

The monograph examines the theoretical foundations of entrepreneurship development: the formation of scientific and theoretical ideas about entrepreneurship, the institutional environment of small entrepreneurship, its opportunities and limitations are analyzed; the concepts and models of entrepreneurship development are studied. The methodological foundations of institutional changes in the field of small business, methodological approaches to the analysis of the institutional environment of small business, factors and directions of development of institutions in the field of small business are identified, ineffective rules and barriers in the institutional environment of small business are characterized. Finally, attention is paid to the design of the components of the institutional environment of small businesses and ways to assess and predict the development of institutions in the field of small business.

The book is of interest to students, researchers, and anyone interested in entrepreneurial activity.



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ISBN 978-9943-7189-9-9



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INSTITUTIONAL TRANSFORMATION OF THE ENTREPRENEURIAL SECTOR

Monograph

Edited by Professor Ikramov M.A

Fergana - AL-FERGANUS - 2021

UDK 338.2

Library and Bibliographic

Classification: 65.011.3

ISBN: 978-9943-7189-9-9

DOI:

<https://doi.org/10.5281/zenodo.5457089>



Abdullaev A.M., Kurpayanidi K. I., Khudaykulov A. S. Institutional transformation of the business sector. Monograph. Fergana "AL-FERGANUS", 2021. - 180 p.

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Published according to the decision of the Council of the Ferghana Polytechnic Institute, Uzbekistan. Protocol No. 12 of August 30, 2021.

ISBN 978-9943-7189-9-9



© 2021, Al-Ferganus

UDK 338.2
ББК: 65.011.3
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<https://doi.org/10.5281/zenodo.5457089>

Абдуллаев А.М., Курпаяниди К.И., Худайкулов А.Ш. Институциональная трансформация предпринимательского сектора. Монография. Fergana “AL-FERGANUS”, 2021. – 180 с.

В монографии рассматриваются теоретические основы развития предпринимательства: проанализированы становление научно-теоретических представлений о предпринимательстве, институциональная среда малого предпринимательства, её возможности и ограничения; изучены концепции и модели развития предпринимательства. Выявлены методологические основы институциональных изменений в сфере малого предпринимательства, методологические подходы анализа институциональной среды малого предпринимательства, факторы и направления развития институтов в сфере малого предпринимательства, охарактеризованы неэффективные правила и барьеры в институциональной среде малого бизнеса. Уделяется внимание проектированию компонентов институциональной среды малого предпринимательства, а также способам оценки и прогнозирования развития институтов в сфере малого предпринимательства.

Книга представляет интерес для студентов, научных сотрудников, всех интересующихся предпринимательской деятельностью.

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Печатается по решению Совета Ферганского политехнического института, Узбекистан. Протокол №12 от 30 августа 2021 года.

ISBN 978-9943-7189-9-9



UDK 338.2

Kutubxona va bibliografik klassifikatsias: 65.011.3

ISBN: 978-9943-7189-9-9

DOI:

<https://doi.org/10.5281/zenodo.5457089>



Abdullaev A.M., Kurpayanidi K. I., Xudayqulov A. S. Tadbirkorlik sektorining institutsional o'zgarishi. Monografiya. Farg'ona "AL -FERGANUS", 2021. - 180 b.

Monografiyada tadbirkorlikni rivojlantirishning nazariy asoslari o'rganilgan: tadbirkorlik, kichik tadbirkorlikning institutsional muhiti, uning imkoniyatlari va cheklovlari haqidagi ilmiy-nazariy g'oyalarning shakllanishi; tadbirkorlikning rivojlantirish kontseptsiyalari va modellari o'rganilgan. Kichik biznes sohasidagi institutsional o'zgarishlarning uslubiy asoslari, kichik biznesning institutsional muhitini tahlil qilishning uslubiy asoslari, kichik biznes sohasidagi institutsional rivojlanish omillari, yo'nalishlari va xususiyatlari tahlil etilgan. Nihoyat, kichik biznesning institutsional muhiti komponentlarini loyihalash va kichik biznes sohasidagi institutsional rivojlanishini baholash va bashorat qilish usullariga e'tibor qaratilgan.

Ushbu monografiya talabalar, tadqiqotchilar va tadbirkorlik faoliyati bilan qiziquvchilarga mo'ljallangan.

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ISBN 978-9943-7189-9-9



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INTRODUCTION

Institutional conditions of small business formation should be perceived as a set of rules and mechanisms that force the subjects of small businesses to fulfil these established rules and norms. Even insignificant dynamics of institutional structure has a significant, if not decisive, impact on subsystems, including entrepreneurial structures. Therefore, the institute, rules, and special guarantors are the obligatory elements of institutional conditions of small business formation.

In modern Uzbekistan, there are radical macroeconomic transformations, and the ultimate goal is to implement the transition to an open socially-oriented market economy. In this regard, the business structure is changing under resource, conjunctural and institutional factors.

Entrepreneurship in Uzbekistan is considered a target group of the ongoing reforms and, most importantly, a driving force of transformations in the socio-economic and socio-political spheres. Currently, entrepreneurial activity is carried out through market infrastructure institutions - a set of interconnected design, technological, information, production and organizational systems¹. It allows the entire cycle of entrepreneurship - from the initial idea to its final practical embodiment in the form of a specific product or service². The entrepreneurial institutional system for successful functioning should also have a favourable regulatory framework and an effective system of market launching of enterprise products³. Hence, the problem of the formation of institutional infrastructure is one of the most serious and urgent. At the same time, all the components of the institutional infrastructure of entrepreneurship: interaction with public authorities,

¹ Ikramov, M. A., & Alimov, G. A. (2019). The formation of demand as a factor in the innovative development of Uzbekistan. In *Russia's Economic Growth: Problems and Strategic Prospects* (pp. 38-44).

² Abdullaev, A. M., & Kurpayanidi, K. I. (2014). Socio-economic aspects of functioning of small business entities in the system of institutional transformations. *New University. Series "Economics and law"*, (2 (36)).

³ Abdurakhmanova G. K. The role of small business in the market economy // *Science and Practice*. 2013. - – №3 - C. 77.

financial institutions, availability of technological and production capacity, transparency and accessibility of information - still do not meet the tough competitive market conditions and do not provide growth of economic efficiency of entrepreneurial activity. The situation is also aggravated by significant interregional differences in the institutional provision of entrepreneurship⁴.

Market conditions of economic management and the need to overcome the consequences of the global financial and economic crisis, elimination of the consequences of the pandemic of coronavirus infection COVID-19 require intensification of efforts to increase economic dynamics⁵. This primarily applies to the enterprises of the real sector of the economy.

In connection with the above, in Uzbekistan, entrepreneurship is identified as a priority area for developing the country's economy and is supported by the state⁶. Overt As a result, overt three years, the gro

In January-March 2021 the share of small businesses in GDP was 45.0% (44.7% in January-March 2020). In January-March 2021, 26.8 thousand new small businesses and microfirms (excluding dekhkan and farms) were established, 15.0% more than in 2020⁷. As a result, in January-March 2021, the number of operating small businesses per 1,000 population was 16.1 units.

In particular, in 2020 small businesses were allocated loans and financial assistance worth 120 trillion soums. As a result, more than 104 thousand businesses affected by the pandemic have restored their activities, and the working capital of

⁴ Margianti, E. S., Ikramov, M. A., Abdullaev, A. M., Kurpayanidi, K. I., & Misdiyono, M. , Khudayqulov, A. (2020). Role of goal orientation as a predictor of social capital: Practical suggestions for the development of team cohesiveness in SME's. Monograph. Gunadarma Publisher, Indonesia.

⁵ Abdullaev, A. M., & Khudaykulov, A. (2020). Challenges of coping with the economic consequences of the global pandemic COVID-19. ISJ Theoretical & Applied Science, 5(85), 1.

⁶ Kurpayanidi, K. I., & Ashurov, M. S. (2020). COVID-19 pandemic sharoitida tadbirkorlik va uni rivozhlantirish masalalari: nazaria va amaliyot. Monograph. GlobeEdit Academic Publishing. <https://doi.org/10.5281/zenodo.4046090>

⁷https://stat.uz/ru/?preview=1&option=com_dropfiles&format=&task=frontfile.download&catid=328&id=1516&Itemid=1000000000000

private enterprises has increased by 33 percent compared with last year ⁸.

As President of the Republic of Uzbekistan Sh.M. Mirziyoyev emphasizes: "If we do not support entrepreneurs, create conditions for them, and increase their ranks, the local budget in towns and districts will not be replenished. No matter how much money we allocate, no decrees and resolutions we adopt, no favourable conditions we create, everything will be in vain unless the lower-level leaders change their outlook and become friends with entrepreneurs⁹."

Small business and private enterprise may become the most dynamic sector, capable of having a significant impact on both the macro- and microeconomic spheres, especially in the context of the global financial and economic crisis¹⁰.

At the same time, it is necessary to emphasize that in the modern economy of the small business, a country does not yet perform those functions typical for it in the countries with the developed market. Therefore, the development of this sphere of the economy should become a catalyst in the dynamics of such reforms as the development of diverse forms of entrepreneurial activity and the formation of a competitive environment.

Literature analysis on the topic

The development of entrepreneurial theory began in representatives of the classical school of political economy R. Cantillon and J.-B. Say introduced the category "entrepreneur" and emphasized his ability to take risks of variable income and perform the functions of management and coordination of production factors. The entrepreneurship theory was further developed in the works of H. Magoldt and J. Thünen, who considered the uncertainty of the external environment as a source of entrepreneurial income. Representatives of the German historical school (M. Weber, W. Sombart, G. Schmoller, etc.) treated the entrepreneur as innovators and

⁸ <https://cbu.uz/ru/monetary-policy/analysis/>

⁹ Shavkat Mirziyoyev: Everything will be in vain unless lower-level executives change their outlook and become friends with the entrepreneur. <https://president.uz/ru/lists/view/4278>

¹⁰ Pujiati, D., & Misdiyono, E. S. M. (2020). Meta Analysis of Management Control System, Strategy And Perfotmance of Business Units.

creators. J. Schumpeter defined as an attributive feature of entrepreneurship the ability to create new combinations of traditional factors of production.

Further development of the theory of entrepreneurship is associated with the names of F. Knight, who developed the position of the uncertainty of the external environment as a source of entrepreneurial income; J. Shackle, who analyzed the role of time in economic theory; neo-Austrian school (L. Mises, F. Hayek), which analyzed entrepreneurship as a process; D. McClelland, T. Schultz, who studied entrepreneurial motivation, etc.

A significant contribution to the development of the entrepreneurship theory was made by representatives of the institutional direction, including T. Veblen, J.K. Galbraith, J. Commons and others. The use of institutional methodology allowed to reveal the content of the agent contradiction and the firm's essence as a network of contracts (J. Akerlof, A. Berle, R. Coase, J. Means, etc.).

Some attempts to integrate the category "entrepreneurship" with the standard economic model were made in the works of W. Baumol, R. Villigol, J. Panzar and others. The results of studies of factors influencing the degree of entrepreneurship are presented in C. Dean, S. Zar, A. Thomas and others. The relationship between economic growth and the level of entrepreneurial development was studied using the analytical tools of the neoclassical concept, which is reflected in the works of Z. Griliches, E. Mansfield, M. Nadiri, M. Porter, P. Romer, R. Solow, etc.

The fundamental moments of the theory of entrepreneurship, small business in the conditions of institutional transformations are stated in the works of well-known foreign economists D.Bounie¹¹, D. Deakins & M.Freel¹², P. Drucker¹³,

¹¹ Bounie, David and Camara, Youssouf and Galbraith, John W., Online Commerce, Inter-Regional Retail Trade, and the Evolution of Gravity Effects: Evidence from 20 Billion Transactions (June 11, 2020). Available at SSRN: <https://ssrn.com/abstract=3624723> or <http://dx.doi.org/10.2139/ssrn.3624723>.

¹² Deakins, D., & Freel, M. (2012). *Entrepreneurship and Small Firms 6e*. McGraw Hill.

¹³ Drucker, P. F. (2002). The discipline of innovation. *Harvard business review*, 80(8), 95-102.

A. Marshall¹⁴, A. Smith,¹⁵ B. Santo¹⁶, K. Tateisi¹⁷, J. Schumpeter¹⁸, D. Welsh¹⁹, P. Wustrow²⁰ and others. Among the most important studies, which cover some or other aspects of small business development in the CIS, we should mention such authors as L. Abalkin²¹, V. Avtonomov²², A. Blinov²³, T. Koichuev²⁴, O. Krivoruchko²⁵, M. Lapusta²⁶, A. Orlov²⁷, E. Primov²⁸, V. Rube²⁹, F. Shakhmalov³⁰, A. Yudanov,³¹ etc.

¹⁴ Marshall, A. (1993). Principles of economic science. *M.: Progress*, 2, 310.

¹⁵ Smith, A. (2019). *An Inquiry into the Nature and Causes of the Wealth of Nations* (No. 1, pp. 1-2). Liberty Classics.

¹⁶ Santo, B. (1990). Philosophy of Entrepreneurship. *Problems of Theory and management practices*, (3), 96-101.

¹⁷ Tateisi, K. (1992). Eternal spirit of entrepreneurship. K.: Ukrzakordonvizaservis.

¹⁸ Schumpeter J., Mileikovsky AG, Bomkin VI (1982) Theory economic development: (Study of entrepreneurial profit, capital, credit, interest and the cycle of conjuncture). with him. - Progress, 1982.

¹⁹ Welsh, D. (2014). *Creative cross-disciplinary entrepreneurship: A practical guide for a campus-wide program*. Springer.

²⁰ Wustrow, P. (2018). *Entrepreneurial information search behavior for opportunity recognition: Measurement, antecedents, outcomes* (Doctoral dissertation, University of St. Gallen).

²¹ Abalkin, L.I. (2007). Notes on Russian Entrepreneurship / Selected Works: In 4 vols. t. T. III "NPO Ekonomiki".

²² Avtonomov, V., & Avtonomov, Y. (2019). Four Methodenstreits between behavioral and mainstream economics. *Journal of Economic Methodology*, 26(3), 179-194.

²³ Blinov, A. O., & Magdanov, P. V. (2018). Management Theory. *NV Ugryumova-M.: Dashkov and K.*

²⁴ Koichuev, T., & Koichueva, M. (2001). Theory and practice of economic development in the Transition Period. *Reform, Bishkek.-2001.*

²⁵ Krivoruchko, O. N., Zaitsev, A. A., & Lobanov, S. N. (2000). *Stanovlenie predprinimatel'skoj ekonomiki v Rossii. Ekonomika.*

²⁶ Lapusta, M. G., & Starostin, Y. L. (1998). Small entrepreneurship. *Moscow: Infra*, 220.

²⁷ Orlov, A. K. (2017). Arrangement and planning of developer's activities in the course of construction megaprojects implementation. In *MATEC Web of Conferences* (Vol. 106, p. 08013). EDP Sciences.

²⁸ Primov, E. (2003). Formation and development of entrepreneurial activity in the Kyrgyz Republic. *Society and Economics*, 9.

²⁹ Rube, V. A. (2014). Institutional aspects of the organization of small business in developed countries and in Russia: a study guide for university students enrolled in economic specialties. *Textbooks of the economic faculty of Moscow State University named after MV Lomonosov*, 23.

³⁰ Shamkhalov, F. (2011). Small business in the system of market Reforms: Problems of Growth or Survival. *Issues of Economics*, 10.

³¹ Yudanov, A. Y. (2010). Carriers of entrepreneurship: Gazelle firms in Russia. *Zhurnal novoi ekonomicheskoi assotsiatsii*, 5(5), 91-108.

The peculiarities of formation and development of this economy sector were the subject of studies by A. Hikmatov³², B. Berkinov, M. Ikramov³³, N. Makhmudov, M. Tursunkhojaev, Z. Khudayberdiyev, V. Baturina, D. Trostyansky and others.

A. Akhmedieva, U. Gafurov, U. Validjanova, O. Ismailova, L. Ishmukhamedova, S. Salaev, I. Tursunov, E. Ergashev, M. Eshov and others were devoted directly to the development of small business and private entrepreneurship in the new institutional conditions. In them, the main attention was paid to regional or branch aspects of the solution of this problem. However, the directions of research on the problem have recently changed somewhat from analyzing general problems of small business (its place and role in the economic system, in solving social problems, employment problems, etc.) to analyzing the causes constraining its development and searching for conditions to activate small business. At the same time, practice shows that despite all the efforts to activate small businesses by the state at various levels, from national to regional, we cannot discuss a radical improvement of the situation. This is due to the multifaceted nature of the phenomenon of small business itself and the variety of conditions for its functioning. Therefore, despite the large number of publications devoted to various aspects of small business, the study of this problem requires further development. In particular, the institutional conditions determining the structure of entrepreneurship in Uzbekistan have not been practically studied.

Research Methodology

Theoretical and methodological basis of the study were the concepts and hypotheses, which formulated the principles of entrepreneurial activity. In the course of the study the works were used, which formulated the theories of

³² Hikmatov, A., Trostyansky, D. (2002). Development of small business as a factor of economic growth in Uzbekistan. *Society and economy*. 2.

³³ Ikramov, M., Eshmatov, S., Ashurov, A., Fayzullaev, S., Bobojonov, B., & Boboerova, M. (2021). Practical Issues of Advertising Ethics. *Annals of the Romanian Society for Cell Biology*, 8175-8182.

entrepreneurship, theories of innovation and innovative development, theories of state regulation of the economy, etc. The solution of the set scientific problems was carried out with the use of general scientific methods of economic processes research.

Analysis and results

In 2016-2021, a number of systemic measures aimed at creating conditions for doing business and attracting foreign investment for small and private businesses, which are the foundation of Uzbekistan's economic development, were adopted. In October 2016, the Decree of the President of the Republic of Uzbekistan S. Mirziyoyev "On Additional Measures to Ensure Accelerated Development of Entrepreneurship, Comprehensive Protection of Private Property and Qualitative Improvement of the Business Climate" was issued.³⁴ The Decree is aimed at creating an even more favorable business environment by abolishing all types of unscheduled and counter-inspections and eliminating barriers. The document pays particular attention to the adoption of effective measures to ensure the dynamic modernization of small and private businesses and stimulate their export activities, which must become the main direction of economic growth in the development of industries and regions, providing employment for the population, and also provides for additional measures to further encourage the participation of small businesses and private entrepreneurship in exports.

In accordance with the Decree of the President of the Republic of Uzbekistan "On measures to radically improve the system of state protection of legitimate interests of businesses and further development of entrepreneurship" of June 19, 2017, as³⁵ well as the Decree "On improving the organization of the Chamber of Commerce and Industry of the Republic of Uzbekistan" a deep reform of the

³⁴ Collection of Legislation of the Republic of Uzbekistan, 2016, No. 40, art. 467

³⁵ On measures to radically improve the system of state protection of legitimate interests of businesses and the further development of entrepreneurial activity. Decree of the President of the Republic of Uzbekistan N UP-5087 of 19.06.2017 // Collection of Legislation of the Republic of Uzbekistan, June 27, 2017, N 25, Art. 522.

Chamber of Commerce and Industry by reviewing its objectives, functions and powers is implemented.³⁶

In order to radically improve the business environment, to create the most favorable conditions for doing business, reduce, simplify and increase the transparency of all types of procedures related to the activities of enterprises, the introduction of generally accepted in world practice, the system of criteria for assessing the business environment and on this basis to further increase the international rating of the business and investment climate in Uzbekistan, the President issued a Decree № 4455 "On measures to further radically improve the business and investment climate in Uzbekistan" on 18 July 2012.

According to the adopted document,³⁷ the ministries of economy and finance, the Central Bank together with the interested departments and structures in accordance with the methodology adopted by the World Bank and its division of the International Finance Corporation to form the report "*Doing Business 2017: Equal Opportunities for All*" carried out extensive work on the factor analysis of the business environment and introduction of evaluation criteria and indicators that determine the country rating. The government has a strategic task to increase the country rating according to the criteria of the "Doing Business" report³⁸.

In order to further involve the population in entrepreneurial activities and create additional conditions for legal employment, the Decree of the President of the Republic of Uzbekistan №PP-4742 dated 08.06.2020 was adopted. "On measures to simplify state regulation of entrepreneurial activity and self-

³⁶ On improving the organization of the activities of the Chamber of Commerce and Industry of the Republic of Uzbekistan. Decree of the President of the Republic of Uzbekistan № PP-3068 of June 19, 2017, // Collection of Legislation of the Republic of Uzbekistan, 2017, № 26, Art. 578).

³⁷ The Collection of Legislation of the Republic of Uzbekistan, 2012, No. 29, Art. 328; 2013, No. 36, Art. 477.

³⁸ Kurpayanidi, K. I. (2017). "Doing Business 2017: Equal Opportunities for All" as a Driver of Entrepreneurial Environment Regulation. *Economic Analysis: Theory and Practice*, 16(3 (462)).

employment"³⁹.

In addition, the Ministry of Economic Development and Poverty Reduction, the Ministry of Justice and the Chamber of Commerce and Industry introduced from 2021 an information system "Business Navigator", which allows the real-time use of services that facilitate entrepreneurial activities.

In this context, the potential of the middle class emerging in Uzbekistan as a result of the development of small and private business, a natural supporter of effective institutions for the protection of property rights, is important. The relevance of the problem, its scientific and practical importance, as well as the insufficient development have determined the writing of the monograph, its object and subject, its logic and structure.

³⁹National Legislative Database, 09.06.2020, No. 07/20/4742/0736; 10.02.2021, No. 09/21/6165/0104; 06.05.2021, No. 06/21/6221/0428
<https://lex.uz/ru/docs/4849605>

Chapter 1. THEORETICAL FOUNDATIONS OF ENTREPRENEURIAL DEVELOPMENT

1.1 Formation of scientific and theoretical views on entrepreneurship

Entrepreneurship has remained an area of scholarly and academic study for many decades. Its study is interdisciplinary since it affects many areas of human activity. At the same time, scientists have not yet developed a paradigm for the consistent study of entrepreneurship, particularly its structural sectors - small, medium and large⁴⁰.

In our opinion, the essence of small business logically follows from the essence of the basic concept of "entrepreneurship", the scientific evolution of which can be traced through the works of famous classics and contemporaries. Nowadays, it is difficult to say who first began to study this phenomenon. Nevertheless, the ancestor of the term "entrepreneur" is considered French scientist R. Cantillon, who in 1725-1730 presented a logically formed general idea about the subject of this phenomenon. According to R. Cantillon, an entrepreneur is someone who takes risks and can legitimately appropriate any income. Later this concept was clarified and expanded by other scientists. At the beginning of the XIX century A. Turgot and J.B. Say established a difference between the capitalist and the entrepreneur. In their opinion, the entrepreneur, accepting risk and acting in uncertain conditions, combines production factors in new ways, and the capitalist provides his needs with funds. At the end of the 19th century, A. Marshall in his works, showed the difference between the functions of an entrepreneur and a manager (administrator). He wrote that both perform the functions of organization and management of production, but the entrepreneur's functions are wider than those of the manager since he assumes the risk and full responsibility for the business's success. A special place in the formulation of the concept of "entrepreneurship" is given to J. Schumpeter. His approach to this phenomenon is purely functional. This is

⁴⁰ Kurpayanidi, K. I.(2021). The evolution of scientific and theoretical ideas about entrepreneurship. *Logistics and economics. Scientific electronic journal*.3. 178-185 pp.

evidenced by the definition proposed by him in the early twentieth century. According to J. Schumpeter, entrepreneurs perform the function of transforming or reconstructing the production system, and they remain so as long as they perform this function. The function of the innovator enables the liberal system to continue to exist beyond its contradictions⁴¹ .

P. Cantillon, A. Thurgot, J.B. Say and J. Schumpeter are considered the founders of the dominant positions in the theory of entrepreneurship. Meanwhile, F. von Hayek, A. Shapiro, R. Hisrich, D. McClelland, P. Drucker and many other scientists who have studied various aspects (psychological, managerial, resource) of entrepreneurial activity, reflecting features of types of economic growth, priorities of economic interests and socio-cultural circumstances in a particular society also made an undoubted contribution to the development of the knowledge system on entrepreneurship in the twentieth century. Thus, A. Shapiro saw the future entrepreneur as an individual ready to act, considering previous experience and the perception of current opportunities⁴². According to A. Shapiro, an individual's general readiness to create an enterprise arises when he or she is laid off from his or her job. In this case, the desire to create his enterprise turns into reality only when the individual sees a convenient opportunity and can collect the necessary funds and other required resources. R. Hisrich, summarizing the studies of entrepreneurial behaviour, revealed that an entrepreneur should be considered only as one who demonstrates initiative and creative thinking, can organize social and economic mechanisms for the use of resources in practical activities, to accept risk and loss⁴³. In turn, D. McClelland suggested using a similar set of characteristics to explain entrepreneurial behaviour, among which we can name the

⁴¹ Schumpeter, J. A. (2017). *The Theory of Economic Development: An Inquiry into Profits, Capita I, Credit, Interest, and the Business Cycle*. Routledge.

⁴² Shapiro, A. (1975). The displaced, uncomfortable entrepreneur. *University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship*.

⁴³ Hisrich, R. D. (1990). *Entrepreneurship/intrapreneurship* (Vol. 45, No. 2, p. 209). American Psychological Association.

need for growth, a moderate tendency to accept risk, a preference for vigorous activity, acceptance of personal responsibility for success or loss⁴⁴ .

At first glance, it seems impossible to offer something new in defining the category's content in question, as there are countless different interpretations. Nevertheless, based on modern scientists' works, we will try to conduct a theoretical analysis of the already existing provisions and clarify the generic concept of "small business". Reference to the works of scientists of the second half of the twentieth century is explained by the fact that a fundamental reassessment of small business's role in the economic development of industrial society took place in the 1970s. The basis for this was a practical refutation of the theoretical paradigm according to which ownership of capital is continuously concentrated and enterprises grow in size. Meanwhile, the increase in consumer demand for more differentiated goods entailed an industrial reconstruction of two types: the decentralization of enterprises and new enterprises' associations.

It seems to us that the totality of modern views on "entrepreneurship" can be conditionally divided into four groups. The first group should include scientists who consider it a socio-economic phenomenon, covering various forms of economic activity of the population, organizational and legal forms of enterprises. At the same time, entrepreneurship is based on individuals' economically independent activity (legal entities) to achieve the social and economic effect. Entrepreneurship is a multidimensional socio-economic phenomenon, covering all economic activity areas, emphasising that entrepreneurship is a market form of economic activity. In our opinion, J. Schumpeter would not agree with such a statement. He believed that the socialist economy in a "dynamic entrepreneur" could achieve greater efficiency, eliminating non-labour elements⁴⁵ . In this context,

⁴⁴ Kockx, M. M., McClelland, M., & Koeppen, H. (2021). Microenvironmental regulation of tumour immunity and response to immunotherapy. *The Journal of Pathology*.

⁴⁵ Schumpeter J. (2021). *Capitalism, Socialism, and Democracy*. N.Y., <http://139.59.56.236/bitstream/123456789/478/1/schumpeter-joseph-a-capitalism-socialism-and-democracy.pdf>

the phenomenon of the Chinese system of "market socialism" has now emerged as a separate area of economic research.

The second group can include scientists who refer entrepreneurship to the market form of economic management. According to them, as a form of economic management, it is based on an extremely rational combination of factors of production, an innovative foundation. It is implemented to obtain entrepreneurial income.

In the third group, we grouped scientists who study entrepreneurship as a specific type of behaviour with an innovative component. In their view, this behaviour is focused mainly on residual income and is not available to the market process's standard acting agents.

The fourth group included scientists who consider entrepreneurship a type of initiative and independent activity carried out at their own risk and under their property responsibility and aimed at generating income. Numerous studies have proven that creating a new enterprise often comes under pressure from the situation associated with changes in lifestyle, family environment, education, age, professional activity, role models and supportive network. Some people become entrepreneurs under the influence of negative factors, such as dissatisfaction or loss of work, difficulties in their career.

As a result of generalization and analysis, we found that the main features of entrepreneurial activity are described in the content of most definitions. The market economy in its essence is the economy of entrepreneurship logically leads to the fact that the concept under consideration is a socio-economic phenomenon. At the same time, the central figure is the entrepreneur, who is characterized by initiative, independence, innovation, and the orientation of all his activities to generate income. Such features as a creative expression of personality, creative work, self-organizing subject of the economic process, system-forming factor of the economic system also refer to the subject and object of entrepreneurial activity, generally indicating the phenomenon's versatility under study.

It is well known that the listed features contain other forms of activity not related to entrepreneurship. The essence and main difference of entrepreneurial activity we see in creating new value have a certain value and generate income. Although in this approach, there is also disagreement in opinions. So, some scientists believe that creating new value is limited by limits of capital resources of the entrepreneur, namely scales of their human and social capitals. Most small businesses produce little and no new value but contribute significantly to forming "social wealth" and jobs⁴⁶. That is why, for example, W. Baumol proposes to separate the "entrepreneur who organizes a firm" from the "innovative entrepreneur"⁴⁷. For the first type of entrepreneur, value production may not be as important as intrapersonal changes affecting their know-how, a network of relationships, or social status. The second type of entrepreneur, on the other hand, performs a set of sequential actions that ensure the emergence, transformation and use of innovation to produce new consumer goods, make a profit, and achieve competitiveness through increased production efficiency. They need to implement their ideas, which, ultimately, are reflected in the innovator's inner world.

K. Briut and P. Julien, in turn, believe that the varieties of entrepreneurship are not limited to the above two types. In the context of the dualism "*individual-creation of new value*", they distinguish four forms of its manifestation. These are entrepreneurial reproduction, imitation, realization and risk⁴⁸. According to scientists, entrepreneurial *reproduction* is demonstrated when an individual with extensive experience in some field decides to start his own business. In this case, the entrepreneur creates an insignificantly new value, which cannot be categorized as "innovation. Besides, it will not show any internal changes.

⁴⁶ Bruyat, C., & Julien, P. A. (2001). Defining the field of research in entrepreneurship. *Journal of business venturing*, 16(2), 165-180.

⁴⁷ Baumol, W. J. (1993). Formal entrepreneurship theory in economics: Existence and bounds. *Journal of business venturing*, 8(3), 197-210.

⁴⁸ Bruyat, C., & Julien, P. A. (2001). Defining the field of research in entrepreneurship. *Journal of business venturing*, 16(2), 165-180.

Entrepreneurial *imitation involves producing* the same value but in a new way (borrowing technology), accompanied by internal transformations in entrepreneurship. This category includes the organization by a large business of a typical restaurant due to a radical revision of activity areas.

If an engineer, previously responsible for innovative projects in large companies, develops a new project in a well-studied and promising area for himself, there is an entrepreneurial *realization*. The engineer is considered to have unique knowledge and a network of relationships (customers and suppliers who trust him; potential employees with rare know-how who will follow him without hesitation, etc.). This form of entrepreneurship acts as a source of innovation, where new value is produced by realising the founder's specific qualities.

Global experience shows that entrepreneurial *risk is* rare because it is accompanied by a high degree of uncertainty and unpredictability. However, here the innovation potential of the entrepreneur is fully realized. In this case, the importance is not even the potential itself, but its difference (between the investment in innovation and return; input and output of the system); only, in this case, there is an effect. In successful results, they lead to radical changes in the external environment by creating a new distinctive value (usually a new product, and sometimes a new economic sector).

As a result, the first two forms should be attributed to traditional entrepreneurship and the next two - to innovative entrepreneurship. In the most general form, innovative entrepreneurship is a special, innovative process, leading to creating the best in its properties of goods (products, services) and technologies through the practical use of innovation. It involves a constant search for opportunities, focuses on innovation, the entrepreneur's readiness to take all risks associated with implementing the venture project or the improvement of existing and arising financial, moral and social responsibility. The economic literature

distinguishes four main types of innovative entrepreneurship: product innovation, technology innovation; social innovation; managerial innovation⁴⁹.

The main and defining part of all types of innovative entrepreneurship is the creation and production of scientific and technical products, manufacturing of new types of products (goods, services, works, information, intellectual (spiritual) and material values, production technologies, know-how), subject to subsequent implementation.

According to the way the innovation process is organized in the venture company, it is possible to distinguish several basic models of innovative entrepreneurship, created based on:

- internal organization, when innovation is created and (or) mastered within the firm by its specialized divisions based on planning and monitoring their interaction on the innovation project;
- an external organization utilizing contracts, when the order for the development, creation and (or) partial development of innovations, innovations the firm places between third-party organizations, and fully develop them, as a rule, by their forces.

The main reason for this is that the venture is not a single company but rather an external organization where the parent firm establishes subsidiaries that raise additional funds from external sources to carry out venture projects.

Additional factors influencing the degree of manifestation and transformation of the above forms of entrepreneurship are the type of market (with low, medium or high technology), the individual's investment opportunities, and the external environment's state (favourable or hostile).

