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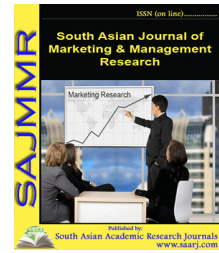
**VISION**

The vision of the journals is to provide an academic platform to scholars all over the world to publish their novel, original, empirical and high quality research work. It propose to encourage research relating to latest trends and practices in international business, finance, banking, service marketing, human resource management, corporate governance, social responsibility and emerging paradigms in allied areas of management including social sciences , education and information & technology. It intends to reach the researcher's with plethora of knowledge to generate a pool of research content and propose problem solving models to address the current and emerging issues at the national and international level. Further, it aims to share and disseminate the empirical research findings with academia, industry, policy makers, and consultants with an approach to incorporate the research recommendations for the benefit of one and all.



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(Double Blind Refereed & Reviewed International Journal)



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## THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON COMPANY PROFITABILITY: EVIDENCE FROM SRI LANKAN LISTED COMPANIES

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### ABSTRACT

*The purpose of this study is to investigate the relationship between working capital management and firm profitability and also to evaluate the impacts of working capital components on firm's profitability. ICP, DCP, CCP and CCC are used as measure of working capital management. This study is used panel data of 47 firms, year for the period of 2008-2011 that consist of six different business sectors which are listed in Colombo stock exchange. In order to find out the results of this study, the researcher has used Correlations and regression analysis. The researcher also has used some variables in this study such as Gross profit ratio, Net profit ratio, Return on Assets and Return on equity as dependent variables (profitability). The coefficient and Correlations results showed there is a significant positive relationship between working capital components and Gross profit ratio and Net profit ratio. But, the results of the study provide evidence that the working capital management is not significantly correlated with ROE and ROA as the performance measures.*

**KEYWORDS:** *Gross Profit Ratio, Net Profit Ratio, Return On Equity, Return On Assets, Working Capital Management, Sri Lanka.*

### INTRODUCTION

#### THEORETICAL BACKGROUND

Working capital is very important concept in finance because it directly affects the liquidity and profitability of the company. Working capital represents the fund available with the company for day to day operations. Working capital management deals with the relationship between a firm's short-term assets and its short-term liabilities. The principle goal of Working Capital

Management is to ensure that an organization generates sufficient positive working capital (specifically in the form of Cash) from ongoing business activities to continually fund both debt payments and operating expenses.

Working capital is the life blood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully without an adequate amount of working capital. Every business required to maintain some amount of working capital for many reasons. Such as purchase of raw material components and spares, to pay wages and salaries, to incur day to day expenses and overhead costs such as fuels, power and office expenses, to provide credit facilities to customers. Working capital requirements are determined by several factors such as size of a business, nature or characteristics of a business, seasonal variations in working capital cycle, operational efficiency, profit level and other factors.

The working capital management of a firm in part affects its profitability. The ultimate objective of any firm is to maximize the profit. But, preserving liquidity of the firm is an important objective too. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm. Therefore, there must be a tradeoff between these two objectives of the firms. One objective should not be at cost of the other because both have their importance. If we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy. For these reasons working capital management should be given proper consideration and will ultimately affect the profitability of the firm.

#### **EMPIRICAL EVIDENCE RELATES WITH WORKING CAPITAL**

Filbeck and Krueger (2005) highlighted the importance of efficient working capital management by analyzing the working capital management policies of 32 non-financial industries in USA. According to their findings significant differences exist between industries in working capital practices across time. Moreover, these working capital practices, themselves, change significantly within industries across time.

Santanu ghosh& maji (2004) assessed the efficiency of working capital management of the Indian Cement companies during 1992-93 to 2001-2002. Instead of using the common method of analyzing different working capital management ratios, three index values representing the average performance of the components of current assets, the degree of utilization of the total current assets in relation to sales and the efficiency in managing the working capital, have been computed for the selected firms over the ten year study period. They concluded that the Indian cement industries did not perform remarkably during the period.

Pedro Juan García-Teruel and Pedro Martínez-Solano evaluated the effects of working capital management on same profitability. They collected a panel of 8,872 SMEs covering the period 1996-2002. The results, finding of this study is managers can create value by reducing their firm's number of days accounts receivable and inventories. Equally, shortening the cash conversion cycle also improves the firm's profitability.

Working capital management of Industry comparisons among manufacturing companies with the data during the period of 1980-1984 by Paskaradevan (1997).He concluded that working capital management appears to be unsatisfactory. The current and quick ratios were stable over time and had similar dispersion in relation to be industry average.

**EMPIRICAL EVIDENCE RELATES WITH WORKING CAPITAL & PROFITABILITY**

Afza and Nazir (2009) made an attempt in order to investigate the traditional relations between working capital management policies and a firm's profitability for a sample of 204 non-financial firms listed on Karachi Stock Exchange (KSE) for the period 1998-2005. The study found significant differences among their working capital requirements and financing policies across different industries. Moreover, regression results found a negative relationship between the profitability of firms and degree of aggressiveness of working capital investment and financing policies. They suggested that managers could create value if they adopt a conservative approach towards working capital investment and working capital financing policies.

Many previous researches have indicated the effect of working capital management on profitability of firms. M.A. Zariyawati used a panel data of 1628 firms for the period of 1996-2006 that consist of six different economic sectors which are listed in Bursa Malaysia. In order to investigate the relationship between working capital management and firm's profitability, Cash Conversion Cycle used as a measure of working capital management. He found a strong negative relationship between CCC and firm profitability. This reveals that reducing cash conversion period results to profitability increase. They also suggested that, to create a share holders value, a firm managers should concern on shortening of CCC till accomplish an optimum level.

Garcia-Teruel and Martinez-Solano (2007) studied the effects of working capital management on the profitability of a sample of 8,872 small and medium-sized enterprises (SMEs) from Spain covering the period 1996 - 2002. They found that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability.

Lingesiya Y. and Nalini S. (2011) evaluated the relationship between working capital management and profitability investigated by using panel data analysis for a sample of 30 listed manufacturing companies for the period of 2006 – 2010. Results indicate that high investment in inventories and receivables lead to lower profitability and current assets to total assets lead to higher profitability. The results conclude that a strong relationship between working capital management and performance.

Sarvanan (2001) made a study on working capital management in 10 selected nonbanking financial companies. He concluded that the sample firms had placed more importance upon the liquidity aspect compared to that of the profitability aspect with the help of statistical tools.

S. Anandasayanan, T. Raveendran, M. Raveeswaran analyzing a sample of 30 Manufacturing companies listed in the Colombo Stock Exchange (CSE) for the period of 2003-2007 found that there is statistical significance between profitability and the cash conversion cycle. Moreover managers can create profits for their companies by handling correctly the cash conversion cycle and keeping each different component (accounts receivables, accounts payables, inventory) to an optimum level.

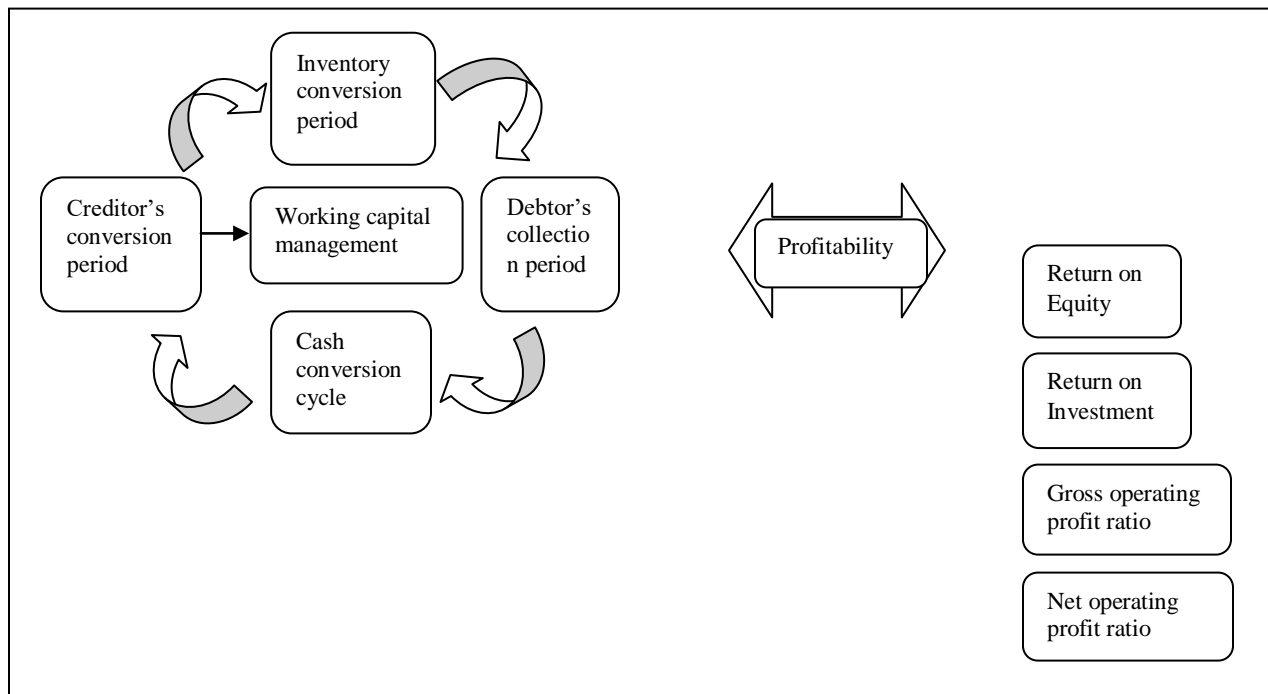
Working capital management in Sri Lanka by Mohan and Peraan (1997). The study provided an empirical evidence of working capital management policy and practices of the private sector manufacturing companies in Sri Lanka. The main conclusions of the study were most companies in Sri Lanka have informal working capital summarized below. The managing director plays a major role as an influence on the overall working capital policy. Company

profitability and working capital policies influence the payable management and working capital finance respectively.

Even though there is a growing body of literature on Working capital management and company performance, there is a diversity of results due to the different theoretical perspectives applied, selection of methodologies, measurement of performance, conflicting views and the contextual nature of individual firms. Hence this study was undertaken with the intension of fulfilling the gap.

## RESEARCH MODEL

After the proper review of existing literature in working capital management the researcher formulate the following conceptual model.



The above model shows the conceptual relationship between the working capital management and profitability. In this model working capital management is considered as independent variable. Profitability is considered as dependent variable. This model has been formulated by the researcher after reviewing the existing literature.

## OBJECTIVES

Given the overall objective of examining the relationship between Working capital management and company profitability in Sri Lanka, this study have several specific objectives. In particular the study sought:

- To Calculate working capital of listed firms from different sectors in Sri Lanka.
- Studying the relationship between working capital management and profitability
- Knowing about how working capital management affects on profitability.
- To analysis the working capital position of selected firms.



## HYPOTHESES

Hypothesis-1 working capital components significantly impact on firm's GPR

Hypothesis-2 working capital components significantly impact on firm's NPR.

Hypothesis-3 working capital components significantly positively impact on firm's ROA.

Hypothesis-4 working capital components significantly impact on firm's ROE.

## MATERIALS AND METHODS

There are five parts in this section. In order to provide a basis for this investigation the structure of this section is organized as follows: Section 1 provides the scope of the study; Section 2 explains the period of the study; Section 3 presents the data sources; Section 4 discusses the reliability and validity and Section 5 describes the types of statistical techniques of the study.

### 1. Scope

In the competitive and faster growing economic world, understanding the management of working capital is very important for every firm in order to survive in the market place. Since here, the researcher attempt to evaluate "The effects of working capital management on profitability of firms in Sri Lanka" which are listed in Colombo stock exchange (CSE). Colombo stock exchange is the main stock exchange in Sri Lanka. Simple random sampling has been used by the researcher to select 47 firms which are listed on Colombo stock exchange from six major Different business sectors. In the following table shows the way of Number of firms selected from each sector.

Sectors	Number of selected firms
Beverage food and tobacco	13
Chemicals and pharmaceuticals	7
Diversified holdings	12
Footwear and Textile	4
Stores supplies	4
Manufacturing	7
Total	<b>47</b>

There are 272 firms are listed in 20 different business sectors on Colombo stock exchange. Researcher has selected 47 firms for this research from six different sectors. Because of the specific activities banks finance and insurance, investment trust are excluded from the sample. Each firm has been randomly selected by the researcher from six selected sector. Selected company's profiles are to be attached in the appendix.

### 2. Period of the Study

The study made use of data obtained from the audited financial reports of those firms for a period of ten years (2008- 2011).

### 3 Data Sources

The data and information required for the study were collected from the Colombo Stock Exchange (CSE) websites, annual reports, and the Colombo Stock Exchange publication (The Hand book of listed companies). Evidence required to test the hypotheses in this study is based

on annual reports and published statistics. Therefore data derived for this study is from secondary sources.

#### 4. Reliability and Validity

In this research, the researcher will utilize secondary data from listed companies in Colombo stock exchange to analyze the effects of working capital management on profitability of firms. The data will be used in this study was acquired from Colombo stock exchange's internet, websites and CSE's hand book. The Colombo Stock Exchange (CSE) is the main *stock exchange* in *Sri Lanka*. It is one of the most modern exchanges in *South Asia*, providing a fully automated trading platform. The vision of the CSE is to contribute to the wealth of the nation by creating value through securities. So we believe the data which are produced by them that must be accurate or correct or to provide a correct result.

#### 5. Types of Statistical Techniques

For this purpose of analysis two statistical measures were used Such as Correlation coefficient and regression analysis to analyze the financial data of selected firms. To test the relationships suggested in the hypotheses stated in the conceptual framework, the SPSS statistical program was employed.

In this study Inventory conversion period, Debtor's collection period, Creditor's conversion period and Cash conversion cycle have been used to evaluate working capital management and return on investment, return on equity, gross profit ratio, net profit ratios are used to analysis the profitability of selected firms.

concepts	variables	explanations	measures
<b>Working capital management</b>	Inventory conversion period(ICP)	ICP is the total time needed for Producing and selling the product.	$\frac{\text{Average Inventory}}{\text{Cost Of Sales}} \times 365$
	Debtor's collection period(DCP)	DCP is the time required to collect the outstanding amount from the customers.	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$
	Creditor's conversion period(CCP)	CCP is the length of time for which the customer is granted credit.	$\frac{\text{Average creditors}}{\text{Cost of Sales}} \times 365$
	Cash conversion cycle(CCC)	CCC is the length of time between a firm's purchase of inventory and the receipt of cash from receivable.	ICP+DCP-CCP
<b>Profitability</b>	Gross Profit Ratio	It is the ratio of gross profit to net sales expressed as a percentage	$\frac{\text{Gross profit}}{\text{sales}} \times 100$
	Net profit ratio	It is the ratio of <i>net profit</i> (after taxes) to <i>net sales</i> .	$\frac{\text{Net profit}}{\text{sales}} \times 100$

	Return on Investment (ROI)	ROI is the profit on the sale of a security or other asset divided by the amount of investment.	$\frac{\text{EBIT}}{\text{Total Assets}} \times 100$
	Return on Equity	It is based on the amount of net income returned as a percentage of shareholders equity	$\frac{\text{EAIT}}{\text{EQUITY}} \times 100$

## FINDINGS

In this part, the researcher has stated model, findings of the study discovered through data analysis, suggestion for further studies, recommendation and conclusion of the study.

### The Model

The linear model used in this study (which was in line with what is mostly found in the literature) is as follows:

$$\text{GPR} = \beta_0 + \beta_1 \text{ICP} + \beta_2 \text{DCP} + \beta_3 \text{CCP} + \beta_4 \text{CCC} + e.$$

$$\text{NPR} = \beta_0 + \beta_1 \text{ICP} + \beta_2 \text{DCP} + \beta_3 \text{CCP} + \beta_4 \text{CCC} + e.$$

$$\text{ROI} = \beta_0 + \beta_1 \text{ICP} + \beta_2 \text{DCP} + \beta_3 \text{CCP} + \beta_4 \text{CCC} + e.$$

$$\text{ROE} = \beta_0 + \beta_1 \text{ICP} + \beta_2 \text{DCP} + \beta_3 \text{CCP} + \beta_4 \text{CCC} + e.$$

Where:

$\beta_0$ : is the intercept.

**GPR**=Gross Profit Ratio

**NPR**=Net profit ratio

**ROI**=Return on Investment

**ROE**= Return on Equity

**ICP** = Inventory Conversion Period.

**DCP** = Debtors Conversion Period.

**CCP** = Creditors Conversion Period.

**CCC** = Cash Conversion Cycle.

**e** = error term.

Here, regression analysis is used to analysis the impact of working capital management on profitability of firms in Sri Lanka. So that, to test the hypothesis of this research, the researcher, formulates the above four models.

### Results of Pearson Correlation Analysis

Table 01 presents the Pearson correlation coefficients between dependent variables and independent variables to find out the relationship between working capital management and firm's profitability.

**TABLE 01: CORRELATION MATRIX**

		Correlations							
		ICP	DCP	CCP	CCC	GPR	NPR	ROA	ROE
ICP	Pearson Correlation	1	.866**	.678**	.492**	.410**	.236**	-.009	.012
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.886	.840
	N	269	269	269	269	269	269	269	269
DCP	Pearson Correlation	.866**	1	.667**	.646**	.354**	.228**	-.035	.017
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.566	.782
	N	269	269	269	269	269	269	269	269
CCP	Pearson Correlation	.678**	.667**	1	.009	.465**	.198**	-.077	-.022
	Sig. (2-tailed)	.000	.000		.884	.000	.001	.208	.725
	N	269	269	269	269	269	269	269	269
CCC	Pearson Correlation	.492**	.646**	.009	1	.161**	.026	.005	.029
	Sig. (2-tailed)	.000	.000	.884		.008	.669	.931	.632
	N	269	269	269	269	269	269	269	269
GPR	Pearson Correlation	.410**	.354**	.465**	.161**	1	.145*	.086	.005
	Sig. (2-tailed)	.000	.000	.000	.008		.017	.158	.931
	N	269	269	269	269	269	269	269	269
NPR	Pearson Correlation	.236**	.228**	.198**	.026	.145*	1	.476**	.009
	Sig. (2-tailed)	.000	.000	.001	.669	.017		.000	.880
	N	269	269	269	269	269	269	269	269
ROA	Pearson Correlation	-.009	-.035	-.077	.005	.086	.476**	1	.015
	Sig. (2-tailed)	.886	.566	.208	.931	.158	.000		.811
	N	269	269	269	269	269	269	270	270
ROE	Pearson Correlation	.012	.017	-.022	.029	.005	.009	.015	1
	Sig. (2-tailed)	.840	.782	.725	.632	.931	.880	.811	
	N	269	269	269	269	269	269	270	270

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table-01 shows that the correlation values between the variables. ICP, DCP, CCP and CCC and GPR are positively correlated the value of 0.410, 0.354, 0.465 and 0.161 which is highly significant at 1 percent level of significance, which means that as the ICP, DCP, CCP and CCC increases ICP and GPR increases. ICP, DCP and CCP and NPR are also positively correlated the value of 0.0236, 0.228 and 0.198 which is highly significant at 1 percent level of significance, which means that as the ICP, DCP and CCP increases ICP and GPR increases. But there is no significant relationship between ICP, DCP, CCP and CCC and performance of ROA and ROE measures used in the study.

### Regression Analysis

A simple linear regression was carried out to recognize the impact of corporate governance on firm performance. Table 02 shows the results of the analysis.

**TABLE 02: MODEL SUMMARY**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.526 (a)	0.277	0.266	0.18662352
2	0.298 (b)	0.089	0.075	0.29541372
3	0.107(c)	0.011	-0.004	0.16114270
4	0.050(d)	0.002	-0.013	13.04298173

a, b, c & d Predictors: (Constant), CCC, CCP, ICP, DCP

a. Dependent Variable: Gross Profit Ratio

b. Dependent Variable: Net profit Ratio

c. Dependent Variable: Return on Assets

d. Dependent Variable: Return on Equity

The specification of the four variables in the model revealed the ability to predict performance. The R2 values of 0.277, 0.089, 0.011 and 0.002 which are in the above mentioned table denotes that only 27.7%, 8.9%, 1.1% and 0.2% of the observed variability in Gross Profit Ratio (GPR), Net profit Ratio (NPR), Return on Assets (ROA) and Return on Equity (ROE) is explained by the variability in the independent variables of CCC, CCP, ICP and DCP. R2 values indicate that there may be number of variables which can have an impact on performance that need to be studied.

Tables 3a and 3b show the analysis of variance (ANOVA) of the variables. With F- values of 25.272 and 6.448 for GPR and NPR as performance proxies respectively, it clearly shows that there is a relationship between working capital management and firm's profitability and is statistically significant at 1%, 5% and 10%.

**TABLE 3A: ANOVA- GPR AS A DEPENDENT VARIABLE**

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.521	4	.880	25.272	.000 <sup>a</sup>
	Residual	9.195	264	.035		
	Total	12.715	268			

a. Predictors: (Constant), CCC, CCP, ICP, DCP

b. Dependent Variable: GPR

**TABLE 3B: ANOVA- NPR AS A DEPENDENT VARIABLE**

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.251	4	.563	6.448	.000 <sup>a</sup>
	Residual	23.039	264	.087		
	Total	25.290	268			

a. Predictors: (Constant), CCC, CCP, ICP, DCP

b. Dependent Variable: NPR

Tables 3c and 3d show the analysis of variance (ANOVA) of the variables. With F- values of 0.761 and 0.163 for ROA and ROA as performance proxies respectively, it clearly shows that there is no relationship between working capital management and firm's profitability at 1%, 5% and 10%.

