

ORIGINAL RESEARCH PAPER

## Building a business model of enterprise's innovative development based on economic security as an element of urban management

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### ARTICLE INFO

#### Article History:

Received 22 August 2023

Revised 16 December 2023

Accepted 29 January 2024

#### Keywords:

Business model

Economic security

Enterprise

Innovative development

Urbanization

### ABSTRACT

**BACKGROUND AND OBJECTIVES:** Social and economic processes, which create a combination of capital and intelligence, influence the development of the urbanization process. Urban areas develop together with economic growth. The main factor influencing the growth of the economy is the increase in production, which should be based on quality management through the implementation of a business model for the innovative development of the enterprise in the context of economic security. Thus, the purpose of the research is to define and characterize the components of the business model of an enterprise's innovative development based on economic security and to describe the main practical aspects of its implementation.

**METHODS:** Using general scientific and special research methods, the theoretical and categorical content was analyzed and specified, namely, the essence of urbanization, innovative activity, innovative development, and business models of the enterprise's innovative development were revealed. The main principles contributing to the effective operation of innovative enterprises were defined.

**FINDINGS:** It was substantiated that strategic business development provided a business model in which all business processes were identified and analyzed, and development was optimized considering correlations. The main features of the business reflected in the business model were specified. Considering that during the implementation of the innovative development strategy, the business model is aimed at managing the chain of innovative value creation, the basic background for the implementation of the business model was determined. To form a model of innovative development in the context of economic security, the aspects of adaptability of innovative development were investigated. The business model of the enterprise's innovative development in the context of economic security was formed, and its components and their significance were determined. The main practical aspects for implementing the business model of the enterprise's innovative development were highlighted. It was noted that in the conditions of a dynamic market environment, full of dangers and threats, 40% of the success of further implementation should be based on taking into account well-known theoretical and methodological aspects, and 60% should be the ingenuity of the personnel of the enterprise on which the business model is being formed.

**CONCLUSION:** The business model ensures the transformation of innovative technologies into economic benefits for the company. The practical application of the proposed business model with selected components would contribute to the increase of the enterprise's innovative potential and its development during current activity and in the future.

DOI: [10.22034/IJHCUM.2024.03.06](https://doi.org/10.22034/IJHCUM.2024.03.06)



NUMBER OF REFERENCES

39



NUMBER OF FIGURES

3



NUMBER OF TABLES

0

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Note: Discussion period for this manuscript open until October 1, 2024 on IJHCUM website at the "Show Article."

## INTRODUCTION

Considering the development of urbanization processes in the world and their consequences, it is possible to state the influence of social and economic development on urbanization. Urbanized territories are being developed according to economically reasonable managerial decisions, due to high-quality management in this field. Quality managerial decisions contribute to the development of scientific and technical progress and innovations, which in turn ensures the growth of the economy in the territories that have been urbanized. For instance, the primary strategy for urban centers with weaker resources may be to attract more highly skilled and/or educated workers, and then upgrade the industrial infrastructure of the city (Zhang et al., 2023). Therefore, even though the primary importance of urbanization is reflected in social and demographic processes, there is a need to determine the economic impact and manage economic processes (Gryshchenko et al., 2022). The main component of the economy is production organized by enterprises that create an economic product (Pylypenko et al., 2019). The management of the enterprise, as a component of urban management, should be aimed at its design, which is ensured due to quality management by the new methods, strategic developments, and the introduction of innovations. One of these methods is building a business model for the innovative development of an enterprise (Kuzior et al., 2022, 2023a, 2023b). The impact of economic processes on urbanization and the need for economic management for development were noted in their research papers by the following scientists: Buriachenko (2013) analyzed the factors of urbanization processes and identified distinctive features of urbanization, Blum and Tarun (2007) described urban changes, Kobylinskyi (2021) outlined the factors of the urbanization process and substantiated decisions that contribute to the growth of the economy of urbanized areas, Gonchar (2016) and Pokliatskyi (2016) supplemented the theoretical aspects of urbanization and suggested considering the city as an interdisciplinary object for study. As for the issues of strategic management of enterprise innovative development and the building of business models, it is important to highlight the works carried out by the marketers Johnson et al. (2009) who studied approaches to the formation of business

