Digital Business as a Driver of Economic Growth in Russia

El negocio digital como motor del crecimiento económico en Rusia

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ABSTRACT:
This paper provides an insight into the subject matter of the digital economy and digital business as key factors for growth within Russia’s industrial sector and its national economy as a whole. The authors describe some of the key characteristics of modern digital business; examine some of the key outcomes from the development of digital business, which include facilitating boosts in knowledge and reduced transaction costs and helping attract potential clients and retain them as customers; provide a rationale for the need for robust interaction among science, economics, and public policy in speeding up the digitalization of the business environment; establish the actual role of digital technology; propose a model of digital business from a standpoint of the choice of priority areas that are based on international projections of trends in national development, with a focus on identifying a set of determinants of boosts in the innovativeness and competitive advantage of the Russian economy that may help facilitate economic growth through the development of Russian digital business.

Keywords: Digital Economy, Digital Business, Digital technology, knowledge, transaction costs, digital infrastructure.

RESUMEN:
Este documento proporciona una perspectiva sobre el tema de la economía digital y los negocios digitales como factores clave para el crecimiento dentro del sector industrial de Rusia y su economía nacional en general. Los autores describen algunas de las características clave de los negocios digitales modernos; examine algunos de los resultados clave del desarrollo de negocios digitales, que incluyen la facilitación de mejoras en el conocimiento y la reducción de los costos de transacción y la ayuda para atraer clientes potenciales y retenerlos como clientes; proporcionar una justificación para la necesidad de una interacción robusta entre la ciencia, la economía y la política pública para acelerar la digitalización del entorno empresarial; establecer el papel real de la tecnología digital; proponer un modelo de negocio digital desde el punto de vista de la elección de áreas prioritarias basadas en proyecciones internacionales de tendencias en el desarrollo nacional, con un enfoque en la identificación de un conjunto de factores determinantes de los impulsos de innovación y ventaja competitiva de la economía rusa que puedan Ayudar a facilitar el crecimiento económico a través del desarrollo del negocio digital ruso.

Palabras clave: economía digital, negocios digitales, tecnología digital, conocimiento, costos de transacción, infraestructura digital.
1. Introduction

According to President of the Russian Federation V.V. Putin, “Russia has no future without the digital economy” (“Putin: Russia has no Future without the Digital Economy,” 2017). This appears to be quite relevant for Russia today. In this regard, there has been put in place a special government program which is predicated on that the digital economy is a type of economic activity a key production factor in which is data in digital form and which facilitates the formation of information space factoring in the needs of citizens and society for obtaining high-quality and credible information, the development of Russia’s digital infrastructure, the creation and use of Russian information-telecommunications technology, as well as the formation of a new technological basis for the social and economic spheres (Directive of the Government of the Russian Federation No. 1632-r, 2017). This definition may be regarded as official in Russia. It focuses attention on information (data) in digital format, which helps get the right idea of what it is all about. This definition is in keeping with what most research publications on the subject have said about it. Currently, Russia is witnessing the peak of research into the digital economy, although some two or three years ago there was little to no research of this kind conducted in the nation. Until recently, the main focus was on research into concepts such as ‘knowledge economy’, ‘information economy’, ‘electronic economy’, and ‘knowledge management’.

As rightly pointed out by well-known philosopher Iu.M. Osipov, “There is hardly any distortion of the truth or unjustified exaggeration of the significance of the digit compared with the word, and all the more so the meaning, in claiming that the economy, which is thought to be full of meanings and words, may well be distilled down to the digit, which is what all of the economy’s words and meanings are subjugated to... no distortion or exaggeration whatsoever!” (Osipov, 2017). It is worth admitting that in a market economy the digit plays a crucial role. It serves as source material in making various strategic decisions, like those related to boosting consumer demand for goods and services, expanding international business cooperation, attracting foreign capital, enhancing the efficiency of management, both at the macro and meso and at micro levels, and, lastly, ensuring the openness of the economy based on the growth of integrated information space. At the same time, the digital economy has its drawbacks too: it may increasingly lead to structural changes in labor markets and new waves of uncertainty in economic development (Nosova, 2018).

The digital economy encompasses the entire system of economic relationships. A fundamental role in its development is played by digital business.