In general, in our view, *entrepreneurship is a type of economic management to create new value, carried out on their initiative, at their own risk and responsibility, and generate income due to meeting the needs of counterparties in*

⁴⁹ <http://mironov.ru/publikatsii/sergej-mironov-sotsialnoe-predprinimatelstvo-v-rossii-neobhodimo-zashhitit-spetsialnym-zakonom/>

goods and services. The proposed characterization of this concept's essence is quite applicable to small business, which is the most common form of economic activity globally, and its boundaries are determined by the scale (scope) of activity. It is entrepreneurial reproduction and imitation found expression in small business in the traditional sense. Entrepreneurial implementation and risk are more inherent in small venture firms, which carry out scientific and practical research in developing new products, equipment, and technology⁵⁰.

Our proposed definition corresponds to the description of a self-developing and self-sufficient business of value creation. At the same time, most businesses are formed for redistribution of value and capital flight in practice. In this situation, it is more appropriate to consider entrepreneurship as "the process of discovering and realizing new opportunities to use known resources, discovering new resources, as well as markets for the products produced"⁵¹. Definition, to some extent, reflects the marketing strategy of the entrepreneurial structure in the market.

Even though the term "small business" is widespread in the scientific literature and legal acts, there is still no unity of opinion on the definition of its essence. The number of available interpretations can hardly be classified in detail. The reasons for this are seen in the different scientific bases of interpretations, their gradual displacement and the development of new interpretations in the light of parallel scientific directions. Based on the existing theoretical and methodological provisions, we believe that to describe the specific characteristics of small business:

- First, it is necessary to define the fundamental term that indicates the object of the study directly;
- Secondly, to determine the scheme of distribution of ownership of the factors of production by the entrepreneur;

⁵⁰ Kurpayanidi, K. (2021). Scientific and Theoretical Issues of Entrepreneurship Development. *Bulletin of Science and Practice*, 7(6), 345-352. (in Russian). <https://doi.org/10.33619/2414-2948/67/38>

⁵¹ Shastitko, A.E.(2010). *New Institutional Economics*, Moscow: TEIS.

- Thirdly, to discuss the parameters of the allocation of this business category, aimed at clarifying its varieties.

In addition to the term mentioned above, the economic literature uses such concepts as "small business", "small enterprise", "microbusiness", "individual entrepreneurship". In this regard, it is necessary to find out:

- a) which of the terms should be used for further analysis;
- b) or they are all synonymous and can be used equally.

In the new English-Russian dictionary⁵², the word "business" is translated with 9 meanings. Only two are closest to the issue under consideration:

- a) trade enterprise, firm;
- b) business; commercial activity. It follows that the term "business" can be used as a synonym of the word "firm".

According to A. Demin, "firm" is a universal organizational structure of the business, one of the main economic institutions of capitalism, a form of institutionalization of the market economy. Occupying a key role in microeconomics, it has a general purpose - creative entrepreneurship⁵³. A. Hosking believes that "business" is an economic activity carried out by individuals, businesses or organizations to extract natural goods, produce or acquire and sell goods or provide services in exchange for other goods, services or money for the mutual benefit of the individuals and organizations concerned⁵⁴. The modern economic dictionary defines "business" as a proactive economic activity carried out at the expense of own or borrowed funds at one's own risk and responsibility, with the main objectives of making a profit and developing one's own business.

From the point of view of logic, an enterprise is created to carry out the entrepreneurial activity. Accordingly, the enterprise is the primary structural unit, and it must be taken as the basis for defining the business parameters. However,

⁵² Muller V. K. (2021). Russian Russian dictionary, New English-Russian, Russian-English dictionary. M.: DROFA.

⁵³ Demin, A. A. (2003). Lidery mirovogo biznesa. St. Petersburg. (in Russian).

⁵⁴ Khosking, A. (1993). Kurs predprinimatel'stva. Moscow. (in Russian).

business activities are also carried out by individuals without a legal entity (enterprises), who have the right to hire labour. Their activities are defined by the term "individual entrepreneurship. Usually, the scale of their activities is small.

Consequently, small enterprises and individual entrepreneurs are at the core of the definition of small business parameters. All this proves the validity of the use of the term "small business". Moreover, based on the above definitions, the term, "small business" can be regarded as a synonym of this word combination or vice versa.

Small business involves the organized activity of one or a group of individuals in a particular economic activity area to achieve a common goal (income generation). In addition to a common meaningful goal, each co-founder has his function of maximizing utility (personal wealth growth). An organized form of activity and the pooling of resources for the production of new value to generate income allows us to equate the subject of small business with a firm. R. Coase wrote that "the firm is a system of relations arising when the direction of resources begins to depend on the entrepreneur"⁵⁵. In this case, the entrepreneur forms an institutional model of management, which structures the space of social interactions concerning the achievement of benefits, including the behaviour of people who carry out their activities within this space.

However, small entrepreneurship as a structural link cannot function properly unless a property rights system is created to distribute resources. The concept of property rights does not reflect the specifics of small entrepreneurship. Still, it helps fix a certain owner for each entitlement, i.e. to produce a property rights specification. The establishment of property rights is in the interests of small business for two reasons. First, uncertainty in interactions between economic agents is reduced, and second, the use of resources is optimized.

⁵⁵ Kouz, R. G., Gal'perin, V. M., & Pinsker, B. S. (2000). Priroda firmy. Vekhi ekonomicheskoi mysli, 2, 11-32. (in Russian).

The theory of ownership of factors of production is primarily associated with the work of A. Alchian and G. Demsetz, who pointed out their five elements:

- the right to determine the use of assets, that is, the choice of the sphere of activity, the direction of investment of funds;
- the right to conclude contracts with all other participants;
- the right to exercise control over the other participants in business activities;
- the right to residual income - the appropriation of that part of the income which is formed after fixed payments to the owners of all other factors of production;
- the right to dispose of the firm's assets - sale, transfer, lease, etc., up to and including the firm's sale as a whole⁵⁶.

As the sole founder of a business, the individual entrepreneur concentrates all these powers in the hands of one person. He independently conducts all the affairs in his own interest, manages the firm, receives all the residual income, and is subject to unlimited liability. As a rule, an individual firm's owner possesses the most important interspecific resource, namely, a complimentary, mutually unique resource, the maximum value achieved only in and through this enterprise. Such interspecific resource can be both the physical and human capital of the founder.

The concentration of these powers in one person's hands ensures the coordination of benefits and costs, although his economic activity is fraught with two kinds of uncertainty. On the one hand, different combinations of factors and production methods provide different levels of related costs. On the other hand, the market recognizes the product's value after the production process has been completed. The entrepreneur's incentives for organizing a business ranges from property loss to the entrepreneurial income he receives. Their contract price determines the socially normal level of efficiency of the factors of production

⁵⁶ Alchian, A. A., & Demsetz, H. (1972). Production, information costs, and economic organization. *The American economic review*, 62(5), 777-795.
<http://www.jstor.org/stable/1815199>

involved. The excess of the effect obtained over the costs requires the organizer of production appropriate skills and talents, which are compensated by the residual income. A significant disadvantage of this form of business organization is the last point: with the departure of a specific resource owner, the enterprise's market value sharply decreases.

In small businesses founded on the partnership principle, the rights as mentioned earlier belong to the co-founders. All owners of specific resources have the right to residual income. This right is combined with the right of control and management, but the exercise of rights by a single individual is only possible in agreement with the other partners. Despite the relative advantages of partnerships compared to sole proprietorship, they also have disadvantages. For example, the partners seeking to maximize their benefits may violate the contract or interpret its incompleteness in their interests. This circumstance can occur if the potential sanctions for breach of the agreement are less than the acquired benefit. Opportunistic behaviour becomes especially likely under conditions of asymmetry of information. Inconsistency of actions, incompatibility of interests arise because of the division of functions and powers. Emerging contradictions or the withdrawal of one of the partners leads to the potential dissolution of the partnership.

The general limitations to the development of small businesses are associated with the scale of capital available to them, the increase in the price of errors as the scale of business increases, and the lack of a developed internal specialisation system management functions.

A. Lyakin writes that the scale of capital limits the firm in two ways. First, the accumulation of capital through profits is slow, and in some cases already the beginning of a business requires large-scale investment. Credit is not always available, and its maximum size is limited by equity. Secondly, an increase in the scale of production forces an increasing number of hiring personnel to manage. The number of independently developed and taken decisions is reduced, and the full

property responsibility for the decisions made remains⁵⁷. At the same time, in our opinion, a part of problems loses its relevance if for the entrepreneur is important, first of all, the forthcoming internal changes, motivated by the acquisition of full independence, the possibility of realization of creative ideas, demonstration of own abilities for the sake of own good, rather than the creation of new value.

According to R. Coase, the functions of the entrepreneur as the owner of various resources are aimed at finding the most profitable way of production (i.e. transformation of resources into products) in conditions of uncertainty, when a particular direction of resource use is determined not by constant negotiations of their owners, but by the sole decision of the entrepreneur. The entrepreneur gets the right to make such a decision based on a network of contracts concluded with each of the resource owners in exchange for providing them with guaranteed payments, i.e. removing the risk for resource use results. The entrepreneur's risk premium is the residual income from the gross proceeds after the amounts agreed upon in the contract have been paid to the parties.

The entrepreneur is also engaged in a continuous process of management, forming a ramified system of decision-making. Its activity occurs in two economic relations directions: between employees or subdivisions of one enterprise and between economic agents not belonging to the same enterprise (market). Consequently, the position of a small business entity is not less dependent on the external environment.

The external environment has a significant impact on the strategy, structure, and process of any organizational effort, including entrepreneurial endeavours. Scholars have noted that when the external environment is favourable, entrepreneurial endeavours can be successful, better "fit" their environment, and

⁵⁷ Lyakin, A. N. (2003). Rossiiskaya privatizatsiya i formirovanie natsional'noi modeli korporativnogo upravleniya. Poisk, (in Russian).

maximize interactions' benefits⁵⁸. Since an entrepreneur depends on his business's survival, he must identify the significant factors in the environment that presumably influence his activities. Adapting small businesses to changes in the external environment leads to corresponding changes in the internal environment⁵⁹.

Elements of the external environment consist of suppliers, market institutions, counterparties, socio-cultural, legislative, political and economic factors, competitors, and state support system. According to the degree of influence, they can be divided into environments of direct and indirect influence. According to A. Elbing, the environment of direct influence includes the factors that directly affect the enterprise's operations⁶⁰. These factors should include suppliers, labour, regulations, public administration, consumers and counterparties. The indirect impact environment refers to factors that have an indirect impact on the enterprise's activities. Here we are discussing such factors as the economy, scientific and technological progress, socio-cultural and political factors, international events.

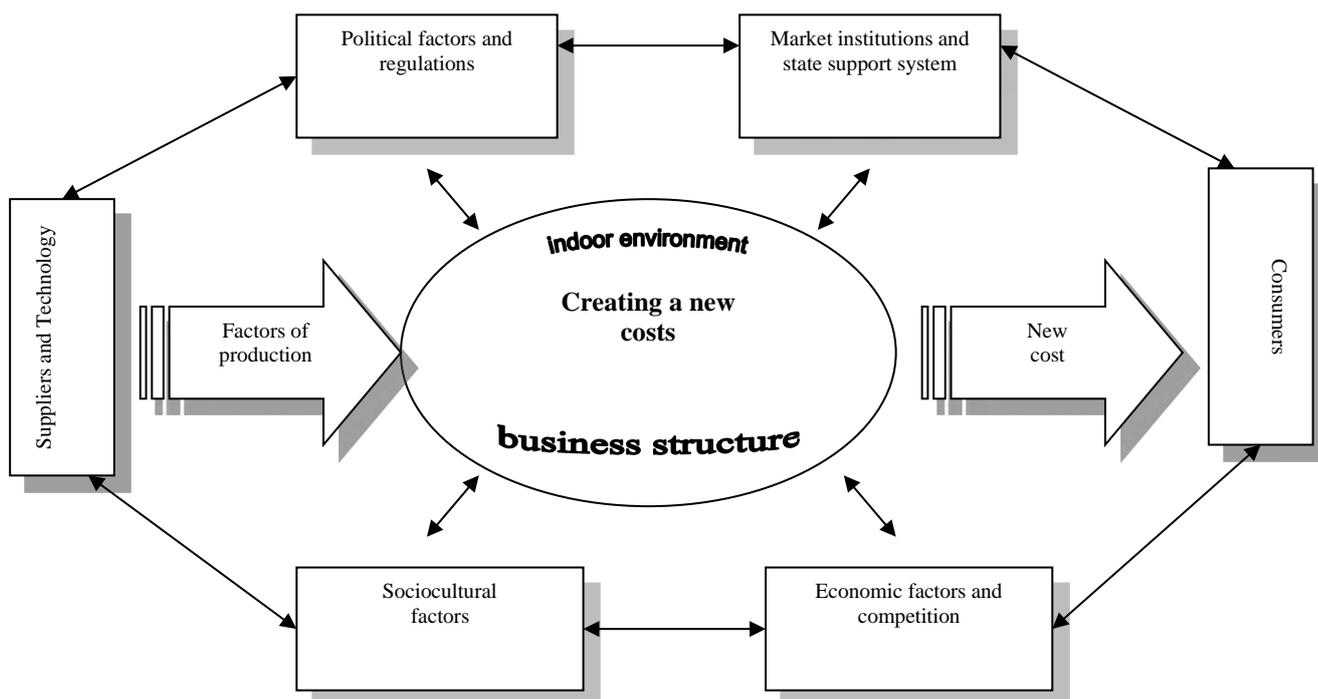
Elements of the external environment are inherently complementary, which is expressed in the fact that changes in one factor cause changes in others following Fig. 1.1.

The current situation is characterized by even more rapid, chaotic changes and greater interconnectedness. Under these conditions, the activity of the small business is subject to a high degree of uncertainty.

⁵⁸ Naman, J. L., & Slevin, D. P. (1993). Entrepreneurship and the concept of fit: A model and empirical tests. *Strategic management journal*, 14(2), 137-153. <https://doi.org/10.1002/smj.4250140205>

⁵⁹ Bun'kovskii, D. V. (2019). Mery podderzhki razvitiya predprinimatel'stva na mestnom urovne. *Upravlenie ustoichivym razvitiem*, (2), 5-12.

⁶⁰ Elbing, A. O. (1974). On the applicability of environmental models. *Contemporary Management/JW McGuire*, en.–Englewood Cliffs, 283.



Note - Compiled by the author with amendments and additions from the source⁶¹.

Fig. 1.1. Model of influence of external environment factors on the activity of a small business entity

The external environment's uncertainty manifests itself in various forms and variants and is caused by many factors⁶². Among them is the influence of scientific and technological progress, the probabilistic nature of the ongoing investment process, demographic and political trends. This is due to the objective complexity of considering the diversity of conditions for linking technological processes of multistage production, territorial location, relationships with related enterprises and consumers of finished products, etc. In this regard, scientists propose considering the problem of uncertainty in economic development at different levels - macro-, meso-, microeconomic, etc.

⁶¹ Kurpayanidi, K. (2021). Scientific and Theoretical Issues of Entrepreneurship Development. Bulletin of Science and Practice, 7(6), 345-352. (in Russian). <https://doi.org/10.33619/2414-2948/67/38>

⁶² Kurpayanidi, K. I. (2021). Financial and economic mechanism and its role in the development of entrepreneurship.. Theoretical & Applied Science, (1), 1-7. <https://dx.doi.org/10.15863/TAS.2021.01.93.1>

The high degree of uncertainty of the external environment testifies to its unfavorability for small business. Although small business subjects include protective, adaptive reactions, they have limited possibilities for counteracting destructive factors, explaining their rather short life cycle.

Identification of the essence of small business cannot do without analysing its parameters, which is complicated because the composition and structure of business are diverse. At the same time, each country and international organizations use their criteria, which, according to experts, exceeds 50. Depending on the approach, they are divided into quantitative, qualitative and combined criteria.

In the quantitative approach, such criteria as "number of employees", "sales volume (turnover)", "book value of assets" are most often used. Both one of the criteria and a combination of them can be used, as, for example, in the definition of the European Union. The main advantage of quantitative criteria is the ease of their use and accessibility to researchers. The main disadvantage is their absoluteness.

In many countries, depending on the number of employees in the enterprise, there are micro-enterprises, small enterprises, medium, large and extra-large enterprises. There is a general classification of enterprises in the European Union according to the number of employees:

- micro-enterprises - the number of employees is not more than 9 people;
- small enterprises - from 10 to 49 people;
- medium enterprises - from 50 to 249 people.

For all categories of enterprises, the turnover must be less than 40 million euros, or the total balance must be less than 27 million euros, and this also includes enterprises where the owner of the enterprise is personally and directly responsible for its financial, technical, commercial and social development, regardless of the legal status of the firm. At the same time, most small and medium-sized enterprises act as subcontractors of large corporations. The popularity of subcontracting

relationships is explained by the efficiency and high stability of newly formed enterprises' business. According to Mr. Doors Home Inc.'s⁶³ data, after five years on the market, only 23% of enterprises survive, and after ten years, only 18% of them remain. Simultaneously, among the enterprises working by the subcontracting system, only eight enterprises out of 100 break up after five years and 10 out of 100 after ten years. The specific weight of subcontracting is relatively high in the light industry and metal-working industry, and machine-building. Thus, the developed subcontracting system contributes to the growth of small business contribution to the country's GDP.

The **French** typology of enterprise creation distinguishes three new types of enterprises different:

- pure creation. A new enterprise is classified as "purely created" if its creation involves the creation of new means of production;
- creation through "renewal". It occurs when a new enterprise takes over all or part of the activities and means of production of another enterprise;
- creation through "reactivation. The entrepreneur can temporarily stop his activity and then start it again.

Thus, in 2019, the share of SMEs in **Italy's** GDP was 55% (or \$1.1 trillion), total employment was 65.7%, and the number of all enterprises was 99.2% (or 3.6 million enterprises).

Italy ranks first in Europe for the share of workers associated with small businesses.⁶⁴ 65.7% of all workers in Italy are linked to small businesses. At the same time, over 50% of SMEs are subcontractors to large business structures in the textile and metal industry. Other leaders include Spain (59.1%) and Latvia (57.4%). The worst indicators are in the UK (37.6%), Luxembourg (43%) and Romania (44.4%).

⁶³ <http://www.mrdoors.co.uk/>

⁶⁴ <https://regnum.ru/news/economy/2528065.html>

The statistical methodology of classification in **Germany** is somewhat different from the EU methodology: the German Federal Republic classifies firms with 50 to 499 employees as 'medium-sized' firms, not up to 249 employees, as is the custom in the EU. Accordingly, the statistical indicators of the role of SMEs in the economy are also different, which is especially noticeable in the share of the employed 58% of the total number of the employed (in absolute terms almost 17.5 million people, which is 1.7 million more than in the EU methodology)⁶⁵. The SME share in Germany is also much lower than the EU average: 2 962 enterprises per 100 thousand people, while in the EU - 4 778.

Generally, German SMEs are larger than European SMEs: German SMEs employ on average 7.5 people, while in the EU they employ 3.91⁶⁶.

The share of SMEs in **France's** GDP stands at 49.8%. In France, the number of SMEs at the beginning of 2020 was 3.13 million units or 99.9% of the total number of registered enterprises. SMEs accounted for 55.8% of value-added and 64.1% of total employment, slightly below the EU averages of 56.4% and 66.6%, respectively. The average number of people employed in SMEs is slightly lower than the EU average of 3.4 versus 3.9, respectively. At the same time, French SMEs are more productive, with value-added per employee in France 21.2% higher than the EU average - €54,000 versus €44,600⁶⁷

Meanwhile, in a given country, any enterprise, whether an individual (sole proprietorship) or a legal entity, becomes registered with SIRENE from the

⁶⁵https://www.genesis.destatis.de/genesis/online?_tableErgebnis&selectionname=48121-0001#ab Statistisches Bundesamt https://www.genesis.destatis.de/genesis/online?_tableErgebnis&selectionname=48121-0001#ab [Electronic resource]. URL: https://www.genesis.destatis.de/genesis/online/genesis/online?sequenz=tabelleErgebnis&_tableErgebnis&selectionname=48121-0001#ab (=48121-0001#ab accessed 10.05.2021) EU methodology data.

⁶⁶ IfM Bonn: Unternehmensbestand. KMU im EU-Vergleich [Electronic resource]. URL: <https://www.ifm-bonn.org/statistiken/mittelstand-im-einzeln/#accordion=0&tab=8> (accessed 10.05.2021).

⁶⁷ European Commission - 2019 SBA Fact Sheet - France. URL: <https://ec.europa.eu/docsroom/documents/38662/attachments/11/translations/en/renditions/native> (accessed on 20.12.2020)

moment of application and is counted in the enterprise creation statistics from the moment the economic activity starts. The French typology of enterprise creation distinguishes three new types of enterprises, different in nature:

- net creation. A new enterprise is classified as "purely created" if its creation involves the creation of new means of production;
- Establishment through "renewal". It occurs when a new enterprise takes over all or part of the activities and means of production of another enterprise;
- creation through "reactivation". An entrepreneur can temporarily discontinue his activity and then start it again.

In **Japan, according to** the Small and Medium-sized Enterprises Act (1963), it includes enterprises that meet the following criteria:

- Mining, manufacturing, construction - capital up to 100 million yen and number of employees up to 300 people;
- In wholesale trade - the authorized capital up to 30 million yen and the number of employees up to 100 people;
- in the retail and services sector - share capital of up to 30 million yen and the number of employees up to 50 people.

Today, the number of such enterprises is 4.7 million units⁶⁸. Their distinctive feature is that they are vertically integrated (as subcontractors) with MNCs and integrated into their production.

Japan is a country of solely private enterprise. In industry, only the mint is owned by the state. And small businesses include 5,738,000 enterprises, i.e. 99% of their total number. They employ 88% of all people working in the economy. All over the world, Japan's economic and scientific-technical achievements are associated primarily with the names of several dozen major companies.

⁶⁸ Haidarova N. Japanese way - productive tandem of small and big business // Small and Medium Business. - 2005. - №1 (9). - C. 26-27.

Meanwhile, a very significant contribution to Japan's prosperity comes from its small and medium-sized businesses. It accounts for more than 53% of GDP. In other words, small and medium-sized enterprises in the Rising Sun drive more than half of their economy⁶⁹.

State support for the activities of small businesses and especially vertical linkages with large businesses and international corporations, policies to promote cooperation between small and medium-sized enterprises and common trading companies have improved the competitiveness of small businesses.

In **the USA**, small businesses are defined as independent enterprises employing from 100 to 1,500 people depending on the type of activity, with annual revenues ranging from \$0.75 million to \$20 million. The number of people employed is between 100 and 1,500, depending on the type of enterprise. THESE COMPRISE 97.6 PER CENT (OR 22 PER CENT) OF THE TOTAL WORKFORCE. They account for 97.6% (or 22.9 million) of all firms operating in the country. They account for about 52 per cent of GDP and over 50 per cent of the employed labour force. The sectoral structure of the small business is highly diversified. Thus, in the wholesale and retail trade, their share is 19%, in science and scientific and technical services, construction - 12%, in the sphere of public health and social support - 10%, hotel business and catering - 7%, education and information technologies - 3%, industry - 5%, finance and insurance, real estate - 4%, transport and transportation - 3%, others - 21%.

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https://www.moscowtorgi.ru/news/bolshaia_dvadtcatka/48/#:~:text=%D0%AF%D0%BF%D0%BE%D0%BD%D0%B8%D1%8F%20%E2%80%93%D1%81%D1%82%D1%80%D0%B0%D0%BD%D0%B0%20%D0%B8%D1%81%D0%BA%D0%BB%D1%8E%D1%87%D0%B8%D1%82%D0%B5%D0%BB%D1%8C%D0%BD%D0%BE%20%D1%87%D0%B0%D1%81%D1%82%D0%BD%D0%BE%D0%B3%D0%BE%20%D0%BF%D1%80%D0%B5%D0%B4%D0%BF%D1%80%D0%B8%D0%BD%D0%B8%D0%BC%D0%B0%D1%82%D0%B5%D0%BB%D1%8C%D1%81%D1%82%D0%B2%D0%B0,%D0%B5%D1%81%D1%82%D1%8C%2099%25%20%D0%B8%D1%85%20%D0%BE%D0%B1%D1%89%D0%B5%D0%B3%D0%BE%20%D1%87%D0%B8%D1%81%D0%BB%D0%B0

U.S. small businesses employ 60.6 million people, or 47.1% of the private workforce, in 2017. Firms with 20 to 99 employees have the largest share of small business employment ⁷⁰.

In **Thailand**, small enterprises account for 80.3% of jobs and about 50% of GNP. Most of them have one or two employees, indicating the predominance of micro-enterprises. Small businesses make up most businesses in the country, accounting for 99.7% of businesses in Thailand, the second-largest share in Southeast Asia after South Korea ⁷¹.

In developing countries, the activities of micro and small enterprises are mostly low-income, and do not contribute significantly to the economy. Therefore, T. Biggs, M. Grindle and D. Snodgrass believe that small enterprises as agents of economic development are of little interest⁷². Although most other scientists hold a different opinion.

In **Russia**, according to the small business resource centre, the share of small businesses is 66.5% of the total number of economic entities. Of these, 85% belong to the category of entrepreneurs without forming a legal entity (including peasant farms). Their share in the employment structure is 25.3 per cent and about 19 per cent of GDP. The share of small entrepreneurship structures in trade and catering is at the level of 50%, industry and construction - 13%, transport and communication, as well as in science and information technologies, health care - 3%, others - 17%⁷³.

⁷⁰ United States Small Business Profile, 2020. [Electronic resource]. URL: <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04144214/2020-Small-Business-Economic-Profile-States-Territories.pdf>

⁷¹ Thailand's economic growth strategy focuses on small businesses. URL: [https://oxfordbusinessgroup.com/analysis/ground-small-business-heart-government-growth-strategy#:~:text=SMEs%20account%20for%2080.3%25%20of,%25%20and%20Indonesia%20\(15.7%25\)](https://oxfordbusinessgroup.com/analysis/ground-small-business-heart-government-growth-strategy#:~:text=SMEs%20account%20for%2080.3%25%20of,%25%20and%20Indonesia%20(15.7%25)).

⁷² Biggs, T., Grindle, M. S., & Snodgrass, D. R. (1988). *The informal sector, policy reform and structural transformation*. Employment and Enterprise Policy Analysis Project, Harvard Institute for International Development.

⁷³ Rosstat data. [Electronic resource]. URL: <https://rosstat.gov.ru/folder/14036>

In **Kazakhstan**, according to the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, as of January 1, 2021, the number of active subjects amounted to 1,357 thousand entities and compared with the corresponding date of the previous year increased by 2%. In the total number of SMEs, the share of individual entrepreneurs amounted to 63.2%, legal entities of small businesses - 20.6%, peasant or farmer households - 16%, legal entities of medium enterprises - 0.2%.

The sectoral structure is as follows: trade - 32%, industry - 4.2%, agriculture, hunting and forestry - 19.2%, construction - 5.3%, transport and communication - 1.5%, others - 37.8%. They employ 2,883,900 people or 32.8 per cent of the total number of the employed. The largest share of small businesses employs less than six people⁷⁴.

Thus, from the above, it follows that the creation of small businesses is possible in two ways: self-development and integration development.

In countries with developed economies, private enterprises are mainly registered by individuals with a high level of human capital, practical work experience and social connections. They include various kinds of consultants, architects, programmers. They also found fast-growing firms in those segments of the industry and regional markets where their efficiency is high. In contrast, the poor members do not seek to start their businesses but rather remain employees and accept social assistance. The reason for this behaviour is the lack of professional knowledge and skills as well as practical experience. It is even difficult to attract them to small business training programs. For example, only one out of a hundred trained at the US Department of Small Business training centre succeeds in setting up their own business⁷⁵.

⁷⁴ Small and Medium Entrepreneurship in the Republic of Kazakhstan (SME). [Electronic resource]. URL: <https://stat.gov.kz/official/industry/139/statistic/6>.

⁷⁵ Schreiner M. Self-employment, microenterprise and the poorest Americans //Social Service Review. - 1999. - № 73 (4). - p. 500.

In the second case, a considerable part of small enterprises is in the sphere of interests of large corporate structures. Acting as an important part of the production chains of corporations, small enterprises supply all the necessary parts and perform other types of work. The formation of close integration communities between firms is considered a means of adapting to the rapidly changing conditions of the external environment, which coexist some methods of administrative management and the market mechanism of interaction between partners. A limitation of absorption by a large corporation of its small partners is coordination costs. These costs are defined as a set of costs to be incurred by the firm to ensure consistency in the actions of its structural units at the expense of administrative methods of management. According to O. Williamson's internalization theory, the interaction system between two firms seeks equilibrium by optimizing transaction and coordination costs and achieving stability by making the final choice between the market and hierarchy ⁷⁶.

The self-development and integration development of small enterprises takes place in developing countries as well. Nevertheless, the situation of the self-development of small enterprises is characterized by some differences compared to the situation in industrialized countries. For most of the population in these countries, the simplest form of entrepreneurship is often the only source of subsistence. As a consequence, micro-enterprises have become widespread. The basis for this statement is that about 90% of all small enterprises employ 1-2 people, including the owner. In others, the number of employees ranges from 3 to 10. According to statistics, about 75% of the workforce is employed in microenterprises with 1-2 employees⁷⁷.

It is important to pay attention to the following circumstance. Despite the generally accepted theoretical ideas about the directions of small business

⁷⁶ Williamson, O. E. (1971). The vertical integration of production: market failure considerations. *The American Economic Review*, 61(2), 112-123.

⁷⁷ Schreiner, M., & Woller, G. (2003). Microenterprise development programs in the United States and in the developing world. *World development*, 31(9), 1567-1580.

development, in its practical manifestation, it is directly dependent on the level of economic development of the country and national culture. The latter aspect remains an understudied area in modern research on the theory of entrepreneurship. Divergence concerns mainly the incentives for entering into business and the scope of activities. Potential entrepreneurs in industrialized countries, as noted above, are individuals with a significant stock of capital resources which are better able to maintain and develop their businesses. According to J. Hatch and J. Zweig, "large assets of resource capital can act as a 'buffer' against random blows from the external environment to which firms are particularly susceptible at the initial stage of their development"⁷⁸. Motives to start a business described by D. McClelland are characteristic of individuals from developed countries⁷⁹. The characteristic of motives for entering into business suggested by A. Shapiro refers to entrepreneurs from developing countries characterized by small resource opportunities. Often they decide to change their social status involuntarily, under the pressure of objective circumstances⁸⁰.

In transition economies, small business entities have appeared relatively recently; therefore, when developing criteria for their identification, specialists proceeded from the experience of developed countries, taking into account the specifics of local conditions. Then, for each industry, their quantitative criteria were established.

1.2 Concepts and models of entrepreneurship development

Various concepts can be distinguished in economic thought that form and develop the theory of entrepreneurship. Although the surge of researchers' interest

⁷⁸ Hatch, J., Zweig, J., Zweig, J. (2000). Entrepreneurs: what is the stuff of an entrepreneur? *Ivey Business Journal*, 65 (2), 67.

⁷⁹McClelland, D. C. (1961). *The achieving society*. Princeton, NJ: D. Van Nostrand Company. Inc., 1961.

⁸⁰ Shapiro, A. (1975). The displaced, uncomfortable entrepreneur. *Psychology today*, 9(6), 83-88.

in small business falls in the 1970s, scientists outlined the features of entrepreneurship's structural sectors in earlier works. A conscientious study of the literature devoted to this problem allowed us to identify the following six major conceptual areas of its research:

- the importance of small business and its specific role in economic development;
- the influence of the external environment on the development of small business (contextual approach);
- personal characteristics of the entrepreneur (individual approach);
- in the context of the theory of utility and the rational behaviour of the individual in the labour market;
- the influence of culture on the formation of entrepreneurial orientation in society (cultural approach);
- in the context of the theory of organization and efficiency of the scale of production.

Since entrepreneurship is a multidimensional phenomenon in our society's life

Thus, an important role for allocating *the first direction of work* played the views of J. Schumpeter. He was one of the first in the centre of his theoretical system to put the entrepreneur's figure - an economic entity whose functions differ from both the role of the capitalist and the worker. Schumpeter noted that the entrepreneur initially has no capital and does not sell his labour but has the initiative, leadership quality, and ability to take risks. Thanks to such an institution as credit, he mobilizes production factors and, having received them at his disposal, carries out innovative activity - realizes the achievements of technical progress, finds new needs, markets, forms of organization of labour, etc.⁸¹.

⁸¹ Schumpeter, J. A. (2017). *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. Routledge.

