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Zhornokui Yu.*Doctor in Law, Professor,**Kharkiv National University of Internal Affairs, Ukraine;**e-mail: zhornokuy.yu@gmail.com; ORCID ID: 0000-0001-9669-6062***Doroshenko L.***Ph. D. in Law, Associate Professor,**Vasyl Stus Donetsk National University, Ukraine;**e-mail: doroshenkol@donnu.edu.ua; ORCID ID: 0000-0001-9748-6358***Ruban O.***Ph. D. in Law,**Yaroslav Mudryi National Law University, Kharkiv, Ukraine;**e-mail: ruban2819@gmail.com; ORCID ID: 0000-0001-9082-0464***Tymoshenko D.***Ph. D. in Law,**Kharkiv National University of Internal Affairs, Ukraine;**e-mail: timoshenko@gmail.com; ORCID ID: 0000-0001-7008-7007*

ESSENCE AND SPECIFICS OF VENTURE INVESTMENT INTO INNOVATION ACTIVITY

Abstract. On the basis of the analysis of scientific approaches and practical application, the authors have concluded that venture investment of innovation activity is a type of entrepreneurship based on the ability of an entrepreneur to accumulate investments from various sources, which is focused on the practical use of technical and technological innovations that are assessed as highly profitable, and which is aimed at fulfilling scientific and technical projects that have not been tested in practice, as well as at improving existing ones in order to exercise intellectual property rights and make a profit and (or) other effect (benefits). It has been noted that the analysis of the essence of venture investment of innovation activity at the current stage of the development of the National Innovation System, suggests that inter-temporal changes of public investment growth, which should act as an institutional magnet, are much greater than the dynamics of private investment. One of the key problems of the modern Ukrainian model of the development of venture industry, 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 investments in Ukraine has been so far successfully replaced by public investments, but it is necessary to create a stable market for both private Ukrainian and foreign venture capital for the effective implementation of the global strategy of building an innovative economy. The authors have substantiated the position that the process of venture investment into innovation activity consists of two stages: 1) invention and development of the object of venture investment and 2) implementation and realization of the obtained result into production, services sector, etc. The specified stages can be combined or considered separately depending on the specialization and (or) specifics of the venture company. An approach to the recognition of two most common forms of venture investment into innovation activity has gained the development. These forms are: 1) investment into corporate capital of companies and 2) investment loans. However, both of these forms are often used simultaneously in practice. The essence of venture investment into innovation activity abroad compared to Ukraine, is the identity of the ultimate purpose of venture and innovative entrepreneurship, which is to make a profit through the industrial introduction of advanced technologies (materials, products, production methods, etc.), despite the fact that methods and means to achieve this purpose are different. 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. It has been substantiated that venture investments are currently the most affordable alternative to loan financing. One can confidently state that this form of investment is the most

profitable for the recipient company, because the previous experience of investors always has a positive effect on a venture company.

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

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Жорнокуй Ю. М.

*доктор юридичних наук, професор,
Харківський національний університет внутрішніх справ, Україна;
e-mail: zhornokuy.yu@gmail.com; ORCID ID: 0000-0001-9669-6062*

Дорошенко Л. М.

*кандидат юридичних наук, доцент,
Донецький національний університет імені Василя Стуса, Україна;
e-mail: doroshenkol@donnu.edu.ua; ORCID ID: 0000-0001-9748-6358*

Рубан О. О.

*кандидат юридичних наук, асистент,
Національний юридичний університет імені Ярослава Мудрого, Харків, Україна;
e-mail: ruban2819@gmail.com; ORCID ID: 0000-0001-9082-0464*

Тимошенко Д. В.

*кандидат юридичних наук, старший викладач,
Харківський національний університет внутрішніх справ, Україна;
e-mail: timoshenko@gmail.com; ORCID ID: 0000-0001-7008-7007*

СУТНІСТЬ ТА СПЕЦИФІКА ВЕНЧУРНОГО ІНВЕСТУВАННЯ ІННОВАЦІЙНОЇ ДІЯЛЬНОСТІ

Анотація. Досліджується сутність і специфіка венчурного інвестування інноваційної діяльності як різновиду підприємницької діяльності. На основі аналізу наукових підходів і практичного застосування зроблено висновок, що венчурне інвестування інноваційної діяльності є видом підприємництва, заснованим на наявності здібності підприємця акумулювати з різних джерел інвестиції, який орієнтований на практичне використання технічних і технологічних нововведень, які оцінюються як високорентабельні, направлений на завершення науково-технічних проєктів, що не випробувані на практиці, так і на удосконалення вже наявних з метою здійснення прав інтелектуальної власності та отримання прибутку і (або) іншого ефекту (переваг). Отримав розвиток підхід про визнання двох, найбільш поширених форм венчурного інвестування інноваційної діяльності: 1) інвестиції в корпоративний капітал товариств і 2) інвестиційні кредити. Проте на практиці обидві ці форми досить часто використовуються одночасно. Обґрунтовується, що венчурні інвестиції становлять на сьогодні найбільш доступну альтернативу позикового фінансування. Можна з упевненістю стверджувати, що саме ця форма залучення інвестицій є найбільш вигідною для товариства-реципієнта, оскільки попередній досвід інвесторів завжди позитивно впливає на венчурне товариство.