2. Theoretical Analysis

Digital business is a general term used to denote the production of goods and services using digital technology, with a focus on automating a firm’s business processes. Some view digital business as work in social networks and with clouds. Among the fundamental features of digital business, of particular note is, above all, the possibility of copying and transmitting information without a loss in its accuracy (byte for byte) – and, based on that, the potential for creating many cutting-edge technologies, which are termed ‘digital technology’ due to the digital representation of information. In the language of economics this means that information does not vanish after it is consumed. In digital format these features are manifested especially vividly due to the fact that information is not distorted when it is transferred from one storage device to another. Digital business is a composite of a business’s physical and digital resources which implies erasing the borders between people and processes with a view to achieving the firm’s objectives. Among the key objectives for digital business are to promote the brand and increase sales using various methods. Digital business incorporates a plethora of marketing tactics on promoting goods, services, and brands. Digital resources help a business generate greater revenue, attract new clients, and boost client loyalty. Today’s businesses can no longer ignore digital technology and refrain from employing it, when there are so many tools around that can be used to interact with consumers via new technology, which especially is true for businesses...
that interact with the end consumer. When it comes to a digital business model, a separate focus may need to be set on which technologies a small business should use to achieve its primary objective – generating profit. It goes without saying that companies that employ digital technology are more successful and competitive in business than those that do not. But even companies that employ digital technology in business do not always go all the way in that respect, with some having integrated IT in full into their projects and others having done so only partially, making use of only some of the tools available. To determine these tools, one needs to have an idea of what business objectives the company is willing to achieve. Digital technology in business is our present, without which business is inconceivable today. Many companies that aspire to be client-oriented are already creating additional sources and channels of communication with clients, optimizing their business processes, and are becoming more successful and competitive because they keep in step with the times. In addition to mobile technology and traditional TV and radio, digital businesses employ the Internet as a key communications intermediary.

Based on the above material, it may be worth getting a little insight into the fundamental concept of digital business, which implies taking a client-oriented approach when it comes to the promotion and sale of goods and services. In a climate of the processes of globalization and rapid development of digital technology, there is currently developing in Russia a client-oriented economy, which is changing the nature of consumption in the country, with changes in consumer behavior determining what and how much to produce and new consumer segments and new market niches emerging. Thus, in today’s market economy greater relevance is increasingly being taken on by relationships that are governed by the client. This implies the individualization of entrepreneurial activity and strengthening of close relationships with the consumer, and should overall stimulate sales, which requires making a special marketing effort, like offering coupons, in-store special offers, handing out product samples, direct mail, co-op advertising, and taking part in specialized trade fairs. Firms are encouraged to take part in international trade fairs as the first step into the global market place. In today’s market economy, competitiveness is no longer predicated on economies of scale alone. Rather, it is based today on the creation of narrow market niches for particular consumer segments, partnerships in the area of small and micro business, and companies’ social responsibility.

The market value of digital business may be above or below the book value of assets depending on the company’s future revenue. To be able to properly forecast the market value of digital business, one will need credible data in digital format, since these data can help:

- Carry out a sound assessment of the company’s performance;
- Determine a set of key weaknesses in the company’s performance – and, accordingly, distribute the assets in a more profitable manner;
- Keep track of how the company has done in terms of the “golden rule of economics” (i.e., revenue from investment must always surpass expenditure on inputs);
- Create an effective motivation system that would incorporate not just bonuses and rewards but, as a consequence, a focus on delegating powers to employees and boosting their responsibility as well.

_Digital business helps resolve a number of issues – above all, the issue of digital inequality, or imperfect (asymmetric) information (Nosova, 2013). It helps reduce information asymmetry._

### 3. Results

There are two major approaches to assessing the effectiveness of projects on implementing digital technology in a business:

- Multicriterial, which implies assessing the effectiveness of projects based on a set of criteria: the functional structure; information, mathematical, organizational, and manpower support;
Financial, which implies assessing the effectiveness of projects based on a set of financial indicators.

Among the key weaknesses of multicriterial methods are the absence of an integral indicator (there is a large number of various indicators) and difficulty of use (there is significant time expenditure on checking indicator significance).

The key drawbacks of financial methods for assessing the efficiency of projects on implementing digital technology include the following: difficulty searching for information in assessing project efficiency; a large number of corrections, which is due to the special nature of accounting; the need to carry out market reassessments of material assets. It may help to consider as a criterion for project efficiency the business’s market value, as a balance of interests among the company’s investors, shareholders, and clients. The value of digital business is an integral assessment of its viability, profitability, personnel qualification levels, and many other characteristics which cannot be established quantitatively. On top of that, many of those characteristics are not inherent in the actual company but are determined by its external environment.

