



# PROFESSIONAL COMPETENCIES AND EDUCATIONAL INNOVATIONS IN THE KNOWLEDGE ECONOMY

Collective monograph

Veliko Tarnovo, 2020

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**INNOVATION-INVESTMENT ASPECTS OF SMALL BUSINESS ENTERPRISE DEVELOPMENT**

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**Abstract.** *The problems of innovation and investment development of small business entities are investigated. The role of small business in the development of economies of the world is substantiated – promoting structural restructuring of the economy, strengthening the economic base of the regions, increasing the total production and retail turnover, creating a favorable environment for the development of competition, ensuring employment of a large part of the population, stimulating the implementation of scientific and technological progress. The advantages and disadvantages of small businesses are described. The necessity of development of small business enterprises is proved on the basis of combination of innovation-investment and investment-innovation models. The activity of technoparks in foreign countries is investigated. On this basis, it is proved that technoparks are an effective tool for innovations in the country's economy. It is proposed to use such modern EU initiatives and programs as EU4Business, COSME, Horizon 2020 for small business development.*

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**Introduction.**

The sustainable development of any country's economy depends on many factors, the most important of which is the development of small business. Small business is one of the most important socio-economic institutions in many advanced economic systems, which is the basis for the existence of the middle class in modern theories of social stratification. According to some experts, small business is the basis of a market economy. As an independent and indispensable element of a market economy, small business contributes to the structural restructuring of the economy, strengthening the economic base of the regions, increases the total volume of production and retail turnover, creates a favorable environment for the development of competition, provides employment for a large part of the population, stimulates the implementation of scientific advancements.

In today's economic environment, the development of small business in Ukraine should be one of the priority areas of regional policy, both in individual regions and in the country as a whole, since it is connected with solving a number of issues not only economic but also social.

That is why the activation of small business and the growth of scale and efficiency of functioning of the entrepreneurial sector is one of the main factors of positive structural changes and modernization of the national economy, the creation of new resources for economic recovery, improving the quality of life of the population. In addition, the development of small business also leads to a general institutional restructuring of society based on the spread of economic freedom and the emergence of a "middle class" as the basis for social stability. Therefore, the relevance of this study is due to the fact that the modern economy is characterized by the intensification of activity in the field of entrepreneurship. Small businesses play an important role in the economy of the country, their development affects the acceleration of scientific and technological progress, competitiveness, the creation of additional jobs, while playing an important social role, providing a significant source of income for large sections of the population. Small enterprises provide flexibility and stability of the economic system of the state, bringing it closer to the needs of specific consumers.

### **1. The role of small and medium-sized business entities in developing countries' economies.**

The level of development of small business directly determines the degree of development of the economy of the state as a whole. Most of the economic potential of successful countries in the world is made up of small and medium-sized enterprises. According to statistics, for example, in the EU, the share of small and medium-sized enterprises is 99% of the total number of all enterprises, they create 65 million workplaces. In advanced market economies, the number of people involved in small business is usually more than 50% of the working population (EU countries), in Japan this figure is close to 80% [1]. As a part of the GDP of the countries of the so-called old Europe (Germany, France) the production of small enterprises reaches more than 50%, the countries of the New Europe (Czech Republic, Slovakia, Hungary) – more than 30-40% of GDP [2].

Unlike big business, small businesses are almost always in close contact with the customer, almost on a daily basis, enabling businesses to adapt quickly and be flexible depending on customer preferences. But at the same time, in order to ensure such communication and compliance with consumer demands, mobility, small businesses need to constantly invest in their own development on an innovative basis.

The importance and role of small business can be viewed from several perspectives: economic, environmental, scientific, technical, social and political.

Despite the changing trend in the number of small businesses, their contribution to production and sales in the economy as a whole is constantly growing, which is a positive phenomenon (Table 1). As of 2018, there is a tendency for small businesses to increase by 5% compared to 2017, but growth is lower than in previous years. At the same time, the share of small businesses in the total number of business entities decreases slightly. At the same time, there is a significant decrease in the number of employees in small enterprises in



2018, as well as a decrease in the contribution of small enterprises to the country's GDP.