models and identified their elements. Osterwalder and Pigneur (2010) researched the business model as an effective tool for business management and company development, Sembay (2023) analyzed innovative business strategies, Yershova and Honcharenko (2022) revealed the essence and types of innovative business models, Otenko (2014) researched the increase and significance of innovative development models for business. We should also mention the progress made in the formation of innovative business models of development by Mykytiuk et al. (2015). Iliashenko (2010) in his scientific papers focused on the process of formation and explored the components of business models. Research by Fedulova (2017) was aimed at the formation of innovative development models dealing with the sectoral characteristics of trade. Voloshchuk and Voloshchuk (2020) formed a business model for micro-multinational companies through the implementation of technological digitalization and ensuring the inclusiveness of economic growth (Bezrukova et al., 2022). The process of solving the problems in the field of ensuring economic security for enterprises that face complex difficulties was scientifically beneficial for Shumilo et al. (2020) who proposed an assessment of the effectiveness of managing economic security in supply chains, taking into account innovative aspects. Alkema et al. (2015) and Litvin et al. (2021) have studied the challenges of economic security in innovative enterprises. Scientists consider concepts, and methods and build the models for management of innovative activity (Babenko et al., 2022), but this research is not enough when it is said about the formation of business models of innovative development in the context of economic security and the definition of their components (Karpenko et al., 2019; Zomchak and Nehrey, 2022). Controversial questions arise regarding the understanding of the structured approach and the formation of the number of business model elements (Solokha et al., 2019) There are also a few research papers on the relationship between economic activity and urbanization processes, that make this topic relevant (Kolodiziev et al., 2018; 2022). The purpose of the current study is to deepen and expand the theoretical aspects concerning the essence of the enterprise's innovative development and ways of building a business model (Nehrey and Hnot, 2019), supplementing

its components taking into consideration ensuring economic security and the possibility of adapting this model an urban environment as the element of urban management. To achieve these objectives, the research survey was conducted in the urban area of Kharkiv, Ukraine in 2023. Based on the understanding of urban processes it is expected to provide the idea that the implementation of business models into the activity of enterprise contributes to its innovative development. The process of forming business models of innovative development and the selection of their main components is important, which will promote the achievement of the strategic goals of enterprises.

### **MATERIALS AND METHODS**

The theoretical and methodological basis that has been used during the research process are points of the concept of innovative development, business model creation, economic security, and urbanization development. The theoretical and categorical content was analyzed and specified following the general scientific and special research methods: logical generalization, analysis, comparison, and synthesis. The structure of the business model of innovative development has been developed, and its components have been identified using the methods of structuring and synthesis.

### **RESULTS AND DISCUSSION**

Urbanization is a very complex process, and it cannot be interpreted only as the growth of cities and the increase in the quantity of urban population. This phenomenon should be understood as “a new stage of social development, which is characterized by the concentration of economic, demographic, and political potential, which provides an opportunity to centralize and control significant amounts of financial resources, create new technologies, new types of services, and carry out innovative activity” (Buriachenko, 2013). The network of metropolises has always been the core of the national economy because these settlements are centers of migration attraction and a source of economic, financial, and intellectual activity. Capital and intelligence – this is the exact combination that is most necessary for the development of cities and the country as a whole (Poklyatskyi, 2016). The main economic factors of urbanization are production and industry, they

are located in cities, consumer- and information-oriented, interact with other enterprises, and concentrate significant human resources, due to a large territory (Biriukov, 2013; Sergienko, 2019). As a result of large cities’ evolution, industry develops and contributes to the increase of economic activity and is a financial factor of urbanization. A large city provides production and concentration of both production and financial resources, development of marketing and information technologies, and innovative activities. Innovative development of the enterprise is one of the main conditions for its economic growth, during which innovative reorganization contributes to ensuring indicators of economic development, growth of economic potential, leadership in competition, and solving social problems. However, the changes that occur in the global space of the enterprise’s functioning constantly affect the direction of changes in the development and implementation of innovations, and the search for new tools of strategic development (Otenko, 2014). The business model of an enterprise’s innovative development is such a relevant tool. Innovative development should take place in such conditions that prevent threats to the enterprise’s economic security, and it determines the building of the enterprise’s business model in the context of economic security. Innovative development is essential for the success of a modern enterprise. The complexity and dynamism of the external business environment, crisis phenomena, and increase in the intensity of competition require enterprises to adopt an appropriate model of behavior through the implementation of innovative changes in products and services, technologies, and key business processes (Savytska et al., 2022; 2023). The innovative activity of the enterprise covers its entire life cycle and consists of the implementation of innovations in both production and non-production areas. Among scientists, who reveal the essence of innovative activity, a process approach is often used, in which the following is distinguished: marketing research of markets from consumer’s and supplier’s points of view; evaluation based on the formed information base of product properties on the specified market; solving problems addressing the concerns of an innovative project financing (Malyarets et al., 2021). In general, the innovation process can be considered as a set of actions aimed at creating an innovation and introducing it into the practical activities of

