

**SCTMG 2020****International Scientific Conference «Social and Cultural Transformations in the  
Context of Modern Globalism»****METHODOLOGICAL APPROACH TO INSTITUTIONAL  
CONTEXT OF REGIONAL ENTREPRENEURSHIP**

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***Abstract***

The paper addresses the issues of entrepreneurship development at the regional level. The need to take into account contextual influences on the practice of entrepreneurship management in the region is justified. The development of entrepreneurship is an essential condition for the country's economic growth and the government is thus trying to pay increased attention to this matter. At the same time, despite the increased attention of power structures to stimulate private business initiatives it is necessary to recognize that at the present stage entrepreneurship faces serious economic, social, institutional, infrastructure problems, which prevent further formation and development of business. The ecosystem approach was proposed to study entrepreneurship taking into account the impact of the regional context focusing on specific spatiotemporal context of entrepreneurship development, which considers the nature of interactions of economic agents and their relations with the environment. Within the framework of the developed approach it is proposed to study the regional entrepreneurship ecosystem as a set of seven domains. It is justified that institutional barriers to effective business development are often generated in the institutional configuration of a regional entrepreneurship ecosystem. The paper proposes the methodological approach to the institutional reconfiguration of the regional entrepreneurship ecosystem, which shall be initiated by regional authorities. The approach justified in the paper allows developing practical mechanisms for modernization of regional entrepreneurship ecosystems, which in turn will contribute to a more dynamic and predictable growth of business and investment activity in Russian regions.

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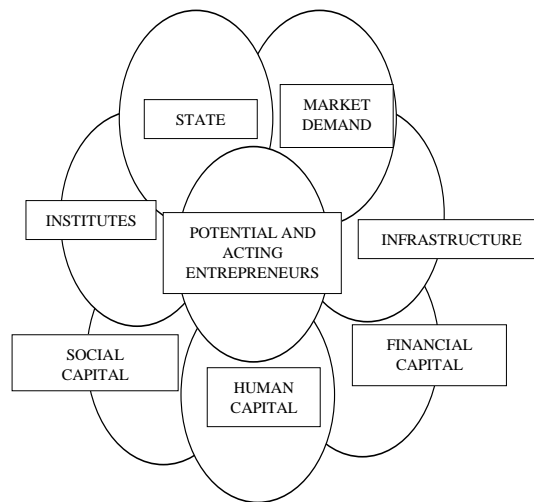
**Keywords:** Entrepreneurship, regional entrepreneurship ecosystem, institutional reconfiguration.



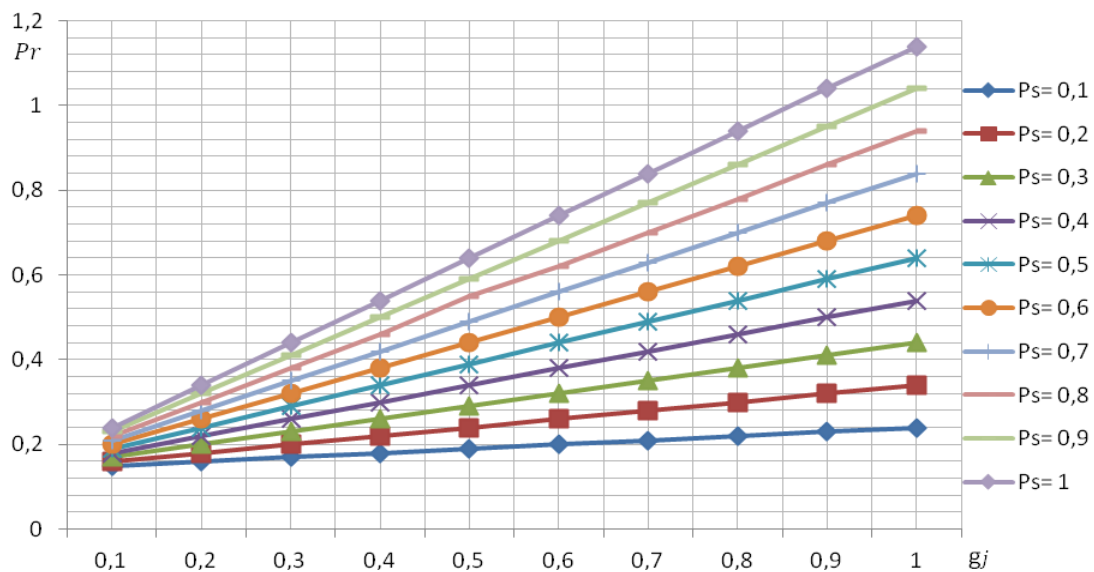
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## 1. Introduction

At present, the opinion that the development of entrepreneurial processes is subject to contextual influences is dominating in scientific community and as the analysis shows the study of entrepreneurship pays ever more attention to the influence of environmental context – social, societal, institutional on entrepreneurship (Acs et al., 2016; Bygrave & Zacharakis, 2007; MossKanter, 2009). Similar studies also appear in the Russian scientific community (Bogatyreva & Shirokova, 2017; Chapurenko & Yakovlev, 2013).



