

The Essence and Characteristics of Investment Processes in Small Innovative Enterprises

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Abstract

In this article we paid attention to the essential characteristics of entrepreneurship and its main elements—the subject and object of business activity. We found that the most important feature of a small business is its commercial focus of its activities. Based on a study of foreign and domestic regulatory and scientific literature summarized quantitative and qualitative criteria for the identification of small businesses. Through a comparative analysis with big business representatives identified characteristics of investment and innovation processes in small enterprises from the perspective of the object, the implementation of innovation and coverage areas of activity, the level (degree) of novelty of innovation, its potential prevalence and source of initiation, development and distribution of spheres, factors of production, options for investment and innovation processes. We paid attention to the unity innovation and investment processes in small enterprises, made proposals for the integrated management of these processes in the direction of overcoming the limitations of small business.

Keywords: small business, innovation, risk, entrepreneur, business object, identification criteria, investment process, a source of financing

1. Introduction

The modern economy is developing on the basis of various forms of activation of entrepreneurial activity, one of the most important of them is the small business, which has a relatively small volume of activity, number of employees and a combined turnover.

Due to the fact that a large part of the investments of small businesses in today's conditions is put to innovation, that is why special attention needs the issues of innovation and investment processes in this area.

It should be noted significant scientific potential generated by domestic and foreign economists in the study of various forms of business activities, including small business (Andreeva, 2007; Gorfinkel et al., 2011; Chernyak, 2010 etc.), their investment support (Endovitskiy et al., 2010; Markowitz, 1987; Ross, 1976 etc.), the role of innovation processes in this sphere (Arkatov, 2013; Doroshenko et al., 2013; Ogoleva et al., 2008; Santo, 1990; O. S. Sukharev & S. O. Sukharev, 2010; Twiss, 1989; Foster, 1987; Schumpeter, 1982 etc.).

However, investment and innovation processes in the subjects of small business not fully disclosed in the economic literature, as a result, small businesses do not always make the best decisions on the sound management of innovation and the objects of their sources of investment financing.

2. Methods

Theoretical and methodological basis of the study are selected works of foreign and domestic economists in the field of innovation management and other economic sciences; Legislative Acts of the Russian Federation, and other legal documents. The research process was based on scientific methods of knowledge (analysis, synthesis, abstraction, generalization, logical method), the methods and techniques of economic analysis.

2.1 Comparison of the Different Points of View on the Entrepreneurship

For the first time the concept of "entrepreneurship" was introduced in 1755 by R. Cantillon in his "Essay on the general nature of commerce." He defined the entrepreneur as a person who carries out various operations and

economic activity at risk, and highlighted the main components of business-foresight and willingness to take risks, allowing to obtain entrepreneurial income (Mukoseev, 2012).

Specifying the economic aspects of entrepreneurship, some authors define it as activities aimed at maximizing profits; initiative activity of citizens, is to develop products and services; direct function of the implementation of the property, the process of organizational innovation for profit; actions aimed at the increase of capital, the development of production and appropriation of profit; specific activity aimed at the search for changes in the existing forms of life companies (Vybornova et al., 2011).

Exploring entrepreneurship, some scientists describe it in terms of functions, such as general economic, resource, creative and search (innovation), social, organizational (Metelev, 2011).

An interesting trend in the study of entrepreneurship is divided it to enterprise and entrepreneurship. With this approach, entrepreneurship is associated primarily with the implementation of property relations and the satisfaction of needs, and implies a certain entrepreneurial innovation-oriented economic behavior that generates new needs. Then a business entity-is the owner of the enterprise, and the subject of enterprise-any member of the economic process (Cheberko, 2009).

In modern literature contains a sufficiently detailed description of the main elements of entrepreneurship. With respect to business entities dominated position, according to which they include individual entrepreneurs and businesses aimed at profit (Metelev, 2011). This position is not contrary to Art. 2 of Civil Code of RF, which determined that the business is self-undertaken at your own risk activities aimed at systematically profit from the use of property, sale of goods, works or services, registered as such in accordance with the law.

Business objects broadly are different types of assets-non-current (fixed assets and intangible assets, etc.) and current (goods, stocks, short-term investments, etc.). However, these assets themselves and/or produced on the basis of their products must possess novelty, industrial applicability; it is tradable or, in other words, carry the innovation.

2.2 Comparison of the Models "Noncommercial" Economic Activity and "Entrepreneurial" Economic Activity

In the model of "noncommercial" economic activity the main subjects of entities have risk-free, not innovative assets and organize these assets based on production and sales of the relevant products, works and services. Conversely, in the model of "entrepreneurial" economic activity bought risky, innovative assets and use them to deliver innovative products or innovative way to produce traditional products (services are standard).