The entrepreneur's concept as a key figure of capitalism is the basis of the functional approach proposed by the scientist and the developed interpretations of capital, profit, interest and money. This concept is designated as an "entrepreneurial model of economic development" in the scientific literature. It is quite consistent with modern ideas about the role of small businesses in social reproduction, the strength of which lies in quickly transforming and adapting to new conditions of society.

The bulk of scholars working in entrepreneurship theory belong to the contextual approach's adherents, as they consider entrepreneurship a response to certain external conditions in any country. At the same time, researchers use various terms to describe a set of conditions stimulating or restraining its development, such as "conditions for the development of entrepreneurship", "prerequisites for the development of entrepreneurship", "entrepreneurial environment", "business environment", among which the most frequent application is the concept of "entrepreneurial environment". According to J. Covin and D. Slevin, this concept is defined in power terms and elements, too many to combine into one specific model⁸². Nevertheless, the main conclusion reached by all scholars working in this direction can be formulated as follows: *economic growth creates conditions that promote entrepreneurship, while economic stagnation, on the contrary, limits market incentives and reduces the level of capital accumulation. At the same time, globalization of economies contributes to reducing national barriers and has a positive effect on the global movement of capital.*

A relatively new area of research within this approach includes works that study the competitiveness of small businesses. Therefore, we decided to focus a little attention on it, as it is, in our opinion, extremely relevant for the economies of the CIS countries, which are taking active steps towards accession to the WTO.

⁸² Covin, J. G., & Slevin, D. P. (1991). A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship theory and practice*, 16(1), 7-26.

According to the model of A. Mingozzi and R. Passaro, the external environment plays a decisive role in increasing a small enterprise's competitiveness⁸³. Entrepreneurial success is largely determined by promptly realising the different opportunities of the created business in the market. In particular, he must benefit from the network of relationships between the enterprise and the market. In addition, the entrepreneur's pronounced learning tendency should help him react quickly and adapt to possible external environment changes.

Competitiveness means an enterprise's ability to increase its market share, profitability, and surplus value growth, resulting in its position being strengthened for a long time. Consequently, entrepreneurs should focus on the long-term improvement of competitiveness of their enterprise, understand that this process is manageable, relative and dynamic.

According to the model of T. Man, T. Lau, and K. Chan, the entrepreneur must perform three tasks to improve the enterprise's competitiveness. The entrepreneur's first task is to recognize competitive opportunities to realise which he must make maximum use of such abilities as identifying opportunities, making connections, and shared vision. The second task is to form a team in the enterprise that brings together employees who can work cohesively, innovate and create a positive reputation. In this, the entrepreneur should be helped by establishing connections, organising, and having a common vision. The third task is to ensure the functioning of the enterprise. Thus, clearly defined goals and activities contribute to long-term competitiveness. Focusing on a strong market position requires the implementation of strategic planning. However, the strategic planning process is inconceivable without the entrepreneurial ability to think strategically. The internal and external commitments of the entrepreneur play the role of the main internal engine for action.

⁸³ Minguzzi, A., & Passaro, R. (2001). The network of relationships between the economic environment and the entrepreneurial culture in small firms. *Journal of Business Venturing*, 16(2), 181-207.

The authors of the model consider the entrepreneurial ability and competitiveness of small businesses in their relationship. In their view, it is the entrepreneur's responsibility to keep an eye on opportunities, to be able to identify them and to take advantage of them. We would like to add that the management of competitiveness becomes more complicated as the size of the enterprise increases. The competitiveness policy of an enterprise may also be different at different stages of its life cycle.

So, in the given approach, the external environment plays a major role in developing small businesses. Considering that the external environment factors are diverse, they can influence both individually and in the aggregate. In these conditions, only competitive enterprises can survive and function effectively in the market, in entrepreneurship's natural environment.

Different conceptual approaches contribute to the development of theory, which, in turn, serves as the basis for developing practical models. Here we note that the emergence of various small business models has been significantly influenced by extensive scientific research within the framework of the above approach. In world practice, several models of development of small enterprises are known. The models of business climate, economic recession and income growth are constructed considering the influence of external environment factors on the formation and development of private entrepreneurship. The countries with developed, developing and transitional economies are characterized by different socio-economic conditions. Depending on these conditions and the state economic policy's priority directions in these countries, the levels and dynamics of small business development are also different. Following this provision, the business climate model explains the emergence of small enterprises by combining flexible employment policies, low costs of production factors, preferential local taxation, support from the authorities, etc.

The business climate model is a special condition purposefully created for the successful development of a certain type of entrepreneurial activity in a

particular industry (sector) or the national economy as a whole. The model involves constructing institutional formations in the form of foreign trade zones, enterprise zones, technology parks, and business incubators.

In the mid-1990s, according to Andrianov's estimates, there were 1,200 zones of various kinds in the world, including 400 foreign trade zones, 400 science and industrial parks, more than 300 export-production zones and about 100 zones of special purposes (offshore centres, recreational zones, ecological and economic regions, tourist centres, etc.)⁸⁴.

The success of various institutional formations in small business development has influenced their proliferation in Asian and African countries, with more than 200 zones of outward-oriented manufacturing, accounting for 84% of the total number of such zones worldwide. As part of China's economic reform and opening-up policy, special economic zones (SEZs) were established in Shantou, Shenzhen and Zhuhai in Guangdong province and Xiamen in Fujian province from 1980 to 1984. Also, the entire island province of Hainan is designated as a special economic zone. Currently, China has established 15 free trade zones, 32 state-level economic and technological development zones and 53 new high-tech industrial development zones in large and medium-sized cities. As a result, the country has established a diversified multi-level model of openness and integration of coastal areas with rivers, borders and inland areas⁸⁵.

Foreign trade zones are limited areas of the national territory, within which the regime of economic activity, including foreign economic activity, is preferential compared to the general one. In other words, it is a trade or trade-industrial zone, which, while remaining part of the national territory, in terms of customs, fiscal and financial regime, is considered outside the state border, within which a whole system of benefits for small businesses operates. Thus, in 1992 the

⁸⁴ Andrianov, V.(1996). Without special economic zones it is difficult to integrate into the world economy. *Business World*. 74.

⁸⁵ <https://www.globalvillagespace.com/history-of-special-economic-zones-in-china/>

number of general-purpose zones in the U.S. was 190, and specialized zones were 259. They employed more than 2,800 firms, mostly American, with about 320,000 workers.

By comparison, during 2018, there were 195 free trade zones (FTZs) producing a total of 330 active manufacturing operations within the United States, according to a report by the Foreign-Trade Zones Board to the U.S. Congress. 440,000 people worked for 3,300 firms in FTZs during the year. FTZs are divided into general-purpose zones and specialized zones or subzones. Cash injections into the FTZ amounted to more than \$793 billion, showing a positive trend, compared to about \$669 billion in 2017. Warehousing and distribution operations accounted for about \$290 billion over the year, while manufacturing of goods accounted for \$504 billion (63 per cent of total zone activity). In addition, exports of facilities operating under FTA procedures amounted to more than \$112 billion. These data give us the right to speak about the successful functioning of FTZs in the United States and their continuous development and increase in the rate of production and exports⁸⁶.

Enterprise zones have emerged as a regional policy to revitalise small and medium-sized businesses in depressed areas, mostly urban, by giving entrepreneurs more freedom of action and significant financial incentives. Three principles are implemented in these zones:

- deregulation,
- dephysicalization
- debureaucratization.

The main conditions for their formation are the location in depressed areas of large cities with the highest unemployment rate; the validity period from 7 to 20

⁸⁶ Leonovets, A. G., Parshutkin, S. I., & Severukhin, V. S. (2020). Free economic zones: the US experience. In *Actual problems of the global economy* (pp. 96-101). https://elibrary.ru/download/elibrary_44599888_70836465.pdf

years. The zones solve internal economic problems by relying on local capital and the labour force.

Technology parks (Technology Parks) are an effective form of integration of science and industry, a place for deploying innovative activities and creating venture capital firms engaged in developing new technologies. The range of tasks of technology parks include:

- support of modern technological promising projects and programs;
- selection of promising projects in terms of their importance for the region;
- Creation of internal infrastructure allowing to implement the idea;
- providing comprehensive marketing and management assistance;
- international consulting and investment attraction through the establishment of a venture capital fund.

The main conditions for the growth of innovative entrepreneurship within the boundaries of technology parks are as follows: availability of well-developed research infrastructure in the form of universities and research centres with relevant scientific schools, highly qualified personnel and experimental equipment; the presence of large knowledge-intensive enterprises demanding new developments; proximity to major economic growth poles; favourable social and environmental environment. Ideally, a technology park should be built on top of already established entrepreneurial structures, stimulating their tendency to develop cooperative links with each other. Thus, parks are typically geographically clustered scientific laboratories and production facilities leased on preferential terms to venture capital firms engaged in commercializing promising scientific and technological innovations and ideas.

There are between 80 and 150 technology parks in the USA. The forms of their organization and management are individual. As a rule, they are created based on universities, municipalities, corporations. Their difference from the previous institutional formations is that they do not receive any privileges from the

government authorities, work on equal terms with other firms, and are characterized by a long formation stage. For example, it took 35 years for Silicon Valley to become successful, 30 years for Triangle Technology Park of North Carolina, and 20 years for Utah University. The main reason for the long period of their formation is the weak interest of entrepreneurs.

About half of new firms go bankrupt in Germany after three years at the latest, while in technology and entrepreneurial centres, the figure is 6%. Meanwhile, stimulation of the development of innovative entrepreneurship, in general, does not contribute to the solution of the employment problem. They are characterized by a significant multiplication effect, which in some cases is 1 to 20. However, due to their overall small number, volatility in development, and specific labour requirements, new firms cannot create many additional jobs.

Business incubators are business assistance programs that provide entrepreneurs with the necessary advice and support. A business incubator seeks out, selects and then adapts to local conditions effective forms and methods of small business with subsequent replication. In it, a firm must become market-oriented, capable of doing business, and in the long term, be competitive. It is not unimportant to create the necessary impetus to start implementing existing ideas. They are located in certain premises, each houses several start-up firms, working with consultants' help. These structures are widespread in England, Germany, China, the United States, France, Sweden, and Japan.

In recent years, there has been a surge of interest in creating such institutional formations in the domestic economy. There are about 50 business incubators created at the initiative of local executive bodies. And suppose some of them show short-term positive results, the functioning of technological parks based on research institutes. In that case, production associations do not produce positive effects, as most are in temporary downtime. This indicates that a detailed institutional mechanism for creating and functioning technology parks, specialists with an interspecific resource, is insufficient to succeed. In our opinion, such institutional

formations will begin to intensify their activity when there is an urgent need for their activity on the part of entrepreneurs wishing to expand and strengthen the position of their own business in certain market niches.

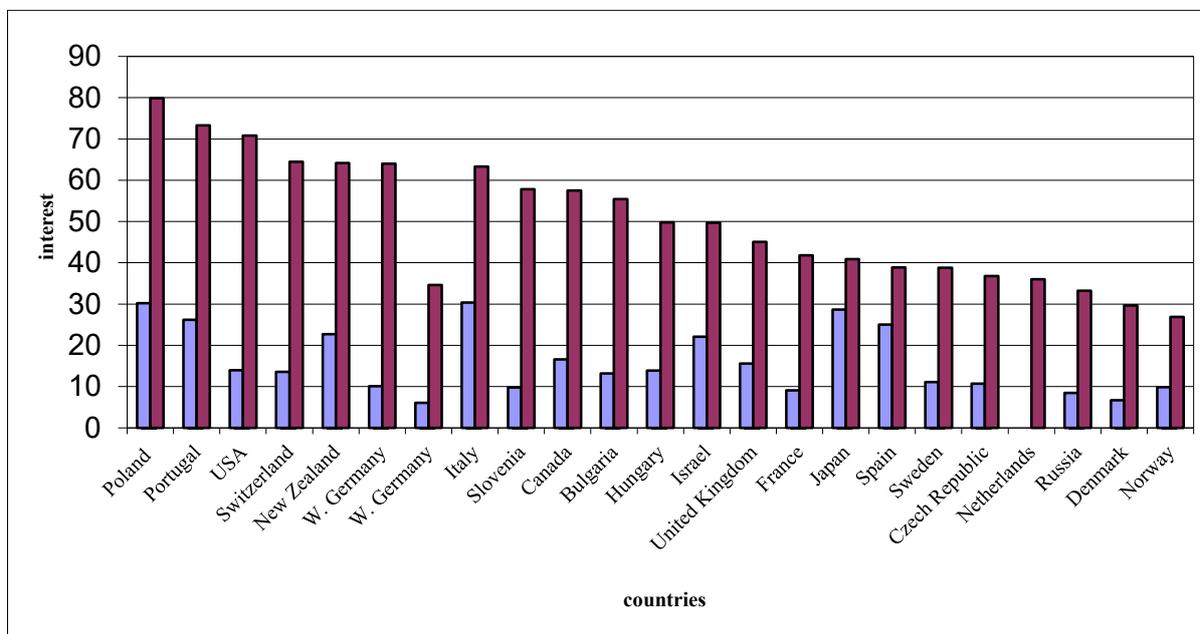
Since the transition to industrial production within capitalist society, economic development has been cyclical. Economic cycles of the initial period and modern ones differ significantly. The differences are manifested in the degree of economic disequilibrium, the division of cycles into different phases, the duration of phases, and the state's participation in the regulation of cycles. Nevertheless, the nature of cycles includes several successive phases, including economic recession. The recession model is built on the idea that unemployment increases the number of potential entrepreneurs. Without going into detail, we note that countries in economic stagnation limit market incentives. Consequently, the category of "forced" entrepreneurs with limited investment opportunities will prevail in these countries. Under such conditions, without active government support, "forced" entrepreneurs will not significantly contribute to the country's economic development, i.e. to get out of the stage of recession.

The income growth model reflects subsequent changes in market demand. "The minimum critical effort," according to H. Leibenstein, should be such that the level of investment amounts to at least 12-15% of national income.

The origins of *the individual approach*, in our opinion, go back to the XVIII century, when R. Cantillon, A. Thurgot, J.B. Say formulated the first ideas about the entrepreneur through the description of professional qualities of a merchant, a miser, a trader. At the present stage, many scientists - economists, sociologists and psychologists - have contributed to the development of this direction. A. Shapiro, D. McClelland, R. Hisrich and R. Brockhaus have achieved significant success in economic research. They believe that to create a new enterprise and a favourable socio-economic climate, it is necessary for individuals to have entrepreneurial abilities that set them apart from the general population. According to their estimates, only 6% of industrialized countries have an innate ability to

entrepreneurship. However, the results of a sociological survey of employees from 20 countries showed a high level of latent (hidden) desire to have their own business. The share of workers who prefer self-employment varies from 30% to 80% of the total number of respondents, according to Figure 1.2⁸⁷.

According to R. Brockhaus, to realize their desire, they need to have three consecutive attributes: the need for success, the internal locus of control and the tendency to risk⁸⁸. T. Begley and D. Boyd proved that entrepreneurs - founders of small businesses, much more advantageous in the desire to achieve success, accept risk, and show tolerance to uncertainty than managers⁸⁹.



Notes

1

- level of self-employment in the country, %;
- the share of employees with the desire to create their own business from the total number of respondents, %;

**Fig. 1.2. Share of hired workers with concealed
The desire to build your own business**

⁸⁷ Blanchflower, D. G., Oswald, A., & Stutzer, A. (2001). Latent entrepreneurship across nations. *European Economic Review*, 45(4-6), 680-691.

⁸⁸ Brockhaus, R. H. (1980). The effect of job dissatisfaction on the decision to start a business. *Journal of Small Business Management (pre-1986)*, 18(000001), 37.

⁸⁹ Begley, T. M., & Boyd, D. P. (1987). Psychological characteristics associated with performance in entrepreneurial firms and smaller businesses. *Journal of business venturing*, 2(1), 79-93.

In 1966, J. Rotter developed the construction of the internal locus of control. The individual feels the outcome of an event both within and outside his control and understanding⁹⁰. This means that the internal locus of control measures an individual's perception of influencing events in their own life. We believe that J. Rotter's course of thought was undoubtedly influenced by F.H. Knight's ideas, characterizing the entrepreneur with a good evaluation system (the ability to judge) and the accompanying self-confidence⁹¹. After all, an orientation toward this quality increases the likelihood that a potential entrepreneur will take action to implement his plan.

In the 1970s and 80s J. Rotter's design and the adapted, improved I-E organizational scale was used by S. Borland, R. Brockhaus, J. Pandey and N. Tewari to study organizational and managerial problems. They analysed a database based on a questionnaire survey of business students, entrepreneurs in Texas and Italy, proving that these groups are characterized by a high degree of internal control position⁹².

It is believed that J. Schumpeter first drew attention to the innovative role of the entrepreneur. He described the entrepreneur as a catalyst for change and "... a man of ideas and action, ... an instrument for discovering new opportunities⁹³ specific tool of the entrepreneur ... the means with which he makes

⁹⁰ Rotter, J. B. (1966). Generalized expectancies for internal versus external control of reinforcement. *Psychological monographs: General and applied*, 80(1), 1.

⁹¹ Knight, F.H.(2003). Risk, Uncertainty and Profit. Delo.

⁹² Borland, C. M. (1975). *Locus-of-control, need for achievement and entrepreneurship*. The University of Texas at Austin. Brockhaus, R. H. (1975, August). IE locus of control scores as predictors of entrepreneurial intentions. In *Academy of Management Proceedings* (Vol. 1975, No. 1, pp. 433-435). Briarcliff Manor, NY 10510: Academy of Management. Pandey, J., & Tewary, N. B. (1979). Locus of control and achievement values of entrepreneurs. *Journal of occupational psychology*, 52(2), 107-111.

⁹³ Croitoru, A. (2012). Schumpeter, JA, 1934 (2008), The theory of economic development: An inquiry into profits, capital, credit, interest and the business cycle. *Journal of comparative research in anthropology and sociology*, 3(02), 137-148.

changes"⁹⁴. Other scientists identify innovativeness with the giftedness of a rich imagination, inventiveness, enterprise, originality, resourcefulness, prudence. For example, S. Schein, L. Kolveid, P. Weswyd believe that some "know-how" is the initial motive for business organization. Accordingly, people who can innovate or work with new technology start up a new business⁹⁵.

Opponents of this approach argue that innovativeness is not inherent in all entrepreneurs. It is shown to a lesser extent by small business owners than by entrepreneurs who have founded and run expanding businesses⁹⁶. Studies by M. Tuunanen and K. Hjarski have shown that founders of fast-growing firms in Finland and the USA, aiming to expand their businesses, are characterized by a higher degree of innovativeness than firms with the main goal to increase family welfare⁹⁷.

In general, such human qualities as an enterprise, practicality is inherent in many people, but not all seek to display them in entrepreneurship. Thus, there are professionally oriented entrepreneurs and those who make such a decision involuntarily in real life. He includes representatives of "street" entrepreneurship (for example, sellers from stalls and persons engaged in handicraft production). Having no special knowledge, they combine their capabilities with the implicit needs of a complementary nature inherent in the environment. In other situations, the individual who has not previously displayed entrepreneurial qualities develops his inherited business. On this point, R. Gibadullin writes that "the social nature of the entrepreneurial activity and the social status of the entrepreneur cannot be

⁹⁴Drucker, P. (2014). *Innovation and entrepreneurship*. Routledge. <http://dspace.vnbrims.org:13000/xmlui/bitstream/handle/123456789/4729/Innovation%20and%20Entrepreneurship.pdf?sequence=1>

⁹⁵ Shane, S., Kolvereid, L., & Westhead, P. (1991). An exploratory examination of the reasons leading to new firm formation across country and gender. *Journal of business venturing*, 6(6), 431-446.

⁹⁶ Carland, J. W., Hoy, F., & Carland, J. A. C. (1988). "Who is an entrepreneur?" is a question worth asking. *American journal of small business*, 12(4), 33-39.

⁹⁷ Tuunanen, M., & Hyrsky, K. (1997). Innovation preferences among Finnish and US entrepreneurs. *Academy of Entrepreneurship Journal*, 3(1), 1-11.

deduced from the personal psychological quality of entrepreneurialism. The latter is only a certain prerequisite of the named activity"⁹⁸.

The presence of contradictory points of view in the approach under consideration, in our view, is since it does not show consensus in a clear, universally acceptable definition of the personal qualities inherent in the entrepreneur. The question "what set of qualities should an individual possess to become a successful businessman?" cannot be answered unambiguously.

Extrapolating the findings of the contextual and individual approaches to the emerging entrepreneurial class in the domestic economy allows us to draw the following conclusions:

- First, the socio-economic conditions in which the formation of small business are far from optimal;
- Secondly, the basic internal contradictions are reflected both in the specifics of entrepreneurial activity and in the psychological characteristics of entrepreneurs;
- Thirdly, the short history of domestic small businesses is characterized by cyclical development and the state's significant role in its regulation.

The deepening of research in the field of entrepreneurship, the search for more rational and accurate answers to the question "how do entrepreneurs appear?". The emergence of new economic tools of analysis served as the basis for *developing the theory of utility and the rational behaviour of the individual in the labour market*. In our view, this concept proceeds from the assumption that entrepreneurship does not arise by anyone's order or instruction, and the source of its emergence, development, and extinction lies in the decision-making process. If this is the case, it must be assumed that entrepreneurial activity is characterized by a high degree of personalization. More than in any other activity, there is a profound

⁹⁸ Gibadullin, R.V. (2000). Entrepreneurial layer - the most important element of the socio-economic system. - M.

connection between the ends, means and results and the person who engages in it. More than any other activity, entrepreneurship depends on the individual's activity and initiative, on their own decisions.

In the theory of utility and rational behaviour of an individual in the labor market entrepreneurship is identified with self-employment, which is compared with another alternative to the use of labor - to be a hired worker. According to V. Basareva, these studies are characterized by theoretical ideas about risk phobia and the allocation of labour market segments⁹⁹. Despite the prevalence of econometric models in this research direction, they are, as a rule, connected with the economic theory. Their advantage is that the estimation, made based on significant empirical information, excludes unrealistic models.

Д. Blanchflower and A. Oswald modelled individuals' propensity to the entrepreneurial risk concerning the psychological characteristics of individuals¹⁰⁰. Z. Sakova, J. Iarl the probability of choosing self-employment depends on a certain amount of excess utility of self-employment over employment utility¹⁰¹. V. Basareva connects an individual's decision to start his own business with his rational behaviour, namely his desire to change his social status.

P. Fonseca, P. Lopez-Garcia, and S. Pissarides believe that every person is born with an " α " entrepreneurial ability and carries it throughout his life. Some people manifest it if they want to, and some do not. Accordingly, entrepreneurial ability's functional dependence looks like $\mathcal{F}(\alpha)=[0;A]$. Suppose an individual chooses the status of an employee. In that case, he receives an income "U". If he switches to an entrepreneur's status, his expected income will be " αV ", and the cost

⁹⁹ Basareva, V.G. (2002). Institutional peculiarities of small business development in the regions of Russia. - MOSCOW: EERC

¹⁰⁰ Blanchflower, D. G., & Oswald, A. J. (1998). What makes an entrepreneur? *Journal of Labor Economics*, 16(1), 26-60.

¹⁰¹ Earle, J. S., & Sakova, Z. (1999). Lessons on the entry decision into self employment from transition economics, Stockholm Institute of Transition Economy (No. 145). Working Paper.

of creating a business will be "K". The individual chooses the second way only if the condition is met:

$$\alpha V - K \geq U \quad (1)$$

where αV is the expected income from entrepreneurial activity;
K-costs of creating a case;
U- expected income from hired labour.

The entrepreneurial ability that has not been shown remains in reserve. Reserved entrepreneurial ability is the ratio of the sum of the expected income from hired labour and the costs of organizing a business to the expected income from entrepreneurial activity:

$$S = (U + K) \alpha / V \quad (2)$$

where S is the reserved (not manifested) entrepreneurial ability;
U is the expected income from hired labour;
K-costs of creating a case;
 αV - expected income from entrepreneurial activity.

Presumably, in real life, an individual chooses an entrepreneur's status under the condition $\alpha \geq S$. Otherwise, he looks for a vacant job. An additional factor influencing the individual's decision-making process is the socioeconomic situation. As the tension in the market increases, the individual is unwilling to show his entrepreneurial abilities " α ", hides them, and raises "S". As a result, there is a low growth rate in the number of new businesses registered and new jobs created in the economy. The reason - the unfavourable situation in the market increases

uncertainty and reduces the level of expected income from entrepreneurial activity¹⁰².

A special place in the theory of entrepreneurship is occupied by the *cultural approach*, which studies the influence of the system of beliefs, values and knowledge, prevalent in society on the formation of entrepreneurial orientation in the country. Scientists working in this direction believe that cultural dimensions set the boundary of the restrictive framework and determine economic activity specificity. They proceed from the position that the external environment and individual abilities influence the cultivation of entrepreneurship. Still, some features of culture predetermine the vector of private business development in the country.

The starting point for a new wave of research in this field was the work of Hofstede. He proceeded from the fact that a person's behaviour depends on his or her mental programs to a large extent. Hofstede understood mental programs as "thinking, feeling and acting patterns", divided into three levels: mental programs universal for all individuals; mental programs specific for a certain group of individuals; mental programs specific for a certain individual. As a scientist, he was interested in the second-level social learning models through constant interaction within a group. He referred to the second level models as culture and believed they were of the greatest interest for analysis.

Hofstede was one of the first to assess the relationship between national cultures and economic activity. Empirical analysis resulted from a sociological survey of 88,000 IBM employees and managers in 40 countries. The list of countries was later expanded to 70. To measure the structure of identity and to explain different cultural patterns, he used four indicators: power distance, uncertainty avoidance, individualism/collectivism, masculinity/softness¹⁰³. In his

¹⁰² Fonseca, R., Lopez-Garcia, P., & Pissarides, C. A. (2001). Entrepreneurship, start-up costs and employment. *European Economic Review*, 45(4-6), 692-705.

¹⁰³ Hofstede, G. (1984). Culture's consequences: International differences in work-related values (Vol. 5). sage.

view, these indicators define a specific set of values describing some aspects of cultural and human activity.

Trompenaars believes that the indicators proposed by G. Hofstede are useful in identifying the key elements of culture with entrepreneurial orientation. He supplemented them by proposing two more indicators - "achievement/inheritance" and "universalism/specificity"¹⁰⁴. Based on the above developments S. Lee and S. Peterson developed criteria of a favourable entrepreneurial environment¹⁰⁵. These are:

- first, the *small distance of power*, assuming that legitimate power is authentic. The main determinant of power is its competence, hence also the relations between members of society are built on respect for the individual and equality, and inequality in the "superior-subordinate" relationship will not be endorsed;
- second, *individualism*, meaning that the primary social value is personal initiative and success. Autonomy, difference, satisfaction, and personal financial security are more important than group loyalty. As a consequence, highly individualistic countries have a highly mobile population looking out for self-interest. Society reinforces and rewards independent action and initiative. A trait that characterizes manifestations of independence and initiative is the internal locus of control;
- Third, *weak uncertainty avoidance*. G. Hofstede wrote that uncertainty avoidance is "the degree to which members of a culture feel threatened by uncertainty or ignorance of a situation. Uncertainty resolution strategies are embedded in culture and reinforced through basic institutions such as the family, school, and state. In cultures with a high degree of uncertainty, individuals cope with it themselves;

¹⁰⁴ Trompenaars, F., & Hampden-Turner, C. (1993). *Riding the waves of culture* (London, Nicholas Brealey).

¹⁰⁵ Lee, S. M., & Peterson, S. J. (2000). Culture, entrepreneurial orientation, and global competitiveness. *Journal of world business*, 35(4), 401-416.

- Fourth, *masculinity*, characterized by the dominance of rational behaviour;
- Fifth, *achievement*. Success leads to an increase in personal and social status. Successful entrepreneurs feel autonomous, isolated both from others and from their cultural roots. For them, success implies a certain amount of support, which they see in philosophy and education;
- Sixth, *universality*. The universal features are manifested regardless of nationality, while the specific ones are related to the history of development, social and cultural traditions, and each state's geographical location.

According to S. Lee and S. Peterson, only the United States has created a favourable environment for entrepreneurial orientation manifestation. Due to cultural differences, other countries do not have such an environment, according to Table 1.1.

The data in Table 1.1 indicate that the views of S. Lee and S. Peterson are controversial. Independent research by S. Muller and A. Thomas, conducted in nine countries through a survey of 1800 respondents, showed that cultures with a low and high degree of uncertainty avoidance are equally characterized by innovativeness. The different degree of entrepreneurial orientation is in the style of decision-making. In cultures with a high degree of uncertainty avoidance (Japan), adaptive decision-making styles prevail, and in cultures with a low degree of uncertainty avoidance (USA), innovative decision-making styles¹⁰⁶.

Table 1.1.

Evaluation of the entrepreneurial environment of different countries based on the criteria of S. Lee and S. Peterson.

Cultural dimension	Favourable business environment	Countries/Regions				
		USA	Japan	China	CIS	Mexico
Power Distance	small power distance	small	large	large	large	large

¹⁰⁶ Mueller, S. L., & Thomas, A. S. (2001). Culture and entrepreneurial potential: A nine country study of locus of control and innovativeness. *Journal of business venturing*, 16(1), 51-75.

Indivi-dualism	Individualism	individu-dualism	collectivism	collectivis m	collecti vism	collectivis m
Avoiding uncertainty	weak uncertainty avoidance	weak uncertainty avoidance	Strong uncertainty avoidance	Strong uncertaint y avoidance	Strong uncertai nty avoidan ce	Strong uncertainty avoidance
Courage	courage	courage	courage	softness	softness	courage
Achievements	achievements		heredity	inheritanc e	inherita nce	inheritance
Universality	versatility	universality	Specificity	specificity	specific ity	specificity
<p>Note - Compiled by the author from the source <i>Brockhaus, R. H. (1980). The effect of job dissatisfaction on the decision to start a business. Journal of Small Business Management (pre-1986), 18(000001), 37.</i></p>						

As can be seen, there is considerable interest in studying the cultural aspects of entrepreneurship, mostly by American scientists and scientists from Europe, who are not limited to studying data from their own country. The database of these studies covers different groups of countries, including post-Soviet countries. And although the results of their research contain controversial conclusions, in our opinion, culture remains an important variable in assessing entrepreneurial potential at the national and regional levels. Simultaneously, it seems that this direction is a promising area of research for domestic economic science.

When organizing research in this direction, in our opinion, it is more acceptable to consider national culture as a set of informal institutions that determine the specifics of the country's state structure and significantly affect the institutional environment of entrepreneurship. Besides, special attention should be paid to the fundamental element of culture - values because they set the human activity vector. It is their nature that determines what knowledge and skills a person will accumulate. They condition stimuli and specific behavioural restrictions, specificity of economic activity and its results. Thus, in the same economic conditions and under the influence of the same economic policy, different groups belonging to different cultures can develop differently. Examples include Chinese families in Thailand, Malaysia, Indonesia, the United States, Japanese diasporas in

Brazil, the United States, etc. Consequently, it is necessary to identify cultural properties and the political and economic environment in which these cultural factors function actively and dynamically.

In current conditions, the globalization of the economy, in turn, has a significant impact on national culture through entrepreneurship, provoking institutional changes in the system of cultural and spiritual values.

Thus, the cultural context of domestic entrepreneurship is one of the areas of institutional analysis. The peculiarity of the study of national culture as a set of informal rules (values, traditions, norms of behaviour) is that it, on the one hand, affects the formation of the institutional environment and entrepreneurial culture, but on the other hand, and entrepreneurs act as a source of development of national culture. We recognize that this process is dialogic, as there is a mutual convergence of institutions.

In the twentieth century, many large companies reconsidered their operations' scale, reevaluated the entire set of activities in which they were engaged, refocused their strategies and structures, and often left areas of activity that they no longer considered important. Corporations, conducting internal restructuring, implemented decentralization, creating small units, transferring decision-making powers to them. In essence, they were opening a network of independent small firms authorized to conduct sales, production, information gathering, etc. These firms entered into long-term partnership agreements with the parent company, which provided them with the necessary work. From a historical perspective, this scheme was first implemented by A. Sloan at General Motors in the 1920s.

Dynamic transformations in corporations have strongly influenced *the* intensive development of *organization (firm) theory and scale efficiency*. The firm's theory has been developing intensively in economic and sociological science over the past 80 years. The firm theory is a system of views explaining the nature, behaviour, evolution, or other aspects of a particular group of enterprises'

functioning. Such groups can be many enterprises in the same branch of the economy, organizational and legal forms, size, ownership distribution structure, and more. First, the firm's theory reflects the main aspects and factors of enterprises' functioning in an indefinite time interval, including both the present and segments of the past and future; second, it is focused on explaining various aspects of enterprise activity. There are several classifications of the theory of firms. Among them, the most famous are the classifications of O. Favreau, S. Winter and G. Kleiner¹⁰⁷ .

