INSTITUTIONAL ENVIRONMENT FOR DEVELOPING INTELLECTUAL SERVICES IN RUSSIAN ECONOMY

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Abstract: The paper analyses the modern structure of intellectual services, basic institutional conditions and restrictions for their development in Russia. Possibilities for further expanding the market of intellectual services are discussed through examples of companies that render such services using IT-technologies. Factors and conditions for intensifying the institutional environment for intellectual services in Russian regions are defined.

KEYWORDS: intellectual services, innovations, institutional environment IT-companies, consulting services, regional service complex.

DEVELOPING INTELLECTUAL SERVICES IN THE INSTITUTIONAL ENVIRONMENT SHAPED IN RUSSIA

With expanding the scope of Internet usage, upward trends for developing intellectual services have an increasingly stronger impact upon making managerial decisions at all levels: state, regional, or municipal. To a considerable extent they also predetermine decisions in management, marketing, information services, personnel training. New opportunities emerge for attracting investments, introducing innovations, disseminating information about new management models, conducting marketing studies, establishing strategic alliances, etc.

At the same time, a need for favourable institutional environment to develop such kind of services, providing them through electronic means, becomes stronger.

The sphere of intellectual services is one of the most prospective “fields” of a service complex in the world as well as in Russian economy. According to many analysts, development of such services for economic entities that constitute the quaternary sector of the modern economy is one of the conditions for a transition from strictly raw materials orientation of Russia to an innovative model of its development, a dramatic transformation of the quality of the national business climate. [13, p. 9]

On the one hand, intellectual services are recognized as a generator of innovations, on the other – as their reflection since they are “created” and provided to consumers by highly skilled professionals, and are formed in the areas in market demand.

In Russia intellectual services are referred to: consulting (all areas), marketing and advertising services, design, personnel selection and management, IT-support, engineering, audit, financial intermediation and legal services, property management, appraisals. Overall it conforms to the classification adopted in the Western Europe and North America. In those countries, however, education and health care also are included in intellectual services.

Intellectual services are very knowledge-intensive; moreover, market participants that supply
such services need much diversified knowledge. Frequently, providers of intellectual services must keep abreast of management, business administration, IT-technologies, and at the same time be able to carry out integrated legal, assessment, PR and other types of activities practically simultaneously. In Figure 1 shows the structure of the main types of intellectual services by proportion of standardized or customized services: consulting, audit, IT, financial intermediation, legal, real estate, engineering, advertising, personnel recruitment, marketing, design.

Figure 1 The main types of intellectual services in Russia with a ratio of standardized / highly customized and customized services [8, p. 36]. The findings of the surveys, conducted by specialists of Higher School of Economics and “Romir” Research Holding in 2010 (Fig. 1), carry some important inferences.

1. Intellectual market generates considerably less standardized services and goods than any other market. Although standardized services (including customized services based on a “standardized platform”) on average account for around 50% of the total services, they gain only 30% of revenue for companies. Besides, one of the signs of classifying a service as “intellectual” is its exclusivity, low replicability.

2. It is due to this particular quality of intellectual services - their uniqueness, maximum possible orientation towards customer needs and values – that such services enable transition from marketing 2.0 (established in the “information age”) to marketing 3.0. It means that three forces create the “business landscape” of a new generation of marketing: first, production technologies; second, the information field; third, consumer values, their spirituality, and drive for cooperation. [5, pp.19-21]

Intellectual services can perform such a mission because consumers want customized services, in the form most suitable especially for them. According to Fig.1, 40% of the rendered services are customized, and up to 30% are standard services with a high degree of individualization. Cases when two different customers receive the same service without a sound adaptation to the individual needs of a particular physical person or a company (legal
entity) are quite rare. Even services with a medium level of individualization (based on the standard services) are on average 31% more expensive. Therefore, a concept of common market price cannot exist on the intellectual market. It is not possible to specify the price precisely even in a single contract between a producer and a consumer since it is predetermined by a considerable number of factors.

