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**SMALL BUSINESS ECOSYSTEM**

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**Abstract**

The article provides an analytical overview of different interpretations for the definition of 'business ecosystem'. The authors consider various types of business ecosystem: business ecosystem, innovation ecosystem, digital ecosystem. They highlight the main components of the ecosystem, the features of the business ecosystem and the benefits that can accrue to the organizations that make it up. The business ecosystem is shown to represent a new form of interaction between organizations that aims to create a new value proposition for customers. Thus, organizations belonging to the ecosystem also receive additional benefits. The authors propose to use the concept of a small business ecosystem to distinguish the small businesses involved in the ecosystem as a separate group. They consider the unique factors for assessing the economic viability of organizations that are part of an ecosystem, identify stakeholders and their needs, and outline the challenges inherent in the small business ecosystem. A category of 'need' has been proposed for sustainable development within an ecosystem and for maintaining the viability of an organization. The paper shows that more developed small business ecosystems can better withstand external challenges and shocks, such as declining incomes, and can better exploit development opportunities. It concludes that the small business ecosystem will enable a single form of a small proportion of successful small businesses to create a new business configuration that reflects the needs of all economic actors and exploits synergies in creating value for customers, increasing the economic viability of small businesses.

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## 1. Introduction

The term 'ecosystem' is a relatively new concept, and there is a growing number of studies devoted to it. It results in new definitions and approaches to explore the essence of the phenomenon.

The term 'ecosystem' is borrowed from biology. In 1935, the English botanist Arthur Tansley was the first to introduce it. The term was understood as an integrated system comprising not only a set of organisms, but also a set of factors that make up what is known as ecology. Within an ecosystem, there is a constant and diverse interaction not only between organisms, but also between the organic and inorganic worlds.

In 1993 James Moore introduced the concept of the business ecosystem which he understood as a network of organizations and individuals in the business community that together not only form a system of mutual support, but also evolve together. Organizations interact with each other competitively or work together to find new solutions to meet customer needs, which ultimately triggers the next round of innovation, a process that is repeated many times over. This approach highlights the following key categories:

- central organization around which the business ecosystem is built;
- different economic agents who are or are not members of this business ecosystem, links between members of the business ecosystem, including links with the central organization, jointly created value that either would not be possible without this business ecosystem or would be costly to create.

James Moore studied the business ecosystem from the perspective of its life cycle, which is similar to the life cycle of an organization and has four stages: birth, expansion, leadership, and self-renewal or death. The organization is required to perform certain actions depending on the stage, with the first set of actions aiming to form and maintain relationships between members of the business ecosystem, and the second set aiming to compete with possible alternative business ecosystems.

## 2. Problem Statement

Business ecosystems are a complex form of exchange organization, a structure governing the relationship between several actors who share the idea of an open, collective process to create, a new value proposition that no one party can offer alone. Every business in the ecosystem influences and is influenced by others, creating an ever-changing relationship that needs to be flexible and adaptable for survival. An ecosystem can include a variety of organizations from corporations to start-ups that support each other in a competitive environment.

Researchers propose to identify and describe different types of ecosystems: business ecosystem (Levien, 2004; Moore, 1993), industrial ecosystem (Frosch & Gallopoulos, 1989; Korhonen, 2001), digital business ecosystem (Nachira, 2002), innovation ecosystem (Adner, 2006; Valkokari, 2015; Wessner, 2007; Yawson, 2009). Each of them has its own characteristics.

For the industrial ecosystem, these are issues of saving and minimizing material resources. It focuses on environmental protection, waste reduction and neutralization.

The innovation ecosystem is a collaboration between organizations that combine their individual offerings into a coherent whole, thereby exploiting synergies to bring innovation to market, to create value for the customer that each individual organization cannot create on its own. Innovation ecosystems can also emerge through the convergence of state organisations and private business with the scientific sphere and can be seen as independent economic institutions characterising the meso-level of a country's economic security.

The business ecosystem is seen in a broader sense. It includes customers, competitors, intermediaries, suppliers, organizations selling related goods and services, and regulators. Its life cycle is identical to that of an organization. It is set up for the purpose of business development.

The digital ecosystem necessarily involves the information and communication technologies in interactions both between organizations and with customers.

The most common definitions for the terms of the different types of ecosystem can be summarized as follows:

- ecosystem as a set of actors who interact with the organisation and directly or indirectly participate in the 'value chain' (HEIs, sales and service agents, communities), as well as customers;
- ecosystem as a marketplace that offers a variety of integrated products and services to cover the widest possible range of customer needs of a single profile;
- ecosystem as a self-developing organization that uses innovative approaches to management and sees the company as a 'living organism' (Gaysina, 2017).