**TABLE 3C: ANOVA- ROA AS A DEPENDENT VARIABLE**ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.079	4	.020	.761	.552 <sup>a</sup>
	Residual	6.855	264	.026		
	Total	6.934	268			

a. Predictors: (Constant), CCC, CCP, ICP, DCP

b. Dependent Variable: ROA

**TABLE 3D: ANOVA- ROE AS A DEPENDENT VARIABLE**ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	111.095	4	27.774	.163	.957 <sup>a</sup>
	Residual	44911.514	264	170.119		
	Total	45022.609	268			

a. Predictors: (Constant), CCC, CCP, ICP, DCP

b. Dependent Variable: ROE

**TABLE 04: -COEFFICIENTS FOR PREDICTORS OF PERFORMANCE**

Model	Unstandardized Coefficients				Standardized Coefficients		t		Sig.	
	B		Std. Error		Beta		GPR	NPR	GPR	NPR
Dependent Variable	GPR	NPR	GPR	NPR	GPR	NPR	GPR	NPR	GPR	NPR
(Constant)	.153	.070	.015	.024			10.178	2.946	.000	.004
ICP	0.000	.000	.000	.000	.250	.141	2.300	1.151	.022	.251
DCP	-.001	.001	.000	.000	-.565	.454	-3.585	2.568	.000	.011
CCP	.002	-.001	.000	.000	.668	-.197	6.232	-1.635	.000	.103
CCC	.001	-.001	.000	.000	.397	-.335	3.874	-2.911	.000	.004

Above table show the regression coefficients of ICP, DCP, CCP and CCC relating to Gross profit ratio and Net profit ratio. This confirms positive relationship between working capital management and performance measures at 5% and 10%.

**TABLE 5: -COEFFICIENTS FOR PREDICTORS OF PERFORMANCE**

Model	Unstandardized Coefficients				Standardized Coefficients		t		Sig.	
	B		Std. Error		Beta		ROA	ROE	ROA	ROE
Dependent Variable	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA	ROE
(Constant)	0.088	-.595	.013	1.052			6.753	-.566	.000	.572
ICP	.000	.002	.000	.014	.138	.017	1.080	.131	.281	.896
DCP	.005	.009	.000	.022	-.012	.074	-.064	.399	.949	.690
CCP	.000	-.012	.000	.018	-.162	-.082	-1.292	-.651	.197	.516
CCC	.000	-.004	.000	.018	-.053	-.026	-.445	-.216	.657	.829

The relationship between ICP, DCP, CCP and CCC and the two performance measures (ROA and ROE) are not statistically significant. The implication of this is that for the sampled firms, there is no relationship between working capital management and firm's profitability. Further t values for all four variables of working capital management are insignificant event at 5% level. It means that these variables are not contributing to the performance measures of ROA and ROE. According to the previous studies, Carpenter & Johnson (1983) Karamjeet Singh and Firew Chekol Asress (2009) and J. Aloy Nireesh have been found there is no relationship between working capital and profitability.

### CONCLUSION AND RECOMMENDATION

The present study analyzes the relationship between working capital management and profitability. Using correlation and regression, we examine the effects of corporate governance and firm profitability in terms of GPR, NPR, ROA and ROA. The sample consists of 47 companies for the period 2008-2011.

This research has been completed for two main purposes one is to investigate there is a significant relationship between working capital management and profitability. Other one is to find out the impacts of working capital management on profitability. According to correlation analysis there is a strong positive relationship between working capital management and profitability measures of GPR and NPR. So that hypotheses one and two are accepted. Then the researcher has also found through the regression analysis, there is an impacts of working capital components on Gross profit ratio, Net profit ratio of firms in Sri Lanka. But, the results of the study provide evidence that the working capital management is not significantly correlated with ROE and ROA as the performance measures. So that hypotheses three and four are rejected.

This research has been done with some shortfall. The results suggested that future research should be carried out with a larger sample using by some other statistical techniques. The researcher has taken only forty seven companies for doing this research, so anyone who has more willingness in doing research in the field of working capital management can do this research by taking more companies from different sector.

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## REVIEW ANALYSIS OF THE FACTORS OF INCREASING THE INNOVATIVE ACTIVITY OF ENTREPRENEURSHIP IN THE INDUSTRIAL SECTOR OF INDUSTRY

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### ABSTRACT

*Renewal of the structures of economic development of the Republic of Uzbekistan is one of the fundamental political and economic problems. Without their transformation in the context of globalization and regionalization, without the creation of science-intensive and effectively interacting structures of the real and financial sectors of the economic system, it is difficult to predict the course of its survival and sustainable development in the world economic space. Today, the effectiveness of the innovation of the national economy of Uzbekistan largely depends on the adequacy and consistency of its structures and infrastructures, which will ensure the innovative economic breakthrough of Uzbekistan, its sustainable sovereign development and competitiveness in world economic relations. positive changes that provide a qualitative leap. The system analysis of theoretical bases of increase of innovative activity of subjects of business is carried out in the article. The author, through a review of a wide range of scientific literature, has proved that an organization can only be competitive if it enhances its innovative activity. In this paper, the concept of "organization" as a subsystem is considered. It is shown that the subsystem (like the whole system as a whole) is hierarchical, that is, it consists of certain levels. Each of these subsystems can be a factor in increasing the innovative activity of the organization, as shown by the analysis of factors. Analysis of theoretical issues of innovation activity showed that increasing innovation activity is an urgent problem for modern organizations and the analysis of factors allowed to identify the factors that maximally affect innovation activity and systematize them. It is concluded that an increase in innovative activity is necessary to ensure the long-term competitiveness of the organization in modern conditions.*

**KEYWORDS:** *Innovation, Innovation Activity, Innovation Process, Organization, Entrepreneurship, System, Strategy, Management, Level of Management.*

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## **I. INTRODUCTION**

In the context of globalization and the emergence of the economy at the post-industrial level of development, the emergence of new information technologies expands the process of internationalization of economic activity, and innovation is turning into a major factor in economic growth and development. Based on this, the modern strategy for the development of the national economic system should be based on new trends caused by post-industrial changes, since in these conditions the idea of the modern structure of factors of economic growth and development is changing. In particular, the innovative component of its provision is brought to the fore, despite the existing contradictions and risks.

The sphere of innovative activity turns into the main resource of the state, the effective use of which determines the progressive development of the national economic system. The need for modernization economy in modern economic conditions, causing profound changes in production, determines the need and the possibility of transition to a new type of economic growth and development.

An analysis of the theoretical foundations of increasing innovation activity showed that the organization can only be competitive if it is to improve their innovative activity, which, as we saw earlier, there is a comprehensive description of its innovative activities, including the degree of intensity of the action undertaken by the head inclined to search for a new and timeliness the ability to mobilize the potential of the required quantity and quality, including its hidden side, the ability to ensure the validity of the methods used and the progressive, rational technology in composition and sequence[1]. On innovation, activity is affecting the knowledge of which allows the development of mechanisms for its development and promotion of modern organizations[2]. We analyze their essence.

## **II. RESEARCH METHODOLOGY**

The theoretical and methodological basis of the study were the results of studies of domestic and foreign scholars on issues of strategic and innovation management, innovation management and investments, the economy of the industrial enterprise, legal acts of legislative and executive authorities. When solving tasks used methods of comparative technical and economic analysis, methods of expert estimates, the methods of correlation and regression analysis, concretized in the models of innovation management.

The adopted research methodology using a specific toolkit will ensure adequate object, subject and methods of research, and to obtain reliable results.

## **III. ANALYSIS AND RESULTS**

The essence of the concept of "factor of innovation activity" is revealed few authors, and the detected variations are diverse. Refer to Table 1.

**TABLE 1.OPTIONS FOR THE INTERPRETATION OF THE CONCEPT OF "FACTOR OF INNOVATIVE ACTIVITY"**

№	Author, source	The essence of the "factor of innovative activity"
1	Vasilyev I. A.[3]	Leverage innovative activity, stimulate or slow down the growth rate of its level. The investigation of the factors - a certain economic status (position) of the company, which can be characterized by a set of attributes of innovation activity.
2	Sidorenko V. G.[4]	Motive formation of innovative strategy, which aims to create innovations that become commodities in the market.
3	Piven' A. V.[5]	Possibilities of increasing innovation activity.
4	Tovstenko B. P.[6], Ershov V. F.[7]	At different levels: the macro level - historically developed situation, meso - a collection of objects and the conditions with which the company is facing in everyday life, micro-level - the factors determining the competitiveness
5	Skopina I. V. et al [8]	The main measure of innovation field, increasing the innovative activity of the public and private sectors.
6	Tokarev B. E.	Effects on the sale of innovative products.
7	S. Jentoni, M. Dzhonson, Dzh. Sinfield, Je. Oltman	The condition required not spontaneous, one-time innovations and for the systematic implementation of the innovation process

The definition proposed by I. Vasilyev considered that factor - is the "lever" with which you can change the innovative activity: these levers can be stimulating and inhibitory nature; they should be regarded as a combination of factors in each situation; it is an optimal combination contributes to changing the situation of the organization and the level of innovation activity. This study is based on this definition as the most fully reflects the essence of the search term.

### 3.1. The division of factors internal and external.

Valeeva E. O. shares the factors of change and innovation activity influences on innovative activity, but the essence of these concepts is not defined by the author [9]. Factors of innovation activity in this work are divided into external and internal. Among the advantages of the proposed E. Valeeva approach, you can specify that identified with it has the greatest impact on the consideration, the tourist market factors - seasonality; the author takes into account the specifics of the tourism market. In some cases, it proposed to take into account not all of the factors in the multidimensional force, indicating the flexibility of the proposed approach. Given these factors, the author presents the innovation and the economic mechanism, consisting of organizational and managerial, financial, economic, technical and technological, legal, informational, moral and psychological factors; factors that determine the level of innovative activity; Also, factors allocated different levels of management. At the same time, it is possible to identify some shortcomings: established selection process influencing factors in a particular case, the question remains of the interaction of the factors themselves to each other.

Just like E. Valeeva, Agabeyov S. and E. Levina, internal and external factors contributed to Gorban M. et al. It is noteworthy that the group of authors is based on an empirical analysis of real enterprises. Positive aspects of the approach are the difference of innovative activity of the country and the company, including any influence on the innovative activity at various levels,

consideration of both stimulating and hindering factors, which was not the work of previous authors. But in our view, remain open following issues: the lack of quantifying the influence of factors, failure factors, the characteristics of the companies themselves.

Exactly the same principle was used to systematize the factors by V. G. Medynskij[10], advantages of the approach which, in our opinion, is the consideration of factors of different groups (internal and external, direct and indirect effects) and the allocation of stimulating and inhibiting factors.

To this group the works of M. E. Kassa[11], Ju. Firsova[12] can be attributed. They also share factors in the external and internal factors but they are slightly different so that the approach, in our opinion, complement each other. The positive approach of these authors is that they considered methods of assessment of innovative development, developed the requirements for its indicators. But, in our opinion, is not in the clear distinction between innovation activity and innovation development, which could lead to a distortion of the results of theoretical research.

A more narrow approach, because we consider only the economic factors of innovation activity, but also belong to this group - the division into internal and external - different work S. G. Avdoninoy[13], which indicates that external factors determine the internal and external factors that determine each other, as well as domestic.

S. Agabekov and E. Levina[14], which offer three groups of factors, factors also divided into internal and external, but this provision in their work is not fully disclosed, in our opinion. Advantages of the approach seen in an attempt to classify the factors held communications "factor - the root cause," while many of the authors only point to factors without giving reasons. Identifying the causes contributes to the formation of true mechanisms for increasing innovation activity, taking into account the factors of influence. However, we think that the superficial analysis of external factors (considered only economic and legislative), as well as the fact that among the economic factors singled and external and internal, however, separately isolated internal factors (which introduces uncertainty principle of classification) they are disadvantages of this approach.

A. A. Nikol'skaja[15], A. E. Vlasova, S. D. Il'enkova, O. N. Mel'nikova also proposes to allocate internal and external factors, however, along with this, they offered a group such as a resource and Scoring factors. In our opinion, this is a reasonable approach but is not fully disclosed.

E.A. Mil'skaja[16] also results in a wide range of factors that can be attributed to both internal and external to the organization, but the factors are considered only as constraining innovation activity, also, they are not systematic.

In the works Dzh. Djeja[17] the author also discusses the internal and external factors: culture, organizational structure and market. This approach is different in that the time factor is introduced, that is considered a permanent change. However, consideration of factors is not comprehensive. The advantage of the approach - to identify the major problems, which are reduced to the absence of interaction, the high dynamism of the environment.

### **3.2. Consideration of external factors or only internal.**

B. L. Kljunja and Fan Juj.[18] They do not talk about the factors themselves but indicate that the innovation activity of enterprises should have several features to be able to improve innovative activity. In our opinion, these signs are the factors of the internal environment. This suggests that

flaw approach is that the external environment is not considered. However, the authors point out the need for fairly complex factors, their connection to the control system.

V. A. Titov, A. F. Martynov[19]also considering only internal factors: the structure, resources, research and so forth. In this approach, a lot of positives: the construction of a hierarchy of factors account networking, building some models of factors. However, there is a drawback associated with the narrowness, insufficient knowledge of the matter: not disclosed the essence of each of these factors, not studied the nature of the relationship, the approach applies only to the education industry.

S. Jentoni, M. Dzhonson, Dzh. Sinifid, Je. Oltmansuggested as factors of the internal aspects of the organization: asset management, the establishment of a growth strategy, optimal allocation of resources. This approach differs from the others in the group, so that within it dynamic factors are considered, and not static.

### **3.3. Allocation factors in accordance with the activities (functions of the organization)**

This area classification represented a group of authors, offering to allocate economic factors, production, personnel and so on. To her, it is possible to put A. I. Golushko[20]&T. V. Kolosovu[21], offering to allocate production, economic and other factors, the reasons for innovation. In our opinion, the main disadvantage of this separation - a small number of the factors considered: only the economy, production, legislation, demand, also, the authors - not isolated between the internal and external factors.

### **3.4. Isolation of factors with respect to the innovation process.**

As shown by the above analysis, innovative activities implemented as part of the innovation process. Because of this, many authors use a process approach. For example, A. V. Piven'[22]considering factors such as the possibility of increasing innovation activity in the stages of research and development, commercialization, performance assessment. The apparent advantage of this approach, in our, view is that the author considered factors at different stages of the innovation cycle and classified by grade capabilities of the organization (current and future), that is the approach, unlike others, involves an analysis of the future state.

### **3.5. Separation factors by level (management)**

So often in the literature as to the division of internal and external approach, we believe the division of the authors of the factors based on multi-layered. It should be noted N. S. Sharmygina[23], O. Ju. Trilickuju[24], R.S. Petrova[25].They propose to allocate factors macro, meso, micro-level. Moreover, within each level, they are classified as factors such as micro-level factors are considered resource, efficient, process. The advantages of their approach: developed a universal classification of factors of innovation activity (industry, region, size, specialization); disadvantages of the approach: the combination of options is not considered the above factors; there is no question about how they should be integrated.

Another group of authors also shares the factors on levels of protection, but their approach is somewhat different. B. P. Tovstenko[26]&V. F. Ershov[27]offer nation-wide address global factors, meso-environment, and microenvironment. Just as in the previous approach, considered Process and Scoring factors. E. O. Valeeva[28] proposes to consider strategic and tactical factors. And those and others, according to its approach, affect only the internal environment. That, in our opinion, is an omission of the author.

### 3.6. An integrated approach to the classification of factors (two or more criteria).

A significant contribution to the analysis of the factors of innovation activity making S. A. Makina and E. N. Maksimova[29] that proposed a system features five-classification criteria. The main advantages of the work: isolated signs of classification factors considered inhibitory and stimulatory factors, external-internal; objective and subjective factors, the relationship is specified to various factors in the short and the long term, proposed a matrix relationship factors "internal /external - objective/ subjective". The disadvantage can be regarded as a lack of systematization and correlation approaches of different authors considered in work.

This category, we allowed ourselves to carry this author, as I. A. Vasil'ev[30], which also identifies several classification criteria, namely eight. Advantages of approach: offered an extensive classification of factors provides a definition of the concept of "factor" considered factors at different levels of management. At the same time, it highlighted the lack of such an approach as a lack of information about the interaction of complex factors.

In the same vein argues V. G. Sidorenko[31], It offers two criteria of classification. Pros approach: consider two criteria for classifying factors (internal/external, objective / subjective); indicate how certain factors are linked. However, this approach seems too narrow to us: consider only the factors of economic activity affecting innovation.

B. E. Tokarev[32] also offers several criteria for the classification of factors of innovation activity: external/internal, direct and indirect impact of factors at different levels, consumer and marketing. It is noteworthy that in contrast to other market factors - marketing and demand - in a separate group. In our view, it is a reasonable and right step, because consumer demand is a crucial factor in the marketing of new products. Positive aspects of the work: the inclusion of international factors, consumer factors, market incentives; the model of assessing the impact of various factors, taking into account the correction factors.

### 3.7. Other approaches.

Among the works devoted to the analysis of factors of innovation activity, considered as regional aspects, factors impeding and stimulating innovative development. Among the first study of this can be attributed to the author, as the I. V. Naumov[33] who is considering as factors the activities of local authorities, urban infrastructure, and the availability of material resources of the municipality. Also in this group, we shall place I. V. Skopinuet al.[34], A.G. Shelomenceva, S.V. Doroshenko[35], offering, for example, the creation of the legislative base in the region, the expansion of public-private partnerships and so on.

To the second we put the work L. A. Malysheva and I. V. Shestakov, who talk about underdevelopment in demand, complicated external environment and globalization, development priorities and so on. The main drawback of the approach - a small number of the factors considered the lack of a holistic approach to the review informed factors. However, special attention is given to the essence of the concept of "innovation activity"[36].

Based on this analysis, we propose the twelve criteria for the classification of factors of innovation activity: the source of the level of management, the degree of influence, degree of objectivity, institutional affiliation, level of management, the nature of influence, activity, organizational and legal form, the number and availability of subjects in the relation innovation process (duration of effect), the cyclical influence (frequency). The criteria based on systematically works I. Vasilyeva, S. Makin, Y. Maximova, E. Valeyeva et al. - Table 2.

**classifications of factors of innovation activity[37].**

SOURCE	MANAGEMENT LEVEL/DEGREE OF INFLUENCE DEGREE OF OBJECTIVITY	INSTITUTIONAL AFFILIATION LEVEL OF MANAGEMENT	Stimulating						Inhibitory						NATURE OF INFLUENCE			
			FE	TTC	OM	SC	INST	INF	PR	FE	TTC	OM	SC	INST	INF	PR	← НАПРАВЛЕНИЯ ДЕЯТЕЛЬНОСТИ <sup>III</sup>	
External	Macroenvironment/ Indirect/ Objective	Global															Process	← SHAPE
		National															Result	
	Mesoenvironment/ Direct/ Objective, Subjective	Regional															Resource	
		Local (sphere)															Independent	NUMBER AND PRESENCE OF SUBJECTS ←
Mesoenvironment/ Direct/ Objective, Subjective	Enterprise (strategic)														Single subject			
	Microenvironment/ Direct/ Objective	Enterprise (strategic)														Multiple subject		

**TABLE .2 - SYSTEMATIZATION OF ACTIVITY [37].**

Internal	Microenvironment/ Direct/ Subjective	Subdivisions (tactic)														Impact on specific company	VERSALITY	
	Microenvironment/ Direct/ Subjective	Employees (operative)														Impact on all enterprises of country, sphere		
																Influence on 1-2 stages of the process	Short-term	ATTITUDE TOWARDS INNOVATION PROCESS ←
																Influence throughout the whole process	Long-term	
			—————→												Permanent	← CYCLICALITY OF IMPACT		
			- - - - -→												Temporary			

This approach differs from those considered in that:

- 1) a maximum number of systematized criteria, the criteria is interrelated. So, from the source of the criteria derived level of management, the degree of influence on innovative activity, the

degree of objectivity. Recent consist of institutional affiliation and level of management. Each group of factors of institutional affiliation can be divided, on the one hand, stimulating and inhibiting innovation activity, on the other hand - into seven groups of activities. Thus, 112 cells (such as an external objective factor indirect influence on the global macro level inhibitory nature in the field of finance and economy - the financial and economic crisis of 2008-2012.) Factors within which, on the one hand, it can be considered from the point of a) form (for example, the process of establishing, monitoring, planning and so forth., resources - existing and potential, the results - the organizational structure, the size of the enterprise, personnel qualification, etc.); b) the complexity of the (separate, single and of a multi); c) universality - are specific to a particular organization or universal. Aspect dynamism and volatility factors illustrate two criteria proposed by V. G. Sidorenko - duration and periodicity. Inside the cells can also be a factor both one-time and recurring.

2) also, this classification is proposed to include such criteria as versatility. Several factors may depend on innovation activity of a particular company or companies active across the industry as a whole, companies across the country. The existing classification, according to the criterion of "institutional belonging" factors applies to different levels - from the global to the micro-level. These factors, depending on the level of different effects on specific companies. We have seen that factors not only have different effects but also in relation to specific businesses they may vary.

3) the criterion of "institutional identity", in our opinion, it is advisable to allocate not six groups (from global to direct[38]) eight groups, that is, at the enterprise level to allocate three sublevels factors influence the level of the enterprise, at the level of departments and areas, at level employees. This detail is required, on the one hand, by the fact that the organization is a complex system consisting of various elements from different control levels, which are applied to the study of numerous different approaches. On the other hand, the latest trends in management beginning 1 century indicate that enterprises are important for the development of integration and self-development[39]. These trends show the importance of the human factor, the factor matching personal and organizational goals, a factor of interaction between different levels in the development process, particularly innovative development (through increased innovation activity) organization.

1) In our opinion, these classification criteria and factors contained in them should be considered in the complex. A set of factors will vary depending on a) a particular company; b) a specific point in time in which the company exists. That is, to determine the list of factors is not enough for your organization, you need to have the set dynamics, monitoring changes in the impact of factors periodically repeating the analysis of the factors.

2) we offer the following to use the proposed systematization:

A) In our opinion, for each organization need to develop a similar (Table 2.) with the tool filling cells, as factors of innovation activity:

1) have industry-specific (for example, the legislation in the medical field);

2) depend on the organization's position in the market;

3) the number of personnel, etc.; universal factors will be the same for all organizations, and specific - are unique to each organization;



B) depending on what factors and the effect on a particular organization need to install these factors interference between them, as a mechanism for eliminating or enhancing factors to enhance the activity of innovation can be applied to a single factor in the chain and not to all, and thus, the effect of one factor will lead to an effect on the other;

B) Next, you need to build a chain of "factor - the reason - the reduction mechanism, use or incentive - an indicator of innovation activity." After a complete list of the factors influencing the innovative activity of the organization, it is necessary to establish the causes or sources of these factors - this will surely indicate the use of the mechanism of a factor it into account, reducing its influence to improve innovative activity. The effectiveness of the resulting set of mechanisms is determined by the indicators of innovation activity, after that, you can trace the dynamics and develop, if necessary, corrective action.

