

Theory and Methodology of Small Business Development in an Innovative Economy

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Abstract— This article presents the results of scientific research on the development of theoretical and methodological provisions for the development of small businesses in an innovative economy. The purpose of the research is to develop methodology and conceptual framework, as well as methodological and practical recommendations for the small businesses development in an innovative economy. Following tasks were solved to achieve the goal of the research: substantiation of the endogenous nature of the relationship between culture and economy and entrepreneurship; investigation of the influence of cultural and value factors on goals, motives, behavior models and communicative practices of entrepreneurship; description of the mechanism underlying the influence of economic and cultural norms on the logic of decision-making of entrepreneurs; development of the model of entrepreneurial activity based on a combination of transactional and transformational approaches and obtaining different types of entrepreneurial rent; development of the theoretical and methodological approach that provides a systematic and holistic study of the mechanism of formation of competitive advantages of small businesses in terms of center-peripheral differentiation of innovation processes. The conceptual development of scientists and economists who have formed and developed general scientific and socio-humanitarian methodological approaches (systematic, constructivist, historical, evolutionary, behavioral, situational), as well as research on current trends in the development of small businesses presents the theoretical and methodological basis of the research. The methods of historical-logical and comparative analysis, subject-object and functional-structural methods, of scientific observation methods were used in the article to justify the conclusions and positions. The main conclusions and provisions expand the theoretical ideas of small businesses development in an innovative economy. The usage of the results of the study in the development of programs of state regulation of small businesses at the regional and local levels presents the practical significance of the research.

Keywords— *Small Business, Innovative Economy, Competitive Advantages, Model, Mechanism.*

1 INTRODUCTION

Changes which take place in the economy last years call for the development of a new, sophisticated stage of economical changes when the focus is shifted towards solving the problems caused by systemic long-term challenges reproducing both global trends and internal barriers to

development. Its most important goal is to establish system-building mechanisms for the innovative breakthrough within existing time opportunities in the national economy and to involve strategy relevant sources of innovative development and those of gaining competitive advantages. It's important to take into account a specific role of small business which is crucial for the country's social and economic development.

2 PROBLEM URGENCY

Versatility, diversity and inconsistency in institutional and technological transformations in Russia, changes in nature and sources of competitive advantages of the national economy, increased competition in the domestic and external markets lead to tremendous boost in complexity of solving problems relevant to the mechanisms of small business successful development.

Currently, in spite of the government's concern and efforts taken on all of its levels and in every branch, as well as implementation of various programmes and regulatory reforms, there are no significant changes in small business development. Meanwhile in national economical science great attention is given to the problem of small business. Nevertheless, numerous aspects concerning methodology, theory and methods still remain unclear. There is an urgent need to give an in-depth analysis of the problem which enables a new level of understanding the complex economic situation in Russia to be achieved.

3 SCIENTIFIC IMPORTANCE AND BRIEF LITERATURE

REVIEW

Theoretical and methodological instruments are developed which enable to extend the subject area of investigating business activities as a specific form of cultural process. A holistic approach to solving the problem of investigating the impact of cultural and value factors on goals, motives, behavior models and communicative practices was suggested. The theoretical and methodological basis of the research is represented by the conceptual ideas of academic economists who developed the general scientific and socio-humanitarian methodological approaches (systematic, constructivist,

historical, evolutionary, behavioral, situational), as well as research on current trends in small business development.

Problems of small business development have been investigated by numerous Russian and foreign authors. Entrepreneurship as a specific social and economical phenomenon has been studied by I. Ansoff [1], P. Drucker [2], I. Kirzner [3], J.B. Clark [4], O.E. Williamson [5], F.A. Hayek [6], R. Hisrich [7], J. Schumpeter [8], and others. Great attention is paid to the study of entrepreneurship issues by Russian scientists: A.N. Asaul [9], V. Avtonomov [10], A.I. Ageev [11], V.V. Birykov [12], A. Dynkin [13], etc. Relations between culture and institutions, their impact on economic activities have been studied by A. Alesina and P. Giuliano [14], P. Berger [15], A.A. Klamer [16], D. North [17], I. Staveren [18], F. Fukuyama [19] and others. Factors affecting novelties distribution, problems of innovations generation and transfer, relations between universities, business and state, mechanisms of spatial development for business have been analyzed by F. Braudel [20], I. Wallerstein [21], P. Cooke [22], A. Marshall [23], H. Chesbrough [24], etc.

In spite of the fact that analysis of the problems related to small business is currently of great scientific interest, a lot of methodological and theoretical aspects concerning small business development in modern conditions are still under discussion. The use of instruments and mechanisms adequate to strategic challenges and threads needs further investigation.