**Table 1. Analysis of Some Economic Indicators of Small Businesses in Ukraine in 2015 – 2018 [3]**

№	Indicator	2015	2016	2017	2018	Deviation, %	
						2018/ 2017	2017/ 2016
1	2	3	4	5	6	7	8
1	Number of economic entities, units	343440	306369	338254	355877	105,2	110,41
2	Number of small businesses, units	327814	291154	322921	339374	105,1	110,91
3	Share of small businesses in the total number of business entities, %	95,45	95,03	95,47	95,4	99,9	100,46
4	Number of employees employed in Ukrainian enterprises, thousand people	5889,7	5801,1	5771,4	5870,6	101,7	99,48
5	Number of employees employed in small enterprises, thousand people	1576,4	1591,7	1651,0	1553,7	94,1	103,72
6	Share of employed workers in small enterprises from the total number of enterprises, %	26,76	27,43	28,60	26,5	92,7	104,25
7	Volume of sales (goods, works, services), mln.UAH	5159067	6237535	7584861	9054800	119,4	121,60
8	Volume of sold products (goods, works, services) by small enterprises, mln.UAH	937112,8	1177385	1463334	1727400	118,0	124,29
9	Share of sales by small enterprises in total sales, %	18,16	18,88	19,29	19,2	99,5	102,20

By type of economic activity, the largest number of small businesses are concentrated in the wholesale and retail trade and auto repair (26,6 %), agriculture, forestry and fisheries – 14,2 %, industry – 11,6 %, real estate operations – 10,6 %, construction – 8,5 %. The largest number of small businesses in 2018 was concentrated in Kyiv – 25,3%, Dnipropetrovsk region – 8,24%, Odessa – 7,19%, Kharkiv – 6,65%, Kyiv – 5,70%, Lviv – 5,28%. These regions are also leaders in terms of sales of products (goods, works, services)

and the number of employees employed in small enterprises.

As practice shows, in the process of carrying out their activities, small businesses have to constantly struggle for survival, because there is a high probability of displacement by large and medium-sized enterprises. In addition, they are highly dependent on their customers and suppliers, so they have to constantly look for different ways to reduce costs and make products more attractive. Compared to large enterprises that are predominantly pursuing an increase in scale, small businesses, on the contrary, see the need to search for microneesia. Working in the first phase with a minimal income, they often get the result of market expansion, which can eventually become the new big source of revenue.

The advantages and disadvantages of operating a small business are shown in Table 2.

**Table 2. The advantages and disadvantages of operating a small business [4]**

The advantages	The disadvantages
<b>for business:</b>	
- High flexibility and mobility;	- there is a risk of bankruptcy;
- implementation of scientific and technological progress achievements;	- sensitive to the effects of the financial crisis;
- prompt decision making;	- constant adaptation to market conditions;
- high experience and qualification of staff;	- limited financial resources;
- high capital turnover rate;	- little opportunity for business expansion;
- fast ability to adapt to changing market conditions;	- limited credit facilities;
- the ability to join forces and collaborate with large and medium-sized businesses	- great dependence on the level of state support
<b>for the state:</b>	
- employment growth;	- granting of privileges in taxation, licensing, crediting of enterprises;
- growth of business entities;	- the growth of bankruptcy enterprises;
- rapid saturation of the market with goods and services;	- increase of state expenditures for information, logistical, financial, credit and investment support of small businesses.
- increase in taxes and fees	

The main features of small business in Ukraine, which are significantly different from entrepreneurship in most foreign countries, include: low level of technical equipment with significant innovation potential; low managerial level, lack of knowledge, experience and culture of market relations; striving for maximum independence (most foreign small businesses operate under franchising, etc., and we have almost none); lack of small business support infrastructure; lack of complete and credible information on the state and market conditions; mistrust of Western partners and negative psychological attitude of the population towards entrepreneurs [5].

## **2. Features of innovation-investment development of small enterprises.**

Small businesses need to constantly adapt to changes in the business environment, manufacturing technologies, and customer needs. Moreover, small organizations are often run by entrepreneurs who are innovators in their field, who are fully risk-averse if this will increase their profits and the efficiency of the organization. And investment in this case is a key element and a prerequisite for the survival of the enterprise.