Thus, the analysis of the factors of innovative activity allows us to conclude that:

1) The least explored area is the division factor of management levels: strategic, tactical, operational[40]. Other authors consider the levels of macro, meso, micro, i.e. summarize the inner sphere of the organization. In our opinion, a close study of levels of government - namely, their interaction in terms of impact on innovation activity - is an open question for researchers. Also, we confirmed the need for a comprehensive consideration of the factors of innovation activity in their interaction.

2) Most of the authors consider factors of innovation activity in the context of the activities (functional subsystems organization). Given the fact that the organization is a system consisting of different elements, including functional subsystems, interesting to analyze the question is, does liaison levels of management within the functional subsystems of organizations to increase innovation activity. What do functional subsystems influence, considered and justified by many authors?

3) Analysis of the factors of innovation activity in the literature is not uncommon, but quite poorly studied the interaction between levels of government as a factor for increasing innovation activity; not considered factors at various levels of management within the functional subsystems organization.

As discussed above, the concepts of generations of the innovation process (five models), and involves the various subsystems of the enterprise and external environment: the production, marketing, sales, use, needs of society and the market and so forth. The analysis of the literature on this subject has allowed systematizing the basic approach to the theory of organization management: classical, neoclassical, structural-functional, process, system, institutional, behaviourist, resource-based approach; theory of dynamic capabilities, situational, developmental, business, contract, hierarchical, system-integration, system-constructivist approach, the theory of self-organization and self-development, evolutionary system-integration theory.

Designated approaches are not mutually exclusive, but rather complement and develop. The above approach to the management of the organization allows us to formulate the problem: what levels should be allocated and how they interact with each other. It should be noted that in all of the approaches we are talking about the interaction of the elements and their combinations, changing only the elements themselves: it can be a resource (as in classic or resource-based approach), production and process parameters (neoclassical approach), the organization's

objectives and goals of individuals (a process approach), organizational relationships (a system approach), institutions (institutional approach), etc. Also, all approaches can be divided into two groups: static consideration of the enterprise (such as a structural approach) and dynamic (the theory of dynamic capabilities, evolution and system integration theory). Many recent theories appear at the junction of several approaches (for example, the theory of self-development and self-organization and evolution of system-integration theory). As for the allocation of levels of management, it is usually distinguished strategic, tactical and operational levels. In these approaches, the authors often talk about innovations and innovative development, marked by high productivity of self-development to enhance innovation activity[41].

In our opinion, given the nature of innovation, and innovation - the dynamism, variability, constant development, - when considering the increase of innovative activity of the organization are the most productive systems-integration evolutionary theory and the theory of self-development of socio-economic systems, since, according to this approach, the organization there are hierarchical levels, the various subsystems, which, on one hand, cooperate, on the other hand, are themselves complex systems. Besides, these approaches considered time factor, i.e., the fact that the organization and the external environment is constantly changing. Finally, these concepts laid that elements of the organization as a system able to develop under the influence of not only external factors but internal features (i.e., capable of self-development).

Based on the different approaches to the nature of the organization (enterprise), we can formulate several issues relating to co-existence and functioning of management levels:

- 1) The imbalance between the strategic and operational levels in matters of prioritization and allocation of resources, as a result - the emergence of conflicts, competition between levels of disharmony in carrying out the tasks and goals. These trends have led to a decrease in the effectiveness and efficiency of the enterprise as a whole, the functioning of individual organizational units.
- 2) Inability to build adequate forecasts of low surface detail and elaboration.
- 3) The differences in the interests of the different levels of government.
- 4) Non-regulated processes of interaction and mutual influence of strategic, tactical and operational levels of management.
- 5) Failure of managers to measure and evaluate customers as assets and show a real connection of these assets with a total value of the company[42].
- 6) The complexity of accounting and cost allocation in either direction of the organization[43].
- 7) The reluctance of managers to spend money on development without preliminary calculations and studies related to the increase in the budget.
- 8) The emergence of opportunistic behaviour, fraud and so on. Human factors in the implementation of the strategy, implementation, feedback, resulting in slowing or stopping the coordinated work of management levels of the organization.
- 9) The problem of integration of functional subsystems in the overall management of the organization and its efficiency (indicated by many authors as the weakest link in the management of the organization)[44].
- 10) The complexity, the complexity of existing systems management efficiency and

effectiveness of the organization as a whole and functional subsystems. The need to process large amounts of information and expect a large number of parameters resulting in slower performance of the basic functions, lower productivity.

11) Difficulties with the formation of long-term sustainable competitive advantage[45].

12) In our opinion, to resolve these problems, according to evolutionary system-integration theory and the theory of self-development, a more detailed and systematic description of the interaction of management levels with each other, as well as their influence on the change of innovation activity of the organization.

13) Issues of interaction between levels of government are dedicated to a very small number of jobs. The main research issues of strategic management and implementation of the strategic guidelines in practice can be reduced to five groups.

14) Firstly, there is a research program, "Strategy as Practice" in the study of strategic management", published in the "Journal of the Russian management"[46]. In the works of the authors participating in this program examines the strategy at the micro-level, their implementation in practice. We consider the works of L. R. Whittington, L. Melin, J. Johnson, H. Garfinkel, B. Splitter, D. Saydla, P. Dzhazabkovski and others. However, under this approach, first of all, it is a management strategy as a whole. Secondly, greater emphasis on the gap between theory and practice, rather than between strategic and operational level.

Secondly, several authors talking about the importance of practical implementation of the strategy. The main representatives of this approach are R. Kaplan and D. Norton[47] these authors give a general scheme and a detailed description of the stages of such a management system, calling it "a comprehensive integrated management system." Strategic planning and operational activities in the control system are not seen as two distinct activities of the company, as well as stages in one system, which are connected by common aims, indicators, resources, data and information flow. Such a comprehensive integrated management system has become one of the most important competitive advantages. The system of indicators built based on six main stages: strategy development, planning, strategy, and the company's compliance with the chosen strategy, operational planning, monitoring and identification of problems, testing and adjustment of the strategy. These six management processes form the basis of an integrated and comprehensive system of closed-cycle that links strategic planning with business planning, execution of plans, feedback and identification of problems. The system consists of many parts of the flexible and changing relationship and requires the synchronization of all activities and divisions of the company. In a similar vein thinks I. Ansoff: it offers a dual management system, linking the strategic and operational steps enterprises[48].

These approaches are often applied to the functional subsystems organization. For example, the Kaplan-Norton approach adapted to the marketing and distribution services in the work of A. Preisner "Balanced Scorecard in marketing and sales." The author speaks of 81 records in the field of marketing and sales. It is in this work indicated the need to introduce a system of indicators of service of marketing as a management tool that links strategic and operational levels[49]. However, in this case, first of all, it is about performance, formalizing strategy. Themselves figures are not divided into strategic and operational, but it is a transformation of the company's goals in operating performance. A. Preisner speaks constructed in a hierarchical pyramid of indicators, which is on the main index depends on all the others. Thus, the key indicators of the company are detailed to the specific operational values.

Similarly, within the framework of the transfer of marketing strategy into measurable indicators and the construction of Balanced Scorecard in marketing talk and T. P. Danko and O. V. Kitov[50] However, their work also indicated the need to align the goals and objectives of different departments for the implementation of market strategy. You can also note the work of N. G. Avramenko, in which the author, based on a balanced scorecard, said that the greatest difficulty lies in the cascading of strategic goals to the operational level[51]. In this paper, the author points to the problem of adaptation of the Balanced Scorecard for Russian companies[52].

One of the works, which systematically describes several approaches to indicators of market activity and their role in the overall performance of the enterprise, including the balanced scorecard, quality management, etc. Is the work of O. K. Oyner[53]. In that paper also raises the issue of the need to evaluate the strategic activities, the complexity of large-scale transfer of activities in specific indicators.

Third, the article by J. Cotter proposed introduction of a dual control system: a combination of a rigid hierarchy (for everyday tasks) and the flexible structure (to adapt and adjust policies according to changes in the environment and the company itself)[54]. On such a "dual management system" I. Ansoff[55] also mentioned.

Fourth, we are talking about the hierarchical analysis of socio-economic systems (the issue discussed in detail in the works of Ju. K. Perskogo, D. N. Shul'ca[56], G. B. Klejnera, E. V. Popova)[57]. In this vein, the company is considered as a whole, the region, the process of innovation management[58].

#### IV. CONCLUSION

Thus, the organization has a system consisting of various subsystems. In turn, each sub-system (and the whole system) hierarchical, i.e. consists of certain levels. Each of these subsystems can be a factor in increasing the innovative activity of the organization, as shown by analysis of the factors. An analysis of theoretical issues of innovative activity showed that the increase in innovation activity is an actual problem for today's organizations, and analysis of the factors revealed factors influencing the most innovative activity, and organize them. Increasing innovative activity is necessary to ensure the long-term competitiveness of the organization today.

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## IMPLEMENTING ENTERPRISE RESOURCE PLANNING (ERP) SYSTEMS IN SMALL INDUSTRIAL ENTERPRISES

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### ABSTRACT

*Today, every enterprise (from a small company to a huge corporation) strives to take a good position in the market, and for this, it is necessary to manage its production properly and rationally. In modern conditions, effective management is a valuable resource of the organization (along with financial, material, human and other resources). Consequently, the increase of efficiency of management activity becomes one of the directions of improvement of enterprise activity as a whole. The most obvious way to improve the efficiency of the labor process is its automation. This paper investigates the role of enterprise resource planning (ERP) systems in the context of small and medium enterprises (SMEs). ERP systems are enterprise-wide software packages that provide fully integrated business processes with shared data and visibility, and thereby hold the potential of greatly enhancing organizational performance and establishing competitive advantage*

**KEYWORDS:** *Material Resources, Enterprise Resource Planning, Small And Medium-Sized Enterprises,*

### INTRODUCTION

Material resources form the physical foundation of the economy; they provide essential raw materials and other commodities to support economic activity [1]. Their use in economic activities and the related production and consumption processes have many environmental, economic and social consequences that often extend beyond the borders of individual countries or regions. The intensity and nature of these consequences depend on the kind and amounts of natural resources and materials used, the stage of the resource cycle at which they occur, the way the material resources are used and managed, and the type and location of the natural environment from where they originate. Efficient use of material resources through the economy is important for assuring adequate supplies of materials to economic activities, diminishing the

associated environmental burden and preventing the degradation and depletion of natural resources.

Enterprise Resource Planning (ERP) systems, when successfully assimilated into an enterprise, can provide both operational and strategic benefits, and enforce a discipline of best practice and consultancy. ERP systems can significantly improve information flow, streamline processes and hence develop the enterprise's efficiency and its competitive advantage. The main motivations for ERP use are seen as the production of real-time data shared across the organization and consequently the integration and automation of business processes.

Overall, improving productivity, competitive advantage and customer demands are the top three business drivers for companies with ERPs. Especially SMEs adopt ERP systems to replace inefficient standalone legacy systems, increasing communications between business functions, increasing information processing efficiencies, improving customer relations, and improving overall decision making.

The business environment is changing over the years, this pace of change continues to accelerate and companies all over the world seek to respond to new customer needs and reach higher market opportunities. Successful companies today recognized the need for integrated systems that can improve their quality, customer satisfaction, performance, and profit. Organizations and companies can make this vision possible through Enterprise resource planning (ERP) systems. Enterprise resource planning (ERP) is business management software that is designed to integrate data sources and processes of an entire organization into a combined system. It gives organizations and companies an incorporated real-time view of its core business processes such as production, planning, manufacturing, inventory management, and development.

**Analysis of the last researches and publications.** With the increasing popularity of information technology and the trend of adopting computerized operations in various commercial transactions, more and more companies introduce information systems to assist business operations [2]. In facing the ever-changing globalization of business, increased competition, and rapid growth of information technology, enterprises must adopt enterprise resource planning (ERP) systems equipped with software and hardware facilities [3][4] to meet the technical information requirements of enterprises as well as the desire of administrators to strengthen corporate competitiveness. Several studies have indicated that ERP systems are likely to reduce inventory levels, cut costs, shorten delivery periods, increase productivity, promote corporate communication, hone information and decision-making skills, and improve customer services [5][6].

In the 1950s, large manufacturing companies produced Material Requirements Planning (MRP), which was created to keep track of all products and materials across one or more plants, and was also used to keep track of needed materials. Two decades later, MRP was extended in the software application called Manufacturing Resource Planning (MRP II), which not only processed the material portion of the equation but also the planning process. Taking into account the production schedule, amount of resources available, and other planning requirements, MRP II was a step beyond its predecessor. Both MRP and MRP II were created with the manufacturer in mind, but ERP is more than a material and scheduling application package. ERP software packages are designed to integrate information used by all the functional areas of a business into a single database to streamline business processes for an enterprise. The promise of integration and the benefits that it could produce, coupled with the approach of the new millennium and the

Y2K scare, made ERP the most heavily invested software package in the 1990s. Unfortunately, many who tried to implement these packages had to face a much harsher reality.

Originally, the term ERP was applied to capacity planning systems. Although the term ERP originated in the manufacturing field, today it has a broader scope of application. Modern ERP systems ensure the performance of all core functions of an enterprise, regardless of its type of activity or charter. Nowadays ERP systems are used both in commercial and non-commercial structures, in governmental and non-governmental organizations.

Due to these potential strengths, an increasing number of small and medium-sized enterprises (SMEs) are attempting to implement and operate ERP systems [7]. Raymond [8] asserts that increasingly fierce competition in the business world has led some SMEs to adapt and change their processes. In the highly competitive global market, the accuracy of product costs has become a major strategic concern for modern companies [9]. Odenwald and Berg [10] further indicate that leading enterprises will be more adept at managing resources than their competitors. Therefore, integrating information technology with various enterprise resources is the key to ensuring business liquidity and responsiveness for faster market response and stronger enterprise competitiveness. Classical ERP systems significantly improve business processes and enterprise resource management. Such systems are the nerve centre and record system for numerous enterprises [10].

Enterprise resource planning (ERP) system is a business management system that comprises integrated sets of comprehensive software, which can be used, when successfully implemented, to manage and integrate all the business functions within an organization. These sets usually include a set of mature business applications and tools for financial and cost accounting, sales and distribution, materials management, human resource, production planning and computer integrated manufacturing, supply chain, and customer information [11]. These packages can facilitate the flow of information between all supply chain processes (internal and external) in an organization [12]. Furthermore, an ERP system can be used as a tool to help improve the performance level of a supply chain network by helping to reduce cycle times. However, it has traditionally been applied in capital-intensive industries such as manufacturing, construction, aerospace and defence. Recently, ERP systems have been expanded beyond manufacturing and introduced to the finance, health care, hotel chains, education, insurance, retail and telecommunications sectors.

## **METHODOLOGY**

The methodology adapted to this work was to gather information from various textbooks, articles and various kinds of reliable information from different companies and many other reliable sources. After getting the information and data from various kinds of literature and various other sources, we have analyzed our information sources critically depending upon the needs of the thesis work to get our result based on this information.

## **RESULTS**

Global and Domestic Context of SMEs Globally, organizations adopt a wide range of definitions of small and medium enterprises (SMEs), also known as small and medium-sized businesses. The main difference is in the choice of size and thresholds used within the measure. Organizations use the following three key measures for defining SMEs, and the value of one or more of the above measures falls below certain limits for SMEs:

- Employee size
- Total revenue
- Balance sheet size

Table 1 summarizes with employee size and revenue as the main criteria used by different countries to define SME.

In contrast to larger organizations, SMEs mainly rely on other firms for services, like marketing and training. Concerning SMEs' relationship with other organizations, SMEs can be classified into three broad groups: sub-contractors, cluster members and independent. SMEs are an essential part of economic policy, especially in terms of employment creation and export growth.

**TABLE 1. DEFINITION OF AN SME BY EMPLOYEE SIZE AND REVENUE**

Countries	Employee Size	Revenue
Canada	<500	\$25 million
China	<2000	CN¥300 million
European Commission	<250	€50 million
Germany	Follows the European Commission	
India	<1000	Rs.25 Lakh–Rs.10 Crore (manufacturing)
Japan	<100 or <300	¥50 million
Singapore	<200	S\$100 million
USA	No standard definition exists	
Uzbekistan	<200	-

Source: Compiled by the author based on data from government tax agencies and relevant entities. ERP allows companies to integrate various departmental information. It has evolved from a human resource management application to a tool that spans IT management. For many users, an ERP is a “do it all” system that performs everything from the entry of sales orders to customer service. It attempts to integrate the suppliers and customers with the manufacturing environment of the organization. For example, a purchase entered in the order module passes the order to a manufacturing application, which in turn sends a materials request to the supply-chain module, which gets the necessary parts from suppliers and uses a logistics module to get them to the factory. At the same time, the purchase transaction shows in general – a ledger module as revenue. The traditional application systems, which organizations generally employ, treat each transaction separately. They are built around the strong boundaries of specific functions that a specific application is meant to cater for. ERP stops treating these transactions separately as standalone activities and considers them to be a part of interlinked processes that make up the business [13]. An overview of ERP systems including some of the most popular functions within each module is shown in Figure 1.

However, the names and numbers of modules in an ERP system provided by various software vendors may differ. A typical system integrates all these functions by allowing its modules to share and transfer information by freely centralizing information in a single database accessible by all modules.

The various modules of ERP include engineering data control (bill of materials, process plan and work centre data); sales, purchase and inventory (sales and distribution, inventory and purchase); material requirement planning (MRP); resource flow management (production scheduling, finance and human resources management); works documentation (work order, shop order release, material issue release and route cards for parts and assemblies); shop floor control and management and others like costing, maintenance management, logistics management and MIS.

Also, the model of ERP includes areas such as finance (financial accounting, treasury management, enterprise control and asset management), logistics (production planning, materials management, plant maintenance, quality management, project systems, sales and distribution), human resources (personnel management, training and development and skills inventory) and workflow (integrates the entire enterprise with flexible assignment of tasks and responsibilities to locations, positions, jobs, groups or individuals) [14].



**Figure 1. ERP system modules**

According to APICS (American Production and Inventory Control Society) dictionary the term ERP system (Enterprise Resource Planning) can be used in two meanings.

Firstly, it is an information system for the identification and planning of all enterprise resources that are necessary for sales, production, purchasing and accounting in the process of fulfilling

customer orders. Secondly (in a more general context), it is a methodology of effective planning and management of all enterprise resources, which are necessary for the implementation of sales, production, procurement and accounting in the execution of customer orders in the spheres of production and services. Thus, the term ERP can mean not only information system but also the corresponding management methodology realized and supported by this information system.

Ideally, a single database of ERP-system contains all the data of program modules:

- production (management of preparation and provision of production processes, management of material specifications, calendar planning, capacity management, sequence management, quality management, cost management, production process, production projects, production flow management);
- supply management (inventory management, order entry, procurement management, product configuration selection, supply chain planning, supply schedule, technical control, claims to process, commission calculation);
- finance (general ledger, cash management, settlements with creditors and debtors, accounting for fixed assets);
- projects (costing, invoicing, time and material costs, work organization);
- human resources (human resources management, payroll, training, hours worked, incentives);
- sales and customer/customer relations management (sales and marketing, commissions, warranty, customer contact support and help desk);
- information storage (various self-service interfaces for customers, suppliers and employees, remote work capability, security issues, relevance and reliability of data.).

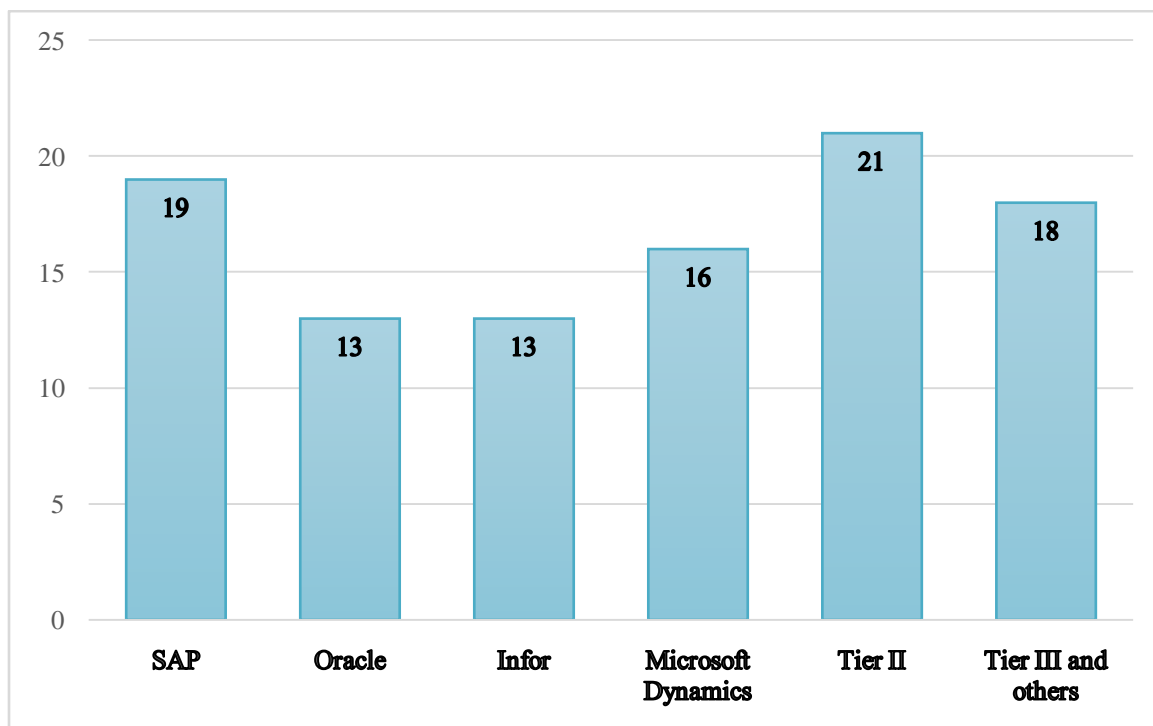


Figure 2. ERP products and their usage

ERP refers to an integrated and cross-functional system that helps in managing all operations of a company. ERP system is the backbone for many enterprises across the globe. Of late there has been focused research on the ERP implementations in SMEs. They are found to be highly complex and risky for implementation in enterprises [15]. ERP products cover different departments of an organization like Human Resource (HR), finance, inventory, logistics, accounting and so on. Instead of using a separate application for each department, it is a better idea to have ERP implementation that drives all functionalities in an integrated fashion. There are many ERP products of different vendors. Their usage across the world reflects frequency and percentage as shown in Figure 2 [16]. SAP is found to be very famous with more number of implementations and also the frequency of usage.