During the implementation of entrepreneurship there some options combined is possible, the assets can be risky, but not innovative. Another option-to innovative asset issued none innovation products, reverse option is not available. Of course, as already mentioned, from the viewpoint of Art. 2 of Civil Code of RF in determining the content of entrepreneurial activity is a major factor is the business risk, however, given the essential characteristics of the business, we cannot be attributed to entrepreneurship in its true sense "none innovation" economic activity.

2.3 Definition of Criteria for the Identification of Small Businesses, Their Differences from Large and Medium Enterprises

Researchers of enterprise issues noted that in developed economies simultaneously operate large, medium and small businesses.

The main subject of small business and a key figure is a small business. According to the Article 4 of the Federal Law (On the development of small and medium enterprises in the Russian Federation) № 209-FL of 24.07.2007, to small business entities are made in the Unified State Register of Legal Entities consumer cooperatives and commercial organizations (except for state and municipal unitary enterprises), as well as individuals, made in the Unified State Register of Individual Entrepreneurs and conducting business without a legal entity. In the scientific literature entrenched view, according to which a small enterprise-an enterprise with an average number of employees not exceeding the maximum number of criteria in industry, construction, transport, agriculture and other sectors of the production sector. Fixing the essential aspects of the activities of a small business, the definition, however, does not fully characterize small business entity, although contains approaches common abroad.

Indeed, in many foreign countries with a market economy the main criterion for selection of a small business is the number of employees. In particular, the European countries have the following classification: micro-the number of employees is not more than 9 persons, small businesses-the number of employees from 10 to 49 people, average-50 to 249 people. For all categories of enterprises turnover must be less than 40 million euros, or

balance-less than 27 million euros (Mukoseev, 2012). OECD classifies enterprises employing less than 19 persons are classified as very small, 20-99 people as small as the average 100-499 people and more than 500 people as large. In addition to the maximum permissible value headcount important features of a small business act-limit the amount of capital, capital structure is defined, the marginal value of assets, the maximum amount of the revenue and profit.

In some researches the authors note the need of consider not only quantitative but also qualitative approaches to the characterization of a small business. This practice has been applied in a number of foreign countries. In particular, the General Confederation of small and medium entrepreneurs in France recommended referring to those small businesses where the owner is the owner of most of the capital and provides private guide staff through constant and direct personal contact. A similar position is also reflected in the scientific literature. Thus, F. Clark sees the essence of small business not only to maximize profit, but in the moral satisfaction derived from independence and creative nature of the work in this area.

The Russian science complex of system of small business criteria proposed by A. Shulus: the unity of ownership and direct control of the enterprise; limit of the enterprise, which leads to a special, personal nature of relations between the owner and the employee; relatively small markets and marketing resources, sold goods; family case management, etc. (Shulus,1996).

2.4 Researching Investment and Innovation Processes in Small Business

As it is known, the main characteristics of investments are: a process in nature, long-term (over one year), the availability of funding and facility investments, as well as the presence of subject performing the investment process.

Investment process in a small business is mainly based on private ownership with its own level of management. It does not include the subjects of the stock exchanges as small business entity, as a rule, does not operate on the organized securities market is not buying government and corporate securities, and does not place its own shares and bond issues. At the same time, small businesses are actively interacting with the banking and insurance organizations in the process of its financial and economic activities on the organization and provision of debt financing and insurance business risks.

Objects of the investment process of small businesses is innovative fixed assets and/or innovative intangible assets arising in the process of real investments. Financial investments are not typical for small enterprises due to their inherent limitations, so they are excluded from further analysis.

As a part of funding sources of investment financing small businesses, along with their own financial resources are presented borrowed financial resources. And not so much dominated by classic bank loan, as innovative, risky forms of financing, such as design, leasing, venture capital, etc. (Black & Gilson, 1998). In small enterprises dominate aggressive and moderate short-term domestic investment at the initial stage of investment and extensive.

The object of the innovation process is the same with the subject of small businesses; stages of investment and innovation processes are excluded basic and applied research; level of novelty of innovations-mostly new, improved, partial; innovation potential-moderate and limited; characteristics and content of innovation-new product or a simple modification of a complex product of the previous technological structure; prevalence of innovation-national, regional, sectored, intra-organization. Source of initiation-the interests of consumers and the needs of production; options for investment and innovation processes-planning and design.

3. Results

3.1 Essential Characteristics of Entrepreneurial Activity

From our point of view, the key conditions that distinguish entrepreneurship from other ways of business are risk and innovations. A business-is the process of entrepreneurship, organized by some business entities, aimed at business object. In terms of the characteristics of business entity is the most important feature serves commercial focus of its activities.

