
Investment Attractiveness of Small Innovational Business under the Conditions of Globalization and Integration

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Abstract:

Purpose – The purpose of the article is to study the problems and perspectives of increase of investment attractiveness of small innovational business under the conditions of globalization and integration.

Design/methodology/approach – With the help of corresponding methods of conduct of scientific research, the work performs comparative analysis of approaches to determination of small innovational business and SWOT analysis of attraction of investments into development of small innovational business under the conditions of globalization and integration.

Findings – The authors determine peculiarities of functioning and development of small innovational business under the conditions of globalization and integration and determine problems and perspectives of attraction of investments into development of small innovational business under the conditions of globalization and integration.

Originality/value – The most important item of scientific novelty of this work is the proprietary mechanism of increase of investment attractiveness of small innovational business under the conditions of globalization and integration.

Key Words: investment attractiveness, small innovational business, globalization, integration.

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Introduction

Innovations are a key landmark of economic development in the modern economic system. The level of economic activity in economy determines its global competitiveness, as well as possibilities for sustainable development. It should be noted that despite huge possibilities of large business regarding research and creation of innovations, as well as availability of necessary resources for their implementation and possibilities of taking significant risk, large enterprises are usually reluctant to modernize and are characterized by domination of traditions.

Small business is inclined to implementation of innovations, as it has not significant reserve of financial strength. Smallest changes in consumer preferences make small business adapt to new economic conditions. Implementation of innovations allows small enterprise to differ from rivals and stay in the market for longer time. Despite the fact that risk of implementation of innovations is huge and in case of failure small enterprise may become a bankrupt, it has to show high innovational activity due to weak market positions.

Under the conditions of globalization and integration, favorable possibilities for international movement of investments are created. In view of limited internal investment possibilities, countries of the world compete for attraction of foreign investments. Small business does not have necessary financial resources. That's why one of the most important factors of provision of its innovational activity is still attraction of investments. Thus, actuality of study of problems and perspectives of increase of investment attractiveness of small innovational business under the conditions of globalization and integration grows – which is studied in this work.

Peculiarities of functioning and development of small innovational business under the conditions of globalization and integration

There are two main approaches to treatment of the notion and sense of small innovational business which suggest using different criteria of assigning enterprise to small business and innovational business. Proprietary classification of these approaches is represented in Table 1.

Table 1. Comparative analysis of approaches to determination of small innovational business

Approach	Used criteria	Representatives
Quantitative	number of personnel	(Carvalho et al., 2016), (Shic et al., 2015)
	volume of profit	(Mazzei et al., 2016)
	number of implemented innovations	(Sawang et al., 2016), (Glover et al., 2016)

	share of innovational products in production structure	(Yan & Yan, 2016), (Panda & Dash, 2016)
Qualitative	level of innovativeness of manufactured products	(Bezrukova et al., 2013), (Sargent, 2015)
	level of innovativeness of used technologies of production, management, and marketing	(Epifanova et al., 2015), (Harris et al., 2015)

As is seen from Table 1, quantitative approach supposes comparison of factual quantitative data which characterize activities of enterprise with set normative values that are given on the basis of effective laws or the used measurement system.

Thus, quantity of personnel is analyzed – it should not exceed certain threshold, for otherwise the enterprise will be medium or large. Also, it is possible to evaluate the volume of profit which should not exceed certain volume for certain enterprises. Quantity of innovations implemented by enterprise should be larger, as well as the share of innovational products in production structure.

For example, in modern Russia, an enterprise, in order to be assigned to small innovational business, should have no more than 100 employees, no more than RUB 400 million of profit, and the share of innovational products (products set in manufacture not earlier than three years ago) should exceed 90%.

Within qualitative approach, the level of innovativeness of manufactured products and level of novelty of the used technologies of production, management, and marketing are determined. As this data is not reflected in corporate accounting, it is obtained with the help of the expert evaluation method.

