

# IMPACT OF THE QUALITY OF MANAGERIAL DECISIONS ON THE OPERATING RESULTS OF SMALL PROPRIETARY BUSINESSES

<sup>a</sup>NIKITA D. SUKHODOEV, <sup>b</sup>LYUDMILA F. SUKHODOEVA,  
<sup>c</sup>DMITRY YU. VAGIN, <sup>d</sup>ELENA A. CHELNOKOVA,  
<sup>e</sup>NADEZHDA L. SINEVA, <sup>f</sup>ELENA V. YASHKOVA

<sup>a, b</sup>*National Research Lobachevsky State University of Nizhny  
 Novgorod, Gagarin Avenue, 23, Nizhny Novgorod, Russia,  
 603950*

<sup>c, d, e, f</sup>*Minin Nizhny Novgorod State Pedagogical University,  
 Ulyanov str., 1, Nizhny Novgorod, Russia, 603005  
 email: <sup>a</sup>messageboxe@yandex.ru, <sup>b</sup>kommercia@bk.ru,  
<sup>c</sup>403485@mail.ru, <sup>d</sup>chelnelena@gmail.com, <sup>e</sup>sineva-  
 nl@rambler.ru, <sup>f</sup>elenay2@yandex.ru*

**Abstract:** This paper reveals the key aspects of decision making as a kind of managerial activity in proprietary business. It is argued that decisions made by small and medium-sized enterprises are not always efficient and do not always have a positive impact due to being intricate intersectoral and multifunctional complexes with multidimensional linkages. The specific features pertinent to the methods used at different stages of decision making in small and medium-sized businesses are overviewed. The statistical data on the quality of decisions made at different points in time are arranged in a systematic order. The ways and tools of contribution by sole proprietors and small enterprises to the overall economic performance of the Russian Federation are examined. The principles and indicators of the federal target program for the development of small and medium-sized businesses are analyzed, highlighting the successes and challenges in their development.

**Keywords:** quality of decisions, proprietary businesses, innovativeness of developments, self-employment, efficiency of decisions.

## 1 Introduction

The growth achieved in digital economy is relatable to the sole proprietorship and development of small and medium-sized businesses in Russia. However, the higher contribution of small proprietary businesses to the economic growth of the country is impossible without extensive state support. A brief analysis of the existing forms and programs of state support intended to grow the sole proprietorship and small businesses, as set out in legal and regulatory instruments, revealed the unfolding of a wide range of targeted measures. At the same time, the development is inextricably linked with the quality of decisions made in the management of entrepreneurial businesses. The sustainable development of sole proprietorship and small businesses can be achieved through the improved quality of managerial decisions, and it appears to be a highly relevant research concern to find out how good such decisions are in terms of their quality, and how the business structures of the self-employed get transformed.

The higher contribution of small proprietary businesses to the economic growth of the country is only possible through the state support. One of the basic forms of support for small business is tax relief as set forth in the Tax Code of the Russian Federation (2020). First, under the simplified tax system, taxpayers are entitled to choose their taxable amount, and have to pay either 6 percent on gross income or 15 percent on net income. Second, under the patent-based tax system a sole proprietor may buy a patent (valid for a term from 1 to 12 months) instead of paying certain taxes. Third, sole proprietors may qualify for a tax-free period of 2 years provided it is their first registered business and they are engaged in the activities classified as eligible by legislation.

Discussing a need to improve the quality of decision making in small and medium-sized enterprises, it seems reasonable to draw upon the key criteria for evaluating strategic development of the Russian Federation as defined in the Decree of the Russian Federation President of May 7th, 2018 N 204 On National Goals and Strategic Development Objectives of the Russian Federation through to 2024 (2018). This Decree has set a goal for the country to achieve the breakthrough in technological and socio-economic progress. The leading approach to exploring the problems associated with the quality of decisions made by small businesses was a socially oriented approach allowing for a

comprehensive review of factors affecting results of decisions. The core idea of such approach to spurring the development of small proprietary businesses consists in building the innovative framework for society, business and state relations enabling the integration of interests, goals and results of all participating small and medium-sized business entities.

