

Territorial Mechanisms of Innovative Development of Small and Medium-Sized Business Sector: A Value-Oriented Approach

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Abstract

Background: The article presents the results of the analysis and systematization of publications on the issue of the formation of territorial mechanisms of innovative development of small and medium-sized business. **Methods:** A specified methodology has been developed, based on a system-evolutionary paradigm, supplemented with ideas of value-oriented approach that includes redefining the communication ethics and economics. Under this approach, various forms of economic processes folding in concrete historical conditions of the region's development are the institutional shell of dominant cultural value system, expressing the power-institutional, organizational-institutional, technical-operational and economic-temporal ways of its realization. **Findings:** In accordance with the proposed in the article approach to the analysis of the territorial context of the development of innovative processes in the sector of small and medium-sized business, territorial peculiarities of formation of cultural value variables and legitimization of norms and rules of business have been revealed; the factors that determine the boundary conditions for the successful development of small-sized companies in the region have been showed; the role of cultural value concepts and ideas in forming the strategy of territorial changes in territorial mechanisms of innovative development of small and medium-sized businesses have been justified; representations stated in the article form the basis of the author's vision of the process of individualization of strategic changes implementation and territorial development formation of the sector of small-sized forms of business. **Improvements:** The provisions put forward in this article can be used as a theoretical model, which allows considering specific hypotheses about the success of the formation of territorial mechanisms of innovative development of the small-sized business and testing it empirically.

Keywords: Cultural Value Orientations, Competitive Advantages, Environment, Innovations, Institutional Potential, Region, Regional Policy, Small and Medium-Sized Business, System Changes, Territorial Mechanisms

1. Introduction.

One of the most important peculiarities of the world economy at the turn of the 20th-21st centuries is an unprecedented increase in the number of small and medium-sized businesses and a sharp increase in their importance. The rapid growth of the activity of small and medium-sized businesses in virtually all branches of the real sector, and its shift from the periphery of economic development required a qualitative reevaluation of small-sized businesses' importance, rethinking their roles

and responsibilities in the development of competitive advantages of the regions.

Territorial mechanisms for innovative small and medium-sized businesses development express the processes taking place on the basis of cause-and-effect relationships that connect companies' business solutions and productivity. They are an integral part of the economic system of the region, on the basis of which economic entities perform distribution, use and reproduction of the available resources according to the institutionalized norms and rules, as well as regional culture, which has

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absorbed the collective idea about changing economic realities, stereotypes, value representations and the usual decision-making model.

However, economic models and approaches commonly used today to describe the processes of innovation development of regional systems are based on neo-institutional rational choice theory, devoid of cultural value component. An important task is the critical analysis of connection of modern concepts of innovative development of regions with cultural value motives of economic agents' behavior. At the same time, it should be borne in mind that the formation of regional mechanisms of innovative business development is very complex and contradictory; in relation to small and medium-sized business, its many aspects remain insufficiently investigated.

2. Literature Review

One of the first who considered theoretical basis of the business territorial development mechanism is by¹ who showed the presence of agglomeration effects. Throughout the 20th century, there is a significant increase in research in this area. To understand the mechanisms of regional innovation development works, which explored modern changes in the organization of innovative processes, are important. Thus, it was shown that they are characterized by the transition from linear (industrial) model to a nonlinear (neo-industrial) one, proposed by²⁻⁴ and others. In this case, there occurs a formation of open innovations⁵. Collective emergence of innovation is influenced by spreading networks and clusters forming a specific ecosystem⁶. Transformation and new functions of universities, business and government, as well as the changing nature of their interactions are described by the triple helix model⁷.

Many studies have shown the impact of the level of innovation activity of the regions in their economic and social development, diversification of production and service, human potential quality. In addition, the basic elements of regional innovation models, the relationship between them and the factors needed to achieve the desired results have been considered. These models have been analyzed and classified by a number of authors^{4,8-10}.

