

## CHAPTER 3

### MODERN MANAGEMENT TECHNOLOGIES

#### THE ROLE OF VENTURE BUSINESS AND ITS STRUCTURE IN THE INNOVATION MANAGEMENT PROCESS

**Mykola Denysenko<sup>1</sup>, Zoryna Yurynets<sup>2</sup>, Rostyslav Yurynets<sup>3</sup>**

<sup>1</sup>Doctor of Science (Economics), Professor, Professor of Department of Mathematics and Methods of its Teaching, Volodymyr Vynnychenko Central Ukrainian State University, Kropyvnytskyi, Ukraine, e-mail: profden3@gmail.com, ORCID: <https://orcid.org/0000-0001-8767-9762>

<sup>2</sup>Doctor of Science (Economics), Professor of Management Department, Ivan Franko Lviv National University, Lviv, Ukraine, e-mail: zoryna\_yur@ukr.net, ORCID: <https://orcid.org/0000-0001-9027-2349>

<sup>3</sup>Candidate of Physical and Mathematical Sciences, Associate Professor, Department of Information Systems and Networks, Lviv Polytechnic National University, Lviv, Ukraine, e-mail: rostyslav.v.yurynets@lpnu.ua, ORCID: <https://orcid.org/0000-0003-3231-8059>

**Citation:**

Denysenko, M., Yurynets, Z., & Yurynets, R. (2023). The role of venture business and its structure in the innovation management process. *Economics, Finance and Management Review*, 74–79. <https://doi.org/10.36690/2674-5208-2023-1-74>

**Received:** March 04, 2023  
**Approved:** March 29, 2023  
**Published:** March 31, 2023



This article is an open access article distributed under the terms and conditions of the [Creative Commons Attribution \(CC BY-NC 4.0\) license](https://creativecommons.org/licenses/by-nc/4.0/)



**Abstract.** The purpose of the article is to analyze the role of venture business and structure in the process of innovation management and to identify factors that hinder the process of innovation management in startups. The main types and features of the functioning of venture business have been singled out. Startups are one of the important structural elements of venture business. To identify factors that have an impact on the innovation management process in startups, an expert study was conducted using the Delphi method, which was carried out in the fall of 2022 in Ukraine. This made it possible to determine the influence of individual factors on the innovation management process in startups. It was established that the lack of own financial resources, low innovative intensity, activity in the process of implementing innovative activities, and lack of market opportunities to implement innovations are the most significant internal obstacles to the innovation management process for startups. Underdevelopment of the marketing system, weak support from management team members, and obstacles of a structural nature (high level of formalization, centralization) are the less significant internal obstacles to the innovation management process for startups. The most significant external obstacles to the innovative activity of enterprises were found to be a high level of bank interest on loans, a complex and inefficient taxation system, which is connected with the lack of interest of state bodies in stimulating innovative activity, a decrease in the purchasing power of the population. Unexpected changes of leadership and raiding, insufficient stimulation of entrepreneurship to use innovative technologies, and lack of the necessary base and structures for the transfer of technologies and relevant information are the external factors that had less impact on the innovation management process in startups.

**Keywords:** management, innovation management process, factors, startups, venture business, innovative activity.

**JEL Classification:** G 24, O 31, L 21, M 21

**Formulas:** 0; **fig.:** 0; **tabl.:** 2; **bibl.:** 6

**Introduction.** According to present evaluations nowadays in developed countries, 50 to 90% of GDP growth is determined by innovations and technological progress. Under these conditions, the more popular becomes venture business, which is the driver of the development of the innovational economy [3]. Venture business significantly contributes to the innovative development of the economy, the restructuring of the country, and the formation of promising technological industries in the country.

The transition of Ukraine's economy to an innovative model requires efforts from all sectors of the country's economy to create a favorable climate for the development of venture business. Peculiarities of venture business formation should be the basis for the development of strategic plans for the future revival and post-war reconstruction of the country.

**Literature review.** The scientific works of Patel C. P., Guedes M. J., Pagano M. S., and Olson G. T. (2020) [2] are devoted to the issue of the development of venture business and the analysis of the state of venture business in Ukraine. Considerable attention was paid to the problems of ensuring venture business development processes by scientists such as Popkova E., Akopova E., Alekhina E., Dubova J., Popova J., Avdeeva I., Proskurina I. (2013) [3]. The question of the theoretical foundations of the functioning of venture businesses as institutions of joint investment and the prospects for their development in the innovative ecosystem of the state is revealed in the works of such authors as Rahman A., Hayati N., Sahiq M., Nadiyah A., Ismail S. (2016) [4]. Sivaruban S. (2021) [5] devoted research to risk management tools in which venture business is located, and the impact of COVID-19 on venture capital in small and medium-sized enterprises.

Therefore, factors that hinder the innovation management process in startups should be a key focus for venture business.

**Aims.** The purpose of the article is to analyze the role of venture business and structure in the process of innovation management and to identify factors that hinder the process of innovation management in startups.