Following almost a decade of development, ERP systems have become the necessary tool and foundation for modern business operations. From a management *efficiency* perspective, the idea behind ERP is to optimize the use of a business' internal resources, and it emphasizes the integration of cross-system functions, cross-organizational departments, and cross-geographical regions. From a technology perspective, ERP is an online transaction processing system that differs from a traditional data processing system because of its real-time response and integrated applications. ERP is primarily used in financial application programs for business financial management, in human resource application programs for managing employee benefit plans, salaries, and other human resources, and in manufacturing applications for inventory control and production management.

The key basic idea of ERP is to use information technology to develop the ability to plan and integrate business resources, such as design, production, procurement, sales, finance, and other application procedures and processes of various functions. Software suppliers have introduced various ERP software programs according to user needs. Therefore, the definition of ERP has different interpretations. Considering the research objective of this study, we define ERP according to the characteristics of industries and SMEs in Uzbekistan.

ERP is a highly integrated real-time application software that links the upstream and downstream work processes of a business' departments or industry, to enable administrative organizations to adequately and *effectively* manage and use all business functions, including finance, human resources, manufacturing, sales, and marketing. To strengthen a business' competitive advantages, its operators must consider the behaviours of their customers, suppliers, and competitors, as well as changes in- and outside the business (e.g., changes in information technologies) when developing business goals and strategies. The implementation of *effective*

ERP information projects can ensure the integration of appropriate and *sufficient* information and facilitate business operations. Investing in the implementation of ERP systems is inevitable for industries, which are facing the need to compete and succeed in international business.

### **Barriers to ERP Implementation in SMEs**

It is clear from the earlier discussion that the vendor strategies adopted for SMEs are technology-oriented to meet the resource, time and cost constraints faced by SMEs for ERP implementation. However, the slow ERP adoption among SMEs is due to the barriers that prevail due to the business context and operating nature of SMEs. Most of the SMEs work in a highly dynamic manner, where changes may occur in both internal and external requirements due to customer preference, government agencies, technology advancement, and so forth. The SME's flexibility to respond to these changes comes from characteristics, like fewer employees, orders and

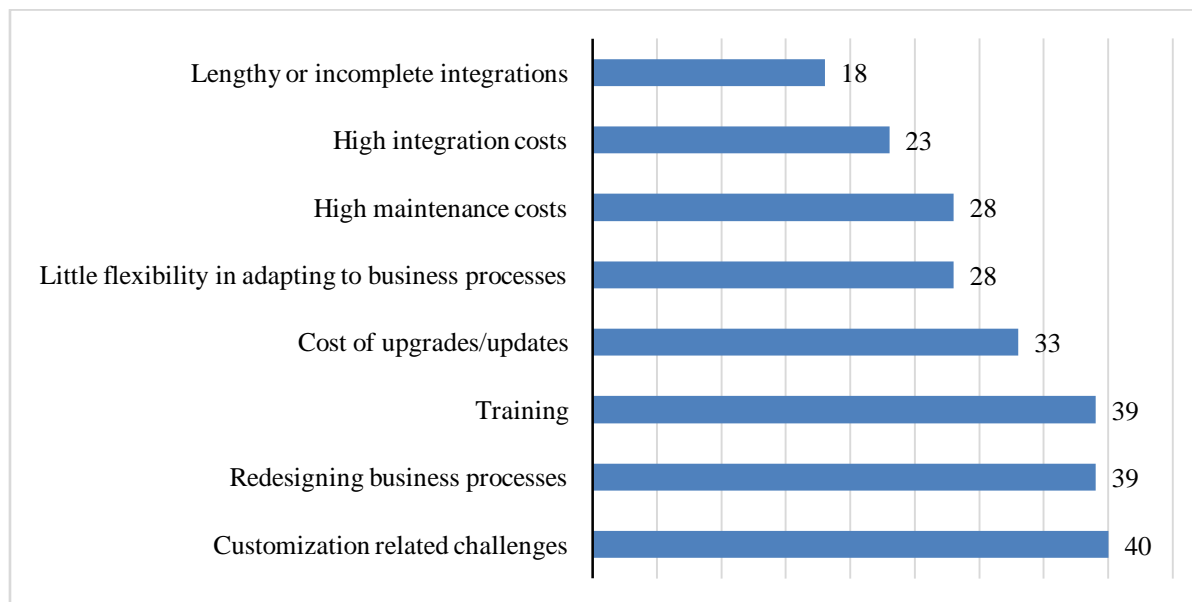
customers. Hence, SMEs need to retain flexibility even after the adoption of software like ERP [17], as ERP forces a more rigid structure. Among the various ERP implementation and maintenance challenges faced by SMEs, as shown in Figure 3, issues related to ERP customization, business process reengineering and the required training have been reported to be the top barriers [18]. Many of these are ongoing challenges that SMEs need to address during the entire ERP implementation life cycle.

### **Drawbacks of the ERP systems**

Although ERP systems have certain advantages such as low operating cost and improving customer service, they have some disadvantages due to the tight integration of application modules and data. Huge storage needs, networking requirements and training overheads are frequently mentioned ERP problems. However, the scale of business process re-engineering (BPR) and customization tasks involved in the software implementation process are the major reasons for ERP dissatisfaction. Baan, PeopleSoft, as well as SAP calculate that customers spend between three and seven times more money on ERP implementation and associated services compared to the purchase of the software license. This means that ERP projects are large, costly and difficult and that they require a large investment in capital and staff and management time. Yen et al. [19] identified the following disadvantages of ERP: its high cost prevents small businesses from setting up an ERP system, the privacy concerns within an ERP system and lack of trained people may affect ERP's efficiency. Implementation of an ERP project is painful, and customization is costly and time-consuming.

Any ERP system implementation process is phased over some time. In most cases, during the implementation phase, SME's management interest and commitment decline. The management of SMEs has less understanding of ERP implementation aspects, like size, scope and technical problems at the top management level. Sometimes, there is a lack of commitment for providing resources required for successful implementation SMEs generally do not have technical and business specialists within the organizations. The scarcity of specialized resources required for initiation, adoption and implementation of new technology, like ERP, creates a negative impact on SMEs. Even if SMEs have skills, it is difficult for SMEs to retain experienced staff. This generally happens because of their high demand and tendency to be approached by competitors. Most SMEs attempt to save resource expenses by extending employee's workloads to more than 50%. This approach mostly results in rescheduling the tasks and delays in ERP implementation as employees become exhausted after long and extensive work periods that result in unproductive efforts.





**Figure 3. Challenges faced in implementing and maintaining ERP**

## DISCUSSION

This paper shows the importance of ERP in providing business solutions for Enterprises. It indicates how ERP implementation went through many stages over the years and how it was used by large vendors. Technology played an important role in ERP development and implementation. It made radical changes in the ERP market to be wider and accessible. Every release of new technology, ERP developers coop with it and develop a new system architecture design based on the technology. The major idea of the paper is to specify new ERP architecture designs and vendors that used it. It was shown that Six-tier ERP architecture is the latest ERP architecture design along with could ERP and Mobile ERP systems. ERP architecture designs now are more flexible, on hand, faster, low cost and easier to implement. They provided a great solution to ERP legacy systems architecture. In terms of development, the increasing complexity of business information systems, the need for rapid adaptation to different devices and integration of business concepts are all good reasons for ERP development. As a result, ERP has grown to cover all core business functions for both the private and public sector. Moreover, ERP turned out to be more modular and moved to be the application that's accessed remotely.

Many businesses encountered numerous problems when trying to implement massive systems. The packages not only cost large amounts of money, but the processes to implement those systems often ran over budget because of hidden costs. This, however, was the first of many issues in ERP implementation. Other risk factors include failure to redesign business processes to fit those set out by the software, lack of top management support or a "champion," insufficient training and inclusion of the end-users during and after implementation, inability to recruit and train qualified ERP systems developers, insufficient data standardization, lack of integration across all functional areas of a business, and failing to obtain and keep expert knowledge of the system. Much research attention has focused on understanding these issues and identifying ways to solve these implementation problems.

## CONCLUSION

The majority of existing ERP studies focuses on large enterprises, adoption versus non-adoption and implementations success factors, this study focus on the post-adoption stage, that is, the impact of ERP usage on user productivity. Numerous firms have successfully adopted ERP systems for a variety of reasons. ERP is considered as one of the most important innovations that will allow companies to achieve substantial benefits by automatizing, standardizing and monitoring business performance. In a research conducted by Hitt et al [20] it was found that firms that adopted ERP systems exhibit better performance in both terms of user productivity and firm's performance; sales per employee, profit margins, return on assets, inventory turnover, asset utilization, payable and receivables account turnover, etc. This study also measured firms that adopted ERP are 4.2% higher in productivity, they suggest a correlation between ERP user productivity and firm's performance, because adopters of ERP are also likely to be more extensive users of information technology. On the other hand, some ERP implementations fail to attain strong business benefits from the system, in particular to ERP usage and its impact on a firm's performance. One important reason for its failure is related to the reluctance or unwillingness of users to accept an ERP system. Therefore, a good understanding of the user's acceptance of ERP systems is essential to user productivity. On business applications such as ERP system, the goal of management is to achieve a relevant level of use of the system. Firms are recognizing that individual user productivity with information systems is one of the most important determinants for the firm's organizational productivity.

ERP systems are sets of integrated applications that can provide a total solution to an organization's information system needs by addressing a large proportion of business functions including finance, accounting, human resources, supply chain and customer information. They support a process-oriented view of the business as well as business processes standardized across the enterprise. Recently, these packages are implemented on client/server architectures that are more flexible and scalable than mainframe systems. Many papers have been written on this topic. In this paper, a comprehensive review of the recent research work in ERP systems has been presented.

Now more than ever, businesses need to streamline processes to enhance productivity, increase efficiency, lower costs, empower employees and gain flexibility in today's dynamic business environment. To achieve all of this and to obtain greater business value from their information systems, organizations have been integrating data within and also across processes, which is the core objective of an ERP system. While there is a rise in awareness about ERP systems and their benefits, their adoption is slow among SMEs. An integrated ERP system is required to possess characteristics and conditions for achieving user information satisfaction, better system usage, flexibility, scalability and full benefits that would drive its implementation among SMEs. Recently, the SME market has become the focus for ERP implementation, and ERP vendors have started offering solutions in the cloud that would help in diminishing the myth that ERP is only viable for large organizations.

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## ICT: A BOON FOR HIGHER EDUCATION IN 21ST CENTURY

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### ABSTRACT

*Today's world is empowered by information and communication technology (ICT). There is nothing which is untouched with the use of technology. It plays a vital role in all spheres of human activities. Education sector is also not an exception either. All experts and practitioners in the education sector increasingly recognizing the importance of ICT in supporting educational system at all levels i.e. primary, secondary and higher. The use of ICT in education lends itself to more student-centered learning settings and often this creates some tensions/confusions among teachers as well as students community. But in fast changing world and knowledge-driven society, the role of ICT in education is becoming more and more important and this importance will continue to grow and develop in 21<sup>st</sup> century. In the present paper an attempt has been made to study the role of ICT in higher education. The paper highlights the concept and recent steps taken by Indian Government for ICT access. The paper argues the role of ICT in transforming teaching learning process and also discusses the opportunities of ICT in contemporary higher education and challenges with deploying ICT in education. The authors also provide some practical suggestions for addressing the challenges and finally the concluding section summaries the idea and its usefulness.*

**KEYWORDS:** *Information and Communication Technology, Higher Education, Teaching-Learning, Opportunities, Challenges.*

### INTRODUCTION

Information and communication technology (ICT) has become an essential entity in all aspects of human life. The use of ICT has tremendously changed the ways and practices of all forms of endeavour within business as well as governance. Education sector is also not an exception either

though the impact is not as extensive as in other fields. Also all experts and practitioners in the education sector increasingly recognizing the importance of ICT at all levels of educational sector i.e. primary, secondary and higher. ICT is changing the way we work, communicate, organize, conduct business, gather and process information, even how we play and entertain. It is not a revolution in technology, machinery, techniques, software, speed or convergence; it is a revolution in concepts (Reddy, 2010). But when one looks at education, there seems to have been an uncanny lack of influence and far less change than other fields have experienced. A number of people have attempted to explore this lack of activity and influence (Soloway and Prior, 1996; Collis, 2002).

But in recent times, factors have emerged which have strengthened and encouraged moves to adopt ICTs into classrooms and learning settings. These have included a growing need to explore efficiencies in terms of program delivery, the opportunities for flexible delivery provided by ICTs (Oliver & Short, 1996); the capacity of technology to provide support for customized educational programs to meet the needs of individual learners (Kennedy & McNaught, 1997); and the growing use of the Internet and WWW as tools for information access and communication (Oliver & Towers, 2000). As we have entered into the 21<sup>st</sup> century, with the strong bearing of ICTs in contemporary education, we will soon see a huge change in educational planning and delivering system. This paper seeks to explore the initiatives taken for ICT access and the opportunities and affordances as a consequence of these initiatives.

### **INITIATIVES TAKEN BY GOVERNMENT FOR ICT ACCESS**

Information and communication technology is an important instrument that can transfer the present isolated, teacher-centered and content centered approach into students-centered as well as thought provoking approach. There has been a dramatic shift from the 1980s to the present day in terms of access to technology by the population in general (Reddy & Sinha, 2009). Rout and Singh (2010) discussed major initiations taken for ICT access as follows:

- Computer literacy & studies (CLASS) project had initiated in 1984 for senior secondary students. It was an awareness programme but failed due to technological compatibility.
- In 1994, GOI also introduced Computer Aided learning Programme under District Primary Education Programme (DPEP) in 1994.
- In 2000, NCERT in its National Curriculum Framework for School Education had also emphasized on access to global information sources and prescribed text book on ICT.
- In 2002, the GOI launched a project called Vidya Vahini to provide for IT and IT-enabled education in 60,000 schools in India over three years ( India has about 1.1 million schools), as part of Rs. 6,000 crore (USD 1.2 Billion) project (Kumar A., Oct 9, 2002).
- In early 1999, Tamil Nadu state government announced its intention to establish virtual university designed to promote Tamil language, literature & culture integration through medium of Internet linked computers.
- Again in September 2004, EDUSAT as India's first dedicated educational satellite was launched with footprints covering the entire country, EDUSAT makes it possible to receive direct to home quality broadcasts of educational programme using any television set and a low cost receiver.

- Government of India Launched National Programme on Enhanced Learning (NPTEL) in Sept., 2006 which was funded by MHRD to pave the way between multimedia & web technology to enhance learning of basic science and concepts.
- HRD Minister Arjun Singh launched National Mission of Education through ICT (NMEIT), a centrally sponsored scheme, in at Sri Venkateswara University. The main aim is to address the goal of access, equity and quality in Higher Education. And attempt to bridge the digital divide between rural & urban as well as in rich & poor strata of society. Rs. 4612 crore is allotted for this project.
- It has become mandatory for all the higher education institutions in the country to have a website to display their physical and instructional facilities. Even primary and secondary schools are being equipped with the internet and satellite connectivity.
- National Knowledge Network has been set up on April, 9, 2009 by Department of Information Technology. The main aim of NKN is to connect all higher centers of learning and research by bringing altogether all stake holders from science, technology, higher education agriculture & governance to common platform. Recently the Union Minister for ICT Kapil Sibal launched the logo & website of NKN.

### OPPORTUNITIES OF ICT IN HIGHER EDUCATION

Educationists have begun to realize that personal computers, with their convenient parts i.e. LCDs, pointing device with multimedia capabilities and ability to link with note books & laptops of others have evolved into personal media which can facilitate effective learning environments. Moreover, ICT has the potential to increase the availability of quality educational materials through interactivity and global reach, and by sharing knowledge, materials and databases quickly and cheaply independent of geographic distances (World Bank 2003). Side by side universities and institutes of higher education have a mission to a make teaching-learning process effective and interesting. Study of use of ICT in Higher Education reveals the following opportunities:

**Students-Centered Learning:** ICT has the capacity to shift the paradigm from teacher directed enterprise to one, which supports more student –centered models. ICTs by their very nature are tools that encourage and support independent learning. Students using ICTs for learning purposes become immersed in the process of learning and as more and more students use computers as information sources and cognitive tools (Reeves & Jonassen, 1996), the influence of the technology on supporting how students learn will continue to increase.

**Information Literacy:** Today ICTs are dominating so much of contemporary life and work. Already there has emerged a need for educational institutions to ensure that graduates are able to display appropriate levels of information literacy, “the capacity to identify and issue and then to identify, locate and evaluate relevant information in order to engage with it or to solve a problem arising from it” (McCausland, Wache & Berk, 1999, p.2). The institutions of higher education should ensure that their graduates demonstrate not only knowledge in their subjects but also generic skills which have seen the pool of generic skills expanded in recent years to include information literacy.

**Support Knowledge Construction:** Contemporary learning theory is based on the notion that learning is an active process of constructing knowledge rather than acquiring knowledge and that instruction is the process by which this knowledge construction is supported rather than a process



of knowledge transmission (Duffy & Cunningham, 1996). Learning approaches using contemporary ICTs provide many opportunities for constructivist learning through their provision and support for resource-based, student centered settings and by enabling learning to be related to context and to practice (Barron, 1998). So with more and more use of ICT in learning process, more pronounced impact on students' learning can be made.

**Any Time, Anywhere Learning:** In past, students have a very little choice in terms of method and manner for delivery of instructions. In global era, where everything is for trade including education, use of technologies is doing a commendable job in transmission of knowledge through online courses offered overseas. Students are starting to appreciate the capability to undertake education anywhere, anytime and any place. This flexibility has heightened the availability of just in time learning and provided learning opportunities for many more learners who previously were constrained by other commitments (Young, 2002).

**Support to Admission & Examination System:** By using modern technologies, universities can improve their admission process by uploading all information, admission forms & exam schedules on their websites. They can conduct entrance/semester/annual examinations online. It would probably provide a great support to students, parents as well as administrators.

**Useful in Research Activities:** With the help of innovative and user friendly search engines through Internet, a researcher can get vast information about recent developments related to his field, collect variety of information on a particular topic and can make his findings more significant.

**Professional Development of Teachers:** ICT provides opportunities to access a wide range of resources that helps in many ways in professional developments of teachers. It provides support for workforce remodeling through the automation of routine administrative tasks and the availability of technical support; increased opportunities to develop innovative ways of supporting students' learning.

The continued and increased use of ICT in Higher Education in coming years will serve to increase the temporal and geographical opportunities that we are currently experiencing. And the opportunities provided by ICT will increase with the increase in ICT access among students.

### **KEY CHALLENGES BEFORE ICT IMPLEMENTATION**

While considering the opportunities associated with the ICT-integrated education, we also let to know the second side of coin i.e. Challenges faced by policy makers and educators while implementation of ICT in Higher Education. Some of the key challenges related to different aspects of education are discussed below:

#### **A. Challenges related to the Educational Policy & Planning:**

- The total approach of integrating ICT at higher level is not serious.
- There is lack of clear and specific objectives, guidelines and time bound targets, which are helpful in advancement of education.
- Technology, pedagogy & Content integration is not there. All are taught separately creating confusion among students.

#### **B. Infrastructure related challenges:**

- Non-availability of appropriate rooms or buildings to house the technology.

- Non-reliable supply of electricity & telephonic facilities in developing countries.
- Access to computers in universities, communities & as well as affordable Internet services.

### **C. Challenges related to Capacity Building:**

- Lack of awareness and mindset of teachers at all the levels of education.
- Change in role of teacher and integration of ICT in existing curricula.
- Confusion among teachers' community to understand why they should use ICT & how exactly they can use ICT to help them teach better.
- Lack of support from Educational Administrators.

### **D. Challenges related to language & Content**

- Dominance of English language on Internet, which is not so proficient in developing countries.
- Lack of ICT material in countries like Singapore, Malaysia & India in local language.

### **E. Challenges related to Finance**

- Difficulty of balancing educational goals with economic realities.
- The costs associated with the development of high quality technology facilitated learning materials are quite high. Similarly the cost of delivery of such instructional material is also not in the range of many institutions.

## **SUGGESTIONS**

ICT is being used at a fast rate in all sectors especially in education by almost all the developed and developing countries of the world. But in case of developing countries like India there are certain barriers discussed above which hinders the path of successful ICT implementation in education. To improve the current situation some of the suggestions given below may be followed:

- In the light of far-reaching potential impact of the new ICT technologies on learning experience, the Government of India should develop a charter for E-learning in Indian context.
- There is a need of collaboration among institutions at state, national & International level: Universities, Colleges & schools should establish an integrated strategic planning process.
- The institutional ICT policy needs to be defined and agreed. This sets the direction, functions and boundaries of as well as targets of ICT in the institution. While developing the policy, the core business of the institution i.e. learning and research as well as main customers i.e. students must take the center stage.
- ICT creates fear, especially the fear of job loss. The policy and master plan must therefore reassure employees by catering for training and retraining opportunities for them. They must be able to see computers as tools rather than as competitors. they need to recognize that they are the part of the information system.

- It is suggested that the institutions relieve the teachers of some of their duties so that they will have more time to devote to E-content development. They should be empowered with easy access to wide range of instructional designs & technical support tools.
- Problem of funds can be removed by using following measures such as grants both at state as well central level, public subsidies, community support, public-Private Partnership (PPP) etc.