Electronic business has a special place in intellectual services. It is exercised as buying-and-selling goods and services on the Internet, penetrating all spheres of business activity – from procurement on B2B market to purchasing consumer goods. It became possible due to non-cash electronic payments for goods and services and global networks for operations across the world. The scope of electronic commerce reached $US 680.6 billion in 2011. It is estimated that e-commerce will be increasing and by 2015 shall hit $US 1.5 trillions. [6, p.113]

The described specifics of intellectual services requires special institutional environment. It involves at least three aspects.

First, establishing a reliable system for protecting intellectual services as special products generated by a “collective brain” (frequently – individual brains), accumulating various scientific, technical and everyday knowledge of staff members rendering such services as well as their intellectual property, the gained experience, information, positive image, etc. As justly pointed by E. Miller, the problem of ensuring such protection is that the legal norms and mechanisms of intellectual property protection are being developed in full uncertainty of subject-object relations, while the legal norms of the Civil Code seem to be alleviating measures. As a result, such property rights regimes as the patent law and copyrights proved to be viable in developed countries but tend to be deformed under the conditions of Russian economy. [10, p. 108]

It undoubtedly hampers creating an adequate legal field adapted for a system of intellectual services. The importance of resolving the issue is obvious.

Second, Russia must have a flexible system of sale of integrated intellectual services, particular, the customized ones that ensure not only “transparent conditions” for rendering them but also possibility to set prices in line with the market principles. According to I. Berezin and A. Milekhin, a notorious federal law on public procurement, FZ-94, put the skids under development of intellectual market. When it concerns a relatively simple, standardized service, a contract price as the single selection criterion probably can be justified; however, price minimization as the criterion for integrated, knowledge-intensive intellectual services is absurd. [2, p. 36]

FZ-94 caused a considerable decrease of contract prices for intellectual services in Russia, as well as market shrinking and limited offers. The Presidential Address to the Federal Assembly in December 2011 emphasized the importance of changing the conditions of public procurement in Russia. It means that a speedy solution of the problem is of a pressing importance.

The major step would be adopting a new federal law (to replace FZ-94) providing for establishing an integrated federal contract system. The new procedures of state and municipal procurement must support high quality of government order execution, transparency of the process, and prevent multi-billion corruption schemes [10, p. 4].

Third, the government must support Russian companies rendering intellectual services.

