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**SECTION 31. Economic research, finance,  
innovation, risk management.**

## INSTITUTIONAL FRAMEWORK OF DEVELOPING SMALL BUSINESSES MANAGEMENT

**Abstract:** This article is devoted to the theoretical and methodological research of formation of institutional framework of small business management, its current condition and peculiarities, as well as its improvement of theoretical-practical aspects. In addition to the study of institutional foundations of small businesses from the theoretical and practical point of view, the results of the research will facilitate improving of the efficient management of interaction of small businesses due to the minimization of transaction expenses as well as decision-making aimed at developing institutional environment on the basis of innovations' integration.

**Key words:** small business, small businesses management, institutional framework, innovation development.

**Language:** English

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### INTRODUCTION

Sustainable development of the national economy and strengthening its potential in the conditions of international globalization, raising the welfare of the population are mainly connected with the formation of the layer of proprietors, in particular, the development of small business and private entrepreneurship.

Namely small businesses with their mobility and efforts attracting a small amount of resources are able to offer competitive products to consumers in a short period of time in the easiest way and with the quickest modernization of production. Today, one of the priorities of the global economy is the development of small businesses and private entrepreneurship in the newly appeared and nowadays developing countries, so formation of their institutional framework and improvement of their mechanisms on management problems have become topical issues for the world economy.

### URGENCY

It is well known that in the transition period to the market economy, a number of laws and statutory acts have been adopted in the process of regulation of small businesses in the process of managing its cooperative and mutually beneficial activities [1].

The gradual transformation of the national economy into market relations during that period

contradicts the interrelations between small business entities and its institutions, thus the need for reorganizing its rational, institutional framework of its business activities from the point of view of modern management as well as the need for reconsideration its institutional business environment from the fundamental theoretical and methodological aspects have become one of the topical issues. In this regard, the importance of forming the institutional foundations for the development of small businesses in Uzbekistan over the past 26 years has been justified and in this regard a set of action plans have been developed.

Thus, the Action strategy for the development of the Republic of Uzbekistan for 2017-2021 pays a particular attention to this issue and the third prior direction devoted to the development and liberalization of the economy provides some preconditions aimed at further formation of the institutional framework of small businesses and private entrepreneurship and improvement of the principles of modern management such as ...“ensuring reliable protection of the rights and guarantees of private ownership, eliminating of all barriers and limits, providing full freedom for the development of small businesses and private entrepreneurship, applying in practice the principle “If people are rich, the state will also be rich and strong”, creating attractive business environment for



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the comprehensive development of small businesses and private entrepreneurship, strict prevention of illegal intervention of the public administration, supervisory and law enforcement authorities, implementation of modern standards and methods of the corporate governance, enhancing the role of the shareholders in the strategic management of enterprises, reduction of the government participation in the regulation of the socio-economic development of the country, decentralization and democratization of the public administration system” [2]. In this regard, studying organizational structure of institutional foundations of small business management, principles of management, current condition and its inherent peculiarities from the theoretical and methodological point of view as well as improvement of their scientific and methodological development are currently considered to be an important issue.

### THEORETICAL APPROCHES

Nowadays determining the factors making an impact on the development of small business management on the basis of the theoretical study of its institutional framework, as well as creating the strategy for systematization and development has become one of the priorities of the economy. Formation of a structured institutional framework for small business mainly depends on the development of its business environment and infrastructure. In general, the essence of the word “business” has been widely studied from theoretical and methodological aspects, and the literary sources and dictionaries provide almost the same theoretical views.

Taking into consideration existing business environment of our country, A.Ulmasov and M.Sharifkhodjaev have given the following definition to the term “business”: «Business is legally allowed type of activity which enable community members to earn money and gain profit»[3]. This approach is a combination of the words “business” and “entrepreneurship”. Taking into consideration the scale of the business, status obtained in the market, amount of money circulation and a number of employees businesses can be classified into large, medium-size and small businesses.

It is well known that the issues related to the institutional framework of small businesses, as well as scientific, theoretical methodological foundations of developing the mechanisms for their management haven’t been thoroughly researched.