Last but not the least, total approach of ICT integration in higher education should be complemented with serious efforts both at administrative as well as grass root level. For this, two fold strategy: government support and local community mobilization can be the main key.

### CONCLUDING REMARKS

In today's era of technology ICT aids plenty of resources to enhance the teaching skills and learning ability. The integration of information technology in teaching is a central matter in ensuring quality in the educational system. Information and communication technologies (ICTs)—which include radio and television, as well as newer digital technologies such as computers and the Internet—have been touted as potentially powerful enabling tools for educational change and reform. When used appropriately, different ICTs are said to help expand access to education, strengthen the relevance of education to the increasingly digital workplace, and raise educational quality by, among others, helping make teaching and learning into an engaging, active process connected to real life. ICTs are a potentially powerful tool for extending educational opportunities, both formal and non-formal, to previously underserved constituencies—scattered and rural populations, groups traditionally excluded from education due to cultural or social reasons such as ethnic minorities, girls and women, persons with disabilities, and the elderly, as well as all others who for reasons of cost or because of time constraints are unable to enroll on campus. Information & Communication technology is an important instrument that can transfer the present isolated, teacher-centered & Book-centered environment into student-centered, thought-provoking and healthy environment. There are infinite opportunities of integrating ICT into Higher Education. Now teaching community is able to reach in remote areas to teach the ignorant community of students. it is important that serious planning & implementation should be done at both Higher & grass root level to make the dream of 'ICT Integration' a ground reality. Research has shown that the appropriate use of ICTs can catalyze the paradigmatic shift in both content and pedagogy that is at the heart of education reform in the 21st century.

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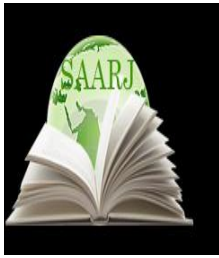
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# South Asian Journal of Marketing & Management Research (SAJMMR)

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## DISCLOSURE OF THE CONCEPT OF INVESTMENT POTENTIAL OF A REGION BY THE EXAMPLE OF REGIONS OF THE REPUBLIC OF UZBEKISTAN

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UZBEKISTAN

### ABSTRACT

*This article analyzes the concept of the speculation potential of the locale, its distinction from the speculation potential of the nation, the venture climate and venture engaging quality of the locale. Translations of the over concept by different creators are given, as well as a comparative examination of the venture potential of the locale on the case of the districts of the Republic of Uzbekistan.*

**KEYWORDS:** *Foreign Investment, Investment Potential Of The Region, Investment Risk, Foreign Investor, Gross Regional Product, Free Economic Zone, Small Industrial Zone.*

### INTRODUCTION

The financial advancement of the nation straightforwardly depends on the level of improvement of the districts, which gets to be conceivable due to the fascination of outside speculation. Choosing a procedure for the improvement of the venture potential of a locale, the state decides the rate of venture stream to a given locale, which specifically influences its socio-economic improvement.

At the display arrange, within the improvement of the economy of Uzbekistan, pointed basically at consequence substitution, localization and building up trade potential, pulling in outside speculation plays an imperative part.

For this, an extensive legislative framework has been created in the republic, consisting of the Laws “On Foreign Investments”, “On Investment Activities”, “On Guarantees and Measures to Protect the Rights of Foreign Investors”, as well as including other regulatory legal acts. So, one of the points of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021 provides for the improvement of the investment climate, active attraction of foreign, primarily direct investments in the economy and regions of the country [1, 2017], and 2019 was declared in the country as the “Year of Active Investments and social development”.

However, for a potential speculator, the nearness of as it was the lawful system isn't adequate. Typically due to the reality that, having free money related assets at his transfer, the financial specialist conducts a exhaustive examination of each, independently taken locale, to be specific, considering its potential openings to fulfill different venture needs.

The following factors are of great importance in the study of investment potential:

- Availability of labor and its cost - labor potential;
- Provision with natural resources - resource potential;
- Degree of infrastructure development, geographic location of the region - infrastructure potential;
- Level of consumer demand - consumer potential.

The accessibility of special tax assessment administrations, as well as free financial zones within the locale, is of no small significance for long run speculator. It is within the interface of the financial specialist to maximize the use of the entire over potential openings of the locale, with negligible association of missing or insulant spoken to outside assets.

The exactness and completeness of unveiling the speculation potential of the locale depends on the number of factors studied. In expansion, a nitty gritty consider of the potential of the locale permits you to expect and diminish speculation dangers, which is additionally vital for a potential speculator, because it is straightforwardly related to consequent money related ventures.

That's why, for a foreign speculator, the foremost critical is the revelation of the venture potential of a specific locale than the venture potential of a specific endeavor, industry or nation as an entirety.

Thus, the exceptionally concept of "speculation potential of a locale" is one of the most markers of a locale that decides its speculation engaging quality.

## **LITERATURE REVIEW**

In spite of the truth that the term "speculation potential" is broadly considered within the logical writing, it's for the most part acknowledged elucidation is still missing. In this manner, when composing the article, the works of different creators were examined, giving a definition to the concept of "speculation potential of the locale".

So, A.A. Miroedov accepts that the speculation potential of the locale is the capacity to get the most extreme conceivable volume of the speculation component of the net territorial item, realized through the utilize of speculation variables of financial development [2, pp. 29-36].

According to F.S. Tumusov, venture potential may be a set of venture assets that make up that portion of the amassed potential that's displayed within the speculation advertise within the frame of potential speculation request, competent and able to turn into genuine venture request, which guarantees the fulfillment of budgetary, fabric and mental capital generation needs [3, 2000].

Golaido F.S. characterizes speculation potential as a set of components that influence the macroeconomic characteristics of a territorial substance and the improvement of speculation forms in it [4, 2015].

Glushkova I.M. gets it venture potential as a set of openings and accessible assets for speculations, which are shaped beneath the impact of a framework of components and conditions for speculation and are actualized through the arrangement of speculation streams [5, 1998].

The creators of logical works considering the concept of “venture potential of the locale” can be separated into two categories. The primary category follows to the asset approach in characterizing this concept, the essence of which lies within the hypothesis of the relative and supreme points of interest of one locale over another, which are shaped from different components.

The moment gather of creators considers this approach to be one-sided and recommends taking under consideration the extend component of the venture potential. In this case, different venture ventures and territorial programs of social and financial advancement, created at the republican level, are taken under consideration.

D.S. Beznos offers his claim elucidation of this term, combining the asset and venture components: “The speculation potential of the locale is one of the subjective characteristics of the in general territorial financial potential, due to the relationship of existing and possibly accessible (conceivable) sources of speculation financing within the locale with a set of developed investment ventures displayed within the shape of financially / socially legitimized bearings for the utilize of speculation assets” [6, 2014].

The structural composition of the investment potential of the region can be represented in the form of a diagram (Fig. 1).

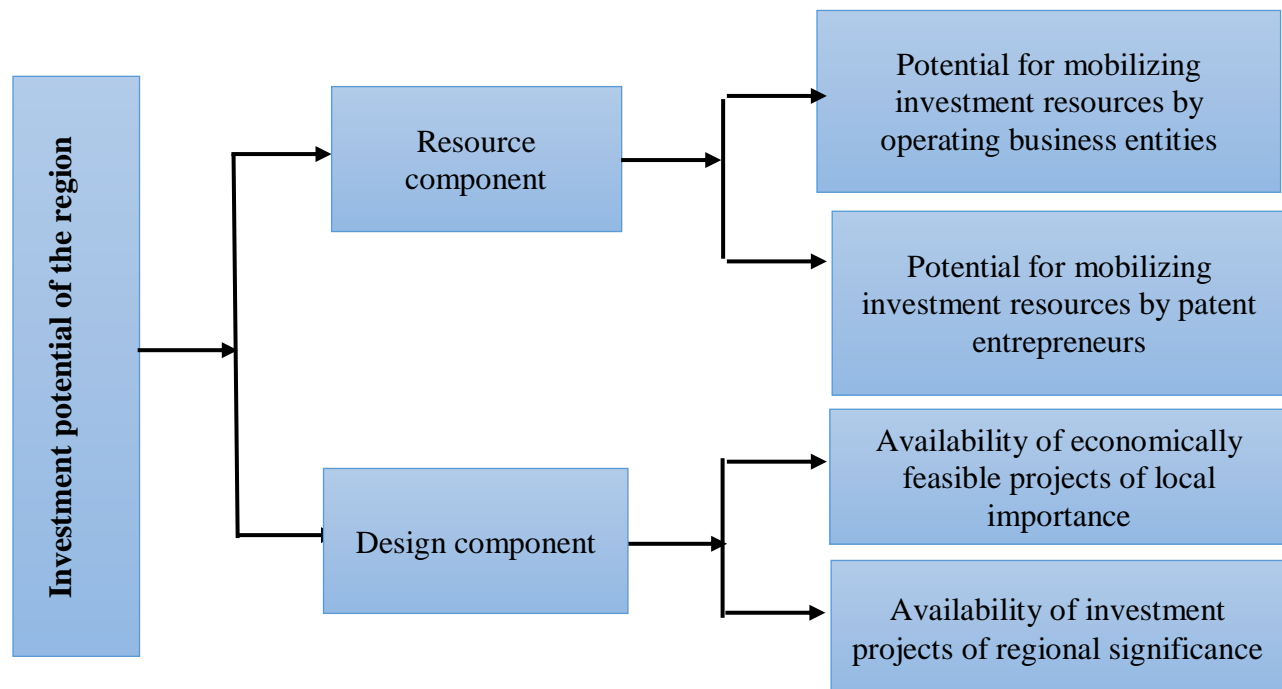


Figure 1. The structural composition of the investment potential of the region [6, 2014].

## ANALYSIS AND RESULTS

To determine the directions of using the investment potential of all regions of the republic as a whole, one should pay attention to the list of priorities determined by the government of the

Republic of Uzbekistan. So, PD-4067 of December 19, 2018 "On measures to implement the investment program for 2019" provides for a targeted program of regional investment projects for 2019, implemented with the attraction of foreign direct investment, including projects for the organization of new and modernization of existing enterprises in each of the regions of the republic.

In turn, in the draft Strategy of the Investment Policy of the Republic of Uzbekistan until 2025, each region has its own priority areas for attracting foreign investment. For example, in the Tashkent region it is planned to include: winemaking and wine products, fruits and vegetables, fat and oil, food flavoring, dairy, ready-made semi-finished products and other branches of the food industry, production of equipment, machine tools, metalworking machines and spare parts and materials for the processing industry (branches), processing of man-made waste, production of large-block wall and finishing materials, ferrous and non-ferrous metallurgy, coal, textile, leather and footwear, electrical, chemical and pharmaceutical industries, heat power engineering, renewable energy and the creation of waste collection and processing centers, expansion of the production of canned food, drinks in environmentally friendly containers [7].

Having analyzed the resources of each of the regions of the republic, we can conclude that all of them have a transport infrastructure, engineering communications, and have favorable climatic conditions. In addition, free economic zones (FEZ) have been created in the regions, as well as small industrial zones (SIZ). Enterprises located in FEZ and SIZ are provided with tax preferences and benefits. As of July 1, 2019, 21 FEZs are operating in 12 regions of the republic, including 670 projects with the participation of foreign investments; the number of refineries is 17.

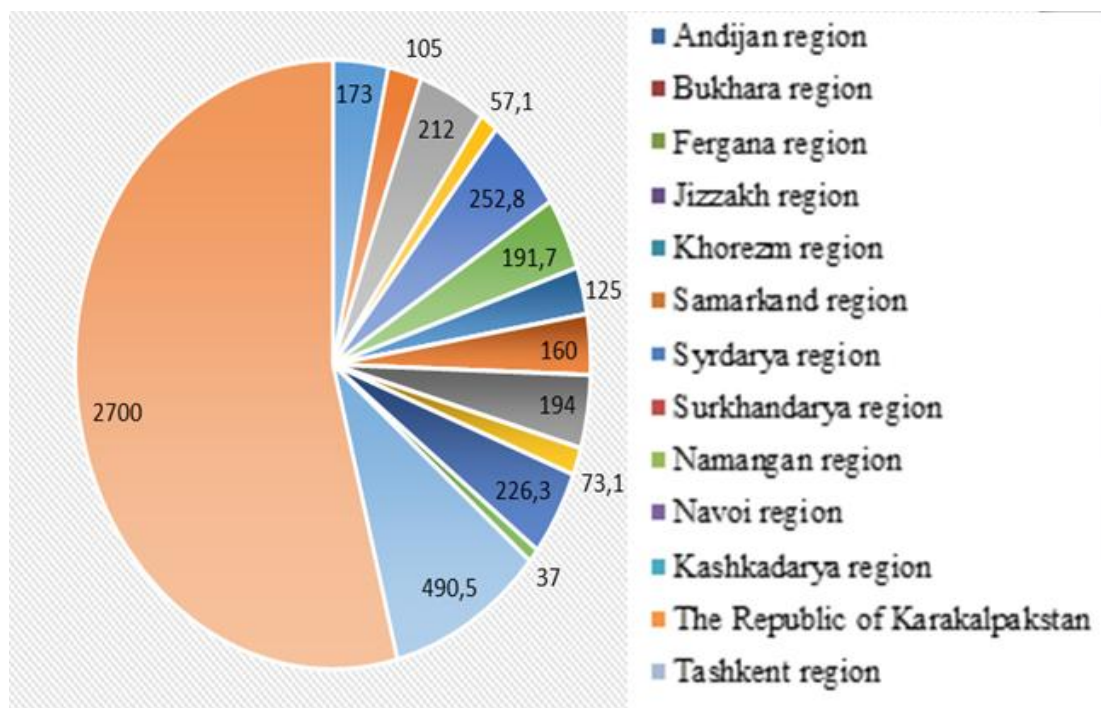


Figure 2. Export potential of regions in 2017 (US \$ million) [8]

Having made a comparative analysis of the export potential of each of the regions separately (Fig. 2), it can be noted that the city of Tashkent occupies the leading position, with exports of



2.7 billion US dollar. The export of the Tashkent region is more than twice the export of the Kashkadarya, Khorezm and Fergana regions and is equal to 490.5 million US dollars. The smallest amount of exports is in the Republic of Karakalpakstan and the Jizzakh region and is USD 37.0 million and USD 57.1 million, respectively.

It was noted above that the level of gross regional product (GRP) is also important for an investor when assessing a specific region. Consider this indicator in the context of the regions of the republic (Fig. 3).

The first positions are occupied by the city of Tashkent, Tashkent region, among the remaining regions, the gap is not so noticeable, with the exception of the Jizzakh and Khorezm regions, in turn, the size of the GRP of the Republic of Karakalpakstan and Namangan region is so small that it does not even reach one trillion soums.

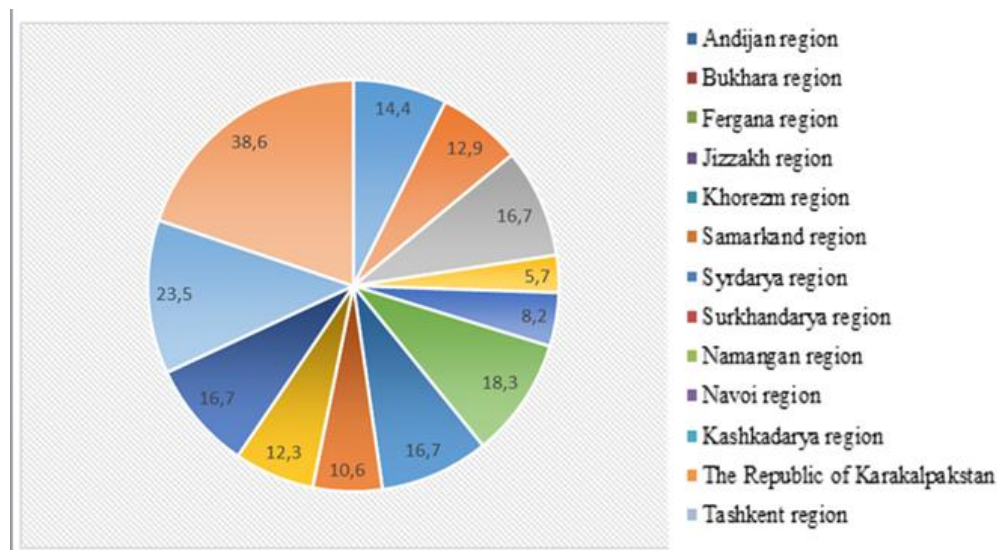


Figure 3. GRP of the regions of the Republic of Uzbekistan for 2017 (trillion soums) [8].

As of January 1, 2018, the number of operating enterprises with foreign capital participation in the country amounted to 5,495 units (Fig. 4).

The bulk of enterprises with the participation of foreign capital are in the city of Tashkent - 3831 units (69.7%), Tashkent 230 units. (4.2%) and Samarkandregion 331 units (6.0%).

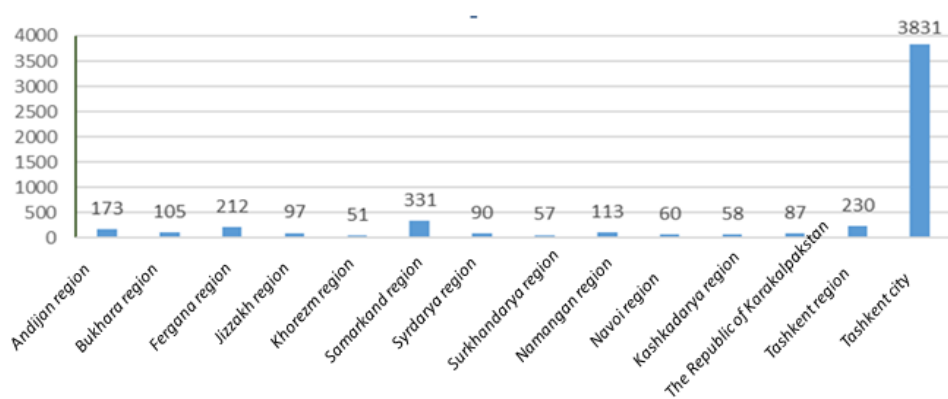


Figure 4. The number of enterprises with foreign investment in 2017 [8].

The smallest part is in Khorezm - 51 units (0.9%), Kashkadarya - 58 units (1.1%), Surkhandarya - 57 units (1.0%) and Navoi region - 60 units (1.1%).

At the same time, the bulk of enterprises with foreign investments are in the industrial sector - 44.2%, followed by the trade sector - 19.1%. The share of construction in the total volume is 5.3%, accommodation and catering services - 4.0%, agriculture, forestry and fishing - 2.9%, transportation and storage - 2.9%, information and communication - 2, 3%, healthcare and social services - 1.3%. Other species account for 18.0%.

## CONCLUSION

In conclusion, we can conclude that the concepts of "investment potential of the region" and "investment risk" are interconnected and do not exist separately, since any investment of financial resources entails certain financial risks.

Despite the fact that the main task of a potential foreign investor is to study the resource base of the region, its existing features and potential opportunities, the development of the project component of the region by the state will increase the chances of a particular region to attract foreign investment.

When creating small industrial zones located in remote areas of the country's regions, along with the provision of tax preferences and benefits, the transport infrastructure of this area should be developed.

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# South Asian Journal of Marketing & Management Research (SAJMMR)

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## ANALYSIS OF SMALL BUSINESS AND PRIVATE ENTREPRENEURSHIP IN THE DEVELOPMENT OF THE ECONOMY OF THE REPUBLIC OF UZBEKISTAN

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### ABSTRACT

*This article provides an overview of the development of small business and private entrepreneurship in the Republic of Uzbekistan, ways of development of small business and areas of state support. The whole history of the development of human society has always been associated with business in one way or another. The word businessman first appeared in the English economy in the 18th century, meaning "property owner".*

**KEYWORDS:** *Small Business, Manufacturing, National Economy, Micro-Firms, Economic Growth, Entrepreneurship.*

### INTRODUCTION

Strengthening the level of development of small business in the Republic of Uzbekistan, and through the establishment of small enterprises to provide great opportunities for small business and private entrepreneurship in the country's economy. This includes employment, overcoming the problem of unemployment and the development of new areas of small business development in the period of the coronavirus pandemic "COVID-19", which began in the first quarter of 2020, the development of small businesses adapted to the digital economy [1]. The term "small

"business" is an English word, mostly used in Western European countries, Japan, and the term "small and medium business" is used in India and Asia as "small manufacturing" [4]. It is necessary to create a new system of innovative small business and private entrepreneurship, compatible with the digital economy, based on innovation from traditional production in all sectors of the economy. The word "business" is an English word that means an entrepreneurial activity, or in other words, an entrepreneurial activity aimed at benefiting people. There are many types of business definitions in the foreign literature. The whole history of the development of human society has always been associated with business in one way or another. The word businessman first appeared in the English economy in the 18th century, meaning "property owner". In particular, Adam Smith describes the entrepreneur as the owner of the property, noting that "he is a person who takes economic risks in order to implement a commercial idea in order to make a profit" [2].

Independent business owners were formed. It is a priority for small businesses to be able to adapt to the various macroeconomic conditions and requirements inherent in a market economy.

The development of small business and private entrepreneurship in various sectors of the economy is one of the important macroeconomic factors in ensuring the stability of the national economy. This can be explained by the growing share of small businesses in the country's GDP as a result of the rapid growth of small businesses in recent years.

### Main Part

The country's economic development program pays special attention to the rapid development, promotion and support of small business and private entrepreneurship, which play an increasingly important role in ensuring economic growth, creating new jobs, solving the problem of employment, increasing incomes and welfare of the population. Figure 1 shows the share of small business in the regions of the Republic of Uzbekistan, the highest share was 78.6% in Jizzakh region, 78% in Surkhandarya region and 74.2% in Namangan region.

