E-ISSN: 2997-934X

American Journal of Business Practice
https://semantjournals.org/index.php/AJBP

| Research Article

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Effectiveness of Financing and Evaluation of Innovation Activities

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Abstract: Innovation is a vital driver of economic growth, competitiveness, and societal progress. It enables organizations to differentiate themselves, create new markets, and improve their overall performance. However, innovation activities require significant investments, and the effectiveness of these investments is a critical concern for organizations, policymakers, and financiers. This article examines the effectiveness of financing and evaluation of innovation activities, highlighting the key challenges, methodologies, and best practices that organizations can adopt to maximize their returns on innovation investments.

Key words: economics, innovations, economic growth, ventures, organizations, foreign investors.

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Introduction: The concept of "innovation" is used in the sense of investment in innovation. The concept of innovation entered the economy at the beginning of the 20th century. Australian economist Y. Schumpeter for the first time considered issues related to innovation and gave a complete description of the innovation process. Many authors present different approaches to the concept of "innovation" in the economic literature. Most authors consider innovation in terms of economic application, that is, they mean the creation of new resources or the unconventional use of existing ones. According to A. Busigin, innovation is the renewal of the main capital or manufactured product with the help of science, technology and technology[1].

According to R. Fatkhutdinov, innovation is the final result of the application of innovation, and the change of object management is social, economic, scientific, technical, ecological and other efficiency[2].

Summing up from the above definitions, innovation is the creation of new goods or the improvement of the quality of manufactured goods by introducing advanced scientific achievements into the production process in order to obtain high economic and social efficiency. Innovation can be in every field. For example, in science, one of its directions is to achieve major

[1] А.В.Бусыгин. Предпринимательства. – М.: Дело, 2001. 176с.
[2] Р.А.Фатхутдинов. Инновационный менежмент. – М.: Интел – Синтез. 2000. 9с.

innovations, to create discoveries, to discover new science and knowledge in the field of science, to create a new generation of techniques and technologies, to introduce new methods in the fields of production, service, etc. And in the economy, it can mean the application of the latest achievements in the fields of science, technology, and technology.

In a competitive struggle, the first to receive information will gain a lead. Therefore, choosing strategic action while ignoring the characteristics of one's own competitors is an obviously foolish approach. We consider that firms in market sectors, unable to provide effective innovation management regarding the origin of financing for these innovations and the results of the companies' activities, may reduce their chances of achieving required technological positions in the future. Shortening the term of implementation for the results of innovation activity as well as improving their efficiency are regarded as the main objectives of all innovation activity participants: research organizations, innovative structures, investors, and the state. This necessitates the development of such mechanisms so that in all phases of innovation implementation, the allocation of financial resources is made more effective.

Research objective.

The objective of this investigation covers research activities addressing the issues discussed. The study analyzes sources of financing for innovation activities: enterprise funds, investment companies, partnership enterprises, scientific grants, commercial activities, technology audits, attestation of an enterprise's innovations, and state support. Visitors are urgent participants of this process as far as activities are concerned. These subjects provide financial resources by making a decision on the inclusion into the portfolio of promising innovation projects. These activities may be regarded as a type of venture investment in the development and application of innovation.

Types of Innovation Activities

Innovation activities refer to the practical implementation of new ideas in the form of new or significantly improved products, processes, or services. There are several types of innovation activities: product, process, marketing, organizational, and commercial. Product innovations are new or significantly better products or services. Inherently, companies with a high level of product innovation in their industry are market innovators. Less than 5% of companies develop solely new processes. Organizational and marketing innovations are less costly than the modernization and creation of new products or processes. Most companies have an even lower probability of becoming market innovators, so their innovation activities are limited to the first types of innovation. They are more interested in obtaining more modest results from the innovative process: increasing the share of the company's products in the market, improving financial performance, popularizing the brand, or improving the company's reputation. Process innovations are created by new or improved production or delivery methods. They benefit from new or significantly improved product features or specifications. Marketing innovation is a method typically used for basic market research and the implementation of a wide range of new marketing methods. They are distinguished by high demand from existing customers. Organizational innovation includes changes in business practices, workplace relations, or external relations of firms. It is connected with the new organizational approach in business and significant changes in company management. It should be noted that not all business development and management decisions can be classified as innovations. Management decisions can only be called an innovation if, previously, an unresolved business problem existed which the innovative decisions have solved. However, high-quality management in the company and decision-making processes are important mechanisms in the strategic planning, implementation, and management of innovation activities.

