MANAGEMENT OF INNOVATION ENTREPRENEURSHIP IN UKRAINE

Summary. An important factor in the state economic development is the introduction of innovative developments and the prioritization of state support for the innovation sector of the economy. Orientation on the formation of an innovative economy in Ukraine causes the need to intensify innovation processes both at the state level and at the level of entrepreneurship. The practice of the most innovative-active countries of the world convincingly testifies that small business is the driving force of innovative transformations. Therefore, the article is focused on the topical issues of exploring the features of this type of entrepreneurship activity and search for ways to use them. This will increase the innovation activity level of small businesses and, consequently, the level of the country's economy as a whole. In the domestic business environment start-up identified with the beginning of a new business aimed at commercialization of any innovations. The article deals with the peculiarities of the practice of managing startups in Ukraine. The funding sources for startups are analyzed. There is considered the world experience of features of the main ways of supporting start-up projects. Possibilities and obstacles to attracting funds for development and
Implementation of innovative projects in the current conditions of economic and political instability in Ukraine are revealed. The ways of overcoming the mentioned problems related to the startups functioning are outlined. Based on the above mentioned issues, the article provides a solution to this problem for beginning entrepreneurs in Ukraine, which involves attracting angels investors–private investors, local development institutions, venture capital funds, partnership financing, use of factoring functions, public funding – crowdfunding. There were also formulated recommendations on support and development of innovation activity in the field of venture investment.

**Key words:** innovation, small business, start-up, venture capital, financing, local development institutions, partnership financing, factoring, crowdfunding.

**Statement of the problem.** In the world's leading countries, the innovative transformation's way of the economy has demonstrated its effectiveness in overcoming crisis, ensuring competitive products in international markets, forming the market of high technologies. Orientation on the formation of an innovative economy in Ukraine causes the need to intensify innovation processes both at the state level and at the level of entrepreneurship. The practice of the most innovative-active countries of the world convincingly testifies that small business is the driving force of innovative transformations [1].

**Analysis of recent research and publications.** The Research of innovative activities features in the small business sector as well as search for ways of its financing were occupied by scientists such as: V. Anshin [10], N. Baldich [7], T. Vasilkov [12], T. Vihot [8], O. Datsko [2], V. Zakharchenko [3], O. Ilyash [12], O. Kornukh [4], N. Korsikova [3], M. Malchyk [14], I. Matvey [8], L. Makhanko [4], M. Merkulov [3], N Mitsenko [12], O. Mokia [2], V. Nagorny [1], M. Petryuk [1], O. Popko [14], I. Solovey [15], N. Khodko [7], L. Chernyi [7].
Formulation purposes of article (problem). The purpose of this article is considered to research the development state of innovative entrepreneurship in Ukraine and investigating its financing sources.

The main material. Any innovative activity requires financing throughout every phases of its life cycle – from the birth of an idea and a company to their commercialization and subsequent growth and development. Access to financing of Ukrainian enterprises, including small and medium-sized companies, has improved in the last years. There also were started a number of initiatives supported by Governments [2]. However, financing of innovative firms is not yet available during all necessary phases of the cycle. State-managed initiatives, which provide funding to innovative firms, should be balanced with co-financing of private sector. At the same time improvements in the provision of specialist funding should be accompanied by ameliorates the overall business environment, that will enhance the demand for financing start-up projects.

In the domestic business environment start-up identified with the beginning of a new business aimed at commercialization of any innovations. More accurately it could be say that start-up is the process of development and commercialization of the "breakthrough" technology, a business project, which is based solely on innovation, that improves the real circumstances of people's lives. A distinctive feature of start-up is a significant scalability of the project for a short time period. Characteristic features of a start-up project:

- a presence of business model ability to become scalable, repetitive and expanded;
- a high speed of project development and the most effective promotion of the company in the market;
- minimal costs of resources from the authors of the start-up project;
- a brief history of operating activities;
- an ability to adapt;
- a certainty in the project and its flexibility, taking into account the needs of
the market;
- a new enterprise (project) may not be registered with the relevant authorities;
- unique and originality of an business idea [3, p. 126-134].

Now a difficult situation emerged in Ukraine. On the one hand, there is the emergence of numerous interesting start-up projects, the authors of those ideas stand in need of investing for their development [4]. These are entrepreneurs who possess unique ideas for business in different spheres: from agriculture to innovative biotechnology. But in spite of the high commercial potential, due to difficulties in attracting investments, the launch of these start-ups is often postponed indefinitely. Banks do not finance projects "from scratch", investment companies are ready to invest only at the project growth stage, when the most risky and the most difficult stage of the launch has already passed; venture capital funds are interested only in high-tech projects. The solution of this problem for aspiring entrepreneurs is to attract private investors, willing to invest in new risky ideas today for the sake of getting a profit in the future. On the other hand, investors, who seem to invest, often do not find adequate facilities for them – ideas, projects, start-ups due to lack of or limited access to information.