the enterprise, which contributes to its innovative development. Innovative development is considered in two aspects: subject and technological or oriented to scientific result, in which it is considered as the outcome of scientific only or scientific and technical activity; functional, in which it is associated with the functions of creation, implementation, dissemination of innovations, implementation of innovative projects (Mykytiuk, 2015). Therefore, innovative development is a process of economy that is based on the continuous search and use of new ways and areas of realizing the potential of enterprises under the changing conditions of the external environment within the framework of the chosen mission and accepted activity motivation and is connected with the modification of existing and the formation of new market channels (Iliashenko, 2010). When studying the experience of successful companies in the development and use of innovations, the main principles that contribute to the effective operation of innovative enterprises were highlighted:

- *Innovation is considered a discipline* that provides understanding to the company's personnel to generate, define, and implement ideas in practical activity.

- *A comprehensive consideration of innovations*, which mainly consists of comprehensively covering the company's activity: new products, services, processes, strategies, business models, sales channels, and markets.

- *Innovation as a tool for finding new opportunities*.

- *Involvement of all enterprise personnel in innovations*.

- *The orientation of innovation on the consumer*, which means the need to encourage the client to express an opinion and later take it into account during the development of new concepts.

It should be noted that the innovative development of the enterprise is a process aimed at regular changes in its state, where the source of innovative potential is precisely the set of innovations that provide new, high-quality opportunities for the enterprise's activity on the market as a result of new ideas, solutions, inventions, etc. The enterprises reveal their difference in creating innovations that are part of the business, while in other enterprises, innovations are part of the general activity. The orientation of the enterprise to the innovative type of development requires constant changes in all its elements (strategy, structure, processes, products,

personnel). The relationship between strategic and innovative activities is becoming closer in the conditions of intensifying competition, the transition from mass to specific order production, increasing the role of management automation, reducing the duration of the development and introduction of new products, and expanding corporatization. That is why the toolkit for managing the enterprise's innovative development is based on the methodology of strategic management, namely, conceptualization, business modeling, and strategic planning (Mainka, 2020). The formation of a business model for the enterprise's innovative development, based on innovative capabilities, principles of the theoretical base, new approaches, conceptual ideas, and methodological tools, is effective among the existing ways of realizing the innovative potential of the enterprise. The business model allows for a fairly complete description of the logic and methods of conducting business, including its organizational, functional, and technological structure, interaction with suppliers and consumers, the flow of money, financial efficiency, etc. The purpose of developing a business model is not a simple description of the business, but the identification and analysis of all business processes, their optimization, and development taking into account all interrelationships (Fedulova, 2017). The business model of the enterprise is the most important concept that corresponds to the business development strategy. It can be claimed that the business model is a concept based on which structuring and transfer of strategy to the operational level takes place, which means the probability of realizing the company's strategic goals. A business model is a simplified model of a complex object (business system), which reflects the logic of the entire enterprise operation. It characterizes the main business objects, their interrelation, and the system of relationships with the external environment. The business model shows the most essential business peculiarities, shown in Fig. 1.

In the context of the implementation of the innovative development strategy, the business model has to be aimed at managing the chain of innovative value creation. From this point of view, certain prerequisites for the implementation of business models are worth considering (Fedulova, 2017), they are:

- the need to make innovations more efficient in terms of spending money and time, as well as manage risks by including them directly in the business model;

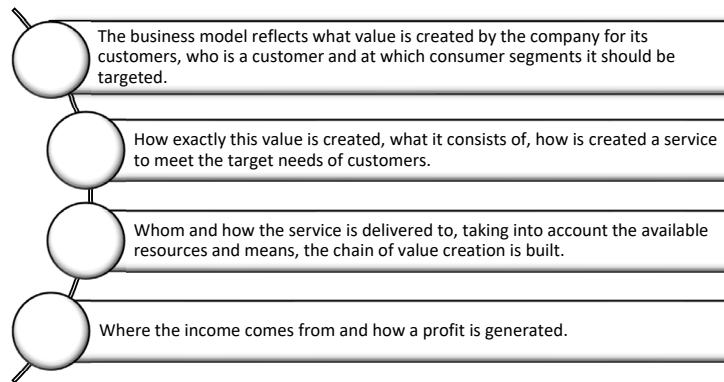


Fig. 1: The main features of the business reflected in the business model

– opportunities for small innovative companies to make money from open innovations (for example, license programs that are not associated with restrictions on further modification, but with the preservation of information about the original authorship and the changes made);

– opportunities for large innovative companies to earn from innovative programs (when large companies purchase licenses for products manufacturing from small companies and take them to the market under their brand);

– opportunities for large innovative companies to earn on the intellectual property of those business directions from which it originated (as an example, to receive a royalty from companies that produce discontinued products under the brand name of a large company);

– opportunities for large innovative companies to make money from open innovations due to the formation of standards and even business trends in their field.