In general, the development of small businesses ensures the achievement of the following goals of the socio-economic security system: innovative growth and innovative development of industries, regions and the country as a whole; improving the quality of life of the population of the regions and the country as a whole; formation and sustainable gradual development of the state's innovative economy. To achieve these goals, it is necessary to ensure appropriate conditions for innovation and investment development of small businesses. Investment development of an enterprise is impossible without innovation. The interconnection of investment and innovation categories can form two different economic models [6]:

- 1) innovation-investment: investments are made in innovation;
- 2) investment and innovation: search and use of innovative means of conducting investment activity.

When these models are combined, the so-called innovation and investment process is activated. It is a form of real investment that takes the intermediate position between innovation and extensive development investment. The purpose of this process is to respond to the demands of the market, and it is carried out mainly in the production area. The peculiarity of the mechanism of implementation of investment-innovation activity of enterprises is that it includes components of both innovation and investment activity [6]. At the same time, it should be noted that the most effective and expedient implementation of the presented model is a continuous process of interaction between investments and innovations at the enterprise.

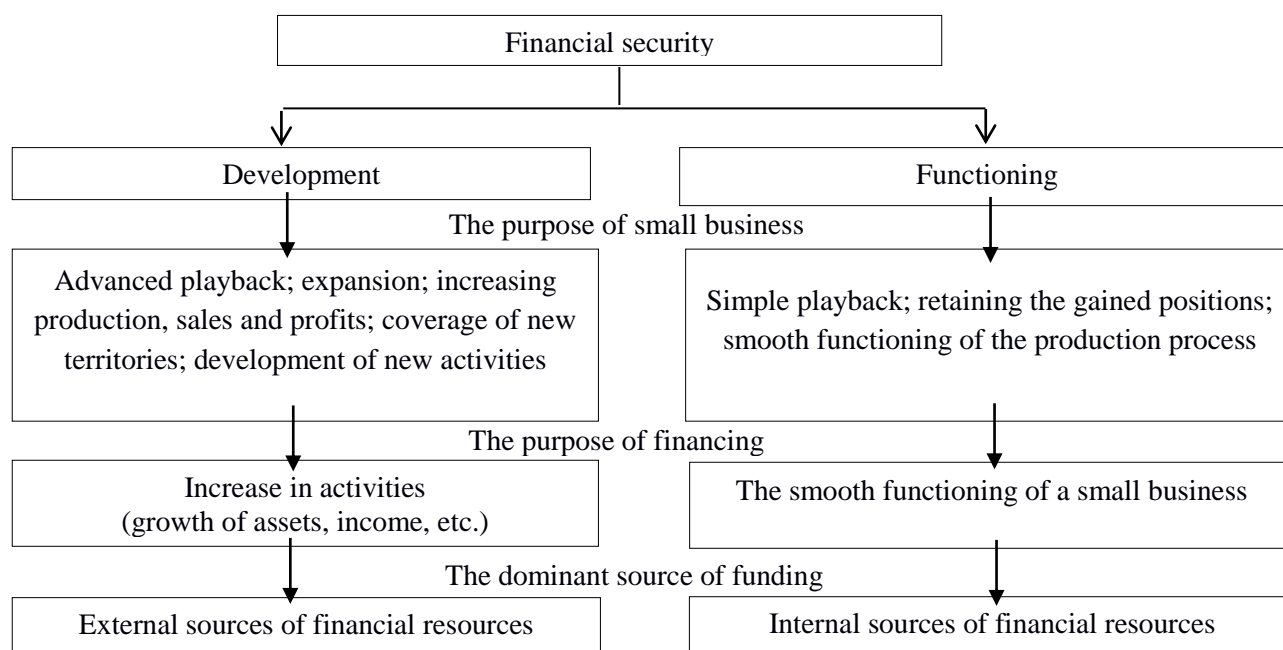
Investing in combination with innovation not only ensures growing volumes of manufactured products, but also improves quality while reducing the cost of manufacturing, increasing profitability, working conditions and productivity. The practice of developed countries shows that small and medium-sized innovative enterprises are an important factor in a stable state economy, a factor of socio-economic security of the state, and their number and degree of ability determines how far the country's economy has reached the level of socially oriented market [7].

The vast majority of small firms that emerged in the late 1980s in the UK are the most technically equipped. About 50% of science and technology in the US comes from small businesses. In Germany and the UK, respectively, they created 26% and 23% of innovations, respectively[8].