In justifying his classification, G. Kleiner writes that most firms' theories do not claim to "fully describe the firm's functioning. " Kleiner writes that most theories of firms do not claim to "fully describe" the firm's functioning as such or in principle. Under a strict approach, they should not be called a firm's theory because they do not meet consistency, completeness, and dynamism requirements. Consequently, they cannot explain the real state and nature of the firm. In addition, the emergence of each new theory has diversified and expanded the firm's concept, which has lost definiteness over time.

Nevertheless, it should also be pointed out that some theories regard the firm as an "organization" and others regard it as an "institution". The firm is an organizational and economic system that consumes economic resources, produces products and services, and sells them to individual consumers and companies. As an institution, the firm is a set of mutually beneficial contracts. Here the firm is not an association of people, machines, technologies but a mechanism for implementing market relations based on economic transactions (transactions). Consequently, a small business can be viewed from two points of view: an organizational and economic system and a mechanism for implementing market relations.

¹⁰⁷ Kleiner, G. B. (2005). Modernization of the economy and the "cultivation" of institutions: a view "from below". Access mode: <https://kleiner.ru/wp-content/uploads/2014/12/guvsj-2005.pdf> (accessed: 27.07. 2021).

In the economic thought of socialism, it is difficult to identify concepts that could be presented as theories of entrepreneurship. S. Nikitina believes that the polemic about the fate of capitalism between the representatives of "capitalist pessimism" and Marxism ignored the analysis of the essence of the phenomenon of entrepreneurship, remaining in the mainstream of Western economic determinism¹⁰⁸. The appeal of domestic scientists to entrepreneurship as an object of study in the early 1990s has developed into a "research boom". To date, it is difficult to count the number of works devoted to this topic. Systematization and analysis of most of them allowed us to identify several scientists who proposed their conceptual approaches. For example, M. Szczepakin has developed *the motivational-resource approach*. He uses the concept of "managerial rationalism" as the basic term of the concept. Managerial rationalism in entrepreneurship boils down to fully using factor and motivation-resource potential of economic system manageability in the interests of a set of market relations subjects. The author of the concept constructed a complex causal and structural model of entrepreneurship's functioning in the economy¹⁰⁹.

In turn, the basic principles and provisions of the concept of L.Kolesnikova consist in consideration of entrepreneurship as *"a synergistic process of energy-mass-information exchange of the enterprise with its external environment*. The socio-economic context of entrepreneurship is presented as self-renewal and self-organization in energy-mass-information exchange and enterprise as a compound of complex resources. Further, she studied the models of state systems of the development of entrepreneurship¹¹⁰.

¹⁰⁸ Nikitina S.K. The role of the state in the development of Russian entrepreneurship (IX-XX centuries): autoref... D. in Economics: 08.00.01. - SPb., 2002.

¹⁰⁹ Shchepakin M.B. Entrepreneurship as a system-forming factor in the transitional economy: doctoral thesis. D. in Economics: 08.00.01. - Krasnodar, 2002.

¹¹⁰ Kolesnikova L.A. Formirovanie gosudarstvennogo sistemy razvitiya predprinimatel'stva v transientnii ekonomike: autoref. D. in Economics: 08.00.01. - Moscow, 2001.

The general point for the two works mentioned above is the analysis of innovative models of entrepreneurial behaviour. M. Schepakin notes that the success of innovations is determined by the innovation potential of entrepreneurship, which determines its links to create, perceive, and promote innovation and a certain consumer potential of the innovation itself. Moreover, the innovative potential is dependent on the investment opportunities of the entrepreneur. Therefore, it is necessary to correlate the entrepreneur's investment opportunities with those limits of innovations, which cause a life "leap" in innovativeness. In contrast, L. Kolesnikova analyzes linear and nonlinear innovation process models as a conceptual basis for entrepreneurial development.

A. Toksanova, in her work, expanded *the concept of entrepreneurship from the perspective of management*. She believes that the entrepreneurial process should be managed, and an appropriate infrastructure for small business development¹¹¹ should be created. Thus, A. Toksanova places the main emphasis on the study of the management system of small entrepreneurship.

By its nature, M. Szczepakin's concept is closer to the individual approach, and L. Kolesnikova and A. Toksanova's concept is closer to the contextual approach, focusing on the influence of environmental factors.

Summarizing the above, we can say that small business is studied from two positions - microeconomic and macroeconomic. The first one concerns the internal environment of entrepreneurship itself. In the second case, we are talking about the external environment of entrepreneurship, which greatly influences the state and development of small businesses in general and the individual enterprise on the behaviour of economic agents. One of the external environment elements is institutional conditions, an ordered set of institutions that create matrices of economic behaviour based on restrictions. The present study is devoted to the study

¹¹¹ Toksanova A.N. Development of the management system of small business in the Republic of Kazakhstan: autoref. Doctor of Economics: 08.00.05. - Astana, 2000.

and theoretical substantiation of institutions. The author develops the concept of the institutional environment of small businesses concerning the national economy.

1.3 The Institutional Environment of Small Business: Opportunities and Limitations

The institutional environment determines the relative impact of various forms of entrepreneurial activity and their activities' directions. The accepted rules of the game mainly condition the means of achieving the goals of entrepreneurial structures. Therefore, if society wants to increase productivity, state authorities must form such an institutional environment, which creates a system of incentives for entrepreneurial activity and guarantees the freedom and safety of this activity in institutional conditions. This, in turn, requires an analysis of the formation of institutions regulating entrepreneurial activity and assessing the degree of influence of small business entities on the formation and development of the institutional environment. We proceed from the fact that small business entities' activities and the actions of the institutional environment components are interdependent and interrelated.

In general, the improvement of institutional conditions for small business development is an urgent problem of the country's current stage of economic development and an understudied area of research in domestic economic science.

For the first time, institutional environment and institutional agreement were introduced into scientific circulation in 1971 by L. Davis and D. North. Subsequently, the place and role of these terms in the institutional paradigm were clarified by O. Wilson (in "A Comparison of Alternative Approaches to the Analysis of Economic Organization"), who divided all existing theories into two major blocks: technological (neoclassical theory) and organizational (institutional theory). Technological theories explore the non-contractual direction of production theory, looking at the firm through the prism production curves. In turn, various branches of institutionalism analyze the firm as a set of contractual relations.

Among them, we can distinguish the theory of property rights (theory of property rights), agency theory (agency theory), transactional economics (transaction cost economics), the conceptual basis of which is the institutional environment and institutional agreements (contract). Thus, the theory of property rights studies the institutional environment of economic organisations' activities in the economy's private sector and the theory of public choice - the institutional environment of individuals and organisations' activities in the public sector.

The definition of "institutional environment" proposed by L. Davis and D. North has not undergone any significant changes in the substantive aspect. The institutional environment is a set of fundamental political, social, legal and economic rules, which form the basis for the production, exchange, distribution of economic goods¹¹². In addition, this environment affects relationships between economic subjects (entrepreneurs), forming an institutional arrangement (agreement).

M. Lapusta, in his works, uses the term "institutional-organizational environment", a set of institutions (organizations) that provide appropriate services to other business organizations. He includes commercial banks, credit and financial organizations, etc.¹¹³. Domestic scientists offer to understand the institutional environment as the existing infrastructure to ensure the functioning, development and support of business entities (commercial banks, insurance organizations, educational institutions). In our opinion, the interpretation of the institutional environment as a set of organizations working in providing services to business entities seems narrow, as L. Davis and D. North under institutions still understand, primarily, the rules governing the interaction of economic agents.

Other scientists generally offer to use the concept of "institutional infrastructure", which is understood as a set of fulfilled and legalized norms and

¹¹² Davis, L. E., North, D. C., & Smorodin, C. (1971). *Institutional change and American economic growth*. CUP Archive.

¹¹³Lapusta, M. G., Porshnev, A. G., Starostin, Yu. L., & Skamai, L. G. (2000). *Entrepreneurship: textbook*/ed. MG

ways of behaviour in their "constitutional reality", their actual state aligning economic activity conditions for different subjects entering into economic interaction¹¹⁴. In our view, the latter concept reflects the properties of the institutional environment's components, which are accepted and performed by business entities, and in no way concept can replace the concept of the institutional environment.

The normal functioning of the market economy is based on the presence and observance of certain norms, the "rules of the game" created to ensure the best balance between transaction costs and the benefits of exchange and division of labour. Therefore, in modern interpretations of the institutional environment is represented:

- as a set of rules of the game or the environment in which the choice of rules of the game (social, legal or political) is possible;
- as the process of shaping the "rules of the game" in the economy's public or private sectors.

Our theoretical analysis shows that the content of the institutional environment derives from the essence of its components. The institutional environment's basic component are institutions, which is understood as a wide range of heterogeneous objects as they are called: language, ethics, religion, family, money, market, social conventions, customs, routines, internal order of the organization, legal norms, contracts, social order, political parties, universities and more. As a consequence, there are many definitions of the institution in the literature. While giving it different meanings, economists nevertheless associate institutions with a stable stereotype of people's behaviour and the framework of interaction that people consciously develop and adhere. Thus, J. Commons understood "institutions" as collective activities designed to control individual

¹¹⁴ Volkov, A. T., Degtyareva, V. V., & Ustinov, V. S. (2017). Features of innovative entrepreneurship in the context of the development of the national technological initiative. *Innovations*, (11 (229)).

activities that are pervasive ¹¹⁵. However, most scholars unanimously assert (especially proponents of the new institutional economic theory) that D. North's definition of institution is the simplest and most correct. He understood "institutions" as "man-made restrictive frameworks that organize the interactions between them"¹¹⁶. Even though the institution is a conscious activity product, a distinction is made between institutions' artificial and natural origin¹¹⁷. On this point, B. Shavans writes that an institution at any moment after its formation acts as a hybrid, a product of conscious and unconscious processes; that is, at no subsequent point in time does the institution develop exclusively organically and spontaneously¹¹⁸. Consequently, institutions of natural origin have inherently conscious elements, and they emerge in part as a result of conscious processes. At the same time, they cannot be seen, felt, felt, or even measured because they are constructs, the "rules of the game" in society.

In turn, in the definitions of M. Deryabina and G. Kolodko, it seems that the boundaries between the concepts of the institution and institutional environment are blurred. Thus, M. Deryabina writes that "institution is a set of rules and norms, as well as mechanisms for their implementation, with the help of which relations and interactions between people and organizations are structured and simplified"¹¹⁹. According to G. Kolodko, "institutions are the rules of the economic game (market game) established by law or organizations that ensure compliance with these rules by all economic subjects, using incentives, rewards and punishments"¹²⁰.

¹¹⁵ Commons, J. R. (2017). *Legal Foundations of Capitalism: With a new introduction by Jeffe Biddle & Warren J. Samuels*. Routledge.

¹¹⁶ North, D. C. (1989). Institutions and economic growth: An historical introduction. *World development*, 17(9), 1319-1332.

¹¹⁷ Tambovtsev, V. L. (2021). Methodologies Of The New Institutional Economic Theory: Do We All Mean The Same Thing?. *Questions of Theoretical Economics*, (3), 52-74.

¹¹⁸ Shavans, B. (2003). Types and levels of rules in organizations institutes and systems. *Economic surveys*, (6), 21.

¹¹⁹ Deryabina, M. (2001). Institutional Aspects of the Post-socialist Transition Period. *Voprosy Ekonomiki*, 2.

¹²⁰ Kolodko, G. W. (2020). After. Economics and politics of the post-pandemic world. *Voprosy Ekonomiki*, (5), 25-44.

In our opinion, the essence of the institutional environment's components is most accurately revealed by the definition of A. Shastitko. He writes that: "institutions are formal and informal rules created by people, as well as mechanisms that ensure their observance (enforcement). Mechanisms ensuring compliance with the established rules become a component of society's institutional structure because the rules perform the function of restrictions in a situation of choice only when they are valid, functioning"¹²¹.

However, institutions do not determine a person's behaviour entirely but only limit the set of alternatives from which an individual chooses one according to their goal function. Also, institutions do not refer to the individual but to his interaction with other people. The main purpose of institutions and the meaning of their functioning is to organize the relationships between people. Institutions arise in the process of human interaction, and institutions determine the latter. They have a dual nature: on the one hand, they establish the framework for economic behaviour, and on the other, they act as a factor that facilitates the implementation of economic activity. It follows that they are created to:

- ensuring the predictability of the results of a certain set of activities brings stability to economic activity. Following one institution or another makes it possible to count on a certain result with measurable costs of achieving it;
- ensuring the freedom and security of activities within certain limits, which participants in economic relations extremely appreciate;
- saving transactional costs.

Identifying the essence of the concept of "institution" allows us to proceed to the characteristics of the institutional environment's components. Structurally, they can be classified according to two general features: the fixation method and the hierarchy.

¹²¹ Shastitko, A. E. (2013). Methodological status of the new institutional economic theory. *Journal of Economic Theory*, (4), 36-47.

According to the fixation method, institutions are fixed in written law and in unwritten or customary law - traditions, customs, and taboos. The former are called formal rules, while the latter is called informal rules. Thus, the institutional environment is a complex unity of formal and informal rules. Its first part consists of a system of formal economic institutions created by the state and aims to regulate the activities of legal entities and individuals. The other part is the informalized (*de facto*) sanctioned rules of behaviour of entrepreneurs.

According to the hierarchical structure, we distinguish between supra constitutional, constitutional, and economic rules, formal and informal. Hierarchy implies the hierarchy of rules, that is, the presence of subordination between them. Thus, the law defines the principles and strategy, while subordinate acts concretize these principles into action algorithms. This example demonstrates compliance with the substantive ordering of rules: the norm of a lower order clarifies and reveals the content of the norm of a higher order. In economic terms, the development and implementation of higher-order norms are much more expensive than lower-order norms.

Supra-constitutional rules or the so-called "meta-rules" are mostly informal and significantly shape the hierarchy of values shared by society's general strata, people's attitude to power, and mass psychological attitudes. In our view, national culture belongs to the category of "meta principles", and it can be presented as a set of informal institutions (rules), expressing the specifics of the state structure of a particular country and directly affecting the efficiency and effectiveness of the institutional environment of small business. For example, peculiar informal rules have been formed in the business community that determine business and informal ties. Connections are established depending on the degree of proximity to the sphere of business and the level of material well-being. In the everyday consciousness, it acquires the outlines of the image of "a man of our circle" or "a man of our circle". Business people may trust the former and be wary of the latter.

A distinction is made between the economic and legal meaning of constitutional rules. The economic interpretation of these rules is much broader than their legal interpretation, characterized by rigour and narrowness of presentation. For example, the rules of succession to power in monarchies take custom or tradition, while voting in elections is legislated. Constitutional rules apply both at the level of the state and the level of enterprises.

Constitutional rules establish the type of state structure; second, the procedures for forming government bodies (ministries, departments, agencies, etc.); and third, the forms of public control of state actions. Constitutional rules at the enterprise level are in the form of a charter or code.

Economic rules directly determine the forms of economic activity within which economic agents enter into contracts and make decisions about resources. Economic rules include registration and liquidation of small business entities, economic transactions, monetary circulation, export-import transactions, etc.

Thus, in our opinion, a small business's institutional environment is a set of basic institutions acting within the given parameters and defining matrices of economic behaviour of subjects of a small business based on choice restrictions. This institution consists of formal and informal rules, differing in hierarchical structure as meta-rules, constitutional and economic rules. They aim to create conditions for the timely conclusion of contracts, saving transaction costs, the predominance of legal transactions over illegal ones, and positively impacting productivity and investment growth.

The state forms formal components of the institutional environment. Each of them has a purpose of existence (i.e. the purpose of these rules), the scope of application, available content, the period before the change, the cost of functioning, the degree of rejection or acceptance of the introduced norm, resistance to mutation (i.e. the measure of the stability of the institution to its transformation into some other form). A change in one of the parameters of a functioning institution concerning an economic system may entail serious macroeconomic

consequences¹²². Therefore, each market institution is assigned regulatory mechanisms and structure-forming elements to prevent undesirable consequences, i.e. organizations responsible for executing these rules.

In his concept of the "world of institutions," Kleiner writes that each institution consists of the following groups of norms:

- a group of basic norms expressing the essence and basic provisions of the institution (the core of the institution, which persists throughout the life cycle of the institution);
- groups of additional norms that are part of the "protective layer" of the institution and allow, depending on external circumstances, modification and replacement without changing the core of the institution;
- a group of auxiliary supporting norms that define mechanisms for monitoring, controlling, and supporting compliance with the norms of the core institution;
- a group of value norms related to the assessment of the institution by society and individuals (both those who are subject to the institution and "outsiders" observers);
- a group of cognitive norms regulating the perception and cognition of these norms' essence and action by various subjects¹²³.

Theoretically, these parameters should ensure the creation of an effective institution. Efficient institutions create incentives that ensure economic growth. "And the question of which institutions, in this case, will be effective is not of fundamental importance. In other words, institutions turn out to be free goods that

¹²² Sukharev, O. (2002). The concept of economic dysfunction and the evolution of the company. *Problems of Economics*, 10, 70-81.

¹²³ Rizzello, S., & Turvani, M. (2002). Subjective diversity and social learning: A cognitive perspective for understanding institutional behavior. *Constitutional political economy*, 13(2), 197-210.

automatically ensure efficient resource allocation and economic growth by creating new opportunities for production¹²⁴".

At the same time, the effectiveness of the institutional environment's components is primarily achieved at the expense of the rules that ensure the specification of property rights. Market exchange implies an exchange of property rights, i.e., one entrepreneur alienates his rights, and the other accepts them on mutually beneficial terms of the transaction. In this situation, the state is assigned the role of guarantor of property rights. Property rights are obtained by the entrepreneur acting following the requirements of economic rules. The rules, sanctioned by society, are recognized as property rights. Property rights, in turn, structure the repeated interactions of entrepreneurs regarding the production, exchange and distribution of economic goods. The smooth functioning of the contracts system reduces the uncertainty of the future and coordinates economic agents' actions.

For the entrepreneurial process to run efficiently, the level of uncertainty must be within some reasonable limits and must be limited both from above and below. A minimum level of uncertainty is ensured by the existence of commodity-money relations and contracts. Contracts, in turn, are the source of relative property rights. They exist at the level of firms and concern entrepreneurs entering into cooperation or competition with each other. The maximum level is associated with establishing the framework of economic activity, determining the boundaries of the use of economic resources. Receiving a socially recognized form, they are transformed into absolute property rights, that is, into an institutional environment.

Together, absolute and relative property rights constitute a system of property rights. In a narrow sense, the system of property rights, according to T. Eggertsson, is a set of methods for granting specific individuals "authority" in

¹²⁴ Shastitko, A. E. (2013). Methodological status of the new institutional economic theory. *Journal of Economic Theory*, (4), 36-47.

choosing any way to use specific goods from the class of non-prohibited goods¹²⁵. In a broad sense, the system of property rights, according to R. Kapeliushnikov, is a system of exceptions to access to restricted goods that operate in society, setting the matrix of interactions between those who have no access to the resource those to whom it is open¹²⁶.

Let's say that certainty of property rights is important for the successful organization of entrepreneurial activity. Scholars write that there is considerable evidence that a certain range of individuals derive the greatest benefit from the vagueness and uncertainty of property rights. When the state poorly protects property rights, rent-seeking behaviour becomes much more attractive than productive activity. People whose wealth is obtained in the process of rent-seeking use their considerable political influence to maintain the "status quo" in protecting property rights. This, in turn, forces others to invest in individual protection of property rights, diverting them from production. This vicious circle is perhaps the main reason why the post-Soviet states do not fully protect property rights¹²⁷. Obviously, under such conditions, the small business entities, which do not represent a serious political force to influence the government, suffer the most.

Nevertheless, for the further development of small businesses, the improvement of the contract law is important. Entrepreneurial structures of Japan, Germany, France, the USA and other industrially developed countries function in contractual relations. With the contracts' help, firms are putting down deep roots in business, mastering new spheres of activity and territories, successfully adapting to NTP. Nowadays, the firm's efficiency is the higher, the more effective the system of its existing contracts is. They reduce direct and indirect costs, creating the basis for lower prices for goods and services. A favourable environment is considered

¹²⁵ Eggertsson, T., Eggertsson, P., & Eggertsson, T. (1990). *Economic behavior and institutions: Principles of Neoinstitutional Economics*. Cambridge University Press.

¹²⁶ Kapelyushnikov, R. I. (2017). Economic theory of property rights (methodology, basic concepts, circle of problems).

¹²⁷ Sonin, C. (2000). Inequality, property rights, and economic growth in transition economies.

where the contract law is more sophisticated (Japan, France, USA, Germany), where arbitration is established. The conditions of the concluded transactions are not constantly revised. The system of transactions is supplemented by trust agreements based on the code of honour of a businessman. In Kazakhstan, contract law exists. However, the main part of entrepreneurs lacks legal and economic knowledge to prepare and conclude complete contracts. The system of arbitration is at the stage of formation.

Besides the specification and protection of property rights, the rules regulating monetary circulation, taxation, and access to certain markets are extremely important for small businesses. Together and separately, they contain fiscal, stimulating and regulating mechanisms of small business development.

The institutional basis for business operations' performance by operating entities is the accounting standards and the General Chart of Accounts of financial and economic activities. They are developed following the requirements of international standards and aim to facilitate mutual settlements with counterparties and work with financial and credit organizations. However, the small scale of some small businesses' activities, such as, for example, individual entrepreneurs, implies the application of rules with simple requirements. Therefore, a system of patents and simplified forms of declarations are specially designed for them.

The system of financial market institutions is aimed at balancing the flows of "savings - investments". It includes a wide range of sub-institutions (the securities market, insurance, taxes). In particular, taxes are instruments of redistribution and are designed to "dampen" the resulting failures in the distribution system, stimulating or restraining certain economic subjects' activities. The nature and rules of deductions of taxes and various kinds of payments, reflecting on the level of residual income, affect small business investment opportunities. Scientists have repeatedly emphasized that excessive "regulation" in high taxes and social transfers discourages entrepreneurial activity in the legal economy. Therefore,

there is a "soft" taxation procedure and a system of sanctions for their violation for small business subjects, otherwise called a special tax regime.

The rules of monetary circulation must ensure price stability, which affects entrepreneurs' economic transactions and is reflected in the basic conditions of contracts.

The institutional environment, forming the conditions of competition on commodity markets and financial services markets, aims to implement the main directions of anti-monopoly policy, consisting of legislative acts that define the rules of interaction of market subjects and mechanisms compliance with the established rules. The main directions of the anti-monopoly policy are considered to be:

- direct state regulation, which is the organizational and legal basis for the prevention, limitation and suppression of monopolistic activity;
- monitoring the state and level of concentration of commodity markets;
- promotion of commodity markets and competition (i.e., elimination of administrative and inter-regional barriers);
- control and monitoring of business entities with a dominant position in the market;
- suppression of unfair competition;
- support for small businesses, etc.

The extent to which the state implements the directions mentioned above of antimonopoly policy determines competitive relations and qualitative characteristics of competition on commodity and financial markets. The index of competition institutions' efficiency is economic freedom, financial risk and investments, trust index.

In general, the restrictive framework of economic transactions, ordering the interaction of all market subjects, affects both the structure and level of costs and

the productivity of small businesses. On this basis, scholars have divided the rules of economic activity, which are institutions, into three groups¹²⁸ :

- contributing to the creation of value, that is, determining the optimal ways of using resources while eliminating the options chosen by limitedly rational business entities;
- redistributing created value while maintaining a low level of transaction costs associated with the process of value redistribution;
- that impede the creation of value.

Unfortunately, entrepreneurial activity within the law framework is not always accompanied by savings in transaction costs (TAI). Among institutions, there are inefficient rules that suppress business activity and economic initiative and, consequently, narrow the number of participants in the market, as they form artificial barriers to enter the market.

For the sake of clarity, let us construct the following algorithm. According to Fig. 1.3, we can see that in the economic system, there is a continuous mass, decentralized process of economic agents' choice of various forms of institutions, namely norms and rules for economic transactions. The algorithm for step 1 assumes that the national economy has Pareto-optimal institutions through which economic actors achieve high productivity and profitability. However, economic agents are not always satisfied with the formal rules in place. Because of dissatisfaction with the "formal rules of the game," entrepreneurs look for other ways to exchange property rights. As a result, they turn to an illegal system of rules (step 2), which is more appropriately referred to as an alternative institutional environment.

The entrepreneur's decision-making process is based on a cost-benefit comparison of one or another type of restriction on the possible ways of using resources. High transaction costs within the framework of official laws, norms and

¹²⁸ Auzan, A. A., Doroshenko, M., Ivanov, V., Eliseev, A., & Kaliagin, G. (2011). Institutional economics: new institutional economic theory. *Textbook. Moscow: INFRA-M*, 415.

rules are among the main institutional factors of illegal economic activity. Entrepreneurs carry out *business operations bypassing the norms of "written" law but within the informal rules of business turnover using alternative conflict resolution mechanisms.*

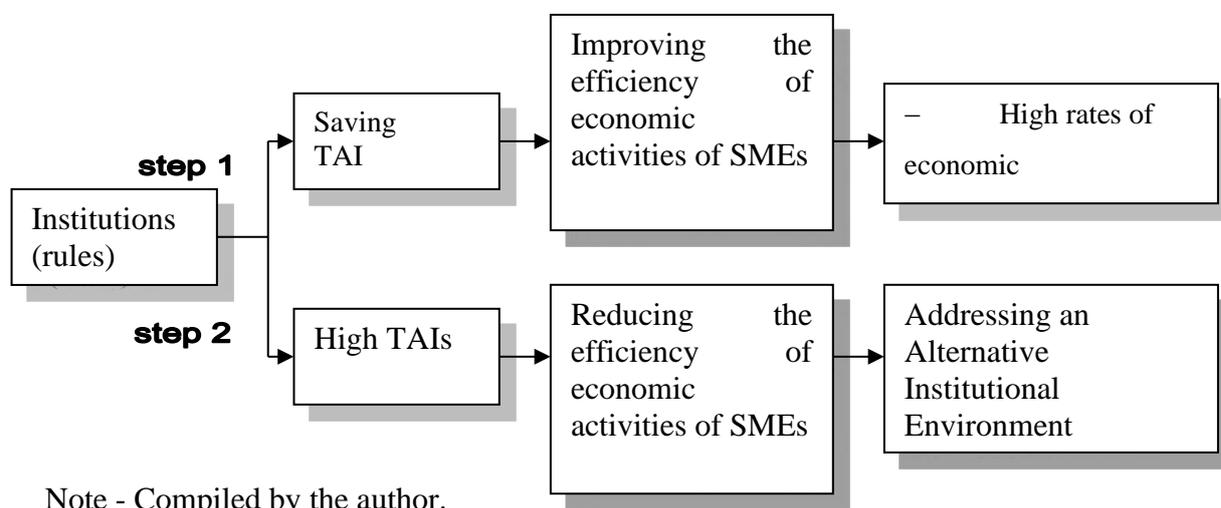


Fig.1.3. Economic consequences of functioning institutions

The main reasons they turn to an alternative institutional environment are:

- a very high nominal cost of compliance with laws and regulations that are highly detailed and complex;
- low degree of specification and protection of property rights;
- asymmetry of information;
- a strict system of legal sanctions for violations of the rules.

The alternative institutional environment differs from the formal one. It consists of informal institutions regulating the conclusion of implicit contracts with an effective enforcement mechanism (enforcement of the rules). Its advantages lie in the existence of *simplified schemes of contracting with an effective system of enforcement.* The guarantor of implicit contracts' execution is not the formal legal system but the patron structure or the so-called "roof".

In the post-Soviet space, the system of institutions of the illegal sector was formed simultaneously to create a system of legal institutions. Simultaneously, the

composition and structure of alternative institutions are quite different from the system of rules of the shadow economy of the Soviet period. A large part of today's illegal economy institutions formed spontaneously during the period of institutional chaos in the early 1990s, while another part was formed through denormalization of the rules in subsequent years.

Examples of spontaneously invented rules are institutional forms of transactions on delivering goods *with prepayment, barter form, verbal agreement between the employer and the employee*, etc. These rules were not fixed in writing, were based on the participants' involuntary trust and provided internal standards of behaviour mandatory for entrepreneurs. They arose from the information transmitted through social contacts and a generally recognized informal institutional form over time.

The main features by which we can distinguish between formal and informal rules of the institutional environment are:

- *the nature of origin.* The system of institutions of the official economy results from conscious design, while the institutions of the illegal sector mostly emerge spontaneously by evolutionary selection. This conclusion agrees with the opinion of K. Menger, who pointed out two ways of development of socio-economic institutions:
 - a) practical - constructivist, in which institutions are created by people consciously, based on a special decision (rational choice);
 - b) evolutionary, that is, as a product of evolutionary selection¹²⁹;
- *structural relation.* The system of institutions of the official economy represents "rules," while the institutions of the illegal sector represent "norms" and "rules. The norm itself is a prescription of certain behaviour, mandatory for implementation and having the maintenance of order in the system of interactions. Its obligatory structural elements are attributed, the factor of obligation, purpose

¹²⁹ Krabbe, J. J. (1988). Menger's Valuation of Nature: An Atomistic and "Organistic" Approach. *Journal of economic studies*.

and condition¹³⁰. Along with them, the rule is accompanied by real or symbolic sanctions and rewards;

- *mode of entrenchment*. The system of institutions of the official economy is enshrined in written law and secured by legal guarantees, while the institutions of the illegal sector represent unwritten law and are based on ostracism, loss of reputation;
- *the level of costs of creation and introduction*. The costs of creating the institutions of the formal economy are high compared to the costs of creating the institutions of the illegal sector;
- *the speed of change in institutions*. Changes in the formal economy institutions are much easier and faster than those of the informal sector. However, informal institutions are flexible and permanently adapt to the changing environment;
- *mechanisms of enforcement of rules*. Formal rules involve the use of centralized mechanisms (arbitration court, civil court, law enforcement), and informal rules involve decentralized mechanisms (arbitration court, "power entrepreneurs").

From the main differences between the two types of rules, we can deduce their advantages and disadvantages. The advantages of informal rules include: first, the possibility of adapting to changing external conditions, and second, the possibility of applying different sanctions in each case. Disadvantages are the ambiguity of interpretation of rules, reduction of efficiency of sanctions, the emergence of discriminatory rules¹³¹.

Overall, the alternative institutional environment can hide a considerable part of small business entities' income. The main condition for legalization and effective use of the "hidden" part of the capital of economic subjects is creating a favourable

¹³⁰ Rudd, M. A. (2004). An institutional framework for designing and monitoring ecosystem-based fisheries management policy experiments. *Ecological Economics*, 48(1), 109-124.

¹³¹ Kuz'minov, I. Y., Bendukidze, K. A., & Yudkevich, M. M. (2006). Course of institutional economics: institutions, networks, transaction costs, contracts. *Izd. House HSE*.

institutional environment in the official economy. The mechanism of the creation of such an environment requires a constructive approach. Simply abolishing inefficient institutions, reducing administrative barriers and government inspections, and softening penalties for violating the rules do not produce an immediate positive effect. Entrepreneurs are long dependent on previous development trajectories because informal institutions (norms of behaviour, traditions, customs) change gradually. Besides, the low level of trust in political institutions does not encourage market actors to build competitive legal business schemes.

To exploit the potential of the illegal sector, it is necessary to develop institutional tools. By implementing this, the *private transaction costs of the entrepreneur within the formal institutional environment will be lower than the costs of behaviour in an alternative environment and provide real guarantees of protection of property rights in the short and long term.*

Simultaneously, achieving a competitive advantage at the expense of corrupt relations with state structures does not guarantee business success. This is due to the compensatory mechanisms of the market economy. Under the pressure of competitors, who have resources obtained through corruption, businesses change markets and activity areas. Thus, an entrepreneur can choose to bribe the authorities and build his business success on this strategy, but not success.

So, it is difficult to overestimate the role and value of the institutional environment in small business subjects. Due to its components (a set of universally recognized norms and rules), the institutional environment determines the type of economic order in the country, which, in turn, is an effective tool of economic policy implementation. For this purpose, public administration bodies use three types of levers: administrative, economic and institutional.

The set of administrative levers covers actions related to the provision of the legal infrastructure. The measures taken are to create the most reasonable framework conditions for the private sector: institutions. Their function is to form

favourable business life conditions, protect the competitive environment, preserve property rights, and free economic decision-making opportunities. Studies have shown that the lack of a legal order generates the problem of economic power. Economic power is expressed in public authorities' ability to develop and implement economic institutions that influence the behaviour of small businesses.