During the building of the business model, firstly, the needs of consumers are determined and evaluated, it is determined where the high-profit zone is located, and how it can be obtained in the maximum volume; the direction of activity is determined, as well as how to get a high market share according to the chosen direction; a system of methods of organization, protection and support of the high-profit zone of innovatively active enterprises is being built (Voloshchuk and Voloshchuk, 2020). Considering the dynamic development and trends of business intellectualization; the growth of the role of the innovative component in increasing the enterprise competitiveness; the comprehensive impact

of information flows; the development of electronic business; the wide use of economic and mathematical calculations, as well as the concept of business modeling, it is considered that today it is necessary to talk about the enterprise “business model” as a generalizing concept that covers all aspects of company management (Mykytiuk et al., 2015). So, the business model can be interpreted as a set of components with homogeneous elements that distinguish the logic of the enterprise’s functioning from the logic of competitors. In the conditions of transformational changes in the modern environment, the building of a business model of innovative development should also be innovative. It means that it must be flexible, quickly respond to all changes in the external environment, and adjust the enterprise business processes to the conditions in the market where the enterprise operates. Under the specified conditions of the enterprise operation, in conditions of constant changes and uncertainty, it is obligatory to control and ensure the economic security of the enterprise. Therefore, it is always a good idea to take into account this aspect during the building of the innovative development business model. Effective functioning should be ensured only in conditions of a sufficient level of economic security for each business process and in general the enterprise as a whole (Chorna et al., 2019). It should be noted that innovations have a dualistic nature, both technological and economic, which generally indicates their adaptability. Firstly, there should be chosen an innovative idea that adapts to the goals of the enterprise, the enterprise itself adapts to the implementation of the innovation, and then the innovative product should adapt to the market requirements, along with this, innovative

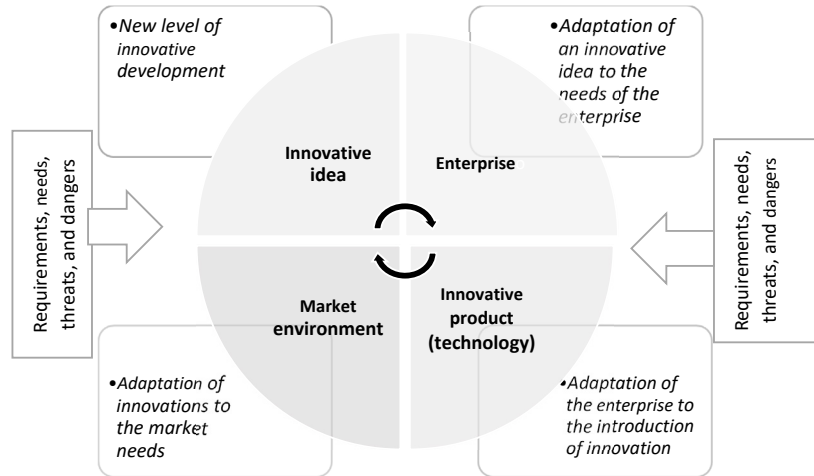


Fig. 2: Adaptability of innovative development (developed by the author by Alkema et al.(2015))

products contribute to the development of the market (Fig. 2).

During the adaptation of an innovation, threats to economic security (of its innovative component) arise, which can be concentrated into three groups (Alkema et al., 2015):

- technological threats – risks associated with the probability of obtaining final scientific results, timeliness, safety, and perspective of the work carried out and the results obtained, compliance with modern technological equipment before the acceptance and launch of the received developments and samples into industrial production;

- market threats – risks related to the readiness of the market environment that the enterprise with an innovative development will enter before adopting this innovation, the presence of hidden demand or market expectations, competitors' developments, etc.;

- project threats – risks directly related to the planning, development, and implementation of an innovative project, its cost, term, quality of execution, and value of the obtained result.