Cabinet of Ministers of Ukraine on July 10, 2019 approved the strategy of innovation activity development for the period up to 2030 [5]. To create favourable terms for bringing innovations to commercial use, in particular through the development start-up projects, the state Government plans to provide:
- promotion of venture business;
- efficient work of simplified tax and reporting system for newly-created small innovation business;
- legislative regulation of measures on state support of small innovative business on condition of co-financing at the expense of other sources;
- raising the knowledge level about academic entrepreneurship and creating new forms of innovative infrastructure;
– formation of priorities understanding among the subjects of innovation activity, of public opinion that that scientific researches, development and implementation of ideas require financial support, and young start-up founders need in appropriate expertise and investment [6].

The main sources of financing for any start-up project are projecting own and attracted funds, but sometimes own funds of entrepreneurs are not enough, and obtaining a traditional bank loan is impossible. In view of this, there are several alternative options for financing innovative projects.

Firstly, there are institutions for the financing of community development. Local development Institutions act as a tool to implement the concept of local economic development. This concept was created in response to the failure of central governments to effectively address the socio-economic problems of individual territories, to ensure their even and balanced development. The purpose of such institutions is to provide strategic management of the territories development, the management of the individual projects implementation, the promotion and branding of the territories, the attracting investments promotion, the support of local small businesses, solution to social problems of the territories [7, p. 84].

Indispensable features of local development institutions are:
– local context – activity of institutions of local development is aimed at maximal involvement of territory's internal potential in order to ensure optimal utilization of local resources, taking into account priorities of national development policy ;
– economic orientation-institutions of local development are intended to promote economic development through the support of entrepreneurial initiative and facilitate the access of entrepreneurs to markets;
– development orientation – the aim of the activities of local development institutions in particular is an improvement of the life standarts quality of the
inhabitants of the respective territory by facilitating job creation, increasing production and income, strengthening social capital, etc.

There are three main models for financing local development institutions (table 1).

**Table 1**

<table>
<thead>
<tr>
<th>Financing model</th>
<th>Priority funding source</th>
<th>Aim of activity</th>
<th>Principles of activity</th>
<th>Business objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget-oriented</td>
<td>Direct budgetary financing</td>
<td>Support of policy implementation developed by the authorities</td>
<td>– Clear binding to local authorities’ goals; – Coordination of program activities by local authorities</td>
<td>Focus on ensuring the interests of local authorities</td>
</tr>
<tr>
<td>Project-oriented</td>
<td>The budget and institutions are formed from the budgets of individual projects</td>
<td>Providing professional implementation of development projects</td>
<td>– Balanced Project Portfolio; – Qualitative fulfillment of projects on order</td>
<td>Focus on customer satisfaction</td>
</tr>
<tr>
<td>Service-oriented</td>
<td>The basis of the institution budget is the service fee</td>
<td>Provision of services on a commercial and non-commercial basis</td>
<td>– Good service to all customers; – Use of innovations in service provision</td>
<td>Focus on increasing market share and expanding service markets</td>
</tr>
</tbody>
</table>

*Source: [8]*

At present time, community development funding institutions exist in the territory of twenty regions of Ukraine.

The second alternative source of funding for start-up projects is venture capitalists. According to the definition of the National Venture Capital Association (NVCA), venture capital is the financial resources provided by professional investors, who invest in young, fast-growing companies that have the potential to transform into businesses that could make a significant contribution to the economy [9].

The benefits of venture capitalists are not only financial. Relationships that an entrepreneur can establish with a venture capitalist can provide a wealth of
knowledge, industry connections and a clear direction for new business. Many entrepreneurs lack the necessary skills for business development, and while they can make money through sales, understanding of how to develop a company will always be insufficient. The leadership of an experienced investor group is the best, cause mentoring is an important factor for the successful development of small businesses.

The Ukrainian market of venture capital in the next few years will show rapid growth. This is due to a number of reasons:

- growing popularity of the start-up industry, particularly in the IT-sector of Ukraine;
- awareness of the need to change the paradigm of state economic development towards the transition to new technological structures;
- economic instability and rising unemployment rate, as result, there is the activation of private entrepreneurship;
- the development of elements of the venture ecosystem;
- activation of ukrainian startup projects participation in international specialized events and their active conduct in Ukraine [10, p. 341-356].

Another alternative source of financing for small business innovation is partnership financing. With a strategic partner financing, one firm finances another( usually from the same industry) it gets special access to your product, staff, distribution rights, profit rights of final sales or some combination of these products [11]. Strategic financing acts as a venture capital, but usually infers an equitable exchange rather than a loan, although sometimes a financing agreement is made on a royalty basis, whereby the partner receives a share of sales profit of each goods.

Partnership financing is a good alternative, because the company, which cooperates with the start-up, is usually a big business, which may work in a similar industry or it is interested in the area of innovative enterprise. A larger company usually has the relevant customers, vendors and marketing programs that can be
used by beginner firm, assuming that its product or service is compatible with what another company is already offering.

In Ukraine, the partnership financing market is very limited and exists mainly as banks' propositions, such as "Pivdenny" and "Raiffeisen Bank Aval", for agricultural producers to take advantage of partnership financing programs for purchasing agricultural machinery and equipment. Advantages of such partnership programs:

- preferential interest rates;
- guaranteed purchasing of high-quality products from leading manufacturers;
- no need to withdraw own funds from circulation.