Figure 1 illustrates the interrelationship between the value of digital business and its key economic indicators, with a focus on the integral nature of the indicator of its value.

**Figure 1**

Interrelationship between economic indicators of performance by a company’s digital business and its value.
There are several major techniques for assessing the value of digital business – profit-based, cost-based (asset-based), and market-based (comparative), with each comprised of a set of methods of its own. Currently, developed countries are the ones reaping the greatest benefits from the use of digital technology. They are the ones controlling the markets. As leaders, they are starting to dominate all major world markets, which may result in developing countries, including Russia, getting pushed out. The situation is such today that in a climate of stiff global competition large domestic corporations are forced to purchase outmoded technology from their foreign competitors. Being in an incipient state of development, Russia’s innovations market is only getting started at the moment (Nosova, 2013). Consequently, the nation is significantly trailing behind other developed nations in the development of digital technology.

In this regard, of major significance is a keen focus on implementing digital business, more specifically information-communications technology, with a view to achieving robust technological development. There is a need to ensure that in this respect (and not only this one) Russia is no longer a developing nation, a technological misfit that is incapable of not just generating technological innovations but assimilating them either. While developed countries have exhibited growth in cutting-edge technology, the Russian high-tech sector, on
the contrary, has been characterized by low efficiency levels for now. It mainly has relied on the achievements of the Soviet period, most of which were privatized by foreign and domestic entrepreneurs a long time ago. There is hope that in the near future the Russian economy will become a leader in the market of technological innovations (Nosova, Novichkov, & Novichkov, 2017). There is a need to lay the groundwork for the rapid development of digital technology in the country, which can then help set in motion, based on judicious domestic and international policies, proper mechanisms of digital marketing with a view to ensuring continued improvement in the interaction between industrial enterprises and consumers. Note that the culmination of digital business efforts is shifted to the after-sale period.

The idea’s novelty lies in that consumers are offered not only a product but certain economic benefits that come with it as well. Specifically, this is implemented via after-sale service, technical support, outsourcing, and other types of service. The objective is to help clients optimize their expenditure, boost the effectiveness of various business processes, and ensure sound decision making – and that is with a focus on ensuring benefits for both parties involved. This enables companies to significantly expand the market by way of the “internal consumer value chain” (its value often surpasses the value of the entire market 10–20 times (Brynjolfsson & Kahin, 2000) and extend the period of their growth. This approach shifts the manufacturer’s focus from price- to value-based competition, which is closely linked with innovating the demand and deepening the firm’s relationships with consumers. Demand innovators often combine various products into integrated offers, which helps lead to boosts in sales in adjacent markets.

Thus, a crucial asset for companies that need effective management is a client base within the marketing system. Seeking out and engaging consumers in cooperation may be viewed as a key condition for successful present and future work.

In this regard, research into the financial function in world science has been followed by keen research into the process of transformation of the marketing function. Marketing has become too important to be left just to the marketers. Each and every staff member at a company must have perfect knowledge and understanding of the key aspects of brand positioning, so that they could assess the performance of their daily duties through the prism of alignment with that positioning (Varian, 1998). In essence, it is all about the need to think ahead about the financial implications of one’s marketing decisions. With that said, brand positioning may be seen as a strategic compass to check assessments of all programs and projects that are material to consumer interests against. Control of the dialogue with the consumer is synonymous with control of the brand positioning process as well. The issue of determining, analyzing, and satisfying consumer needs as efficiently as possible is a key objective in marketing. Over the last decade, this issue has taken on special relevance, becoming an object of keen attention among researchers and taking up a special place in marketing. A possible solution that can be employed to automate the system of interaction between a company and consumers is Customer Relationship Management (CRM). A key characteristic of the latest CRM systems is interrelationship personalization, i.e. taking an individual approach to each consumer in a climate of a broad diversity of needs and characteristics inherent in the interacting parties, which going forward must lead to improvements in overall business efficiency and boosts in the company’s sales.

Figure 2 illustrates the way electronic CRM fits into the overall structure of a company’s business processes, occupying positions that border on the consumer and at the same time interacting with the entire vertical of management, i.e. there is created a system of planning the resources and managing the supply chains and production.

**Figure 2**

CRM’s place in digital business
CRM strategies are predicated on the use of cutting-edge management and information technologies, which help a business gather information on its consumers at all stages in their lifecycle: attracting them, retaining them, fostering their loyalty, and extracting relevant knowledge that is then used to forge mutually beneficial relationships with them.

