PROBLEMS FOR REGIONAL ENTREPRENEURS DUE TO ECONOMIC DIGITALISATION AND COVID-19

Abstract:
The process of economic digitalisation has intensified in recent decades. However, it has reached a new level in the last two years due to the COVID-19 pandemic and the lockdowns imposed during the earlier waves of the virus. This article examines recent literature and data on how the pandemic has led to unprecedented levels of market digitalisation, particularly in electronic commerce, and how this has impacted regional entrepreneurs. Among others, we found that Russians embraced e-commerce during the pandemic, but the overwhelming beneficiaries of this has been big businesses and multinational corporations. On the contrary, regional entrepreneurs have faced severe challenges to compete and gain market share.

This article is extremely relevant for policy makers, entrepreneurs, business leaders, and everyone interested in understanding the impact of market digitalisation and the COVID-19 pandemic on regional entrepreneurs in Russia.

Keywords:
Regional economy, entrepreneurship, digitalisation, COVID-19, pandemic, regional entrepreneurs.

Introduction
In the last several decades the process of digitalisation has intensified in almost every economy in the world. While the definition of digitalisation differs, it typically involves the use of digital technologies, big data, and the internet, among others (Stolterman & Fors, 2004; Parviainen et al., 2017). Therefore, the use of automation, artificial intelligence, machine learning, cloud computing, internet of things, electronic commerce, virtual reality, digital advertising, crowdfunding, digital training/education and social media are all elements of digitalisation.

In the last few years, the process of economic digitalisation has reached unprecedented levels, in large part due to the COVID-19 pandemic and the lockdowns imposed on many countries. In the Russian Federation, electronic commerce in particular has blossomed as a result of the pandemic. However, all available data shows that the biggest beneficiaries of this boom has been big businesses and multinational corporations. This success has often come at the expense of small businesses and regional entrepreneurs (Kwak, 2020). This article explores all recent literature and data on how the combination of the COVID-19 pandemic and economic digitalisation is impacting regional entrepreneurs in Russia.

COVID-19 and Economic Digitalisation
Coronavirus or COVID-19 is a pandemic which has caused catastrophic harm to people and economies around the world. Olumekor and Polbitsyn (2021) argued that the pandemic was “socially, economically and psychologically disruptive, and its impact has far outweighed the impact of any modern virus”. In particular, COVID-19 has changed consumer and entrepreneurial behaviour more rapidly than arguably any event in modern history. With many people stuck at home during the lockdowns/quarantine, online businesses became the primary choice of commerce for people. Companies like Zoom, Yandex, Google, and Meta – formerly facebook – made historic profits. However, in Russia, it was the success of electronic commerce companies, and multinational retail corporations that particularly caught the eye. This is evident by the 250% growth of online grocery retail in Russia in 2020. The biggest beneficiary of this boom were companies like X5 retail group which saw a 345% increase in its Gross Merchandise Volume (Data Insights, 2021). Additionally, electronic retail companies like Sbermarket saw a 500% increase in sales (Statista, 2021), and multinational corporations in Russia like Leroy Merlin experienced a 217% increase in online sales, while IKEA’s was an increase of 175%, all in 2020 alone (Data Insights, 2021).

Furthermore, to single out the success of Russia’s top e-commerce store, Wildberries, the year 2020 was massive for sales. Wildberries did not just increase sales in 2020, it increased its growth and market share in some of the most remote regions of Russia. As Olumekor and Polbitsyn (2021) reported, “in the Far Eastern region of Chukotka, Wildberries reported a growth of 490% between April to October in 2020. In the same time frame,
consumers in Ingushetia, another remote region of Russia had increased orders by 385%, and in Buryatia it was 239%.

As these large corporations were having their most successful year in history, regional entrepreneurs and small regional businesses were decimated. Some of these problems were highlighted by Telitsyna and Filonov (2020), they include challenges to supply chain and logistics, adapting to shifting consumer needs and preferences, delivery of goods and services, and a switch to robotic business assistants and customer consultants, among others. Regional entrepreneurs did not possess the financial power or the technological tools to thrive in such a system. Kwak (2020) argued that during the COVID-19 pandemic, the only businesses with the resources and infrastructure to quickly digitalise operations and take advantage of the drastic change in consumer behaviour were big businesses. This put regional entrepreneurs at a significant disadvantage. Moreover, the market share gained by large corporations during the pandemic have largely remained the same, and almost all economists expect this to continue into the future.

**Regional entrepreneurship in the Ural region**

Regional entrepreneurship in Russia has continued to grow over the last 20 years, however many experts believe it needs to grow even further. Data from the Federal State Statistics Service show that small businesses in Russia employed about 20% of the Russian population in 2017, compared to over 80% in Japan, 60% in the United States of America, and between 65% to 80% in Germany, France and Italy (Telitsyna & Filonov, 2020). In fact, in the European Union, there are 23 million small and medium sized enterprises which provide about 75 million jobs, and accounts for 99% of all enterprise. While regional businesses in Russia have shown strength over the years, the sector remains one with a huge potential.