**Figure 01.** Set of entrepreneurship ecosystem domains



**Figure 02.** Diagram of mean values of additional economic return of i-business subject caused by favorable entrepreneurial conditions as a result of institutional reconfiguration of regional entrepreneurship ecosystem for function  $d_i = Q_j + P_r \cdot F_j + P_s \cdot g_j$ , at  $F_j=0.1$ ;  $Q_j = 0.1$ ;  $P_r = 0.4$

**Table 01.** Mean value of additional economic return of i-business subject caused by favorable entrepreneurial conditions as a result of institutional reconfiguration of regional entrepreneurship ecosystem for function  $d_i = Q_j + P_r \cdot F_j + P_s \cdot g_j$ , at  $F_j = 0.1$ ;  $Q_j = 0.1$ ;  $P_r = 0.4$

$g_j$ $P_s$	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1
0.1	0.15	0.16	0.17	0.18	0.19	0.2	0.21	0.22	0.23	0.24
0.2	0.16	0.18	0.2	0.22	0.24	0.26	0.28	0.3	0.32	0.34
0.3	0.17	0.2	0.23	0.26	0.29	0.32	0.35	0.38	0.41	0.44
0.4	0.18	0.22	0.26	0.3	0.34	0.38	0.42	0.46	0.5	0.54
0.5	0.19	0.24	0.29	0.34	0.39	0.44	0.49	0.55	0.59	0.64
0.6	0.2	0.26	0.32	0.38	0.44	0.5	0.56	0.62	0.68	0.74
0.7	0.21	0.28	0.35	0.42	0.49	0.56	0.63	0.7	0.77	0.84
0.8	0.22	0.3	0.38	0.46	0.54	0.62	0.7	0.78	0.86	0.94
0.9	0.23	0.32	0.41	0.5	0.59	0.68	0.77	0.86	0.95	1.04
1	0.24	0.34	0.44	0.54	0.64	0.74	0.84	0.94	1.04	1.14

## 2. Problem Statement

The study focuses on certain aspects of the impact of the regional context on entrepreneurship. This is a very important aspect considering that in our country there is a relatively high level of interregional differentiation. In this regard, it is appropriate to argue that each region has its own specific context, and this context differs from the context of the neighboring region, which accordingly leads to differentiation of the potential for creation, opening and exploitation of entrepreneurial opportunities. Thus, entrepreneurship is developed in specific institutional, economic, socio-cultural and other contexts. Each and all of these contexts together determine the entrepreneurial opportunities in a particular region and how the interaction between economic agents will take place in the process of discovering and exploiting entrepreneurial opportunities. It is the specific regional context (institutional and sociocultural environment, structure of social capital, conditions of access to financing, infrastructure, entry barrier, bureaucracy and public policy) (Chapurenko & Yakovlev, 2013) that has a decisive influence on the decision of economic agents to create or develop any business. In general, it is important to recognize that entrepreneurship development conditions are an essential element in understanding the creation and operation of business processes. Thus, the development of entrepreneurship shall be seen in its close relations with elements of the environment that have their own specific regional characteristics (Chapurenko & Yakovlev, 2013).

## 3. Research Questions

Many works are currently devoted to the study of entrepreneurship ecosystems (Galateanu & Avasilcai, 2013; Iansiti & Levien, 2004; Karhiniemi, 2009; Lewin & Regine, 1999; Mason & Brown, 2014; Power & Jerjian, 2001; Smorodinskaya, 2014; Thomas & Autio, 2012; Tsiteladze, 2011). Based on the analysis of the concept of “business ecosystem”, the presented works propose to treat the regional entrepreneurship ecosystem as a set of interconnected business entities (both potential and those ensuring economic activities), their environment and interactions between them (exchange systems), which affect the identification and commercialization of entrepreneurial opportunities in the local space (region).