Thus, the role of the institutional environment in small business subjects' activity follows from the function of institutions as such. And if the neoclassical theory showed two types of restrictions: budgetary and natural, the institutional environment defines one more type - *restrictions of choice*, as their components regulate access to resources and options of their use. This allows to minimize the number of conflicts and to achieve more effective coordination.

The presence of certain rules structures interactions between business entities; that is, it establishes the boundaries of possible ways of action and lines of behaviour and thus *coordinates the behaviour of small business entities* that find themselves in the area of application of a rule.

The limitation of access to resources and possible variants of their use influences the distribution of resources by small entrepreneurship subjects. Consequently, the institutional environment plays a determining role in *the distribution of resources between the market subjects*. In particular, the rules of licensing, permissions for activity, coordination of project documentation, access to preferential credit, leasing, allocation of subsidies, state order have a distributive effect. Strict or unreasonably excessive requirements narrow the rights of some small business subjects and expand the rights of others.

The institutional environment also has a *vital* role and influences *the degree of rational behaviour*. For example, a high degree of specification and protection of property rights favours increasing the number of individuals willing to change their social status from wage labourer to entrepreneur. It encourages existing small business entities to use resources efficiently and increase investment to maximize income. And this indicates a rational choice of individuals who see that their

benefits will be much higher than the costs. In the opposite situation, the standard individual would prefer to remain a hired worker and receive a fixed wage rather than risk a guaranteed income source. At the same time, the incumbent small entrepreneur would limit himself to the amount of work he currently has at his disposal.

There is a close relationship between the distributional and incentive functions of the institutional environment. Institutions that provide incentives for productive activity tend to lead to innovations in technology, organization, and new markets. It generates changes in relative prices and such organisations' opening that will provide certain groups of agents with distributive advantages in the new system of rules. The latter can inhibit the productive activity or encourage it.

The nature of the enforcement's mechanism (enforcement) of the rules of the institutional environment affects *the degree of adherence to personal interests*. Thus, if the efficiency of enforcement of institutions is low, then there is a high probability of opportunistic behaviour of co-founders, managers, employees, counterparties. Opportunism implies behaviour aimed at the pursuit of self-interest and unlimited by considerations of morality associated with deception, cunning and deceit. On the other hand, the rigid system of enforcement of institutions can also lead to the other extreme - excluding self-interest and spreading "obedience.

The final effect of the totality of role functions of the institutional environment is its influence on forming preferences of small business entities. The condition for its stability is the satisfaction of all individuals and organizations (subjects of the political market) with the existing distribution of power and control over the economy's resources. And even if someone is dissatisfied with the existing restrictions, with the given relative costs and benefits of changing the rules of the game by the subjects of trade transactions, it is not profitable for them to change them.

Chapter 2. METHODOLOGICAL BASES OF INSTITUTIONAL CHANGES IN THE SMALL ENTREPRENEURSHIP

2.1 Methodological approaches to the analysis of the institutional environment of small business

The institutional environment is crucial for small business's dynamic and active development, limiting and shaping their activity directions. It as a conceptual direction was formed in the framework of the theory of institutionalism, which allows studying the behaviour of economic subjects in dynamics: how they adapt to the requirements of the "rules of the game", how they form the institutional environment, how new norms and rules are standardized. Before turning to methodological approaches to analysing small business's institutional environment, it is necessary to dwell on the general premises of institutionalism theory. The proponents of this direction expanded the possibilities of neoclassical analysis by studying the organization's problems and the impact of transaction costs on motivation and economic behaviour. In the most general sense, institutionalism [from the Latin *institutum* - "establishment, arrangement, institution"] is a doctrine that considers the importance of economic institutions and their interaction in adopting and orienting economic decisions. The founder of institutionalism is considered T. Veblen, followed by J. Clark, J. Galbraith.

Neoclassical economic theory dominated economic theory in the twentieth century. It distinguished a rigid core and a protective belt. The rigid core structure included stable preferences, the model of rational choice, equilibrium schemes of interaction. The protective belt precisely defined the types of situational constraints for the agent, information, and interaction. In other words, neoclassical economic theory assumed that property rights remained unchanged and well-defined, information was perfectly accessible and complete for all economic agents, individuals met their needs through exchange and without costs. The consistent development of economic science has shown that these assumptions of neoclassical

economic theory are abstract and formalized and are difficult to apply to the analysis of actually occurring economic events.

The basic postulate of neoclassical - aspiration of the economy to equilibrium - was refuted by real-life events, which pointed out that the economy is an evolutionarily open system, experiencing and responding to the external environment's constant impacts. Thus, powerful external influences generated states of "tension" in the economic system, a continuous change and development process. Consequently, the market cannot be characterized by a state of equilibrium and harmony of economic interests, cannot be some neutral mechanism of distribution of resources. The market evolves together with the entire economic system. All this has convinced institutionalists of the need to consider any market processes as social, reflecting the nature of income distribution, the influence of social exclusion, etc.

Institutional theory, which emerged abroad in the 1920s, has been intensively developed and expanded. Modern institutionalism is a combination and simultaneous coexistence of all its strands, which differ from each other in their methodological approaches to defining the essence of the concept of "institution" and studying socio-economic processes following Table 2.1. From neoclassical to old institutionalism, the entire spectrum of modern institutional theories can be shown as a spectral arrangement following Table 2.2 ¹³². This arrangement shows which direction is closer to the old school and which to neoclassical economic theory.

¹³² Litvintseva, G.P.(2003). Institutional economic theory: Novosibirsk: Publishing house of NSTU.

Table 2.1. The main directions of the theory of institutionalism

Directions	Founders	Methodological features
Old Institutionalism 1920-1930	T. Veblen, J. Commons, W. Mitchell	-an interdisciplinary approach to the economic processes in question; -guided by principles such as holism (integrity), inertia, and institutional determinism; -Accentuated attention to the actions of collectives to protect the interests of individuals; -applying the inductive method and the method of empirical research
Evolutionary Institutionalism	R. Nelson, S. Winter, J.Hodgson	-rejection of the assumptions of optimization and methodological individualism; -Accent on the study of economic change; -conducting biological analogies; -considering the role of historical time; -using the concept of "routine." -Favored the role of the state
Neo-institutional economics 1937 г.	R. Coase, R. Posner, I. Pejovic	-guided by the principles of methodological individualism, utility maximization, and bounded rationality; -analysis of transactions and transaction costs
Postwar Institutionalism 1950-1960	A. Burley, G. Means, J.M. Clarke, J.K. Galbraith, F. Perroux, J. Furastier, G. Myrdal, K. Wittvogel, W. Lewis	Further development of the old institutionalism. A focus on the problems of economic power and social control over the economy
The New Institutional Economic Theory 1960-1970	O. Williamson, D. North	-realization of the principle of methodological individualism; -An examination of institutions from the point of view of explaining the behavior of economic agents. Emphasis is placed on aspects related to the efficiency of resource allocation and economic development, analyzing the process of formation of institutions on the basis of rational choice; -viewing institutions through the prism of their influence on the decisions that economic agents make; -comparison of institutional alternatives is carried out through the analysis of opportunities for savings on transaction and transformation costs; -a broader approach to defining a choice situation
The New French Institutional Economic Theory 1980s	L. Thevenot, O. Favreau, A. Orleans, R. Boyer	The market economy is studied not as a separate object, but as a subsystem of society

Note - Compiled by the author

So, in traditional institutional theory, T.Veblen, J.Commons and W.Mitchell emphasized the role of inertia and habits, which are largely irrational. Distancing itself from neoclassics with its homo economicus, the "old" institutionalism selects the object of study rather consciously than unconsciously - homo institutus and rather unconsciously than consciously - the integral man as a biosocial being and, accordingly, the economy "in context"¹³³.

Table 2.2.

The spectral location of the main strands of modern institutionalism

Traditional in- title- nal theory	Evolutionary econo- mice- cial theory	The New Frenchman Institute- cialism	New institutional savings- human theory	Neoinsti- tutionality	Neoclas- sic theory
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Source: Litvintseva G.P. Institutional economic theory: Novosibirsk: Publishing house of NSTU, 2003. c.38.

Evolutionary economic theory is close to the views of the representatives of old institutionalism, which emphasizes the importance of connections between the economic system elements for the formation of the properties of both the elements themselves and the system as a whole. This principle, denoted by the notion of "holism" (integrity) or "organicism", means the predominance of social relations over the psychodynamic qualities of individuals, which determine the essential properties of the economic system. As applied to economic theory, holism proceeds from the unity of the economic, social and cultural spheres in which an economic agent lives and acts. In this case, the individual (entrepreneur) is in a close relationship with the environment and other individuals (counterparties), influencing his behaviour.

Holism has several advantages. These include:

¹³³ Tarasevich, V. N. (2005). Institutional theory: methodological searches and necessary hypotheses. Post-Soviet institutionalism / ed. RM Nureeva, VV Dementieva.- Donetsk: Chestnut, 480.

- consideration of the socio-economic system as it is. For example, in a comparative analysis of the economies of individual countries, the actions of economic actors are studied concerning cultural traditions and norms, which allows us to get a more reliable idea of the direction of the economic system and society as a whole;
- the perception of an economic entity as an economic agent and as a representative of a particular social group with its inherent norms of behaviour and value orientations allows for a deeper knowledge of the motivations of individual behaviour. At the same time, it is believed that the holistic methodology leads to the denial of formal-logical, quantitative methods and modelling, which are widespread in modern economic science.

New French institutionalism and new institutional economic theory are central to the traditional institutional theory and neoclassical theory. New institutional economic theory and neo-institutional theory are sides by the side. At first glance, neo-institutional theory and new institutional economics (new institutional theory) mean the same thing. Meanwhile, they are two different strands of modern institutionalism. T. Eggertsson was the first to recommend distinguishing them¹³⁴. However, in our opinion, R. Nureyev showed it in more detail, who believes that the new institutional economic theory inherited its basis from the old institutionalism and was formed in the following five directions: the theory of postindustrial society, convergence theory, post-economic society theory, the economy of global problems, the economy of agreements. Neo-institutional economics develops from "traditional" neo-classics and within the theory of public choice, property rights, agents, transaction costs¹³⁵. In turn, A. Shastitko attributes neo-institutionalism to one of the directions of the new institutional economic

¹³⁴ Eggertsson, T., Eggertsson, P., & Eggertsson, T. (1990). *Economic behavior and institutions: Principles of Neoinstitutional Economics*. Cambridge University Press.

¹³⁵ Nureyev, R. M., Gretchenko, A. I., Andreff, V., Oleinik, A. N., Menard, K., Theveno, L., ... & Favreau, O. (2005). *Institutional economics*.

theory¹³⁶. In general, both proceed from the limited rationality of individuals (entrepreneurs) and the possibility of their opportunistic behaviour.

At the end of the spectrum placement next to neoclassical theory is neo-institutionalism. The similarity of these theories lies in their common ideological platform - liberalism. According to J. Buchanan "...neo-institutionalism is one of the variants of modern liberalism, continuing the traditional classical liberalism with its reliance on individual values"¹³⁷. However, their differences manifest themselves in their methodological principles. Although the initial unit is the individual in both theories, the neoclassical doctrine adheres to the principle of "atomism" and neo-institutionalism to "methodological individualism".

Atomism is a principle derived from the discrete structure of matter from the smallest particles. This principle assumes that the economic system is a mechanical community of individuals isolated from each other and that economic reality is a set of multidirectional actions of economic agents.

On the other hand, Neo-institutionalists rely on "methodological individualism. According to this principle, individuals, not groups or organizations, are recognized as real "actors" in the social process. No collective community (a state or a firm) has an independent existence, separate from its members' existence. On the other hand, commonalities are to be explained in terms of individual agents' purposeful behaviour. This statement points to a certain limitation of this principle, the subjectivist nature of economic behaviour analysis. In this case, the individual (entrepreneur) is isolated from society and the cultural environment, and his behaviour is a choice from a set of alternatives.

B. Tarasevich believes that neo-institutionalism is an epistemological response of neo-classics to the "rebellion" of the "old" institutionalism, and not

¹³⁶ Shastitko, A., & Ménard, C. (2017). Discrete institutional alternatives: Theoretical and policy issues (Celebrating the 80th anniversary of Ronald Coase's "Nature of the Firm"). *Russian Journal of Economics*, 3(2), 200-220.

¹³⁷ Koslowski, P., & Buchanan, J. M. (1996). *Ethics of capitalism and critique of sociobiology*. Springer Science & Business Media.

without reason considers it as a generalized neoclassical approach, whose formation and development are the result of a twofold process: neoclassical imperialism as a key component of economic imperialism and a non-economic response to its challenges. The latter is manifested, in particular, in the breakthrough of the "protective shell" of neoclassicism and the corrosion of its "hard" core. Accordingly, neo-institutionalism can be represented as a form and result of the contradiction between the narrowly economic methodology of neoclassical and objects inadequate to its heuristic potential. Trying to master the latter, to subordinate them to its "charter", it gradually loses its own identity, quite probably - unnoticed by itself ¹³⁸.

In our opinion, the shown differences between the directions of institutionalism are conditional. They all have in common the use of an interdisciplinary approach and the principle of historicism, expressed in the desire to identify the driving forces and factors of development, the main trends of social evolution, to substantiate the prospects' purposeful impact of social development. Overall, the institutional theory's appeal lies in the fact that it analyzes a sufficiently wide range of phenomena, using modified assumptions concerning the rational man, which allow "studying him (man) as he is - acting within limits imposed by real institutions"¹³⁹. Besides, at the level of applied economic analysis, the above distinctions are largely erased. Researchers often have to rely on several branches of institutionalism postulates at once because "whatever the nature of institutions, in real contemporary life they take the form of legal norms, traditions, informal rules, cultural stereotypes"¹⁴⁰.

¹³⁸ Tarasevich, V. N. (2005). Institutional theory: methodological searches and necessary hypotheses. Post-Soviet institutionalism / ed. RM Nureeva, VV Dementieva.- Donetsk: Chestnut, 480.

¹³⁹ Kusurgasheva, L., Muromtseva, A., Prokopenko, E., & Yakunina, Y. (2020). Trends and Potential of the Reindustrialization of the Mining Region. In *E3S Web of Conferences* (Vol. 174, p. 04022). EDP Sciences.

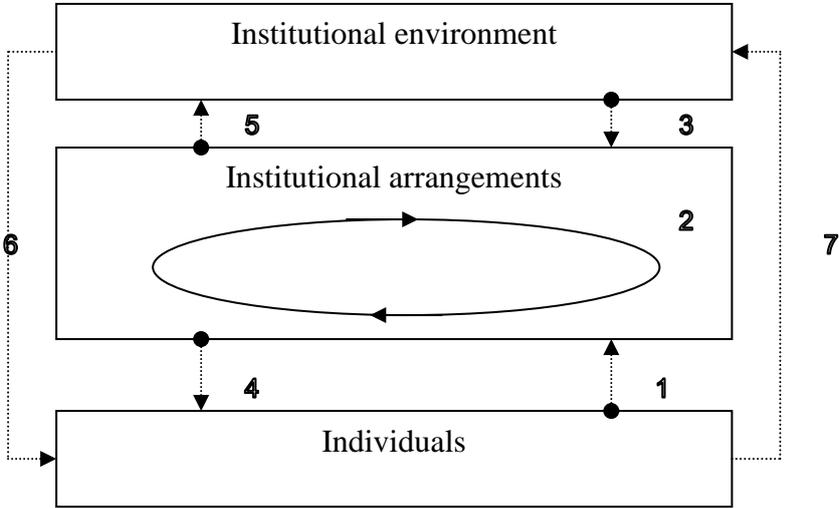
¹⁴⁰ Gafarov, I.R.(2001). Development of the institutional environment of the modern Russian economy: autoref. D. in Economics: 08.00.01. - Kazan

Compared to large entrepreneurial structures, which can significantly influence state economic activity, particularly the determination of the level of protection of property rights, through the usual political mechanisms, the development of small business entities is two-thirds predetermined by state policy in this area. For example, the institutional structure constraints (together with other constraints) determine the set of possibilities and organizational-legal forms of small business. In turn, having a target function, small entrepreneurship accumulates the knowledge and experience to strengthen its position to survive in the context of pervasive resource sparsity and competition. North notes that the knowledge and skills with the highest returns function as the institutional matrix's structural incentives. He gives the following example to support his views. In situations where high returns are achieved at the expense of "piracy" (copyright infringement), entrepreneurs invest more in the knowledge and skills that allow them to become better "pirates." In the other situation, where the highest returns are achieved by increasing productivity, entrepreneurs will invest more in the knowledge and expertise to achieve that goal.

The starting point for the analysis of the economy's institutional structure is, in our opinion, the approach proposed by O. Williamson. He took the institutional structure as given (exogenous) and studied it in a three-level scheme with seven types of influences. Following Fig.2.1, we can see that the first level contains individuals (in our case, entrepreneurs), the second - various institutional agreements in the form of markets, firms, hybrid (mixed) forms, the third - the institutional environment system-forming rules of the game.

The first type of influence is the influence of individuals on institutional agreements. The second type is the influence of institutional agreements on each other. The third type is the influence of the institutional environment on institutional agreements. The fourth type is the influence of institutional agreements on individual behaviour. The fifth type-the influence of institutional agreements on the institutional environment. Sixth type-the influence of the

institutional environment on individual behaviour. The seventh type-the influence of individuals on the institutional environment.



Notes

1 - the first type of impact; 2 - the second type of impact; 3 - the third type of impact; 4 - the fourth type of impact; 5 - the fifth type of impact; 6 - the sixth type of impact; 7 - the type of impact

2 Source: Litvintseva G.P. *Institutional economic theory*: Novosibirsk: Publishing house of NSTU, 2003. .

Fig.2.1. Three-Level Scheme of O. Williamson's Study

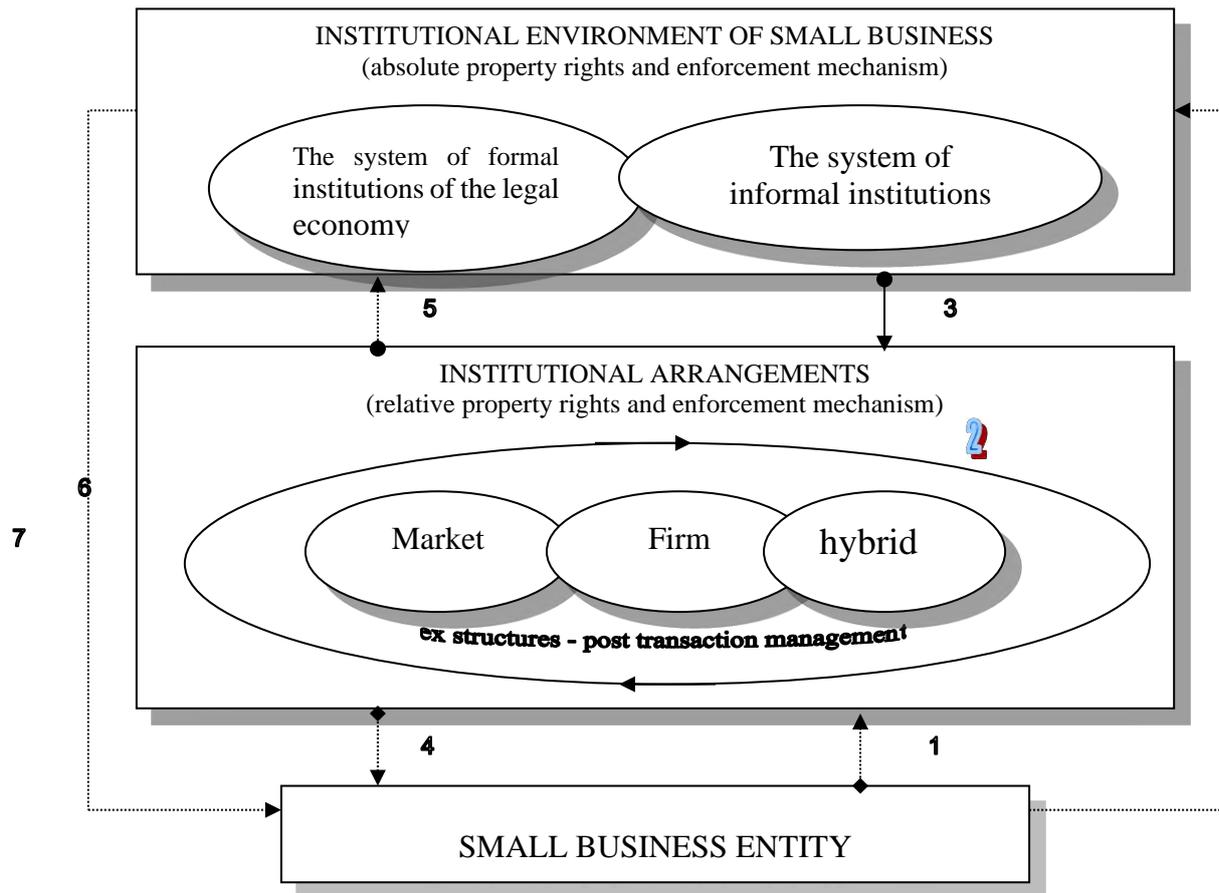
These types of influences show how individuals make institutional agreements in a particular institutional environment. Thus, as a set of system-forming rules, the institutional environment influences individuals' behaviour directly and indirectly. Indirect influence is carried out utilizing the 3rd and 4th types of influences, i.e. the institutional environment, defining possible types of institutional agreements in the given economic system, giving the individual the right to choose one. Direct influence occurs through the 6th type of influences, which is expressed in the definition of citizens' rights and duties, namely opportunities of realization of free will by them. The individual is not left out of the process of formation of the institutional environment. His influence on it also has a direct and indirect nature. Indirect influence occurs through institutional agreements, which he chooses when carrying out economic activities (1st and 5th

types). The essence of direct influence is revealed through an individual's participation in the election of legislative bodies, which pass laws (7th type).

As for the 2nd type of influences, the market is presented as an arena in which autonomous parties enter into exchange relations. The firm is presented as a mechanism of implementation of market relations, which is based on economic transactions (transactions). Hybrid agreements are a variant of the latter, receiving practical implementation through the conclusion of long-term contractual relations and preserving the parties' autonomy, but involving the creation of transactional specific precautions that prevent opportunistic behaviour. They include subcontracting and franchising.

The scheme described by O. Williamson is a useful tool for the systemic representation of institutions and their interactions through individual behaviour. Proceeding from the object and subject matter, we decided to transform this scheme and present it in the following form. According to Fig. 2.2, the institutional environment block highlights its components: the formal economy system (formal rules) and informal rules. Complex relationships and interactions between them can explain the combination of sub-blocks. For example, certain institutions' properties allow them to be substituted (substitutes), compliments (complimentary), or independent.

As an example of the peaceful coexistence of formal and informal institutions as substitutes, it is possible to mention bank and mutual lending. The subject of small business in search of additional sources of capital has the right to choose sources of credit. The second-tier banks have officially approved rules for obtaining loans, while the mutual lending societies have informal, sanctioned (*de facto*) rules for financing.



Note - Compiled by the author on the basis of O. Williamson's three-level research scheme.

Fig. 2.2. Scheme of the analysis of the institutional environment small businesses

The action of complimentary rules is accompanied by a synergistic effect: strengthening or weakening. For example, if the rules of business ethics guide the conscious actions of entrepreneurs to comply with contractual discipline, then at the same time, the importance of the law on contracts is strengthened, and the strength of the values of society is reinforced. If the opposite is true, both formal and informal rules are weakened.

Due to the named properties of substitution or supplementation of institutions, the latter occurs within formal and informal rules. However, we will not delve into the study of the properties of institutions. Still, we will move on to the study of the mechanisms of interaction between formal rules and informal ones.

The literature conventionally identifies five types of mechanisms¹⁴¹. The first is the one in which rules contradict each other. The action of this mechanism, in our view, follows from the purpose of the rules themselves. For example, formal economic rules aim to ensure the transparency of the economic activities of entrepreneurial structures. However, informal rules aimed at non-transparent implementation of economic transactions are often developed in the business environment.

The second is the one in which the rules divide the spheres of influence. The separating factor is the scope of application of rules. Thus, for example, formal rules regulate the legal nature's contractual relations, while informal rules guide entrepreneurs in making implicit institutional agreements.

The third is that rules are mutually reinforcing. Thus, for example, the meta-rule category of informal rules can reinforce the effect of constitutional rules if the latter are designed and implemented, considering the hierarchy of values shared by broad sections of society.

The fourth - in which there are mutually weakening rules. For example, informal rules governing corrupt agreements reduce transaction costs in the short run. In the long run, they turn formal institutions into administrative barriers at both cost and time.

The fifth one is the one with non-intersecting rules. As in the second mechanism of interactions, the factor determining their non-intersectionality is applying rules. In particular, business ethics rules and business turnover customs may not overlap with most formal rules.

It is safe to assume that the domestic economy's alternative environment institutions have all the above properties. However, the question is which of them are relatively easy to eliminate, which are so built into the economic system that they are difficult to identify and abolish.

¹⁴¹ Rozmainsky, I. V., Lozhnikova, A.V., Kichko, N. I., & Khloptsov, D. M. (2017). Dacha in post-Soviet Russia: institutional analysis. *Journal of Institutional Studies*(*Journal of Institutional Studies*), 9(2).

From the above seven types of influences within the relationship between the institutional environment, agreements, and entrepreneurs, we can conclude that these interactions perform institutional conditions for entrepreneurial activity. Following this, we propose two methodological approaches to study the functional relationship "small business subject - institutional environment":

- study of the influence of institutions on the behaviour of small businesses;
- study of the influence of small business entities on the process of institution building.

In the first approach, the starting point of the analysis is the institutional environment as a system of institutions that creates prerequisites and conditions for developing various market subjects. Here we proceed from the fact that the type of behaviour of small business entities is a consequence of their function's institutional conditions. Therefore, the main emphasis is on analyzing directions and trends of institutional transformations in the domestic economy. In particular, in the early 1990s, the state acted as an organizer of the economic order; that is, it was engaged in creating common game rules for all new economic entities.

In world practice, there are three variants of centralized formation of institutions:

- Institutions are created according to a theoretical model transferred to practice;
- Institutions are created in the likeness of pre-existing models in a given country, which have disappeared or stopped in their development in the course of evolution;
- imports of institutions that have demonstrated their effectiveness in the economic practices of other countries.

Domestic practice shows that small business institutions were created based on the third option (imported institutions). Unfortunately, over time the imperfection and inadequacy of individual transplant institutions were revealed. This, in turn, had an ambiguous impact on the nature and priorities of implementing

the interests of economic entities, including small businesses. In our view, the main reasons that have not contributed to the process of "transplantation" of institutions and the emergence of a system of effective rules (that is, rules that "stop" unsuccessful efforts and "support" successful efforts) are macroeconomic conditions and meta-rules developed over the 70 years of functioning of the command and administrative system. In general, within the framework of this approach, we should talk about the specifics of the institutional environment that forms small business entities' type of behaviour.

Since modern markets represent a network organization, the enterprises are operating in their structure act as generators of formal and informal flows of mutual obligations. Being stable complexes of role relations, enterprises form norms of behaviour. Reproducing, these norms acquire the nature of stable forms. Initially, as intrafirm, they become the property of the entire economic system in new norms of economic behaviour. This allows us to consider enterprises as subjects participating in the formation of the institutional environment. In this context, it will be fair to call firms that form the institutional environment within the second approach. The logic of the second approach derives from objective conditions:

- the entrepreneur shows satisfaction with the new rules' action and accepts all the introduced norms, using them in economic practice. When implementing this strategy, and institutional adaptation of entrepreneurs takes place, which is a complex multi-structural and multi-organizational phenomenon, which guarantees the active interaction of the economic entity with the external environment as an objective condition for its existence, providing the processes of the internal organization of material resources and information and processes of constant exchange of resources and information with the external environment¹⁴²;
- the entrepreneur, dissatisfied with the new rules, rejects them and takes measures to change them. The implementation of this strategy requires

¹⁴² Aguzarova, L.A.(2002) Institutional adaptation of entrepreneurial structures: autoref. D. in Economics: 08.00.01. - Rostov n/Don.

organizational measures and financial expenditures. If the choice of this type of institution occurs at *the institutional market*, the actions connected with their change, revision - *at the political market*. However, as we have already noted earlier, the opportunities for small business entities to participate in political bargaining are much smaller compared to representatives of big business. They have to consolidate their efforts and form an "institutional entrepreneur" to represent their interests in the political market. According to the generally accepted definition, "an institutional entrepreneur is an individual or group of individuals who pool resources to change the existing system of rules."¹⁴³, which can be public associations of entrepreneurs in the form of various associations and unions. The basis for their emergence is the dissatisfaction of entrepreneurs with the existing system or some individual formal rules;

- the entrepreneur, dissatisfied with the operation of the new rules, may convert it into some other form.

So, the first strategy describes an ideal situation in which society develops rules that satisfy the interests of all parties. However, if we remember the distributive function of institutions, then the expansion of the rights of some subjects is always accompanied by a narrowing of the rights of others. Concerning our conditions, in our opinion, there are several objective reasons explaining the "impossibility" of the first strategy. This is, firstly, the lack of practical experience in the development of market institutions in independent states, which naturally led to the creation of "imperfect" rules of the game. Second, the meta-rules (national mentality, culture) developed in the preceding period resisted introducing new institutions. Third, the institutional space was characterized by discreteness, that is, by the absence of internal unity, which did not allow it to be viewed as a single whole.

¹⁴³ Litvintseva, G. P. (2003). Institutional economic theory. *Litvintseva, NGTU, Novosibirsk.*

The practical implementation of the second strategy requires a certain level of political and economic power among entrepreneurs. Consequently, it finds application among the entrepreneurial stratum, which has reached a certain level of self-development and is ready to participate in the political process. At the beginning of the 1990s, small business was in its infancy in transitional economies. Their activity was characterized by a focus on maximizing their utility functions and pronounced opportunistic behaviour. The question of consolidation was not as popular as it is now. Therefore, against the first two, the third strategy looks more attractive because it does not require the consolidation of efforts and financial costs. In the decentralized choice of institutional forms of commodity transactions, entrepreneurs spontaneously came up with, relevant to the situation, the available order of contracts. For example, during the non-payment crisis, such institutional forms of transactions as prepayment, in barter form, were introduced. *De jure* contracts were made within the legal rules of the game but with the introduction of "innovations" to guarantee the performance of the contract. Subsequently, entrepreneurs could profit from state order and procurement rules by building a legal cash-out scheme through so-called "cash-out" firms specializing in illicit money trafficking and several other economic crimes. Such enterprises, after performing one or two operations, usually do not operate further. In the statistical records, they are recorded as entities that have temporarily ceased their activities.

These moments explain the denormalization of rules - replacing formal rules with informal ones or incorporating informal relationships¹⁴⁴.

In general, the mass character of the choice for the action of a certain institutional form (rule) leads to the establishment of a new institutional arrangement (institutional arrangement or institutional structure), which now operates in the field of small business.

¹⁴⁴ Radaev, V. V. (2001). Deformalization of Rules and Tax Evasion in Russia Economic Activity. *Problems of Economics*, (6).

Thus, the peculiarity of the institutional approach is that modern trends in institutionalism proceed from the paramount importance of the formation not of property rights per se but social norms and rules. An economist studying property rights examines norms and rules of exchange between independent market participants, including choice of business partners, nature of contractual relations, and procedure for execution of transactions. And the above methodological approaches show that the development of small businesses and the institutional environment are interrelations and mutual. At the same time, we pay special attention to "institutions" as mechanisms structuring the relationship between market actors. The considered approaches, in our opinion, allow us to study the specifics of small business development in the transforming institutional environment.

2.2 Factors and directions of development of institutions in the sphere of small business

Within the framework of institutionalism, there is a theory of institutional change focused on describing, explaining, and predicting changes in institutions and developing scientific and practical recommendations for desirable (required, necessary) transformations in them. With the help of this theory's scientific apparatus, it is also possible to investigate the nature and character of changes in the system of small business institutions.

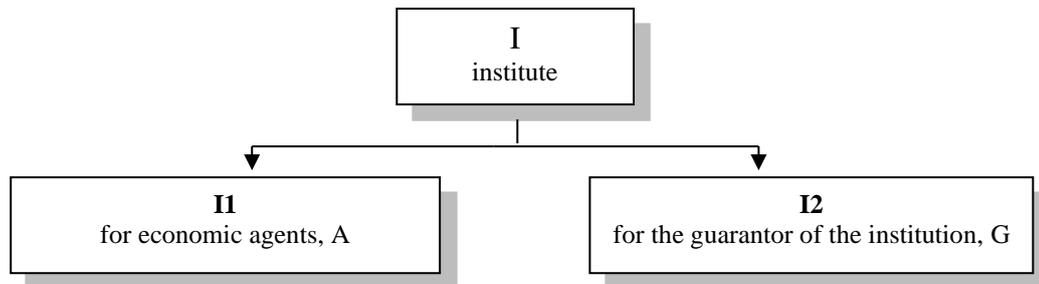
According to this theory, the changes in institutions (development of institutions) mean modifying the rules and enforcement mechanism to reduce the value of transaction costs.