Central to achieving the national goals and strategic objectives in development of proprietary businesses is improvement of the quality of decisions made by each entity of socio-economic relations with regard for the market situation (Transformation of Management Processes in the Context of Implementation of National Goals and Strategic Development Objectives of Russia, 2020). The improvement of decisions made by proprietary business entities in all sectors, on the one hand, will lead to better business performance, and on the other hand, requires special knowledge and skills crucial for small and medium-sized enterprises striving to maximize their business gains. The main challenges include the quality of decisions made by small and medium-sized entities, as well as the insufficient qualification of managers in determining the way forward for business.

In the authors opinion, it is possible to change the existing situation by improving the effectiveness and quality of managerial decisions. Therefore, there is a need in special software products that would help to reveal the gaps in knowledge of individuals willing to start business (identify the competences in certain fields of entrepreneurial activities that need to be strengthened) based on evaluation of their managerial potential, and then to implement targeted education programs based on the evaluation results.

In the earlier works (Zakharova & Borisov, 2018), the authors made estimations of the economic effect that would be achieved through improved effectiveness and quality of managerial decisions made by entrepreneurs and executive managers of small businesses. According to estimations, only in Nizhny Novgorod region, by 2024 the socio-economic effect may amount to RUB 9563.50 thousand per one manager, which will result in substantial improvement in the living standards country-wide.

## 2 Literature Review

Relevant to the issue of quality of managerial decisions in proprietary business structures are the works of V. V. Valiev, T. M. Platonov, A. K. Zakirov (2017), Wang Hao (2016), V. A. Vilensky (2018), S. N. Yashin (Yashin et al., 2017a; Yashin et al., 2017b; Yashin et al., 2020), S. G. Zakharova (Yashin et al., 2020), Zh. V. Smirnova, K. A. Kochnova (2020) produced between 2009 and 2020.

The literature review showed that these issues receive insufficient coverage due to the paucity of literature, including the regulatory literature. The proposed methods to improve the quality of managerial decisions are specifically targeting the cause-and-effect relationships with a view of their strengthening or the context in which the managerial decisions are made. The causes leading to problematic situations are poorly explained (problem identification), and standard optimization solutions with a robust software base are almost not used, along with many other issues.

A review of the journal publications, educational and regulatory literature revealed the papers authored by M. M. Omarov, V. Yu. Sergeyev (2011), A. V. Ponachugin (Ponachugin & Lapygin, 2019), where they propose to take a close look at the management of business structures. The authors believe that the optimal implementation of managerial decisions in proprietary business structures depends on the supervision of their implementation, as well as on the efficient work with staff for achieving the intended objectives. The authors give

recommendations on how to work with executors who are carrying out management decisions.

In the works of Wang Hao (2016), we may see a transformation in the classical approaches to defining the essence, importance and optimization of managerial decisions to ensure business development. At the same time, the author points out that there is a significant gap between a decision taken by the manager and the problems faced by businesses. In order to reduce this gap and improve performance indicators of proprietary businesses, the digital mechanisms should be created for managing decision making leading to higher quality indicators.

Other researchers, namely S. Yu. Khovaev, A. S. Rybak (2017), invested their efforts in elimination and prevention of low-quality management decisions in small business entities. They identified features specific to low quality decision-making in microenterprises. A managers' survey system was used to assess the quality of decision making. Decisions that yielded positive results received special attention. The results of the managers' survey helped to identify approaches to taking successful managerial decisions in small businesses and to conduct a comparative analysis with decisions bringing negative results. However, there was no economic assessment of decision making technology in the digital economy.

Among the common methods proposed for decision making in tough economic situation are the upgrade of managers' skills or the use of a stricter system for control over implementation of decisions, which are traditional solutions (Vitalyeva & Zub, 2015; Zhemerikina et al., 2018; Koval, 2012; Smirnova & Kochnova, 2020).