It should be noted that mainstream of economic science based on the principle of methodological individualism; proponents of the neoclassical and

Austrian schools, neo-institutional theory, evolutionary and behavioral economics adhere to this principle. In these circumstances, search of a meaningful answer about the causes and mechanisms of the territorial changes inevitably reveals the limitations of the standard tools of actively used concepts, and economic models that are based on the principle of methodological individualism and interpret the role of culture very limitedly- usually as one of the factors acting as barriers in the implementation of innovative changes. It does not take into account the peculiarities of cultural value orientations and the fact that they can change and be a powerful organizational resource forming a support frame of economic activities at all levels and not just one of the possible components in the chain of added value is overlooked¹¹.

Today, author in¹² notes, although many economists-theorists imagine a question of culture and economic development uncertain, confusing and goofy, but practitioners involved in the formulation of economic development programs emphasize the importance of culture. In this regard, he refers to the book by L. Harrison, "Who is Booming. How Cultural Values Form the Economic and Political Success". According to¹³ "the modern economic theory, should, as it is possible, escape from the narrowness of the "neo-classical" version and return to the "classical" breadth of coverage, taking into account the ways in which culture influences human behavior in general, and economic behavior in particular"¹³.

Methodological "turn to culture" made in recent decades and based on the constructivist approach involves a break with positivism that was dominant in the field of knowledge in the 20th century and a search for less severe versions of holism. Social constructivism considers culture as an emerging system of shared meanings that manage perception, communication and actions, noting that in the process of interaction, the subjects produce the same type of collective ideas, agree on common norms and rules. However, "neither constructivism, nor rational choice theory do provide a substantive explanations or predictions of the behavior as long as it is not connected with a specific understanding of what are the relevant actors, what they want, and what kind of social context of the structure could be"¹⁴. Thus, today, there is an urgent need for the development of theoretical and methodological tools that allow realistically describing the territorial mechanisms of innovative development

of small and medium-sized business because of its distinctive features.

3. Method

Theoretical backgrounds of studies carried out under consideration of the issues of territorial mechanisms of innovative development of small and medium-sized business are related to such areas of economics, as an innovative economy, regional economy, entrepreneurship and strategic management. However, existing research approaches to the study of this phenomenon remain unsatisfactory. In this connection, to describe the characteristics of the formation of territorial innovative development mechanisms, the methodological approach has been proposed, based on the updated paradigm of research in the form of a synthesis system, evolution and value-based approaches.

System approach allows studying the organizational and institutional structure of the region, all the elements of which provide the performance of the main functions assigned to the territorial system of innovation development. The evolutionary approach promotes the study of the internal dynamics of the system, the relationships between actors in conditions of evolutionary internal and external environment. To expand and complement the ideas of these approaches, it has been proposed to use a value-based approach which takes into account the fact that on the basis of cultural value concepts, the vision of small businesses development issues in the region is being formed and their solutions are being constructed.

The semantic content of the proposed approach is that it allows considering the sector of small and medium-sized business in the region as an open, complex, dynamic system that exists in a particular cultural, institutional, technological and territorial space; it is limited in resources and mobility; acquisitions of new properties of this sector takes place on the basis of renovation of cultural value orientations, the development and implementation of dynamic capabilities.

4. Results

Based on the theoretical backgrounds and provisions of the main directions of innovative development theory

of territorial systems and social constructivism, as well as findings of published works, this article attempts to integrate the existing modern and classical studies. Its result is the development of the revised methodology in the form of synthesis of system, evolution and value-oriented approach.

In accordance with the approach outlined in the article, territorial peculiarities of cultural value variables and legitimization of norms and rules of business have been disclosed; the factors that determine the boundary conditions for the successful development of small-sized businesses in the region have been showed; the role of cultural value concepts and ideas in shaping the strategy of changes in territorial mechanisms of innovative development of small and medium-sized businesses has been justified. The study of interaction of subjects of regional innovation systems based on consideration of the methodology allows describing territorial mechanisms of development of dynamic capabilities of small-sized business and making this process more manageable on this basis, and identifying competitive factors which play the most important role.

Based on the put forward provisions, a theoretical model that allows considering the hypothesis of successful innovation strategy of small and medium-sized business in the region may be offered and empirically tested.

