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**ENCOURAGEMENT OF THE INNOVATION'S ENTREPRE-  
NEURSHIP IN REGIONAL ECONOMICS**

**Abstract:** In terms of intense regionalization of the economy, the importance of small innovative businesses at regional and local levels grows. The directions of development in the region - is a part of other strategies, related to solving the social and economic problems at the country level. Development of small innovative entrepreneurship and its transition to a new level require not only improve the efficiency of state and regional investment policy in this area, but also a comprehensive understanding of the internal processes taking place in the sector, as well as the vision of the position of entrepreneurs. The article examines the formation and development of small innovation entrepreneurship as an economy sector and main directions to achieve a positive effect on the amount and structure of macroeconomic indicators as to the country generally and its separate regions.

**Keywords:** innovation activity of enterprises, capital investments of innovative companies, developmental quotient of small innovative companies in the region, support tools for small innovative entrepreneurship, information portal of small innovative enterprises.

**JEL classification:** M2, O3, R11, R38, R58

**Introduction**

The eminent Austrian economist and theorist of innovation J. Schumpeter, noted that “not everyone and not every investment in production creates a cyclical movement. Only innovation is the introduction of innovative products, techniques, forms of production and exchange, move real progress” (J. Schumpeter 2004).

In national economy have place imperfections and contradictions of regulatory mechanism, the non-availability of credit resources and other problems exercising a restraining or negative influence on entrepreneurial development. As a result, it remains low innovation activity of enterprises. In 2013, innovation was engaged only - 16.8%, implement innovations - 13.6% of enterprises. This is in 3,5-5 times less than the most relevant indicators of the most innovatively active countries in European (Germany, Belgium, Portugal and Ireland) and 2 times less than

in the least innovatively active countries (Poland, Lithuania, Bulgaria and Latvia (Analytical report of the National institute for strategic studies 2014, p.74.)

The influence of the investment and innovation processes and security of national and regional economies is under the study of foreign researchers H. J. Alexander, J. Bailey, L. J. Hitman, M. D. Jonk, P. Samuelson, I. Fisher, D. Hicks, W. Sharpe, K. Shayovska, and in Ukraine - Y. V. Belinska, Y. A. Bereznyi, O. S. Vlasiuk, V. P. Horbulin, I. V. Us, O. M. Sharov (Prykhodko 2012, p.6).

### **The purpose of the article**

To analyze the effect of public-private mechanism of development and constant software update of small business, operation in the economic environment of regions such "base" institutions as funds of small business support, "business-incubators", etc.

### **Main body**

#### **1. The basic directions of work in support of small innovation business**

In the regional economy the basic directions of work in support of small innovation business are performed through:

- compliance with state executive and local authorities and the business community of principles of public-private partnership;

- improving the legal and regulatory framework in the sphere of support and development of small innovation business, including: introduction to the activities of government regulatory impact assessment mechanisms adopted laws and regulations on the development of business and competitive environment; examination of existing and new legal acts in compliance with other regulatory legal acts, including the preparation of proposals aimed at removing administrative barriers; develop administrative regulations performance of public functions and public services related to the support and development of small innovative businesses; program for development and support of small innovative business regions;

- regular monitoring of the dynamics of small business development in the region, including: analysis of statistical indicators of small business; analysis of the sectoral structure of small business; forecasting of small business on a short-term and on a mid-term horizon.

- of questionnaires and interviews of small innovative businesses and organizations that form the infrastructure support, including assess-

ment of costs to overcome administrative barriers for small business development, monitoring and analysis of the effectiveness of regional support programs and small business and individual support measures; monitoring of the activities of organizations, that form the infrastructure of small innovative businesses support; assessment of factors affecting the life cycle of small businesses and enterprises transition from the category of "small" in the category "medium"; learning needs and demand in the business environment of the different services, including information, legal, counselling and services in the field of staff training.