An innovative approach to making and implementing managerial decisions was proposed by A. S. Kharasova and N. M. Blazhenkova (2014), who developed a nominally universal model for elaborating and making managerial decisions. This is an extremely difficult challenge for small businesses. These studies often do not provide an answer to the question: how to improve the quality of decision-making at all levels of management. Will it be helpful to train employees in the process of decision-making and why this process cannot remain in a standard form, and why it will not work if accountability only of top-level managers is increased. This approach does not contradict the use of a systemic approach to decision making. Perhaps, this problem can be solved by exploring the development possibilities of small businesses in combination with digital solutions for decision making. As a rule, researchers approach these issues separately. In the modern conditions, it makes sense to proceed from the overall cost-effectiveness and reliability of solutions, but such approach has not been proposed as yet.

### 3 Research Methodological Framework

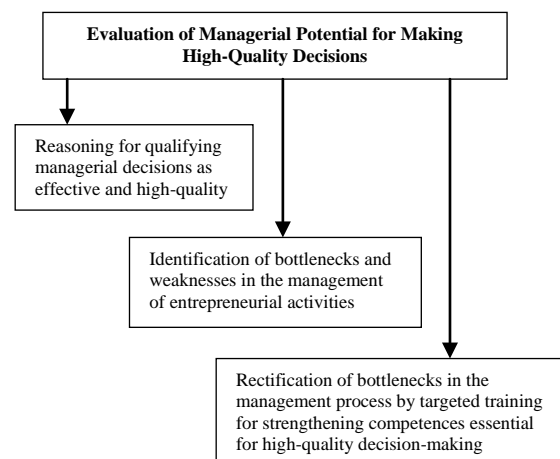
The purpose of research into the problem of the quality of managerial decisions in the context of transition to digital economy of small businesses was to create a mechanism that would accelerate the high-quality decision making at small and medium-sized enterprises. The major objective to be addressed for accomplishing the research purpose was to find a right approach for optimization of the decision quality indicators. The research used both general scientific and special methods. As concerns the general scientific methods, the most suitable were generalization, induction and deduction, complemented with special methods such as economic analysis, statistical and computational methods. The method of comparative analysis was used to select specific systemic methods out of all managerial methods appropriate for the setting in which small business entities operate.

The authors of this paper examined the quality of decisions as an economic category that can be digitally controlled. This process is multifunctional, so its analysis was carried out from various perspectives of economic research, including: situational, systemic, dynamic, integrative, functional and other approaches. The process of managing the quality of decision-making in

business is viewed as a highly structured system representing a hierarchical array of interlinked and interrelated elements. The approaches differ in the interrelations between the elements within a decision quality management system. However, digital technologies are not the only part of a system for managing the quality of decisions, and should be complemented with the professionalism of personnel who make decisions in small enterprises.

The importance of managerial potential evaluation in terms of the quality of decisions made for the development of sole proprietorship and small businesses is illustrated in Figure 1.

Figure 1 The Model for Evaluating the Managerial Potential



Source: Compiled by the author

The global information telecommunications infrastructure can be used to implement in practice the methodology developed by Russian scientists to identify among the population those people who have high entrepreneurial potential and are capable of achieving high results in economic activity due to highly effective management decisions.

This research suggests that with the introduction of new digital technologies, the need in a unified approach to the improvement of quality of managerial decisions will be eliminated within the concept of a systemic approach. This makes it possible to substantiate a new theoretical approach to the development of entrepreneurial business and the need to accelerate improvements in the quality of decision making within small companies.

### 4 Results and Discussion

The qualitative components of decision-making in small proprietary businesses have been studied from the angle of innovativeness of scientific requirements for the elaboration and making of managerial decisions as compared to large businesses. The qualitative indicators of the decisions made were compared and it was found that small business executives most often follow the algorithm for identifying problems and proposing solutions, omitting many highly important steps in the process that are essential for elaborating and making managerial decisions.