Taking into account all mentioned above, guaranteeing and ensuring economic security should be an obligatory component of the business model of the enterprise's innovative development.

#### Discussion

Summarizing the results of research provided by scientists on the understanding of the elements of an enterprise's business model, six key components

have been identified that combine homogeneous elements to build a business model for the innovative development of an enterprise in the context of its economic security (Fig. 3).

Will consider more details about each component of the business model of enterprise innovative development in the context of economic security. The first component determines the value of the business, and its main directions, and within its framework a business portfolio is built. New business ideas for the innovative development of the enterprise are determined. The directions of innovative activity are determined following the priority directions of social and economic needs of society, which are determined at the legislative level. Determination of innovative activities types and innovations to be implemented, tasks for performers of innovative development of business processes. Innovative development strategies are developed based on the results of the analysis, and strategic orientations are determined, which are represented by various programs and projects. For the enterprise that implements innovative projects, a system of economic security must be built, where the identification of threats and dangers to the enterprise's economic security is significant. The second component includes the formation of consumer value offered by the enterprise based on its innovative products and services, the identification of suppliers and consumers, and the building of relationships between them. This component also includes shaping the value chain and creating a new vision for profit and revenue generation.



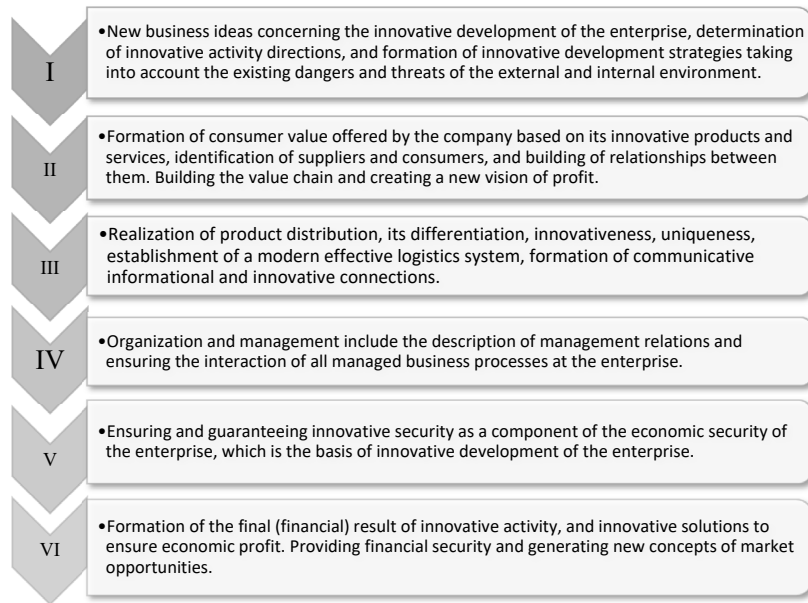


Fig. 3: Components of the business model of innovative enterprise development in the context of economic security

The third component of the business model includes the realization and distribution of the product, and its differentiation which involves positioning and branding considering the functional properties, purpose of the product, its cost, other related services, its innovativeness, main competitive advantages, uniqueness of its offer and image (Voloshchuk and Voloshchuk, 2020). This component includes the creation of communication, information, and innovation channels and ensuring their interaction. The organization and management component includes a description of management relationships and ensuring the interaction of all managed business processes at the enterprise. This component includes ensuring and guaranteeing the enterprise's economic security and, separately, innovation security, which is the basis of the enterprise's innovative development. The component includes the formation of the final (financial) result of innovative activity, and the adoption of innovative decisions to ensure economic profit. Providing financial security and generating new concepts of market opportunities. Concerning all mentioned above, it can be claimed that innovation should be considered according to the directions determined by the key elements of the business model used within the company. Among the key elements, the following should be specially highlighted (Mykytiuk et al., 2015):

consumer segments, types of relationships with them; the value that the enterprise offers based on its products and services; supply channels of this asset, processes of key activities, as well as key partners; an innovative component of the enterprise's economic security, assets that the company uses to create value; the company's financial model, which determines the structure of its costs and money flows. It should be noted that during the development and implementation of a new business model, changes in its key elements occur. The new business model changes the rules of the game in the market and generates significant importance both for the enterprise itself and for consumers. Understanding the elements/components of the business model of innovative development contributes to opportunities for a structural view that explains the strengths and weaknesses of the business. To improve innovative activity, based on structural analysis, it is possible to determine priority areas that need support, as well as improve the enterprise's innovative activity and determination of ways for its development based on the visualization of all aspects of economic activity. Also, it allows for providing the foreseen results of innovative activity and dynamic business growth based on a correctly selected business model. As for the main practical aspects of the implementation of the business model of the enterprise's innovative development, the