The possibility of subjectivism predetermined lesser precision of qualitative approach as compared to quantitative approach. However, qualitative approach allows separating enterprises which borrow innovations from other market members and selecting truly innovational enterprises which implement leading technologies into their activities and manufacture innovational products, i.e., products which are new for the global economy on the whole, not just for this sphere or region.

This work understands small innovational business as an enterprise with no more than 100 employees that actively implements innovations into its production, managerial, and marketing activities, and manufactures innovational products and/or performs innovational services. At that, the share of innovational products in total structure of production of this enterprise exceeds 70%.

This definition is collective and is formed on the basis of existing theoretical platform in the sphere of innovational entrepreneurship. According to the authors of this paper, the volume of profit should not be included as a criterion of small innovational business as it will be necessary to set various normative values for

different countries and economy spheres. The definition is compiled on the basis of qualitative approach, which ensures precision and authenticity of enterprise's assigning to small innovational business.

This work distinguishes the following main peculiarities of functioning and development of small innovational business under the conditions of globalization and integration. Firstly – possibility of global presence. There are two main preconditions for that.

The first is related to openness of most of modern socio-economic systems. Under the conditions of globalization and integration, boundaries between the countries are erased, which causes elimination of customs and other barriers which hinder appearance of foreign players in the market (Nadtochey, 2015), (Umierov, 2013).

The second precondition is a possibility of conduct of electronic business, products and services of which are available any time any place. Due to that, even a small enterprise can be present in international markets, which initially was a prerogative of large transnational business (Vakhovych et al., 2014).

Secondly, global competition is another peculiarity. Not only small innovational enterprises can enter global markets but foreign rivals can also enter local markets. So even if small innovational enterprise is oriented at local consumers, it often faces global competition (Dymchenko & Iliashenko, 2014).

It is often an additional stimulus for implementation of innovations. The largest difficulty consists in the fact that in this case small enterprises are obliged to compete with large international enterprises.

Thirdly, the peculiarities also include market character of economic environment. Under the influence of the process of globalization and integration, the concept of market economy distributed to most countries of the world. That's why the state is limited in possibilities of support for small innovational business (Budnikova, 2013), (Maidanevych, 2012).

An advantage of market economy for small innovational enterprises is competitive character of market environment and low entering barriers which allows passing to new markets and expanding limits of presence.

Problems and perspectives of attraction of investments into development of small innovational business under the conditions of globalization and integration

According to the authors of this article, there are three main problems of attraction of investments into development of small innovational business under the conditions of globalization and integration. Firstly, it is absence of platform for interaction with

investors. At present, search for investment projects is very difficult for investor, as well as search for investments for small innovational enterprises.

Small size does not allow each enterprise to conduct its own program for attraction of investors, which complicates the process of receipt of necessary investments. In its turn, investors cannot make contact with each small innovational enterprise in order to select the most perspective investment projects.

Secondly, complexity of evaluation of innovational projects. Due to lack of electronic platform, which contains detailed information on investment projects of small innovational enterprises, each investor should independently evaluate all potential projects, which is a long and complex procedure.

Thirdly, it is differences in normative and legal provision of innovational and investment activities in different countries. It refers to differences in measuring innovations (criteria of evaluation of the level of innovativeness of developments) and conditions for placement of investments (institutional environment).

The difference in laws complicates the process of conclusion and execution of contracts between investors and small innovational enterprises and leads to emergence of significant transaction costs which restrain the process of movement of investment resources in the global economy.

In order to determine perspectives of attraction of investments into development of small innovational business under the conditions of globalization and integration, let us use the method of SWOT-analysis (Table 2).