The digitalization of all sectors in a market economy leads to the emergence of new markets and new market segments, which produce and implement socially significant goods and services, are prepared to receive and fulfill government contracts, and have the terms of pricing and sale of goods and services they turn out controlled by the state. In Russia, the legal mechanism underlying the interaction among these socially significant segments needs adjusting. It may be suggested that partner programs may well serve as the basis for the development of digital business in Russia, with a focus on interaction among socially significant markets based on its network-like structure which is predicated on a system of formal and nonformal contracts.

There are expectations of the Russian Internet market to develop dynamically in the near future. The Russian market currently features virtually all of the latest models of digital business. There are in place various strategic programs, like ‘Electronic Russia’, and initiatives aimed at facilitating Russia’s smooth integration into the world economy. Worthy of special mention is the interrelationship between the digital economy and financial globalization, which differs from economic globalization in the degree to which the national economy is incorporated into the global one – and, above all, in the new mechanism for decision making. In today’s wave of globalization, information in the world market is processed by key subjects of decision making in real time, with many of those decisions adjusted continually. This is essential for financial subjects, as well as portfolio investors.

4. Discussion

Globalization is a combination of several interrelated phenomena: the unity of the global stock market; the growth of the stock market (i.e., growth in its capitalization and turnover), which is crucial to the generation of revenue by all business entities and to ensuring proper supply in the lending market; the expansion of the new economy sector, which is changing traditional notions of investment attractiveness. The new economy, on the one hand, needs boosts in capitalization, while, on the other hand, it is a source thereof itself. In this regard, the new quality of economic globalization is manifested in an aspiration for business digitalization. Satiation with computers alone will not lead to major changes in a firm’s marketing activity. This can be achieved today only through the implementation of new information technologies (ITs), which are based on the use of computers. It will, above
all, help to choose already now those essential ITs without which adequate marketing activity cannot be possible. These ITs include various means of communication and mathematical, algorithmic, and software support. Therefore, it may help to devote special attention to exploring the key characteristics and structure of various communication channels within local area networks and choose relevant cutting-edge digital channels, like:

- The Internet
- Internet media: display advertising, search advertising, affiliate programs, sponsorships
- E-mail and viral marketing
- Mobile platforms
- User-generated content
- Digital Signage
- Internet Protocol television (IPTV)

Gartner, the world’s leading research and advisory company, has put forward six major steps that will help a chief information officer and other top managers build a successful digital company and change the rules of the game in the business (“Gartner’s Six Steps,” 2014):

Step 1: Create the right mindset and shared understanding
Step 2: Put the right leaders in place
Step 3: Launch a digital business center of excellence
Step 4: Formulate a digital strategy to respond to opportunities and threats

Once the need for a digital strategy has been established, one will need to address the following five items:

(1) The creation of digitally enabled business models; (2) the product and service portfolio; (3) Information as an asset; (4) technology strategy; (5) content, media, and channels.

Step 5: Find, develop, and acquire digital business skills and roles
Step 6: Create new digital business capabilities

The development of digital business ought to be accompanied by well-coordinated actions among interested government and commercial establishments and harmonize with efforts by the world community. In that case, digital business will serve as an impetus for the structural and technological reform and modernization of the economy.

Over the next 10 years, most sectors may go through substantial transformations (change of business models, change of leaders, disruptive innovation, etc.). Just like it was in the previous industrial revolutions, social, economic, and geopolitical consequences are going to be significant.

Under conditions of digital business:

(1) A key source of productivity and growth is knowledge, which is employed in all areas of economic activity (Nonaka & Takeuchi, 2003). Note that coiner of the term ‘knowledge economy’ F. Machlup made no distinction between information and knowledge, i.e. the scholar construed ‘knowledge’ as broadly as possible (Machlup, 1962).

(2) It becomes possible to considerably reduce transaction costs (e.g., costs associated with searching for information and entering into contracts), which consequently leads to the emergence of new forms of business, elimination of the middleman, and direct interaction between the consumer and the supplier. This, inter alia, is evidenced by the successful experience of D. Tapscott, who managed to predict back in 1995 much of what would happen over the next 20 years. In doing so, the scholar relied on quite a modest arsenal of tools (Tapscott, 1999; Tapscott, 2014). One such tool was a very small portion of the theory of transaction costs, propounded in an early work by R.H. Coase devoted to firm theory (Coase, 1937).