The indicators of high-quality innovative decisions made by small proprietary entities are considered based on their business performance. The analysis of these indicators has demonstrated that the results of sole proprietors and small businesses in terms of their contribution to the development of territories where they operate is rather low, which is the result of the poor quality of decisions made, while their growth over the past year is explained by the increase in number of legalized self-employed entrepreneurs and small business entities.

Knowledge of the methods that may be used for problem diagnostics, identification of alternatives, their evaluation and implementation of the adopted decisions based on a systemic approach to the practice of decision-making, digital technologies, function-cost analysis, chain substitution and modeling of situations allow managers to look at the emerging problems correctly and more objectively, develop alternative decisions and assess risks associated with their implementation. Undesirable results and risks can be eliminated only by improving the quality of decisions based on risk calculations.

The quality of managerial decisions is characterized by a more accurate choice of innovative methods, methodologies and technologies that allow small business entities to adjust to new conditions, both internal and external, which requires a high level of professional qualification of staff capable to apply the methods of synthesis and analysis, systemic and targeted methods, the methods of digital and simulation modeling (Solomonov, 2009). The quality of decisions made by managers of different levels is determined based on the bottom-line performance of entrepreneurial businesses as one of the top priorities of strategic development. Scientists note that the growth of small businesses aimed at implementing high-quality solutions capable to propel the economy is possible only through embracing the abilities of entrepreneurs and ensuring high qualification of their executive managers (Khairullina & Blazhenkova, 2018). It is the pursuance of this course of actions by authorities that may change the order of business at small enterprises.

In the authors opinion, it is possible to change the existing situation by improving the quality of managerial decisions (Leksina & Nechkina, 2016; Mokeev & Pluzhnikov, 2011). Therefore, there is a need in special software products that would help to reveal the gaps in knowledge of individuals willing to start business (identify the competences in certain fields of entrepreneurial activities that need to be strengthened) based on evaluation of their managerial potential, and then to implement special training courses based on the evaluation results.

A fairly large corpus of regulatory documents attests to the targeted efforts taken by administrative bodies locally, but there are no legislatively established requirements for those who start their business as self-employed. A strategy through to 2030 was developed that provides a vision for the development of such businesses and defines the most efficient ways to manage and increase their innovative potential. The share of small businesses in gross domestic product is expected to double. While the turnover of small and medium-sized enterprises will increase 2.5 times. With a two-fold increase in labour efficiency (Ponachugin & Lapygin, 2019). This Program includes several subprograms, one of which is directed at the development of small and medium-sized businesses, and seeks to ensure the availability of assets, financial and educational environment, and reduce the cost burden of enterprises. There are many special forms of state support for small businesses, but co-financing of expenses of self-employed entrepreneurs stands out. A federal grant program is currently implemented, which includes multiple projects such as: Smart Brains (RUB 500,000); Start (up to RUB 5 million); Development (up to RUB 15 million); Internationalization (the size of funding is determined on a case-by-case basis); Commercialization (no more than RUB 25 million); Cooperation (no more than RUB 25 million).

The analysis of results obtained in conducted surveys revealed that the number of people with management talents, who are capable of making high-quality managerial decisions and whose performance exceeds the average management potential is 2.8% among beginning managers, 6.7% among mid-level specialists; 16.1% among specialists and managers; with an average for the entire sample of respondents equal to 8.5%. On average, the experiment results for the entire sample correlate well with the studies of the U.S. scientists who found that only 5.8%-6.1% of the total population have aptitude for management. However, the Russian population, having a higher level of management potential compared to the rest of the world and therefore the

greater opportunities for effective management, are not willing to tap this potential (Table 1).

