Innovation Strategy for Business: Financial Management Aspects*

MYKOLA V. KOSTEL; ANASTASIA V. SAMOILIKOVA

Nowadays business is risk-oriented and profit-oriented market activity, the mean of functioning in a market environment, at the same time conditioned by the specifics of a certain branch of the economy. Entrepreneurship is an integral part of the business, its innovative element. Innovation in business is the driving force of economic growth under unstable conditions of the present, requiring rapid adaptation to the dynamic changes of the socio-economic and political situation in Ukraine and abroad. The critical problem of innovation efforts enhancing is the absence of a proper innovation strategy concerned with financial risk and scarce financial capital. Moreover, the market is a stimulus for business development, and the shortage of financial resources (equity and debt) is its limit. In this article, we explore an essence and the role of the innovation strategy for business and its financial management aspects. We argue that the effectiveness of innovation activity depends, above all, on management effectiveness. There are a number of managerial tasks arise coming from peculiarities of innovative projects. The financial management is a key component of the management system of innovation strategies for business, which is very important for ensuring business efficiency under current market conditions. It plays the role of an important means of competition and maintaining a leading position in the markets of goods and services. A timely financial risk assessment of business and the capital structure formation for an innovation strategy are the main prerequisites for ensuring effectiveness. We offer a concept of the innovation strategy for business and, in particular, its financial management aspects.

Keywords: business, entrepreneurship, financial management, financial resources, financial risk, innovation, innovation strategy.

Introduction. Obviously, sustainable development and efficiency of modern business are impossible without actuation its innovation activity. Innovation in business is the driving force of economic growth under changing and unstable conditions of the present, requiring rapid adaptation to the dynamic changes in the socio-economic and political situation in Ukraine and abroad. It stimulates the emergence of new needs and, consequently, new products, production costs reduction, activation of investments inflow, increasing the business potential, increasing the image of business, finding new market niches both at the national and international level. Therefore, an innovation strategy for business is the source of competitive advantages. They help to create competitive, innovative and well-known goods and services in different sectors of the economy. Moreover, it is a prerequisite for sustainable development and a high level of profitability of the domestic business.

1 Mykola V. Kostel, C.Sc. (Economics), Associate Professor, Department of Finance and Entrepreneurship, Sumy State University;
2 Anastasiia V. Samoilikova, Junior Researcher, Department of Finance and Entrepreneurship, Sumy State University.

* The survey was funded by the Ministry of Education and Science of Ukraine and performed the results of the project “Econometric modelling of the mechanism of prevention of shadow capital outflows schemes through tax and investment channels in Ukraine” (№ 0117U003930).

© M. V. Kostel, A. V. Samoilikova, 2019.
https://doi.org/10.21272/mer.2018.83.05
At the same time, the effectiveness of innovation activity depends, above all, on management effectiveness. There are a number of managerial tasks arise coming from peculiarities of innovative projects (long payback period and significant volumes of investments, a wide alternatives range of financial and organizational-legal support of business, the need to take into account the life cycle of innovations, the ratio assessment of the profitability and risk, etc.) There are planning and forecasting for the medium- and a long-term prospect with discounting of cash flows, budgeting; capital structure optimization; valuation of financing cost and their effectiveness in the implementation of innovative business strategies; assessment of risks from an implementation of innovative business strategies and, especially, financial risk, etc.

Mentioned issues are significant for the determination of the role and importance of financial management as one of the critical components of the system of innovation strategies management for business. It determines the relevance of the issue.


However, comprehensive research of the financial management of innovative strategies for business is currently lacking in Ukrainian economic science.

**The purpose** of this research is to investigate the essence and role of the innovation strategy for business and its financial management aspects under modern unstable socio-economic conditions.

**Results of the research.** It should be said, that today business is considered the most active form of economic activity. The etymological meaning of a concept of “business” is activity, occupation. However, in our opinion, the essence of this term is substantially deeper.

Firstly, we should agree with P. Drucker, who considers that the essence of a business is outside itself [1]. It means that the main purpose of business is to create a consumer. Moreover, the most important business priority is to meet the needs of their customers, and only then, a business can fulfill its main mission of returning stable profits to its owners.

R. Bonnington, B. Nids and S. Rosenblatt note that business is a system of conducting a business; it is the creation of products, which people need; it is the system, we created to meet our desires; it is a central backbone in our social and economic system; it is the way we live [2]. V. Polivchak considers that the system of Ukrainian business is a complex dynamic system of business relations, which covers the commercial and non-commercial aspects of targeted human activity in the production, exchange and consumption of material goods, and based on a close combination of the subsystem of material goods (goods and services) and subsystems of business entities [3]. However, the business is a broader concept than entrepreneurial activity, since business involves the implementation of any one-time commercial transactions in any field of activity that are aimed at earning income. Therefore, business covers the relationships that arise between all market economy participants and entails not only entrepreneurs, but also consumers, hired workers, and government structures. At the same time, we emphasize, that there is no business without entrepreneurship. Entrepreneurship is not only an element of the business system but also a factor in its development.
It should be said, that firstly the term “entrepreneur” was proposed by English economist R. Cantillon, who considered entrepreneurship as special economic function, which is always connected with risk element [4]. A. Smith defined the entrepreneur as the owner of the capital, which, in order to the commercial idea and profit, goes to the economic rhythm [5]. Furthermore, A. Marshall equated entrepreneurship with management and emphasized the innovative moment in this context [6]. Similar J. Schumpeter noted that innovation is the brainchild of entrepreneurship; the entrepreneur is the creator of innovation; the entrepreneurship is a force operating on the market, and an ability to create new products and business models [7]. Besides, modern business is dynamic. If there is any single word that can best describe today’s business, it is changing. This change makes the companies spend substantially on Research and development to survive in the market [8].

