IJDIAS International Journal of Discoveries and Innovations in Applied Sciences

| e-ISSN: 2792-3983 | www.openaccessjournals.eu | Volume: 2 Issue: 6

Venture Capital as a Perspective Source of Investment in Innovative Activities

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Abstract:

This article describes the role and importance of venture capital in the development of innovative activities, the stages of financing the implementation of innovative projects and the specifics of venture capital investment.

Keywords: venture capital, venture fund, venture business, venture capital, innovative enterprises, venture fund.

Today it is not necessary to exaggerate that development, fundamental structural changes, an important condition for ensuring the competitiveness of products, is associated with investment processes. Sustainable economic growth, diversification of the economy and the growth of technological potential are observed only in those sectors where the process of investing in the economy continues. Conversely, with a decrease in investment, all indicators of economic growth decline, and industry and other sectors begin to decline.

At the present stage of innovative development of the economy, as a factor accelerating the development of innovative activity in the country, it is advisable to use the venture business, which may include venture funds, associations of venture capital owners, large companies engaged in venture activities.

At present, the main sources of funds used to finance innovation activities are: funds from the local and republican budgets; funds of special extra-budgetary funds for financing ITTKI, formed by innovative enterprises (IEs); personal funds of enterprises; financial resources of various types of commercial structures (investment companies, commercial banks, insurance companies, financial and industrial groups); credit resources of commercial banks; foreign investment; funds of national and foreign scientific funds; can serve as private means of the population[1].

J. Miki and M. Sheehan analyzed the specific experience of providing enterprises with investment funds in an innovative economy, i.e., the employment situation in the labor market in the British economy in the 1990s, the relationship between investment and innovation in human resource management in enterprises.[2]

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[1]Uzbekistan: global financial and economic crisis, innovative development and increasing the competitiveness of the national economy / UzFA, Institute of Economics; Edited by A. F. Rasulev. — T.: KONSAUDITINFORM-NASHR, 2011. — 408 p.

[2] Michie J, Sheehan M. HRM practice, R&D spending and investment in innovation: Evidence from the 1990 UK Workplace Industrial Relations Survey (WIRS). Oxford Academic. Industrial and Corporate Change (1999) 8(2): 211-234. https://doi.org/10.1093/icc/8.2.211

The paper considers in detail such issues as the emergence of venture funds, analysis of the venture investment process, the specifics of venture cooperation, the stages of venture investment and the impact of venture capital on the acceleration of innovation. Massachusetts Institute of Technology P.Gompers and J.Lerner [3].

The role and importance of venture capital in the development of innovative enterprises, the experience of using venture capital in financing Silicon Valley enterprises and the features that distinguish it from traditional forms of venture investment are discussed in detail in the work of T. Hellman. and M. Puri [4].

A creative and interesting idea is not enough to create a new development, but it also takes some time to implement it. There are a number of reasons why all new products and services do not reach the stage of widespread introduction into production, such as the lack of skills and knowledge to organize this process, problems with the uninterrupted supply of financial resources. While the innovation process is a process that brings together the work and efforts of a large number of specialists, it requires the provision of this team of specialists with financial and material resources throughout the entire period of their joint activity (from an idea to the stage of mass production of a new product).

Venture business is a specific form of this investment process, in which financial resources are financed in the form of capital investments in the securities of enterprises with the potential for rapid development. This type of business is more suitable for financing the results of research in the field of science and high technology. However, the fact that the results of this study are not guaranteed to be positive indicates a high risk. In the system of small and medium enterprises, investment activity using venture capital is common, which includes investments in new developments, technologies and production of goods. As a specific aspect of innovation, it is associated with different levels of risk, which necessitates the use of venture capital. It is known from foreign experience that enterprises operating in the field of venture business try to invest their investment funds mainly in securities of joint-stock companies. Investment funds are provided in the form of commercial loans for up to 7 years. In addition, venture investment can be carried out in a mixed form, in which part of the investment funds is invested in the authorized capital, and the rest is provided in the form of an investment loan [5].

Venture business is part of this equity-focused private equity network. Risk capital can be called another source of funding, close to venture capital.

Risk capital is capital that acts as the only source of financial support for innovative enterprises in the initial period of their emergence and operation, i.e. from the emergence of new ideas to the production of new products with positive results.

The main goal of venture capital is to obtain a sufficiently high return on investment. In this case, the investor earns his profit by selling his share in the assets of the enterprise, which was able to ensure a positive development with the help of previously invested funds, to one of the largest companies operating in this area.

Venture capital business has a high risk from the very beginning, and if the end results of the invested processes are not realized after the implementation of the investment process, a situation

[3]Gompers P., Lerner J. The Venture Capital Cycle. Massachusetts Institute of Technology. 2004. - S. 555.