One of the important problems of the effective functioning of small businesses and

their innovation and investment development is the ability to provide the activities with the necessary amounts of financial resources. The timely investment received can give a significant impetus to the development of a particular enterprise, city and region as a whole. Attraction of investments has been and remains one of the priority areas of activity of any enterprise, and it is no coincidence, because investments are the basis of economic growth, which provides an increase in the growth rate of production volumes, a decrease in energy intensity of products, and, as a result, an increase in its competitiveness, growth of the level. wages and unemployment.

The system of financial support for the activity of small business entities should be designed in such a way that not only their quantitative but also qualitative development can be achieved, which can be achieved by taking into account the peculiarities of financial and credit support, as well as on the basis of their activities, to ensure the current activity and development (Figure 1).



**Fig. 1. Features of financial support of a small business depending on the purpose of its activity**

The components of financial security are own (internal) and borrowed (external) sources of financing. Their volumes and opportunities for involvement in small business depend on both the internal mechanism of regulation of the process of financing the entrepreneurial structures themselves and the state support of entrepreneurship. And also from the state of infrastructural support of small business development: banking institutions, investment and venture funds, technoparks, etc.

For any business, the return on the use of both own and borrowed funds is of paramount importance.

An enterprise that uses borrowed capital has a higher financial potential for its own development (due to the formation of additional assets) and the possibility of increasing the financial profitability of the activity, however, to a greater extent generates financial risk and bankruptcy risk.

Among all sources of financing for investment development, a special place is given to credit. An investment loan is an economic relationship between the lender and the borrower regarding the financing of the investment arrangements on a return basis and, as a rule, with the payment of interest. The specificity of an investment loan is that it is mostly long-term, has an investment character and requires:

- 1) careful evaluation, first and foremost, not of the borrower, but of his investment intentions (investment project), which obliges the lender to carry out a detailed analysis of the feasibility study of the investment measures envisaged by the project;
- 2) setting a loan payment not higher than the level of return on investment; calculation of credit term depending on the payback period of investments;
- 3) repayment of the loan and interest only due to the income that the investor receives from the implementation of the investment project.

The most common type of investment loan is a bank investment loan. The terms of a loan for financing investment projects are somewhat different from ordinary consumer loans. For most banks, loans to small business development (investment lending) are 5 years. As a rule, interest rates are set at 20% and above. However, the final rate and timing of the financing are determined depending on the area in which the project is implemented, the composition of the participants and the degree of responsibility of each of them, the credit history of the company that applied for funding. Small business lending rates are much higher than large businesses, making it difficult for them to access financial resources.

One of the varieties of financial support for the investment development of a small enterprise is venture financing in the form of attracting funds from an outside investor to the authorized capital of enterprises implementing innovative projects. Venture (venture) capital is the basis of venture financing, which reflects the system of relationships between venture capital entities, which provides accumulation of free funds and investing them in innovative projects for the purpose of research, development and commercialization of innovations.

Venture financing is considered as:

- 1) financing of risky (innovative) projects or financing of newly created innovative companies (Start-up);
- 2) financing the early stage of development of innovative enterprises with significant potential for commercialization, as well as the later stages of growth and development of enterprises in order to obtain further benefits by selling the enterprise to a strategic investor or through IPO;
- 3) long-term, high-risk financial investments in equities of newly created small innovative high-tech companies for their development and expansion, in order to profit from the growth in the value of the investment.



Venture capital sources include the financial resources of venture capital firms and funds, institutional investors, personal savings of an entrepreneur, relatives, friends and acquaintances, business angels, specialized funds to support science, innovation, technology development, etc. Venture capital financing provides participation in venture capital investors' shares in venture capital through the purchase of shares through warrants, options or through convertible securities. Companies that have grown from scratch to world leaders through venture investments are: Apple, Cisco, Compaq, e-Bay, Google, HP, Intel, Microsoft, SunMicrosystems, Yahoo and other.