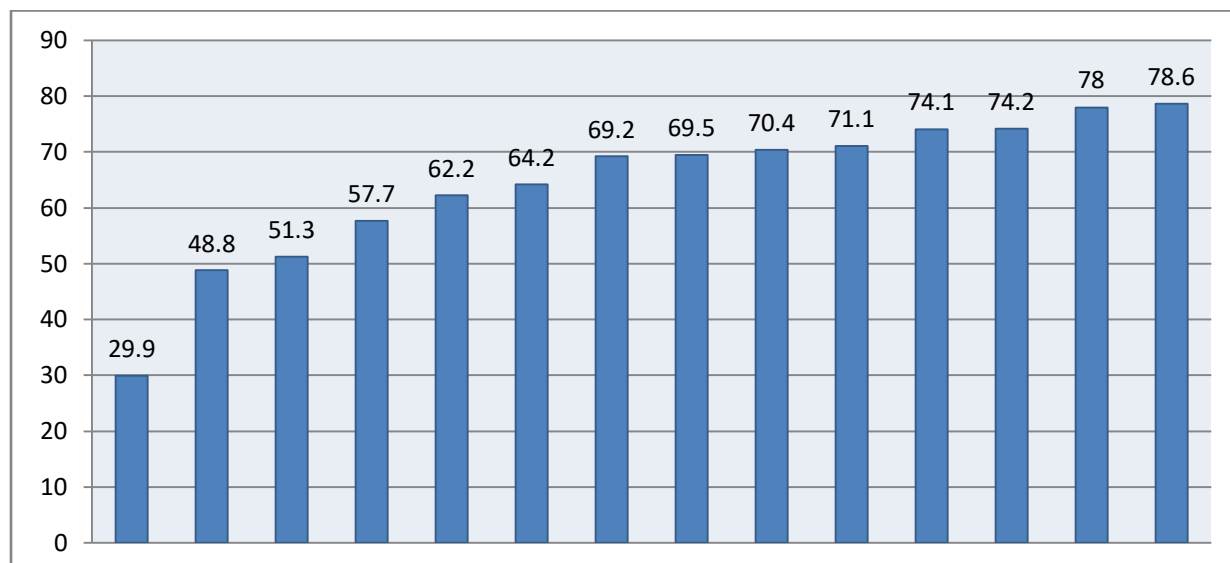
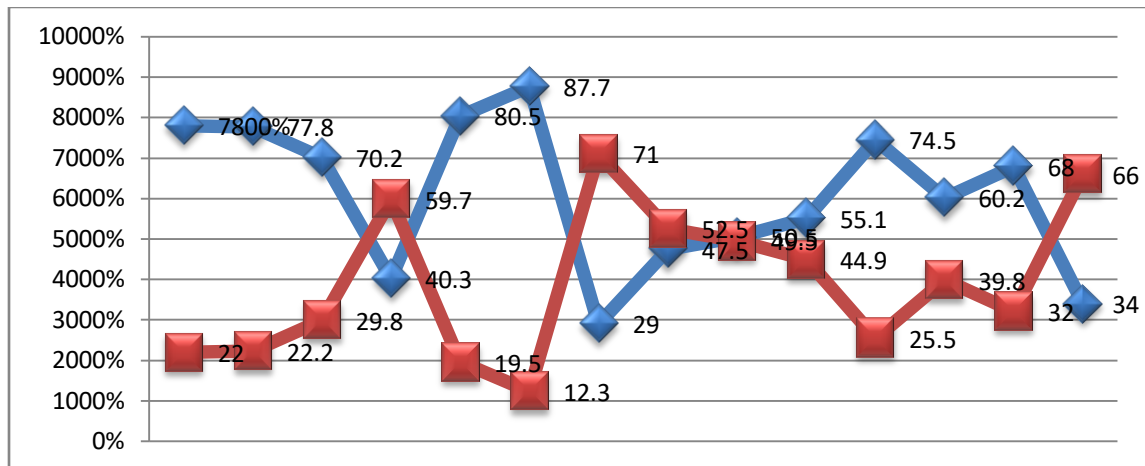


Figure 1. The share of small business in the regions of the Republic of Uzbekistan, %<sup>1</sup>

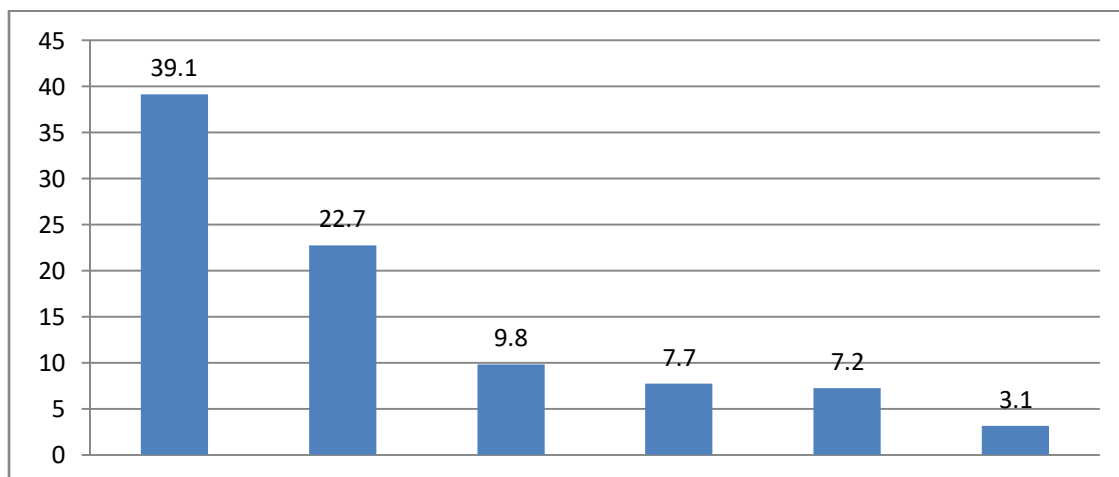
At the same time, the lowest share was observed in Navoi region and amounted to 29.9%. There are three regions where the share of small business is less than 50%. It is expedient to carry out practical work to increase the share of the industry in them.



**Figure 2. The share of large and small businesses in the production of industrial products by region, %<sup>2</sup>**

Figure 2 above provides information on the share of large and small businesses in each region in industrial production. In 2019, as a result of the favorable conditions created for small businesses, the implementation of specific targeted programs, there was a sharp increase, the share of industrial production amounted to 32.8%.

The expansion of small business and private entrepreneurship was also reflected in the increase in the share of other sectors of the economy in production. This result is primarily due to the ongoing reforms and support of small business and private entrepreneurship by the state, which in recent years has increased the share of their products in GDP. In 2019, more than 54,000 small businesses and micro-firms were established, which is 2.0 times more than last year.

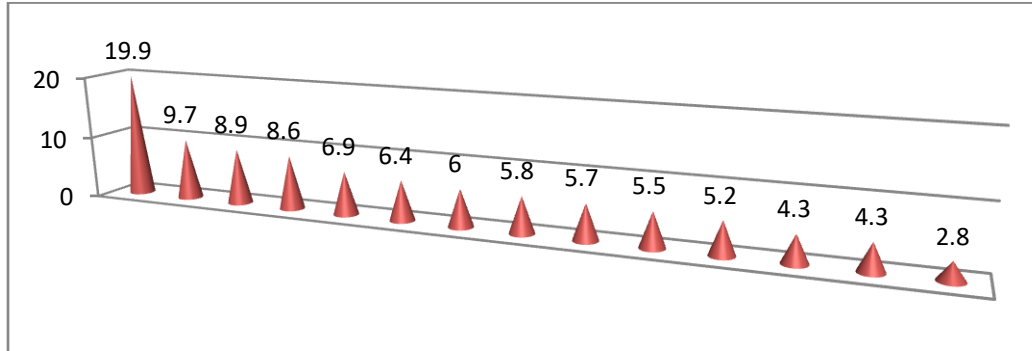


**Figure 3. The share of small businesses and micro-firms by type of economic activity, %<sup>3</sup>**

Figure 3 shows the share of small and micro firms in the country's economic activity, with the largest share in the small business sector being 39.1% in trade, 22.7% in industry and 9.8% in construction. formed. The lowest rate was in the transportation and storage sector, at 3.1%.

## RESULTS AND DISCUSSION

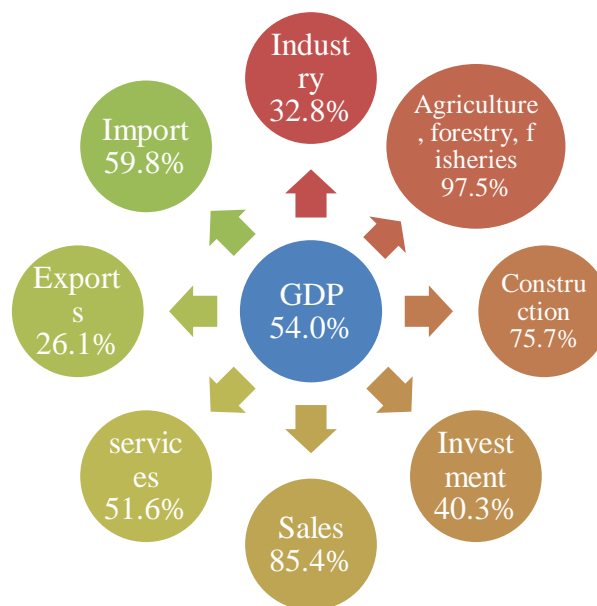
At present, in order to ensure the rapid development of small business and private entrepreneurship in the country, it is necessary to strengthen the reorganization of new small businesses per year. The increase in the number of small businesses and the improvement in the quality of service have a significant impact.



**Figure 4. The share of newly established small enterprises and micro-firms in 2019 by region, %<sup>4</sup>**

Figure 4 shows the regional share of small enterprises and micro-firms established in 2019, with the share of Tashkent city being the highest with 19.9%, Tashkent region with 9.7%, and Samarkand region with 8.9%. The lowest share was in Jizzakh region - 4.3%, in the Republic of Karakalpakstan - 4.3%, and in Syrdarya region - 2.8%.

As a result, the results of small business and private entrepreneurship as an important factor in creating new jobs in the country, increasing incomes and welfare of the population are becoming significant. Measures to stimulate business have contributed to the emergence of new small businesses and micro-firms, and most importantly, the creation of new jobs, and the share of small businesses in GDP has grown over the years.



**Figure 5. The share of small business in GDP in 2019 by sector, %<sup>5</sup>**

Figure 5 shows that the share of small business in GDP is 54%, the share of small business in industry is 32.8%, in forestry and fisheries - 97.5%, and in trade - 85.4%. The highest share sectors are services, which account for 51.6%, imports for 59.8% and investments for 40.3%. In 2019, the rate of establishment of small businesses and micro-firms was high. The largest number was in trade - 21,143, industry - 12,245, construction - 5,283, agriculture, forestry and fisheries - 4,153, housing and catering - 3,905.

The main feature of small business and private entrepreneurship is that in their organization it is necessary to take into account regional factors. It is expedient to establish and develop small business entities, as each region has its own characteristics and taking into account the above characteristics.

## CONCLUSIONS

In conclusion, the following can be listed as some specific indicators for small business:

- Regional indicator of the development of the system and infrastructure of state support of small business;
- the presence and level of development of large firms competing in the market sectors they occupy (for example, in the field of services or trade);
- The level of development of the local banking system and other factors.

Because of their unique characteristics, small businesses can use only some of the many resources that serve to attract investment resources. For example, it should be noted that the opportunities provided by internal sources of financing in small business for the entrepreneur to invest himself are not at the level of the capacity of large firms. Nevertheless, the use of these resources in small business is able to provide significant benefits and has a number of advantages in terms of engagement efficiency. Thus, increasing the number of favorable sources for the formation of investment resources and improving the efficiency of the use of available resources is now, first of all, an important task of the structures of state support of small business.

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## THE COMPETITIVENESS DEVELOPMENT MODEL OF MANUFACTURING FIRMS IN ENTREPRENEURIAL EXPORTS

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### ABSTRACT

*The present study is one of the few carried out to test a model for developing the competitiveness of small and medium-sized enterprises (SMEs) from the dynamic capabilities perspective and considering international entrepreneurship, especially in the food industry. The existing research using the dynamic capabilities perspective has focused more on multinational corporations and has been undertaken in developed countries. Therefore, the context of our study, SMEs in Iran, is new. In addition, in this study we quantitatively assess the competitiveness development model of manufacturing firms in entrepreneurial exports achieved via qualitative research based on grounded theory. The statistical population was composed of SMEs in food industries. The sampling was conducted using a judgmental purposive approach. Responses to the questionnaires sent out provided a statistical sample of 210 subjects, of which 193 questionnaires were diagnosed as qualified for analysis. Following initial analysis, a structural equations model was implemented using the software Smart PLS. The results indicate that five out of seven aspects of identifying and seizing opportunity capability are effective on configuration capability, while the macro environment adversely affects it. Nevertheless, the micro environment plays a moderating role between the two variables. Moreover, configuration capability is effective on entrepreneurial exports, while governments can build the required infrastructure for entrepreneurial export development based on four aspects. Finally, entrepreneurial exports were proven to impact firms' competitiveness. The paper suggests how SMEs can develop their competitiveness with dynamic capabilities and which capabilities can help them in this regard.*

**KEYWORDS:** *Competitiveness, International Entrepreneurship, Entrepreneurial Exports, Non-Oil Exports, Smes, Dynamic Capabilities.*

## INTRODUCTION

Dynamic capabilities “enable organizations to adapt, integrate and reconfigure skills, resources, and functional competences”. The dynamic capabilities refers to the ability that they be created by an organization for renewing its functional competencies according to the changing environment. Dynamic capabilities are thus the foundation of a firm’s ability to respond to environmental changes. Moreover, studies on competitiveness have taken the tangible resources of organizations into consideration and have employed a resource-based approach, which is a static viewpoint (This viewpoint doesn’t attention to environmental changes) (Tambunan, 2009; Sener, Savral& Aydin, 2014; Anton, Muzakan, Muhammad &Sidiq, 2015). In a novel approach, the present study tries to investigate the competitiveness of firms originating from knowledge resources and intangible assets. Also, most of the studies in terms of dynamic capabilities have been done on multinational corporations and in developed countries (Kaur & Mehta, 2017), while the context of this study is SMEs in a developing country.

Although the dynamic capability perspective has increasingly been used in entrepreneurship – for example, as an enabler for business creation (Bowman &Ambrosini, 2003); as a source of innovation (Dangelico, Pujari &Pontrandolfo, 2017); and as a new market entry/market expansion strategy (Cavusgil& Knight, 2015; Frasquet , Dawson, Calderon &Fayos, 2018) – understanding the specific dynamic capabilities that enable and sustain entrepreneurship is at best at its beginnings (De Massis, Kotlar, Wright &Kellermanns, 2017). Based on Pisano’s (2017) categorization, there are industry-specific dynamic capabilities and general capabilities that are applicable to different contexts. Helfalt (1997) considers any research and development in the American petroleum industry as dynamic capabilities. Karim and Mitchell (2000) considered acquisition strategy as a dynamic capability in the US medical sector. Rodriguez, Wise and Martinez (2013) proposed learning capability, market adaptation development and flexibility as dynamic capabilities in the context of high-involvement exporting Mexican firms. Malik and Kotabe (2009) pointed out that organizational learning, reverse engineering and production flexibility are the dynamic capabilities in emerging-market manufacturing firms. Drawing on Pisano’s (2017) distinction, we can conclude that dynamic capabilities are context specific and not identified clearly in all contexts. The context of this study is entrepreneurial firms in the food sector of an emerging economy aiming for internationalization by export and gaining competitiveness at a global level.

Entrepreneurship and exports are continuously appearing in the literature on marketing and management. However, the existing knowledge on entrepreneurship of exports is at the initial stage (Hessels &Vanstel, 2011). Entrepreneurship of exports originates from international entrepreneurship, which is theoretically dispersed (Mainela, Puhakka&Servais, 2014). Therefore, this knowledge area accompanies a knowledge gap and a few theoretical conflicts (Keupp& Gassmann, 2009). Although export orientation has received considerable attention from researchers over the last decade in terms of new investments and international entrepreneurship (Oviatt& McDougal, 2005), entrepreneurial exports, which are part of international entrepreneurship, have not been taken into consideration (Hessels &Vanstel, 2011; Navarro-Garcia, Schmidt & Rey-Moreno, 2015). In other words, there is a research gap in the field of international entrepreneurship (Mainela et al., 2014), especially identification of the role of environmental and organizational factors affecting the export behavior of entrepreneurs, which suffers from a cognitive gap (Oviatt& McDougal, 2005; Navarro-Garcia, Schmidt & Rey-Moreno, 2015).

Moreover, the models offered for international entrepreneurship are mostly related to global companies, while SMEs are less considered, particularly in developing countries. Nevertheless, a glance at SMEs' activities in developing countries indicates a close and effective relationship between the activities of such firms and the economic-social developments in developing countries (Taylor, 2013; Fairuz, Hirobumi & Tanaka, 2010; Eikelenboom, Jong, 2019). Hence, this study tries to present a model for food sector competitiveness from the dynamic capabilities and entrepreneurial export perspectives. International entrepreneurship theory was used in this study to present a competitiveness model, since additional business theories at an international level (e.g., gradual internationalizing theory) typically consider the firm apart from other factors. In other words, theories other than networking theory consider the firm only at an analytical level. In contrast, international entrepreneurship theory utilizes several elements such as participants, business type and even governmental activities. Hence, a comprehensive model can be presented for firm competitiveness. Thus, the present study tries to quantitatively evaluate and test the model resulting from qualitative research based on grounded theory (GT) in order to develop competitiveness.

### **Context of the study**

As a developing country, Iran has taken non-oil exports into consideration as an important strategy in its economic plans in order to be released from a single-product economy and develop non-oil exports. However, in practice, the achievements associated with non-oil exports are mainly related to petroleum commodities and derivatives. Hence, the country needs to strengthen export firms and their international competitive capabilities, in particular in the fields which have the required potential for international trade and competition.

One of the industries that can be of great value in a situation where the country is seeking non-oil exports is the food industry (Kaffash, Haghighikhah & Kordlouie, 2012).

Thus, in this study, SMEs in Iran's food industry are investigated. Also, this model is based on the dynamic capabilities approach and international entrepreneurship theory, ensuring that it offers suggestions for the development of competitiveness in the Iranian food industries, which is explained in what follows.

## **LITERATURE REVIEW**

### ***Competitiveness at the firm level***

Bukley et al. (1988) addressed three aspects of firm-level competitiveness: competitive performance, competitive potential and managerial processes (Cited in Man & Chan, 2002). A similar framework was presented by the Management Development Institution and the World Economic Forum in 2004 (Sternad, Jaegev & Stanbmann, 2013). They asked that competitiveness not be considered as a simple list for measurement purposes, and stated that it is a dynamic concept. This suggests that in order to study competitiveness, not only should results and performance be taken into account, but also the potentials, assets and processes that lead to creating the performance should be considered.

### ***Dynamic capabilities and competitiveness***

In the present study, competitiveness is investigated from a dynamic capabilities perspective. Accordingly, different researchers have argued that utilization of the dynamic capabilities perspective in an organization brings about improvements in performance and competitive

advantage (Eriksson, 2013). Lichtenthaler and Lichtenthaler (2009) provided a capacity based-framework for open innovation. Furthermore, Mckelvie and Davidsson (2009) examined the six types of effect of tangible and intangible resources on dynamic capabilities in new firms. However, this study has adopted Teece's (2009) process view of dynamic capabilities, because we study dynamic capabilities from export entrepreneurship and in such a context identifying and exploiting the opportunity is very important.

Teece (2009) argued that dynamic capabilities indicate innovative capabilities in the organization for (a) identifying opportunities; (b) seizing those opportunities; and (c) organizing threats by combination and reconfiguration of the assets inside and outside organizational borders. Dynamic capabilities have an implicit nature in such a way that conceptualization and observation of them might be difficult; however, they can be identified as a set of specific processes in the organization (Pavlou&Elsawy, 2010).

### ***Dynamic capabilities and international entrepreneurship***

Rodriguez et al. (2013) investigated the impact of dynamic capabilities (i.e., learning capability, market adaptation development, production flexibility and innovation) on export performance. As they state, organizations with a learning orientation will identify market opportunities and utilize new technologies in a better way. Hence, a learning orientation, through enhancement of the data attraction capacity in an organization, influences market adaptation development, production flexibility and innovation. Such a learning orientation, which plays an important role in attracting data in the dynamic capabilities perspective, is often seen in organizations where managers tend to take advantage of entrepreneurship. Therefore, the presence of an entrepreneurial view is an effective and boosting factor among the dynamic capabilities of an organization.

In this study, the ideas of Teece (2009) and Bowman and Ambrosini (2003) were taken into consideration. They recognized dynamic capabilities as the result of organizational learning capabilities, which form and modify operational capabilities.

Easterby-Smith and Prieto (2007) addressed how dynamic capabilities result from learning mechanisms and organizational knowledge resources which stimulate dynamic capabilities. As mentioned in the introduction, the present study tries to investigate the competitiveness of firms from the dynamic capabilities perspective, from which knowledge resources and intangible assets originate. Accordingly, Srivastava, Fahey and Christensen (2001) also divided market-based intangible assets into two categories: relational and intellectual properties, which can constitute dynamic capabilities.

Also, another gap mentioned is lack of clarity regarding the role of organizational and environmental factors in entrepreneurial export behavior. Therefore, the analysis of the economic and performance impacts of export entrepreneurship is imperfect (Zahra & George, 2002). Additionally, as mentioned above, the higher the entrepreneurial exports, the higher the performance and strength of competitiveness in international markets (Man & Chan, 2002). Thus, to answer the gaps, a study was done qualitatively via the method of GT in order to deeply investigate and design a competitiveness model of exporting firms in the food industry in Iran.

Since the research is not concerned with statistical generalizability and aims for a deep understanding of the phenomenon, a non-probabilistic purposive sampling strategy should be used. Therefore, 20 informants in the food sector and from export-oriented food SMEs in Iran

are identified and interviewed to obtain theoretical saturation. Furthermore, in this study the systematic approach presented by Strauss and Corbin (1998) was used and data collection and analysis were conducted concurrently. Thus, the datasets resulting from the interviews were categorized into three groups: open coding, axial coding and selective coding.

