

VENTURE INVESTMENT INTO INNOVATION ACTIVITY: INTERNATIONAL EXPERIENCE AND MODERN REALITIES IN UKRAINE

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Abstract. Venture investment into innovation activity as the key element of venture entrepreneurship is one of the important areas of innovation policy of any country. Analysis of global tendencies in the development of venture investment into innovation activity at the present stage indicates the dynamics of public investment's growth compared to the dynamics of private investment. The key problem of the modern Ukrainian model of venture industry development, which is implemented at the state level, is the imbalance between public and private investment, which must be promptly eliminated. Venture investment into innovation activity in many countries has been recently developing too fast, which is due to the growing distrust of many investors in the system of functioning of financial markets, which have repeatedly demonstrated their lack of flexibility and lack of stability in crisis situations.

The result of the conducted research is the conclusion that the creation of the necessary venture infrastructure is carried out in the direct relationship with the creation of innovative infrastructure, whose construction has significant economic and social effects. By the example of many countries we can trace how a well-built venture mechanism within the country may influence the extent of the positive impact on the country's economy. Infrastructure solutions such as business incubators, accelerators and technology parks play an important role, since they also directly contribute to the region's global economic transformation into an innovation-oriented one.

Key words: venture entrepreneurship, innovation activity, an investor, investment, venture capital, corporate capital.

INTRODUCTION

The provisions on the intellectualization of production and free "production", as well as the implementation of intellectual property rights while carrying out entrepreneurial business and protection of originator's rights are of particular importance at the present stage of building civil society in any country of the world. Granting the right to legal entities to be involved into entrepreneurial business, and to individuals into creative one in addition to entrepreneurial business, has been specifically expressed in the field of venture entrepreneurship. In general, such relations are studied in the combination, which is due to the peculiarities of creating the objects of industrial property rights. However, the cornerstone is the establishment of the specifics of business relations in the field of creating such objects and the exercising property rights for their use.

Given the fact that public relations, as a rule, are ahead of the development of legislation, which fails

to be adapted and modernized to new economic relationships, social (economic) relations that arise and do not get adequate legal provision. The relationship on venture investment into innovation activity is not an exception. It is both due to the lack of a mechanism for legal provision and the scientific and practical development of its legal nature, as well as basic categories such as subjective aspect, objects, grounds of the origin and termination of the relevant legal relationships.

The attitude to venture investment into innovation activity is not an exception, which is both related to the lack of a mechanism of legal provision and scientific and practical development of its legal nature, as well as basic categories such as subjective aspect, objects, grounds of the origin and termination of the relevant legal relationships.

In this regard, *the purpose of this research* is to determine the specifics of international experience of using venture investment into innovation activity.

METHODS

The authors of the article study the general tendencies of the formation and development of venture investment into innovation activity in the world community. To clarify the essence of the stated problem and to achieve the set purpose, the authors have applied a comparative and legal method, which assisted to carry out the comparative analysis for the development of venture entrepreneurship in such countries as the United States, Germany, Great Britain, Japan and others. The application of systematic, formal and logical methods of cognition made it possible to establish the relationship, interdependence and mutual influence of the general world economic processes in the field of innovative technologies on the development of legislative base of Ukraine. Synthesis and analysis made it possible to substantiate and reveal the conclusions.

RESULTS

Venture investment into innovation activity is one of the defining types of entrepreneurial business, which corresponds to all the features of the latter and the legislation on entrepreneurial activity is applied [1, pp. 7, 14–15]. Venture entrepreneurship is a multifaceted phenomenon that is being developed in several areas: such as entrepreneurial business; investment activity; activity aimed at creating an object of intellectual property rights (directly the industrial one). Thus, venture entrepreneurship as a legal category is a comprehensive multifaceted concept, whose essence is manifested in several aspects (mentioned above), which is of particular interest in assessing this type of activity.

The essence or technology of venture investment into innovation activity from economic point of view is a certain sequence of actions on mobilization and placing risky investment resources by venture investors, who manage such resources, in order to achieve the maximum investment effect (including in the form of income from invested capital) in terms of minimal investment costs and risks. The main feature of venture investment into innovation activity, which characterizes it as a high-risk enterprise, is the high probability of non-return of invested funds. The entrepreneurial purpose of venture investment is to make a profit from corporate participation as a venture investor in the charter capital of a venture company.

The foundations for the development of legislation on venture investment into innovation activity are not laid in Ukraine for unknown reasons, without mentioning a special regulatory legal base. Perhaps it was hindered by the adoption of the Civil Code of Ukraine and special legislation, where new general principles for the creation and operation of business entities and the legal regime of intellectual property have been reflected. But right now Ukraine has largely lost the opportunities that would allow it to occupy a niche in the market of new technologies, which, in turn, would facilitate the integration of innovative,

scientific and technical activities into the world scientific community.

ANALYSIS

The practice of economically developed countries indicates that venture investment into innovation activity is an important mechanism of the National Innovation System. Venture investments in the general sense of the world economy are investments into technology projects with a certain risk for the creation and implementation of new products. Such investments differ from modern credit granting by the fact that they do not need to be repaid. The personal funds of the founders are usually the main sources of venture companies' property formation.

