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INNOVATIVE DEVELOPMENT OF SMALL AND MEDIUM-SIZED BUSINESS IN UKRAINE

The article presents the contemporary vision of the relationship between innovation and enterprises competitiveness, analyzing the key trends in innovative activity in Ukraine in the sector of SMB. Basing on the identified positive and negative features, the directions in stimulating innovative activity of small and medium-sized businesses are determined.

Keywords: innovation; small and medium-sized business (SMB); innovative development; process and product innovations.

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ІННОВАЦІЙНИЙ РОЗВИТОК СУБ'ЄКТІВ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ В УКРАЇНІ

У статті подано сучасне бачення взаємозв'язку інноваційної діяльності із конкурентоспроможністю підприємств, проаналізовано основні тенденції розвитку інноваційної діяльності в Україні в секторі середнього та малого підприємництва. На основі виявлених позитивних і негативних особливостей його розвитку обґрунтовано окремі напрями стимулювання інноваційної активності підприємств малого та середнього бізнесу.

Ключові слова: інновації; інноваційна діяльність; мале та середнє підприємництво; інноваційний розвиток; процесні та інновації продукту (результату).

Табл. 2. Літ. 15.

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ИННОВАЦИОННОЕ РАЗВИТИЕ СУБЪЕКТОВ МАЛОГО И СРЕДНЕГО БИЗНЕСА В УКРАИНЕ

В статье представлено современное видение взаимосвязи инновационной деятельности с конкурентоспособностью предприятий, проанализированы основные тенденции развития инновационной деятельности в Украине в секторе среднего и малого предпринимательства. На основе выявленных положительных и отрицательных особенностей его развития обоснованы отдельные направления стимулирования инновационной активности предприятий малого и среднего бизнеса.

Ключевые слова: инновации; инновационная деятельность; малое и среднее предпринимательство; инновационное развитие; процессные и инновации продукта (результата).

Introduction. Innovation activity and effectiveness of innovative small and medium-sized enterprises (SMEs) are closely related to the competitiveness of commodities and services, the volume of sales, the level of new technologies and the progressiveness business management. Given the characteristics of innovation (high risk level, the need for rapid decision-making, flexibility and adaptability, the ability to change etc.), it is more typical for small businesses, especially venture capital firms, which further grow to medium-sized business or cooperation with them. Therefore, among the recognized criteria of efficiency and effectiveness of public policy in promoting and strengthening the role of business sector in economic growth of state the top is taken by the level of innovation in SME.

However, the factors other than government regulation on innovative activity of SMEs significantly affect macroeconomic processes. Thus, in times of economic

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instability, the question is, whether the successful implementation of new projects is possible within the background of a number of legal, infrastructural and institutional barriers. Despite the declaration of local governments about technology transfer, active and comprehensive support for innovations and the introduction of an innovative type of development, real traceable trends as interpreted by M. Porter (2006) as a transition from the stage of "factor-driven" to the point "investment-driven" cannot be traced and the current situation is characterized by extensive methods, high management cost, low pay and limited investments in new technologies.

Latest research and publications analysis. In contemporary economic literature, innovation is linked to competitiveness of economy, market changes and transformation processes. Only in rare cases, researchers are trying to refer institutional innovations to business development in Ukraine, identifying innovative entrepreneurship as a factor in accelerating innovations (Zianjko, 2008). International experience of managing innovative activities by SME and the possibility of its adaptation to economics Ukraine is largely reflected in Z. Shmihelska (2007). Comparative analysis of innovation development of Ukraine and Russia is proposed N. Ivanova, I. Yehorov, S. Radoshevych (2008). The essence of the innovative mechanisms development is considered in detail by M. Apyrshkin (2008), A. Baklanov (2006), A. Dagayev (2000). Innovative small and medium-sized enterprises at the current stage is an actual problem, handled by a number of prominent scientists, including J. Bogatyrev (2004), S. Varnaliy (2008), T. Vasylytsiv (2009), K. Vashenko, V. Vorotin, V. Heyets et al. (2008).

Nevertheless, some issues remain insufficiently discussed inter alia, regarding mechanisms and tendencies of innovative development of SMEs, planning and organization of public sector support. In this context, the main objectives of the study is to evaluate the conditions of formation and increase of innovative capacity of domestic SMEs, to analyze the peculiarities of national statistical monitoring of the development of innovative entrepreneurship, to ground the areas to stimulate innovation activities of SMEs.

