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ESSENCE, FEATURES AND WAYS OF ATTRACTING VENTURE CAPITAL IN INNOVATION PROJECTS

Abstract

Many countries ensure their competitiveness in modern times by implementing and fostering innovations and by improving their human capital. Venture investments are now the main source of funding for innovations, providing a significant amount of resources to help progress creative projects. Specially, developed countries have effectively utilized venture capital to finance new projects. Various structural challenges in the country impede the creation of favorable circumstances for active entrepreneurship and innovation. The government has created many legislation and resolutions to tackle these concerns. In the realm of international business, venture ventures are creative enterprises that provide new methods and ideas. Small innovative enterprises (SIE) are the starting point, and their funding involves significant risks. Investors take on larger risks but can potentially achieve bigger profits by investing in ideas at their early phases. The essay delves into the basic essence and features of venture financing, challenges in obtaining venture capital, various types of investments in the venture sector, and key tactics for obtaining venture capital to support a variety of creative initiatives.

Keywords: *venture financing, innovation, venture capital, venture projects, innovative startups*

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İnnovasiya layihələrində vençur kapitalının cəlb edilməsinin mahiyyəti, xüsusiyyətləri və yolları

Xülasə

Müasir şərtlər altında ölkələrin əksəriyyəti məhz innovasiyaların tətbiqi və onların inkişafı, habelə insan kapitalının tərəqqisi yolu əsasında rəqabət qabiliyyətini təmin etməyə çalışır. Modern şəraitdə vençur investisiyaları məhz innovativ fəaliyyətin tərəqqisi baxımından kapital axınının təmin olunmasına qadir olan innovasiyaların maliyyələşdirilməsinin bazis mənbəyi rolunda çıxış edir. Xüsusən inkişaf etmiş ölkələr innovasiyaların maliyyələşdirilməsi vasitəsi olaraq vençur kapitalından istifadə etməklə kifayət qədər səmərəli nəticələr əldə etmişlər. Ölkədə aktiv sahibkarlığın və innovasiya fəaliyyətinin inkişafı üçün şərtlərin daha da yaxşılaşdırılmasına mane olan bir sıra sistemli problemlərin mövcudluğu məhz hökumətin onların həlli üçün bir sıra normativ hüquqi aktlar və qərarlar hazırlamasına gətirib çıxarmışdır. Ümumilikdə, qlobal təcrübədə vençur layihələri biznes fəaliyyəti baxımından olduqca yeni metodlar və həmçinin ideyalar təklif edən innovativ startaplar rolunda çıxış edirlər. Onların mənbəyi maliyyələşdirilməsi böyük risklərlə əlaqəli olan kiçik innovativ müəssisələrdir (SİE), buna görə də, çox erkən mərhələdə bir layihəyə daxil olurlar və əgər investor daha böyük risklər götürürsə və müvəffəqiyyət qazanırsa, o, daha çox gəlir əldə etmiş olur. Məqalədə vençur maliyyələşdirilməsinin mahiyyəti və xüsusiyyətləri, vençur kapitalının cəlb edilməsində maneələr, vençur biznesinə investisiyaların növləri araşdırılır, müxtəlif növ innovativ layihələrin həyata keçirilməsi üçün vençur kapitalının cəlb edilməsinin əsas yolları təsvir edilir.

Açar sözlər: *vençur maliyyələşməsi, innovasiya, vençur kapitalı, vençur layihələri, innovativ startaplar*

Introduction

Venture capital possesses unique attributes. Venture capital serves as an exceptionally efficacious resource for fostering the expansion of technology enterprises. Venture capital, in whatever capacity, is a form of capital that is delineated in a number of unique ways. This is the value utilized to generate profit through a specific activity, according to the conventional understanding; in the classical sense, these are resources in production. However, particularly intriguing in light of the subject under investigation is the approach taken by the Austrian school, which employs a concept that closely resembles the purpose and fundamental nature of venture capital in definition (Lerner, Leamon, 2023: 254).

