

Specifics of Decision Making in Modern Business Systems

**Regularities and
Tendencies**

Edited by
Elena G. Popkova
Alina V. Chesnokova
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SPECIFICS OF DECISION MAKING IN MODERN BUSINESS SYSTEMS

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SPECIFICS OF DECISION MAKING IN MODERN BUSINESS SYSTEMS: REGULARITIES AND TENDENCIES

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Foreword

This collective monograph contains the results of studying the regularities and tendencies that are peculiar for the modern Russian practice of decision making in business systems and authors' decisions for its optimization in view of new challenges and opportunities. The collective monograph is devoted to scientific study of the process of decision making in modern business systems. It described the algorithm of decision making, considers the existing practical models, and offers recommendations for optimization of this process. The obtained conclusions could be used in higher educational establishments in specialties "Micro-economics," "Corporate economics," "Economic theory," "Organizational design," "Theory of decision making," and "Business management."

Competitive advantages of this book, as compared to the existing analogs, include universal setting of the problem – decision making in modern business systems, and its solution with the help of conceptual substantiation of the necessity for modernizing the process of decision making in modern business system with provided practical recommendations. Due to this, the book will be interesting for representatives of academic community (scholars, researchers, and postgraduates) and all business subjects that use decision making in their activities.

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Introduction

*Elena G. Popkova, Victoria N. Ostrovskaya
and Yuliya G. Tyurina*

Modern business systems become complicated under the influence of globalization, integration, technical progress, and other external factors. This is accompanied by growth of responsibility of business managers in the process of making of managerial decisions and increase of requirements to this process – growth of the number of decisions, reduction of time for decisions, large number of factors and criteria, etc. Despite the high topicality for modern science and economic practice, there are no highly effective scientific and methodological approaches to organization of the process of decision making in modern business systems.

This is due to two key problems. The first problem is connected to the secondary role assigned to management of business systems. Conceptual foundations of this philosophical approach to doing business were set in the second half of the twentieth century by the scientific school of the Canadian Professor Henry Mintzberg. Economic study of this school envisages division of business processes into production, which are directly related to provision of services and manufacture of goods, and nonproduction, which are not connected to these processes.

According to this conceptual setting, production business processes are considered to be vital for functioning and development of the business system, as they determine the effectiveness of using its resources and final efficiency. Competitiveness of a business system is treated as a derivative from production business processes. Nonproduction (marketing, organizational, and managerial) business processes are considered to be providing for production. The existing classification of business processes led to treatment of making of managerial decisions as low-priority economic activities, despite the general acknowledgment of its importance and significance.

The second problem consists in insufficient attention to possibilities that open in modern conditions. Formation of digital economy started the Fourth Industrial Revolution, within which, under the guidance of the leading developed (OECD, G7) and developing (BRICS) countries, transition to a new technological mode – Industry 4.0 – takes place. This is studied in the works of [Bogoviz \(2018\)](#), [Popkova \(2018\)](#), [Popkova, Ragulina, and Bogoviz \(2018\)](#), and [Sergi and Popkova \(2018\)](#).

New technological capabilities are used primarily for improving the production business processes. Despite the industrial direction of the fourth technological mode, not only industry but also other spheres of national economy, including service sphere, are to take the path of transition to it. However, the established division of business processes restrains modernization of management and, in particular, making of managerial decisions due to their indirect attitude to production activities of business systems.

The fundamental working hypothesis of this monograph is that insufficient attention to the process of making of managerial decisions has become one of the reasons of the 2008 global economic depression. That's why a current task of the modern economic science and practice is reconsideration of the role of the process of making of managerial decisions in modern business systems and reconsideration of scientific and methodological approaches to its implementation. The monograph tries to achieve this goal and contains the results of studying regularities and tendencies that are peculiar for the modern Russian practice of decision making in business systems as well as development of authors' recommendations for its optimization in view of new challenges and opportunities.

