# Funding Innovative Business Operations in Contemporary Circumstances

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A B S T R A C T
*The primary prerequisite for the growth of a nation's economy hinges on the innovation-driven actions of businesses, and their willingness and aptitude to leverage the fruits of scientific and technological advancements. This study offers an examination of the categorization of traits and varieties of innovative initiatives, as well as strategies for funding innovation. Based on the analysis, pertinent conclusions have been formulated.*

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## Introduction

Innovation activity financing is the procedure of providing and utilizing funds earmarked for designing, developing, and establishing the production of new products, creating and implementing novel equipment, technologies, services, works, as well as developing and adopting new organizational structures and management methods. The path towards innovative development necessitates that both state and corporate leaders undertake actions that foster the growth of sectors with the potential to make their products competitive and generate new technologies.

In the current climate, the principal factors assuring product competitiveness include efforts towards:

1. Technically updating the industrial complex and realizing scientific and technological progress achievements to minimize costs.
2. Fostering the firm's unique innovative potential.
3. Establishing mechanisms for financing the enterprise's innovative activities.

Presently, the primary constraint on innovative development is the inadequacy of existing enterprise resource management methods. To address this, a financing management system for a company's innovative activities needs to be established, one that employs contemporary methods for tracking and managing financial flows, reducing risks, and prioritizing the expansion of internal economic relationships.

Since the management process for financing innovative activities lacks thorough analysis and has only been viewed superficially since its inception, it became necessary to view this phenomenon not as an isolated element, but as an intricate system for analyzing the organization and supervision of a company's innovative activities and its financing sources, taking their specific characteristics into account.

The main aim of the financing management system is to form enduring competitive advantages based on innovation, thereby boosting the enterprise's value. The prompt financing of various stages of innovation activities to ensure their continuity also plays a significant role.

The main subjects of financing management at the enterprise level include:

- Innovative activities
- Innovative development program
- Budget for innovative development
- An innovative project

Innovation activities focus on developing in-house and harnessing the accomplishments of scientific and technological advancements to enhance the enterprise's competitiveness by improving the quality of products and services provided, which are based on the latest technologies and target their modernization and further improvement. Innovations can include goods and services recognized as such; these are often modified, enhanced goods. If society viewed all types of innovations with skepticism a few years ago, both economic entities and regular consumers now openly embrace and actively utilize them, indicating the social maturity of the population. It's no secret that corporations pursuing innovative development operate on the "create a problem and sell a solution" principle.

An innovative development program encompasses activities that are executed in a certain sequence and designed for a specific time frame. This program also includes a projection of the expected results from its implementation.

The usual sources of financing for innovative activities are the company's own resources and credit facilities. Bank loans are primarily used to execute small, short-term projects with high returns.

**Literature review**

Key studies on the economic and social facets of innovative development, as well as their influence on reproduction and investment processes, were conducted by researchers such as Dezhkina and Potashkina (2010) [3]. Topics related to financial and innovation management were discussed in the works of Gaunova (2012) [4], Molchanova and Surin (2008) [5], Ogovlev (2013) [6], and Shokhin (2011) [7]. Zeynelgabdin (2005) [8] analyzed the financial system and financial regulation. The issues of project management and specific features of financing innovation projects were scrutinized in the works of Zub (2016) [9] and Sultanov (Features of innovation project financing). Thus, it can be observed that over the last decade, research development concerning issues of innovative development, financing of innovative development of enterprises, evaluation of innovation potential, and its stimulation and optimization, have significantly increased. The pursuit of fresh ideas is the reaction of businesses to decreased income from their operations, due to a market sector's saturation with certain products. The capacity of economic entities to generate and apply innovations is contingent on the overall level of a country's scientific and technological progress, as well as resources (Lochan et al., 2015).

**Research Methodology**

This investigation is characterized as qualitative research. It employs qualitative methodologies, such as textual and visual analysis, to examine the financing methods and strategies deployed for the innovative activities of enterprises.

**Analysis and Results**

An innovative project is a developmental plan that includes a scientific, technical, and economic justification for deciding to execute it. The outcome of developing such a plan is a comprehensive description of the innovative product, the step-by-step process of its production, as well as its introduction to the innovation market. A well-designed and executed project uncovers the full potential and latent capabilities of the enterprise. Innovative projects can be categorized based on several criteria (table).

The budget for innovation (investment) development signifies a specific amount of allocations for the enterprise's innovative activity, income from implementing an innovative product, and expenses linked to servicing this innovation process. An investment budget can be created separately for each process of innovation development, or for the entire program as a whole.