**Methodology.** During the research, the method of synthesis and analysis, induction (in the study of venture business and its structure in the innovation management process); an expert method (for identifying factors that hinder the process of innovation management in startups); the method of schematic, graphic images (for the visual display the received results of the study) has been used.

**Results.** The venture business is a field of entrepreneurial activity related to the implementation of risky projects and risky investments. Often, this kind of business is identified only with a small business, as it typically begins with a small number of financial resources [6].

The following main types of venture business can be singled out [1]:

- independent venture firms are small innovative firms (startups, SMEs) that seek funds from private and institutional investors for their original idea of creating and implementing innovation. They are mostly engaged in the search for one idea, technical and economic substantiation of the project. Such organizational structures can grow into a large company or can be sold to another company;
- financial institutions (venture capital firms) that provide capital to small innovative firms (banks, investment, and innovation funds, i.e. venture financing funds, etc.);
- corporate venture business (large venture companies, corporations, partnerships, associations, etc.), whose activities are financed by venture financing funds and investment funds or companies, or trusts. Such structures are engaged in the search for many ideas, technical and economic substantiation of projects and

production of prototypes, study the sales market, and promote products on the market.

The problem of access to capital affects the vast majority of businesses on the market. However, it particularly affects early-stage small businesses that are, or want to be, higher-risk businesses. Such enterprises do not have adequate collateral and credit history that would allow them to raise capital from traditional sources. They are forced to look for alternative sources of capital. One option is venture capital funds.

The essence of venture financing is to provide the company with interest-free capital in the initial phase of its existence or the development phase. This will enable rapid innovation, fill gaps in the market, and generate satisfactory revenue. Companies of this type reduce their risk by diversifying stakes in different enterprises at different stages of existence in the market, which aims to achieve a high rate of return on invested capital.

Providers of capital (deductions) that invest in venture capital funds can be banks, insurance companies, pension funds, non-financial enterprises, individuals, state institutions, academic institutions, private funds, state capital funds, and others.

The most frequently repeated features and terms of venture capital include [2]:

- financing based on equity capital (share);
- investing in young, innovative private enterprises;
- providing business consulting and operational support;
- medium and long-term nature of the investment;
- providing financing with a higher degree of risk;
- high risk compensated by above-average returns on investment;
- the innovative character of the company.

The economic growth of each developing country is now mostly influenced by SMEs. Supporting SMEs is one of the most important driving forces in developing the country's economy to accelerate growth and become self-sufficient. Venture capital is the main source of equity for SMEs as startup businesses [5].

A startup is a type of business venture. Creators of startup companies must have a few key characteristics [4]:

- startups generally have a short lifespan. Startup companies can fulfill many ideas;

- to grow rapidly, creators are going to have to think big;

- for those who have never launched a business before, incubators and accelerators can provide more valuable assistance. Incubators offer support and guidance to assist startups in growing and thriving in an unstructured way, without any goals or timeline. On the other hand, accelerators provide a specific course of action within a short period to rapidly grow the value and size of a company in pursuit of a particular goal, typically funding.

To identify factors that have an impact on the innovation management process in startups, an expert study was conducted using the Delphi method, which was carried out in the fall of 2022 in Ukraine. This made it possible to determine the influence of individual factors on the innovation management process in startups.

The expert survey was conducted in two rounds to achieve statistical compatibility of expert feedback. The study involved 65 respondents (in the first round) and 60 experts in the second and covered the western region. Due to the complexity and multifacetedness of the chosen field and the design of the research, it was decided to include in the group of expert heads of enterprises, employees of the regional administration sector, consultants in the field of innovation management, and scientific workers who specialize in innovation issues.

The stage of gathering and coordinating experts' opinions, when the participants received the research questionnaire by e-mail, involved two phases:

- 1) statistical analysis of the collected anonymous, individual results and the formation of a preliminary proposal according to the degree of importance;
- 2) transmission to the participants by e-mail, organized and already collected results of the previous phase of the research, and a modified questionnaire (questionnaire) with comments, to review their previous feedback and submit the resulting comments and statements.

If the experts did not make fundamental changes in the answers, it should be assumed that a satisfactory level of conformity to the experts' opinions was achieved and the process of interviewing the respondents was completed.

To assess the consistency of experts' opinions and to determine the reliability of expert assessments, Kendell's concordance coefficient was calculated, which was more than 0.6, so we can talk about a certain consistency and reliability of experts' opinions.

Experts assessed the strength of the influence of the factors identified based on the conducted research on a Likert scale from 1 (no influence) to 5 (very strong influence).

All factors were divided into factors of the internal and external environment, as obstacles to the implementation of innovative activities. For the factors, the average weight obtained in the case of ranking is indicated (Table 1).

