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Enhancing the Role of Small Entrepreneurship in Innovation-Driven Economy

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Abstract. Small business, as a driving and leading force in the agrarian economy, plays a decisive role in ensuring food security and advancing the strategic priorities of economic development. In contemporary conditions, the expansion of small enterprises enhances the competitive environment among economic entities and supports the sustainable development of the agricultural sector. Within the framework of the new economic system, entrepreneurship evolves alongside the formation of new property relations in the agrarian sphere. Therefore, it is essential to examine the regulation of business relations and the development of the market environment in connection with the key directions of economic transformation.

As a dynamic component of economic growth, business entities seek to generate profit by satisfying consumer demand. Their activities, which combine production factors through personal initiative and direct responsibility, are grounded in economic and legal principles. The organizational foundations of small business create the initial conditions necessary for entrepreneurship and the effective functioning of the agrarian business environment.

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The development of entrepreneurship in agriculture largely depends on the competitive climate and the availability of equal partnership opportunities. Consequently, the existing theoretical and methodological framework requires a comprehensive evaluation of this potential. Particular attention should be given to assessing the capacity of businesses to shape a favorable market environment in the agricultural sector. Such an assessment must consider sectoral requirements, key influencing factors, and the territorial characteristics of business activities.

Keywords: *small business, agrarian economy, competition, food security, market environment, consumer demand*.

Introduction

Studies demonstrate that during the years of the Great Depression, when the world faced the serious threat of a food crisis, the issue of state support for the agricultural sector became particularly significant. The remarkable achievements attained by developed countries through continuous governmental patronage of agriculture played a decisive role in shaping a special strategic attitude toward this sector. The innovative development of agriculture gradually established itself as one of the most effective directions for utilizing allocated financial resources.

At the same time, the penetration of scientific and technological progress into agriculture remains largely dependent on existing economic opportunities. In various academic sources, there are differing viewpoints regarding the limited responsiveness of small businesses to innovation in the agricultural sector. However, it is difficult to adopt a single, unequivocal position on these considerations. The factors often cited to explain this alleged insensitivity include the deep-rooted nature of traditional methods in crop production and livestock farming, strengthened by centuries of accumulated experience and established habits; prevailing stereotypes concerning the potentially negative ecological consequences of intensive agricultural technologies; and the relatively small scale of production and commercial activity, which may restrict innovation capacity (Dewanta & Sidiq, 2023).

While it would be inappropriate to disregard the influence of these factors, it is equally important to recognize that the possibilities for managing such influences are expanding. Issues such as environmental sustainability, the rational adaptation of traditional practices to contemporary requirements, and the limitations associated with small-scale operations can increasingly be addressed through appropriate organizational, economic, and technological mechanisms (Ekimova, 2013).

Methodology

For agriculture to withstand intersectoral competition and reduce price disparities with industrial products, the acceleration of innovative processes is essential. The successful implementation of innovation in agriculture depends significantly on the level of entrepreneurial activity and the willingness of business entities to adopt and apply innovative solutions. Therefore, for the purposes of this research, it is necessary to clarify the concepts of innovation and innovation processes.

Although the terms “innovation” and “novelty” are often used interchangeably, they differ in certain respects. An innovation acquires a qualitatively new status once it is accepted for practical application. From that moment onward, it becomes not merely a new idea, but a functioning innovation integrated

into economic practice. Moreover, the dissemination of innovations, alongside their creation, constitutes an integral element of the overall innovation process (Bulatova, 2010).

In modern conditions, innovation represents one of the key determinants of agricultural efficiency. Innovations encompass scientific achievements and advanced practical experience in the fields of technology, labor organization, management systems, and production methods. They involve the application of these advancements across various areas of activity in order to address sector-specific challenges. In broader terms, innovation relates to all aspects of economic and organizational processes and serves as a catalyst for positive structural change. Given the multifunctional nature of agriculture, innovations must meet complex and interrelated requirements to ensure sustainable sectoral development.