following should be highlighted. Identifying the specific features for building an innovative business model is based on the understanding of how the company profits from market opportunities. It is important to integrate the elements of the business model into the existing management system at the enterprise, the system of plans, reports, and meetings. Furthermore, it is essential to consider the impact of the quality of the innovative business model on enterprise management. Thus, building a high-quality business model should be based on modern development trends, not on accepted practice. Globalization and accessibility to new business schemes are generating new methods of profiting from new market opportunities that are constantly emerging. The management process at the enterprise must be innovative. For the implementation of innovative proposals, it is necessary to have a means of simple and effective visualization of business ideas. The business model of innovative development allows you to structure the intellectual activity of generating business ideas and make it accessible to all personnel and interested parties. Employees can engage in business innovation during the working period. The conceptual apparatus of business modeling allows users to concentrate on the search for innovative business concepts. The building of a business model is the basis of the company's activity. Therefore, business owners and managers to improve and gain a deeper understanding of the development strategy should directly participate in its creation as well as entrepreneurs who create start-ups and want to present a business model to investors and team members. Managers and leaders responsible for the development of the company should systematize the existing situation and present plans for the renewal of the company. Consultants, business trainers, and specialists in organizational development should develop a business model as part of a strategy for clients to structure work. The business model ensures the transformation of innovative technologies into economic benefits for the company. Its application in the practical activity of the enterprise will contribute to the increase in the innovative potential of the enterprise and its development in the current activity and the future. The prospect of further research in this direction is the development of ways to implement the proposed business model of innovative development, and enterprises in the context of economic security during the formation of the city's development strategy.

## **CONCLUSION**

As a result of the research, the purpose of which was to supplement the theoretical and methodological aspects of building a business model for the innovative development of an enterprise, taking into account economic security, a business model was formed. Its main components are identified, which determine the directions of innovative activity of enterprises, contribute to innovative development, and correct the process of adapting the model in an urban environment. The business model of innovative development is an element of strategic management, thanks to which innovative technologies are transformed into economic benefits for the company and high consumer value. In the conditions of urbanization and a dynamic market environment, full of dangers and threats, the business model of enterprise's innovative development, considering economic security, is a modern tool of management aimed at the implementation of the enterprise's development strategy and the element of urban management. The need for innovative development of the company contributes to its successful functioning in the market, and the formation and implementation of innovative development business models is an element of strategic management. Due to the business model, innovative technologies turn into economic benefits for the company and high consumer value for consumers. Introducing the components of the business model of an enterprise's innovative development based on economic security into the company managerial process will contribute to the achievement of business success. The main practical aspects of implementing the business model and the proposed list of persons who should participate in the process of its formation can be considered as a management tool in practical activity.

## **AUTHOR CONTRIBUTIONS**

V. Babenko designed the methodology. O. Shumilo performed the literature review, and experimental design, analysed and interpreted the data, prepared the manuscript text and manuscript edition. V. Babenko and O. Maslak performed the experiments and literature review, compiled the data, and manuscript preparation. O. Davydova and L. Sokolova helped in the literature review and manuscript preparation. I. Volovelska and V. Yefanov performed some of the remained experiments.



## ACKNOWLEDGEMENT

The authors of the article, namely Dr. Vitalina Babenko, express great gratitude to the Institute of International Education's Scholar Rescue Fund (IIE-SRF) for the help and support that the fund provides to scientists who find themselves in a dangerous situation. Thanks to IIE-SRF, Dr. Babenko received full assistance and the opportunity to continue the scientific research, in particular, to publish this article.

## CONFLICT OF INTEREST

The authors declare no potential conflict of interest regarding the publication of this work. In addition, the ethical issues including plagiarism, informed consent, misconduct, data fabrication and, or falsification, double publication and, or submission, and redundancy have been completely witnessed by the authors.

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#### HOW TO CITE THIS ARTICLE

Babenko, V.; Shumilo, O.; Davydova O.; Sokolova, L.; Volovelska, I.; Yefanav, V.; Maslak, O., (2024). Building a business model of enterprise's innovative development based on economic security as an element of urban management. *Int. J. Hum. Capital Urban Manage.*, 9(3): 447-456.

DOI: 10.22034/IJHCUM.2024.03.06

URL: [https://www.ijhcum.net/article\\_710505.html](https://www.ijhcum.net/article_710505.html)