The object of this research is the innovation development of SMEs.

The aim of the research is to investigate the theoretical fundamentals of investment and development of SMEs.

Key research findings. Introducing the innovative type of development, especially in SMEs is crucially important for national competitiveness and economic security. However, it is unlikely to forecast in Ukraine the qualitative leap of international strategies to innovation-driven ones, in which vertical and horizontal integration of commercial and business clusters are of most importance.

The innovative activity of SMEs, affecting most of the functional areas of the economy, is manifested through the development of innovative capacity and implementing innovative projects. However, approbation of innovative features of the SME sector is possible only under certain conditions by stimulating investment attractiveness and facilitating the implementation of scientific and technical developments.

Evaluating the conditions of formation and increase in innovative capacity of domestic SMEs, it should be noted that in 2012 with the entry into force of the Law of Ukraine "On the development and state support of small and medium-sized enterprises in Ukraine" (Verkhovna Rada of Ukraine, 2013) its subjects have reasonable incentives to create and innovative research results, as this legal act was about:

1) financial support for education infrastructure supporting SMEs in innovation, science and industry, including business incubators, innovation incubators, science and technology centers, technology transfer centers;

2) promotion of venture business;

3) creation of economic incentives for economic development based on technological innovations;

4) transfer of scientific production created by means of budget funds for implementation into production;

5) creation of conditions for attraction of SMEs to conclude subcontracts in innovation and industrial production;

6) promotion of foreign investment and the development of mutually beneficial international innovation cooperation;

7) creation of conditions for the cooperation between SMEs and large enterprises (Verkhovna Rada of Ukraine, 2013).

At the highest levels of government support for innovation, since 2008, real steps were made towards closer monitoring of practical implementation of innovations at enterprises. Thus, the reports reflect innovations of industrial enterprises in the last 3 years, although this information does not correlate with their size.

When preparing statistical reports innovative enterprises are differentiated by technological, market and organizational levels. Technological level is considered as embodied in practice and market introduction of new or improved goods (services), process or production method (transmission) services. Statistics are divided into food innovation and process that seems to be not very successful, as process and technology are close concepts and innovative product should be considered as the end result of their own technological changes. Obviously, this division is due to the practice of the study of innovation processes in industry where product innovation lead to the introduction of technologically new or improved products and process development recognized as technologically new production methods.

Government attempts were carried out to manage the information database of innovative capacity of national entities for effective monitoring of the situation and problems in the analyzed area and, secondly, for reasoning and decision-making designed to stimulate innovation in general as well as innovative small and medium-sized enterprises in particular. It is important to find mechanisms to identify potential, especially small business, which, though not crucial for the growth of GDP, but due to its high adaptability to innovations it can provide adequate impetus for Ukraine's economy to reach a new innovative competitive status.

Another very significant drawback of the national statistical monitoring of the development of innovative entrepreneurship is the lack of indicators of innovative activity directly in the sector of SME. Therefore, it is necessary to form preliminary conclusions on their innovative development based on statistical information about the creation and innovation in the economy as a whole (Table 1).

There is a steady trend to reduce the share of sales of innovative products. If in 2006 the figure was 6,7%, in 2011 it dropped to 3,8%. Despite the increase in the total number of implemented new processes, as well as names of new products, the share of low- and resource-saving technological processes, and new forms of technology is rapidly diminishing.

Table 1. Technological innovations in Ukraine in 2006–2011

(State Statistics Service of Ukraine, 2012)

Year	The share of enterprises that implemented innovations, %	Implemented new processes		New products		The share of sales of innovative products, %
		total	including low-waste, resource sparing	total	including new types of technology	
2006	10.0	1145	424	2408	786	6.7
2007	11.5	1419	634	2526	881	6.7
2008	10.8	1647	680	2446	758	5.9
2009	10.7	1893	753	2685	641	4.8
2010	11.5	2043	479	2408	663	3.8
2011	12.8	2510	517	3238	897	3.8

Marketing innovations at domestic SMEs appear, usually through the introduction of advanced methods of pricing, selling products, managing sales channels, advertising etc. Because of these characteristics the largest number of them accounts for retail trade. Among other things, they help businesses adapt to market economy and international business standards. Industrial enterprises marketing innovations are implemented by forming a dealer-distributor organizational models for rational choice of distribution channels.