In a methodological approach, for example, from the point of view of one of the founders of traditional institutionalism Douglass Cecil North, institutions represent the framework within which people interact with each other. They include 3 structural foundations: informal constraints, formal (written) limitations in the form of rules and

regulations and obligations. The new institutionalist, Ronald Harry Coase [5] supposes that contraction and transaction costs still remain the issue of a significant concern.

Institutionalism has derived from the Latin word “instituto” [6] which assumes traditions, directions, institution and is characterized by the occurrence of industrial and financial monopolies, other organizations and enlarging of enterprises – the factors which are related to the transition to another stage of the society development.

If we analyze opinions of the supporters of the traditional institutionalism, Thorstein Bunde Veblen [7] determined an institution as behavioral stereotypes reflecting the state which has turned into an official custom making an impact on economic activities. John Rogers Commons [8] believes that institutions are socially developed and defined by normative rights which predetermine individual activities. Wesley Clair Mitchell assumes that the economic experience is the result of a robust setback in the mass consciousness by empirical summary of the mass phenomena of crystallization and economic activity.

Roy Hodgson gave the following definition: “Institutions are social organization leading to the creation of stable behavior samples through limiting customs, traditions or legislation” [9].

B. Berkinov assumed that “An institution is the system of official rules and non-official norms determining mutual relations among members of the society”. The role of the institutional framework in the management of small businesses has been developed in the evolutionary way, thus it has the period of its historical formation. As an example of this we can see the concept of the relations of the institutional evolutionary formation developed by Hodgson G. M [10].

In our country the history of the institutional approach can be observed in the “Codes of Temur” [11] – the book by Amir Temur devoted to the principles of the governance. This book illustrates the peculiarities of the governance at the Amir Temur state at that time, the rules for its internal and external policies, improvement of the legal framework, and the impact of the social-legal relations of that period on the entrepreneurial activity. It should be noted that examples of transformation of customs and traditions into a certain rule and its further regularization and the use for managing entrepreneurship activities were first demonstrated in such literary works as “Codes of Temur” and “The city of ideal people”.

In general we can say that the term “institute” has the same meaning as the tem “institution” which has derived from the Latin word “institutio” which denotes strict traditions or fixed customs, as well as laws, regulations or norms of the society accepted as rules [12].



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American scientist-economist William Rowan Hamilton was the first to introduce the scientific interpretation of the word “institutionalism” in 1918 and justified it as an economic category from the scientific point of view. According to his point of view, “institution” is a set of verbal signs determining a set of social customs and traditions [13]. He considers an institution as the method of strict thinking and making efforts turned into customs and traditions of social groups. It should be noted that the development of the business environment on the basis of the technocratic approach related to the peculiarities of internal and external factors was researched in scientific papers of A. Fayolle, G. Emerson, F. Taylor, G. Ford and others [14]. These researches reflect studying of evolutionary formation of the management theory and factors which can make impact on it with the account of engineering, technical and technological peculiarities and this approach was named as “classical” school.

### ANALYTICAL PART

Studying of institutional environment of small businesses, first of all, assumes analysis of exogenous and endogeneous factors influencing them and as a result determines formation and development of small businesses under business relations. While researching business environment studying of institutional factors results in increase of its profitability. Herein external factors of the institutional environment of small businesses are not connected with it, however, it must comply with: innovation and technology policy in the field of small businesses of the state; fiscal policy and tax and taxation relations demographic factors and ideology of small businesses. Internal factors of the institutional environment are connected with social-economic potential of small businesses, manufacturing, innovation and engineer-technologic potential, labour force and personnel potential, business partners and value management, auditors and financial position.

All of above-mentioned statements solve the issues of ensuring small businesses with a robust, long-term legal environment, raising funds, attracting loans to meet the needs of small businesses’ projects for resources, ensuring the fair provision of income

gained by small businesses from implemented projects.

Institutional factors characterize the level of development of the market infrastructure - banking system, insurance system, distribution system (stock exchange for the capital movement, commodity exchanges for wholesale trade of raw materials and commodities), market mediation system providing legal, advisory, advertising and other services, as well as the existence of a single information environment that ensures the timely movement of capital and labor. These factors reduce the risk of small business and barriers to business access.