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**PART I: THEORETICAL FOUNDATIONS
OF STUDYING MODERN BUSINESS
SYSTEMS**

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Chapter 1

The Concept of Business System: The Main Notions and Their Essence

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1.1 Introduction

The modern global economic system is a business economy – business has the central role in it. Firstly, activity is the basis of economic growth. Business determines socioeconomic progress, which is the main strategic goal of development of modern economic systems. Business is also the main subject of manifestation of innovational activity in economy and, thus, ensures its innovational development and is a driver of technological progress.

Secondly, business provides satisfaction of public needs. Business is the central link of production and distribution processes in economy, being a creator of benefits and an intermediary between their creator beyond the national economy and domestic consumers. Successfulness of business determines the possibilities of domestic production of benefits and is thus the basis of national economic security.

Thirdly, business represents national economy in the global arena, defining its export specialization and global competitiveness. Fourthly, business is the largest taxpayer. Tax fees that are paid by business account for a large part of state (federal) budget in most modern countries. That's why stability and effectiveness of business determine financial possibilities of the state and sustainability of the national budget system.

Thus, the basic object of most modern macroeconomic studies is business and the object of microeconomic studies is the business system (structural entity of business). However, despite its fundamental role, there is no generally recognized concept of business system, which causes a lot of treatments and contradictions of scientific studies and complicates building the conclusions of scientific research into the economic theory. This problem is to be solved in this chapter.

1.2 Materials and Method

In the modern economic literature, the basic economic agent in microeconomics is the economic subject. Based on the works of [El Bousty et al. \(2018\)](#), [Fonfara, Ratajczak-Mrozek, and Leszczyński \(2018\)](#), [Kummamuru and Mandaleeka \(2016\)](#), [Popkova \(2017\)](#), [Rawwas, Wang, Zhao, and Javed \(2018\)](#), [Rinkinen and Harmaakorpi \(2018\)](#), [Safar, Sopko, Bednar, and Poklemba \(2018\)](#), and [Sukhodolov, Popkova, and Litvinova \(2018, pp. 1–384\)](#), classification of economic was performed and the following types were distinguished:

- organization: social association, where subjects are unified by the common goal and management – [Moreira and Martínez-Ávila \(2018\)](#) and [Arboit \(2018\)](#);
- company: independent separate economic subject (with emphasis on production activities) that is capable and inclined to showing innovational activity – [Bogoviz, Ioda, Ioda, Kuranova, and Bobrova \(2017\)](#), [Morozova, Popkova, and Litvinova \(2018\)](#), [Popkova, Morozova, and Litvinova \(2017\)](#), and [Popkova, Tyurina, et al. \(2017\)](#);
- corporation: unification of capital (large economic structure) – [Veselovsky, Izmailova, Bogoviz, Lobova, and Alekseev \(2018\)](#) and [Veselovsky, Izmailova, Bogoviz, Lobova, and Ragulina \(2018\)](#);
- business structure: economic subject that conducts production activities for the purpose of obtaining profit – [Lobova and Bogoviz \(2017\)](#), [Popkova, Morozova, et al. \(2017\)](#), [Popkova, Tyurina, et al. \(2017\)](#), and [Veselovsky, Izmailova, Bogoviz, Lobova, and Alekseev \(2017\)](#).

However, certain scientific works mix the notions – the above types of economic subjects are selected for research without clear logic. This causes absence of system in existing scientific knowledge, as most economic studies of economic subjects use different tools despite the focus on the same object.

We think that the most universal notion of economic subject is business system, as its name emphasizes its systemic organization and the key role in business economy – the models of development of modern socioeconomic systems. Here a generalized notion of business system is offered – as a clearly organized corporate economic subject that conducts entrepreneurial activities for obtaining income (profit). For studying it, the methodology of the systemic approach is used.

1.3 Results

The following conceptual model of modern business system is used ([Fig. 1.1](#)).