An important issue in the context of comparative analysis and studying foreign experience of legal regulation of venture investment into innovation activity is not only the issue of state support for venture capital, which promotes the commercialization of companies at early stages, but also its supplement with state grants, which certainly increases the chances for success of developing companies [2, pp. 7–13; 3, pp. 145–151].

At the same time, the legislation of different countries has its own peculiarities in regard to ensuring the implementation of venture investment into innovation activity. There are special regulatory acts in some countries (for example, India, Germany, Hungary and Switzerland), while such activities in other countries (for example, the United States and Russia) are carried out on the principle of general regulation of investment activities, by using the provisions contained in various laws and bylaws within the existing system of regulatory legal acts that generally regulate this area of activity. Differences in the development of the venture investment system are determined by a number of factors related to the specific features of the state infrastructure.

According to experts the research is usually based on two opposite systems of venture entrepreneurship – the venture system of the United States and Israel. Differences in the development of the indicated systems are determined by many factors related to specific features of public infrastructure and private policy of venture companies (corporate ethics, features of venture entrepreneurship, etc.)¹. Investment capital in the United States is provided by collective and / or individual venture investors. The main part of the corporate sector consists of independent venture funds (companies, firms), which are usually partnerships, whose members can be both legal entities and individuals. The individual sector of venture investment into innovation activity is represented by private investors (business angels), whose role is to initially invest into venture companies at the stage of their entering the market with own innovative product.

It should be emphasized that there has been re-

¹ For example, it is argued that European venture funds prefer to invest into companies that are in the process of expansion, and the American ones traditionally focus on financing, primarily, new and relatively young innovation facilities [4, pp. 59–66].

cently a shift of the trend in the US among venture investors in favor of supporting companies at later stages of the development; and there is a tendency to increase institutional investors of venture capital, which significantly increases the average investment into the project [5, p. 19]. It can lead to a shortage of investment at the early stages of companies' development. The current development of Ukraine's economy is characterized by a similar tendency – the segment of seed investment of companies is currently not sufficiently developed, since it does not cause much confidence from investors.

We can also distinguish the reasons for the growing interest in venture investment. First and foremost, venture investment into innovation activity gives investors a chance to generate significant income, much more than the possible profit from classic credit operations with finance. Secondly, the peculiarity of "risky" projects – the main objects of investment has become a major factor in the development of special management methods that reduce the risk of investment activities. Thirdly, it is essential from a macro-economic point of view that the venture mechanism guarantees a real opportunity to finance innovation at the initial stages of creation and implementation (before entering the market) [6, p. 93].

In regard to venture entrepreneurship in Europe, it is due to the experience of American venture investment into innovation activity, but in no way diminishes the merits and efforts of European venture investors. The venture investment market in the United Kingdom provides a significant number of venture investors within different organizational and legal forms and with their different legal status. Despite the fact that pension funds have the leading role in venture investment in this country, the infrastructure represented by technology parks, business incubators, innovation centers and other innovative investors remains sufficiently developed.

The venture investment market in France is developing through government programs aimed at supporting innovative enterprises. The state in this case acts as a guarantor during the guaranteed loan issued to a small enterprise. The leaders of venture investment in this country are insurance companies and banks. Specific feature of French venture entrepreneurship is the sources of investment, where a significant role belongs to the nationalized banking structures. The task of such banking structures to a large extent is to accumulate funds and provide loans. Significant support to venture companies in France is provided by special funds created for the purpose of promising active projects of regional nature [7, p. 174]. They are formed with the help of small enterprises in a specific region of the country in order to support and develop the newly formed venture enterprises. Innovative financial companies in France provide long-term loans to small businesses at low interest rates. In addition, special insurance companies have been formed in France to insure venture projects, where government officials participate [8].

Thus, a specific feature of the French model of venture investment is its significant dependence on government support in the form of funds that contribute to the development of a high-risk project.

Venture funds in Germany form their capital with the help of banks and private investors. Among other things, the state takes an active part in the development of the venture capital market [6, p. 100]. The key normative standards of the regulatory system of venture investment into innovation activity are the provisions on intellectual property. Thus, experts note the successful operation of the concept of patent laws in Germany, which takes into account, inter alia, the simple registration of inventions [6, p. 102]. Thus, there are several characteristics inherent in the venture industry in Germany. First of all, the existence of the German Association for Industrial Research (GAIR) with membership of more than 100 production cooperatives that have their own institutions [9]. Secondly, the presence of a significant number of government programs aimed at the active development of German innovative entrepreneurship.

Compared with others, the Japanese structure of carrying out venture investment into innovation activity has specific features. For example, venture investment in Japan is aimed at combining all levels and cycles of production in contrast to Western countries, where venture entrepreneurship combines production and research. As a result, Western venture entrepreneurship operates on the basis of scientific information, and Japanese – works on the basis of materials obtained from large companies [6, p. 104]. Venture entrepreneurship investment in Japan is carried out both at the expense of private funds and various measures of state support, privileges, new companies are created to introduce new technologies into high-tech industries. Active development of venture entrepreneurship is also carried out through the formation of small, but functional innovative companies with a narrow specialization, namely aimed at monitoring and researching innovations in the development of various technologies.