[4]Thomas Hellmann, Manju puri Venture Capital and the Professionalization of Startup Firms: Empirical Evidence. Journal of the American Financial Association. February 2002

[5]Susha G.Z. Enterprise Economics: Textbook. - M .: New knowledge, 2003. - p. 384.

ISSN 2792-3983 (online), Published under Volume: 2 Issue: 6 in Jun-2022

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| e-ISSN: 2792-3983 | www.openaccessjournals.eu | Volume: 2 Issue: 6

of separation from the financed funds may occur. Venture investors take on all the responsibility and financial risks on a par with the entrepreneur.

The need for this type of loan arises mainly from start-up entrepreneurs, scientists, researchers, engineers and inventors who seek to independently implement new, original, antique ideas and promising developments. It is quite difficult for them to get credits and loans in commercial banks, and there are several reasons for this. Firstly, most innovative projects begin to bear fruit only after a few years, naturally, loans must be long-term. In this case, the loan provided by the bank will have to be "frozen" for a certain period, which will negatively affect the financial performance of the bank. Secondly, the level of financial risk for banks is very high. Finally, based on the principles of credit, banks require collateral or collateral to grant a loan, in which case the entrepreneur faces a choice, i.e. the question of whether it is advisable to risk one's position and property in society as an innovative project. often not confirmed.

In this case, venture investors come to the entrepreneur as an assistant and sponsor. From an economic point of view, the main goal of investors is not to help the entrepreneur, but to make high profits. That is, the investor makes a decision based on the possibility of obtaining a much higher profit than when he invests his free financial resources in bank deposits or buys securities that bring a certain income [6].

We know that before making a decision to participate in the financing of certain ideas and developments, a lot of work is done to determine the readiness of an entrepreneur, evaluate a business plan and analyze risk situations. In this regard, the investor uses the technology of analysis of investment projects, i.e. recommendations and guidance from management sciences, advice and opinions of venture business experts, as well as the personal experience of the investor.

Finally, the venture fund can be called the only investor willing to invest in new developments with high fan performance. Even in cases where the level of risk and uncertainty is very high. It is these circumstances that allow you to get the highest (maximum) benefit.

Venture investments are usually calculated for 5-7 years. The following stages of financing the implementation of an innovative project are distinguished[7]:

1. creation of a fund;
2. fulfillment of contracts (conclusion of contracts);
3. investments;
4. post-investment management;
5. managing the exit process.

In order for an investor to make a decision on investing in a particular venture fund, he gets acquainted with the memorandums on the placement of funds. These memorandums contain information about the goals and objectives of the activity, features of management and control, achievements and shortcomings.

As a rule, small and medium-sized enterprises are financed, in contrast to commercial bank loans, which do not require collateral or collateral documents. Financing is capital directed to a venture fund.

[6] Nikolaev V.A. Priority directions of venture financing of innovative projects. — M.: Dashkov i K°, 2011. — p. 509.
[7] Yankovsky K.P., Mukhar I.F. Textbook. Organization of investment and innovation activities. - St. Petersburg: Peter, 2012.

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The study of foreign experience shows that the traditional sources for the formation of venture funds are the funds of private investors, the funds of insurance companies, the funds of various pension funds, the funds of large international organizations, and the like.

The features of venture capital investment include:

- purchase of shares in the form of shares; the owner of venture capital invests in the authorized capital of the enterprise;
- while the funds raised will be used in the activities of the firm, the firm's shares are not yet listed on the stock exchange; capital-intensive enterprises will specialize in the production of large-tonnage products;
- capital can be used by new high-tech enterprises, and the owner of venture capital will not be able to return the capital invested at will until the end of the life of this enterprise;
- funding is provided only to businesses that are expected to have growth potential, and not to businesses with high profits; venture capital is directed to the development of innovative enterprises, which means that on the one hand there is a high risk, on the other hand there is also a high probability of making a profit;
- If the main goal of investing in high-tech enterprises in the form of venture capital is high returns, then another goal is the opportunity to enter new markets;
- investments are provided for a certain period; financing is a loan given to new businesses, which can be considered as a guarantee of long-term debt, but the interest rate is higher than in a bank;
- The venture capital owner must also clearly define how he or she can exercise their rights to profit when deciding to invest in the venture;
- As the enterprise develops, the volume and liquidity of its assets will increase, mainly due to the demand for unquoted shares, as well as competition among entrepreneurs who want to buy a new profitable business; the success of a new enterprise is determined by the fact that the price of its shares is growing and there is an opportunity to benefit from the complete or partial sale of the enterprise, as well as the ability to quickly respond to changes in the stock exchange;
- the common goal and interest of the founders and investors of the enterprise is to ensure the promising and rapid development of a new type of business, not only to obtain high profits, but also to stimulate the acceleration of the scientific and technological development of the country through the creation of new innovative technologies; The role of an investor in the positive development of a new venture is not only to provide venture capital, but also to use existing business experience and business contacts, which positively affects the company's activities, signing new contracts, finding new partners and new markets.

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