- creating the fundamental principle for the development of the microfinance technologies in small businesses, including: development of programs aimed at the development of microfinance; evaluation of the effectiveness of existing programs of microfinance of questionnaires and interviews with small businesses and individual entrepreneurs in the selected region, oriented to studying the needs and demand for microfinance services, focused on studying the prospects of development of microfinance for small businesses in the region and assess the volume and capacity microfinance market of small businesses in the region.

- preparation of feasibility reports and other supporting documents to establish the institutions of small and medium enterprises, including: preparation of the grounds for creation of a direct investment fund; preparation of the grounds for creation of a hybrid investment fund; preparation of the grounds for creation of a venture capital fund; preparation of the grounds for creation of a guarantees' fund; preparation of the grounds for creation of a business-incubator; preparation of the grounds for creation of a technological park (Investment activity in Ukraine / Ministry of economic development and trade of Ukraine).

The support tools of small innovative business function under the state mechanism of implementing scientific-technical policy that consist of:

- Regulatory block (laws and regulations governing investment and innovation, intellectual property protection, the activity budget and non- budgetary funds, etc.);

- Organizational and management block (guarantee the organizational and administrative support of innovation activity, defines the role of public authorities at various levels in creation of the conditions for the functioning of small innovative business);

- Economic block (aggregate of economic support for small innovative forms of entrepreneurship - tax advantages, subsidies, state guarantees, etc.);

- Market block (using of market laws).

The tools are used by the state with the object of innovative-technological development of small business, by definition aimed, on the

one hand, to stimulate the most innovative processes, and the other - to create favourable general economic and socio-political climate for innovative activity.

## 2. The main governmental support measures

The most important instruments of state support are:

- Registration of property rights and licensing activities;
- Judicial system of economic disputes resolution and termination of the law violation;
- Administrative termination of unfair business activity;
- Differential treatment of non-productive use of resources (free and paid);
- Regulations of administrative and judicial responsibility for damage to business partners, customers and society for quality standards and ecology non-compliance.

One of the most acceptable methods of state support of small innovation business is a tax policy. The importance of this instrument of state support is realized virtually in all industrially developed countries, and each of them seeks to find its optimal model of profit taxation (Concerning the Introduction of Amendments to the Budget code of Ukraine concerning the state investment projects: law of Ukraine of 07.04.2015 No.288-VIII).

During the period from 2014 till 2015 in Ukraine has taken a number of measures to enhance economic and innovative investment and improve the investment climate in the whole Ukraine, in particular, to achieve sustainable development indicators Strategy "Ukraine - 2020" (About the Strategy for Sustainable Development "Ukraine - 2020": Presidential decree Ukraine of 12.01.2015 No.5/2015) as for Ukraine's joining the TOP-30 countries of ease of doing business index and the TOP-40 with global competitiveness index.

Among the recent steps of the Government should be highlighted, in particular:

- Signing of the agreement Association Agreement between Ukraine and the EU, which opens up significant opportunities for investment and innovation cooperation by enhancing technology transfer and increasing participation in the programs of scientific and technological development of the EU and integration into the European research area, launching and implementation of jointly with EU sectoral projects of technical support etc.;
- simplification of the business climate, in particular cancelled 16 ineffective regulatory restrictions; set deadlines for registering businesses no more than two days; implemented issuance of permits docu-

ments through the centres of administrative services (About amendments to Certain Legislative Acts of Ukraine relating to simplification of the business environment (deregulation): the law of Ukraine of 12.02.2015 No.191-VIII);

- cancellation of licensing for 26 types of economic activity, determining an exhaustive list of economic activities are subject to licensing (About licensing of economic activities: the law of Ukraine of 03.02.2015 No.222-VIII);

- ensure the validity and transparency of decisions on financing public investment projects, efficient use of public funds and the impact of public investment projects (About amendments to the Budget Code of Ukraine in respect of state investment projects: the law of Ukraine of 07.04.2015 No.288-VIII);