Among the features of venture financing are the following:

1) investing financial resources in the venture business without guarantees from the venture;

2) granting funds on a non-repayable (interest-free) basis, that is, venture capital is placed not as a loan, but in the form of a share in the authorized capital of the firm; capital investors expect an average of 3 to 5 years to see the prospects of investing, and 5 to 10 years to earn a return on invested capital;

3) the return on investment to venture investors is made at the time the securities of the firm enter the stock market and depending on the share of participation in the provision of funds;

4) the investor becomes a co-owner of the venture firm, and the funds provided – that is, the contribution to the authorized capital of the enterprise – as a part of the investor's own funds.

Venture financing of investments is only emerging in Ukraine, with the support of international financial organizations. The proper development of the venture capital industry in Ukraine requires the creation of an appropriate legislative framework in order for this source of funding to develop significantly.

For the domestic economy, this investment mechanism is considered effective due to its high scientific and human potential. To give an example of several nowadays world-famous venture capital firms founded by Ukrainians:

1) Paymentwall – the main clients of the company are owners of online portals of online games with paid options. With Paymentwall, users across the globe can purchase digital content using one of 85 local payment systems, including via credit cards, ATMs, mobile phones, terminals, etc. [9].

2) Grammarly – is a program that allows you to create any text according to all rules of the English language. Real-time tracking of syntax and grammatical errors, incorrect construction of language turns. It also explains why such a turnover is inappropriate and offers a better option. The service can check texts for plagiarism.

3) Terrasoft – a leading provider of CRM systems in the Commonwealth of Independent States. Initially it was supposed to work with medium and small businesses, but over time, the company had large corporate clients. Now, within its automation system,

Terrasoft provides a suite of tools for solving marketing management, planning, customer base, sales management, service, etc.

International credit institutions are also involved in financing small businesses. For example, microcredit programs are being implemented by the European Bank for Reconstruction and Development, the German-Ukrainian Fund, the Eurasia Fund, the OSCE Project Coordinator in Ukraine and the United States Agency for International Development. State small business borrowers include, first and foremost, Regional Entrepreneurship Support Funds, which are created at the region and district levels.

### **3. Technoparks as a tool for innovation.**

Increasing the investment and innovation activity of small enterprises offers real opportunities to master and introduce high-tech technologies into production. In this regard, technopark tools are widely used in foreign practice to facilitate access to innovation in small businesses, especially for newly created projects.

Technoparks are one of the most effective tools for the formation of innovative infrastructure, the main purpose of which is to organize the scientific and production process to ensure the implementation and implementation of scientific developments that become innovations [10]. The presence of techno parks in the country forms a favorable innovative business environment with the availability of information and technological resources, with an optimal logistic system, which ensures an increase in the volume of attracted investments in the economy.

Some scientists explain the rapid emergence in some developed countries (Germany, Japan, the Netherlands) of technoparks for the needs of modernization and reconstruction in the activity of large enterprises and creation on their basis of small and medium-sized innovative companies, which are more flexible and dynamic in their activity [11].

The formation of the system of registration of technological parks in Ukraine began in 2000, including: "Paton Electric Welding Institute" (Kyiv), "Institute of Single Crystals" (Kharkiv). In 2001 the Technopark "Semiconductor Technologies and Materials, Wholesale Electronics and Sensor Technology" (Kyiv) and others was registered [11-12].

According to the legislation of Ukraine, the special regime of innovative activity extends to sixteen technoparks, in fact only eight of which operate [13]. There are also technoparks in Ukraine which are not covered by the special regime, for example, the technopark of the National University "Lviv Polytechnic".

As of January 1, 2017, according to UNIDO, there are more than 15,000 technoparks in the world. Today, 77 industrial parks operate in 14 specially economic zones in Poland. In 10 years, the country's real GDP has grown by 50% and exports have increased by almost 300%. In 2017, there were 215 industrial parks operating in Turkey, which further grew, GDP and exports increased threefold.

In Macedonia, investors in the country's industrial parks are exempt from corporate income tax, real estate tax, VAT, import duties on equipment and raw materials and personal income tax. Thanks to foreign direct investment, Macedonia is ranked number one in the

world in terms of job creation per 100,000 inhabitants.

Belarus is one of the leaders in the development of IT-tech parks, the country receives development and orders from the most developed countries of the world, earning a net income of over \$ 2 billion a year. By real GDP, Belarus is ahead of Ukraine by more than 2 times, despite the fact that in the issue of IT specialists, our country occupies one of the leading places in the world [10, 14].