Ключові слова: венчурне підприємництво, інноваційна діяльність, інвестор, інвестиція, венчурний капітал, корпоративний капітал.

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Introduction. Public relations are ahead of the development of legislation, which does not have time to be adapted and modernized to new economic relationships, which, in turn, do not receive adequate regulatory guaranteeing. The relationships on venture investment into innovation activity are of no exception. It is both due to the lack of a mechanism for legal guaranteeing, as well as scientific and practical developments of its legal nature. Venture investment into innovation activity is one of the defining types of entrepreneurial activity, which corresponds to all the features of the latter and the legislation on entrepreneurial activity is applied.

Research analysis and problem's setting. The study and analysis of the procedure for implementing venture investment into innovation activity involves the clarification and use of certain terminology, which is associated with the use of the categories of «innovative» and «venture». Sometimes these concepts are identified, sometimes – they are considered diverse. Many scientific works are focused on the issue of venture investment into innovation activity, but there is currently no unambiguous answer to some questions of carrying out such activity. The scientific basis of this study were the works of domestic and foreign scholars such as: Atamanova Yu. Ye., Vrublevska-Misiuna K. M., Tsybenko A. Yu., Yukhachev S. P., Bygrave W., Reynolds P., Levin J. and others.

The purpose of the article is to clarify the essence and specifics of venture investment into innovation activity.

Research results. The genesis of venture entrepreneurship is due to the development of intellectual property institutions and entrepreneurship on the basis of obtaining a new special qualitative phenomenon of venture entrepreneurship, which has private nature and is mainly regulated by the norms of private law.

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

«Innovation activity» and «venture entrepreneurship» are considered in the legal literature as synonyms, the reason for which is the statement that the concept of «innovation activity» is studied and interpreted through the concept of «venture business» in industrialized countries [1, pp. 7–8]. However, as one can see, the categories of «innovation activity» and «venture entrepreneurship» are not identical. We believe that since entrepreneurship in the context of the Commercial Code of Ukraine is an integral part of economic activity, then «venture entrepreneurship» is a narrower concept in regard to «innovation activity». Thus, the indicated categories are not synonymous, because: 1) they are correlated as general and special, where innovation activity — is the first, and venture activity – is the second one; 2) they have different economic nature (financial for innovation activity, intellectual for venture activity); 3) they have a different purpose (innovation activity — profit and social effect, venture activity — profit from participation as a venture investor into charter capitalist of a venture company established in the form of a corporation (social effect may be secondary).

Regarding the essence of the understanding of the category of «venture investment into innovation activity» there is not only its single understanding among the experts, but there are also differences in terms of terminological definition (innovative business, innovative investment, venture investment, etc.).

Thus, we should note that *innovative entrepreneurial activity* in a broad aspect is an innovative process that leads to the creation of qualitatively improved products or services and technologies due to the involved significant intellectual resources, as well as further practical implementation of this high-tech product that guarantees a great income in the result of its sale [2, p. 83].

It has been offered to use the concept of «*innovative investment*», which should be understood as one of the economic and legal forms of investment used to implement the achievements of scientific and technological progress into production and social sphere in order to achieve a certain socio-economic effect, including the production and dissemination of fundamentally new types of machinery and technology, progressive intersectoral structural changes, the implementation of qualitative changes in the state of productive forces, improving the social and environmental situation, the production of new competitive goods, services, etc. There is a warning in accordance with the stated above that innovative investment can be carried out systematically as an innovation activity or as separate operations (complex of operations) of an innovative nature [3, p. 95].

The very phrase «*venture investment*» means investing associated with the placement of funds in projects, the implementation of which is stipulated by the increased risk of non-return on investment [4, p. 27]. Instead, another definition of the studied category has been suggested, according to which venture investment is defined as a sequence of actions to transform resources (capital) of investment participants with a significant level of risk into modernization, technological re-equipment of production facilities, technical support of science-intensive products, which is the basis for changing technological situation of other industries in order to meet the new needs of consumers [5, p. 59].

In general, we can conclude that venture investment into innovation activity is a special system of investing funds into new innovative projects. The main and fundamental difference between such activity and the traditional placement of funds is that the necessary funds can be provided for a challenging idea without *a guaranteed entrepreneur's provision with available property* or other assets. The only pledge is a specially stipulated number of shares (shares in the charter capital) in an existing or newly created company. A venture investor does not try to buy a controlling block of stock (controlling share), but only expects that the company's managers, having a controlling share, will retain incentives for active development of their business.