The innovation market itself remains in a formative stage and continues to generate considerable scholarly discussion. The diversity of viewpoints concerning its structure and functioning stems largely from the fact that this market is still evolving.

The innovation market can be defined as a space of interaction among factors that determine production efficiency and competitiveness. Within this market, technical and socio-economic innovations, rationalization proposals, inventions, patents, and technological solutions function as objects of exchange. These elements are frequently consolidated under the general concept of "know-how," representing the tangible outcomes of scientific and technological progress (Isakov, 2010).

In academic literature, innovation-related issues are examined at various levels and scales. Contemporary theory conceptualizes the national innovation system as a network of institutions that individually and collectively contribute to the creation, dissemination, and commercialization of new technologies. This perspective underscores the systemic and interconnected nature of innovation development. The national innovation system serves as a foundational framework for shaping state policy in the field of innovation and technological advancement (Amrahov et al., 2024).

Without engaging in an extended discussion of the principal criteria for evaluating the effectiveness of agricultural and food market activities, it should be emphasized that producer productivity and the degree of consumer demand satisfaction are widely regarded as decisive indicators. Although undesirable from a qualitative standpoint, in many developing countries the increase in production volume—sometimes even at the expense of quality—remains a dominant performance criterion. This tendency often acts as a motivating factor for the adoption of innovations. In several countries, intensive agricultural technologies provide expanded opportunities for quantitatively increasing output. However, where environmental regulation remains underdeveloped, the application of intensive technologies in crop and livestock production is frequently oriented primarily toward maximizing production volumes rather than ensuring ecological sustainability.

Returning to the issue of multifunctionality in agriculture within the context of innovative development, several interconnected components can be identified (Amrahov et al., 2023):

- the interrelationship between agriculture, environmental conditions, and the long-term development of agrarian regions;

- the interdependence between stable agricultural growth and the level of food security;
- the relationship between agricultural development and international trade dynamics.

Among these multifunctional aspects, the role of agriculture in maintaining ecological balance is of particular importance. This function manifests itself across multiple dimensions of agricultural activity. A central element of this responsibility is the production of environmentally safe agricultural goods and food products, which contributes both to public health and to sustainable regional development (Amrahov et al., 2023).

Results

Innovations in agriculture must be evaluated comprehensively, taking into account resource utilization, production processes, technology selection, operational regimes, and intervention in agrobiological systems. These dimensions should constitute the core criteria when assessing the performance of entrepreneurs involved in the production, processing, transportation, and commercialization of agricultural products. A multidimensional approach to evaluation ensures that innovation is not reduced solely to technological modernization, but is understood as a systemic transformation affecting all stages of the value chain.

The issue of land ownership, which forms the institutional foundation for the development of small businesses in the agricultural sector, was resolved in Azerbaijan in a relatively short period through systematic and effective reforms. As one of the first transition economies to implement comprehensive land reform, Azerbaijan has created a functioning mechanism for transferring land ownership to peasants, thereby strengthening private initiative in agriculture. In developing the legal and regulatory framework for this reform, advanced international experience was applied in a scientifically grounded manner to ensure that economic, social, and structural challenges were addressed in accordance with contemporary requirements (Mustafiyanti et al., 2023).

In discussions concerning innovation in small agricultural enterprises, the scale effect is frequently emphasized. It is often argued that the limited size of small business entities restricts their capacity to introduce innovations effectively. However, recent empirical experience demonstrates that innovative entrepreneurship has emerged as a distinct and strategically supported direction within small business development. In this context, state policy increasingly prioritizes innovation-oriented small enterprises as drivers of sectoral modernization (Uskova et al., 2014).

The efficient use of material, technical, labor, and financial resources remains a central concern in the agricultural sector. The level of innovation entrepreneurship—reflected in the successful commercialization of innovations—can be measured through competitiveness indicators. As economic growth progresses, rising incomes and the strengthening of social protection mechanisms encourage consumers to anticipate and forecast future demand patterns. This transformation in consumer behavior reinforces the importance of integrating demand analysis into innovation strategies.