All structural elements of the institution are subject to change, which are:

- (a) Rules for the economic agent (A) to follow the rule;
- b) rules for the guarantor (G), who must ensure that they are complied with, and apply sanctions in case of non-compliance following Fig. 2.3.

This figure shows that changes in institutions take place concerning:

- of the algorithm for the execution of the rules I1;
- the contingent of agents - A, to which rule I1 applies;
- or I2 rules;
- or a contingent of guarantors -G.



Note - Compiled by the author from the source:
 Tambovtsev, V. L. (2001). The institutional market as a mechanism of institutional changes. *Social Sciences and Modernity*, (5), 25-38.

Figure 2.3. Structure of the institute (rules)

Suppose we take as an institution (I), for example, the rules of transportation of goods through customs posts. In that case, the first option of changes concerns the procedure of registration of documents by entrepreneurs (A). As an example of the second option of change, we can establish different requirements for entrepreneurs, which will lead to changes in their composition. A third option is to expand or reduce the functional responsibilities of customs administration staff (G). A fourth option is to transfer authority for certain procedures (customs transport control or declaration clearance) to another auxiliary body. Finally, the legislature may abolish a given institution or replace it with another in some special cases. However, changes in institutions are not always accompanied by positive effects, but this will be discussed later.

The theory of institutional change contains various concepts explaining the factors of institutional development. Thus, according to H. Demsetz's concept, the development of institutions occurs under the influence of changes in the relative prices of economic resources and the North-Thomas concept - demographic

pressure¹⁴⁵¹⁴⁶. The authors of both concepts believe that the inefficient use of resources creates a demand for new institutions necessary to exploit the opportunities provided by these changes. At the same time, the state and social groups play a passive role and do not participate in creating institutions but only accept them. An important prerequisite for these changes, however, is increased efficiency that contributes to value creation. In-depth research in institutional change has shown that the above concepts contain several points that require clarification. In particular, scientists have questioned that changes in institutions automatically follow changes in economic conditions. D. North's concept, published in the 1990s, managed to dispel these doubts and become a seminal work for new developments in this field.

D. North, studying the processes in political markets, found that political actors (entrepreneurs) pursue their interests in institutional change. They are the main organizers of new institutional agreements to reduce uncertainty and create a basis for finding a compromise in the conflict of interests. In our opinion, D. North came to this formulation of the question under the influence of the evolutionary theory of J. Schumpeter. After all, in economic development theory, the entrepreneur is given a central place as a disruptor of equilibrium, a catalyst for change and a source of innovation. Consequently, by combining new factors of production, the entrepreneur initiates changes in both relatives (institutional agreements) and absolute property rights (institutional environment). At the same time, the mechanism of institutional change is triggered by combining the action of *external changes and the internal accumulation of knowledge*. About this, D. North wrote: "Factors (sources) of change are opportunities as perceived by entrepreneurs. They arise from changes in the external environment and the

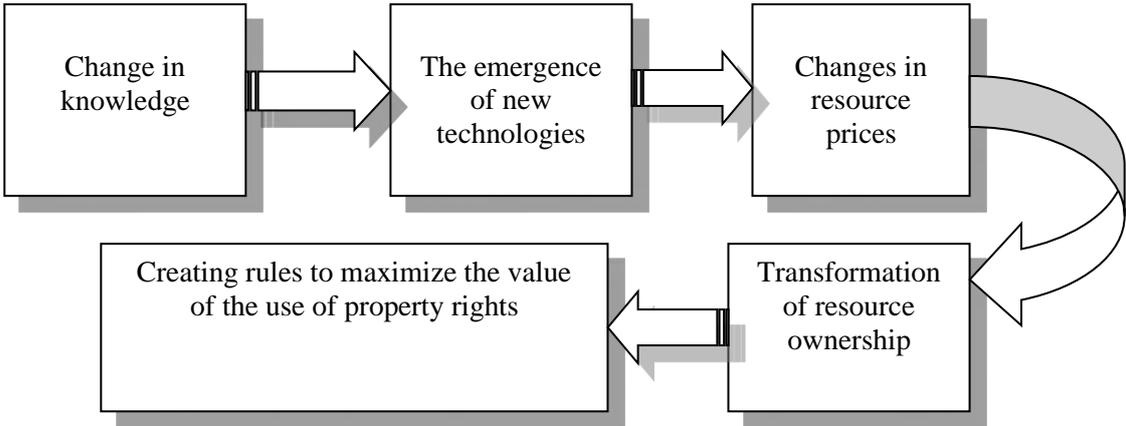
¹⁴⁵ Demsetz, H. (1974). Toward a theory of property rights. In *Classic papers in natural resource economics* (pp. 163-177). Palgrave Macmillan, London.

¹⁴⁶ Demsetz, H. (2002). Toward a theory of property rights II: The competition between private and collective ownership. *The Journal of Legal Studies*, 31(S2), S653-S672.

accumulation of experience and knowledge and the integration of these factors in the mental constructions of the actor ¹⁴⁷".

Based on D. North's approaches, an algorithm for the development of institutions was constructed, which looks according to Fig. 2.4:

- The change in the level of knowledge leads to the emergence of new technologies;
- new technologies change the relative price levels of resources;
- New price levels create incentives for the owners of potentially value-increasing resources to transform ownership of them;
- new price levels, in turn, lead to the emergence of rules to maximize the value of the use of such rights;
- The non-zero transaction costs in the political market prevent all the potential institutional changes useful for value creation from materializing¹⁴⁸.



Note - Compiled by the author from the source [North, D. C. (1993). Five propositions about institutional change. *Economics Working Paper Archive at WUSTL.*].

Fig.2.4. D. North's Algorithm of Institutional Development

As we see it, this algorithm traces the relationship between technological and institutional change, which confirms our conclusion about the influence of the ideas of J. Schumpeter on the formation of the concept of D. North.

¹⁴⁷ North, D. C. (2018). Institutional change: a framework of analysis. In *Social Rules* (pp. 189-201). Routledge.

¹⁴⁸ Auzan, A. A., Doroshenko, M., Ivanov, V., Eliseev, A., & Kaliagin, G. (2011). Institutional economics: new institutional economic theory. *Textbook. Moscow: INFRA-M*, 415.

According to induced innovation, W. Ratten and J. Hayami exogenous factors form the demand for institutional changes. Still, political actors (entrepreneurs) propose such institutions that will provide them with a certain income¹⁴⁹. In our view, this concept indicates that, first, each institutional environment corresponds to a different distribution of political and economic power among economic agents and, second, political actors with more power seek to develop and consolidate such institutions that will allow them to improve the efficiency of economic activity in individual markets. The author of the theory of the distributive nature of institutions, G. Laibkep, is convinced that institutional changes cause shifts in wealth and political power distribution. Hence, stakeholders develop distributive mechanisms to indicate the beneficiaries of institutional changes over time¹⁵⁰. G. Laibkep's theory was developed in the works of M. Olson, who supports the view that special interest groups exist but argues that groups should be distinguished according to their capacity - into small and large¹⁵¹ ones. We believe the latter is connected with the fact that large groups are ineffective in achieving a common goal because of the "stowaway" effect. According to F. Knight, the "stowaway" effect consists of the fact that a rational agent will not participate in a political process because, in case of its successful completion, he will get a part of the public benefit without any expenses. On the other hand, small groups are more efficient because they are characterized by group members' common interests (homogeneity of preferences) and low costs of making collective decisions (voting costs)¹⁵². B.Arthur¹⁵³ identified two groups of factors determining

¹⁴⁹ Litvintseva, G. P., Kryukov, V. A., & Khairullina, M. V. (2016). Conditions for Innovation Development: The View from Siberia. *Problems of Economic Transition*, 58(7-9), 598-603.

¹⁵⁰ Litvintseva, G.P.(2003). Institutional economic theory: Novosibirsk: Publishing house of NSTU.

¹⁵¹ Olson, M. (2012). The logic of collective action [1965]. *Contemporary Sociological Theory*, 124.

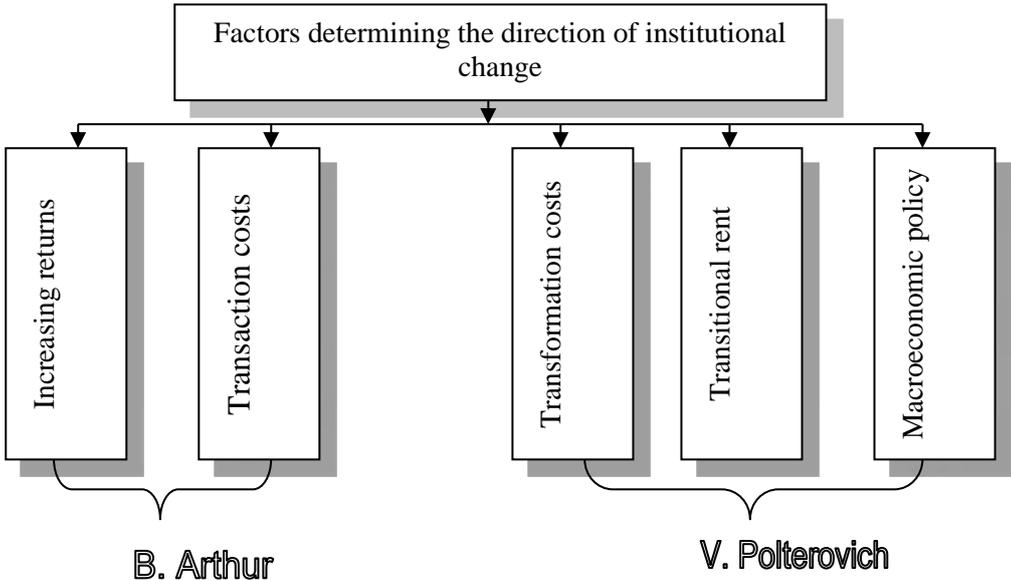
¹⁵² Knight, F. H. (1921). *Risk, uncertainty and profit* (Vol. 31). Houghton Mifflin.

¹⁵³ Artur, B., & Dorota, W. (2021). The importance of training and certificates in the access of university graduates to the labour market. *Strategic Management-International Journal of Strategic Management and Decision Support Systems in Strategic Management*, 26(1).

the direction of institutional change: the increasing scale of returns and transaction costs, which V. Polterovich added three more factors:

- a) transformation costs, that is, the cost of switching from one norm to another;
- b) transitional rent, that is, the income arising in the private sector as a result of the movement towards equilibrium after the liberalization of reforms;
- c) macroeconomic policy, that is, government management can lead to significant changes in institutional structure ¹⁵⁴.

The merit of V. Polterovich is that he showed the relationship between the theory of reforms and institutional change. In general, these concepts complement the work of D. North and allow a complete explanation of the observed changes in institutions ¹⁵⁵.



Note - Compiled by the author.

Fig.2.5 Factors determining the focus institutional change according to B. Arthur and V. Polterovich

¹⁵⁴ Polterovich, V. M. (1999). Institutional traps and economic reforms. *Economics and mathematical methods*, 35(2), 3-20.

¹⁵⁵ North, D. C. (1986). The new institutional economics. *Journal of Institutional and Theoretical Economics (jite)/Zeitschrift für die gesamte Staatswissenschaft*, 142(1), 230-237.

At the present stage, scholars from post-Soviet countries propose new concepts for the development of institutions. In particular, G. Kleiner proposes to divide the factors affecting the institutional process into three groups according to the level at which they emerge: the micro-level (the actions of social actors to create and entrench norms); the mesolevel (the formation and change of "fields or arenas of interaction" - local areas where institutions are born or consolidated); the macro-level (interaction of institutions themselves)^{156,157}. According to the scholar, factors at all three levels are participants in institutional genesis, but in different roles and at different stages of the life cycle of an institution.

In his concept, institutional change is represented as a two-level process. At the highest level, which involves both conscious mental processes and the personal and collective unconscious, informational impulses reflecting the need of a significant part of society for a certain institution are formed due to the occurrence of certain kinds of events. These impulses excite processes of searching for a corresponding prototype in the space of basic proto-institutions. The search is performed by adapters and initiators - peculiar institutional scouts or leaders of society - individuals or collectives whose voice will be heard by a given part of society. If such a prototype is not found, a certain combination of proto-norms is formed under the influence of the expressed need, which can be conventionally called "crossing over. This leads to the formation of "new" proto-norms and their nominal and actual carriers, which, as a result of the rooting process, turn into institutions or disappear from social practice. Actors (physical persons) are participants in the process of rooting, and the places where these processes take place are "arenas" of interaction.

¹⁵⁶ Kleiner, G. B. (2017). System modernization of domestic enterprises: theoretical background, motives, principles. *Ekonomika regiona*, (1), 13-24.

¹⁵⁷ Kleiner, G.B. (2005). Institutional Change: Design, Selection or Prosthetics? Post-Soviet Institutionalism: A Monograph. Ed. by R.M. Nureyev, V.V. Dementiev. Donetsk: Kashtan.

In our view, this concept differs from previous concepts in that G. Kleiner operates with such a concept as "event", which, in his view, is a kind of trigger of institutional dynamics.

In turn, the concept of institutional architectonics put forward by Ukrainian scientists uses such categories as institutional evolution, institutional dynamics, institutional pit¹⁵⁸ to explain institutional changes. In the most general terms, institutional architectonics is the structure of institutions formed from the interconnections of the way of thinking and acting of people, rules, norms, stereotypes, traditions, institutions and other social formations in their correlation with the essence and the general aesthetic plan of building the social system. The object of institutional architectonics is the structure of institutions considered and evaluated from its conformity with the essential characteristics of society and the general aesthetic plan. Advocates of institutional architectonics believe that if the institutional structure is built up based on basic institutions, gradually increasing and complicating its architectonics and modifying the basis itself, we are dealing with institutional evolution. A classic example of institutional evolution is the institutional transformation of China, which, based on both its millennial traditions and Marxist ideology, is gradually building a new institutional structure adequate to the demands of the times. By rigidly holding the institutional core, the Chinese leadership allows sufficient dynamic changes within institutional elasticity, excluding breaks in the institutional structure.

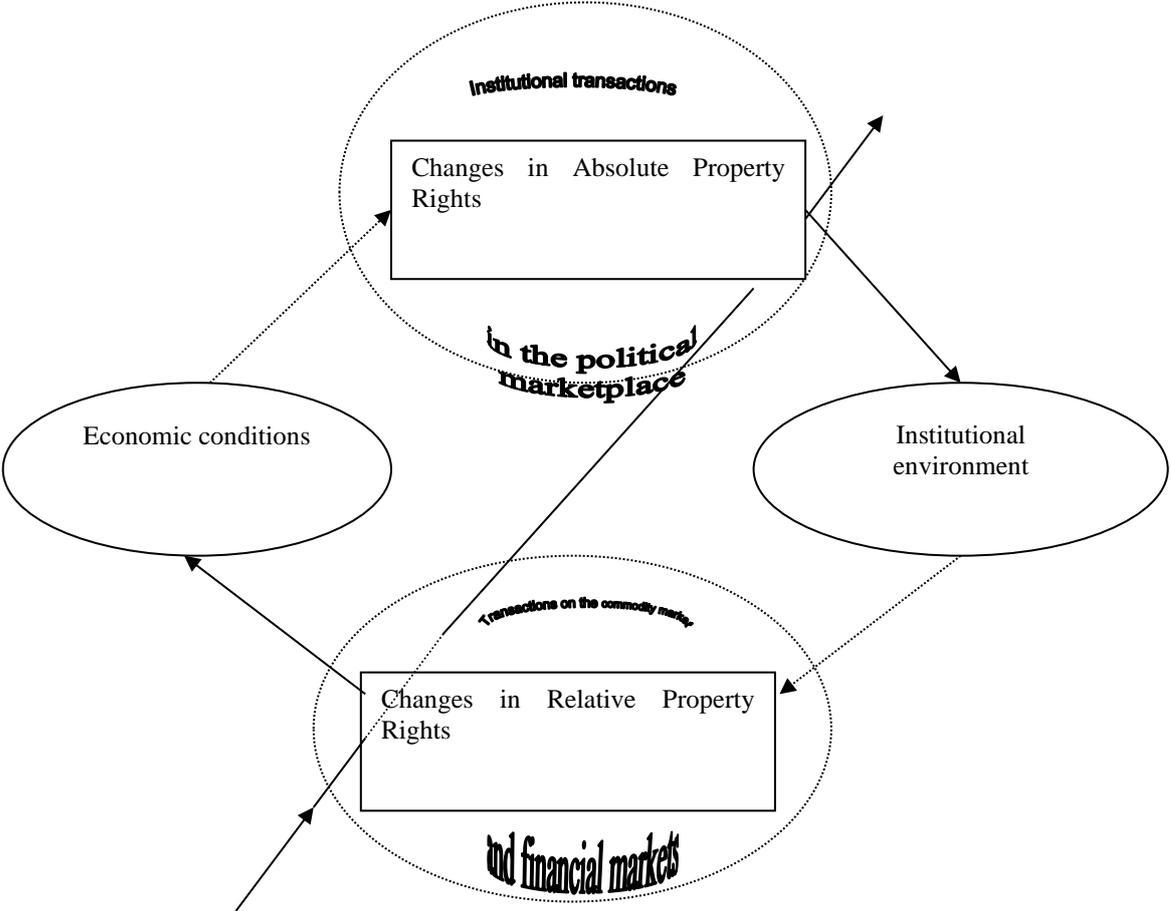
We agree with their view that institutional changes should be carried out in the *presence of appropriate rules for changing the existing rules*. The authors of this concept believe that market institutions are formed gradually in the process of market transformations. Still, this process will go more successfully if they are based on the institutions of transformation, that is, on certain rules and norms of institutional changes, which form the mechanism of transformation. In a

¹⁵⁸ Gritsenko, A. A. (2005). Institutional architectonics: object, theory and methodology. *Post-Soviet Institutionalism: monograph*, 49-74.

transitional economy, this problem is manifested, in particular, as the ratio of transformation of institutions and institutions of transformation. Forming rules, norms, and procedures of institutional changes is a system of basic institutions of institutional dynamics.

An institutional hole is formed in an institutional environment where there is both a need for institutional change and a lack of mechanisms for such change.

The scheme of institutional changes proposed by A. Shastitko relies on the concept of institutional equilibrium and after modification by A. Runov looks according to Fig. 2.6, which shows that, first, the development of institutions leads to disequilibrium; second, the market does not remain in a nonequilibrium state, but rather it starts moving towards a new equilibrium in the long run.



Note - Source: Rounov A.B. Genesis of the Russian firm in the post-Soviet institutional space // Economic subjects of post-Soviet Russia (institutional analysis). Ed. by R.M. Nureyev. Ed. 2 In 3 parts.

Fig. 2.6. Relationship of changes in relative and absolute property rights

The role of destructive force (factor) is played by accumulated knowledge and experience, expanding the worldview of the economic agent (entrepreneur). The new system of views of the entrepreneur also refers to the perceived relative costs of economic activity, the subsequent revision of which leads to violations in the system of relative prices and shifts in the comparative bargaining power of the parties, and changes in the latter, in turn, leads to a violation of the institutional equilibrium.

According to D. North's methodological approach, *institutional equilibrium* is a situation in which, given the balance of power of the players (firms) and a given set of contractual relations forming the economic exchange, none of the players considers it profitable to spend resources on changing the agreements. A violation of this equilibrium implies the appearance of an incentive to change the contractual conditions. Revising the terms of contracts to obtain some potential gain from the exchange is understood as *incremental (continuous) institutional changes*. Since knowledge and experience are constantly improving, there is a constant dynamic process of institutional development in society.

The decentralized choice of institutional forms of the transaction (rules of contracting) occurs in institutional markets. The notion of an institutional market was first introduced in 1994 by S. Pejovich, who wrote: voluntary interactions, individuals evaluate existing rules and determine and test the suitability of new rules. The most important function of this competitive market is to encourage institutional innovation and forms of adaptive behaviour¹⁵⁹

Changes in relative property rights create the preconditions for revising absolute property rights (institutional environment) in political markets. A political market is a place where explicit institutional transactions take place. This market covers a set of subjects, organizations and procedures that determine the formation

¹⁵⁹ Pejovich, S. (1996). The market for institutions versus the strong hand of the state: The case of Eastern Europe. *Economic institutions, markets and competition*. Cheltenham: Edward Elgar, 11-126.

and change of the institutional environment. The subject of explicit institutional transactions is formal rules coordinating the economic behaviour of market subjects. The transaction result is institutional innovations, i.e. innovations implemented informal rules without indicating future transactions for their implementation. In other words, these are various additions, changes made to the existing regulations, the adoption of new laws, regulations.

It should be noted that informal rules are rarely the subject of institutional transactions in political markets because of their origin and scope of application. Rare cases include the formalization of an informal institution. This process reflects the essence of the evolutionary variant of the development of institutions when the norm underlying informal institutions acquires the force of law.

The literature describes two directions of institutional change: spontaneous and purposeful. *Spontaneous changes* arise and spread without anyone's prior intent or plan. As an example of spontaneous changes, we can cite transformations in contractual agreements during the non-payment crisis, which we have already mentioned in paragraph 2.1. These are institutional forms of formalizing transactions on advance payment for delivered goods and barter exchange of goods and services. Business people chose the first form for obligatory fulfilment of contract conditions and the other - as possible ways of price stabilization. In the 1990s, these institutional innovations played a prominent role in economic development and became the main components of the institutional environment of the time.

Purposeful (intentional) change (or institutional design) emerges and spreads in greater or lesser accordance with some consciously designed plan. The process of the collapse of central planning and the subsequent efforts to create a new institutional structure with numerous assumptions can be called an example of deliberate change. At the same time, this process is considered a vivid example of *discrete (revolutionary) changes*, the essence of which is a radical change in the

formal rules. The initiator of radical changes in the state and organized groups (institutional entrepreneurs).

Based on the above, we believe that entrepreneurs and the state play the driving force initiating institutional changes in small business. The existing institutional structure does not always provide a balance of interests of all participants in the economic process. Performing its main purpose - increase of efficiency of production, the institutions cause a redistribution of incomes, economic opportunities and economic advantage in the society. Consequently, the current institutional environment of small businesses can be a "positive good" for some entrepreneurs and a "negative good" for others. Dissatisfaction with the level of income, narrowing of opportunities, deprivation of advantages, in a word, lost potential benefits force *entrepreneurs-outsiders* to form special groups, which lobby their interests on the political market. In other words, they express demand for certain institutions. This indicates a continuous process of struggle in the economic system to expand economic freedom through the construction of an adequate property rights system. The described actions of entrepreneurs are characterized by purposefulness. However, in everyday life, their activities are accompanied by a spontaneous process of forming informal rules of behaviour (business customs, entrepreneurial ethics).

It is possible that an institutional framework that does not create incentives for entrepreneurial activity can lead to an economic crisis. In such cases, the institutional framework is the cause of the inefficient functioning of the national economy. Therefore, the state initiates a restructuring of the institutional framework to change the focus of incentives.

In the theory of institutional changes for us of particular interest is the concept of V. Tambovtsev, which explains the mechanism of institutional changes through the microeconomic model of the institutional market under conditions of

perfect competition¹⁶⁰ . Its author believes that the market of institutions (institutional market) has the elements of a classical market: demand, supply, price and competition. And although the market of institutions is impossible to see, it is assumed that its mechanism accompanies all actions of an individual in preparing a transaction. Moreover, the role of goods on the institutional market is played by an institution, which belongs to "durable goods. Otherwise, they are called *capital assets*, capable of generating income over a long period¹⁶¹.

Our previous theoretical studies have shown that the economic system forms the demand for institutions necessary for entrepreneurs to facilitate exchange and reduce transaction costs. For example, V. Tambovtsev measures the value of demand (QdI) for a certain rule by "the number of references to it by economic agents when they carry out commodity transactions relevant to this rule under conditions of some price of its use". However, he also believes that an individual's choice of this or that rule is conditioned not only by current economic benefits but also by a wider range of circumstances, such as traditional religious or ideological restrictions, etc.

A. Rounov, in turn, distinguishes economic and organizational factors of demand for institutions. Economic factors include changes in the relative prices of assets in different sectors of the economy due to the opening (or disappearance) of former markets, the decline in the product cycle; changes in the value of individual factors of production; new technological and innovative opportunities that are difficult or unprofitable to implement within the existing system of rules. On the other hand, organisational factors include changes in mental models of behaviour and ideology; changes in the mechanisms of the subjects of the guarantors of the former system of property rights. In addition, he believes that, in general, the

¹⁶⁰ Tambovtsev, V.L. (2000). Institutional market in the transitional Russian economy. Scientific reports of the Center for Management and Institutional Research of the Faculty of Management of St. Petersburg State University. SPb. STATE UNIVERSITY

¹⁶¹ Tambovtsev, V. L. (2019). Ideas and interests, economic policy and institutions. *Voprosy ekonomiki*, (5), 26-45.

demand for institutions can be divided into two groups: the demand for the current structure of property rights and new rules¹⁶².

The specificity of the supply of institutions is that institutional innovations are not patented in the institutional market. There is no right of ownership to them, so the right to imitate them is free of charge. Moreover, in some situations, developed countries are often ready to pay the costs of transplantation (the process of borrowing institutions developed in a different institutional environment), sometimes even competing for the right to grow their institutional product on new soil.

As for institutional transactions, their peculiarity is related to the fact that an institution is not sold or acquired literally as goods and/or services. The process of "acquiring" institutions boils down to:

- to obtain in one way or another information about the content of the rule, the algorithm for its implementation, and the consequences of actions under this rule;
- to find a counterpart that is able and willing to interact with the individual according to the appropriate rules;
- to enter into an explicit or implicit institutional bargain with him;
- ensuring the guarantor's consent and willingness to impose sanctions in the event of a breach thereof.

The ultimate acquisition of an institution turns it into a good. Depending on the interest group, there are three types of benefits: public, club, private¹⁶³. The actions of the state can provide institutional innovation as a public good. Small groups effectively produce club goods, while private goods are created and

¹⁶² Runov, A. B. (2003). The genesis of the Russian firm in the post-Soviet institutional space. Economic entities of post-Soviet Russia (institutional analysis)/ed. RM Nureeva. M.: Moscow Public Scientific Foundation, 33.

¹⁶³ Oleinik, A. N. (Ed.). (2017). *The institutional economics of Russia's transformation*. Routledge.

controlled by the entrepreneur himself. A. Shastitko believes that the information provided by institutions allows us to consider them as a public good¹⁶⁴ .

According to G. Kleiner, it is not quite correct to talk about the demand for institutions. The notion of demand for a particular good as an aggregate willingness of agents to offer some values in exchange for the use of this good requires a certain level of specificity in characterizing both the good itself and the values exchanged. "If we are talking about some vague and indefinite good, such, say, as 'order,' then the values exchanged for it also lose homogeneity, and one cannot speak of additivity. Accordingly, the concept of demand loses its correctness.

In addition, he notes that considering institutions as peculiar fiduciary goods do not remove the problem since the formation of an institution is not the product of purposeful activity but the result of unplanned evolution. In this sense, an institution can be the product of neither "institutional production" nor "institutional production" and thus cannot be regarded as a commodity, a service, or any other market "good"¹⁶⁵.

And yet, in the model we are considering, price is considered to be an integral element. In the case of institutions, the price of their acquisition (use) is expressed in the mechanism for making choices, comparing the benefits and costs of this choice. According to V. Tambovtsev, this "price" is quantitatively measured on a two-point scale:

- the cost-benefit ratio is acceptable;
- the cost-benefit ratio is unacceptable.

In the case of the "acquisition" of an institution by economic agents, the sellers of institutions do not receive pure income. That is why V. Tambovtsev suggests that the costs mentioned above borne by economic agents should be regarded as the sellers' income.

¹⁶⁴ Shastitko, A. E. (2019). Institutions do matter” vs. “only (formal) institutions matter. *Voprosy Ekonomiki*, (12), 90-110.

¹⁶⁵ Kleiner, G.B. (2005). Institutional Change: Design, Selection or Prosthetics? Post-Soviet Institutionalism: A Monograph. Ed. by R.M. Nureyev, V.V. Dementiev. Donetsk: Kashtan.

Equilibrium in a given market occurs if both parties agree to carry out a commodity transaction in a mutually beneficial institutional form with a satisfactory transaction cost level. In reality, there are nonequilibrium states in the market caused by a shortage (or excess) of institutional forms (rules).

We believe that the market for institutions can experience a deficit of rules when their demand exceeds their supply ($Q_{dI} > Q_{sI}$). In real life, such a situation occurred in the post-Soviet space after discrete institutional changes. As a result, an institutional vacuum was formed in the economic system, quickly filled by modified informal rules and institutions-transplants. Moreover, the domination of informal relations over formal ones and the inadequacy of transplant institutions to the real reality were accompanied by the growth of legal nihilism (people's distrust of the law in general).

The other extreme is the excess of institutions in a given market, which is evidence of excessive bureaucratization and increased administrative pressure that suppress incentives for entrepreneurial activity and force operating firms to turn to an alternative institutional environment, expanding the scope of the shadow economy. In these circumstances, the inclusion of mechanisms of debureaucratization and deregulation of the economy is considered one way to move towards equilibrium. In addition, the diversity of institutions includes the mechanism of competition between them. A sign of a winning institution is its systematic use, and a sign of a losing institution is its disappearance. The situation with institutional equilibrium has already been described above. Still, we should keep in mind that it lasts for a short time and violates the parties' bargaining power, which serves as a basis for further institutional changes.

In general, we believe that the main provisions of the theory of institutional change are key to understanding the institutional transformations in small business spheres.

2.3 Characteristics of ineffective rules and barriers in the institutional environment of small business

For the independent states of the post-Soviet space, small entrepreneurship as a sphere of labour application, based on the specification of property rights, was a relatively new sector of the economy, which had to be developed at an intensive pace. Therefore, the task of government agencies was to study the experience of industrialized countries and the development of "rules of the game" adequate to the new market conditions.

However, in practice, the "rules of the game" formed in the period 1991-1997 turned out to be unable to regulate the behaviour of market agents and make it predictable. The imperfection of formal institutions, their overgrowth with new informal rules, and the unpreparedness of society for reforms contributed to the widespread administrative barriers in the economy in general and in the small business sector in particular.

While at the initial stages of the reform, the important issue was to support small businesses and then create conditions for their development in recent years, protecting them from external infringements and increasing the effectiveness of the enforcement mechanism to enforce it, the rules have become urgent. The latter is explained by the desire to structure and regulate small business organisations has turned into a high rate of development of state institutions, the growth of transaction costs, and the hypertrophy of registration procedures. As a result, instead of a "system of support", a stable "system of barriers" has been formed, slowing down small business development and reproducing rent-seeking relations. Moreover, the administrative barriers make it significantly more difficult for small businesses to enter the market, which leads to a decrease in the level of competition and, consequently, in the overall efficiency of the economy.

The literature distinguishes such concepts as the effectiveness of rules, rules' effectiveness, and the effectiveness of rules¹⁶⁶. The effectiveness of rules means the degree of implementation of their prescriptions in socio-economic practice. The effectiveness of rules means the degree of achievement of planned goals with their help. The effectiveness of rules is spoken about in the case when they lead to the expected legal consequences. Nevertheless, among scientists, there is no unity in their interpretation. Thus, A. Shastitko's idea of the effectiveness of rules is more in line with the concept of the effectiveness of rules. He writes that rules are effective (in the sense of the effectiveness of restrictions) if they ensure the application of sufficiently severe sanctions to the violator¹⁶⁷.

Within the framework of institutional theory, several concepts are aimed at explaining the nature of ineffective rules. For example, V. Polterovich calls weak institutions that have acquired a stable form of institutional traps¹⁶⁸. The stability of weak institutions means that when a slight external impact on the system, it remains in an institutional trap, perhaps only slightly changing the parameters of the state, and after the removal of perturbation returns to its previous position. Examples of institutional traps are barter transactions, situations associated with non-payment, tax evasion; corruption; currency traps; and wage insecurity. They become stable due to three effects, which are responsible for forming effective (or ineffective) institutions. These are the effects of learning, conjugation and cultural inertia.

In addition, once caught in the institutional trap, the system chooses an inefficient path of development, and over time, the transition to an efficient trajectory may be irrational. Consequently, the institutional trap is the cause of the chrotic effect, which means developing the phenomenon along a suboptimal path,

¹⁶⁶ Oleynik, A. N. (2000). Institutional economics. *Moscow: Infra-M (in Russian)*.

¹⁶⁷ Shastitko, A.E.(1997). Economic Theory of Institutions. - Moscow: Faculty of Economics, Moscow State University, TEIS.