We should pay attention to some specifics of venture investment into innovation activity. First of all, this type of entrepreneurship is focused both on the practical use of inventions, industrial designs and utility models and on the process of their creation. After all, we should not forget that there are research centers in practice, the main task of which is not the process of introducing a new product into production, but the direct process — the invention, development and testing of new objects of industrial property rights. The purpose of such activity is to develop scientific tasks, to find their solutions and to exercise the right to use the object of industrial property by other entities. Secondly, the object may be new, analogues of which do not exist yet, and may be one that complements any device (for example, conventional utility model), and invented in order to improve, to get greater cost-effectiveness of the existing one (conventional inventions). Therefore, we believe that such devices should be also classified as objects of venture investment into innovation activity. The third, no less important feature is making a profit. Since the studied type of social economic activity is one of the forms of entrepreneurship, and a feature of the latter is to make a profit, it should be considered that this feature must characterize venture entrepreneurship [6, p. 24].

The essence of venture investment into innovation activity in foreign countries is reduced to 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, production methods, etc.), despite the fact that there are different methods and means to achieve this purpose. Thus, the sources of investment of venture business are diversified in different countries from purely private (through specially created structures) to a combination of private and public investment resources. Hence, venture capital should be considered in some specified sense as a kind of financial capital. Such capital is understood as long-term risk capital invested into shares of new and fast-growing companies in order to make a large profit after the registration of shares of such companies on the securities exchange [7, p. 44].

Venture investment is based on the principles of phased financing, interest-free invested funds, patience for the enterprise's growth, close cooperation between venture capitalists and companies created with their participation. With a certain condition of allegory, we can agree with the statement that venture capital combining different forms of capital (equity share, loan and business capital) is an intermediary in the relations of investors and companies that need financing [8, p. 160]. Summarizing the essence of venture capital we can conclude that it should be interpreted as a separate investment capital created on the basis of various sources, namely banking, trade and industrial capital.

The venture capital market is represented by two sectors: formal (venture funds) and informal (individual investors).

The informal sector covers the financing of innovative projects at the initial stages of their development. Investors are usually «*business angels*» who invest «*seed finance*». The amount of investment of business angels varies from 10 thousand to several million dollars and is usually 5—20% of their funds. In terms of importance, the capital of individual venture investors ranks third after the own funds of entrepreneurs — the initiators of the company, and sources of funding provided by friends and relatives [9, p. 15].

The formal sector has conditional boundaries and is applied to later stages of the development of an innovative project, but the amount of investment, compared to the informal sector, is much larger. The main investors in the formal investment sector of innovative projects are special institutions. However, the formal and informal sectors complement each other.

Venture investment carried out by venture funds / private investment funds is significantly different from investing into debt and equity financial instruments, which is carried out by mutual investment funds or other persons who professionally manage 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 – starting from JSC to a simple company. Venture funds usually do not offer their securities (shares) for public sale – they attract funds from individual investors, institutional investors. If it happens, then the fund has the status of a public company [11, p. 433]. Unfortunately, a venture fund construction in our country is not used for the purpose that takes place abroad. The fundamental basis for Ukrainian investors (mostly large and medium-sized financial and industrial groups) is the task of using the studied structure in order to achieve advantages in taxation, to accomplish more effective management (gaining control over a business entity) and to redistribute the group 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 the assets.

There are two, the most common forms of venture investment into innovation activity – investments into corporate capital of companies and investment loans. However, both of these forms are often used simultaneously in practice. One important characteristic feature differs venture investor from the strategic one – he does not seek to acquire a controlling block of stock (controlling share) of the company, leaving an incentive for other participants (shareholders) for its development. The main motive of his activity is the sale of shares (stakes) of the company after a certain period of time (about 5—10 years) at a price many times higher than the previously placed investments. This investor's strategy is due to the prediction of a rapid rise in the price of shares (stakes) of the company at the early stages of its development, while he is not interested in the fate of the company in the future.

In general, the process of venture investment into innovation activity consists of two stages: 1) the invention and development of the object of venture investment and 2) the implementation and realization of the obtained result into production, services sector, etc. The indicated stages can be combined or considered separately depending on the specialization and (or) specifics of the venture company.

Conclusions. Venture investment into innovation activity is a type of entrepreneurship based on the ability of an entrepreneur to accumulate investments from various sources, and which is focused on the practical use of technical and technological innovations that are assessed as highly profitable, aimed at fulfilling scientific and technical projects that have not been tested in practice, and on improving existing ones in order to exercise the intellectual property rights and make a profit and (or) other effect (benefits).

Analysis of the essence of venture investment into innovation activity at the current stage of the development of the National Innovation System, suggests that inter-temporal changes in public investment growth, which should act the role of institutional magnet, are much greater than the dynamics of private investment. One of the key problems of the modern Ukrainian model of the development of venture industry, 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 for both private Ukrainian and foreign venture capital for the effective implementation of the global strategy of building an innovative economy.

Venture investment is currently the most affordable alternative to loan-based financing. One can confidently state that this form of attracting investment is the most profitable for the recipient company, because the previous experience of investors always has a positive effect on the company.

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