Understanding of venture capital.

The Austrian school posits that all capital is profit-generating investments; in other words, forfeiting property now results in receiving a greater portion in the future; deferring consumption incurs interest charges that are contingent upon the level of risk involved. This definition most closely embodies the fundamental nature of venture capital and is intricately linked to its objectives, both of which hold future utility. The word "venture" is translated as "risky" or "adventurous," which provides the general definition of venture capital. Therefore, the broad definition is regarded as funding designated for venture capital investments in nascent, rapidly expanding companies. However, this concept provides only a fundamental understanding of the process and does not adequately characterize it (Kurz, 2016: 252-273).

It is more accurate to refer to this as "venture capital," which consists of long-term financing in exchange for a portion of the capital of rapidly expanding businesses; in this case, the investor's benefit and the duration of the investment have already been established (Manigart, Sapienza, 2017: 240-258).

Additionally, the functional component of venture capital can be defined; Zaitsev provides this definition in his dictionary. Venture operations involve the execution of financial transactions that entail a specific level of risk. Nevertheless, this definition is more applicable to venture capital investments. It is crucial to consider the utilization of this capital in light of the subject and investment object. Consequently, the inclusion of a subjective-objective element is essential. The US National Venture Capital Association (NVCA) defines venture capital as the funds of a new innovative enterprise in addition to the investor's capital. This is not without reason. An economic relationship in which the investor participates in the management of the investment object is another definition of venture. However, this is not wholly accurate, as a considerable number of venture capitalists prefer to avoid management involvement (Kaplan, Lerner, 2016: 413-431).

According to the Austrian school of thought regarding capital perception, all capital is the relinquishment of a resource from ownership for the purpose of acquiring it in greater quantities in the future. This holds true not only for the investor's understanding but also for the entrepreneur of the investment object, who operates an innovative and, consequently, high-risk enterprise. That is, both the investor and the entrepreneur seeking investment are required to provide a response to the definition. The second crucial component is the substantial risk that accompanies innovative or revolutionary endeavors, as it increases the likelihood of an unfavorable result. Fundamentally, in the context of investments, high risk and innovativeness are synonymous; thus, this component of the definition can be reduced to high risk to some extent (Hirukawa, Ueda, 2011: 421-465).

The objective is investment; investment inherently entails profit; and if profitable, the preceding element incorporates a substantial amount of profit. From the subject's perspective, the state of anticipation should highlight the selectivity of the process of selecting an object that minimizes risk to the greatest extent possible in the absence of delay. This is the resultant definition. Venture capital consists of accrued funds designated for high-risk investments or as the financial backing for a highly promising innovative enterprise that necessitates such investments. Therefore, to support the objective-subjective aspect of the study, we include in this concept the traditional notion of a venture entrepreneur, which refers to an organization or individual that uses venture capital to develop a new product, and not solely to venture capitalists (Bertoni, Colombo, Quas, 2015: 543-560).

As mentioned earlier, innovativeness entails substantial risks; however, the creator of the product places the utmost importance on innovativeness. Consequently, the investment process focuses on innovative endeavors, with a high-risk subject matter. In essence, accumulation refers to the accumulation characteristic exhibited by venture funds and analogous organizations that require a certain period of time to identify an investment opportunity. It can be inferred that venture capital is utilized as the working capital of a technological enterprise or fund, serving as either the foundation for an innovative technological enterprise or a means to generate profits for investors. Although venture capital includes venture investments, it is important to avoid conflating one definition with another in order to grasp the essence of the subject under investigation. Additionally, it is worth noting that venture investments serve as a form of partial financing, as they are segmented into segments that correspond to the development phases that will be further elaborated upon (Lerner, 2022: 207-218).