¹⁶⁸ Polterovich, V.M. (1999). Institutional Traps and Economic Reforms. *Economics and Mathematical Methods*. 35. (2).

occurring under the influence of random causes. Moreover, the further such development continues, the harder it is to "turn" from the developed trajectory. As a result, selection does not work, or its results become visible only in the long run. Thus, the phenomenon continues to develop along its original trajectory, even if it is ultimately a dead end. In this regard, the institution's functioning is not accompanied by increased social efficiency, which maximizes the social utility function.

Another Russian scholar O. Sukharev suggests using the term "dysfunction" instead of the term "institutional trap. In his opinion, the concept of "institutional dysfunction" is more correct and dynamic in its meaning¹⁶⁹. The term "dysfunction" is borrowed from physics and means a violation of the function of an organ, system, economic institution of a predominantly qualitative nature.

Institutional dysfunction is divided into microeconomic and macroeconomic. Microeconomic dysfunction is such a nonequilibrium dynamic state of an institution or organization. As a result, certain characteristics of a given system lose quality, leading to a deviation of the organization's behaviour model from the optimal one or the consolidation of an inefficient norm.

Macrodysfunction is a nonequilibrium dynamic state of an institution and economic system in which all the basic institutional elements of a given system are ineffective. It is a rare result of institutional dynamics when the decline in institutions' functional efficiency increases parallel. The replacement of one or more institutions cannot change the course of the development of the economic system. In such a situation, the lower point of adaptive efficiency is reached.

Dysfunctions lead to atrophy, degeneration, rejection of the institution. Suppose the use of an institution is incompatible with cultural traditions or the national economy's institutional structure. In that case, it may gradually atrophy and disappear, or, while maintaining its formal identity, it degenerates into an

¹⁶⁹ Sukharev, O. (2002). The concept of economic dysfunction and the evolution of the company. *Problems of Economics*, 10, 70-81.

instrument of the shadow economy. The activation of components of the alternative institutional environment leads to the rejection of the institution being introduced. An example of this is that at the beginning of the reforms, the values formed in the framework of the planned economy significantly reduced the efficiency of the new economic management mechanisms. Beginning entrepreneurs experienced a negative public attitude towards their activities because trade (or resale of goods) as a type of activity was considered a form of speculation during socialism.

In our view, the starting point for the development of the concepts described above was the "blocking effect" (a concept used by D. North to explain situations frequently encountered in practice in which an institutional change capable of significantly improving conditions for value production, despite this, is not realized because market actors who receive distributive benefits from the use of existing rules create obstacles).

A "lock-in" is a suboptimal state of the system resulting from past events, from which there is no immediate solution. It refers primarily to formal rules adopted at the state level. Legislative bodies, lobbying for certain groups' interests, can adopt ineffective rules with pronounced redistributive properties. Ineffective rules established by the state for economic agents, in the end, lead to a weakening of the state. Then, sooner or later, the need for economic reforms to replace rules convenient for the authorities but inefficient (for value creation) with others promoting economic development.

To explain the nature of inefficient rules, T. Eggertsson proposes analyzing three curves: production, transactional, and social opportunity¹⁷⁰ boundaries. The first curve shows the boundary of maximum possible output in a given economy, assuming that production is carried out without any disagreement and full information availability. The second curve shows the limits of production

¹⁷⁰ Eggertsson, T. The economics of institutions in transactions economies. World Bank discussion papers; 241. *Institutional changes and the public sector in transitional economies*, 19-42.

possibilities within the "most efficient" institutional structure. The third curve is below the previous two and reflects the real situation. T. Eggertsson notes that all economic systems are on the latter boundary since transaction costs constrain political and social organizations. In addition, cultural factors and the struggle for the distribution of wealth force them to impose certain conditions that condition the suboptimal structure of institutions (rules) and, accordingly, restrain output below the optimal level.

From economic theory, the production possibilities curve results from the economical choice of using limited resources, providing maximum profitability. However, in the present conditions with a given structure of the national economy, which acts as a set of constraints, entrepreneurs' rational choice is producing goods with a relatively low stage of production and the lowest added value.

The direct consequences of weak institutions are "market imperfections. Market imperfections are such characteristics of economic exchanges, corresponding to the stable deviation of the actual allocation of resources from the Pareto optimum, that is, one in which the potential benefits of mutually beneficial exchange are exhausted completely. In practical terms, market imperfections limit competition because they involve the following characteristics of interaction between economic subjects: asymmetry of information distribution, entry and exit barriers, costs of switching from one counterpart to another, excessive product differentiation, market power. Moreover, these characteristics are interrelated with each other. Thus, market power, product differentiation act as factors that create barriers to entry into the market. Barriers involve various prohibitions on participation in the acts of sale and purchase, effectively implemented through some or other mechanisms, which ultimately boils down to violence or the threat of its use.

Administrative barriers are ineffective rules that lead to dysfunction and market imperfections.

Administrative barriers are not only the fate of developing economies and transition societies; they also exist to a greater or lesser extent in economically developed countries. World Bank studies conducted from 1997 to 2020 suggest that institutional barriers exist in all countries, but the significance of individual factors varies. The paradox of the situation in transition societies is that, despite all independent states' efforts to develop a multi-structured market economy based on private property and entrepreneurship, there is a high level of administrative barriers (bureaucratization of the economy) in their economies.

The general reasons for the emergence of administrative barriers in the sphere of small business include:

- the high nominal cost of compliance with laws and regulations;
- a high degree of detail, complexity and consistency of laws and regulations;
- limited access to necessary business information;
- tight control over the implementation of laws and regulations;
- a rigid system of legal sanctions for violations;
- unstable and unpredictable laws and regulations;
- poor quality of infrastructure;
- imperfect structure of markets.

Low degree of additional small factors includes the presence of a specific resource for the creators of administrative barriers (the ability of the state to produce formal norms), a high rate of return on investment in the construction of administrative barriers, the rationale for the need for administrative barriers. Taken together, they form a "high" price of obeying the law in transition economies. The latter concept, along with the notion of the "price of illegality", explains the entrepreneur's rational choice based on the "cost-benefit" comparison of functioning in the legal economy, was introduced by E. DeSoto, who was one of the first to research administrative barriers¹⁷¹.

¹⁷¹ Soto, E. D. (1995). *Other way: Invisible revolution in the third world. M.: Catallaxy.*

Russian scientists actively engaged the theoretical justification of the category "administrative barriers" in the post-Soviet space. They believe that administrative barriers to regulating economic activity arose in response to the commodity intervention of the early 1990s and as a term in business and legal turnover introduced at the turn of 1995-1998. Note that the theoretical justification of the term "administrative barriers" causes many controversies and is discussed at many levels. In the recommendations of several scientific and practical conferences on the problems of entrepreneurial activity, administrative barriers are defined as "specific difficulties in the development of business caused by imperfections in state regulation and control or by the conscious infringement of the interests of small business by state bodies and individual officials". Another definition is "subjective and unjustifiable obstacles to small business development".¹⁷² Third one is "subjective for small and medium-sized businesses "barriers to entry" into the market, caused mainly by the fact that the existing rules and mechanism of state regulation of economic activity are "tuned" to the relatively low rate of preparation and making decisions following bureaucratic principles of work and paying the bureaucrats' own money to create these barriers, which then have to be overcome by businessmen themselves"¹⁷³ .

In the definition proposed by A. Auzan and P. Kryuchkova, administrative barriers in the economy are defined as the rules established by state bodies' decisions, compliance with which is a prerequisite for conducting activities in the market, and introducing fees for the passage of bureaucratic procedures"¹⁷⁴. H. Kusainov believes that the definition proposed by A. Auzan and P. Kryuchkova is very capacious and should be clarified in terms of payments. In his opinion, it

¹⁷² Popov, R. A., Sekisov, A. N., & Shipilova, N. A. (2016). The Economics of innovation in modern Russia: practice, problems and prospects. *International Journal of Economics and Financial Issues*, 6(8S), 184-188.

¹⁷³ Proceedings of the Forum on Entrepreneurship and Enterprise Development in the Russian Federation [Electronic resource]. – URL: <http://www.rcmse.ru>

¹⁷⁴ Auzan, A., Kryuchkova, P.(2001). Administrative Barriers in the Economy: Tasks of Unblocking. *Voprosy ekonomiki*. 5.

should be talking about *artificial measures* that lead to the costs of consumers of services, often many times higher than the established tariffs. Simultaneously, the difference between the "real" and "nominal" payment passes the budget¹⁷⁵. In our opinion, this difference would be more appropriately called a "*corruption tax*", which is simultaneously an imposed and voluntary payment to the personal budget of representatives of public authorities to speed up the process of making a "positive" decision.

Later, P. Kryuchkova writes that "administrative barriers can be considered as formal mandatory rules of economic activity in the markets for goods and services, established by state and local authorities. Private costs from the introduction of which the business entity subject to them exceed the introduction's private benefits, taking into account the income effect"¹⁷⁶.

According to A. Diagterev and R. Malikov, "administrative barriers are obstacles that arise in the organization and implementation of entrepreneurial activities, due to the introduction of additional bureaucratic procedures and rules by regulatory acts of state and municipal authorities, providing for the compensatory nature of their overcoming"¹⁷⁷.

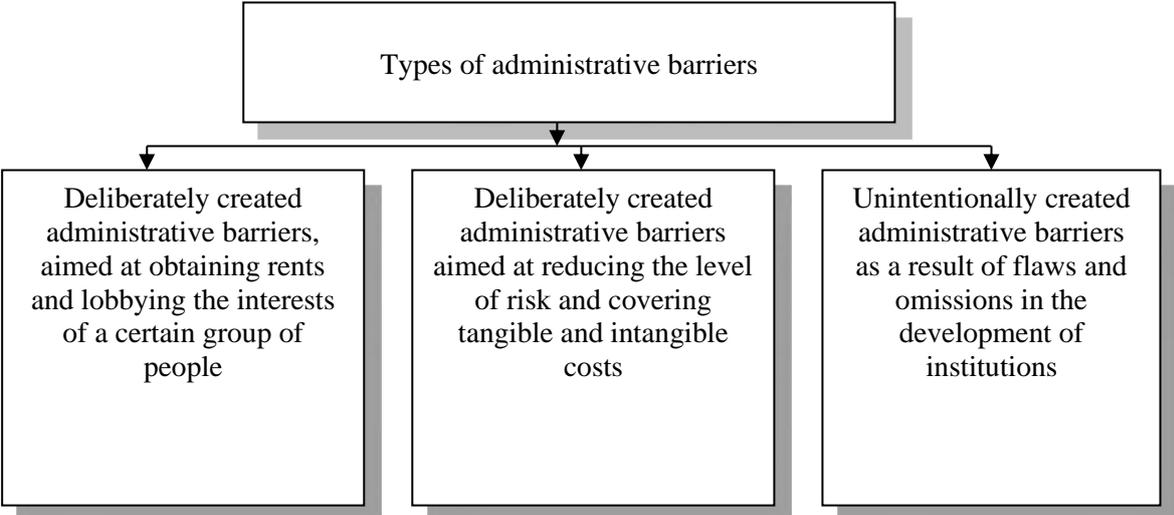
The number of definitions of administrative barriers is not limited to this. In many cases, they are similar in content and differ only in some details. Without going into an unproductive discussion about definitions, which, of course, all have the right to exist in the scientific literature, we emphasize that in all definitions, there are such elements as "difficulties (problems, obstacles)", "rules", "payments". The last two elements allow us to consider them as "institutions" because they are formal institutions. However, they are not simple institutions but special (or of a

¹⁷⁵ Kusainov, H.(2002). Reforms and barriers in the economy. *Alpari*. 6.

¹⁷⁶ Kryuchkova, P. (2003). Removal of administrative barriers in economy. *Problems of Economics*, (11), 65-77.

¹⁷⁷ Degtyarev, A., Malikov, R, Grishin, K. (2014), Institutional Configurations of Regional Business Environment: Projection Parameters [Institutsional'naya konfiguratsiya regional'noy delovoy sredy: parametry proektirovaniya], *Economy issues*, Vol. 11, pp.83–94.

special kind). The main function of institutions is to save transaction costs. Unfortunately, administrative barriers perform the opposite function, i.e., they cause an increase in transaction costs. The latter fact confirms the specificity of administrative barriers as special institutions. The proposed approach, namely, the study of administrative barriers as institutions,, allows us to clarify their origin's nature. Depending on the specificity of their origin, we identified three groups of administrative barriers following Figure 2.7.



Note - Compiled by the author.

Figure 2.7. Types of administrative barriers

The first group consists of deliberately created administrative barriers to obtaining rent and lobbying the interests of a certain circle of people in the small business sphere. They result from purposeful actions associated with government officials' abuse and abuse of power at various stages of economic activity.

A World Bank report calls the actions of businesses that use corruption to make rules beneficial to them at the expense of the rest of society "state capture," and the problems that give rise to corruption in implementing new laws, rules and regulations - "administrative corruption"¹⁷⁸. The first group's administrative barriers

¹⁷⁸ Gray, Sh. (2006). The fight against corruption in the transition period-2. Corruption in relations between enterprises and the state in the countries of Europe and Central Asia in 1999-

are difficult to remove because of the resistance of interest groups (representatives of state and commercial structures), extracting the status rent. This is explained by the presence of the "blocking effect". The latter determines the multiplication of barriers, the introduction of additional ways of control and regulation. The above circumstances served as the basis for scientists' assertion that the "barrier" regulation system is self-sustaining.

The second group consists of deliberately created administrative barriers to reduce risk and cover tangible and intangible costs. The justification for their emergence is the low level of trust between the public administration, financial institutions and business structures. That is why to prevent the "risk of loss" state authorities and financial institutions introduce a multi-stage stage to collect approval and permission documents. Moreover, representatives of state authorities, having limited financial resources, consider it justified to cover material and non-material costs of registration and to sign various certificates and other documents at entrepreneurs' expense. In stabilising the economic situation in the country and the growth of productivity of entrepreneurial structures, there has been a reduction in the number of administrative barriers of this group.

The third group consists of unintentionally created administrative barriers (resulting from flaws and omissions during institutions' development). Their origin is explained by the legislator's limited rationality and changes in small business's institutional environment. Therefore, they are easier to adjust and abolish because no forces are directly interested in their maintenance and creation. Finally, formal rules are monitored to identify ineffective, contradictory rules.

However, any rule can be perceived as a barrier in real life because it puts a restrictive activity framework. Entrepreneurs believe that most rules are barriers because they prevent rapid growth and the maximization of profits. On the other hand, the state believes that all its rules are designed to streamline state and

2002: Scientific works / Sh. Gray, D. Helman, R. Reiterman. - Moscow: The Whole World, 115 p. ISBN 5777701973.

entrepreneurial structures and protect the domestic market. However, both sides are aware that some rules are indeed barriers.

In our view, certain administrative barriers should be seen as informal institutions that operate around formal institutions. For example, to gain access to certain resources and complying with the stipulated rules, one must have personal connections. The republic's small independent economic history has many examples. Despite meeting all the requirements, the entrepreneur did not access the necessary resources (benefits) because he did not have personal connections.

Suppose the formal rules that form barriers can be abolished. In that case, the established informal rules (tradition of bribery, keeping your representative in government and financial structures) is difficult to reverse. They are turned into a norm of the behaviour of domestic entrepreneurs. And every new entrepreneur who does not adhere to these norms is likely to face a wall of incomprehension on the part of other economic agents. Consequently, there is a hypertrophy process of society's mentality, which is an institution of a special kind, transmitted by inheritance.

Norm noted that formal rules are only a shell within which a variety of informal norms can emerge and that legally fixed rules and instructions leave many opportunities for interpretation and the formation of different stereotypes of behaviour, depending on the institutional environment, experience, and culture actors involved.

Formal institutions belonging to the category of administrative barriers differ from other institutions by the enforcement mechanism's efficiency for their implementation. Unlike the latter, their sanctions come into force instantly in the form of barriers to market entry, restrictions on competition, asymmetry in the relations between agents. The corruptive agreement is one way to cancel the sanctions between the entrepreneur and the "barrier-builder".

Thus, the existence of administrative barriers as institutions is associated with the existence of economic power. The economic power allows the executive

branch representatives to develop new or supplement existing rules to improve them, abuse or lobby for a certain circle of people's interests. The absence of responsibility for producing such rules reinforces the economic power to produce ineffective but rent-seeking formal rules. As a result, administrative barriers manifest themselves in two ways: weak formal institutions and informal institutions operating around a formal institution.

Studies have proved that the entrepreneur administrative barriers are primarily identified with the administrative system, which interprets and personifies the barrier rules in practice. However, if the theory of the issue interprets administrative barriers, real-life identifies them with the administration as a rule. And the main contradiction develops not between the rule and business but between business and administration, which successfully deflects any legislative initiatives in its interests. That is why small business development's main obstacle is not as many administrative barriers as the administrative system.

Some scholars attribute this problem to the lack of transparency in the administrative system, which means that there is no clear, precise, understandable and widely accepted practice of economic activity in a space where business, finance and government are present simultaneously. High opacity is associated with a brake on economic progress in the country and private entrepreneurial structures. The O-factor (CLEAR - CORRUPTION - LEGAL-ECONOMIC-ACCOUNTING-REGULATORY) is a quantitative indicator of opacity. According to V. Cheryamyana, the lowest level of opacity of the economy is registered in Singapore (29), the USA (36) and Chile (36). The highest opacity is observed in China (87), Russia (84) and Indonesia (75)¹⁷⁹.

CPI 2020: GLOBAL HIGHLIGHTS¹⁸⁰ research shows corruption not only undermines the global health response to COVID-19 but also contributes to a

¹⁷⁹ Cheryamyana, V. (2003). State regulation of the institutional environment in the system of self-organizing entrepreneurial activity. M.

¹⁸⁰ <https://www.transparency.org/en/news/cpi-2020-global-highlights>

continuing crisis of democracy. According to experts and businesspeople, the index, which ranks 180 countries and territories by their perceived levels of public sector corruption, uses a scale of zero to 100, where zero is highly corrupt, and 100 is very clean. Like previous years, more than two-thirds of countries score below 50 on this year's CPI, with an average score of just 43. The data shows that despite some progress, most countries still fail to tackle corruption effectively. The top countries on the CPI are Denmark and New Zealand, with scores of 88, followed by Finland, Singapore, Sweden and Switzerland, with 85 each. The bottom countries are South Sudan and Somalia, with scores of 12 each, followed by Syria (14), Yemen (15) and Venezuela (15). Since 2012, 26 countries have improved their CPI scores, including Greece, Myanmar and Ecuador. 22 countries decreased their scores in the same period, including Lebanon, Malawi and Bosnia & Herzegovina.

In our opinion, the situation with administrative barriers can be successfully transferred to the microeconomic model of the market as a special institution (though with the opposite effect) offered in the market of administrative barriers. Market participants are economic agents and representatives of state authorities.

The demand for administrative barriers expresses a certain circle of affiliated persons interested in obtaining special conditions for doing business or simply monetary rewards. Representatives of government agencies offer formal institutions (with all the attributes of administrative barriers or simply administrative barriers) following the demand. Given that the costs of developing and implementing new institutions are very high, the price will be set quite high.

From a theoretical point of view, stakeholders should base their decision to pay a cost based on the present value of the investment in the new rule. In other words, those who lobby for the development and adoption of certain legislative acts, which should provide them with future income, are required to make an approximate calculation of the net present value (NPV) in the creation of administrative barriers. However, it is difficult to calculate this indicator due to

incomplete factual data and the multiple factors affecting the socio-economic situation.

Because not all economic agents, especially small businesses, can pay the necessary amount, the demand value on the "market of administrative barriers" will be small. At the same time, we do not exclude a situation where economic agents may join forces and act in an institutional entrepreneur's status. The result of their actions will be "state capture". These circumstances indicate that the "market of administrative barriers" should be considered an oligopolistic market. Several enterprises set their own business rules, and other smaller enterprises operating in this market must follow these rules.

The "market of administrative barriers" suggests three types of barriers:

- a) barriers associated with entry into the market;
- b) barriers associated with the admission of goods to the market;
- c) obstacles in the organization of ongoing activities.

It follows that administrative barriers exist at all stages of doing business. Their ubiquitous existence modifies them into a "system barrier". Such a "barrier" nature of regulation, according to some scholars, has several significant negative consequences for the economy. In particular, barriers do not eliminate the created problems, making it difficult to use other, more effective state regulation methods. First, they create fertile ground for state officials' rent-oriented behaviour and related commercial structures involved in "barrier" business. In this situation, the entrepreneur's rational choice would be to turn to an alternative institutional environment.

The situation associated with administrative barriers, G. Kleiner figuratively called the "economy of individuals. Its essence is that the heads of enterprises, as individuals endowed with economic power, begin to have a decisive impact on economic processes and society's institutional structure. Under the conditions of institutional vacuum, the personal aspect comes to the fore, accompanied by the

predominance of personal ties, extrajudicial ways of conflict resolution, and the result is the criminalization of all entrepreneurial relations.

The enterprise functions effectively if all costs are recouped. Therefore, the costs of overcoming administrative barriers are included in the cost of the products (goods and services) produced, which leads to an increase in prices in the consumer market. In addition, the growth of a grey component in entrepreneurial structures increases capital from the legal sector to the illegal sector, hurting macroeconomic indicators.

Thus, institutions' distributive consequences are the basis for shifting the trajectory of development of institutions from the optimal to the suboptimal path, which leads to the emergence of weak institutions that increase the level of uncertainty and complicate the process of interaction of economic agents. Only the monitoring of existing institutions in the sphere of small business contributes to identifying weak institutions that create barriers to entry into the market. And to reduce the probability of inefficient rules, it is advisable to use the strategy of managing the pace of institution building. Besides, one way of preventing a suboptimal way of developing projected institutions can be forecasting institutional changes.

Chapter 3. DESIGNING COMPONENTS, EVALUATING AND FORECASTING THE DEVELOPMENT OF INSTITUTIONS IN THE FIELD OF SMALL BUSINESS

3.1 Designing the components of the institutional environment of small business

The formal component of the institutional environment of small businesses in post-Soviet countries, formed mainly due to the import of institutions, is characterized by the real economic situation's inadequacy. Institutions do not fully order the interaction of economic agents in the process of using economic resources. Of particular concern to entrepreneurs is the imperfection of indefinite actors' formal structure (laws, bylaws). In this situation, the basic positions of normative formal rules are intensively filled by informal institutions. By now, the latter occupy a significant niche in the institutional environment of small businesses. In this regard, there is a need to revise most formal institutions to improve their effectiveness by reducing the perceived transaction costs of following the rules and norms and strengthening enforcement mechanisms.

Revision requires the activation of an institution-building mechanism, which involves developing and implanting new laws, rules, ways to resolve conflicts in small businesses and enforce their prescriptions. This process leads to significant changes in relative and absolute property rights.

The creation of new rules and norms also occurs when institutional voids and institutional collapse are identified. Institutional voids are parts of the institutional space that lack formal institutions, while institutional collapse disrupts a series of interrelated institutional links, partially destroying the institutional space¹⁸¹.

One element of institution-building is institutional design, the task of which is "to develop such a system of political institutions that could minimize the

¹⁸¹ Gritsenko, A. A. (2005). Institutional architectonics: object, theory and methodology. *Post-Soviet Institutionalism: monograph*, 49-74.

profitability of activities aimed at eroding rents¹⁸²; the main direction is associated with the formation of a system of effective institutions that expand the boundaries of social opportunities to the boundaries of transactional opportunities. Expanding the boundaries of social opportunities involves reducing the preconditions for rent-seeking behaviour.

The basis for initiating work in this direction is the demand of entrepreneurs for new institutions. For example, the demand is for the charter at the enterprise level, which contains the basic provisions, norms, and rules of relations between structural units and external agents. At the state level, the demand is formed for systemic rules of the game, which fulfil the function of restrictions on economic agents' behaviour, influence the ratio of incentives inactivity, and determine minimum consent between participants of an interaction. In recent decades, the global economy has seen increased integration processes between different countries and the formation of common economic spaces, which, in turn, requires the development of common economic rules for the subjects of the common market. On this basis, we can conclude that institutional design as an element of the normative approach, offering recommendations for desirable (required, necessary) institutional changes, aims to solve both national and local problems associated with creating a new institution. In this context, it acts as an important tool of state regulation of the economy.

The methodology of institutional design belongs to the category of not so widely covered topics in the scientific literature. In the post-Soviet space, a certain contribution to its development was made by V. Tambovtsev¹⁸³. According to his approach, the institutional design develops ideal normative models of economic institutions, consciously and purposefully implanted into mass economic

¹⁸² Davis, L. E., North, D. C., & Smorodin, C. (1971). Institutional change and American economic growth. CUP Archive.

¹⁸³ Tambovtsev, V. L. (2019). The interaction of "institutions-technologies" and economic growth. *Journal of new economy*, 20(2).

behaviour. The institutional design procedure is characterized in two ways: a decision-making process and a system of activity. The basic principles of institutional design are considered: stage completeness, component completeness, sufficient diversity of incentives, maximum protection against deviant behaviour, complicity. The first two principles describe the steps in decision-making and the "technological blocks" of the economic institution being formed. The remaining three principles deal directly with the institution itself and the mechanisms of its action. According to V. Tambovtsev, the designer must create a design within which the required action would be carried out with maximum probability. It is necessary to associate a set of stimuli with each available position to perform the related activity. Besides, to protect the designed institution from deviant behaviour, the interests of all intended participants in the activity must be taken into account, which follows from the last principle. However, A. Shastitko¹⁸⁴ does not quite agree with the principle of "complicity". In his view, institutions create an asymmetry of expected benefits. The diversity of societal institutions often provides a cross-asymmetry, when one part of the rules provides distributive advantages for the entrepreneur, and another provides distributive costs. Under these conditions, the principle of participation cannot be realized, and the probability of opportunistic behaviour is high.

Based on V. Tambovtsev's theoretical positions, we have constructed an institutional design algorithm according to Fig. 3.1. Tambovtsev, we have constructed an algorithm of institutional design according to Figure 2.8. Here we proceed from the fact that institutional design is characterized by purposefulness, complexity and variability. The goal-setting process begins with problem-setting, which is highlighted as block "A" in Fig. 3.1., the problem situation is first identified, and the problem is selected To implement this task. The choice of a

¹⁸⁴ Shastitko, A.E. (1997). *Economic Theory of Institutions*. - Moscow: Faculty of Economics, Moscow State University, TEIS.

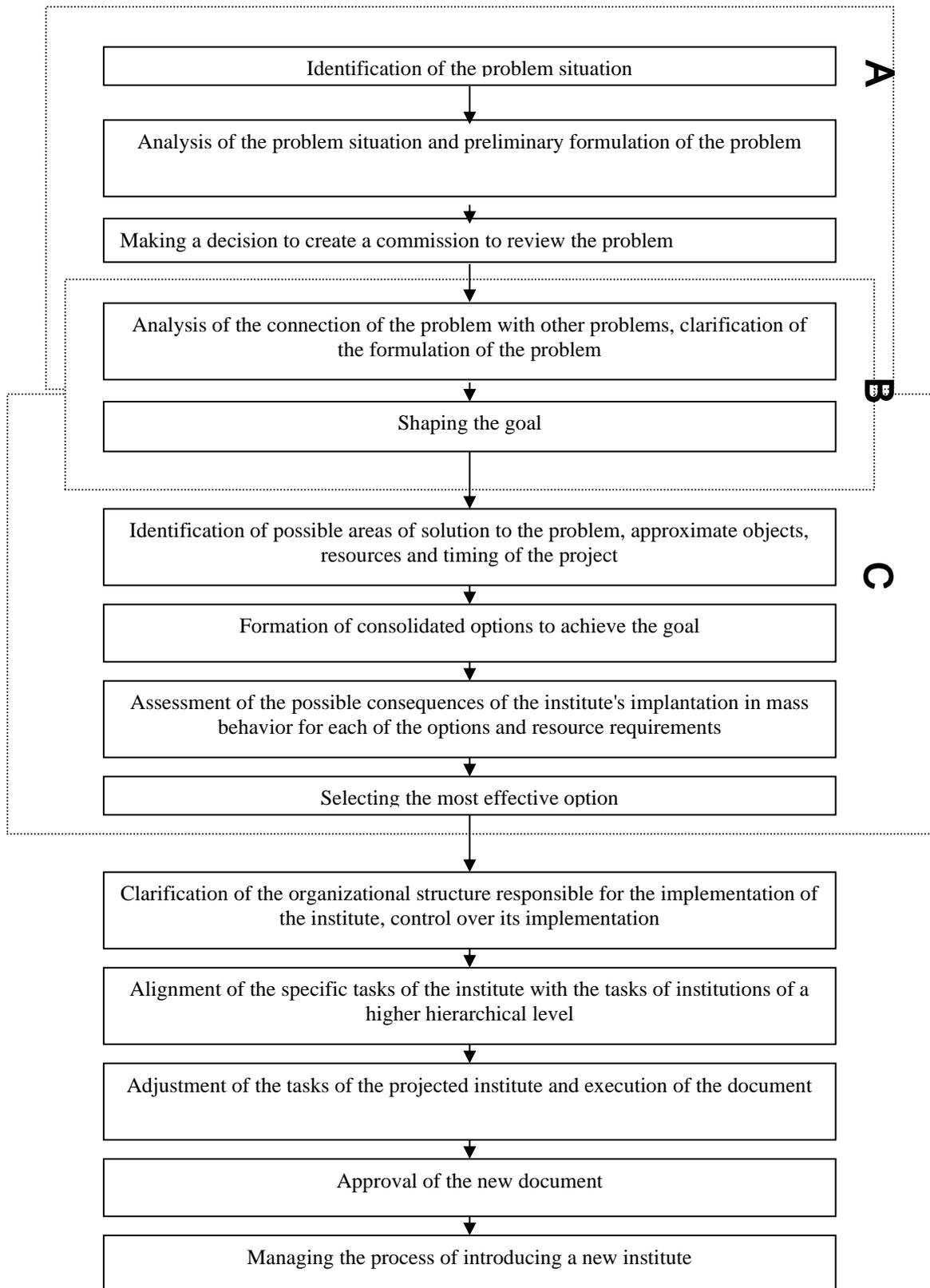
particular problem is conditioned because one problem situation always contains many problems.

A problem situation can be caused by the absence of a rule, the ineffective action of one institution (rule), or the presence of conflicting rules. In selecting a problem, it is advisable to determine the criteria by which it is singled out for a solution using institutional design.

We believe that in the field of small business as such criteria can be used:

- the particular importance of solving this problem for:
 - a) Reducing barriers to market entry;
 - b) eliminating excessive and inefficient administrative regulation of entrepreneurial activity;
 - c) Ensuring consistency of interests of entrepreneurs and public authorities;
- the multidisciplinary and interdisciplinary nature of the problem;
- a significant degree of influence of the problem solution on the effective functioning of small business in a particular sector of the economy;
- the high social significance of the results obtained due to the new institution's implantation, etc.

After setting the problem, the goal-setting stage begins (block "B"). The goal of institutional design, as a rule, is expressed in the form of the task of achieving certain economic and social results conditioned by the necessity of solving the set problem. B. Tambovtsev draws attention to the functional and substantive form of the goal. The functional form of institutional design's goal determines the possibility of its realization through a wide variety of unit forms of economic institutions and their combinations. On the other hand, the substantive form of goal design fixes the future concretely - not as a level of performance of a function, but as a narrow class of structures or objects to which the desired state must belong. That is, the goal, on the one hand, may contain a description of the future desired state for specific addressees and, on the other hand, the ways to achieve it.



Note - Compiled by the author.

Fig. 3.1. Institutional design algorithm

Given that small business entities are the addressee of the norm, we believe that the goal of institutional design can be:

- development of a qualitatively new institution aimed at providing potential advantages over competitors;
- the development of a qualitatively new institution aimed at redistributing economic opportunities;
- making changes and additions to an existing institution to improve its effectiveness, either efficiency or effectiveness.

In other words, the projected institute has a clearly defined target character, strictly focused on the problem's complete solution and characterized by specific results.

In block "C", the procedure of institutional design is focused on developing possible aspects of the implementation of the goal. According to G. Litvintseva here, "we are talking about forming structures of individual and group activity of economic agents, resulting from which the desired change in economic processes should occur"¹⁸⁵.

At the same time, the variants must satisfy two requirements. First, each option to be developed must satisfy the second principle (component completeness). Second, the uncertainty about which economic institution will allow the best implementation of the desired change implies that the developed options must belong to all permissible types of institutions. Thus, V. Tambovtsev proposes the following typology in terms of institutional design tasks: formal structure for uncertain participants and certain participants; informal structure for uncertain participants and certain participants¹⁸⁶.