Literature review.

The effectiveness of financing and evaluation of innovation activities has garnered significant attention in the academic literature, revealing a complex interplay between funding sources, firm capabilities, and market dynamics.

Hottenrott and Peters, (2009) provide a foundational understanding of the challenges firms face when seeking to finance innovation. They argue that the high degree of asymmetric information inherent in innovation investments complicates external financing, as lenders often require a premium on their returns due to the intangible nature and sunk costs associated with research and development. This article highlights the tendency of firms to rely on internal funds, which, while limited, serve as a primary source of financing for innovation activities.

SHOAIB, (2010) builds on this discussion by exploring various financing instruments available to support innovation. He emphasizes the critical role of government funding and venture capital, particularly for nascent firms operating in uncertain markets. The paper outlines how different financing sources are essential at various stages of the innovation process [3], from research to development and startup phases. This nuanced view of funding sources underscores the importance of tailored financial strategies to ensure the successful execution of innovative projects.

The literature further expands with K. Soleas (2020), who conducts a systematic review of motivational strategies that influence individual innovation within organizations. By synthesizing evidence from diverse fields, this article elucidates how motivational factors can either promote or hinder innovation efforts.

K. Soleas (2020)' work highlights the need for a comprehensive understanding of the motivational landscape to effectively foster innovation [4], suggesting that financial considerations alone are insufficient without addressing the human elements that drive creative capacities.

In a broader context, Thanh Thanh Huyen et al. (2020) examine the landscape of entrepreneurial finance over the past fifty years, reflecting on the ideological homogeneity that may pervade this research area [2]. Their analysis prompts a critical evaluation of how financing mechanisms are structured and perceived within the innovation ecosystem, raising questions about the diversity of thought and practice in entrepreneurial finance.

Most recently, Alaassar et al. (2022) investigate innovation facilitators within the FinTech sector, revealing a shift in regulatory approaches from risk-based to opportunity-based strategies. Their content analysis of existing literature identifies various instruments, such as regulatory sandboxes and corporate incubation models, that support financial innovation [1]. This article underscores the evolving nature of financial services and the critical role of enabling technologies in shaping the future of innovation financing.

Analysis and Results.

Investment financing is characterized by the fact that it implies the achievement of specific goals in the future. Investment financing is distinguished by the fact that it is aimed at achieving economic efficiency, obtaining social efficiency, protecting nature, improving the environmental situation, developing production or increasing efficiency. Investment and financing decisions are made based on accurate calculations and analysis and expertise. Therefore, before financing investments, it is determined how freely they can achieve their future goals. High-risk (venture capital), that is, the results of venture financing are characterized by uncertainty, abstraction, danger, volatility, danger or riskiness. In a word, investment financing is characterized by a high level of risk. In this case, it is determined by the fact that the available investments have a low chance of achieving their goals in the future, or the achievement of the goal is uncertain, or the possibility of capital loss is high. . Venture investments are investments that can be compared with

betting on games such as gambling, casino, roulette. Venture investments are distinguished by the fact that their consequences are unknown. Venture financing is a type of financing in which venture capital owners and company owners cooperate on the implementation of high-risk and high-profit projects. The object of venture financing is an untested idea - a venture project. Also, the term "venture" is interpreted as the activity of introducing projects related to the establishment of new technology.