5. Discussion

5.1 Formation of the Cultural Value Variables and Legitimation of Norms and Rules of Business Conduct in the Region

For the construction of a holistic vision of the formation of small-sized business development mechanisms in the regions, it is important to proceed from the fact that the peculiarities of functioning of economic systems of different levels are the result of manifestation of the contradictory interaction of subjects and their groups in the economic space-time. At the same time the following measurements are key ones: cultural value; institutional and role-based; organizational and institutional; productive and technological; temporary characterizing connection of the present with the past and the future, of heredity and variation, and manifested in the presence of diverse and cyclo-causal relations in each of these

subspaces¹⁵. Economic actors occupy different positions in a multi-dimensional economic space-time and interact with each other, having different cultural value orientations, competencies and abilities, various power, material and other types of resources.

The meaning of the proposed approach is determined by the fact that values form the core of a culture of organizational structures of different levels and contribute to the achievement of consensus among actors, structuring their role interactions, legitimization of norms and rules in connection with the presence in the economic system of a particular center as an integrating, reflective and goal-establishing beginning. As it has been pointed out by E. Shils, “centricity” requires both “the central institutional system” and “the center of the cultural system”. Society is becoming more integrated from the center to the periphery in its beliefs and actions¹⁶.

Each country within the specific historical conditions based on basic human values forms inherent to it system of dominant cultural value notions about the mechanisms structuring economy, as well as fairness of norms and rules of its regulation; it arises as a result of the collision of different opinions influenced by the limited knowledge and information, as well as the bargaining power of the communicating parties. Due to the peculiarities of the structural conditions and the current model of cultural and value judgment, as well as originality of subjects interactions motives, a very complex multi-level institutional environment is formed, which is characterized by a particular set of dysfunctions and which supports a specific balance of public and private benefits, often on the basis of the structural “skew” (the latter usually presupposes the following fact: the larger resources a social group has, the greater benefits it receives from the bargaining power). Under these conditions, there may be informal institutions as a result of spontaneous or planned individual actions, as well as formal institutions as a consequence, which they are also able to modify.

Folding territorial forms of economic processes becomes an organization shell of cultural value system dominating in the region, expressing the power-institutional, organizational-institutional, technical-operational and economic-time means of its realization. At the same time, depending on the constructed balance of ethical values (justice, equality and inequality, competitiveness and cooperation, etc.), a systemic impact on the efficiency in its static and dynamic aspects is

formed, which is determined by principles of resource allocation and production results, level of performance motivation, collaboration and transaction costs as well as conditions and motivation of the development of ability for innovations, generation, sharing and use of knowledge in the process of joint activity. Under these conditions, under the influence of dysfunctions of institutional and cultural environment, formal and informal norms and rules at the macro-, meso- and micro-levels can differently interact with each other and influence the economic behavior of the subjects and the trajectory of technological development, creation and use of industrial structures and systems, quantitative and qualitative parameters, flow structure and level of investments directed to accumulation of physical and intangible capital, etc.

It should be noted that although in modern concepts of strategic management, importance of an environment that encourages learning and development of skills has been focused on, but fragmentarily of representations about mechanisms of transformation of the social and cultural environment and the influence of cultural value variables at the choice and implementation of the strategy of organizational changes is kept. However, the strategy of the region development is not just a strategy for technical and industrial reforms, but also a strategy to change the organizational culture, which acts as the strategic objective of creating cultural changes, involving the formation of respective abilities and needs of actors in the implementation of strategic changes. Under these conditions, it is necessary to construct value-oriented measures that affect the organizational culture, changes of thinking patterns and behavior. The attention is usually drawn to the fact that the organizational culture as a set of values, beliefs and norms is resistant to change in the least degree¹⁷.

5.2 The Boundary Conditions for the Successful Formation of Territorial Development Mechanisms of Small-Sized Business

Quantitative parameters of small and medium-sized enterprises, the amount of resource usage and output products define the uniqueness of the boundary conditions for the formation of its competitive advantages in the region. Favorable conditions for the development

of small-sized business sector appear when diseconomies of scale appears – the excess of small company scale leads to faster cost growth in relation to income, but at the same time, the realization of comparative advantages acquires a special importance, allowing providing low transaction costs, greater flexibility and adapting speed to the changing environment and needs of the segmented market. Under these conditions, a key role is played by cultural value orientations, competencies and abilities of entrepreneurs associated with the identification of possibilities to get the added value and the rent on the basis of the development of business ideas and business strategies, forms and methods of its implementation, ensuring the creation of comparative advantages as a result of the use of internal and external environment resources, taking into account the impact of the near and far surroundings of the company.