At the same time in the economic literature we can find opinions that private property is a basis of business and it provides a free choice of the entrepreneur, attracting business to the property and funds of legal entities and individuals independent formation of program activities, the selection of suppliers and consumers product, pricing, free hiring workers, the free distribution of profits, etc. In our opinion, business organizations can operate on the basis of any form of ownership-private, public, mixed, giving rise to the corresponding business entity. The main thing here, as noted, the presence of risk and innovation, the same advantages or disadvantages

of entrepreneurship on the basis of any form of property can be determined by assessing the effectiveness of the relevant business activity.

Thus, the study of entrepreneurship and its components allows you to define it as a process of economic activity, organized by business entities belonging to different forms of ownership, due to the risk of innovative sources of financing, aimed at business object, fixed and circulating assets risky innovation for the benefit of innovative products.

3.2 Criteria of the Identification of Type of Small Enterprises

In contrast to the large and medium-sized businesses small business is usually associated with relatively small amounts of activity, number of employees and a combined turnover. Studying of the special economic literature allows us to generalize the benefits of small business (the ability to work in specialized markets, ease of management, a wide scope for personal initiative, the possibility of flexible scientific and technical policy, creating new jobs and increasing employment) and its problems (high dependence on fluctuations market conditions, poor financial support, the limited scope of activities, less skilled management team).

Comparison of business models implemented in the large and small businesses, shows that in both cases their essential characteristics remain unchanged-the risk and innovation, they define the basic content of business, its process and the steps in this sense, the only difference is in size-large or small, that, ultimately, the potential impact on the scale of the planned innovation and investment projects. Naturally, that in absolute terms within the small business with less of these projects and will require a smaller amount of financial resources, the cumulative risks will also be generated in a smaller volume. At the same time, by virtue of innovation and future projects at the same time they venture nature of the relatively small, the amount of financial resources may not be enough, that is an objective contradiction of small business development.

Anyway, but every form of business, including small business, has the features associated with the formation of capital and assets, manpower and funding, etc.

From the perspective of world and domestic practice regulation of economic activity, the situation is as follows. The European Commission uses as criteria for the identification of small business the number of employees in the enterprise, ownership structure and financial criteria (annual turnover and the book value of assets). Russian practice is not contrary to European, in accordance with the Federal Law "On the development of small and medium enterprises in the Russian Federation) № 209-FL of 24.07.2007 small businesses must meet three basic conditions: capital structure (total share of the Russian Federation and the subjects Russian Federation, municipalities, foreign legal entities and citizens, public and religious organizations, charitable foundations in the authorized capital of a small business should not exceed 25%, the same applies to interests held by entities that are not small businesses), the average number of employees (for the preceding calendar year shall not exceed 100 people) and revenue (not to exceed 400 million rubles).

From the standpoint of analysis of the sources of financing of investment processes in small business, the most relevant features-share capital, it is payable to budding entrepreneurs in particular, the possible scope for him, and assets, the aggregate amount of which is limited and depends, ceteris paribus of the share capital, for a given financial leverage. Certain assets generate, ceteris paribus, certain revenues, which at a given flow rate leads to a certain profit. Thus, the main feature of a small business can be considered as the value of its capital, and all other features-are functions of capital.

We may say that enshrined by the legislative acts of international and national requirements, which are defining the boundaries of small business are justified, they correspond to the essential characteristics of small business.

Given these criteria, a small business enterprise can be defined as the subject of the process of economic activity, operating primarily on the basis of private ownership, due to limited amounts of objectively own risk and innovative debt capital allocated to business object, limited in amount fixed and circulating assets risky innovation, carries on business in the interests of innovative products or using innovative technology.

3.3 Unity of Innovation and Investment Processes in the Subjects of Small Business

According to our concept, investment process in business is always characterized by risky source of financing, such as venture capital, and must be purchased from these source innovative non-current assets. The subject of the investment process (business structure) attracts venture funding source, organizes investment process runs it arises as a result of the investment object with innovative features.

The investment process in a small business can be defined as the process of investment activity, organized and managed by small businesses owned, primarily private ownership, due to the limited risk objectively innovative

source of financing investment aimed at the investment object, limited in amount noncurrent assets aggressive risky innovation and moderate short-term domestic nature at the initial stage and extensive investment in the interests of innovative products.

Characteristics of innovation processes in small enterprises in terms of the elements of these processes is almost identical to the corresponding processes in the large and medium enterprises, based on the known limitations of small business.