Table 2. SWOT-analysis of attraction of investments into development of small innovational business under the conditions of globalization and integration

<p>Advantages of small innovational business as an investment object:</p> <ul style="list-style-type: none"> – small volume of necessary investments; – high interest of business in success of innovational projects; – simplicity of collection and analysis of information and conclusion of contracts (absence of bureaucracy). 	<p>Disadvantages of small innovational business as an object of investment:</p> <ul style="list-style-type: none"> – lack of guarantee of investments return; – incompleteness of information on innovational projects; – high level of risk with small profit (due to small scale of business).
<p>Possibilities of attraction of investments into development of small innovational business under the conditions of globalization and</p>	<p>Threats for attraction of investments into development of small innovational business under the conditions of globalization and integration:</p>

<p>integration:</p> <ul style="list-style-type: none"> – increase of the number of potential investors; – possibility of use of integration mechanisms for attraction of investments (cluster). 	<ul style="list-style-type: none"> – higher level of competition for investments; – increase of uncertainty of market environment (due to increase of its scale).
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An advantage of small innovational business as an investment object is small volume of necessary investments due to small size of enterprise and high interest of business in success of innovational due to criticality of failure for existence of business.

Due to absence of bureaucracy, peculiar for large business, in the process of investing into small business it is easier to collect and analyze information and conclude contracts. Drawbacks of small innovational business as an investment object are caused by absence of guarantee for return of investments – as a small enterprise, as a rule, does not have possibilities for provision of financial or material guarantee.

Incompleteness of information on innovational projects is caused by limited possibilities in conduct of full-scale innovational research. High risk level with low profit is caused with small scale of business, for even in case of demand in the market of innovational products, production possibilities of small enterprise are small.

Possibilities of attraction of investments into development of small innovational business under the conditions of globalization and integration are related to increase of the number of potential investors and a possibility of use of the integration mechanisms for attraction of investments. For example, with unification with foreign partners, small innovational enterprises can become more attractive for investors.

Threats to attraction of investments into development of small innovational business under the conditions of globalization and integration are related to higher level of competition for investments, as such competition has a global character, and to increase of uncertainty of market environment due to increase of its scale and number of factors that influence it.

Mechanism of increase of investment attractiveness of small innovational business under the conditions of globalization and integration

For the purpose of investment attractiveness of small innovational business under the conditions of globalization and integration, this work offers to use the developed proprietary mechanism (Fig. 1).

As is seen from Fig. 1, provision of the set goal requires achievement of two tasks: development of international institutes of attraction of investments into development

of small innovational business and reduction of risk component of investment activities, aimed at development of small innovational business.