The model, derived from qualitative analyses, is presented in Figure 1. As shown, organizational knowledge and intangible resources, which compose the dynamic capabilities to identify and seize opportunities – entrepreneurial orientation, internal market orientation, market system development, learning orientation, managerial competencies, external market orientation and networking capability – can influence and strengthen resource reconfiguration (market flexibility) and consequently enhance entrepreneurial export capacity. Meanwhile, the initiatives and policies of the government, including culture building, economic diplomacy and policies and organizational support, can enhance the conditions for entrepreneurial exports. In addition, the micro and macro environments were identified as intervening factors in the relationship between opportunity identification and resource reconfiguration. Thus, according to the model of Bukly et al. (1988) (Cited in Man & Chan, 2002) competitiveness is not a simple list for measurement.

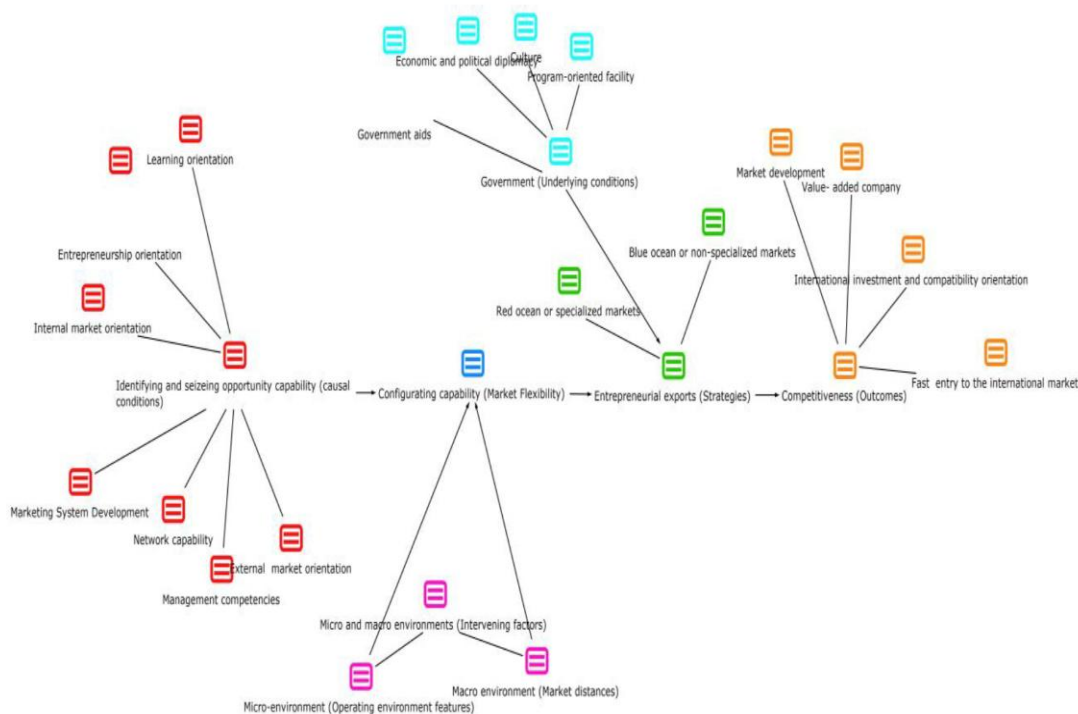


Figure 1- The model of the qualitative research

In order to distinguish the contribution of this research, some existing similar models are identified and summarized in Table 1.



**TABLE 1- COMPARISON OF PROPOSED MODEL COMPONENTS WITH FIRM-LEVEL COMPETITIVENESS MODELS**

Main components and perspective	Clark (2000)	Imanira d (2000)	Hamalin en (2003)	Hooley & Saunders (1993)	Porter (1985)	Waterman, Peters & Phillips (1980)	Choa & Kim (2007)	Shurchulu a (2002)	Utami & Lantu (2014)	Present study
Tangible resources			*	*	*	*	*	*	*	
Intangible resources		*		*	*	*	*	*	*	*
Environmental factors	*		*				*		*	*
Government	*		*				*		*	*
Perspective	Static	Static	Static	Static	Static	Static	Static	Static	Static	Dynamic

### *Identifying and seizing opportunity capability*

This capability is based on analysis of interviews and assessment of the research literature, including such issues as marketing system development, entrepreneurial orientation, internal market orientation, external market orientation and networking capability.

### *Entrepreneurial orientation*

Pesonen (2007), in a paper entitled “SME growth strategies: Organic or non-organic?”, stated that entrepreneurial thought in an organization is considerably associated with growth of activities and development of the corresponding markets. Accordingly, in a paper entitled “The effects of entrepreneurial growth orientation on organization change and firm growth”, Liang Tan, Mankhoff and WahChay (2007) indicated that entrepreneurial orientation plays a fundamental role in organizational change and growth, and provides the required potential for organizational success and performance improvement. Assessing the interviews and achieved codes, in this study argues that entrepreneurial orientation among SMEs can play an important role in opportunity identification, particularly in international markets. Authors such as Taylor (2013) and Zolfaghari, Criado and Nowinski (2013) approved of the result mentioned above. In their study, three aspects – risk taking, innovation and opportunities identification – were found to be important and effective aspects for firms to identify and seize opportunities.

### *Learning orientation*

Without learning capabilities, organizations are not able to reconstruct their solutions, look for investment and take time for change and improvement. Building learning capability in an organization means dynamicity and improvement (Guo& Cao, 2014). As Singh and Motwani (2009) stated, even if the most successful organizations are poor at learning, they may survive, but they will not be able to demonstrate all their capabilities and match changes. In this study, learning orientation was recognized as a factor in causal conditions according to the interviews, so it can be effective in identifying opportunities and seizing them at an international level. Additionally, it contains three aspects, a common perspective, commitment to learning and international spirit. Fernández Vidal and Gómez (2013), and TaghsriShavazi, Moshabaki, Khodad Hosseini and Kordnaej (2015) stated that learning orientation includes the three

dimensions of learning commitment, a shared vision and an open mind, which affect export performance and improve the competitiveness of the organization. In this study, as mentioned above, international spirit, in addition to the two dimensions of learning commitment and a shared vision, was introduced as a new dimension in the learning orientation of an organization in international markets.

### ***Managerial competencies***

The manager/owner is of high importance among SMEs and their competencies and abilities are very effective in guiding the organization and its success (Wickramarante, Kiminami& Yagi, 2014). Man, Lau and Snape (2008), in a paper entitled “Entrepreneurial competencies and the performance of small and medium enterprises: An investigation through a framework of competitiveness”, studied the composition of personality components of an SME owner and enterprise performance in terms of competencies and advantages. They incorporated six types of competency – opportunism, communicational competencies, conceptual competencies, structural competencies, strategic competencies and commitment competencies – as entrepreneurial competencies. Regarding managerial competencies, various studies such as Wu (2007), Chang (2012), Sidik (2012) and Kumlu (2014) highlighted the importance of managerial competencies for international markets. In this study, according to the interviews, the authors conclude that the competencies of a manager/owner in a food manufacturing firm are very important for success in exports, so that the recognized competencies include the three aspects of organizational competency, perceptual competency (analyzing and strategic) and commitment and international orientation.

### ***External market orientation***

Market orientation is the core of modern management and marketing strategies, while a business with an enhanced market orientation will perform more successfully in the market (Smirnova, Naudé, Hennebery, Mouzas&Kouchtch, 2011). As Ramlee (2017) stated, market orientation means creating market intelligence throughout the organization in relation to current and future customer needs that enhances business performance in domestic and foreign markets. In this research, the category of foreign market orientation has been extracted from interviews with an international perspective. It includes the two aspects of retail audit and market research. External market orientation has been studied from a cultural, behavioral and strategic perspective, which has different dimensions from an international perspective.

A retail audit provides a systematic assessment of the company’s retail efforts in a market, which can be very useful for market identification and market analysis, and helps companies understand market trends and capture opportunities in the current environment quickly. Market research also refers to the collection of information about a target market, which must be done before entering the market, because the company can do a feasibility study for market success and entry fees in order to decide whether to enter a market or not.

### ***Internal market orientation***

The results of an internal market orientation can be seen as increased productivity level, competitive position, customer satisfaction, customer loyalty and profit and sale growth. In addition, it will give rise to improved effectiveness and performance of the company toward customers due to interdepartmental coherence inside the organization (Lings &Greenley, 2009). It can be briefly mentioned that an internal market orientation in an organization causes the

facilitation of collaborations for the achievement of common goals, and helps the organization to gain sustainable competitive advantage and improve export performance. Furthermore, Abzari, Ghorbani and Madani (2011) state that an internal market orientation in an organization creates capabilities and competencies that are needed for customer satisfaction and identifying opportunities in markets. Therefore, an internal market orientation contributes to the development of marketing capabilities in a company. In addition, it is a complement of a foreign market orientation.

### ***Marketing system development***

According to the interviews in this study, companies need to develop a marketing system (including branding and brand equity) in order to seize the recognized opportunities and penetrate the market. The process of creating the relationship between emotions/perception and the product with the goal of fostering loyalty and differentiation is called branding (Hislop, 2001). Although it has great potential for international marketing, limited views exist about it due to a low number of experimental studies on global branding, while the branding literature in an international context is somewhat dispersed and sparse (Whitelock&Fastoso, 2007).

Brand equity is another aspect of marketing system capability. In this study, successful firms look for brand equity in export markets for customers and distributors, and try not only to make a special position in customers' minds and undertake branding, but also draw distributors' attention economically .

### ***Networking capability***

Networking is an important strategy which is employed by entrepreneurial organizations to achieve resources and tackle environmental uncertainty and existing obstacles to their operations. Therefore, such networks are very effective in identifying markets and new opportunities. As a result, networking is a driver of entrepreneurial activities (Chang, 2012). According to the interviews, networking capability – including business and social networks – was recognized as an important issue in entrepreneurship. Moreover, Kumlu (2014), Chang (2012), Dong, Bingxin and Tse (2013), Wu (2007) and Lages, Silva and Styles (2009) emphasized the importance of creating business and non-business links (social) with environmental factors as an important factor in improving the competitiveness and export performance of SMEs.

### ***Configuration capability***

Teece (2009) divided the aspects of dynamic capabilities into three categories and presents a process-driven view of dynamic capabilities, which includes identifying and seizing opportunities and resources as the last aspect of configuration capability. Resulting from the interviews and their coding, flexibility was recognized as a reconfiguration capability. Market flexibility addresses a capability that is used when competitors enter a market and meets the threat from their side. In this condition, the organization should try to sustain itself inside the market by decreasing competitors' turnover and gaining better recognition against the market and customers' demands, as well as undertaking concentrated advertising. So far, although diverse studies have been conducted on configuration capability and the corresponding effective factors, they consider configuration capability as the organizational processes and structures to achieve a valuable and new composition of organizational resources to reach sustainable competitive advantage in varying environments (Fey &Biörkman, 2001; Wu, 2007; Rodriguez et al., 2013; Jantunen, Puumulainen, Saarenketo&Kylaheiko, 2005). However, the present study

considered the configuration capability to manage organizational resources in export markets to cope with threats. Also, we formulate the following hypothesis:

H1: The capability of identifying and seizing opportunities is effective in the reconfiguration capability in export markets.

### ***Contextual and intervening factors***

Since Strauss and Corbin's method was used here to present the model derived from GT, two groups of factors, contextual and intervening factors, are mentioned for firms' competitiveness development.

Historically, governments constantly present few drivers for exports as either export-supporting plans (Leonidou, Palihawadana & Theodosiou, 2011) or the establishment of diverse institutions such as banks and insurance companies (Griffith & Czinkota, 2012). In the present study, the role of government actions – as responsible for exports and corresponding services – was also considered as a contextual factor which can provide the potential and infrastructure for exports. In this study, four dimensions such as governmental assistance, economic and political diplomacy, export culture building and plan-oriented facilities are the contextual factors (government actions).

There are diverse obstacles for a company to achieve international markets and develop its activities in foreign markets, so each of these obstacles may attenuate the strength of a company to develop such global activities as exports. Even when the organization has a suitable competitive strength, those obstacles may threaten its strategic position. Generally, these obstacles include macro and micro factors (market distance and specification of the environment) in international markets (Zeriti, Robson, Spyropoulou & Leonidou, 2014).

Market distance or the gap between markets or countries is an important factor in expressing fluctuations in the international environment for business activity (Navarro-Garcia et al., 2015). In this study, market distance is considered to include different dimensions such as economic development, and legal, cultural, geographic and infrastructural dimensions.

The external environment of a firm has always been expressed as an important and influential factor in its level of international entrepreneurship. As Navarro-Garcia et al. (2015), Zahra and George (2002), Taylor (2013) and Zolfaghari et al. (2013), Bocken & Geradts (2019) pointed out, a firm's operational environment has an effect on export performance and the level of international entrepreneurial activity. In this study, specification of the environment includes two dimensions (market and competitive uncertainty). Thus, we formulate the following hypotheses:

H2: Micro-environmental features (specification of the environment) have a moderating role in the relationship between the capability of identifying and seizing opportunities and reconfiguration capability in export markets.

H3: Macro-environmental features (market distances) have a moderating role in the relationship between the capability of identifying and seizing opportunities and reconfiguration capability in export markets.

H4: Government actions are effective in entrepreneurial exports.

### *Entrepreneurial exports (strategies)*

Abi and Yang (2001) defined entrepreneurial exports as a process where individuals, either individually or collectively in an organization, detect opportunities in an international market according to resources and the environmental factors affecting them (Cited in Navarro-Garcia et al., 2015). This definition puts the emphasis on the dependency of entrepreneurial exports on internal (resources) and external (environmental) factors. Helfalt et al. (2007) and Protogerou, Caloghirou and Lioukas (2007) stated that competitive responsive capability has an effect on export performance and increases a firm's ability to expand its international activities. In this study, the interviews showed that food industry companies address two groups of countries for export activities development: blue oceans/non-specialized markets and red oceans/specialized markets. The former encompasses countries suitable for launching exports and development of activities, while the latter contains countries which are more time-wasting and difficult to enter, and these would be a better target for a company in the future when more export experience has been achieved. Furthermore, we formulate the following hypothesis :

H5: Reconfiguration capability is effective in entrepreneurial exports.

### *Competitiveness of exports*

As mentioned above, a firm's level of competitiveness is not considered as a list of factors, but is the result of hiring the organizational resources and capabilities which result in forming the firm's performance (Grimes, Doole & Kitchen, 2007). In this study, with attention to Bukley et al. as mentioned above and interviews, export performance aspects were considered as an indicator for measuring of a firm's level of competitiveness. In addition, research on international entrepreneurship has mentioned export performance as a consequence of entrepreneurial exports (Navarro-Garcia et al., 2015; Jones & Coviello, 2005). Therefore, we hypothesize that :

H6: Entrepreneurial exports are effective in export competitiveness.

## **METHODOLOGY**

As mentioned above, the statistical population here was composed of marketing experts in SMEs of Iran food industry. Also, in the first 10 years of their activities, these SMEs have been entered the export markets and have been exported to several countries. Therefore, not every company was investigated for model evaluation. The names of these companies were obtained from Iranian Trade Development Organization website, export directories section.. For this purpose, a list of desired companies was prepared and the correspondences were made to do survey. According to our limitations for selection of suitable companies and limited statistical population in food staff area, finally about 30 companies with the inclusion criteria were selected and ultimately a total number of 24 companies cooperated to present research. Thus, the sampling method for selecting clusters or companies was judgmental purposive sampling. 210 questionnaires were sent for the statistical sample, a number of 193 questionnaires were answered and were diagnosed as qualified for analysis. The analysis started with this number of questionnaires and Structural Equations Model was implemented, too. For this purpose, the software Smart PLS was used. According to derived model and mentioned hypotheses, a questionnaire was developed to test the conceptual model. The previous studies and qualitative interviews were used for questionnaire development. For questions related to foreign market orientation, marketing system development, configuration capability and entrepreneurial export

,the interviews were used. For other variables such as entrepreneurial export, managerial competencies, networking capability, micro and macro environments, internal market orientation, learning orientation, government actions and competitiveness were used questionnaire of Taylor (2013), Man et al. (2008), Rodriguez et al. (2013), Khmwon(2012), Chein&Tsi(2012), Malik &Kotabe(2009) and Yiu, Lau & Burton(2006) respectively .

### ***Tests and analyses associated with hypotheses***

Demographic information on the 210 respondents was as follows in terms of age, gender, education level, organizational position and individual/organizational export experience. In terms of gender, 63.2% were men and 36.8% women. In terms of age, 42 individuals were in the 20–30 years old category, 63 were in the 31–40 years old category and 52 and 36 individuals were in the 41–50 and 51–60 years old categories, respectively. In terms of education level, 112 individuals had a Bachelor of Science, 70 had a Master of Science and 11 individuals had a PhD or were PhD students. In terms of organizational position, 30 respondents were CEOs, 47 were a commercial manager/director, sales/marketing manager or regional sales manager, and 116 were sales, marketing or commercial experts. Additionally, a large number of respondents (35.8%) had export experience of 3–6 years. Given the results, a major section of the organizations (35.9%) had export experience of 6–10 years.

For data analysis, Hulland's two-step method (1995) was used for modeling by the partial least squares (PLS) method. The first step was to determine the measurement model through reliability and validity estimation, and the second step included determination of the structural model through the indicators of fitness, coefficients of determination and path analysis. The software packages Smart PLS and SPSS were used at each step.

## **RESULTS**

### ***Measurement model***

#### ***Evaluation of measurement model using confirmatory factor analysis***

External compatibility is a model for confirmatory factor analysis. In other words, the external model was initially used to measure the relations between latent variables and their measurement items. The external model assesses the relation between the items or queries of the questionnaire and the structures. In fact, in terms of proving accurate measurement of latent variables by the queries, the relations cannot be tested. Therefore, the external model was used to show accurate measurement of latent variables.

Given the significance of all items in factor analysis, all the components of learning orientation, entrepreneurship, networking capability, market orientation, plan-oriented facilities, economic and political diplomacy, configuration capability, entrepreneurial exports, micro and macro environment and competitiveness were kept in the model. Two items were removed from the aspect of internal market orientation, brand equity and branding in marketing system development; and one item was removed from manager/owner competency in the organization of opportunities identification and seizing sub-aspect. In addition, in the government variable at the building culture aspect, three and two items were removed from export culture and human resources development, respectively. Following evaluation of the measurement model and explanation of the components, internal compatibility and model validity needed to be measured. For this purpose, structural reliability and the extracted variance were used to model structural

equations. Thereafter, the internal compatibility and validity of the model were measured accordingly.

### *Internal compatibility of the model*

Internal compatibility or construct reliability allows for assessment of the internal compatibility of the indicators measuring a concept.

Cronbach's alpha and composite reliability were used for measurement of the model's construct reliability in PLS. The value of Cronbach's alpha and composite reliability should be greater than 0.7, while in PLS modeling composite reliability is more important than Cronbach's alpha. Table 2 shows the reliability of our model components.

**TABLE 2- CRONBACH'S ALPHA AND COMPOSITE RELIABILITY (CR)**

Cronbach's alpha	CR	Hidden variable
0.7513	0.8574	Commitment
0.8949	0.9226	Internationalsp
0.8256	0.9198	Vision
0.8709	0.9207	Innovation
0.7407	0.8852	Opportunity
0.8614	0.9154	Risktaking
0.8123	0.9254	Internal
0.7485	0.8265	Brandeq
0.7543	0.8523	Branding
0.7647	0.8645	Commercialnet
0.783	0.8742	Socialnet
0.8164	0.8907	Analysis
0.8429	0.9053	Internationalorien
0.7231	0.8134	Organizing
0.8069	0.8861	Strategic
0.8699	0.906	Enaudit
0.7143	0.8134	Marketre
0.6688	0.8561	Cultural
0.8736	0.8994	Exportcult
0.7321	0.8167	System
0.8643	0.8984	Facili
0.7321	0.8321	Organisup
0.7632	0.8456	Diplo
0.8863	0.9137	Configure
0.8211	0.8819	Exp
0.8905	0.9127	Compet

Key: Internationalsp = International spirit; Brandeq = Brand equity; Commercialnet = Commercial network; Socialnet = Social network; Internationalorien = International orientation; Enaudit = Environmental audit; Marketre = Market research; Cultural = Cultural building; Exportcult = Export culture; System = Systematic attitude; Facili = Facilities; Organisup = Organizational support; Diplo = Diplomacy; Configure = Configuration; Exp = Entrepreneurial export; Compet = Competitiveness

As can be seen from Table 2, the composite reliability coefficients are all greater than 0.7, while those of Cronbach's alpha are very close to 0.7, proving the internal compatibility of the model. In structural equations, composite reliability is a more important indicator compared to Cronbach's alpha.

To study the coherence of the formative variable, the variance inflation factor (VIF) was used. The results are shown in Table 3. As can be seen from the table, the VIF values for the variable of identifying and seizing opportunities are less than 10 (Hair, Ringle&Sarstedt, 2012). Thus, there is no coherence between the dimensions of this variable.

**TABLE 3- THE DEGREE OF COHERENCE**

VIF	Dimensions	Variable
1.110155	Learning orientation	Identifying and seizing opportunities
1.08117	Entrepreneurial orientation	
1.000842	Networking capability	
1.111715	Manager competencies	
1.025272	External market orientation	
1.67945	Internal market orientation	
2.03005	Market system development	

**Model validity**

In order to assess the validity of the measurement models, two methods were used, convergent and divergent (differential) validities. Fornell and Larcker (1981) proposed average variance extracted (AVE) as a criterion for convergent validity. The lowest AVE of 0.5 indicates sufficient convergent validity; namely, a latent variable can on average explain more than half of its indicators' dispersion (Azar, Gholamzadeh&Ghanavati, 2012, p. 162). AVE values for the model structures are presented in Table 4.