Thus, the institutional environment of small business entities is formed by the state regulation of formal and informal relations, which, in turn, are connected with available resources, opportunities of their achievement, rights and infrastructure, and is developed on the basis of certain agreements as a result of institutional changes in small businesses (Figure 2). As it is known, small business entities are exposed to certain institutional changes on the basis of government regulation and regulatory mechanisms, influencing their business environment on the basis of non-external influences, formal and non-formal rules, restrictions and institutional factors of coercion.

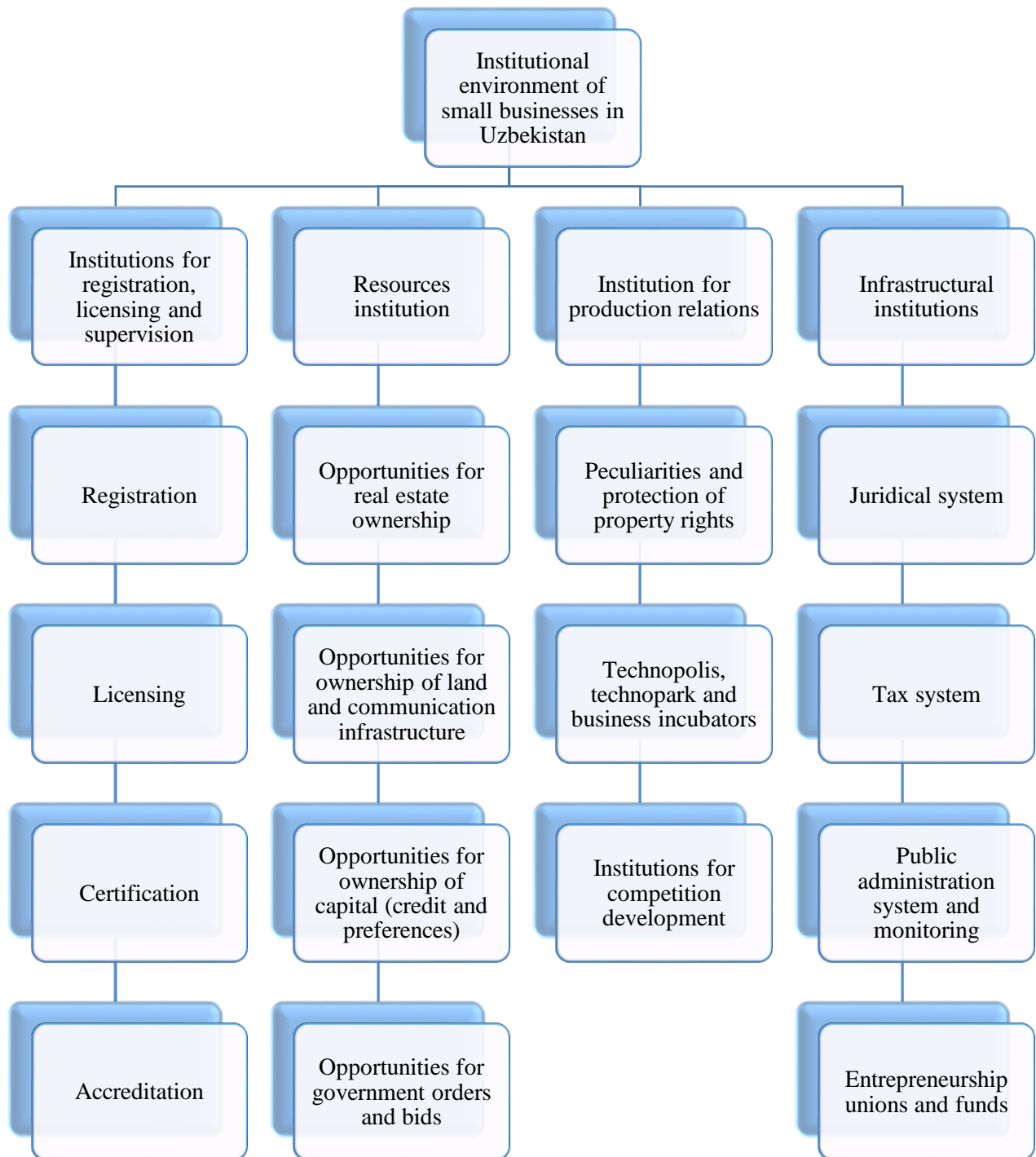
As far as we know, small businesses are subject to certain institutional changes related to the mechanisms of the governance and regulation that affects their business environment based on unrelated external factors such as formal and informal rules, restrictions and obligations.