Data from the Federal Tax Service of the Russian Federation (2021) show that there are over 485,015 small and medium sized businesses in the Ural region of Russia – the Ural Federal District – as of October 2021. Of this number, more than 287,070 are individual entrepreneurs, while 197,945 are legal entities. Below is a chat showing the percentage number of individual entrepreneurs compared to legal entities.

**Figure 1:** Percentage of the total number of micro, small and medium sized businesses in the Ural Federal District

![Percentage of total number of micro, small and medium sized businesses in the Ural Federal District](chart)

The chart above shows that individual entrepreneurs account for almost 60% of the total number of small and medium sized businesses in the Ural Federal District.

Furthermore, a total number of 1,254,216 people are employed by micro, small and medium sized businesses in the Ural district as of October 2021. Of this number, about 1,020,024 are employed by legal entities, while 234,192 are employed by individual entrepreneurs (The Federal Tax Service of the Russian Federation, 2021). The chart below shows the percentage share of employment offered by small businesses in the Ural district.

**Figure 2:** Percentage of the employment offered by micro, small and medium sized businesses in the Ural Federal District

![Percentage of employment offered by micro, small and medium sized businesses in the Ural Federal District](chart)
While legal entities offered 83% of the employment offered by small businesses, individual entrepreneurs offered 18.7%. These data show the continuous importance of micro, small and medium sized entrepreneurs to the economy of the Ural district, not only as a key driver of economic growth, but also because of the employment they provide to individuals and families.

A closer look at the data from the Federal Tax Service of the Russian Federation (2021), show that the composition of micro, small and medium sized businesses are completely different. Therefore, the following tables provide a detailed break-down of each of these.

### Table 1. Micro enterprises in the Ural Federal district

<table>
<thead>
<tr>
<th></th>
<th>Legal entities</th>
<th>Individual entrepreneurs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Micro enterprises</td>
<td>181,261</td>
<td>284,372</td>
<td>465,633</td>
</tr>
<tr>
<td>The sum of the average number of employees</td>
<td>429,645</td>
<td>158,584</td>
<td>588,229</td>
</tr>
</tbody>
</table>


### Table 2. Small enterprises in the Ural Federal district

<table>
<thead>
<tr>
<th></th>
<th>Legal entities</th>
<th>Individual entrepreneurs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Small enterprises</td>
<td>15,285</td>
<td>2,667</td>
<td>17,952</td>
</tr>
<tr>
<td>The sum of the average number of employees</td>
<td>433,726</td>
<td>72,956</td>
<td>506,682</td>
</tr>
</tbody>
</table>


### Table 3. Medium-sized enterprises in the Ural Federal district

<table>
<thead>
<tr>
<th></th>
<th>Legal entities</th>
<th>Individual entrepreneurs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Medium-sized enterprises</td>
<td>1,399</td>
<td>31</td>
<td>1,430</td>
</tr>
<tr>
<td>The sum of the average number of employees</td>
<td>156,653</td>
<td>2,652</td>
<td>159,305</td>
</tr>
</tbody>
</table>


**The Impact of Digitalisation on Regional Entrepreneurship**

Digitalisation has become a very important influencer of regional economic growth, technological progress and social cohesion (Satalkina & Steiner, 2020). However, digitalisation often brings risks and challenges for the
regional economy. Research from Arntz et al. (2017), Frey and Osborne (2017), and Sorgner et al., (2017) have linked digitalisation with an increase in unemployment in the United States of America, the European Union and other developed economies. The study by Frey and Osborne (2017) in particular show that 47% of all jobs in the United States would be lost to digitalisation in the future. Furthermore, digitalisation also presents huge risks for regional entrepreneurs. Scholz et al. (2020) highlighted some of the challenges businesses face due to digitalisation. To paint a vivid picture of this challenge, the automobile industry in Russia has been going through major changes in the last few years. Self-driving cars/trucks or autonomous cars have been rising in popularity in Russia. Yandex recently clocked 7 million miles with its autonomous cars (Forbes, 2021) and the CEO of its self driving group has promised to deliver these cars to major cities in the near future (Business Insider, 2020). Additionally, car sharing services have also become very popular in the Sverdlovsk region of Russia, and are poised to become even more widely used in the near future. Both self-driving/autonomous cars, and car sharing could lead to big problems for regional taxi businesses and entrepreneurs.

While digitalisation is inherently a positive thing for region’s economy, if managed poorly its initial impact can be catastrophic for entrepreneurs. It can create a system with very few rich and powerful winners, and many losers. Therefore, the biggest priority for policymakers, especially in the midst of a pandemic, is to create an economy which continuously fosters innovation, technology and competition, while protecting the most vulnerable enterprises.

Conclusion

This article offers an excellent analysis of the current state of regional businesses in Russia, and the impact of the COVID-19 pandemic on regional entrepreneurship. We found that following the lockdowns imposed as a result of the pandemic, consumers turned to electronic commerce, and multinational corporations and e-commerce businesses had the technological and financial resources to quickly digitalise operations and take advantage of demand. On the contrary, regional businesses struggled. While most economist agree digitalisation can be a force for good, if managed badly its initial impact can be difficult for entrepreneurs.

REFERENCES

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