Currently there is a number of models of entrepreneurship ecosystems, one of the most popular of which is proposed by Daniel Isenberg. It identifies six domains within the entrepreneurial system: public leadership support, availability of appropriate financing, experienced human capital, business-friendly product markets, and a number of institutional supports. These common areas include hundreds of elements interacting within a variety of complex and peculiar aspects.

In this regard, Isenberg believes that the definition of cause-effect paths is limited. Therefore, the context is important: each ecosystem appears according to unique conditions and circumstances (Isenberg, 2011).

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

Thus, it is quite obvious that the real business environment of the region is characterized by various specific parameters, which are determined by the context of the territory. This is particularly true for our country, where the regional characteristics of entrepreneurship are sometimes considerably differentiated. This dictate the need to study regional ecosystems and to develop practical proposals and recommendations in order to create an efficient management system for regional entrepreneurship ecosystems.

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

We believe that in order to study entrepreneurship taking into account the influence of the context it is quite promising to use the so-called ecosystem approach, which has recently gained popularity from biology and was applied to economic analysis. Based on this analysis the researchers describe the evolution of the nature of interactions between economic agents, models of their innovative activity and their relations with the environment (Mercan & Goktas, 2011). It is the ecosystem approach that allows for better and more reliable assessment of entrepreneurship development parameters by focusing on specific spatiotemporal context of entrepreneurship development, which takes into account the nature of interactions between economic agents, model of their business, investment, innovation activity and their relations with the environment. Accordingly, within our approach, we focus on the interaction between the context area of the ecosystem, on the one hand, and individual decision-making driven by attitude and context perception, on the other. Therefore, in order to take advantage of opportunities, an entrepreneur shall have access to all basic conditions of the ecosystem that promote business development with minimum bottlenecks. Thus, the logic of entrepreneurship development in a particular region can be understood only if this process is seen in dynamic relationship of economic agents with specific environmental context, i.e. on the basis of the ecosystem approach.

#### **6. Findings**

Structurally, any entrepreneurship ecosystem can be represented as a set of mutually integrated domains, by which we mean a part of the ecosystem including a plurality of elements of a structure united on the basis of functional community. In our opinion, any entrepreneurship ecosystem includes seven

domains: state, social capital, finance, human capital, institutions, infrastructure, market (demand) (Fig. 1).

Thus, each domain includes an entire palette of elements actively interacting with each other and with the elements of other domains. At the same time, the level of business activity within entrepreneurship ecosystem is determined not just by the degree of development of such domains, but, first of all, by the level of their complementarity and the quality of interaction between them. It is the interaction between domains that triggers entrepreneurial processes, by which we mean a stable and targeted set of successive actions (works) carried out on a proactive and risky basis by an economic agent independently or with other economic agents, which, according to a certain technology, transform inputs (resources) into outputs (products, services) in order to obtain entrepreneurial income. Consequently, the entrepreneurship ecosystem will function successfully if its domains mutually enhance the impact on the generation and development of entrepreneurial processes. Therefore, it is very important that the domains of the entrepreneurship ecosystem develop in an integrated and coordinated manner.

It is quite obvious that the parameters of interaction between elements and domains of regional entrepreneurship ecosystems, which contribute to or block the development of entrepreneurship in the territory, are defined by institutions, i.e. by the institutional environment of the region. Hence, the institutional domain is key in the regional entrepreneurship ecosystem. However, the specific parameters of regional institutional environment affecting entrepreneurial processes are determined not simply by a set of institutions, but by how they are (institutions) interact with each other, i.e. the institutional configuration of regional entrepreneurship ecosystems, by which we imply a set of interlinked and interacting basic and additional regional formal and informal institutions, organized and structured in a certain hierarchical combination, together defining the rules, as well as limiting the economic behavior of economic entities within a regional entrepreneurship ecosystem.

However, as practice shows, the contours of regional entrepreneurship ecosystems are often characterized by the presence of the so-called institutional barriers blocking the progressive development of a business, which is mainly caused by inadequate institutional configuration of the regional entrepreneurship ecosystem characterized by an inefficient combination and a poorly coordinated interaction of the whole set of institutions regulating economic relations in the region and forming the prerequisites for their interpretation for the benefit of certain economic agents or their groups. The present institutional configurations of regional entrepreneurship ecosystems are characterized by a state of significant defragmentation, which is reflected in the violation of the integrity of the impact of the system of regulatory institutions and business support on business entities in the region. To date, however, the system of formal institutions has remained highly fragile, and new legal and regulatory acts (especially at the federal level) are being introduced every year, which in some cases make serious changes to regional business rules thus forcing business entities to review their policies.