Table 1 Contribution of Sole Proprietors and Small Businesses to the Gross Domestic Product of the Russian Federation as of January 10th, 2019

Federal Districts	Total for Russia, RUB bln.	Sole proprietors <sup>1</sup>		Small businesses	
		Turnover, RUB bln.	Contribution of SPs to Russia's GDP, %	Turnover, RUB bln.	Contribution of SB to Russia's GDP, %
Russian Federation	97283.20	12895	13.26	10172	10.46
Central Federal District	20290.00	2674	2.75	2137	2.20
North-Western Federal District	22386.06	3011	3.10	2297	2.36
Southern Federal District	7485.92	1175	1.21	600	0.62
North-Caucasus Federal District	282.57	55	0.06	12	0.01
Volga Federal District	34717.79	4042	4.15	4190	4.31
Ural Federal District	2543.10	399	0.41	204	0.21
Siberian Federal District	4896.42	435	0.45	726	0.75
Far East Federal District	4681.33	1104	1.13	6	0.01

Source: <https://ofd.nalog.ru>

The table examines the performance of sole proprietors and small businesses in the Volga Federal District of the Russian Federation. The research evaluates the contribution of sole proprietors and small businesses to the Russian economy based on their share in the gross domestic product. The quality of managerial decisions made by small business entities differs greatly across different federal districts, which well explains the difference in their contribution to the GDP of Russia. The obtained analytical evidence indicates that the causes and effects of the quality of managerial decisions are not scientifically underpinned, the setting in which managerial decisions are made is not taken into account, the root causes of problems are not sufficiently well substantiated, and standard optimization solutions with a robust software base are almost not used.

However, for the successful development of sole proprietorship and small business, as one of the most important areas of strategic development of Russia, it is necessary to evaluate the initial capabilities of everyone willing to start business based on a fair assessment of the percentage of effective management decisions. This will help to identify management bottlenecks and weaknesses in the operations of entrepreneurial businesses, to reveal the factors affecting the quality of decisions and to improve them through targeted training.

State support to small businesses at both federal and regional levels needs radical renovation. In particular, the policy needs revision regarding the artificial increase in the number of small businesses, as the allocated budget funds cannot automatically lead to the growth of employment in the small business sector and, much less, to the growth of the gross regional product (Nikulina et al., 2014). Scientists point out that the growth and development of small innovative enterprises eager to embrace competitive technological advantages, able to inject impetus to the economy, may only be possible through the use of robust

<sup>1</sup> Covers all sole proprietors (including micro-, small and medium-sized businesses)

solutions (Roganova et al., 2018) and, therefore, it is crucial to create favourable conditions for developing entrepreneurial skills and upgrading qualifications of executive managers. It is the pursuance of this course of actions by state and municipal authorities that may change the quality of decisions made in the field of sole proprietorship and small business.

## 5 Conclusion

Based on the findings of this research, it should be noted that the possibilities of generating higher incomes by spurring the development of sole proprietors and small businesses and, as a result, the development of the economy hinge on the quality of decisions made by the actors of social and economic relations.

Unfortunately, presently the legislation does not provide for the evaluation of the managerial potential of entrepreneurs, and there are no legislative requirements for the professional development of sole proprietors and managers running small businesses. Since professional development requires additional financial and time resources, entrepreneurs are not motivated to invest additional money and time for this, and learn only by trial and errors from own experience. The high quality of decisions made by a trained and highly qualified business manager may lead to higher labor efficiency, reduced working time losses, mitigation of management risks, more accurate estimation of capital investment savings, savings on resource costs, less defective goods and minimized losses in production.

The calculations attest to the possibility of obtaining social and economic benefits by improving the quality of decisions made by sole proprietors and small businesses, while the economic gains brought by entrepreneurial businesses can be estimated in the tens of billions of rubles. To some extent, such approaches to explaining why the quality improvements in decisions have a high practical importance, since they divide the decision making into stages and components that can be thoroughly researched offering valuable insights for developing entrepreneurial businesses. However, some scientists also express a view that the high-quality decision-making process can be broken down from the point of view of the managers' behavior patterns and behavior components, which means that the quality of decision is not innate and depends not only on personality of a manager making it. Here it is highly important to find qualified executors of a high-quality decision and to ensure successful integration of these processes. In this connection, a new technology for making high-quality decisions is proposed, based on a systemic approach to the development of small-scale proprietary businesses.

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**Primary Paper Section: A**

**Secondary Paper Section: AE, AH**