4 PROBLEM STATEMENT

The purpose of this research is to develop methodology and conceptual framework, as well as methodological and practical recommendations for the small businesses development in an innovative economy. To achieve this goal the following tasks have to be solved: substantiation of the endogenous nature of the relationship between culture, economy and entrepreneurship; investigation of the influence of cultural and value factors on goals, motives, behavior models and communicative practices of entrepreneurship; description of the mechanism underlying the influence of economic and cultural norms on the decision-making logic of entrepreneurs; development of the model of entrepreneurial activity based on a combination of transactional and transformational approaches and obtaining different types of entrepreneurial rent; development of the theoretical and methodological approach that provides a systematic and holistic study of the mechanism of formation of competitive advantages of small businesses in terms of center-peripheral differentiation of innovation processes.

5 THEORY

Economic culture of each country specify peculiar national culture, national understanding of the world and the mental model which incorporates a value, a cognitive and an expressive element; it also includes experience, knowledge and the entire variety of views on current economical processes which refer to different agents. Entrepreneurial culture is a kind of economic culture, having a particular position and playing an important role in establishing and

transforming positive and negative elements of the entire outline of the economic culture. Being a form of collective consciousness, entrepreneurial culture characterizes an ensemble of relevant competencies, mental and creative skills, knowledge, beliefs, values and attitudes acquired in socialization. It is a specific set of symbolic instruments used on a daily basis by entrepreneurs to increase the added value by shaping business ideas and business programmes based on economical, cultural, structural and other conditions.

In communicative practices entrepreneurs tend to pursue their interests and goals, the latter developing and being developed in the meantime. It is of importance to differentiate between the two types of business decisions: 1) the ones which require a goal-oriented approach, that is due to the fact that the scope of business choice depends on the particular interests and goals which correspond to the accepted priorities and rankings, as well as on the existing communicative practices; 2) the value-oriented type, according to which the scope of business choice is determined by the search of a new system of economic and value guidelines, the interests and goals being shaped afterwards in correspondence with the changed priorities and rankings, and the goal-oriented choice is made. Motivational and behavioral characteristics of business activities which are considered to be a complex, multidimensional and dynamic phenomenon, reproduce a contradictory combination of general economic, systemically significant and individual characteristics, which are affected by the entrepreneur's specific values and corresponding interests and goals, and depend on the entrepreneur's understanding of the opportunities to carry out his business function under current circumstances. The innovation rent conveys the result of the agreement reached and the result of the collective actions of all the parties interested in the added value to be increased. The entrepreneurial rent is a part of the innovation rent and characterizes the entrepreneur's contribution to the formation of the latter.

When analyzing the processes of building models of small business innovative development an assumption should be made that their most important parameters constitute a multilevel system, there is a hierarchy and complex relationship between them. To develop an approach enabling to consider the unique pathways of small business innovative development in a systemic manner, when successful building of competitive advantages is provided, of special significance is a typology which addresses an increased role of intangible innovative factors and is based on the nature of their involvement in innovation generation, transfer and replication. The major types of models of small business innovative development can be identified as follows: nationwide, national and regional, regional, underdeveloped peripheral, all of them being at different development levels (low, medium, or high). Small business development within the framework of a model is supported by an adequate innovative infrastructure which incorporates a particular set of elements enabling it to function successfully in terms of external and internal environment conditions.

6 PRACTICAL RELEVANCE

The practical contribution of the research is attributed to the opportunity to use the results obtained while developing programmes of state regulation and development in the sphere of small business at regional and local levels.

7 PROPOSALS AND IMPLEMENTATION EFFECTS

The breakthrough development of small business under the present circumstances requires special attention to be given to providing infrastructure, ensuring a large scale introduction of highly effective types of innovations. Peculiarities of small business innovative development determine distinctions between the innovative infrastructure models, the latter being differentiated according to the members, their roles and interaction nature.

Taking into account the increased activity on the part of innovative market participants the authorities should establish local centers of business innovations. The center of business innovations is a sample association between small business agents (entrepreneurs, smaller enterprises, organizations and institutions) aimed to offer complex services which are not provided by the government institutions and support small business agents in developing, introducing and promoting innovations. As long as the center of business innovations functions and develops, an important resource for the region to foster its innovative development will appear due to enhancing innovative activities of the existing small business agents and establishing new innovative smaller enterprises. Besides, such center of business innovations could be a platform for trans-regional interaction in the sphere of innovations which would facilitate sharing experience of different regions in developing innovative enterprises.

8 CONCLUSIONS

To substantiate the conclusions and positions presented methods of historical-logical and comparative analysis, subject-object and functional-structural methods, scientific observation methods were used. The endogenous nature of the relationship between culture, economy and entrepreneurship was proved. Investigation of the influence of cultural and value factors on goals, motives, behavior models and communicative practices of entrepreneurship was conducted. The mechanism underlying the influence of economic and cultural norms on the logic of decision-making of entrepreneurs was described. The model of entrepreneurial activity based on a combination of transactional and transformational approaches and obtaining different types of entrepreneurial rent was developed. The theoretical and methodological approach that provides a systematic and holistic study of the mechanism of building competitive

advantages of small businesses in terms of center-peripheral differentiation of innovation processes was proposed. Recommendations are given to the regional authorities on developing centers of business innovations.

The main conclusions and positions enrich theoretical understanding of small business development in an innovative economy.

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