The gap between the number of small business entities performing their activities within the institutional environment registered by the state and the number of operating entities is sharply increasing. The role of the existing business environment is considered to be significant, and if we analyze it in the regions, we can see changes in the industry-oriented regions.

The shortcomings of joint activities of small business entities with the largest manufacturing enterprises are the following: scarcity of management resources and own funds of the entrepreneur to attract the capital, limitation of his intellect by his personal experience, lack of accountability and some others.

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**Figure 1. Institutional environment of small businesses in Uzbekistan.**

As the analysis implemented by means of mathematical and statistical methods illustrates, during the period between 1995 and 2015 a number of adopted organizational documents and statutory acts aimed at the development of small businesses as well as a dynamics of change of their share in the GDP, in level functional interrelations the value of  $R^2$  is considered to be highly positive, and the

dynamics of small businesses' growth accounts for  $R^2= 0,996$  and the dynamics for the change of the share in GDP amounts to  $R^2=0,9891$ , but the rest of functional interrelations have no significant relations. The reason for it is as far as we know from the mathematical and statistic regularities, if  $R^2$  is less than 0,5, functional interconnection illustrates, the analyzed indicators are divorced from reality (Figure 2).

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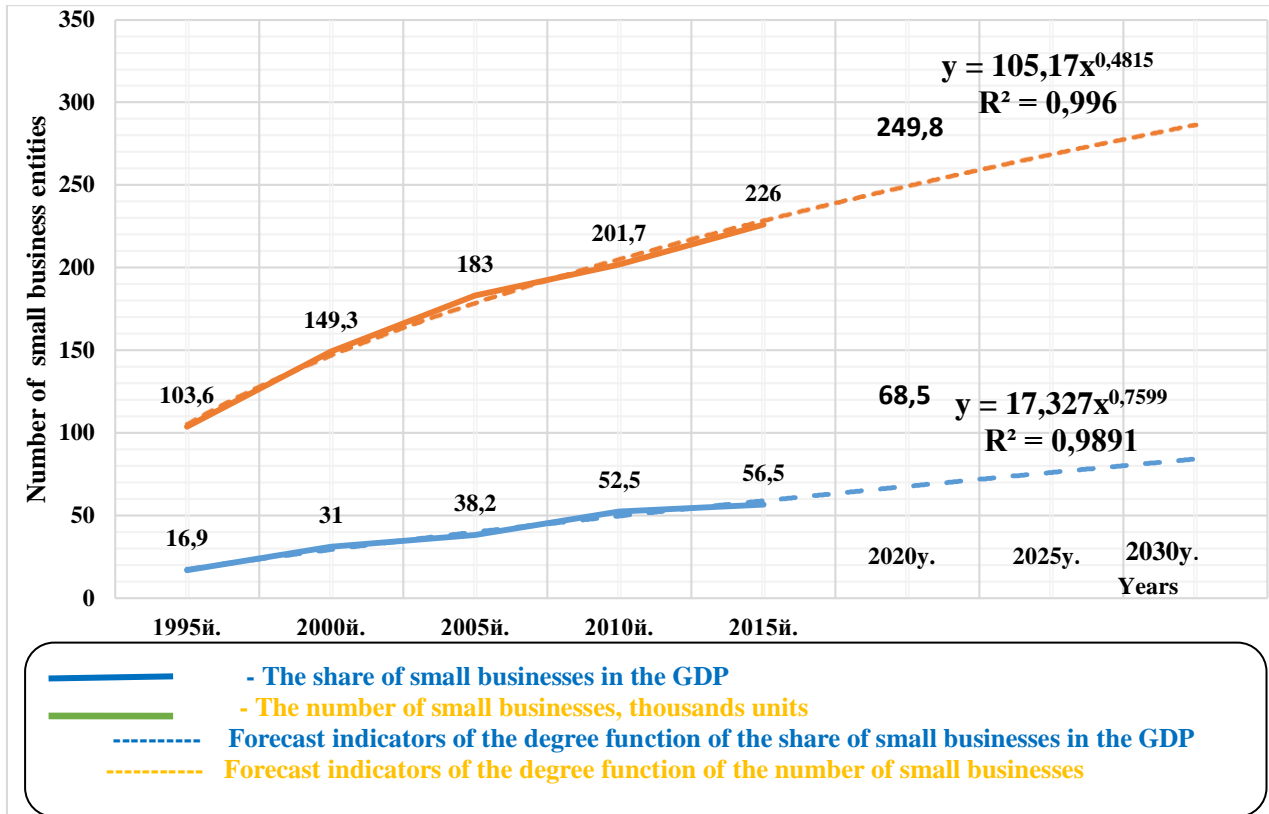