At the stage of establishing, any new market, especially a knowledge-intensive one, requires some “financial cushion”, on the basis of which its development fund is formed. Reduced prices in the past 1.5-2 years (as a consequence of FZ-94) undermined considerably the quality of intellectual services and simplify them as such services are being offered to customers by staff without proper qualification. The criticality of the situation is that in the
period of economic crisis the state stopped shaping effective demand for intellectual services, which happened at the exact moment when the sector of such services was very much in need of state support. The state showed to other potential customers: when procuring intellectual services you must be ultimately guided by prices which should not be high”. Private customers got the message and also started using tenders and electronic tenders, where the lowest price became the key winning criterion. Such practice became especially wide-spread in the period of crisis - 2008-2009 and still continues. The sphere of intellectual services lost its financial capacity – funds for development. Unfortunately, out-of-the-box nature and uniqueness of intellectual services became an additional factor of a high level of corruption in tenders and popular tax evasion schemes typical for this market. Thus, the institutional environment formed in 2009-2014 in Russia and economic realities of 2008-2009 economic crisis certainly do not encourage development of the market of intellectual services. Moreover, a wave of building up the scope of intellectual services market was stanched, and market shrinking became apparent. Leading experts of “Romir” Research Holding, I. Berezin and A. Milekhin, who monitor this market, concluded that the falling demand for intellectual services predetermined their considerable curtailment. For instance, in 2009 services in certain fields (architectural design, personnel recruitment, etc.) decreased to 75-80% of their peak values in the second part of 2007. Overall, in 2009 the sector of intellectual services lost 30 - 40% of pre-crisis level, while GDP in Russia fell by 8%, industrial production - by 12%, and investments – by 18%. The share of intellectual services sector in GDP reduced from 3 to 2% - by 1.5 times [2, p. 35]. According to the available estimates, the nominal growth of the intellectual services sector in 2010 was around 10-15% (in Rubles) to 2009. At the same time, the nominal GDP increased by 13% in Rubles and by 17% in dollars (in comparison with 2009). In the first six months of 2011 an accelerated growth rate on the markets of intellectual services was not observed. [2, p. 36]. Another serious issue is that particular segments of the intellectual market are already under control by large international players, predominantly with American roots. For instance, six out of the seven leading marketing research agencies are foreign firms that control around 70% of the market. A considerable share of the advertising market is served by western advertising companies; the audit market is controlled by four leading western companies. Other segments can fall under foreign control within the next 3-5 years. In particular, it may concern the architectural sector, if a decision is made to apply foreign architectural projects in construction practice in Russia without adaptation and coordinated approvals. It should be noted that it does not seem realistic to obtain reliable information about the market position of Russian companies across the full range of the rendered intellectual services. Therefore, for the research purposes the authors used official data on operations of the largest, most significant IT companies (rendering IT-services) from the ranking of 400 largest companies of the Russian Federation in 2010 and 2011. Having analyzed the data, we arrived to the following conclusions: Russian IT-companies are not considerably large: in 2010 eight such entities, recognized as the leading IT-service companies, took the positions from 105 to 390 in 400 largest Russian market players (from different sectors of the economy). The largest national computer corporation (NCC) was on the 105th position in 2010 and on the 80th – in 2011. In the US, and even more in Japan and South Korea the largest IT- companies are among the top ten. The analyzed companies are characterized by positive trends. In 2011 the situation even improved slightly, most companies pushed their ranking up (by 5 - 25 points) except “I-Teco” and R-Style Group, whose ranking went down a little bit. These and other IT firms, however,
had a high turnover growth rate in comparison with 2009: 5 - 68%.
The trends seem encouraging because the efforts of IT-companies can make a serious impact
upon the scope of innovations and attracting investments to the knowledge-intensive sectors
in Russia, modernization of the entire economy. These companies, however, do not focus only
on intellectual services and are also involved in large-scale buying-and-selling of electronics
and software products, their development and market promotion, etc.
The situation with the firms operating only in the field of intellectual services is different. A
significant part of them is simply pushed away from Russian market by foreign companies
(most frequently, their subsidiaries), which predetermined bankruptcy or reconfiguration of
early active companies.
As a result, rebranding, advertising campaigns for our largest corporations are typically
organized by foreign companies. It is often happen even in the sectors that are covered by the
law on official secrets. Formalizing the priority of the data from Russian rather than foreign
ranking agencies to be used and accounted for in tenders has been discussed for a long time to
no avail. It is obvious that uncontrollably transferring the market of intellectual services to
foreign companies is not only short-sighted but simply insecure for Russian economy.
Also, foreign players at best are not interested in quality market development, putting an
emphasis on standardized network services while customized services often remain
unsolicited.
Thus, the market of intellectual services in Russia is one of the most prospective and
important. It includes a lot of innovative, financial, designer and other services which matches
global trends and confirms an accelerated expansion of investment, technical-and-
technological, information spheres. The service sector of Russian economy is the most
knowledge-intensive, that generates and simultaneously is an active consumer of innovations
in many areas. In spite of relatively high growth rates in some blocks (for instance, IT-
services), overall market of intellectual services in Russia is in stagnation. To a considerable
extent it is predetermined by the institutional environment which clearly does not facilitate
operations of domestic companies.
Departmental and regional segments of the market have obvious specifics. The geographic
specifics of developing intellectual services is clearly observed, for instance, in the regions of
the South Russia.

ESTABLISHING THE MARKET OF INTELLECTUAL SERVICES IN THE
REGIONS, INSTITUTIONAL CONSTRAINTS FOR ITS DEVELOPMENT (THE
CASE OF THE SOUTH RUSSIA)

Under the modern conditions, regions in the South Russia follow the overall vector of
developing Russian economy, particularly, achieving the objectives of overcoming raw
materials orientation, decreasing sensitivity to the volatile state of the markets of raw
materials (although the share of raw materials sectors is not large). They associate their future
with accelerated development of wholesale and retail trade, creating adequate diverse
infrastructure of logistics networks, with traditional focus on intensifying performance of
agro-industrial, food products, textile and chemical clusters. Production of construction
materials and building up modern infrastructure modules and corridors, various junctions,
major highways, etc. are also of importance. To a considerable extent the latter is
predetermined by building up module tourist and transport clusters, mass construction of the
Olympic facilities in the Krasnodar region, developing related industries across the South
Russia and beyond. [9, pp.10-12].
Nearly all of the above-mentioned geographical-sectoral complexes are real or potential consumers of intellectual services. It is absolutely necessary in order to increase competences of companies in the key industries, attract direct investments – Russian and foreign, as well as for the best use of the richest natural resources (first of all, soil and climatic), developing SME, etc.