Venture capital investing entails substantial risk and pertains to the establishment of novel and inventive businesses. Innovation uncertainties in the market and the unpredictability of the enterprise's future during the investment phase constitute the greatest risk. While this definition is widely accepted and all-encompassing, variations exist with regard to the regions involved and the manner in which these investments are interpreted. According to the European Private Equity & Venture Capital Association, venture financing is defined as the capital investment made by professional shareholders in early-stage private enterprises, with a particular focus on growth potential and management participation. This definition indicates a greater propensity for control over investees in the European region and a lesser risk tolerance by emphasizing the investee's professionalism. Long-term and medium-term benefits are given greater emphasis by the British Venture Capital Association, given that the time required to attain benefits can range from six to ten years. Therefore, venture investments signify high-risk bets on newly established, technologically advanced businesses that are expanding rapidly.

Ways of attracting venture capital in innovation projects.

Venture capital firms have a preference for investing in organizations whose shares are not publicly traded on the stock market. Rather, these firms grant complete control and access to their shareholders, which may consist of both individuals and legal entities (Fiet, 2022: 219-242).

Certain categories of investments in venture business are distinguished by authorities in the field: Lerner, J., & Nanda, R. (2020). Venture capital's role in financing innovation (Lerner, Nanda, 2020: 237-261).

- beginning investments, classified as one of the more precarious types of investments, are categorized as either pre-starting investments or starting investments;
- venture investments of initial financing (utilized for nascent organizations lacking the requisite financial resources to execute an innovative endeavor initially) and subsequent phases of said initiatives (typically in situations where the company exhibits substantial expansion potential yet faces financial constraints);
- rescue investments, which entail the acquisition of capital in companies that are presently insolvent but have every opportunity to resume operations;

replacement investments involve the organization allocating its own capital to partially substitute external resources; these investments utilize securities to access the company's market.

It is widely acknowledged that investing in later phases of venture business development is the most prevalent type of investment. Typically, this is correlated with reduced investor risks, enhanced market stability for the company, and the circumvention of superfluous expenditures (e.g., licensing fees, patent acquisition costs). The following are the primary obstacles to attracting venture capital to innovative projects:

- an unfavorable legal and economic climate hinders the progress of venture companies in the desired trajectory, encompassing deficiencies in intellectual property protection legislation;
- the efficacy of the support mechanism for small and medium-sized enterprises is compromised;
- the adoption of international venture capital as opposed to domestic funding for the execution of groundbreaking initiatives;
- the inefficient allocation of funds from venture capital firms;
- intra-team personal disputes that arise during the development and promotion of an innovative project;
- the challenge of expanding an innovative undertaking.

Due to enormous scientific and technological advancements, innovation is required in every aspect of life today; therefore, financing the development of innovative projects through venture capital should occur in the context of declining interest rates, expanding additional financing programs, and government support for various venture companies (funds) operating in the market. Additionally, establishing an independent division dedicated to intellectual property analysis, which may involve engaging university patent specialists for outsourcing purposes or issuing loans, will facilitate the attraction of venture capital towards pioneering initiatives.

Conclusion

In summary, it is important to acknowledge that venture capital serves as the foundation for the inventive advancement of the national and regional economies. Consequently, an efficiently structured venture capital system represents a highly auspicious domain of economic endeavor. When formulating a short-term and long-term strategy for venture capital's involvement in the development of venture entrepreneurship and the implementation of numerous innovative projects, it is the responsibility of the state to undertake all requisite actions to support these endeavors. At present, the objective is to raise funds for the development of cutting-edge technologies that will accelerate the transition to a digital economy in which innovation is utilized in every aspect of government operations. The concurrent establishment of optimal conditions necessitates the execution of multiple approaches:

- with regard to the legal dimension, a robust legislative structure governing venture business within the nation;
- from an economic standpoint, venture capital can be considered more effective during periods of declining interest rates, as it ensures that such rates do not lead to excessive speculation. From an organizational standpoint, it exerts control over the sector's development to prevent infringements of antitrust laws.

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