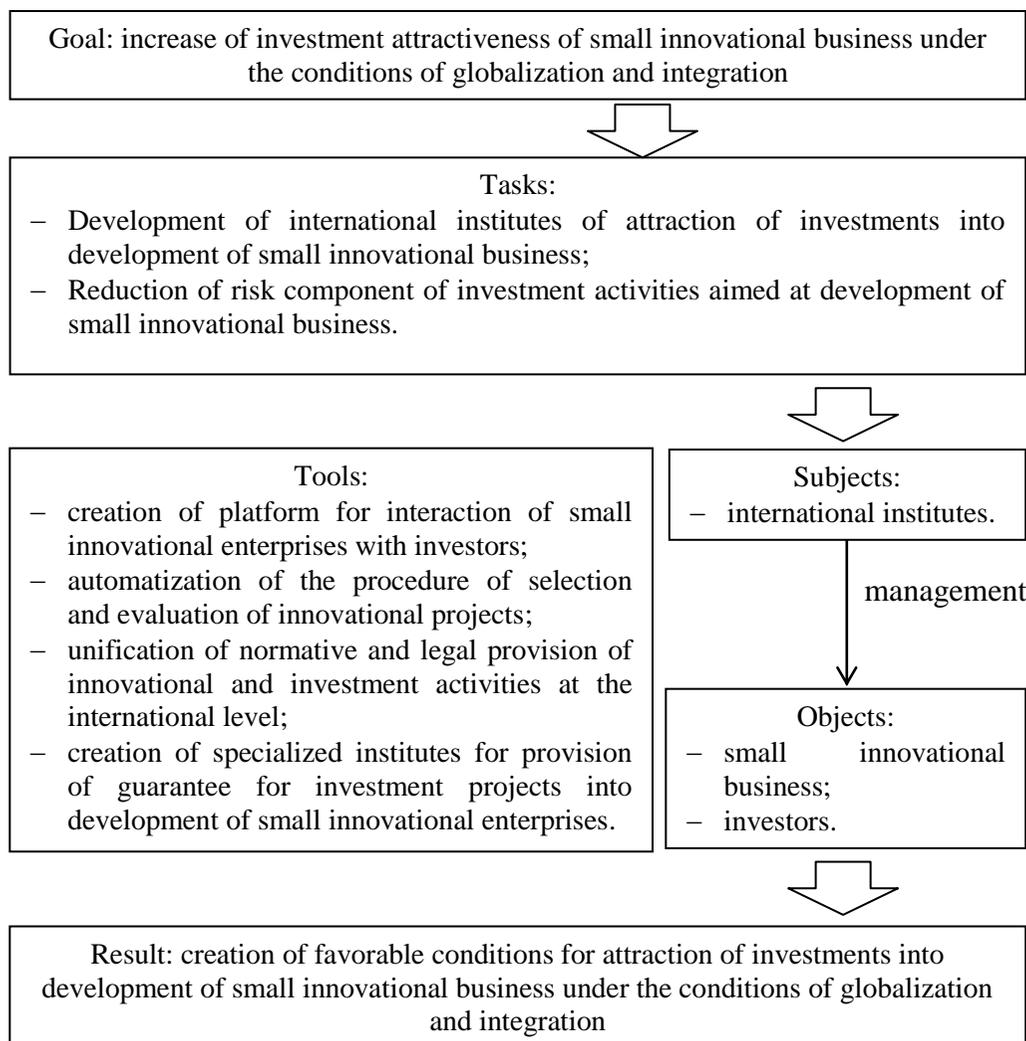


Figure 1. Mechanism of increase of investment attractiveness of small innovational business under the conditions of globalization and integration

As is seen from Fig. 1, the offered mechanism has managerial character. Subjects of management are international institutes, and objects are small innovational business and investors. Instrumentarium of management includes four main tools. Creation of electronic platform for cooperation of small innovational enterprises with investors will allow collecting and systematizing information on investment projects and investors from all over the world.

Automatization of the procedure of evaluation and selection of innovational projects within this system will allow simplifying the procedure of projects selection. Unification of normative and legal provision of innovational and investment activities at international level is performed through establishment of special standards.

Creation of specialized institutes for provision of guarantee for investment projects in development of small innovational enterprises is conducted on the basis of international banks, insurance organizations, and other international financial institutes. As a result of realization of the offered mechanism, creation of favorable conditions for attraction of investments into development of innovational business under the conditions of globalization and integration is planned.

Summary and conclusion

Thus, it is possible to conclude that the main problems of attraction of investments into development of small innovational business under the conditions of globalization and integration are absence of platform for interaction with investors, complexity of evaluation of innovational projects, differences in normative and legal provision of innovational and investment activities in various countries, and high risk level.

Perspectives of increase of investment attractiveness of small innovational business under the conditions of globalization and integration are related to solution of the above problems and realization of the developed proprietary mechanism oriented at development of international institutes of attraction of investments into development of small innovational business and reduction of risk components of investment activities, aimed at development of small innovational business.

It should be concluded that in different countries, depending on the level of economic development, character of institutional environment, and conditions of conduct of entrepreneurial and innovational activities, small innovational business may face various difficulties. That's why practical application of the developed mechanism of increase of investment attractiveness of small innovational business under the conditions of globalization and integration requires its further improvement in view of national specifics of targeted country, which is its certain limitation.

Further perspectives of development of the concept of investment attractiveness of small innovational business under the conditions of globalization and integration are related to improvement of methodology of evaluation of investment projects and modernization of institutional environment in view of new economic conditions.

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