Another alternative source of financing for start-up projects is factoring. According to the factoring agreement (financing under the assignment of the right of a monetary claim) one party (factor) submits or undertakes to hand over the money to the other party (client) for payment, and the client retreats or undertakes to concede the own right of a monetary claim to third party (debtor) to the advantage of the factor [12, p. 224-236].

Factoring is a convenient tool for attraction of circulating funds to minimize the cash gaps between forwarding of goods (providing services) and paying of them. The use of factoring functions gives small businesses a number of competitive advantages. For example, due to the fact that receivables are converted into circulating funds, they can provide buyers with a longer payment deferment for goods/services, and by virtue of improving own liquidity ratios – get favorable terms of cooperation with their vendors. Such changes help to increase both the number of buyers and the sales volume. Aside of that, factoring services, in addition to providing financing, may include the accounts receivable administration, as well as information and legal support for dealing with debtors.

Consequently, the use of factoring allows start-ups not only to minimize the labor costs of their enterprise on account of receivables, but also to improve
the quality of control with its timely repayment, and also to reduce the negative impact of payment delays on business.

As of 01.07.2018, the top five leaders in terms of volume of factoring requirements in Ukraine were included banks: "PUMB", "Ukreximbank", "TASKOMBANK", "Raiffeisen Bank Aval" and "OTP Bank" [13].

A relatively new type of startup financing is crowdfunding. Crowdfunding is a collaboration of people who voluntarily pool their money or other resources together, as it has been the case through the internet, to support other people or organizations' efforts[14].

In Ukraine, the crowdfunding popularity is increasing rapidly. Presently, there are such crowdfunding platforms in our state:

- Kickstarter – one of the largest platforms in the world. Kickstarter finances a variety of projects in 13 categories: art, comics, dance, design, fashion, movies and videos, food, video games, music, photography, publishing, technology, theater;
- Indiegogo – popular public co-financing website. This platform is aimed for financing absolutely any project, it does not place restrictions on the types and topics of projects. The resource is open to users from anywhere in the world;
- GlobalGiving – an online fundraising platform for nonprofit organizations around the world. Aim of the activity is to create opportunities for crossing nonprofit and charitable organizations with the global network of individual and corporate donors to help in finding funds and informing about local projects. By choosing a project on the platform, the donor can donate any amount for its development;
- Causes – service for creating online campaigns with supporting of various social, political and environmental initiatives. Causes is a platform for creating network campaigns for collective action – raising funds, signing
petitions, highlighting to important topics of present. The complete integration to Facebook adds the convenience of using this resource.

- Crowdrise – a fundraising website for personal and charitable purposes. Crowdrise specializes in personal fundraising, fundraising events, team fundraising and sponsor volunteering;

- Firstgiving - a platform for raising funds and fundraising campaigns management. This resource helps NGOS collect the necessary funds for the projects, as well as provides tools for managing the fundraising campaign – to plan, perform and evaluate the Internet fundraising campaign;

- GoFundMe – a fundraising platform for projects and private initiatives. A feature of this resource is that it can raise funds not only for full-fledged projects, but also for personal affairs and events.

- Spilnokosht, which was created by the community "Biggggidea" in 2012 in Kiev. Great idea is aimed at the development of a strong and open society, to implement the desired systemic changes. This platform raises funds for projects in the fields of education, health, literature, music, journalism and research;

- Na-Starte was created by the Odessa IT company in 2014. This platform specializes in the development of innovation and cultural initiatives in Ukraine;

- Go Fund Ed was created by the public organization "ProSvit". Go Fund Ed specializes in the implementation of educational programs that are offered by ukrainian students, teachers and civil activists;

- StartEra is the youngest platform in Ukraine and the first in the western region. It was created by Tech StartUp School in partnership with Lviv Polytechnic National University and media-hub "Tvoe Misto". It is focused on the implementation of projects and ideas of entrepreneurs from all over Ukraine [15].

**Insights from this study and perspectives for further research in this direction.** Consequently, it can be concluded that innovation activity in Ukraine
is at the stage of development. The investor, before invest into the project, analyzes possible risks and tries to minimize them. Therefore, a new product or service, that are offered by startup founder, must solve a particular problem, propose customers something unique, without which they can no longer do. In addition, innovations must be protected so that competitors cannot copy them. It is also desirable that the intellectual property rights for the development be regulated or a patent application submitted. It is also necessary to pay attention to the market, where the startup entering is planned. A selected business model is also an important criterion for startups evaluation. Incorrectly selected model in many cases becomes the cause of failure, because the sales cost of the product often exceeds the income from its sale. Also an important factor for venture innovation is scalability of business. Only in case of account and compliance the start-up project with all the above criteria, it can claim the attention of investors and have chances for a successful implementation.

To improve the development of the small business sector in Ukraine, it is necessary to: formulation and implementation of special innovative development programs, formation of favorable innovative infrastructure, establishing closer cooperation between research institutions and enterprises based on commercialization, development and implementation of an effective algorithm for financial support of innovation activity.

References