All this leads to further dissemination of practices of misuse or incorrect use of well-functioning institutions of the business environment (their efficiency can be observed in individual regions, which managed to create an institutional environment on the basis of a standard set of basic institutions, which is quite favorable for business entities) and, accordingly, to underutilization of the economic potential of the region.

In this regard, we argue that the regional entrepreneurship ecosystems of the majority of Russian regions need institutional reconfiguration, i.e. the process of change (recombination) of ways and nature of interaction of existing business institutions with the with the aim of the most rational use of the potential of business institutions for the development of efficient entrepreneurship.

A critical factor in launching the institutional reconfiguration of the regional entrepreneurship ecosystem is the ability of regional authorities to bring together regional elites to support institutional changes. This is caused by the fact that the efficient institutional business environment will only change when the special interest group, which have a decisive influence on the “rules of the game” in business practice, are interested in these changes (at least partially). The consolidation of regional elites through the formation of a broad regional support coalition is therefore essential for successful reconfiguration.

If a mechanism for institutional reconfiguration of the regional entrepreneurship ecosystem is launched, the model of expected additional income of regional authorities (as one of the key beneficiaries) can be presented as a utility function:

$$U(d_i, P_s, P_r, F_j, Q_j, g_j) = (1 - P_s) \cdot [(d_i - Q_j) - P_r \cdot F_j] + P_s \cdot [(d_i - Q_j) - P_r \cdot F_j - g_j], \quad (1)$$

where  $d_i$  – mean value of additional economic return from i-business entity due to the formation of favorable conditions for entrepreneurial activity as a result of institutional reconfiguration of the regional business ecosystem;  $P_s$  – probability of maintaining the operation parameters of i-business entity in the previous mode (rejection of institutional changes by the business);  $F_j$  – resource provision directed to institutional reconfiguration of the regional entrepreneurship ecosystem by j-authority;  $P_r$  – probability of forming a regional coalition of interest groups and a positive decision to launch a mechanism of institutional reconfiguration of the regional entrepreneurship ecosystem;  $Q_j$  – costs of j-authorities caused by the fact of forcing economic agents to operate under the new rules of the game, which form part of the new institutional configuration of the regional entrepreneurship ecosystem;  $g_j$  – additional costs of j-authorities caused by underfunding of the territory due to inadequate institutional configuration of the regional entrepreneurship ecosystem.

Having set the obtained function (1) to zero, after corresponding transformations, we get:

$$d_i = Q_j + P_r \cdot F_j + P_s \cdot g_j(2); \quad Q_j = d_i - P_r \cdot F_j + P_s \cdot g_j(3);$$

$$P_s = (d_i - Q_j - P_r \cdot F_j) / g_j(4); \quad P_r = (d_i - Q_j - P_s \cdot g_j) / F_j(5);$$

$$F_j = (d_i - Q_j - P_s \cdot g_j) / P_r(6)$$

The obtained formulas make it possible to calculate a number of parameters of the institutional configuration of the regional entrepreneurship ecosystem, which provides additional economic benefits from business entities and increases their contribution to socio-economic development of the territory (Table 1, Figure 2).

The economic rationale of the model is to assess the potential benefits of authorities launching a mechanism for institutional reconfiguration of the regional entrepreneurship ecosystem in order to obtain additional resources in the face of reduced budget revenues and increased social commitments.

## 7. Conclusion

At present, within the framework of social and economic development programs of the Russian regions the most important task is to develop an efficient and attractive entrepreneurship ecosystem. Only such ecosystem, which is based on market mechanisms of entrepreneurship development, strengthened by reasonable state regulation and support, will be able to ensure extended reproduction of entrepreneurial processes. It is the healthy ecosystem that provides incentives for the growth and expansion of business activities and the development of efficient entrepreneurship.

In general, institutional reconfiguration of the regional entrepreneurship ecosystem allows solving the main task, which is to create a uniform competitive space for business structures, within the contour of which commercial success will be achieved by the most effective business entities, and economic activity of the whole set of main economic entities will satisfy the interests of development of regional and local communities.

Altogether, the presented methodological approach allows reaching a more extended understanding of the mechanism of impact of institutions on business actors and hence providing more effective solution to the problems of institutional support of entrepreneurship development in the regions of the Russian Federation.

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