Percent for paying	2330	-958	-861
	Other income	2340	738	-
	Other expenses	2350	-316	-243
	Profit before taxes	2300	4 577	1 663
	Current income tax	2410	-931	-321
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	3 646	1 342

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – SEPTEMBER 2016

The report of financial results
for January — September 2016

		OKUD Form	Codes	
		Date (day, month, year)	30	9 2016
Company	<u>Joint Stock Company "Restel"</u>	OKPO code	94657982	
Taxpayer's identification number		INN	7806339507	
Field of activity	<u>income from propositions for rent own real property</u>	OKVED code	70.20.2	
Legal form/ form of ownership	<u>JSC / Private</u>	OKOPF/OKFS code	67	16
Unit of measurement	thousands rubles	OKEI code	384	

Explanations	Name od indicators	code	for January- September 2016	for January- September 2015
	Revenue	2110	54 571	50 041
	Costs of goods, work, services sold	2120	-41 477	-39 680
	Gross profit	2100	13 094	10 361
	Commercial expenses	2210	-7	-29
	Managing expenses	2220	-5 738	-5 470
	Sales profit (loss)	2200	7 349	4 862
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	575	243
	Percent for paying	2330	-1 440	-1 298
	Other income	2340	758	-
	Other expenses	2350	-437	-360
	Profit before taxes	2300	6 805	3 447
	Current income tax	2410	-1 374	-675
	including permanent tax liabilities	2421	-	-
	the change of deferred tax liabilities	2430	-	-
	the change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	5 431	2 772

THE REPORT OF FINANCIAL RESULTS FOR JANUARY – DECEMBER 2016

The report of financial results
for January - December 2016

		OKUD Form	Codes		
		Date (day, month, year)	0710002		
Company	Joint Stock Company "Restel"		31	12	2016
Taxpayer's identification number		OKPO code	94657982		
		INN	7806339507		
Field of activity	income from propositions for rent own real property	OKVED code	70.20.2		
Legal form/ form of ownership	JSC / Private	OKOPF/OKFS code	67	16	
Unit of measurement	thousands rubles	OKEI code	384		

Explanations	Name of indicators	code	for January- December 2016	for January- December 2015
	Revenue	2110	74 298	67 043
	Costs of goods, work, services sold	2120	-59 833	-52 989
	Gross profit	2100	14 465	14 054
	Commercial expenses	2210	-8	-37
	Managing expenses	2220	-8 141	-7 772
	Sales profit (loss)	2200	6 316	6 245
	Profit from ownership in other enterprises	2310	-	-
	Percent for receiving	2320	789	366
	Percent for paying	2330	-1 923	-1 736
	Other income	2340	1 217	361
	Other expenses	2350	-641	-512
	Profit before taxes	2300	5 758	4 724
	Current income tax	2410	-1 185	-945
	including permanent tax liabilities	2421	-	-
	The change of deferred tax liabilities	2430	-	-
	The change of deferred tax assets	2450	-	-
	Others	2460	-	-
	Net profit (loss)	2400	4 573	3 779

CALCULATION THE OPERATING PROFIT FOR 2014, 2015, 2016

CALCULATION THE OPERATING PROFIT FOR 2014, 2015, 2016

The operating profit was calculated by the formula below:

OP= GR – CE – ME – OE + OR + PC

GR – gross profit

CE – commercial expenses

ME - managing expenses

OE – other expenses

OR – other revenue

PC – percent for paying

1 Operating profit for 2014, in thousand rubles

	First quarter	Second quarter	Third quarter	Fourth quarter
GR	4932	3869	3912	4469
CE	22	20	3	9
ME	1749	1833	1685	1705
OE	138	153	135	224
OR	-	-	-	-
PC	497	471	437	437
OP	3520	2334	2526	2968
Total	11348			

2 Operating profit for 2015, in thousand rubles

	First quarter	Second quarter	Third quarter	Fourth quarter
GR	4652	1663	3848	3891
CE	14	10	5	8
ME	1792	1882	1796	2302
OE	122	121	117	152
OR	-	-	-	361
PC	428	432	437	438
OP	3152	82	2367	2228
Total	7829			

3 Operating profit for 2016, in thousand rubles

	First quarter	Second quarter	Third quarter	Fourth quarter
GR	3307	5253	4534	1371
CE	6	1	-	1
ME	1914	1893	1931	2403
OE	126	190	121	204
OR	531	207	20	459
PC	431	527	482	204
OP	2223	3903	2984	-295
Total	8815			

EXTRACTS OF ANNUAL REPORT FOR 2014

ANNUAL REPORT**JSC «RETEL»
FOR 2014
(EXTRACTS)****MAIN INDICATORS
OF ACTIVITIES AND THE GOALS OF DEVELOPMENT OF THE COMPANY****1. Figures for analysis****Income data (losses):**

Name	Amount
Revenue for 2014 (without taxes) in thousand rubles	71 576
Net profit in thousand rubles	6 061
Accumulated profit by 31.12.2014 in thousand rubles	10 856
Net assets value, thousand rubles	20 247

2. The main challenges for the company

It can be defined the following challenges of the company in 2014:

1. Sharp increase of energy resources, the unpredictable growth of the rate of energy resources.
2. The loss and/or damage of real property as a result of its using of tenants.