The market of intellectual service in South Russia suffers from the same above-listed “sore spots” that hamper its development on the national scale. They are coupled with the “local” problems caused by a periphery position (in relation to the Centre) as well as pretty specific “South Russian” conditions and traditions, economic characteristics.

It would be correct to include in the first group insufficiently enabling institutional conditions; a less robust grant support for the companies rendering intellectual services than, for instance, in Moscow, St Petersburg and other cities in the “Centre”; no adequate forms of regulating their activities in regional laws and by-laws. There are also weak mechanisms of attracting investments to the projects on developing targeted innovative service centres, an evident lack of qualified personnel that have the necessary competences and experience of rendering intellectual services.

The “problem zones” formed in the economy of the South Russia include: an insufficient demand for such services (so far) due to a relatively high share of country-side population (43.2% in contrast to 26.9% in Russia), whose mentality and traditions are dominated by the rural way of life. A considerable number of goods producers (especially in the Republics of the North Caucasus) are oriented towards agrarian market, production of agricultural products, or such products as knitted cloths, home-made footwear, cheese, jerky meet and other items typical for an ethnic economy – a primary sector of the economy characterized by a low demand for intellectual services.

Relatively low positions of the majority of Southern Russian regions in the national ranking should be seen in a similar vein as predetermined by poor social-and-economic development. For instance, 6 out of 7 regions of the North Caucasian Federal District are on the 70th and lower positions (among 83 subjects of the Russian Federation) by the unemployment level. Gross regional product per capita – at the 71st and lower positions. A similar situation is with such indices as the “volume of goods, works and services in the processing sectors”, “per capita investments in fixed capital”, “the number of PC per 100 employees”, etc. [1, p. 34-35]

The volume of innovative goods and works in the regions is a rather accurate indicator of demand for intellectual services. It characterizes, albeit indirectly, the level of innovations in the regional economy, generating and transfer of innovations typically accompanied by intellectual services. In 2010 the share of innovative products in the total goods, works, and services in the South of Russia was close to the figures for Russia – 7.0%. However, data for the Southern Federal District and the North Caucasian Federal District differ significantly. In 2010, indicators for Ingushetia and North Ossetia – Alania were 0.1 – 1.8 %, while for the Stavropol region – 9.1%, the Republic of Karachaevo-Cherkessia – 12.0%, the Volgograd region – 13.5%, and Chechnya – 13.6%. Based on these data, one can conclude that the real level of innovations in the economy of the South of Russia remains low. Apart from Ingushetia and North Ossetia – Alania, the shares of innovative products, for example, in the Krasnodar and Rostov regions are 4.2 and 4.8 accordingly, that seem to be true-to-life and are obviously low. High indicators for the Stavropol region, Karachaevo-Cherkessia, the Volgograd region and Chechnya cast doubts whether reporting is correct.

Like in Russia in general, regions in the South lack reliable data regarding development of all (or most of) sectors on the market of intellectual services. A particular survey published in
‘Expert - Yug’ regional business journal has credibility (based on the criteria of reliability and professionalism).

The survey concerned consulting firms operating practically in all regions in the South of Russia in 2010. Importantly, it covers market players offering varied services: valuation, expert examination, training, transaction support for business purchase-and-sale, consulting in the field of marketing, PR, etc.

The main findings on the activities of the analyzed companies reveal the following emerging trends in this sector of the market of intellectual services in the South of Russia.

1. A half of the analyzed companies have been on the market for quite a while, since the 1990s (longer than 10 and even 15 years), which confirms that such services are in demand. During 2008 crisis a lot of customers refused to use services of outside consultants to minimize the costs and tried to solve by their own efforts the problems that earlier they had tried to outsource. At that period the demand for consulting went down, but such self-guided work formed some capacity (that is difficult to measure yet) for correcting errors made by customers themselves [7, p. 22].