Thus, the main components of an ecosystem can include:

- a shared value proposition is the basis for all projects and forms of cooperation. Organizations have a joint commitment to devote themselves to a clearly defined theme to achieve together the kind of success that cannot be achieved without others (Berger, 2019);
- implementation of this value proposition relies on modules not existing before the project and to be provided by the various partners;
- having a coordinator who ensures the facilitation of integrating partners and achieving the desired value proposition. A coordinator ensures equal cooperation.

In addition to the types of ecosystems listed above, it is useful to identify another type – small business ecosystems, as these organisations have their own specific characteristics, one of them being their low level of viability.

### **3. Research Questions**

The development of the economy has meant the blurring of clearly defined boundaries between organizations and activities. The ecosystem approach to business opens up entirely new evolutionary pathways and opportunities, fundamentally new forms and means of business cooperation and partnership for organizational growth. This approach makes it possible to succeed on an equal footing, to be efficient, since the resulting profits increase due to the reduction of transaction costs (Attur & Lazarich, 2020). We can say there is a transition to a new approach to value creation. The ecosystem allows accompanying

customers throughout their 'journey' when receiving and using the product, and represents a significant competitive advantage for organizations.

Ecosystems should provide equal opportunities for obtaining competitive advantages, resources, and experience for all involved organizations, both large and small. At the same time, in Russia, there is a tendency to create ecosystems mainly by large enterprises, thereby strengthening their already significant competitive advantages.

We can specify the following features for the existence of business ecosystems:

- adaptation of the ecosystem participants to its general concept. Everyone makes an investment that will be most useful in certain conditions;
- availability of modularity – the ability for customers to choose a different set of components, thereby obtaining the most convenient and individual combination of them;
- dependence between the participants of the business ecosystem – diverse and often numerous business relationships increase the dependence of organizations on each other. Thus, non-fulfillment of contractual obligations between some participants may lead to non-fulfillment of mutual obligations between other participants;
- coordination and control. Multiple business relationships reduce the ability to control joint activities. At the same time, it is necessary to coordinate the activities of the organizations among themselves for creating total value for the client.

We can consider the ecosystem as the most promising form of interaction for small enterprises, and separate it into a category of the small business ecosystem. It will allow small businesses to strengthen their competitive positions, increase their viability, and develop the use of digital technologies and innovation. The goal of the small business ecosystem should be to create special conditions for each small business entity to facilitate the implementation of activities and increase its viability.

As we know, the viability of small businesses is usually not high, this is especially true of small businesses in Russia. Its share in GDP is significantly lower than in developed and even developing countries. In developed countries, in China and India, small and medium-sized enterprises (SMEs) create about half of GDP and jobs. In other developing countries, their share in the economy is on average 33 %, and in developed countries, their share in GDP is about 80–85 %. In Russia, SMEs create only a fifth of GDP, and they employ only a quarter of the population. While in China SMEs account for more than 50 % of exports, in Russia they account for no more than 7 %. The Russian authorities are taking measures to increase the participation of SMEs in the economy to improve its structure, innovative development and employment growth. In addition to the above, a feature of the development of small businesses in Russia is the predominant share of micro enterprises, which in the total number of small businesses is more than 95 %. The average number of employees of microenterprises is only 3–5 people, despite the permissible number limit for microenterprises of 15 people. It is these features that make it necessary to distinguish small business ecosystems as a separate group.

While the ecosystem provides significant benefits, each organisation within it must also make economically viable current and long-term strategic decisions, and develop an effective development strategy, to ensure its viability and sustainability. There are different approaches to the classification of factors influencing sustainable development. A classification of direct and indirect impact is the most

common. Direct impact factors are factors of the organization's internal environment, indirect impact factors are external factors. The organization will respond to the impact of these factors in different ways. For example, when a direct impact factor changes, the organization may change other internal factors that determine the internal environment. Internal factors include financial (inefficient asset management, irrational increase in receivables and payables), managerial (incorrect decisions, omissions in the planning process), production and technological (inefficient use of resources, poor product quality, outdated technology, depreciation of fixed assets), human resources (outflow of qualified employees, violations caused by staff actions), material-technical factors (quality of raw materials), investment factors (inefficient investment policy), marketing factors (low level of advertising, errors in marketing policy), environmental factors (non-compliance with environmental legislation), legal factors (inefficient legal protection of the enterprise's interests), information factors (violation of confidential information protection), and force majeure circumstances.

Indirect influences require the organization to make changes in goals, objectives, organizational structure, technology, etc. External indirect factors relate to political, macroeconomic, microeconomic, meso-economic, environmental, legal, scientific and technical, technological, natural, demographic, social, informational, criminal, moral and psychological aspects at the state level.