As it has been proved above, in the most general form of investment to small businesses-is an innovative non-current assets. In real economic practice investment processes carried out by small businesses, not only affect the underlying assets representing technical innovation, but also the associated technological, industrial, scientific, information, management, marketing and other innovations. This means that the acquisition of innovative equipment of varying degrees of novelty requires the development and implementation of innovative technology as an innovative approach to the production of the finished product, which will also be innovative, scientific and information innovation, innovation in the field of management by both the investment process and the production process, marketing innovation in terms of market research and promotion of sales of finished products and other innovations. Consequently, in the small enterprise initiated and implemented not one, but several innovative processes, which, as noted, both investment processes. Corresponding entity manages these processes, overcoming the limitations of small business, relying on risky sources of financing, passing stages of investment and innovation processes and achieving, ultimately, all of the above innovations are interrelated and interdependent. It is first of all the specific features of the investment processes in small business.

3.4 The Directions to Overcome the Limitations of Investment Financing in Small Business Innovation

The classical sources of investment financing in the subjects of small business is its own financial resources and long-term debt funding. Basis for the organization of financing investment in innovation generates a small business share capital, capital reserves, additional paid in capital and retained earnings, then there are "normal", the classic long-term borrowings in the form of investment bank loans, project financing, bonds and promissory notes, there are limitations of a small balance entrepreneurship inherent by definition.

It should be noted that due to the limited amount of capital initially a small business, by definition is the source of financing of investment processes, the subject of small business is faced with the impossibility of long-term borrowings from the various classes of creditors. In this regard, many authors note that in modern conditions the Russian financial institutions have successfully implemented small business loans, but this only applies to small-sized loans (Shamray, 2010). Consequently, even in the presence of promising investment projects available to small businesses, they are not able to implement them due to the lack of adequate long-term funding source, which, by definition, cannot be created on the basis of classical financing schemes. The Bank does not provide small business investment credit, and not because of credit facility is not justified, but because the future capital structure of a small business as capital gearing, will be unsatisfactory. Thus, in terms of forming the source of financing of investment processes in small enterprise exists objectively given contradiction between the need for the implementation of these processes and the inability to finance them.

In our opinion, to overcome the limitations of small business in terms of capital can be in two directions. The first direction-to use the venture capital in various forms, which, firstly, enables small business to overcome the restriction on capital, and secondly, fully consistent with the nature of entrepreneurial activity, because venture capital is a risky source of financing investment, and thirdly, initiates changes in the organization of investment processes. We suggest using such sources of venture investment financing as mezzanine financing, syndicated finance and crowd funding. The second direction is to overcome the limitations of small business lies in the plane of its support from the government and the authorities concerned. Taking into account the international experience we are talking about the organization of investment funds based on the interaction of state bodies and support funds, on the one hand, and financial organizations and large enterprises, on the other hand.

Choosing a source of funding of investment and innovation activities of small businesses can be produced according to the approach outlined in our earlier study (Sources of Financing and Innovative and Investment Activity of Small Enterprises) (Doroshenko et al., 2013).

Thereby the financing of investment processes in small businesses has comprehensive characteristics, it will help to create a diversified portfolio of investment and funding sources and also it will help reduce portfolio risk by attracting investment.

4. Discussion

Small businesses are characterized by innovativeness of their projects and their venture character at same time, so a relatively small amount of its financial resources are often not enough for the implementation of the investment process, which is the objective contradiction of small business development.

A small enterprise is investing in innovation, it is not including the participants in the investment process stock exchanges, does not operate on the organized securities market, but at the same time actively interacts with banking and insurance organizations.

The basis for the organization of financing investment in innovation of small business is generated by share capital, reserve capital, additional paid in capital and retained earnings, then there are "normal", the classic long-term borrowings in the form of investment bank loans, project financing, bonds and promissory notes, there are limitations of a small balance entrepreneurship inherent by definition.

To overcome the limitations of small business investment innovation processes can be carried out through the use of venture capital, as well as improving the mechanism of state support of small innovative enterprises.

5. Findings

- 1) The essence of entrepreneurship is manifested in a combination of risk and innovative nature of the activity. The most important characteristic of small business serves commercial focus of its activities, while business organizations can operate on the basis of any form of ownership-private, state, mixed.
- 2) While the researching of small businesses need to consider both quantitative and qualitative approaches to its description, the quantitative approach uses numerical indicators commonly used in statistical reporting and economic analysis, a qualitative approach-qualitative criteria are not measured in conventional scales.
- 3) Characteristics of innovation and investment processes in small enterprises, in terms of the elements of these processes are not significantly different from the corresponding processes in large and medium-sized enterprises based on the known limitations of small business.
- 4) The classical sources of investment financing in the subjects of small business is its own financial resources and long-term debt funding. Possibility of borrowing for investment purposes in a small enterprise initially bounded by its own means.
- 5) Financing of investment processes in small businesses has a complex, cross-cutting nature, which helps overcome the limitations of the investment activities of small enterprises.
- 6) The results of these studies may become a basis for the development for optimization the management of innovation and investment activities of small businesses.

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