**Table 1. Internal environment factors that hinder the innovation management process in startups**

№	Factors	Weight
1	Lack of own financial resources	0,21
2	Low innovative intensity, and activity in the process of implementing innovative activities	0,14
3	Lack of market opportunities to implement innovations	0,13
4	Lack of innovative strategy	0,12
5	Low absorptive capacity (the presence of organizational procedures thanks to which organizations acquire, master, and transform available knowledge)	0,10
6	Underdevelopment of communication links	0,08
7	Low level of management	0,07
8	Lack of employees with appropriate qualifications	0,06
9	Underdevelopment of the marketing system	0,04
10	Weak support from management team members	0,03
11	Obstacles of a structural nature (high level of formalization, centralization)	0,02

Source: developed by the authors

The lack of own financial resources, low innovative intensity, and activity in the process of implementing innovative activities, lack of market opportunities to implement innovations are the most significant internal obstacles to the innovation management process for startups. For startups in today's unstable political, economic, and military conditions, it is difficult to get investments, loans, and own resources are not enough. This situation affects the reduction of innovative activity of startups, the intensity of innovative activity, which is characteristic of most domestic startups.

Underdevelopment of the marketing system, weak support from management team members, and obstacles of a structural nature (high level of formalization, centralization) are the less significant internal obstacles to the innovation management process for startups.

The most significant external obstacles to the innovative activity of enterprises were found to be a high level of bank interest on loans, a complex and inefficient taxation system, which is connected with the lack of interest of state bodies in stimulating innovative activity, a decrease in the purchasing power of the population. This situation is connected to difficult political, economic, and military conditions that have developed in Ukraine (Table 2).

**Table 2. External factors that hinder the innovation management process in startups**

№	Factors	Weight
1	High level of bank interest on loans	0,2
2	Complicated tax system	0,18
3	Decrease in the purchasing power of the population	0,15
4	High level of current competition	0,13
5	The increase in the cost of material resources, technologies, energy carriers	0,1
6	Absence of the need to introduce innovations	0,08
7	Lack of strong connections in the system (government - science - business)	0,06
8	Underdevelopment of the network of infrastructure supporting entrepreneurship	0,04
9	Unexpected changes of leadership, raiding	0,03
10	Insufficient stimulation of entrepreneurship to use innovative technologies	0,02
11	Lack of the necessary base and structures for the transfer of technologies and relevant information	0,01

*Source: developed by the authors*

Unexpected changes of leadership and raiding, Insufficient stimulation of entrepreneurship to use innovative technologies, and lack of the necessary base and structures for the transfer of technologies and relevant information are the external factors that had less impact on the innovation management process in startups.

Each of these factors contributes to the reduction of the process of development and implementation of innovations. That is, in the process of forming a startup development model, all factors must be taken into account.

**Conclusions and discussion.** Startups are one of the most important structural elements of venture business. Startup managers must identify factors that prevent the effective development of innovations. This issue is especially relevant today in the

unstable and crisis conditions of the development of the economy of Ukraine. It is necessary to monitor the most significant factors. This can help startups improve their innovation management process. Analysis of the peculiarities of the venture business of Ukraine, its structure, and determination of ways of further development of venture funds is one of the most urgent problems of the modern development of the economy of Ukraine.

Taking into account the main aspects highlighted in the research that has an impact on the venture business will contribute to increasing the efficiency of the use of the available capital and the potential of the venture business. This will make it possible to identify obstacles to the growth of its competitiveness and innovative development of startups. The problems that arise in the activities of startups are a common phenomenon and should be taken into account in the course of innovation management and development of innovation strategies.

**Author contributions.** The authors contributed equally.

**Disclosure statement.** The authors do not have any conflict of interest.

### References:

1. Denysenko, M. P., Yurynets, Z. V. (2022). Formation of teams of specialists and their role in economic development and strategic business management. *Journal of Strategic Economic Research*, 1 (6), 67-75.
2. Patel C. P., Guedes M. J., Pagano M. S., Olson G. T. (2020). Industry profitability matters: The value of sustainable growth rate and distance from bankruptcy as enablers of venture survival. *Journal of Business Research*, 114, 80-92
3. Popkova, E., Akopova, E., Alekhina, E., Dubova, J., Popova J., Avdeeva I., Proskurina, I. (2013). Methodology of the development of strategy of development of economic systems. *World Applied Sciences Journal*, 26, 489-493
4. Rahman, A., Hayati, N., Sahiq, M., Nadiah, A., Ismail, S. (2016). Antecedents of a Successful Business Venture for Young entrepreneurs. *Advanced Science Letters*, 22(12), 4485– 4488
5. Sivaruban, S. (2021). Impact of COVID-19 on venture capital in small and medium-sized enterprises - critical perspective. *Certified management accountant*, 6(2), 41-46
6. Yurynets, Z. V., Yurynets, R. V. (2022). The socio-psychological climate of youth start-up entrepreneurship in conditions of strategic innovation development. *Acta Academiae Beregsasiensis. Economics*, 1, 161-171.