As is seen from [Fig. 1.1](#), business system functions in a business environment, which is treated as external environment of a business system. Business environment is a sectorial market with dynamic situation – specifics and susceptible to changes conditions of competition of business systems. External regulation of business includes state management of the business environment (and its business

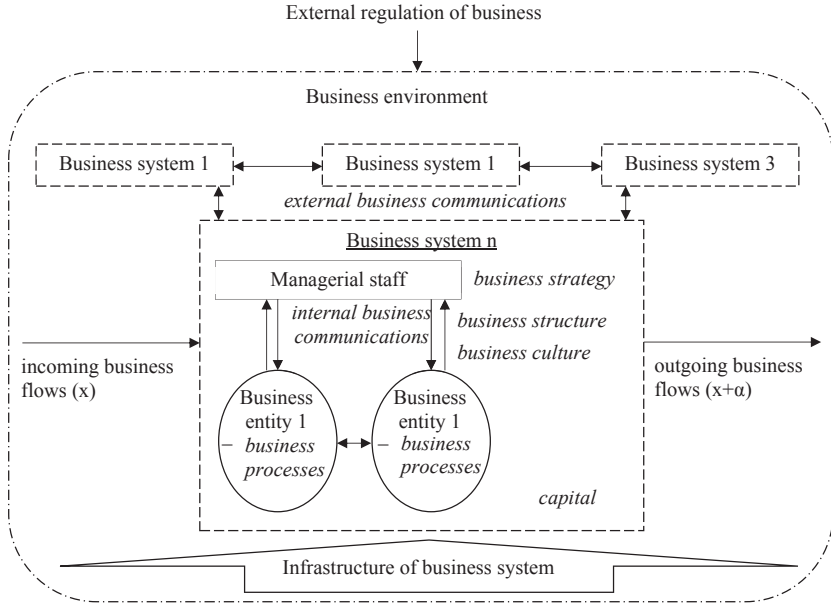


Fig. 1.1 Conceptual Model of Modern Business System. *Source:* Compiled by the authors.

systems) and pressure from the society. External regulation has the following goals:

- stimulating competition: supporting competitive struggle and high effectiveness of business systems through state anti-monopoly regulation;
- intensification of innovational activity: growth of flexibility and dynamics of development of business systems through state standards and tendencies of demand;
- provision of observation of normative provision: functioning of business systems according to the current law through state monitoring and control (e.g., licensing and tax administration);
- development and implementation of responsible approach to doing business: voluntary initiatives of business on implementation of public priorities (environment protection, preferences for employees) through tendencies of demand.

Business system is one of many economic subjects in the business environment. Its structural elements are as follows:

- managerial staff: the brain center of the business system, which defines its course at development and controls and coordinates the actions of business entities, being responsible for decision making on internal and external issues/problems;

- business entities: structural departments of the business system, which are subject to the managerial staff. Each of them seeks its own tactical goals, performs certain functions, and bears responsibility for them. Business entities are separated but usually interact with each other.

Structural elements of the business system are separated and at the same time closely interconnected. Characteristics of a business system that determine the specifics of its functioning and development are as follows:

- business strategy: course at long-term development of business system, which includes the tree of goals and supposed methods of their achievement, as well as priorities;
- business structure: organizational structure that defines peculiarities of internal organization of managerial staff and business structures and their interaction and hierarchy in the business system (e.g., linear, functional);
- business culture: totality of established organization's norms, values, and models of behavior of all participants of the business system (e.g., totalitarian, democratic);
- business process: activities conducted by the business entity on transformation of incoming business flows (information, production resources) into outgoing (benefits) with the help of capital (financial, human, and technological);
- capital: totality of business system's material, financial, human, technical, and technological possibilities and resources that are used for its functioning and development;
- internal business communications: interaction (by the conditions of cooperation and/or competition) of business entities with managerial staff;
- external business communications: interaction (by the conditions of cooperation and/or competition) of the business system with other business systems within their common business environment.

The role of the business system in the business environment depends on its adaptability and is defined by

- market share: ratio of the volume of goods that are sold in the business environment by this business system to the total volume of goods that are sold in the business environment;
- market power: possibility to influence the business environment, changing it in its own interests;
- business connections: profitable and sustainable external business communications.

Business system is based on infrastructure – provision of the business environment, which includes resources (human, material, communication and logistics, technological) and entities (state regulators, financial institutes, public associations, business associations). For performing the main role – obtaining