3. The aims for future development

The company intends to make a set of activities for renovation premises and utility sector. It enables to increase rental rate in the next year and, eventually, increase revenue.

2. INFORMATION ABOUT PAYMENT OF DIVIDENDS

In the 2014 the dividends amounted 4 million rubles for 2013 and paid 3 million rubles.

3. DATA OF NUMBERS AND SOCIAL SECURITY OF EMPLOYEES

Name of indicators	Amount
Number of employees	27
The amount of money for salary fund (including taxes), in thousand rubles	5 399,1 (including taxes – 685,4)
The amount of money for social security, in thousand rubles	1 659,6

4. PAYABLES AND RECEIVABLES**1. Data on amount of accounts payable (in thousand rubles)**

The type of accounts payable	Payments deadline					
	up to 30 days	form 30 to 60 days	form 60 to 90 days	form 90 to 180 days	form 180 days to 1 year	more than 1 year
Payables total, including:	34 132	-	-	-	-	-
- contractors	1 080	-	-	-	-	-
- customers	-	-	-	-	-	-
- loan	25 625	-	-	-	-	-
- payment of taxes	1 303	-	-	-	-	-
- salary debts	158	-	-	-	-	-
- the period of salary debts.	-	-	-	-	-	-
- other creditors	1 000	-	-	-	-	-
- prepayment received	4 966	-	-	-	-	-

The company has debts amounting 25 625 thousand rubles (with interest rates).

The company has debts to a shareholder for payment of dividends in the amount of 1 million rubles.

EXTRACTS OF ANNUAL REPORT FOR 2015

ANNUAL REPORT

JSC «RETEL»
FOR 2015
(EXTRACTS)MAIN INDICATORS
OF ACTIVITIES AND THE GOALS OF DEVELOPMENT OF THE COMPANY

1. Figures for analysis

Income data (losses):

Name	Amount
Revenue for 2015 (without taxes) in thousand rubles	67 043
Net profit in thousand rubles	3 780
Accumulated profit by 31.12.2015 in thousand rubles	10 637
Net assets value, thousand rubles	20 027

2. The main challenges for the company

It can be defined the following challenges of the company in 2015:

1. Sharp increase of energy resources, the unpredictable growth of the rate of energy resources.
2. The loss and/or damage of real property as a result of its using of tenants.
3. As a result of economic crisis, the business activity of tenants decreases.

3. The aims for future development

The company intends to make a set of activities for renovation premises and utility sector. It enables to increase rental rate in the next year and, eventually, increase revenue.

2. INFORMATION ABOUT PAYMENT OF DIVIDENDS

In the 2015 the dividends amounted 4 million rubles for 2014 and paid 2 million rubles.

3. DATA OF NUMBERS AND SOCIAL SECURITY OF EMPLOYEES

Name of indicators	Amount
Number of employees	27
The amount of money for salary fund (including taxes), in thousand rubles	5 427,4 (including taxes – 691,3)
The amount of money for social security, in thousand rubles	1 595,7

4. PAYABLES AND RECEIVABLES

1. Data on amount of accounts payable (in thousand rubles)

The type of accounts payable	Payments deadline					
	up to 30 days	form 30 to 60 days	form 60 to 90 days	form 90 to 180 days	form 180 days to 1 year	more than 1 year
Payables total, including:	36 948	8	150	350	80	-
- contractors	869,6	-	-	-	-	-
- customers	-	-	-	-	-	-
- loan	27 359	-	-	-	-	-
- payment of taxes	1 474,4	-	-	-	-	-
- salary debts	165,4	-	-	-	-	-
- the period of salary debts .	-	-	-	-	-	-
- other creditors	2 000	-	-	-	-	-
- prepayment received	5 079,6	-	-	-	-	-

The company has debts amounting 27 359 thousand rubles (with interest rates).

The company has debts to a shareholder for payment of dividends in the amount of 2 million rubles.

EXTRACTS OF ANNUAL REPORT FOR 2016

**ANNUAL REPORT
JSC «RETEL»
FOR 2016
(EXTRACTS)**

**MAIN INDICATORS
OF ACTIVITIES AND THE GOALS OF DEVELOPMENT OF THE COMPANY**

1. Figures for analysis

Income data (losses):

Name	Amount
Revenue for 2016 (without taxes) in thousand rubles	74 298
Net profit, in thousand rubles	4 573
Accumulated profit by 31.12.2016 in thousand rubles	11 210
Net assets value, thousand rubles	20 600

2. The main challenges for the company

It can be defined the following challenges of the company in 2016:

1. Sharp increase of rate energy resources, the unpredictable growth of the rate of energy resources.
2. The loss and/or damage of real property as a result of its using of tenants.
3. As a result of economic crisis, the business activity of tenants decreases.