Technological innovation in the SME sector is largely implemented through renewal of equipment and improvement of software to produce new or improved products and services. Technological innovations belong to imitating, as it requires less resources. However, some innovatively active small firms can be considered innovators followers, because they also contribute to the improvement of technology and the spread of new products. Quite a number of firms in trade actively streamline their processes. Microenterprises that employ no more than 3–4 persons do not introduce technological innovations at all. Organizational innovation is often caused by technological and related change management system, personnel training etc. Small hotels and restaurants in Ukraine use mostly innovations regarding HR and communications with partner organizations.

The share of innovative industrial enterprises in 2011 amounted to 16,2% and increased to 2007 by 14%, and by 2010 – 17% (Table 2). This increased the total volume and the costs of innovative activities. In 2007, for these purposes 10.8 bln UAH was spent, in 2011 – 14,3 bln UAH, which is 32,4% more.

However, the negative tendency is the decrease of the share of innovative products in the total sales of industrial products. It has adverse affects on the national competitiveness as a whole, not just SME and leads to increased negative trends that may become critical.

One of the performance criteria is the competitiveness of products for the creation and realization of which innovations are developed and implemented. Intellectual creative activities and research projects are mainly initiated and conducted at educational and research institutions. Therefore, for the implementation of government policy to strengthen the innovative development of economy it is important to develop there relationships (especially using the tools such as clusters, database etc.).

Overall, innovation activity of domestic industrial enterprises can be characterized by high stability and development. Therefore, evident is the presence of a strong

tendency of narrowing innovations, including planning in the long term within the real sector of economy of Ukraine, including SME.

Table 2. Indicators of innovation activity in Ukraine,
compiled from (State Statistics Service of Ukraine, 2012)

Indicators	Years				Growth rates, 2011	
	2007	2009	2010	2011	2007	2010
Industrial companies that carried out innovations, %	14.2	12.8	13.8	16.2	114.1	117.4
Total expenditure for the innovative works, mln UAH	10821.0	7949.9	8045.5	14333.9	132.5	178.2
The share of innovative products in total, %	6.7	4.8	3.8	3.8	56.7	100.0
Regions with low innovation activity of SMEs	17	18	14	14	82.4	100.0
Regions with the share of innovative products in total industrial output, compared to the average	20	16	14	16	80.0	114.3

The share of industrial enterprises in Ukraine that implemented innovations in the total number of innovative enterprises reduced. And this evidence is not only quantitative but also qualitative. Thus, in 2011 this indicator was 79% and was much lower than in 2000.

Positive aspects of innovation activity in Ukraine are the increase in the share of industrial enterprises that introduce new or improved methods of production.

It is therefore important to initiate, plan, coordinate and stimulate innovative activity of SMEs in the regions, districts and small towns in rural areas. And it is the prerogative of the state and local governments. At the same time, it is impossible to claim that their activities in the promotion of innovations in Ukraine are quite effective because those are not systematically planned. For example, in 2011 in the Western regions of Ukraine only Ivano-Frankivsk region realized the development programme on scientific, technical and innovation. In other areas innovation development objectives are only partially included in policies and programs of socio-economic development and are prepared as drafts of medium-term programs (Regional program of scientific and technological innovation and development of Volyn region 2004–2015).

Conclusions. The level of innovation activity in SME of Ukraine is critically low and, moreover, worsening, as evidenced by the general macroeconomic characteristics of innovations. The key obstacles are the lack of government's role in creating incentives for revitalization and financing of innovations and the insufficient information base to enhance innovations. Factors increasing the efficiency of innovation activities in SMEs are: to encourage more efficient use of allocated innovation funds, diversification of new products, increasing their share in GDP, expanding the share of innovation active enterprises in the real sector, developing partnerships and cooperative relationships of small and large businesses in innovations and the development of

regional innovation infrastructure. In the absence of investments opportunities during the recession it is vital to use human resources' capacity of Ukraine.

Creating an effective system of innovation needs additional studies aimed at clarifying the conceptual framework, studying the genesis of innovation, the role of government support in its activation, along with motivational mechanisms for small business.

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