- approval of plans implementing some legislative acts of the EU in the field of intellectual property developed (On approval of the Ministry of Economic Development and Trade plans for implementation of some legislative acts of the EU: Cabinet of Ministers of Ukraine of 04.03.2015 No.164-p);

- examine the creation of the portal "Invest.in.ua", which will contain detailed information about the investment potential of Ukraine and media support for creating a positive investment image of Ukraine, in particular, production and distribution on the Internet, including the official web Resources embassies Ukraine abroad, information materials called "Invest Ukraine open for You!", the video "Invest in Ukraine!";

- a working group on foreign investment, which studies and prepare proposals for the implementation of best practices to support investment activities by the state;

- creating of Deregulation office at the Ministry of Economic Development and Trade of Ukraine, the main purpose of which is to systematically review the regulatory environment in the country and assessment of the effectiveness and feasibility of each restrictive measure;

- examine the creation of a project office, whose activities will focus on support for institutional investors and investment activity in Ukraine (Investing in Ukraine / Ministry of Economic Development and Trade of Ukraine);

- creation of Investment interactive on-line map of Ukraine, which contains information about competitive advantages, investment opportunities of the regions and focused on the discovery and implementation of their investment potential;

- approval of the deregulation's roadmap, implementation of which should enable Ukraine till 2017 to enter the TOP-50 according to ranking of in ease of doing business, and in 2018 - to enter to the TOP-20

(Roadmap to Doing Business 2017 - the way of 57 steps / Ministry of Economic development and trade of Ukraine).

Among the planned steps of the Government for improving of rating positions of Ukraine, further amendments to the laws for business registration, start of construction, electrical connection, protecting investors, getting credit and other parameters that will improve the performance of relevant indexes and indicators.

### 3. Actual tools to support the innovative activity of small innovative businesses

The process of creation and operation of small innovative enterprises before receiving their first profit requires a long practice that includes market and investment marketing, creation of production facilities, the choice of efficient technologies and the necessary scientific and methodological tools.

Despite of the objective need for the transfer of the Ukrainian economy on an innovative way of development, the business community devotes very little attention to innovative businesses. If in the year of 2000 the relative share of investment in fixed assets of innovative enterprises in total investment was 6.8% in 2010 it was 3.3%, down for 10 years in 2 times. During this period, large investments are still made in the production and trade of raw materials (Prykhodko, 2012, p.200).

Without the help of the business community an effective operation of small innovative enterprises is impossible. It is necessary, that the business, finally, come in the innovation sector.

In order to increase the innovative activity of small innovative businesses in the region, can be offered the following mechanism:

1. To determine the stage of development of small innovation business in the region we have proposed to use the developmental quotient.

It shows the ratio performance results of small enterprises and the value of used resources that allow to evaluate the stage of development of small innovation business in the region (stages of recession, neutral state, development, stabilization). This rate is proposed to calculate by the formula:

$$k = \sqrt{\frac{R_i}{I_i} \div \frac{R_0}{I_0}} \Rightarrow k = \sqrt{\frac{R_i}{R_0} \div \frac{I_i}{I_0}},$$

where:  $R_i$  - total production in the year of research;  $R_0$  - total production in base (previous) year;  $I_i$  - cost value of creation, implemen-

tation, using and support for sales of products in the year of research;  $I_0$  - cost value in base (previous) year.

In determining of the developmental quotient should be understood that the threshold amount is  $k = 1$  due to the fact that for every unit invested in the process of resource for economic efficiency and feasibility of the implementation of this activity, we need to get a return unit, that has value terms. So, if  $k = 1$ , we can assume that the activity of small innovative enterprises in the region is in condition of development and can move, while maintaining the trend, the stage of stabilization. If  $k > 1$ , can consider, that the activity of small innovative enterprises in the region is in the development and can move, while maintaining the trends in the stabilization stage. If  $k < 1$  - is a phase of decline and inefficient operation. If  $k = 1$ , we can consider, that small innovative entrepreneurship in the region is on the eve future economic growth or decline that is in a neutral condition.