So, innovation is a special tool of entrepreneurship, the activity that gives resources a new opportunity to create wealth [1]. Despite the fact, that in many cases innovation is the basis of entrepreneurship and the source of its competitive advantages, entrepreneurship is just one of the possible ways of practical implementation of innovations in the markets of goods and services.

Generally, we share ideas shown above and consider that business is risk-oriented and profit-oriented market activity, the mean of functioning in a market environment, at the same time conditioned by the specifics of a certain branch of the economy. Entrepreneurship is an integral part of the business, its innovative element. Moreover, innovation is possible in all aspects of conducting business. The market is a stimulus for business development, and the shortage of financial resources (equity and debt) is its limit.

It should be said, that the implementation of innovations takes place through the use a set of methods and tools, that cause large and small changes in processes, products and services, and make something new in the business. It ultimately increases the importance of the business for its customers and contributes to the appropriate accumulation of experience and knowledge [9]. Business innovates in several ways: by small steps of modification and improvement; by more substantial steps by making significant improvements and updates to their products and services; and, rarely, by attempting radical innovation using revolutionary technology or entering unknown markets [10]. However, change, as a result of the innovation process, is strongly influenced by how organizations define the concept of innovation. This fact highlights many critical implications for organizations and creates a new order for the management of innovation [11]. In this context, it is important to emphasize that a company’s ability to support product and process innovation is no longer adequate, and the third type of innovation is a strategy innovation, needs to be introduced in order to provide further support [12]. This type of innovation specifically emphasizes the importance of a longer-term view of the contribution of innovation towards competitiveness and success as a company.

All innovations are characterized by a certain degree of uncertainty; at the same time, the probability of risk varies depending on the type of innovation, etc. (for example, radical innovations are more expensive and more likely to fail. Therefore, there should be a lot of options and ideas in the business (most of them will not be implemented in practice) to be able to choose those special ones that can potentially turn into new proposals and improvements [10]. Despite massive investments, innovations are likely to fail in many companies, and even successful innovators are often disappointed and have a hard time sustaining their innovation [13]. Thus, the problem with innovation improvement efforts is rooted in the lack of an innovation strategy.

G. Pisano notes that a strategy is a complex of coherent, mutually reinforcing behaviors or policies aimed at achieving a specific goal. Moreover, without an innovation strategy, attempts to introduce innovation can become a grab bag of much-touted practices [13]. Business without
an innovation strategy will not be able to choose the optimal variants and make trade-off decisions.

Generally, we share the idea, that a strategy is a match between what a company can do within the given environmental circumstances. The company’s capabilities are considered as its strengths and weaknesses, while the environmental circumstances are considered as external opportunities or threats [14]. Furthermore, a strategy can be represented as the determination of the mail long-term objectives and goals of a company, and the adoption of solutions, how to act and allocate resources, necessary for carrying out of them [15].

In our opinion, an innovation strategy for business is both a complex plan and a decision framework, which includes alternative variants of business activity for a long-term perspective, depending on the risks, available resources and expected returns for different types of innovations in order to achieve strategic business objectives.

The goal of an innovation strategy is to ensure the optimal plan and resource allocation in order to achieve the company’s corporate objectives, to help decide when and how to selectively abandon the past in order to focus on the future business [16]. Besides it, an innovation strategy helps firms decide in a cumulative and sustainable manner, about the type of innovation that best match corporate objectives, guides decisions on how resources are to be used to meet a firm's goals for change and thereby deliver value and build competitive advantage [17]. At the same time, the process of developing and implementing an innovation strategy is associated with high risks (financial, market, technological, organizational, production, etc.).

Thus, S. Illyashenko considers that the innovative strategy at the business level involves analyzing the portfolio of innovative projects, researching the market positions of the enterprise and identifying the priority directions of its innovation development [18]. However, in our opinion, there must be one important component of an innovation strategy for business – financial management (Figure 1).

Obviously, finance plays a critical role in the innovation process. This requires a delicate balancing between managing risks without allowing this to blunt innovation. In essence, it requires finance to:

1) support innovations by providing analytical insight at both the strategic and detailed levels across the whole organization;
2) provide an objective viewpoint and inject realism into discussions;
3) rely on the facts and structured analysis to support decision making;
4) understand the financial implications of marketing decisions;
5) ensure that there are clear, measurable gates throughout the project;
6) focus on sustainability of innovation (going beyond year one volume);
7) prevent escalation of commitment from clouding judgment;
8) monitor the success of the innovation post launch and provide feedback on performance for future innovation projects [19]. However, this list isn’t enough. Moreover, today the limited financial providing is one of the obvious problems.