In the analysis of various options of territorial mechanisms formation for small and medium-sized businesses development, it is important to take into account the dual nature of the factors contributing to the inconsistency of arising consequences, of the fact that the scale and nature of the systemic impact of this sector depends not only on its qualitative, quantitative and structural performance, but also on the prevailing conditions and opportunities for effective integration of small-sized businesses in the region's economy. The resource potential, opportunities and constraints related to the implementation of cultural, institutional, and industrial and technological innovations are responsible for the presence of specific successful corridor of opportunities of small and medium-sized business development, providing a beneficial effect on the regional system. Due to the presence of a small-sized business capacity potential in the region's economy, the positive effect of its impact on productivity and competitiveness shows a relationship taking the form of an inverted *U*. In this connection, programs providing redundancy and inadequacy of measures to support small and medium-sized businesses should be declined. The actual level of business capacity may deviate from its optimal value in either direction under the influence of various factors, such as business frame conditions, availability of resources and opportunities to conduct of business, propensity to entrepreneurship and implemented entrepreneurial activity.

The role of small and medium-sized business in

creating jobs varies depending on the stage of economic development of the country. In countries with resource-oriented economy entrepreneurs create most of the jobs, because they use unskilled labor and natural resources, and the role of innovations is low. Efficiency-driven stage is characterized by a decrease in self-employment level. As the level of economic development of the country is growing, the average size of companies increases, and so does the importance of economies of scale. With the growth of productivity of large companies, wage labor becomes more profitable. Innovation-oriented economy is characterized by the development of small and medium-sized business, a relative share of large companies in the total number of companies is reduced¹⁸. At the same time, it becomes important not to increase the number of small companies, but the role they play in the innovative development of the economy¹⁹.

Formation of competitive advantages of small-sized businesses in the region is determined by the influence of scale territorial concentration of economic activity implemented in three types of externalities: Effects caused by natural and geographical factors; agglomeration effect, which includes the effects of localization and urbanization; innovation-territorial effect, due to the influence of intangible factors and intellectualization of territorial development. During the evolution of the economies in the formation of the competitive advantages, the role of the first type factors decreases, but the importance of the second type factors increases, and further the role of the third type factors strengthens; effects of scale of large enterprises lose their former significance and active interaction of business with government, scientific and educational organizations becomes important. However, it should be noted that today a typical new company is not very innovatively active and does not create a significant number of workers.

5.3 The Role of Cultural Value Statements and Ideas in the Design of Innovative Changes of Small and Medium-Sized Business of the Region

A study of territorial processes of evolution of small and medium-sized business on the basis of the proposed approach involves consideration of mechanisms of their structuring on the basis of recognition of the subjects not only as bearers of values, but also as their creators.

At the same time, appealing to the values does not negate the need for causal explanations of social and economic phenomena, as the values acting as a part of the processes and structures do not provide a full description of their elements, although determine their semantic content. Cultural value motivations form the semantic base of territorial mechanisms structuring of innovative development of small-sized business, which receives the concrete contextual expression as a result of certain logic implementation.

The trigger of territorial transformation of the sector of small and medium-sized business is the accumulation of experience and knowledge related to the discovery of new opportunities on the basis of a new perception of the benefits and costs, as well as the formation of the concepts of alternative development models based on the updated cultural value orientations. Under these conditions, a new mental model is created which allows classifying the situation more accurately and creating a framework course of action, as well as situational cultural value mechanism corresponding to this set. At that, the actors and organizations that receive significant gains within the existing cultural and institutional matrix will be interested to adapt to its governing rules, reproducing the dependence of the trajectory of socio-economic paradigm development.