Next, to choose the best option, an assessment of all the possible consequences of introducing the institute into mass behaviour. The choice of

¹⁸⁵ Litvintseva, G.P. (2018). Institutional Economic Theory. - Novosibirsk: Publishing house of NSTU.

¹⁸⁶ Tambovtsev, V.L. (1997). Theoretical Issues of Institutional Design. *Voprosy ekonomiki*. - 3.

options to achieve the goal is a major step in the design. The choice involves developing some selection criteria because the option can fully realize the goal but not be effective. Therefore, we propose to use the following parameters as selection criteria:

- Ensuring that the design goal is achieved;
- ensuring the minimum transaction costs of implementing the alternative;
- ensuring the minimum transformational costs of implementing the alternative;
- the availability of necessary resources to achieve the goal of institutional design, determining their composition and efficiency of use;
- the period of the project.

It is known that transaction costs are the costs of following a rule, and transformation costs are the costs associated with the transition from one rule to another. V. Polterovich believes that consolidation of transactional and transformational institutions change in opposite directions: the first decreases, while the second increases¹⁸⁷. Besides, institutional transformation costs are unevenly distributed among agents, leading to the emergence of pressure groups that prevent change in the current institutions. This circumstance has a significant impact on the possible consequences of implanting an institution in mass behaviour. Behavioural reactions, in turn, depend on two groups of factors. The first group includes the mentality of entrepreneurs, the logic of doing business, the level of trust in institutional innovation, the characteristics of network ties (strong, weak, horizontal, vertical). The second group's factors should include the incompleteness of projected rules and the asymmetry of distributive effects generated by projected rules. They affect the effectiveness and efficiency of the designed institutions. These factors contribute to the formation of three types of behavioural strategies: a voice strategy, a loyalty strategy, and an exit strategy.

¹⁸⁷ Polterovich, V.M. (1999). Institutional Traps and Economic Reforms. *Economics and Mathematical Methods*. 35. (2).

In his time, A. Hirschman wrote that the strategy of voice consists in active opposition to a new rule. On the other hand, loyalty strategy means that market participants either actively support a new rule, simply follow its prescriptions, or choose an exit strategy, i.e., bypassing its prescriptions¹⁸⁸. In the context of this study, we would like to refine this classification, namely to divide the voice strategy into two subgroups: the positive voice strategy and the negative voice strategy.

In our view, the essence of the negative voice strategy is expressed in the following situation. If the expected benefits are less than the costs, the entrepreneurs will perceive the new rule as limiting their actions or pointless. Their reaction will be: to protest against the new rule, to show hostility to the implementing organization. This is evidence that the addressees oppose the projected institution's introduction because of the risk of future costs. In such a case, the new rule will interfere with the goal, whether it is justified or not, and this is a sign of the project's impassibility.

If an institutional innovation contains credible promises, it will be seen by entrepreneurs to solve or mitigate the underproduction of effective institutions. And the more credible the promises, the more "responsible" one entrepreneur's expected behaviour from another's perspective. This means that the information conveyed reaches the one to whom it is addressed and is perceived adequately; that is, it meets the issuer's expectations. Obviously, in this situation, economic agents will contribute to the project's passage, and a positive voice strategy is implemented. The expected potential benefits may induce the consumers of external effects and contribute to the project's passage. In this case, the "majority barrier" is easily overcome.

Thus, based on the selected criteria, evaluating and selecting the best option for achieving the institutional design goals are made. At the subsequent stages, the

¹⁸⁸ Hirschman, A. O. (1970). *Exit, Voice, and Loyalty: Response to Decline in Firms, Organizations and States*. Cambridge, Massachusetts, USA: Harvard University Press. Hollenbeck, JR, e Klein, HJ (1987). Goal commitment and the goal-setting process: Problems, prospects, and proposals for future research. *Journal of Applied Psychology*, 72(2), 212-220.

organization-executor and the composition of executives responsible for implementing the institute and control over its implementation are specified, the mechanism of relations between them, the system of responsibility and incentives are developed.

Institutional design is considered effective if all other things being equal ensure minimal deviation from the ex-post results. However, the effective institutional design does not always guarantee the formation of effective institutions. This is due to the following reasons:

- *the specifics of the order.* "Customer" of an institutional project is not always interested in creating an institution with a democratic variant of distribution of resources and economic opportunities. In the context of the object of research in the role of "customer" act, small business subjects, namely: individual entrepreneurs, small enterprises. Thus interests of subjects of small business with self-sufficient business on creation of value differ from interests of the small-scale enterprises formed for redistribution of value or withdrawal of the capital;
- *asymmetry of information.* Because of asymmetric information, there is always the possibility of marginal small business entities (outsiders) who are recipients of an institutional project but do not benefit due to lack of information;
- *identification of the "core of transformation".* Identifying the "core of transformation" is of fundamental importance for the effectiveness of the institutional design. This is caused by possible mismatches between the degree of complexity of the new institution and the general state of the institutional environment of small businesses;
- *the effectiveness of the political market.* Often, the formal institution-building process's potential inefficiency is a derivative of the political market's inefficiency as a standardized mechanism that ensures the interaction between various individuals and groups over forming a system of constraints. In the political market, legislators' quality of services provided to voters is the most difficult to measure.

These circumstances indicate the limits of institutional design capabilities: the designer's limited rationality, the unpredictability of rule subjects' strategic behaviour, the interference of rules, the uncertainty of success and failure in the existence of the old and new rule. The social opportunity curve quite clearly demonstrates the limited rationality of the designer. Rule subjects' strategic behaviour is sufficiently unpredictable because they often do not follow the optimal line of behaviour but the line that satisfies their short-term interests.

Also, during the period of managing the process of introducing a new institution, "institutional discontinuities" can have an indirect effect, arising when affiliated institutions' connection is broken. They often prevent the new formal institution's assimilation, leading to its rejection, either deformalization or perversion. Therefore, organizations - executors should apply administrative measures of enforcement of new rules, monitor the process of its consolidation in practice, explanatory measures, and carry out compensations to prevent the negative consequences of the implantation of the designed institution.

On the other hand, institutional innovation is desirable in any period if it leads to an increase in the well-being of society as a whole, i.e. a Pareto-improvement is achieved. The difficulty is that permanent reorganization can break the continuous sequence of Pareto-improvements. Institutional innovation will take a stable form due to stabilization mechanisms, namely the effects of coordination, learning and conjugation.

The learning effect is characterized by the fact that the market subjects learn to comply with the rules effectively and improve their implementation technology. As a result, there is a reduction in the volume of transaction costs associated with applying the norm. Consistent norm application leads to its embedding in the system of other norms, which entails the coupling effect's appearance: the refusal to follow the norm can entail a chain of other changes and high transformation costs. However, market actors are not always eager to welcome institutional innovations, not wanting to change the stereotypes of behaviour that have proven

their viability in the past. This line of behaviour is seen as the result of *cultural inertia*.

The effect of these effects is accompanied by an increase in three types of costs. First, there is an increase in transaction costs due to the coexistence of principles based on which the coordination is carried out. They lead to an increase in the uncertainty of the counterparty's actions, which can choose either obedience to formal rules, or informal, determining the risk of opportunistic behaviour of one of the parties to the contract. Secondly, the mismatch of informal and established rules leads to an increase in the cost of control over implementing the new rules. Comparative dynamics of the bureaucratic apparatus and the population serve as indicators of disagreement and growth of these costs. Third, the costs of illegality.

Thus, institutional design is one of the ways to create formal institutions of an artificial nature. The institutional design algorithm includes many steps, which differ depending on the specifics of the institution being designed. If the design is successful, the institution adapts positively to the current institutional environment. On the other hand, if the new institution is incompatible with cultural factors and society's institutional structure, various dysfunctions may arise. Nevertheless, institutional designing allows to carry out reconstruction of the institutional environment of small businesses. It, first of all, concerns laws, by-laws defining various regulations of actions and standard forms of contracts.

3.2 Ways of assessing and forecasting the development of institutions in the field of small business

Modern research within the institutional theory framework is mainly devoted to describing and explaining the institutional changes that have occurred in the post-socialist space and the development of normative recommendations for improving the existing institutional structure of the economy. Explaining the causes and directions of changes helps identify internal and external factors influencing

institutions' development. The accumulated material on institutional changes in various areas of the economy requires the development of a basis for forecasting.

In our opinion, there is a need to forecast the development of institutions in the sphere of small business in the following directions:

- forecasting the demand for changes in the current system of relative property rights (institutional agreements);
- forecasting the demand for a new system of relative property rights;
- forecasting the demand for changes in the current system of absolute property rights (institutional environment);
- forecasting the demand for a new system of absolute property rights;
- predicting the duration of the life cycle of an institute;
- making predictions of changes in the properties of existing institutions (blocking, deformalization, etc.).

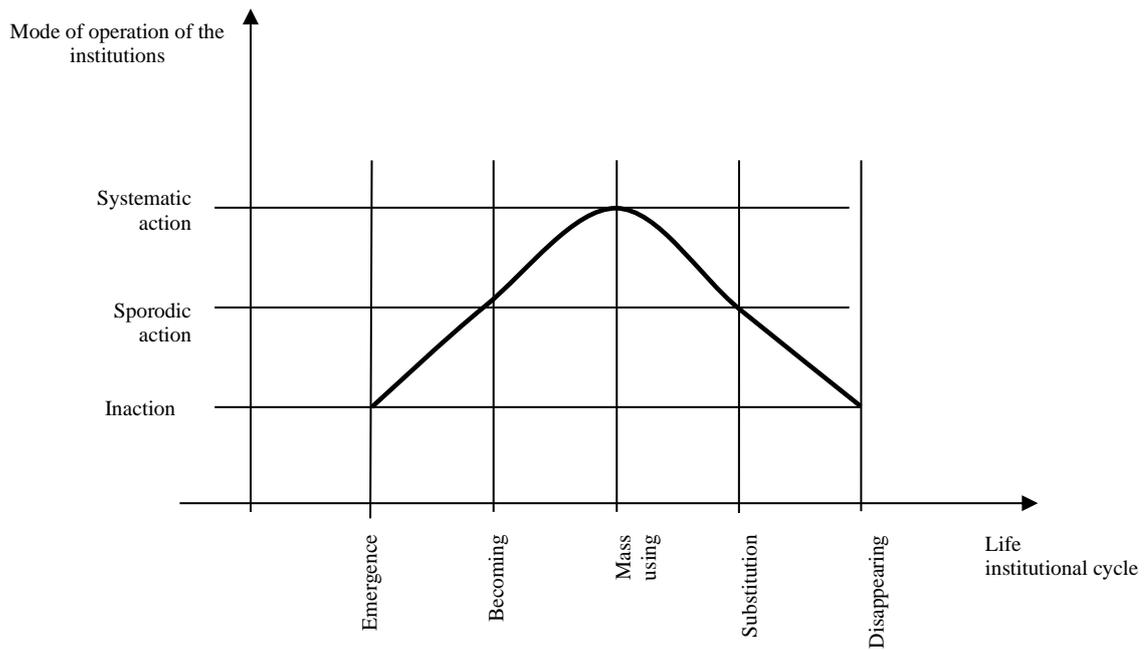
When predicting the demand for relative and absolute systems of property rights, one should first find out the degree of stability of the institutional system, the point of institutional equilibrium, its distributional consequences, and the ratio of the players' bargaining power.

Institutional system stability depends on the structure of incentives because they determine in which direction and with what intensity economic agents (entrepreneurs) will act - whether to adapt within the existing system of rules or seek to revise these rules - what organizations will be used to realize these goals¹⁸⁹. The plurality of institutional equilibria in the market determines the stability of the system. Institutional equilibrium assumes that the players (entrepreneurs) show satisfaction with its distributional consequences, and none of the players considers it profitable to spend resources to revise the agreements. Only the greatest loss of lost profits (distributive benefits) can change the players' bargaining power. According to A. Shastitko, the latter is the basis for violating the institutional

¹⁸⁹ Shastitko, A. E. (2010). New institutional economic theory. Moscow: Teis.

equilibrium, as the players have an incentive to change the terms of the contracts. Consequently, there is a need to forecast the players' bargaining power ratio to estimate the threshold changes in the parties' bargaining power. However, it is difficult to monitor the bargaining power of players in the institutional market because, in this market, there is a continuous process of exchange of property rights: some entrepreneurs transfer the rights of exercising the rights of ownership, use, income, etc. concerning resources (or consumer goods) to other market actors. More precisely, implicit institutional transactions are carried out there, which are the joint acts of entrepreneurs concerning the choice of this or that rule. The actions are carried out conditioned by the desire to carry out some commodity transaction. V. Tambovtsev notes that "as a result of such actions the frequency of use of rules relevant to this or that situation changes, the mode of functioning of these rules changes, and, therefore, ultimately, and the existing institutional arrangement.

The term "mode of functioning of institutions" was introduced to explain the life cycle of institutions, or, more precisely, the sequence of changes occurring in an institution. Therefore, an institutions' life cycle is otherwise known as *the trajectory of institutional development*, which includes five periods: emergence, formation, mass use, replacement, and disappearance. During these periods, institutions can function in three modes: inactivity, sporadic, and systematic action, according to Figure 3.1.



Note - Compiled by the author from the source: Auzan, A. A., Doroshenko, M., Ivanov, V., Eliseev, A., & Kaliagin, G. (2011). Institutional economics: new institutional economic theory. Textbook. Moscow: INFRA-M, 415.

Fig. 3.1. The trajectory of Institutional Development

Inaction means that entrepreneurs are aware of the rule but do not apply it in economic activity. According to the life cycle, this mode is characteristic of an institution during its emergence and disappearance. Sporadic action occurs when the entrepreneur follows the rule in a class of similar decision-making situations only occasionally. This regime is characteristic of an institution during the stages of its formation and replacement. The systematic action of a rule implies its mass distribution in economic behaviour.

In our view, the lifespan of each institution is different. For example, most meta practices (religious traditions, customs) and some constitutional rules (for example, the U.S. Constitution) are still at the peak of functioning mode. At the same time, institutions developed in a transition economy have a very short life cycle since some institutions were created to regulate economic agents' interaction in special transition conditions (during a decline in production, a crisis of non-

payments, the absence of certain market infrastructure elements). Unfortunately, as we noted earlier, some of the imported institutions did not take root in the domestic economy because of the real reality's inadequacy.

It is theoretically difficult to predict institutions' life cycles to establish probabilistic factors accelerating (or restraining) the development of institutions at each stage of their functioning regime. However, we believe that the period of the emergence of a formal institution depends on the nature and course of lobbying, development, and adoption at the state level (region). For example, in the early 1990s, Kazakh entrepreneurs, interested in giving a legislative status to small businesses, began active social and political work in the Congress of Entrepreneurs, the main purpose of which was to develop legislative acts, clarifying the status of the individual entrepreneur, business parameters and create favourable conditions for its development. Simultaneously, the lobbying process continued for 3-4 years, and the initiated documents were adopted only with the state's approval in 1997-1998.

The period of formation of an institution depends on the size of transformation costs, which consist of two components: the one-time start-up costs of mastering a new rule (the costs of obtaining information about it and learning how to act) and the ongoing costs of applying the rule, including direct and indirect costs. Suppose a large enough circle of economic agents, guided by a new rule, can predict the behaviour of others and maximize their utility. In that case, it will undoubtedly become widespread and will surely last a long time. Substitution and extinction take place in the absence of demand for an institution.

However, new discrete institutional changes cause disruptions in institutions' life cycles, i.e., the abandonment of previous institutions and the introduction of new ones. As scholars write, in such situations in the economic system, "jumps" or "institutional shocks" are observed¹⁹⁰.

¹⁹⁰ Auzan, A. A., Doroshenko, M., Ivanov, V., Eliseev, A., & Kaliagin, G. (2011). Institutional economics: new institutional economic theory. Textbook. Moscow: INFRA-M, 415.

The non-transparent activity of the political market subjects reproduces asymmetric information and worsens their selection and personal risk. Consequently, the probability of the emergence of a group of outsiders (marginal entrepreneurs) who do not receive the distributional benefits intended for them increases. The concentration of the greatest losses of lost profits leads to the accumulation of a critical mass, which will affect the consolidation of efforts and collective action on the change of the relevant institutions.

Institutional change, along with opportunities to expand the boundaries of exchange, carries the danger of diluting what has already been achieved without forming new, more efficient forms of exchange. To overcome this situation, entrepreneurs will inevitably search for structural alternatives. The process of choosing alternatives involves assessing the institutional environment's basic parameters and the key characteristics of transactions. The best possible alternative will be the one that minimizes the combination of transformation and transaction costs. In the absence of the most acceptable structural alternatives, the entrepreneur turns to informal rules, whose actions are not transparent to external observation. Hence, changes in them are difficult to predict.

Predicting institutional development trajectory is necessary to prevent the system's transition to a suboptimal development path. The blocking effect results in the system's blocking, which stabilizes on one trajectory of development over time, even if it is a dead-end or the system becomes trapped, acquiring the form of a stable ineffective institution. In other situations, there is the possibility of positive feedback (cumulative effects), which increases the effects of small changes, generating many alternative development paths, including far suboptimal ones. Thus, under the influence of random reasons, the institution can change the development trajectory. According to scientists, the emergence of institutions with suboptimal features is promoted by firms' policy to achieve the position of local monopoly, diversification of production.

Thus, the forecasting of institutional changes is developing a forecast, a scientific study of possible, expected prospects for institutions' development. In this context, the forecast of institutional development can be represented as a set of reasoned assumptions, giving an idea about the future parameters of institutional changes, respectively, and the structure of incentives for economic agents. In this case, the main objective of forecasting the development of institutions can be formulated as a definition of possible trajectories of institutional changes and distributional consequences in all intervals of institutions' life cycles. The task of forecasting institutional changes is to maintain and develop an effective institutional structure of the economy and justify and regulate the institution's competitiveness in the institutional and political market.

It is known that assumptions are based on the data of the preceding and current periods. This can be explained by the fact that objective laws connect the past, present, and future states of institutions. The latter, in their essence, act as a moment of stability, repeatability, and reproducibility of processes and phenomena. The importance of qualitative and quantitative characteristics of laws, with the completeness and reliability of the information, serves as the basis for deterministic ideas about the institution's future state. At the same time, the future always contains elements of uncertainty.

On the other hand, uncertainty presupposes a multitude of options for the possible development of institutions. Consequently, the unity of determinacy and indeterminacy as two interrelated and complementary properties of the future state is a prerequisite for predicting institutions. For example, if the future state of the economy were fully deterministic (path dependence), there would be no need to choose one of the possible development options at the end of goal-setting and transition to the stage of goal-fulfilment.

The combination of determinism and uncertainty determines the use of the probabilistic approach to forecasting institutional change. This approach's essence

consists of limiting the uncertainty of the future and describing the interval within which the search for regulatory decisions is possible.

Forecasting is aimed at the anticipatory reflection of reality, i.e. adaptation of the economic system to the represented future. This reflection makes it possible to destroy the contradictions between the initial conditions and a given development trajectory, the area of admissible trajectories of institutions' development and the possibility of anticipatory reflection of reality change depending on the time horizon of the forecast. As the forecasting horizon increases, the area of admissible trajectories expands.

It is customary to distinguish different periods of anticipation in forecasting: short-term, medium-term and long-term forecasts. Each type of forecast is based on those stable cycles and processes in the development of institutions, which falls within the corresponding time horizon. In the sphere of small business in the short-term period, the relevance is predicting new combinations of old properties in subsequent periods - the prediction of which new yet non-existing institutions will appear.

The use of factor, genetic and normative approaches in the forecasting of institutional changes are advisable.

The factor approach involves determining the range of factors affecting the institute's development and the forms of their interrelation. This approach's essence consists of the fact that prospective assessments of the institution development are obtained based on replacing the dynamics of its development with significant and relatively stable trends in the change of factors and parameters. Thus, factor dependencies can be derived into trends to reflect changes in the parameters that characterize the relationship between institutions' development and the factors conditioning it. Earlier, we established that the development of institutions includes changes in the relative prices of economic resources, demography of the population, and knowledge level. In general, the basis for institutional changes lies

in learning, which enriches knowledge, leading to subsequent changes in technology, organization, and business management.

The genetic approach to the forecasting of institutions reflects the inertial nature of institutional development. It is based on forecasting stable trends in the development of economies and is reduced to transferring the past and present dependencies characteristic to the future. This approach is otherwise known as an evolutionary approach. It assumes that new institutions do not emerge in an empty place but in transforming existing rules. Examples include situations involving the legalization of informal restrictions, i.e. giving underlying rules the force of law and transforming these restrictions into formal ones. With the help of a genetic approach, it is possible to predict how formal institutions reproduce the existing informal rules. However, the non-linear and dynamic nature of economic system development may lead to ambiguity in the natural evolution of institutions.

The normative approach is based on development goals that are desirable to achieve. The normative approach's content is to develop models to provide guidance on which institutional changes should be implemented in particular circumstances. This approach takes into account the interconnectedness of the past, present, and future. Thus, the normative approach can make it possible to move from current trends to optimal trends.

The principles represent the fundamental forecasting rules regarding their purposefulness, consistency, structure, logic, and development organisation. We have identified five basic principles of institutional change forecasting, which are of a general nature. These are:

- *systemicity*, which implies predicting the development of the institute as a component of a complex hierarchical system with all its components;
- *comprehensiveness*, which implies consideration of factors and conditions of reproduction, which significantly affect the economic exchange of property rights;
- *Variable forecasts are achieved by forming and calculating* hypothetical development scenarios based on the current socio-economic situation and future

goals. The development of institutions is set in the form of a scenario map, i.e., a set of exogenous parameters of the model, set by an expert in the form of a trajectory of change of institutions in the forecasting horizon. Three variants of scenarios are distinguished: a pessimistic variant, a system of probable alternative forecasts, an optimistic variant. The pessimistic variant extrapolates existing trends for the future and is prepared based on the genetic approach. The system of probable alternative forecasts consists of working hypotheses, and the optimistic variant is prepared based on the normative approach;

- *Objectivity* implies that the researcher is guided only by objective assessments, patterns, characteristics, and connections in his conclusions about the future;
- *Proof* of predictions means that convincing arguments are provided to convince of the validity of the predictions.

The development of forecasts of institutional development is a multistage process that includes complex collective and organizational activities. Based on the specifics of institutional forecasting in the sphere of small business, we have identified the following stages:

- substantiation of the main goals and priorities of institutional changes;
- clarification of the time horizons of institutional change;
- Analysis of established patterns and emerging trends in the development of the institute as an object of research;
- choosing the most appropriate forecasting approach;
- determination of the composition of the initial information and its sources, which should take into account the cause-and-effect relations and dependencies, the type of forecast and the method of forecasting;
- collection of baseline information, assessment of its reliability, completeness, and ability to use it in forecasting;
- preparation of possible scenarios for the development of the institute;

- Evaluating the forecasting results, making the necessary adjustments to institutional development, choosing the best option.

The forecasting of institutional changes in the sphere of small businesses is associated with some difficulties, which are explained by the action of complex cause-and-effect relations. The final result of institutional development depends on factors that can be classified into external and internal, objective and subjective, controllable and uncontrollable, deterministic relations and probabilistic ones. During the analysis of initial information, it is necessary to understand all the relationships in as much detail as possible.

Determining the reliability of institutional changes' forecast is the most difficult scientific problem, unresolved to date. The reasons for the uncertainty and erroneousness of forecast calculations are seen:

- in the inability to describe in the model all cause-and-effect dependencies of the complex structure of institutional systems. The complexity of institutional systems is caused by two circumstances: the interconnectedness of institutions and their composition's heterogeneity¹⁹¹. Interconnectedness implies the principle of complementarity, which states that institutions complement each other, and the desired economic effect is achieved only based on interrelated institutional changes. We presented the heterogeneity of an institution in Figure 2.4, where it was shown that it includes a single set of rules of the game and control rules. Besides, any institution occupies its niche in the hierarchy of rules discussed in section 1.3. Studies have proved that the fundamental rules, which form the basic development model, are not very significant modifications. The reasons for this are seen in the fact that is changing higher-order rules, other things being equal, requires significantly higher costs than changing lower-order rules (e.g., contracts for the supply of goods);
- the background information is not always reliable enough;

¹⁹¹ Galati, G., & Moessner, R. (2013). Macroprudential policy—a literature review. *Journal of Economic Surveys*, 27(5), 846-878.

- many processes have an objectively probabilistic nature;
- often different factors have a contradictory effect on performance indicators;
- an active role in the development of institutions is played by subjective factors - value judgments of entrepreneurs, whose reaction to this or that situation is not always easy to predict;
- in predicting the development of institutions, we assume that the patterns we have identified in the past will persist in the future, or the nature of their changes can be foreseen. However, in history, there are often qualitative leaps that formalized methods cannot predict. Discrete institutional changes resulting from conquest or revolution can be referred to as such types of jumps;
- the parameters of the predictive model are determined by the preceding period. In this case, the model may well describe the patterns of the previous period. Still, the prediction accuracy is determined mainly by whether the process dynamics and patterns of the previous period correspond to the predicted period.

Thus, forecasting the development of institutions is a complex process. However, the forecasting results are necessary to prevent possible suboptimal ways of developing small business institutions and predict what kind of new institution will appear in the future.

CONCLUSION

The main conclusions and scientific results of the work are as follows:

1. The scientific interpretation of the function of entrepreneurship as one of the main institutions of market reforms allowed us to identify the relationship between the levels of economic development and entrepreneurial structures. Its meaning is that the market economy and entrepreneurship interact on the type of causal relationship. Small business is an integral, objectively necessary element of any developed economic system, without which the economy and society as a whole cannot normally exist and develop. It is an independent and typical economic life organization with its features, advantages and disadvantages, and development patterns.

2. We can say that small business is studied from two positions - microeconomic and macroeconomic. The first one concerns the internal environment of entrepreneurship itself. In the second case, we are talking about the external environment of entrepreneurship, which greatly influences the state and development of small businesses in general and the individual enterprise on the behaviour of economic agents. One of the external environment elements is institutional conditions, an ordered set of institutions that create matrices of economic behaviour based on restrictions. The present study is devoted to the study and theoretical substantiation of institutions. The author develops the concept of the institutional environment of small businesses concerning the national economy.

3. To analyze the real mechanism of small business functioning, it is first necessary to define the concept of the market it occupies. Using different terminology, economists note its territorial limitedness and distinction from similar markets. Consequently, what they all have in common is the local scope, within which there must be something that distinguishes it from other similar markets. In characterizing such markets, it is necessary to note, on the one hand, their interconnection with the national market, and, on the other hand, the integrity, interconnection and interdependence of the elements forming it, which create the

qualitative uniqueness of this local market.

4. The final effect of the totality of role functions of the institutional environment is its influence on forming preferences of small business entities. The condition for its stability is the satisfaction of all individuals and organizations (subjects of the political market) with the existing distribution of power and control over the economy's resources. And even if someone is dissatisfied with the existing restrictions, with the given relative costs and benefits of changing the rules of the game by the subjects of trade transactions, it is not profitable for them to change them.

5. The peculiarity of the institutional approach is that modern trends in institutionalism proceed from the paramount importance of the formation not of property rights per se but social norms and rules. An economist studying property rights examines, first of all, norms and rules of exchange between independent market participants, including choice of business partners, nature of contractual relations and procedure for execution of transactions. And the above methodological approaches show that the development of small businesses and the institutional environment are interrelations and mutual. At the same time, we pay special attention to "institutions" as mechanisms structuring the relationship between market actors. The considered approaches, in our opinion, allow us to study the specifics of small business development in the transforming institutional environment.

6. In our opinion, the system-forming elements that form the qualitative heterogeneity of such local markets are:

- the socio-economic level of development of the region, within which there are differences in the socio-economic development of individual districts, cities and towns;
- Institutional peculiarities of the conditions of small business functioning, formed at the level of regional markets;
- the level of development of infrastructure, both production and market,

differentiated both at the regions and their components.

7. In general, we believe that the main provisions of the theory of institutional change are key to understanding the institutional transformations in small business spheres.

8. Institutions' distributive consequences are the basis for shifting the trajectory of development of institutions from the optimal to the suboptimal path, which leads to the emergence of weak institutions that increase the level of uncertainty and complicate the process of interaction of economic agents. Only the monitoring of existing institutions in the sphere of small business contributes to identifying weak institutions that create barriers to entry into the market. And to reduce the probability of inefficient rules, it is advisable to use the strategy of managing the pace of institution building. Besides, one way of preventing a suboptimal way of developing projected institutions can be forecasting institutional changes.

9. Institutional design is one of the ways to create formal institutions of an artificial nature. The institutional design algorithm includes many steps, which differ depending on the specifics of the institution being designed. If the design is successful, the institution adapts positively to the current institutional environment. On the other hand, if the new institution is incompatible with cultural factors and society's institutional structure, various dysfunctions may arise. Nevertheless, institutional designing allows to carry out reconstruction of the institutional environment of small businesses. It, first of all, concerns laws, by-laws defining various regulations of actions and standard forms of contracts.

10. Forecasting the development of institutions is a complex process. However, the forecasting results are necessary to prevent possible suboptimal ways of developing small business institutions and predict what kind of new institution will appear in the future.

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INSTITUTIONAL TRANSFORMATION OF THE ENTREPRENEURIAL SECTOR

Edited by Professor Ikramov M.A

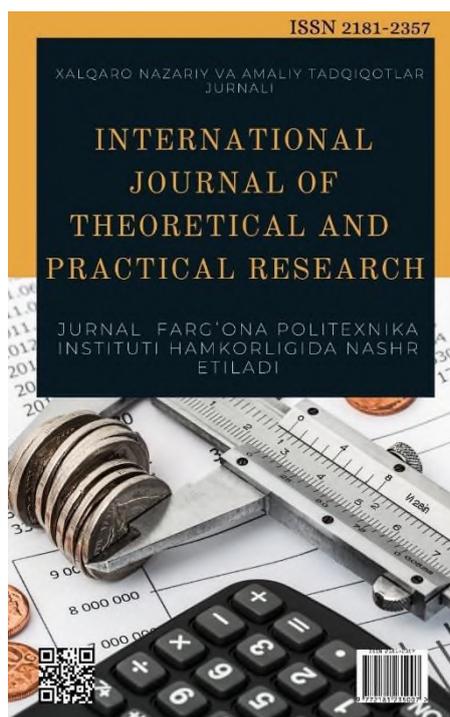
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Al-Ferganus

2021

ЭЪЛОН



Хурматли ҳамкасабалар “Al-Ferganus” нашриёти ва “Xalqaro nazariy va amaliy tadqiqotlar jurnali” электрон журнали Ўзбекистон таълим хизматлари бозорига ўзининг фаолиятини бошлаганлигини маълум қиламиз.

Ажойиб имкониятдан сиз биринчилар қаторида фойдаланиб илмий нашрларингизни чоп этишингиз мумкин.

“Al-Ferganus” нашриётимиз томонидан Сиз тақдим этган дарслик, ўқув қўлланма, монография ва илмий рисоаларга ISBN, Doi халқаро рақамли идентификаторларни бириктириш, уларнинг электрон замонавий андозадаги муқовалар ва ишланмаларнинг электрон макетини яратиш, нашриётда эълон қилинган ишларни электрон ахборот нашрларида жойлаштириш хизматлари кўрсатилади.

Бизнинг нашриётимизнинг бошқа нашриётлардан фарқи шундаки, тезкор ва сифатли хизмат кўрсатамиз ҳамда энг асосийси биз Сизнинг ишларингизни Алишер Навоий номидаги Ўзбекистон Миллий кутубхонаси ва Россия Миллий кутубхонаси фондларига бепул жойлашга шунингдек, Россия илмий иқтибослик индекси (РИНЦ ва E - library) платформасига, CrossRef базаларига шартнома асосида жойлаштиришга кўмаклашамиз.

“Xalqaro nazariy va amaliy tadqiqotlar jurnali” ISSN 2181-2357 электрон журнали ҳам ўз фаолиятини бошламоқда. Бизнинг журналда Ўзбекистон Республикаси Олий аттестация комиссиясининг қуйидаги ихтисосликлари физика-математика, кимё, биология, геология-минералогия, техника, қишлоқ хўжалиги, тарих, иқтисодиёт, фалсафа, филология, география, юридик, педагогика, тиббиёт санъатшунослик, архитектура, психология, социология фанлари бўйича миллий ва хорижий муаллифларнинг фанлардан эришган ютуқлари ва истиқболлари борасидаги илмий мақолалари, илмий тадқиқотлар олиб бораётган олимларнинг

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MONOGRAPH

<https://doi.org/10.5281/zenodo.5457089>

Bosh muharrir: M.Ashurov

Musahhih: M.To'xtasinova

Sahifalovchi: SH.Jamoliddinov

Bosib chiqarish uchun imzolangan 09.09.2021

Xajmi: 2,8 MB

Internet nashr

ISBN 978-9943-7189-9-9



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