Demand forecasting plays a decisive role in shaping innovative agricultural development. Trends identified through consumer surveys and analytical projections conducted by specialized research institutions provide a basis for evaluating the effectiveness of structural transformations in innovative agricultural production. When preparing forecasts for specific products and product categories, it is essential to incorporate analytical results concerning price sensitivity and quality requirements (Amrahov et al., 2025).

Research further indicates that indicators generated through modern mathematical forecasting models should undergo additional verification using expert evaluation techniques. The reliability of such assessments depends directly on the completeness and accuracy of the underlying information base. International best practices demonstrate that databases reflecting the dynamic interaction between consumer demand and the structure of innovative agricultural production must be continuously updated. In addition, the influence of import dynamics should be systematically incorporated into analytical models to ensure a comprehensive evaluation framework.

Discussion

The current profitability level of agricultural labor remains insufficient. Nevertheless, a positive trend can be observed in the growing number of entrepreneurs seeking to expand the scale of their operations. The expansion of production scale within the national economy generally stimulates innovation-driven development in the agricultural sector, although certain structural and institutional limitations may moderate this effect.

As in other sectors of the economy, the commercialization of scientific ideas and technological advancements in agriculture requires a preliminary comparative assessment of anticipated revenues and associated costs. Efforts to stimulate innovative behavior among agricultural entrepreneurs are unlikely to succeed if projected expenditures exceed expected returns. Thus, economic feasibility remains a fundamental prerequisite for innovation adoption.

At the same time, innovative development in agriculture is accompanied by significant challenges. These include high levels of uncertainty and risk inherent in innovation processes, contradictions arising between innovative entrepreneurship and marketing practices, and the necessity of program-based planning for innovation-related activities (Shchevyev et al., 2020). The agricultural sector, due to its dependence on biological cycles and environmental conditions, faces additional layers of unpredictability that complicate innovation management.

Particular attention should be paid to the characteristics of commodity groups within the innovation market, which reflect the relationship between supply and demand for innovations. These commodity groups are shaped by locally significant innovations, object-specific innovations realized through inter-organizational cooperation, and market-oriented innovations expressed through new product development. Academic sources also emphasize the intersection of these characteristics—especially between local and object innovations—as a distinctive analytical category. Innovations that stimulate replacement demand or create entirely new demand are frequently classified as forecast innovations, underscoring their strategic orientation (Mirzazadeh & Zeynalli, 2024).

The realization of innovation potential ultimately depends on a balanced assessment of revenues and costs. In the literature, two principal aspects of innovation evaluation are distinguished: first, the assessment of outcomes associated with specific development trajectories; and second, the determination and measurement of the costs required for their implementation.

When selecting among alternative innovation projects, agrarian entrepreneurs must conduct comparative evaluations based on both economic and social parameters. Consequently, innovation initiatives should be assessed not only in monetary terms but also from a broader socio-economic perspective, taking into account their long-term impact on rural development and social welfare (Gazizov, 2014).

Practical experience indicates that economic evaluation methods tend to be more specific and measurable, whereas social evaluation approaches are more comprehensive and multidimensional. While innovation projects are typically specified for the purpose of cost–benefit comparison and precise output measurement, social values must be analyzed within the broader framework of universal societal challenges (Amrahov et al., 2023).

The exhaustion of the extensive growth potential of small agricultural enterprises generates additional structural problems. The transition toward intensive, technology-based development makes financial support mechanisms—such as credit facilities, subsidies, and fiscal incentives—objectively necessary, particularly for entrepreneurs, family farmers, and rural households lacking favorable starting conditions. The experience of developed countries demonstrates that beyond financial assistance, agricultural institutions require support in legal, organizational, and methodological domains. Such comprehensive support strengthens innovation-oriented behavior across the sector (Abbasova et al., 2025).