Figure 2. The share of small businesses in GDP and dynamics of its change in the period between 1995 and 2017 and forecasted indicators for 2030.

It should be noted that as the mathematical and statistical analysis of the dynamics of the change in the number of small businesses and GDP between 1995 and 2017 shows, in the process of the gradual development, the number of small businesses is gradually increasing, however, the gap between the share of small businesses in GDP and basic indicators taken for 5 years is growing too.

Along with this, the differences between the indicators that have occurred during the forecast period are typical for the corresponding trajectories that correspond to the dynamic change in the basic period.

However, both the number of small businesses and their share are increasing during basic and forecast periods. Moreover, we can see that the gap between the share of small businesses in GDP in the period of 1995 and 2017 is completely different from the dynamics for forecast period for 2030.

In general, as a result of the comparative analysis of the institutional factors affecting the business environment of small businesses, we can summarize the following conclusions:

**First**, in conditions of market relations, the government should regulate economic relations not only through taxation, investment, tariff policy, but also influencing on the market conjuncture through implementation of institutional policy of income of the population, aimed at supporting the sphere of strategic development and performance of economic

entities. At the same time, the improvement of market and institutional performance has become a topical issue. The regulatory relations based on the institutional approach facilitate to mitigate the disorderly market volatility, reduce the level of social expenditure on the economy restructuring, accelerating the development of the entrepreneurship activities in the manufacturing sector.

**Second**, it is necessary to find such a boundary of regulation of the economy by the institutional influence of the state, in which the state should promote the development of entrepreneurship not only making a negative impact, but also encourage its development. In this area, the government create obstacles for the entrepreneurial initiative through tax and bureaucratic restrictions.

**Third**, the integration of Uzbekistan into world business culture under the influence of social institutions has two implications: on the one hand, it is assumed that the Uzbek scholars are rapidly adopting the economic and philosophical ideas of the outsiders who were neglected during the former Soviet era. On the other hand, under existing market relations, Uzbek practitioners are actively using advanced methods of managing the households and economic activities (management, marketing, logistics, insurance, etc.). The use of these methods is a prerequisite for achieving a global efficient outcome.

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**Fourth**, it is impossible to create both large-scale manufacturing activities and production activities of small businesses without establishing any foundation and undertaking appropriate preliminary measures. When launching manufacturing activities, first of all, it is recommended to create an appropriate basis comprising of technological chains of existing production, scientific, innovative and professional aspects. These factors are considered to be the basis of the development of cooperation between the large industrial manufacturing and small businesses in Uzbekistan.

### METHODOLOGICAL APPROACHES

Relations between small business entities and institutional environment can be observed in the following aspects:

□ In horizontal, that is, in changes of institutions connected with management on the basis of the efficient governance of economic processes which start from raw material supply, such as processing, marketing, logistics or distribution;

□ Vertical management - the practice of managing organizational and economic processes in the relations of small businesses connected with production of goods and services on the basis of organizational elements of administrative management structures.