In Western Europe, small and medium-sized enterprises are actively encouraged. The largest number of science and technology parks in the UK are in the areas of computer and telecommunications (31%), biotechnology (14%). German Technopark Model is a small innovative support center for science-intensive start-ups. The main areas of activity are biotechnology, electronics and computer technology. The European model of operation of technoparks is characterized by the availability of financial support in large volumes by the state, regional and local authorities.

The largest in the United States is the Stanford Science Park, which in 1951 created the Silicon Valley Science and Technology agglomeration, which helped transform California's backward areas into one of the most developed in the country. According to various estimates, about 15% of the industrial and 30% of the design potential of the entire IT industry is concentrated here. Government Supports Government Procurement, Tax Benefits, and Venture Funds.

The so-called Electronic City in Bengaluru (India) contains many technoparks, which together make up about 40% of the Indian IT industry, employing over 30,000 employees, technoparks in recent years have contributed to a significant increase in the share of IT technology exports. Bengaluru is projected to become the largest IT hub in the world in 2020, with 2 million employees, 6 million indirect jobs and \$ 80 billion in IT exports [12].

The Japanese model is characterized by a high degree of interdependence of research centers, universities and technoparks, while their commercialization is completely controlled by local governments. Science-intensive industries in Japan are developing at a rapid pace, among which are: robotics, biotechnology, medicine and pharmaceutical industry, electronics, IT-spheres, etc.

The Chinese model of technopark functioning is characterized by constant control and state intervention in technopark operation. Shanghai Technology Park accounts for 30% of Shanghai's foreign investment and 50% of foreign trade.

The activity of technoparks helps to create the infrastructure that ensures the production implementation of high-tech developments and high technologies, support small high-tech enterprises at the start-up stage. In foreign countries, where the operation and operation of technoparks is well developed, there is a significant impact on the economic and social development of countries, employment, the production of high-tech and competitive products, the development of innovative technologies.

### **Conclusions.**

Therefore, the growth of small and medium-sized enterprises in Ukraine requires investment on an innovative basis and the development of appropriate infrastructure. Timely investments can give a significant impetus to the development of a particular company, city and region as a whole. The activity of technoparks facilitates the production implementation of high-tech developments and high technologies, supporting small high-tech enterprises at the initial stage. The European Union supports the development of small business in Ukraine. Strong ideas and opportunities for collaboration are offered by projects within the EU initiatives and programs: EU4Business, COSME, Horizon 2020. In addition, the Business Opportunity Map project was launched as part of the European Entrepreneurship Week in Ukraine, which is part of a pan-European SME development campaign, promoting entrepreneurship and raising awareness of EU support for private sector development. With this opportunity map, entrepreneurs can learn how to enter international markets, find financial resources, and how to develop business skills and improve the country's business climate. The map is an electronic service that has 4 headings: finance, knowledge, markets and business regulation and provides detailed information on EU4Business, COSME and Horizon 2020 projects.

Investment development of enterprises should become one of the priority directions of the state policy, since, according to the analysis, the share of small enterprises in the total number of economic entities is significant. At the enterprise level, through innovation and investment activity it is possible to achieve: increase in the volume of manufactured products, increase of competitiveness, which, in turn, will have a positive impact on the performance indicators. Small business investment development will provide a significant impetus for the development of the economy of the whole country.

For innovative entrepreneurs, especially small ones, systematic compensatory measures from the state are extremely important – tax privileges, opportunities to receive interest-free loans or credits on preferential terms, to obtain state orders, as well as to finance programs of scientific institutions aimed at developing an innovative product or technology. Through advisory and promotion research programs for entrepreneurship, innovative products and technologies should become economically viable for small businesses and competitive in the market, as is the case in advanced market economies.

The main types of financial state support may be: partial compensation of interest rates on loans granted for the implementation of projects of small business entities; partial reimbursement of leasing, factoring and guarantee payments; providing guarantees and sureties on the loans of small business entities; providing loans, including micro-credits, for starting and running one's own business; providing loans for the acquisition and implementation of new technologies; offsetting the costs of developing co-operation between small businesses and large enterprises; financial support for the implementation of energy-efficient and environmentally friendly technologies; other types not prohibited by the law of financial state support.

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