2. Some consulting companies failed under an intensified competition and a sharp decline of revenues due to a narrowed “field” of servicing in 2009 caused by the economic crisis and either went bankrupt or changed the field of activities. Over 80% of market participants, however, continued their work in 2010 – 2011. Some firms managed to perform well in 2010. For instance, a Krasnodar company “Audit BEZ Granits” increased its revenue from consulting services by over than 50%, “Vash Sovetnik” Audit Consulting Group - by nearly 50%, “AUDIT BEREAU” from Taganrog - by 38%. The ranking leader, “A-KOSTA” Consulting Group earned nearly 67 million RUB which was 22.3% more than in 2009. Revenues of other companies, on the contrary, dropped at a comparable level; among all rated market players at least 9 became less profitable (their share is about 30% of the consolidated revenues). All companies that survived the crisis, however, have far-reaching plans and a long-term vision.

3. Geographically, consulting companies are located across all provinces, regions and Republics of the South Russia. The highest concentration and companies of a larger size are observed in the Krasnodar, Rostov and Volgograd regions, which can be a true evidence of a demand for intellectual services in a rapidly growing economies in those regions. Summarizing the survey findings [7 p. 22-24], it is possible to conclude that in spite of some decreased activity in the crisis period consulting companies survived it and are successfully growing up their activities, diversifying them and mastering innovative technologies.

Extrapolating this conclusion to the work of all companies specializing in intellectual services, one can state that the scope of their activities is quite broad.

It is also corroborated by an increased share of the economy of the South Russia in the national economy: in 2010 their position clearly improved even in comparison with 2008 (the “pre-crisis” year). Production of industrial products, retail turnover, fixed capital investments, commissioning residential houses increased [1, p. 13].

A high potential for a growing demand for intellectual services is confirmed by an impressive number of investment projects included in the Catalogue of the investment projects for developing the real sector of the economy and social sphere in the Southern Federal District [3, p. 33]. The Catalogue comprises 207 projects, 71 shall be completed no later than 2014. Such a powerful application for attracting investments to the economy of the South of Russia, coupled with developing a network of industrial parks (only the Rostov region alone has 6 such parks), technological platforms, innovation centres, business incubators, and other principally new facilities in terms of organization, technological and information dimensions means that social-and-economic complexes in the Southern regions of Russia are moving to a
brand new level. They are clearly losing their traditional image of the “gold field” and the “golden fleece” of Russia and are gaining the status of an “intellectual field” and an “innovations growth point” in the south of Russia.

In 2013-2014 consulting services in the “South Russia” macro-region were developing actively, including: tax consultations, IT (development and system integration), valuation, legal consulting in economic law, and financial management [14, p. 36]. Some prospective areas are legal consulting in debt practice and bankruptcy, management consulting, personnel recruitment.

CONCLUSIONS

1. Orientation of Russian economy towards an innovative model of development means organized, system-wide, continuous searching for new opportunities and values, technologies and innovations control system. It forms the basis for an explosive growth of the market of intellectual services, broad prospects for innovations, overcoming institutional, economic personnel and other restrictions preventing innovations.

2. To provide intellectual services, adequate institutional conditions are required. It stimulates development of an extensive network of informational-computational complexes in Russia and modern information-and communications technologies implemented through various Internet-services. The underlying factor is innovative, diversified nature of intellectual services that comprise: consulting (all areas), valuation, marketing and advertising services, design, personnel recruitment and management, IT-services, engineering, audit, real estate management, financial intermediation and legal services.

3. Advancement of intellectual services in the regions of the South Russia requires not only an adequate institutional environment but also enhanced incentives for creating innovative businesses in provinces, a reliable system of protecting intellectual services as special products accumulating various scientific, technological and day-to-day knowledge of staff members rendering such services as well as the attained experience, information, positive image, etc. It implies devising legal norms and mechanisms of intellectual property protection, observing the patent law and copyrights, control over state and municipal procurement aimed at achieving high quality execution of public contracts.

REFERENCES