3. The aims for future development

1. The company intends to make a set of activities for renovation premises and utility sector. It enables to increase rental rate in the next year and, eventually, increase revenue.
2. Maintain the competitive rent rate.
3. Create the new strategy for further development.

2. INFORMATION ABOUT PAYMENT OF DIVIDENDS

In the 2016 the dividends amounted 4 million rubles for 2015 and paid 2,5 million rubles.

3. DATA OF NUMBERS AND SOCIAL SECURITY OF EMPLOYEES

Name of indicators	Amount
Number of employees	27
The amount of money for salary fund (including taxes), in thousand rubles	5 865,3 (including taxes –701)
The amount of money for social security, in thousand rubles	1 670

4. PAYABLES AND RECEIVABLES

1. Data on amount of accounts payable (in thousand rubles)

The type of accounts payable	Payments deadline					
	up to 30 days	form 30 to 60 days	form 60 to 90 days	form 90 to 180 days	form 180 days to 1 year	more than 1 year
Payables total, including:	12 095	272	288	100	1 979	27 417
- contractors	3 720,5	-	-	-	-	-
- customers	-	-	-	-	-	-
- loan	-	-	-	-	1 866	27 417
- payment of taxes	642,5	255	255	-	-	-
- salary debts	-	-	-	-	-	-
- the period of salary debts .	-	-	-	-	-	-
- other creditors	1 500	-	-	-	-	-
- prepayment received	6 232	-	-	-	-	-

The company has debts amounting 29 283 thousand rubles (with interest rates).

The company has debts to a shareholder for payment of dividends in the amount of 1,5 million rubles.

INTERVIEW OF THE CEO

INTERVIEW

Date: 17/04/2017

Interviewee: Ogorodnikov A. is the head of the JSC "Restel"

1. Did the economic crisis influence on the development of the company?

It is undeniable that economic crisis influence on the activity of the company and its profitability. You can notice that the sales profit of the company decreased considerably in 2015 and 2016 compared with 2014. As a result the net profit declined from 6 061 thousand rubles in 2014 to 3 780 thousand rubles in 2015 and 4 573 thousand rubles in 2016. The profit in 2015 was so low, that the company had to increase the rent prices, so the revenue in 2016 increased. But at the same time expenses went up and it impacted on the profitability of the company.

A lot of companies close their business due to they cannot overcome difficult situation. High prices, low solvency, fluctuation of rate exchange and unpredictable situation with our country impact on the development of any company and our company as well.

2. What are the weakness and strengthen of the company?

Regarding weaknesses of our company, it is necessary to define hard economic conditions, unpredictable political strategy of our government, huge quantity of competitors in the same market and decrease of number of companies – tenants. There are a lot of business centers in St. Petersburg from A class to C class. Our business center is in the middle of this gradation. It is B class.

But we try to make our business center unique. For example, we posted reproductions of the famous paintings on the walls in the hall and passageways of the business center. The logotype of the business center was created and posted on the wall in front of the entrance door and on the doors are in the floors. And I think it is our strengthen. Besides, our location is very good. The business center is situated not far away from the center of the St. Petersburg and metro station. The business center has a wide range of premises of different size - from 18 sq. m. to 100 sq. m. There is a possibility of individual planning of premises. The business center equipped with ventilation systems, fire fighting system with smoke removal, access control, video monitoring, offices security. The company tries to keep on the competitive rental rate of premises no more than 935 rub./sq. m. per month and rental rate of storages no more than 420 rub./sq. m. per month. The company has not only buildings for offices but for storages as well. And we have a privet ground area for open parking for 350 cars.

3. What do you think about the strategy of the company?

If we tell about times before me as director of the JSC "Restel", the company had not any strategy. The previous director considered that the company must focus on the level of the development before crisis. He was sure it was not a good time for any changes especially for advertising campaign. The wide advertising campaign could attract the attention of the administrative authorities to the company. So, strategy had not created.

When I started to work in this company, I decided to make some necessary steps. First of

INTERVIEW OF THE CEO

all, we made a good website of the company. It is more informative and useful for our renters and future clients and it looks better now. Secondly, we signed the agreement for creating advertising campaign to attract more clients. Thirdly, we started to use our free spaces for additional services. Thus, we open art gallery on the fifth floor. And many exhibitions were conducted there. Also, we used couple premises for meeting or other events.

4. Do you intend to take any measures in the future?

I'd like to have a created strategy for the company with clear consecutive steps for its implementation instead making a variety steps. To reach this, I am going to sign an agreement with special company to create strategy.