There are peculiarities of horizontal and vertical management between small business entities, as well as its organizational mechanisms and the regulatory process, however, these issues haven't been researched completely yet.

As a result, a rapid development of the relations of the organizational management between small business entities has led to the unsatisfactory implementation of its internal innovation integration.

The institutional mechanism in the regulatory aspect comprises achieving the transformation of public procurement and bids through improving the law and statutory acts on electronic commerce and management as well as application of the mechanism of legal encouragement to the business portfolio.

Commercialization of technological knowledge is required for the development of technological opportunities in the industry. Such a facility provides the full range of intellectual property rights and enables technoparks and industrial parks, business incubators and venture companies to provide innovative technology under the universities and institutes.

The result of the innovation based integration and co-operation through business clusters in large and small businesses in developed economies is as it follows:

- Small business entities develop fruitful cooperation relations with large manufacturing

producers and business innovations turn into powerful alliances through integrated clusters;

- Small business entities create clusters of competitive business units due to economizing of transactions and transformation costs and as a result small businesses can achieve production benefits as a result of acquiring top specialization in their manufacturing units;

- Establishing business clusters of small businesses with large manufacturing producers enable to produce various goods on the high technical and technological level and to maintain efficient competition with large enterprises.

As a result, the experience of economically developed countries shows that the increasing role of entrepreneurship in the economy is not accidental, but rather a legal process, and, moreover, is considered to be a historical need.

In case of applying advanced manufacturing technologies used all over the world, it is possible to switch to the stage of the innovation development. The transition to the innovative stage of development can be achieved on the basis of a particular technological monopoly which we have in our country. There are many inventions in our country which have been created but currently are not applied in practice. This justifies a huge innovation potential in our country, however, there are certain problems of implementing innovations in practice. Almost all large producing enterprises as well as ministries and agencies have research centres which perform their activities in collaboration with the Centre for science and technologies development and have already obtained certain results.

The objectives of state-supported innovation entrepreneurship activities are the following:

- conducting of fundamental, research, experimental-design, technological and other scientific activities;

- development of research and experimental bases, updating of basic production assets, ensuring and promoting normal functioning of the existing stand, metrological and production bases center;

- procurement of scientific and technical literature, including literary sources published abroad, as well as the use of electronic information communications and information provision on the basis of international relations;

- training and professional development of highly-qualified personnel;

- participation in the events for international scientific-technical development.

As the experience of America major corporations, such as Dupont, Exxon, Ford, General Electric, Hercules, Zinger, and Ginion Carbide illustrates, that being launched at small enterprises the innovation process has been expanded at large enterprises.

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It should be noted that over 100 large corporations of the USA expanded their activities establishing small companies as a new instrument of the business development through venture capital. Their goal is to find new opportunities, develop useful relations, allocate the objects available for the implementation as well as introduce changes in the corporate culture.

### CONCLUSION

The issue of studying organizational structure of institutional foundations of small business management, principles of management, current condition and its inherent peculiarities from the theoretical and methodological point of view as well as improvement of their scientific and methodological development is considered to be a topical issue. Thus the author, having researched theoretical and methodological foundations of this aspect, has determined efficient management strategy and prospects of the development of small businesses.

Small business entities require division of the institutions of external business environment into clusters integrated into innovation business. The institutional environment that ensures innovative

development is a combination of up-to-date technology and technology-based infrastructure that provides a high added value, enabling to develop by business environment clusters. It is necessary to raise the role of institutions and public organizations to support activities in the field of small and medium business in institutional and structural reforms based on market principles at the regional and local levels. In this case a particular attention must be paid to the following aspects:

✓ To focus on the activities of small businesses that manufacture production on the basis of technics and technologies which ensure a high degree of the value added of institutional and structural reforms;

✓ Implementation of institutions and structures of attracting subjects actively participating in creating high-tech chains of small businesses on the basis of the national innovation foundations;

✓ The system of personnel training in small businesses should be directed to the innovation centres at the local and regional levels, techno parks, high-technology developments, and this will lead to the development of institutions' collaboration with large manufacturing producers.

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