Table 1 [12]

**Classification of characteristics and types of projects**

| Classification signs | Project types |
|---|---|
| Depending on the area of application | Organizational<br>Scientific and technical<br>Research |
| By solution level | Federal<br>Regional<br>Enterprise Accepted |
| By type | New sources of raw materials<br>Advanced management techniques<br>New production methods<br>New goods<br>New services<br>New Markets |
| In relation to existing systems | Disruptive - The essence of these projects is to change the market for goods. The result of the implementation of such projects is the abolition of the old parameters of product valuation.<br><br>Supporting - the essence of supporting projects is not to create new ones, but to improve existing ones. The opposite of disruptive projects |
| By the degree of completion and time of implementation | Long term<br>Medium-term<br>Short term<br>Intermediate<br>End |

Upon analyzing the mechanism for managing the financing of a company's innovative activities, it's apparent that its development includes the formation of:

1. Innovation financing strategies;
2. The strategy's financial security implementation.

The development of a financing strategy is seen as the foundation for the formation of the financing ideology for innovative activities. The ideology of financing is presented as a set of measures that comprise both the strategy and tactics of financing the company's innovative activities.

The financing strategy can be realized through tactical innovative activities aimed at influencing the innovation process itself. Investment and innovation activities are intended for realizing the development prospects of enterprises and are directly tied to strategic planning. These are designed to ensure the alignment of the long-term goals of the business entity and enhance the efficiency of resource usage. The company's investment and innovation programs should not conflict with these goals. The formation of agile, dynamically evolving innovative systems is one of the main paths to achieve financial and economic stability of enterprises.

Investment and innovation interaction is understood as the most crucial strategic and tactical goals and objectives of innovation. For this, it is necessary to prioritize the expenditure of the available investment resources and attract additional ones.

Depending on the enterprise's direction and management goals, the appropriate tactics and development strategy should be chosen from two main groups:

The first group is referred to as technological and comprises two types of strategy - leadership and imitation. Passive are innovative marketing strategies.

When choosing a leadership strategy, a company will need to periodically introduce a new product to the market and allocate a significant portion of its budget on Research and Development (R&D). This strategy entails:

1. Creating new unique ideas;
2. Conducting R&D and investing most of their resources there;
3. Analyzing the market's and consumers' acceptance of a new product by releasing a trial batch of products;
4. Conducting market testing;
5. Once the goods are accepted, taking measures for the serial launch of the goods production;
6. Conducting promotional activities for the product in the market;
7. Monitoring the supply and demand dynamics in the market and, if needed, modifying and updating the product.

Choosing this strategy allows the organization to temporarily monopolize the market and generate extra profits. However, innovators also face high uncertainty and risk, which is a drawback of this strategy. The uncertainty primarily lies in the most problematic areas such as the technological sphere, market, and business. The risk is based on the potential for the inability to implement and apply the results of R&D practically. The second risk is the difficulty in forecasting and the volatility of consumer preferences. To mitigate this risk, market testing is performed. The challenge is that such testing can only be conducted after producing the product in a certain volume. In early companies, it can:

- suspend the release of these products;
- improve the product;
- Choose a new market for the product.

The third risk involves competitors and their attempts to replicate the given product. The situation becomes more challenging as competitors can learn from the innovator's company's mistakes and take more effective actions. For this purpose, certain quality standards and licensing are established. The imitation strategy involves following the leader, meaning the company waits for a competitor to release a new product and, considering its mistakes and product improvements, begins to drive it out of the market. For these purposes, a passive company periodically allocates substantial funds for R&D. Also, passive companies cut production costs through flexibility and economies of scale. This strategy allows for minimizing the risk encountered by the "leaders". It's not uncommon for companies with their own innovative product to wait until other companies bring a similar product to the market. This allows them to avoid mistakes and introduce their own version of the product to the market without the risk of lack of demand.

Depending on the chosen development strategy and identification of the main investment objects, a list of the main objects of financing management is determined, which include the innovation and investment activity itself, as well as the development budget. Management of innovative processes and their financing is executed at three levels: strategic, operational, and tactical.

Strategic management involves the development of a comprehensive plan for implementing the company's innovative activities in a specific management area, defining the direction of innovation, its long-term goals, and objectives.

The general scheme of the cycle of strategic management of the innovation activity of the enterprise is as follows.