The effectiveness of small agricultural businesses is also closely linked to macroeconomic regulation. A thorough assessment of the relationship between efficiency and innovation requires analysis at both microeconomic and macroeconomic levels (Omoshev et al., 2024). There exists a strong correlation between overall economic activity and innovation capacity. Entrepreneurial willingness to innovate typically becomes more pronounced when initial opportunities for production expansion arise. Supporting this dynamic constitutes a strategic responsibility of the state.

Furthermore, a direct relationship exists between scientific support mechanisms and entrepreneurial development in agriculture. During periods of systemic transformation, the intensity of this relationship is influenced by the maturity of venture capital institutions. In environments where the legal and economic framework for venture capital investment develops slowly, attracting sufficient financing for scientific support becomes challenging. Additionally, in many transition economies, the organizational and economic structures designed to stimulate innovation do not always respond adequately to the evolving pace and scale of reforms (Mirzazada, 2025).

Conclusion

Innovations in the agricultural sector are manifested through the emergence of progressive forms of production organization, the development of new plant varieties and animal breeds, and the

introduction of advanced technologies. The outcomes of innovative processes, which are directly linked to positive transformations in scientific support systems, may be classified into tangible and intangible results (Mirzazada, 2025).

Despite the growing importance of innovation, there is no single, universally accepted approach to evaluating the intangible outcomes of innovative development in small agricultural enterprises. Intangible results may include the accumulation of advanced experience derived from the application of scientific and technological achievements, the expansion of intellectual property assets, improvements in the institutional and social environment, and the strengthening of information support systems. These components, although not immediately measurable in financial terms, contribute significantly to long-term competitiveness and sustainable sectoral development. Therefore, the refinement of methodological approaches to the assessment of intangible innovation outcomes remains an urgent scientific task.

The classification criteria applied in the identification of intangible innovation outcomes and the indirect efficiency derived from project implementation are sufficiently substantiated in the literature. At the same time, when tangible innovation outputs—such as new seeds, planting materials, and plant varieties tested in pilot markets—enter real economic circulation, the need arises for additional production means and technological adaptation. This process inevitably requires sustainable and systematic financing mechanisms to ensure the continuity of innovative development (Mirzazada & Camalov, 2025).

In this context, the rigidity and limited flexibility of innovation financing mechanisms remain pressing issues. Transition economies are typically characterized by a cautious approach toward projects that do not demonstrate short-term profitability. The allocation of responsibility for business outcomes is closely linked to the structure and nature of financing arrangements. However, agricultural entrepreneurship still possesses limited experience in coordinating authority and responsibility under conditions of diversified financing sources. When multiple funding channels are involved, the expected effectiveness cannot be achieved unless the mechanisms governing authority, responsibility, and accountability are coherent and consistent.

For this reason, it is necessary to draw upon the institutional experience of private agro-processing enterprises and integrated agro-industrial structures. Particular attention should be directed toward strengthening regulatory and legal frameworks that support agricultural business entities and ensure transparent and efficient coordination of financial flows (Mirzazada, 2026).

Furthermore, improving the mechanisms of environmental regulation within the innovative development of small agricultural enterprises remains highly relevant. To mitigate the adverse effects of climatic variability on productivity and to optimize the development of plant varieties resistant to frost, drought, and disease, it is essential to intensify scientific and technological efforts. Simultaneously, the number of intermediary stages between scientific discovery and practical implementation should be reduced in order to accelerate innovation diffusion. Under conditions of widespread application of intensive agrotechnologies, reinforcing incentive mechanisms in the distribution of material benefits derived from scientific support has become an objective necessity.

Overall, sustainable innovative development in the agricultural sector requires the integration of financial, institutional, environmental, and regulatory mechanisms. Only through a balanced and systemic approach can small agricultural enterprises strengthen their competitiveness, ensure food security, and contribute to long-term socio-economic stability.

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