Any economic model, which is not paid significant attention to the private narrow group interests, is likely to remain incomplete and meaningless. But this does not mean that the interests are a key factor affecting the results of the economic processes. As soon as the volatile nature of interest will be realized, they are much less being regarded as determining factors, and the space of possible outcomes will be much wider. Taking into account the ideas, a convincing explanation of both stagnation and changes in socio-economic life can be offered²⁰.

The system of universal basic values forming the reference framework of each society in each region is always realized in some concrete historical forms. These forms occur as a result of inconsistent interaction of negotiating actors in the current structural conditions and are the product of their mental representations on the basis of which technological processes and institutional practices are reconstructed. At the same time, as it has been noted by J. Rawls, "laws and institutions ... must be reformed or abolished if they are unjust, and the rights guaranteed by justice, shall not be the subject of political

bargaining or calculation of political interests. Ensuring justice on the basis of representations recognized by different social groups suggests a compromise with respect to the particular form of value relations, allowing achieving successful outcomes. It is important that interest groups were able to agree on a similar or very similar sense of justice, which for this reason can be carried out"²¹.

Reformist strategies should take into account both the depending effect on the path of development in the past (path dependence), and the influence effect of the expected changes in the future, as well as the capabilities and abilities of subjects to change their qualitative parameters over time, systemically important connections and successfully adapting to the institutional and technological transformations.

Depending on innovative changes to the prior development of small-sized businesses in the region, the effect of increasing returns appears which occurs on the basis of the creative people's activity associated with generation and dissemination of technological and institutional innovations, acting as a product of their mental structures. Change of territorial model of technological and socio-economic development takes place in the circumstances when the potential of the base knowledge and ideas is exhausted that enables to implement enhancing innovations by the cognitive mechanisms, which is manifested in the formation of the crisis in the cultural value, institutional, and industrial-technological environments. As long as some territorial type of cultural value orientations remains, until then the institutional environment and incentive structure supports certain areas of cooperation and promotes a certain type of technologies applied. Therefore, in conditions of increasing influence of adverse factors and forming crisis phenomena, the starting point of the situation improvement is to find a way out of the crisis of values based on the innovation of ideas in the cultural value sphere.

Cultural value model prevailing in the region forms an internal paradigmatic level of economic system, defines a framework vision of problems, their importance, the interpretation of causes and effects, as well as a set of methods to solve them. On this basis, the instrumental level of realization of values is formed, associated with a selection of value-oriented priorities of development of small-sized businesses, objectives, methods and forms to achieve them. The changes of various components of

cultural and institutional environment can occur both consciously planned and spontaneous.

In the context of globalization and innovation competitiveness the need to revise the cultural value patterns, the reorientation of institutional and economic practices in the region on the basis of a new set of instrumental values is intensified²². It is necessary to find answers to the specific questions that arise in practice and are associated with the development of tools ensuring the successful integration of value-oriented approach to the territorial strategy as a key factor to achieve sustainable benefits.

6. Conclusion

The proposed value-oriented approach based on a system-evolutionary paradigm allows expanding the object field of studies, investigating mechanisms of innovative development of small and medium-sized business in the regions.

The undertaken analysis of territorial aspects of mechanisms of innovation development of small and medium-sized business demonstrates that innovative changes can be carried out in different structural conditions and produce different results, depending on the stage of economic development of the region, the boundary parameters of successful entrepreneurship, strategies for change and under the influence of many factors. Innovative activity should help the sector of small and medium-sized business develop competitive advantages through production intellectualization and strengthen the region's position in the innovation competition. Among the endogenous factors that determine the state of the sector of small-sized business, the dynamics of its competitive advantages and the emergence of the crisis processes, a special place is taken by ideological and value ideas, since they determine the boundaries and the logic of decisions, as well as the formation of methods and mechanisms to ensure the reproduction of the resistant characteristics in simultaneous selection and creation of opportunities for the implementation of innovative changes.

The study of the process of interaction of subjects of regional innovation systems based on the examined methodology allows describing territorial mechanisms of innovative development of small-sized business and making the process of strategic change in the region more

manageable on this basis and identifying competitive factors that play the most important role.

7. References

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