(3) There grows the significance of occupations related to the production and use of information and knowledge.

Nations that have entered the stage of development of digital business are, above all,
characterized by changes in the structure of their economy at the macro level, namely greater contribution from the nation’s information sector to its GDP and greater share of workers engaged in processing and transmitting information in its total labor force. The share of digital business in the economy of the leading nations is much larger – on account of the so-called secondary information sector, which incorporates the divisions of firms that produce information for their own needs, i.e. for intra-firm consumption. If the volume of information produced in the primary sector, i.e. the one concerned with goods production, can be calculated precisely, the output of the second information sector does not yield itself to independent market assessments and is, thus, incorporated into the market value of non-information products to be turned out. The latest dynamics of distribution of labor resources across production sectors are also attesting to the information sector’s growing significance, with the share of those employed in it growing continually.

One of the most pressing issues in innovation policy today is boosting the economy’s competitiveness via the effective use of digital technology in sectors within it (Nosova, 2018). It is quite possible that the use of digital technology will help reduce costs associated with opportunistic behavior in at least several areas of activity. However, to achieve this, one needs to learn to forecast this kind of costs and give them numerical assessments, or look for an alternative approach.

It is clear already now that as business is digitalized, one will increasingly come across types of business and processes that offer increasing yields scale-wise, not decreasing ones – as is the case with the old sectors of the real economy and traditional economic models. More specifically, this can be illustrated by way of comparing ex-ante and ex-post transaction costs (Williamson, 1996). On the whole, it follows from the above that digital business is a vast area of research and consulting services which are linked to each other by a common subject of study (various types and forms of knowledge), but are also different from each other in approaches taken to exploring that subject.

5. Conclusion

Digital business has evolved organically to meet the needs of institutional and financial globalization, helping resolve two major issues – immediate access to as much information as possible and boosts in sales via social networks, blogs, wiki resources, mobile phones, and other modern digital technologies. It is about to become as wide a market as possible, within the global market, in online mode. It has, thus, facilitated the growth of the digital economy, becoming an effective trade platform in a climate of globalization of the world market.

A key tenet in the digital economy is viewing digital data as specific resources whose characteristics differ from traditional factors of production: labor, land, and capital. Self-growth in digital information by way of dissemination makes this resource inexhaustible. One cannot apply the concept of rareness to this kind of resource. This tenet has found confirmation in economic practice.

Digital business’s prognostic power is, above all, ensured by attention to transaction costs and the ability to accurately identify and itemize them. Knowledge of how certain transaction costs are going to change may help forecast change in ways to conduct business and many destructive effects of digitalization. But it is possible to go further in itemizing transaction costs and making them measurable and manageable.

The development of digital business in Russia is currently hindered by the insufficient size of production and distorted motivation among Russian businesses, banks, and other financial institutions with respect to its advisability. However, without digital business it is impossible to ensure effective economic development. The development of digital business ought to be accompanied by coordinated action among interested government and commercial establishments and harmonize with effort from the world community. In that case, digital marketing will serve as a stimulus for the structural and technological reform and modernization of the national economy.

Digital business draws people together as part of the process of consumption of goods and
services produced; it makes them interested in the production thereof; it sort of engages them in the reproduction chain, making them co-participants in the nation’s strategic development. First, the consumer studies the price of a product or service, and then they act based on their preferences, which helps make the economy multisectoral and products diverse. Digital business helps reduce the time needed to meet consumer needs and increase the scale of rather individual than mass production. It is here that the role of small and micro businesses comes into play. Multinational corporations are becoming more open to interaction with companies within the small and individual business sector in regional markets in other countries. The conditions of today are causing the consumer to change as well. Their choice is increasingly predicated on their lifestyle. There is an increasingly smaller focus on segmenting consumers based on commonly accepted attributes (e.g., geography, gender, and age). With the consumer changing, there is also change taking place in products supplied into the market. The new consumer desires originality, novelty, and identification with their personality. As a consequence, there is change taking place in marketing as well. It is becoming more differentiated and largely digitalized.

What digital business makes particularly lucrative is information (and the digit). Information has a price. In some cases, these prices may be inflated. It is information that rules the world today. It is penetrating the virtual world at lightning speed. In an instant it can change the financial situation in a country, in a region, in a company or an organization, in a family, or in the life of an individual. It is a whole different economy, a whole different business.

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