It can be noted that venture investment in the developed countries is one of the most important sources of non-budgetary funding for research, applied developments and innovative entrepreneurship. Venture investors' funds are mainly placed in the charter capital of newly created small and medium-sized companies, which are usually focused on the development of new technologies or the creation of new high technology innovative products. One should agree that the venture fund sells in the future, after the development of the technology company at the market, its block of stocks (share) many times increased in price in this company providing a significant profit return on invested capital [6, p. 106].

The clarified essence of venture investment into innovation activity abroad, allows us to talk about the identity of the ultimate goal of venture and innovative entrepreneurship, which is to make a profit through the

industrial introduction of advanced technologies (materials, products, methods and means of production, provision of services, etc.), despite that there are different methods and means to achieve this goal. Thus, sources of investment of venture entrepreneurship are diversified in different countries from purely private (through specially created structures) to a combination of private and public investment resources.

Venture investment carried out by venture funds / private investment funds is significantly different from investing in debt and share financial instruments, which is carried out by mutual investment funds or by other persons who professionally manage the assets [10, pp. 1028–1037]. Venture funds are not a separate type of legal entities, and therefore various organizational and legal forms are used for their creation abroad – from a joint stock company up to a simple company. Venture funds do not usually offer their securities (shares) for public sale – they attract funds from individual investors, institutional investors. If this happens, then the fund has the status of a public company [11, p. 433]. Unfortunately, the design of the venture fund in our country is not used for the purpose that takes place abroad. The main basis for Ukrainian investors (mostly large and medium-sized financial industrial groups) is the task of using the studied structure in order to achieve advantages in taxation, to carry out more effective management (getting control over the business entity) and redistribution of group's assets. One of the negative aspects of using venture funds is the creation of conditions for hidden ownership of assets, as well as simplification of the procedure for selling assets.

According to world practice, the organizational and legal structure that is ideal for a venture fund is limited partnership articles (*Limited Partnership*). The legal form of *Limited Partnership* provides the division of partners into *limited partners* who do not participate in the fund's management, and *general partners* who manage the fund. Their statuses differ, where the limited partner is not liable for the results of the fund's activities more than the amount contributed to it, and the general partner has unlimited liability for the fund's obligations. The general partners act on behalf of all members by virtue of the power of attorney. Thus, the management company is a general partner, and investors – are limited partners [12, pp. 32–33].

However, the modern realities of legal enforcement demonstrate that the organizational forms suggested by the practice of Western countries do not correspond to the development of national doctrines about organizational and legal forms of legal entities. Thus, we have already argued that a legal entity in the field of venture business is a joint stock company or a limited liability company with a specified field of activity and type of operation, whose activities are aimed at applied research, developments, design and engineering activities for further implementation of technical innovations, technological inventions into production, as well as the organization of high tech-

nology production in the promising industries in order to make a profit [11, p. 314; 13, p. 58].

DISCUSSION

One of the important areas of innovation policy is venture investment into innovation activity as the key element of venture entrepreneurship, which is annually being most intensively developed. It should be noted that world experience confirms the possibility of rapid mobilization of risky investments, but in terms of timely government support. However, given that venture investment is the most profitable and high-risk investment in the world, the confidence level of both investors and investment venture funds and startups is significantly reduced in the conditions of unstable epidemiological situation.

Having conducted the analysis of the global tendencies in the development of venture investment into innovation activity at the present stage, it should be noted that the growth dynamics of public investment, which should act as an institutional magnet, is much greater than the dynamics of private investment. One of the key problems of the modern Ukrainian model of venture industry development, which is implemented at the state level, is the imbalance between public and private investments, which must be promptly eliminated. The temporary lack of private investment in Ukraine has been so far successfully replaced by public investment, but it is necessary to create a stable market both for private Ukrainian and foreign venture capital for the effective implementation of the global strategy of building an innovative economy.

It should be noted that venture investment into innovation activity in many countries has been recently developed at a rapid pace. One of the reasons is the growing distrust of many investors in the system of functioning of financial markets, which have repeatedly demonstrated the lack of flexibility and lack of stability in crisis situations. A characteristic feature of venture investment is that they are placed directly in the real sector of the economy, which determines a certain degree of protection against unpredictable fluctuations in the financial situation. At the same time, venture entrepreneurship in Ukraine should be carried out on general principles of entrepreneurial activity taking into account the provisions of civil law and in some matters according to the norms directly provided by law that regulate regulatory and executive powers of public authorities.

The creation of the necessary venture infrastructure is carried out within the direct relationship with the creation of innovative infrastructure, whose construction has significant economic and social effects. By the example of many countries we can trace how a well-built venture mechanism within the country may influence the extent of the positive impact on the country's economy. Infrastructure solutions such as business incubators, accelerators and technology parks play an important role, since they also directly contribute to the region's global economic transformation into an innovation-oriented one.

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