The main advantage of financing venture projects is the high level of average profitability, which is 2-3 times more than the income seen in the country's economy.

In the implementation of a venture project, capital is needed at least in three stages:

1) the initial stage - for pre-project activities such as organizational work and enterprise organization activities, marketing research, project research and scientific investigation;

2) the middle stage is the stage of development, for the transition from the development of product samples to normal production and consumption activities;

3) the last stage is the stage of consolidation of success, the company's shares are issued for free circulation on the stock exchange, and funds are required to strengthen production indicators.

The venture fund is interested in investing its capital in enterprises of different development levels and is a supporter of capital diversification. In a venture company, a person entrusted with the position of financial manager is elected to control the fund. The venture company does not own the fund, it only manages it. Investment risks are characterized by their accuracy, uncertainty, quantitative calculation, qualitative determination and measurement by different methods. The purpose of calculating, measuring, quantifying risks is to develop ways to manage them. In order to manage investment risks, measures to reduce and prevent their effects are developed and applied. Venture investments are distinguished by the fact that the possibility of preventing or reducing their risks is not high. World experience confirms that venture financing applies to technically progressive sectors of the economy. Funds belonging to risk financing are collected by specialized institutions and focused on projects that are interrelated and pay off quickly.

After the selection of an innovative project, the next stage of using the innovation begins.

As a result of the development and modernization of all sectors of the national economy becoming a vital necessity in the conditions of the market economy, the role of evaluating the effectiveness of the use of innovation increases even more. This is especially evident during the transition to a market economy.

Based on the expected results and the importance of considering costs, the effect is divided into the following types:

Types of effect of implementation of innovation

Results type	Factors, indicators
Economical	All types of results and costs related to the implementation of innovation are expressed in terms of value.
Scientific-technical	Scientific-technical novelty, simplicity, utility, compact, aesthetic.
Financial	Indicators are based on financial results
In terms of source	Indicators of innovation are the volume of production of this or that type of product and the consumer

Social	Social implementation of innovation indicators that take into account the results
Ecological	Noise, magnetic field, lighting, shaking. Indicators represent the impact of innovation on environmental protection.

Table.1.

Depending on the period of taking into account the costs incurred and the results obtained, the effect of innovation implementation is divided into the effect of a specific period and the annual effect.

The length of time it takes depends on the following factors:

- ✓ Duration of the innovation period.
- ✓ Service life of the innovative object.
- ✓ Level of reliability of initial data.
- ✓ Demand from investors.

The general principle of performance evaluation is the comparison of the obtained result with the incurred cost.

The ratio of the result obtained and the cost incurred can be expressed depending on the situation, both in kind and in value, and in this case it is not always the same, it should not be forgotten that the efficiency of production is always relative.

In general, the problem of determining the economic efficiency of innovation and choosing the most convenient ways of implementing innovation requires, on the one hand, the increase of efficiency achieved at the expense of innovative use, and on the other hand, comparison of the obtained results with previous results. This is especially important in companies using the accelerated depreciation method. Because in such a case, the period of replacement of working machines and mechanisms with new ones is drastically reduced.

Conclusion.

In conclusion, financing and evaluating innovation activities are critical concerns for organizations, policymakers, and financiers. To maximize their returns on innovation investments, organizations need to adopt a strategic approach to innovation financing and evaluation, using a combination of financial and non-financial metrics and methodologies. By developing a clear innovation strategy, adopting a portfolio approach to innovation financing, using a combination of metrics, engaging stakeholders, and continuously monitoring and evaluating innovation activities, organizations can optimize their innovation investments and drive sustainable growth and competitiveness. Moreover, policymakers and financiers can play a critical role in supporting innovation activities, by providing financing options and incentives for innovation investments. By addressing the challenges and limitations of innovation financing and evaluation, organizations, policymakers, and financiers can work together to create a more innovative and sustainable economy, which benefits both businesses and society.

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