External factors are classified into: a) economic: external macroeconomic shocks, (financial crises, inflation, unfair competition, etc.); b) political and legal: unstable political situation, frequent changes in legislation, tax system, etc.; c) social: low population incomes, high unemployment, etc.; d) market: strong competition, international competition, etc.; e) technological: low level of scientific and technological progress, etc.; f) natural: natural emergencies, destruction of natural

Environmental factors have different levels of impact: regional, national and international. In terms of focus, we can distinguish stabilizing and destabilizing ones. Changes in external environmental factors affect the economic viability of an organization as much as internal ones.

Sustainable development within the business ecosystem is achievable when, in addition to the factors listed that are 'common' to all organisations, the assessment of the economic viability of a particular organisation highlights a group of factors that are unique to it. In the current context of economic development, the emphasis on uniqueness for each organization has already become relevant for many positions. In organizational assessment, for example, most KPIs are unique, the most effective solutions to an organization's problems, also tend to be unique solutions developed only for that particular case, etc. The pursuit of uniqueness stems from the fact that each organization has specific developmental characteristics that are not identical to other organizations of even the same type of activity, as each has its own context. All this makes it necessary, when identifying and assessing the factors affecting the economic viability of a micro-business that is part of an ecosystem, to identify a group of individual factors that each organization will determine for itself. For example, they could include the types of risks inherent in the organization's activities, the strategic objectives, the areas of activity (products, services, etc.) that bring the greatest benefits.

It seems that to correctly assess the economic viability of small and microbusinesses it is necessary to consider the category of 'viability' as a need of the organization. The use of the term 'need' necessitates the identification of the stakeholders involved. There are several groups of key stakeholders for whom

economic viability is important or of paramount importance: managers (and/or owners of the organisation), suppliers, staff. When an organization is part of an ecosystem, apart from the stakeholders listed, it should also add the ecosystem's partners and customers. A stakeholder-driven assessment of economic viability will allow for greater specification of the set of individual factors affecting it, thereby ensuring its sustainability within the ecosystem.

#### **4. Purpose of the Study**

The purpose is to investigate the characteristics and essence of different interpretations of the definition of business ecosystem and justify the identification of the small business ecosystem as a separate group.

#### **5. Research Methods**

The authors use a system of tools and methods for economic analysis, looking at quantitative and qualitative characteristics and features of the category ecosystem both in general as applied to business, and highlighting the peculiarities of the small business ecosystem.

#### **6. Findings**

Since the competitive advantage of micro-enterprises is much lower than even that of small businesses, ecosystems established with their predominant participation continue to need state support until they can become self-sufficient and support themselves. However, once all parties affecting the small business ecosystem (financial resources, human capital, markets, culture, government policies) are strong enough, it is possible to reduce government involvement in supporting small businesses. Therefore, specific programmes to support small business ecosystems are advisable, both to ensure the sustainability of the ecosystem itself and to increase the economic viability of micro-enterprises, which will ultimately increase entrepreneurial activity and the contribution of micro-enterprises to the national economy. The conditions of uncertainty and instability of government support reduces the willingness of entrepreneurs to develop strategies for the long-term growth of their organisations and to form ecosystems.

Forms of support for small business ecosystems can include reduction of various tariffs and taxes for micro-enterprises, introduction of tax holidays for micro-enterprises and individual entrepreneurs, etc. One of the conditions for obtaining tax reduction benefits could be the creation of additional jobs in the enterprise, which would not only contribute to business expansion but also reduce unemployment and hence improve the standard of living of the population. Microbusinesses are primarily in need of financial resources. It is therefore important to make them more accessible and open. This includes a preferential lending system, which is particularly needed during the pandemic when small and micro enterprises suffered the greatest losses.

Besides this basic problem, an important problem is the inefficiency of the relationships between the elements that make up the ecosystem, due to the lack of uniform standards, a single management

institution and insufficiently regulated legal issues. The solution to this problem can be the creation of single infrastructure spaces – ecosystem development centres that will concentrate all the elements necessary for successful business (technology parks, business incubators, laboratories, testing centres, counselling and training areas).

There is also a low level of methodological support and informatisation, for rapid assessment of different options for sources of investment resources (their characteristics, conditions of provision, comparative efficiency in the creation of business eco-systems). There is a need to create specialized information resources, to update them systematically with operational data, to increase the amount of counselling support available, etc.

## 7. Conclusion

The past year 2020 has made the contradiction between the high economic importance of small businesses to the country's economy and their low viability, one reason being their fragile structure, even more apparent. It has become apparent that developed small business ecosystems can better cope with external challenges and shocks, such as declining incomes, and can better exploit development opportunities. We can conclude that the small business ecosystem will enable a single form of a small proportion of successful small businesses to create a new business configuration that reflects the needs of all economic actors (stakeholders), exploits synergies in creating value for customers and enhances the economic viability of small and micro-enterprises. In today's economy, it is an important factor in the development and competitiveness of small businesses operating in various sectors of the economy.

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