2. Managing the development of small innovation entrepreneurship at regional and local levels should be based on regulatory support, is to improve the functioning of the legal environment sector (legal guarantees, patent law etc.).

3. One of the promising directions of innovation business support is to encourage the creation of unions, associations and societies of small businesses operating in the science and technology field. The development and practical implementation of many provisions of state and regional programs should be carried out in close cooperation with unions and associations. In the regional development programs, in our opinion, should contain the preconditions for increasing the role of social and associative forms of support for small businesses using innovative forms of integration. In this regard, it is advisable to create an association of small innovative enterprises, which is a voluntary cooperative commercially independent small business in science and technology and other structural elements of a market economy operating in this sector (banks, insurance companies, etc.).

4. As a tool of small innovative entrepreneurship support in the region may be the integrated information resource - tool of development that uses information as a connecting element between the owners of the resources and their customers (small innovative enterprises). Its use affects the formation of the information environment and meets the needs of access to various information. In order to ensure effective operation of the system to small business innovation support, this tool is the basis for managing the implementation of regional development programs and facilitates implementation of business proposals and projects in the field of innovation.

In this regard, at its base necessary to organize electronic information network, which is the informational portal of small innovative enterprises (IPSIE) - an information system that allows you to organize the work of the various data sources of small innovative enterprises and business services through integrating common principles interaction and provide information on the financial, manufacturing and other resources. This interrelation is reflected in the following author's table 1:

**Table 1. Interconnection of functions of electronic information network in the process of activity of small innovative enterprises**

<b>Functions of electronic information network</b>	<b>Processes, which increase an efficiency by implementing of electronic information network</b>
Controlled and regulated access to information resources independent from their location and data format	Information service for specialists and managers of small innovative enterprises
Mechanisms, that provide prompt notification of staff about changes	Management of small innovative enterprise
Single search mechanism of necessary information	Reducing of the time expenditures for search of necessary information
High-technology integration of the various system of bank	Interaction with customers and partners (quality improvement of banking services)
Functionality of portal, which provides an opportunity for cooperation of the geographically different	Joint work of experts (reducing the cost of communication between employees, realization of qualification programs)

Source: Compiled by the author

## Conclusions

In order to promote the activity of small innovation entrepreneurship at regional and local levels is effectually for regional governments:

- Develop a regional target programs aimed at creating an integrated system of innovative development, ensuring the development of small, medium and large businesses and market saturation of high technology and high-tech products. The program predict the following sections: support for innovation and development of scientific and technological base of clusters, including in the field of engineering technology, energy and information technology; training in the field of innovation.

- Take measures to create favourable conditions (institutional, financial, property) for the formation of local innovation clusters, creation of new and development (growth) of existing small innovative enterprises, involving young people.

- Create a register of small innovative companies in the region and provide a list of possible privileges, government guarantees for this category of business entities.

For local authorities:

- Develop short, medium and long-term strategies, development programs of innovative business in the respective territory.

- Provide information of "new" entrepreneurs about the terms, rules of work, elements of public infrastructure to small innovative business support and youth entrepreneurship, that operate on the territory of administrative-territorial unit.

- Take additional measures to support innovation and development of the innovative infrastructure subjects: provision of offices, finances for co-financing of the business-incubators expenditures for renovation of the offices, instrumentation of the necessary equipment and technical means, assistance in creation of business-incubators network at the local level through the staff training, organizational and methodological support.

The process of creation and operation of small innovative enterprises before receiving their first profit requires a long practice, that includes market and investment marketing, creation of production facilities, the choice of efficient technologies and the necessary scientific and methodological tools.

Among them is the idea of creating the IPSIE takes into account the trends in the development of information technologies, the availability and level of development of information infrastructure, the nature of facilities management and maintenance, limited deadlines and financial resources. Implementation of the IPSIE touches the various aspects of small innovative enterprises and the impacts on their performance.

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