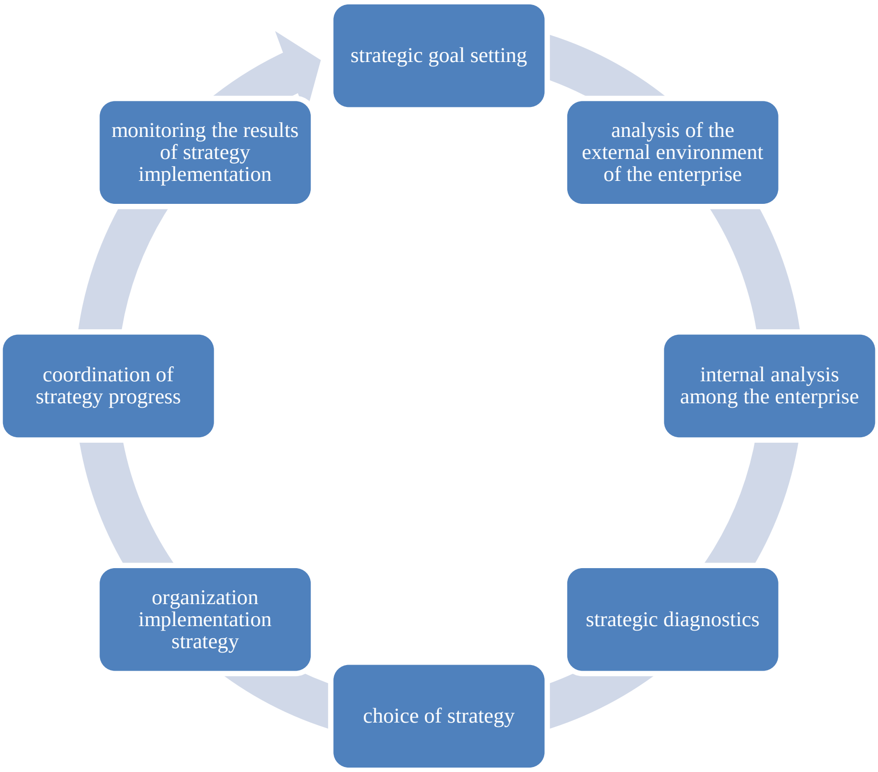


**Figure 2. Strategic innovation management cycle diagram [11]**

Tactical management of financing innovative activities is designed for the medium term and is geared towards achieving set metrics. The outcome of reaching these metrics is a management decision that ensures the creation of budgets for certain areas of innovation processes.

Operational management aims at addressing short-term problems of financing management. The result of operational management of financing innovative activities is an actual report on the financial state of the business within the context of implementing innovative processes. To obtain such a report, an analysis of cash flows is conducted, calculating their actual volume and purpose.

The uniqueness of the new product idea and the quality of the organization's management significantly impact the success of venture funding. Hence, the investor always rigorously selects innovative ideas based on their potential for further realization and implementation, and meticulously assesses the state and potential of the management level of the business receiving assistance from venture capital funds, i.e., the recipient enterprise. Venture investors are founders of venture (risky) companies who have decided to implement an idea, and they also organize an enterprise support group consisting of competent managers, lawyers, practitioners, and provide necessary funds for the invested company for the first 2-3 years. Afterwards, most often, the role of investors is confined to assessing the elapsed period and subsidizing subsequent stages if there are positive interim results. Particular emphasis is placed on executing a pre-agreed business plan, and meeting work completion deadlines is a condition for securing additional funds.

In most instances, in practice, there is a combined form of venture capital investment, where a portion of the funds is contributed to equity capital, and the rest is provided in the form of an investment loan. For the commercialization of many innovative projects, a flexible and selective venture financing system is most suitable, which motivates the participants in executing such projects to take an active and creative part in achieving market success. This approach embodies the key difference between venture investment and bank lending. The final profit of venture capitalists emerges only 5-7 years after the investment of funds, as their main aim is not the distribution of annual profits but reinvesting all the profits received back into the business. If, during this time, the venture enterprise achieves commercial success and the cost becomes several times higher than the initial one, then all partners receive a profit that is many times higher than the profit, and their risks are justified. Hence, if venture funds, entrepreneurs, and inventors who invest their resources in the innovation field work collectively, they can achieve significant financial success. Otherwise, the organization may not achieve success, and the venture investor may lose the invested funds or, in extreme cases, return them without making a profit.

The goal set by venture investors is achieved if, at the stage of implementing the innovative component of the project, the groundwork is laid to increase the market value of the venture capital enterprise. These costs include the expenses for R&D, information and patent support for scientific developments, marketing research, as well as the production and sale of new products. The evaluation of the final results of venture financing is based on the effectiveness of the entire investment project, where the innovation stage is seen as a component.

**Conclusion**

In conclusion, the outlined parameters for managing the financial security of the innovative development program guarantee the establishment of primary goals and objectives of managing the enterprise's innovative activity within the context of the main management objects. These formulated tasks can be utilized to manage the financing of innovative activities of any enterprise.

The developments of recent years indicate a need for change in economic development models. To ensure a balance between economic growth and a sustained improvement in societal welfare, it is imperative to decrease the economy's vulnerability to changes in external conditions. This shift towards less vulnerability can be achieved by promoting a culture of innovation, which will enable businesses to adapt, grow, and maintain competitiveness amidst evolving market dynamics.

Prioritizing innovative activity and its financing, and making it a central part of an enterprise's strategy, is crucial. Implementing different management levels - strategic, tactical, and operational - will allow for a more structured and detailed approach towards managing innovation finances. Moreover, depending on the goals and direction of the business, appropriate tactics and development strategies need to be chosen.

In addition, venture capital plays a significant role in financing innovative activities. It is essential for venture capitalists, entrepreneurs, and inventors to work collectively to ensure the success of the innovative enterprise and the profitability of the investment.

Ultimately, the process of managing financing for innovative activities is complex and multifaceted, requiring careful planning, evaluation, and execution. However, if done correctly, it can greatly contribute to the sustainability and growth of an enterprise and, more broadly, to the overall economic development of a country.

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