**Conclusions and prospects of further research.** Concluding, it should be said, that financial management is a key component of the management system of innovation strategies for business, which has great importance for ensuring business economic efficiency under current market conditions, playing the role of an important tool of competition and maintaining a leading position in the markets of goods and services.

The financial management of innovation strategy for business is the system of functions, methods, and principles that determine the mechanisms and organizational forms of influence on processes, which relate to the provision of capital requirements for innovation strategy for the business and aimed at maintaining the business financial equilibrium.
In our opinion, substantiation of the scientific and systematic approach to the formation of the optimal structure of financial resources needed for realization of the innovation strategy for business is a prerequisite for effective financial management of the innovation strategy for the business. Specific peculiarities of financial management of the innovation strategy for the business case the necessity to optimize the structure of financial resources as a dynamic process based on the risk evaluation of financing of the innovation strategy for the business, considering the effectiveness of the innovation strategy for the business. A timely financial risk assessment of business and the capital structure formation for an innovation strategy are the main prerequisites for ensuring effectiveness.

Figure 1. The place of financial management of innovation strategy for business  
[Authors’ own method]

Effective financial management of innovation strategy for business is an inherent factor in achieving strategic goals and ensuring competitiveness in today’s market environment.

Thus, the proposed concept of the innovation strategy for business and, in particular, its financial management aspects should be a part of further research in this scientific sphere.

References
М. В. Костель, А. В. Самойлікова.
Фінансовий менеджмент інноваційних стратегій бізнесу


Manuscript received 8 February 2019

Фінансовий менеджмент інноваційних стратегій бізнесу

НИКОЛАЙ ВАСИЛЬЕВИЧ КОСТЕЛЬ*,
АНАСТАСІЯ ВІКТОРОВНА САМОЙЛІКОВА**

* кандидат економічних наук, доцент, доцент кафедри фінансів і предпринимательства Сумського державного університету, ул. Р.-Корсакова, 2, г. Суми, 40007, Україна, тел.: 00-380-542-335383, e-mail: m.kostel@finance.sumdu.edu.ua

** младший науковий співробітник кафедри фінансів і предпринимательства Сумського державного університету, ул. Р.-Корсакова, 2, г. Суми, 40007, Україна, тел.: 00-380-542-335383, e-mail: av.samolikova@finance.sumdu.edu.ua

В настоящее время бизнес – это ориентированная на риск и нацеленная на прибыль рыночная активность, средство функционирования в рыночной среде, в то же время, обусловленная спецификой определенной отрасли экономики. Предпринимательство является неотъемлемой частью бизнеса, его инновационным элементом. Инновации в бизнесе являются движущей силой экономического роста в нестабильных условиях современности, требующих быстрой адаптации к динамическим изменениям социально-экономической и политической ситуации в Украине и за
рубежом. Однако проблема с усилиями по улучшению инноваций коренится в отсутствии инновационной стратегии, которая связана, в частности, с финансовым риском и ограниченным финансовым капиталом. Более того, рынок является стимулом для развития бизнеса, а недостаток финансовых ресурсов (собственных и заемных) является его пределом. Таким образом, статья посвящена определению сущности и роли инновационной стратегии бизнеса и аспектов ее финансового менеджмента. Обосновано, что эффективность инновационной деятельности зависит, прежде всего, от эффективности управления. Исходя из особенностей инновационных проектов, возрастает ряд управленческих задач. Финансовый менеджмент является ключевым компонентом системы управления инновационными стратегиями для бизнеса, который имеет большое значение для обеспечения экономической эффективности бизнеса в текущих рыночных условиях, играет роль важного средства поддержания конкурентоспособности и удержания лидирующих позиций на рынках товаров и услуг. Своевременная оценка финансового риска бизнеса и формирование структуры капитала для инновационной стратегии являются основными предпосылками обеспечения эффективности. Предложена концепция инновационной стратегии для бизнеса и, в частности, аспектов ее финансового менеджмента.

Ключевые слова: бизнес, предпринимательство, финансовый менеджмент, финансовые ресурсы, финансовый риск, инновация, инновационная стратегия.
конкурентоздатності та утримання лідируючих позицій на ринках товарів і послуг. Своєчасна оцінка фінансового ризику бізнесу і формування структури капіталу для інноваційної стратегії є основними передумовами забезпечення ефективності. Запропоновано концепцію інноваційної стратегії для бізнесу і, зокрема, аспектів її фінансового менеджменту.

Ключові слова: бізнес, підприємництво, фінансовий менеджмент, фінансові ресурси, фінансовий ризик, інновація, інноваційна стратегія.

JEL Codes: G32, L21, O31, O32

Language of the article: English

Література