**TABLE 4- AVERAGE VARIANCE EXTRACTED (AVE) OF HIDDEN VARIABLES IN THE RESEARCH**

AVE	Hidden variable
0.6675	Commitment
0.7047	Internationalsp
0.8515	Vision
0.7947	Innovation
0.794	Opportunity
0.783	Risktaking
0.834	Internal
0.798	Brandeq
0.867	Branding
0.6802	Commercialnet
0.6991	Socialnet
0.7311	Analysis
0.7612	Internationalorien
0.781	Organizing
0.7221	Strategic
0.6594	Enaudit
0.614	Marketre
0.7487	Cultural
0.502	Exportcult
0.623	SystemIm



0.5663	Facili
0.743	Organisup
0.612	Diplo
0.6387	Configure
0.6519	Exp
0.5679	Compet

Key: Internationalsp = International spirit; Brandeq = Brand equity; Commercialnet = Commercial network; Socialnet = Social network; Internationalorien = International orientation; Enaudit = Environmental audit; Marketre = Market research; Cultural = Cultural building; Exportcult = Export culture; System = Systematic attitude; Facili = Facilities; Organisup = Organizational support; Diplo = Diplomacy; Configure = Configuration; Exp = Entrepreneurial export; Compet = Competitiveness

As can be seen from Table 4, the convergent validity of all latent variables is higher than 0.5, proving the convergent validity of the measurement model. Divergent (differential) validity is relatively a supplementary concept for which two criteria are addressed in PLS path modeling: the Fornell–Larcker criterion and cross-loading test. The former was used here. This criterion argues that a variable should have more dispersion among its indicators compared to those of other latent variables. Statistically, the AVE in each latent variable should be greater than the greatest second power of correlation of that variable with other latent variables (Azar et al., 2012, p. 163).

The results indicated that the square root of AVE for each variable is higher than the correlation of that variable with the others, and thus the divergent validity of the measurement model is proved. The numbers on the main diameter of Table 5 show the square root of AVE for each variable, indicating greater value compared to other numbers located in the row and column associated with that variable (i.e., correlation of the variable with others).

**TABLE 5- CONVERGENT VALIDITY**

Internationalsp	Internationalorien	Innovation	Facilim	Exportcultim	Exp	Culturalim	Compet	Commitment	Commercialnet	Analysis	
										0.86	Analysis
									0.82	-0.02	Commercialnet
								0.82	0.04	0.77	Commitment
						0.75	-0.07	0.12	-0.04	0.03	Compet
					0.87	-0.04	-0.01	0.04	0.03	0.03	Culturalim
				0.81	-0.04	0.13	0.00	0.52	-0.06	-0.06	Exp
			0.71	0.71	0.09	0.14	0.01	0.65	-0.08	-0.08	Exportcultim
		0.75	0.66	0.73	0.06	0.16	0.02	0.59	-0.06	-0.06	Facilim
		0.89	0.00	-0.02	-0.02	-0.07	-0.02	0.62	0.00	0.68	Innovation
	0.87	0.63	-0.01	-0.01	-0.04	0.05	-0.04	0.63	0.06	0.81	Internationalorien
0.84	0.82	0.61	-0.01	-0.02	-0.01	-0.01	-0.08	0.64	0.06	0.72	Internationalsp
-0.01	0.00	-0.01	0.69	0.68	0.72	0.08	0.16	0.03	0.60	-0.06	Macro
-0.02	-0.04	0.07	0.06	0.07	0.09	0.12	0.02	0.06	0.05	0.02	Microen
0.64	0.70	0.74	0.02	0.02	0.02	0.00	0.02	0.67	0.06	0.76	Oppertunity
0.71	0.79	0.53	-0.05	-0.05	-0.04	-0.02	0.01	0.50	0.09	0.62	Risktaking
-0.01	-0.06	-0.02	0.73	0.62	0.65	-0.07	0.15	-0.03	0.51	-0.08	Socialnet
0.64	0.74	0.63	0.01	-0.01	0.03	-0.05	0.02	0.62	0.02	0.79	Strategic
-0.01	-0.07	-0.10	-0.07	-0.07	-0.02	-0.17	0.00	-0.15	-0.06	-0.11	Treingsitu

Key: Internationalsp = International spirit; Internationalorien = International orientation; Facili = Facilities; Exportcult = Export culture; Exp = Entrepreneurial export; Cultural = Cultural building; Compet = Competitiveness; Commercialnet = Commercial network; Socialnet = Social network, Macro= Macro environment, Microen= Micro environment, Traingsitu=Training situation .

### Structural model analysis

Figure 2 shows the model studied here, according to the hypotheses.

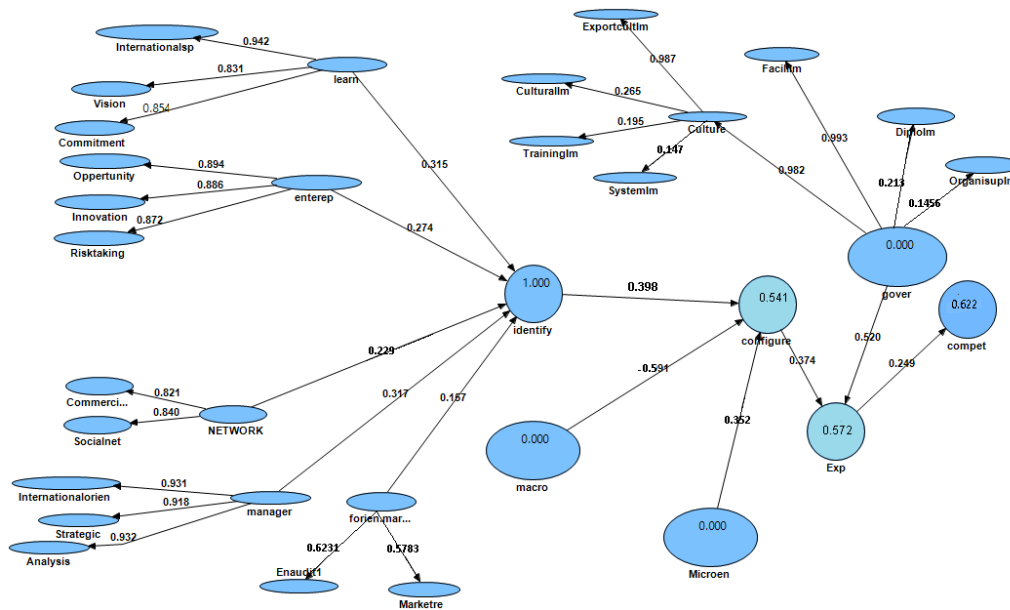


Figure 2- Structural equation model with standardized coefficients

### Inferences associated with the hypotheses

In this section, the hypotheses are studied separately and their acceptance/rejection is decided based on the results.

As addressed above, the main hypothesis here is that opportunities identification and seizing capability is effective in reconfiguration capability in export markets.

In order to investigate this influence according to the structural model , the t-statistic is 2.842 to a significance of 0.05, which is greater than the t-statistic of 1.96, concluding that such a path coefficient is significant at an error level of 0.05, therefore H1 is accepted at a confidence level of 95%. Moreover, according to Figure 2, the aspects of manager/owner competencies, learning orientation, entrepreneurial orientation, networking capability and external market orientation are those with the highest impact on the formation of opportunities identification and seizing capability.

In doing so, the second hypothesis was addressed as follows: features of the operating environment result in varied relationships between opportunities identification and seizing capability and resources configuration capability in export markets.

In order to assess the moderation of the micro environment, our model was retested in the presence of the moderator and the result showed the significance of the moderator. The t-statistic

obtained for this variable is 2.408, which is greater than the t-statistic of 1.96, indicating approval of the micro-environment variable moderation assumption. Therefore, H2 is accepted.

The third hypothesis was as follows: features of the macro environment result in varied relationships between opportunities identification and seizing capability and resources configuration capability in export markets.

In order to assess the moderation of the macro environment, the model was retested in the presence of the moderator and the result showed the insignificance of the moderator. The absolute value obtained for this variable was less than 1.96, indicating rejection of the micro environment variable moderation assumption. Therefore, H3 is rejected. However, it is noteworthy to mention that the macro environment has a negative direct impact on resources reconfiguration.

The fourth hypothesis was addressed as follows: the government can be effective in export markets and activities development by such actions as granting plan-oriented facilities, culture building (i.e., export culture, systematic attitude, human resources development and cultural revolution), economic and political diplomacy and organizational support, and thus is motivating food industry companies in this way.

In order to assess H4 based on the structural model, the t-statistic obtained for this variable was 2.207, which is greater than the t-statistic of 1.96, concluding that such a path coefficient is significant at an error level of 0.05 and that the positive coefficient encompasses the governmental effect on entrepreneurial exports, indicating a direct impact of the government on entrepreneurial exports. Therefore, H4 is accepted at a confidence level of 95%. Given Figure 2, the aspects of plan-oriented facilities, culture building, economic and political diplomacy and organizational support have the highest impacts on the formation of the government as a variable.

The fifth hypothesis was as follows: resources reconfiguration capability significantly affects entrepreneurial exports.

In order to assess H5 based on the structural, the t-statistic obtained for this variable was 2.968 at a significance of 0.05, which is greater than the t-statistic of 1.96. It can be concluded that such a path coefficient is significant at an error level of 0.05 and that the positive coefficient of configuration capability impact on entrepreneurial exports indicates the direct impact of configuration capability on entrepreneurial exports. Therefore, H5 is accepted at a confidence level of 95%.

The sixth hypothesis was as follows: entrepreneurial exports significantly affect export competitiveness.

In order to assess H6 based on the structural model, the t-statistic obtained for this variable was 3.975 at a significance of 0.05, which is greater than the t-statistic of 1.96, concluding the significance of such a path coefficient at an error level of 0.05, while the positive coefficient of entrepreneurial exports' impact on export competitiveness indicates the direct impact of entrepreneurial exports on export competitiveness. Therefore, H6 is accepted at a confidence level of 95%. The final model has been shown in Figure 3.

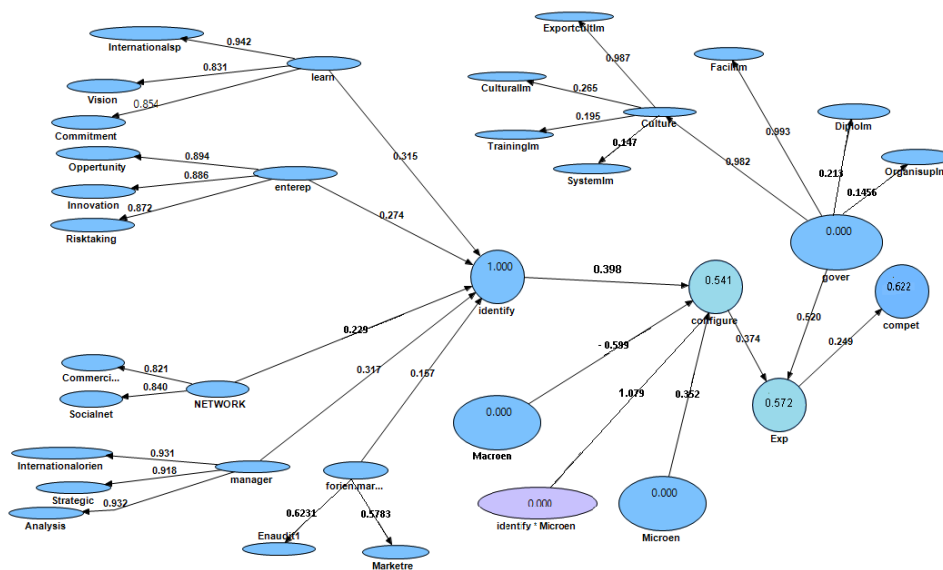


Figure 3- The final research model

## CONCLUSION

Most of the research on competitiveness has taken a resource-based perspective, which is a static viewpoint. Therefore, in this study we used a dynamic capabilities perspective, which assumes changes in resources. The existing research using the dynamic capability perspective is more about multinational corporations and those in developed countries. Therefore, the context of our study, SMEs in Iran, is new. Furthermore, based on the gaps in the literature on the subject and the fact that in any industry a certain set of capabilities are dynamic (e.g., study of Mexican export companies, manufacturing companies in emerging markets and oil companies in the United States in Rodriguez et al., 2013; Malik & Kotabe, 2009), it is justified to consider studying a new industry as a contribution to research.

In this research, dynamic capabilities have been identified with the three-stage view of Teece (2009) in food SMEs in Iran aiming to enter international markets, which include seven capabilities: (a) entrepreneurial orientation, (b) learning orientation, (c) managerial competencies, (d) internal and external market orientation, (e) market positioning, (f) networking capabilities and (g) market flexibility. On the other hand, in this research we seek to provide a model for the development of the competitiveness of Iran's food industry enterprises. To this end, we have used a three-stage model of competitiveness at the firm level that incorporates potential, process and performance. Potential refers to the factors that a business needs to compete successfully in a market, which includes dynamic capabilities dimensions (entrepreneurial orientation, learning orientation, managerial competencies, internal and external market orientation, market positioning, network capability and market flexibility) and the characteristics of the environment (micro environment), market distance (macro environment) and governmental actions (culture building, plan-oriented facilities, government aid and economic policies and diplomacy). Processes represent strategies that will help a business achieve its goals, including reconfiguration capability (market flexibility) and entrepreneurial exports. Eventually, performance consists of the three dimensions of financial, non-financial and general.

Unlike other researchers, such as Utami and Lantu (2014), who developed a competitive development model based on a three-step, resource-based perspective, this research has tried to focus on the dynamic capabilities required at each stage so that the company can adapt faster than competitors to the environment in international market changes. This is because in the current world of business, the speed and agility of identifying and seizing opportunities and adapting/confronting the environment are prerequisites for profitability and success. On the other hand, as stated above, this research uses international entrepreneurship theory, which means the model of competitiveness development is based on the internal and external factors of the organization presented above. For this purpose, in this study we tested a qualitative model that explains this.

In this research, in the qualitative section, factors that can make up the capability of identifying and seizing opportunities on the international level include seven dimensions. Two dimensions were eliminated (internal market orientation and market system development). Because SMEs, due to their low number of employees and their limited financial and non-financial resources, are not so focused on the need for staffing and planning for market positioning, they only have a short-term vision. The qualitative model is based on successful SMEs in the Iranian food industry. Therefore, it can be said that the reason for the difference in export performance and the competitiveness of these firms against successful firms may be due to these two components. In addition, the organizing dimension in the managerial competencies in the qualitative model was eliminated in the second stage of the significance check. The reason for this is that SMEs have limited financial and non-financial resources. Thus, they often outsource their activities such as distribution and promotion to foreign companies in the market, so that they can enter an export market more quickly.

In the following, the hypotheses of the model are explained. In the present study and according to the model derived from the qualitative research, seven aspects, containing intangible resources, were considered for the capability of identifying and seizing opportunities. However, following the quantitative test, only five aspects – that is, manager/owner competencies, learning orientation, networking capability, entrepreneurship orientation and external market orientation – were recognized as the elements forming this variable.

Regarding manager/owner competencies, diverse studies such as Wu (2007), Chung (2012), Sidik (2012), Guo and Cao (2014) and Kumlu (2014) pointed to the importance and role of managerial competencies for international activities. Accordingly, the present study recognized two aspects of competency, perceptual competency and international orientation, as the elements forming managerial competencies to identify and seize opportunities in international markets for SMEs.

Learning orientation is the second important aspect. Authors such as Jimenez-Jimenez and Cegarra -Navarro (2007), Lages et al. (2009) and Malik and Kotabe (2009) pointed to the importance of organizational learning in international activities success. It is also addressed here as an effective factor in opportunities identification and seizing capability in international markets. Additionally, this aspect has three sub-aspects – learning commitment, common perspective and international spirit – which resulted from GT.

Networking capability is the third important aspect in the capability of identifying and seizing opportunities in our model. Research including that by Kumlu (2014), Chang (2012), Dong et al. (2013), Wu (2007), Lages et al. (2009) and Guo and Cao (2014) has pointed to the importance of

networking and making business and non-business (social) links with environmental factors for SMEs' competitiveness and export performance improvement. Social system theory states that entrepreneurs perform three types of activities, attaining goals, social networking and economic optimization, in order to develop their business (Ramlee, 2017).

Entrepreneurial orientation is the fourth aspect in our model for opportunities identification and seizing. Diverse studies – for instance, those by Mudaling (2015), Fernández Mesa et al. (2013) and Wu (2007) – have highlighted the export performance of the firm and its competitiveness as an important aspect. For this section, three sub-aspects were mentioned: innovation, risk-taking and proactiveness in the market. In other words, entrepreneurial firms are more risky than other firms and more proactive at identifying and seizing opportunities (TaghsriShavazi et al., 2015).

The fifth aspect is external market orientation. As Chang (2012), Smirnova et al. (2011), Ramlee (2017), Sidik (2012) and Jimenez-Jimenez and Cergarra-Navaro (2007) argued, external market orientation positively and directly affects the competitiveness and export performance of a firm. However, it should be noted that some studies state a negative relationship between these two variables or even show no relation, while most studies have confirmed the positive relation (Boohene, Agyapong & Asomaning, 2012).

As stated above, there are several approaches to market orientation, such as cultural, behavioral and strategic approaches. This research is based on the view of dynamic capabilities and international entrepreneurship in export markets. Thus, it attempts to present components that are relevant to the research context. For this purpose, external market orientation has two aspects, retail audits and market research. Cao (2011) suggested that market research and environmental audit are two important factors for identifying and seizing opportunities in international markets.

As discussed in the literature, the micro environment includes market and competition uncertainties. Thus, firms that work in markets with high uncertainty are more capable of identifying and seizing the opportunities and their capabilities for reconfiguration are stronger. In other words, they can cope with threats better than their rivals and better organize their resources (Taylor, 2013; Zolfaghari et al., 2013 ;Bocken & Geradts, 2019).

In addition, in this study the results showed that environmental factors at the micro level affect the strength of the relationship between the capability of identifying and seizing opportunities and reconfiguration capability. Thus, firms that are active in such environments have high dynamic capabilities and high entrepreneurial capabilities.

The difference or distance between markets or countries is an important factor to address fluctuations in the international environment for business activities. Here, as mentioned, market distance means the economic, legal, cultural, geographic and infrastructural differences. Also, additional studies point to the negative impact of market distance on international activities development. Similarly, Navarro-Garcia et al. (2015) argued that the higher the distances, the slower the development of international activities and export markets.

In this study, market distance has a negative effect on reconfiguration capability and is not a moderator in the relationship between identifying opportunities and reconfiguration capability. However, it is noteworthy that the impact of identifying and seizing opportunities on reconfiguration capability is higher than the negative impact of the macro environment or market distance. Hence, such a negative impact can be relieved by strengthening the identifying and seizing of opportunities according to the five sub-aspects. Besides, it should be noted that about

54% of reconfiguration capability changes can be predicted according to the variables of identifying and seizing opportunities, environmental features and market distance.

H4 states that reconfiguration capability is significantly effective on entrepreneurial exports. The studies also argue that the competitive responsive capability of a firm can be effective in export performance, because the competitive responsive capability reflects the ability of a firm to create changes in a market or to respond to changes in the environment effectively (Helfalt et al., 2007; Protogerou et al., 2007). In this study, the results showed that reconfiguration capability (market reflexivity) has a positive effect on export entrepreneurship. In other words, strengthening the reconfiguration capability can enhance a firm's export activities.

As mentioned above, international entrepreneurship theory was employed, which is the latest and most comprehensive theory for international business. In this theory, international entrepreneurship is seen from several angles, including according to the internal and external environment. Hence, the government as a factor can build the infrastructure for a firm's international activities development. In this study, the activities or programs that the government can set up for the development of international entrepreneurship in the food industry are presented in four dimensions: plan-oriented facilities, culture building, governmental assistance, and economic and political diplomacy. A government that pays attention to these dimensions can develop export markets in the Iranian food industry. Various studies have emphasized the important role of governments in export development (Leonidou et al., 2011; Griffith & Czinkota, 2012).

In the studies conducted on entrepreneurial export and international entrepreneurship – for example, the models of Navarro-Garcia et al. (2015) and Jones and Coviello (2005) – export performance has been addressed as the consequence and result of entrepreneurial exports. The hypotheses showed that entrepreneurial exports are effective on competitiveness (export performance). Thus, by considering the model and effective variables in entrepreneurial exports – such as identifying and seizing capability, reconfiguration capability and governmental actions – firms' competitiveness can be quickly reinforced.

### ***Research Implications & Future Research Directions***

According to the model derived from the present study, the following items are proposed which can improve the firm competitiveness in Iranian food SMEs. These suggestions have been categorized in three groups:

- The first group of suggestions is on firm-level and about entrepreneurial orientation and market-orientation. Firms should try to strengthen the entrepreneurial orientation in the light of the three dimensions: risk taking, innovation and market proactiveness.
- The second group is about enhancing firms' international flexibility and increasing the ability to respond to changes and environmental uncertainties. The firms need to have a strong R&D team and need to be able to change their production according to changes in the market, that is, flexible production. Additionally, they are required to first use marketing techniques such as customized advertising or BTL<sup>1</sup>, distinctive packaging, and extending distribution coverage to reduce competitor's turnover, and in case of not resultant, they should produce and modify the product.
- The third group is about the government capability to provide the required potentials for SMEs competitiveness development in food industries. Firstly, authorities can strengthen organizations

and associations related to entrepreneurial export-oriented food firm which would lead to effective communication and joint efforts that lead to cost reduction in international markets. In addition, it will engage exporting companies in the process of policy-making for food products. Secondly, by building a systematic attitude for exporting by eliminating overlapping regulation parallel institutions and establishing coordination between export organizations such as the Export Development Center, Export Fund, Export Insurance; and thirdly, by investing in infrastructure for processing of the food industry, authorities can assist food SMEs to gain competitiveness.

For future studies the following subjects can be interesting: .conducting similar exploratory studies using other qualitative research strategies to validate the model for the academic community and pay more attention to policy making in this area, conducting the present study in other sectors and comparing the different paths toward competitiveness at global level. Furthermore, the novelty of dynamic capabilities concept and existence of such different terms and concepts as capabilities or procedures, resources, processes, learning, competencies in this field have caused some confusion. Although few attempts have been made to connect and integrate these concepts, this confusion still exists and is considered as one of the criticisms in this area. Therefore, enthusiasts of strategic domain and other management areas can provide an integrated models for the coherence of these concepts by performing a meta-analysis on dynamic capabilities.

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