PROMOTION OF THE INNOVATION COMPONENT OF THE LOCAL BUSINESS DEVELOPMENT IN RURAL AREAS

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Received 10 05 2014; accepted 28 05 2014

The transformation process led to the decay of the rural territories. The key task for solving their socio-economic problems is to promote entrepreneurship based on promoting the development of the innovation component. The aim of the research is to develop the set of measures on promoting innovation component of the local business development in rural areas. The scientific methods, used in this research, are: system analysis, synthesis, scientific abstraction, monographic method, SWOT analysis, planning and organizational methods. The key issues are identified in the article, which impede the innovative development of entrepreneurship in rural areas of Ukraine. A set of priority actions are drawn up within the state economic policy and the organizational and economic instruments at the level of economic entities towards promoting innovation component of the local business development in rural areas.

Key words: innovations, innovation process, state economic policy, institutional environment, entrepreneurship, rural areas.

JEL Code – R11.

1. Introduction

The transformation processes and poor agrarian reform led not only to a decay of domestic agriculture, but also to the aggravating of the problems, concerned with the development of rural areas of Ukraine, and the consequences of these problems have both economic and social dimensions. At the moment, the development of rural areas is accompanied by such negative trends as an unemployment; poverty of the rural population; decay of the socio-economic, road, transport, telecommunications and consumer infrastructure; migration of the rural population and deterioration of human capital; low level of local initiatives; inactivity of rural communities, etc.

The destabilizing effects complicate the performing of applied principles of state and regional economic policy, prevent the processes of implementing of socio-economic development programs of rural areas and create distortions in their development. The overcoming of the destabilizing tendencies in the development of rural areas requires a complex approach to the solution of the problem. The priority area of the socio-economic development of rural areas is to promote entrepreneurship on the basis of providing innovative nature of its development.
Monofunctional development of the rural areas restricts the possibilities to accumulate sufficient amount of the investment resources in rural economy, including those for the purpose of implementation of innovatively oriented investment projects. Focusing exclusively on the agricultural sector of the economy generates stereotype thinking about the possibility of multifunctional development of rural areas, preventing the possibility of implementing the innovation projects in such fields as tourism, power industry, public services, information technologies through the use of modern information technologies to overcome the limitations caused by the remoteness of many villages, low population density and lack of adequate access to the traditional sources of information. Our position is not to reduce the strategic importance of agriculture in rural development, but to strengthen the role of innovation component of business development of all types of economic activity in rural areas. Focusing on the innovative nature of rural economy will provide the possibility of a synergetic effect in the socio-economic development of rural areas. Considering this, it is necessary to create effective tools towards promotion of innovation component of the local business development in rural areas.

The problems of the innovative development of the entrepreneurship, in particular, in rural areas, have become the subject of research for many scientists. The theoretical principles of innovation and its role in economic development were studied by J. Schumpeter (1982). The scientist have structured the innovation process in terms of such components as the release of a brand new product or a known product with a new quality; introduction of a new production method in a particular industry; entering new markets; obtaining new sources of raw materials; the reorganization of management. Theoretic-applied aspects of constructing an innovative model of the technological development, based on the institutional changes that develop the innovation culture of the entrepreneurship on the basis of the accommodation of values, norms and rules of the interaction of the entities and the joint activity skills were studied by O. Efremov (2011). In his turn, V. Yakubiv (Yakubiv, 2011) investigated the impact of innovation and technological development of agriculture entities on ensuring their sustainable development and rural growth. V. Kozlovskyi and I. Prychepa (2008) studied the importance of the innovation capacity of the enterprise for providing its expanded reproduction. I. Yatsiv (Yatsiv, 2013) investigated the role of innovation development of the agricultural enterprises in the formulation and implementation of its competitive strategies. In their turn, O. Shylova and Ye. Chermoshentseva (2012) studied the coordination of tactics and strategy of innovation activities in the context of business management under the influence of internal and external environment factors. L. Rybina (2008) studied the problem of the activation of the strategic directions of innovation activities in agricultural sector, in accordance to the features of the industry. The issues of the accounting of the innovation component of the agricultural enterprises’ capital formation were studied by N. Zhelezniak (2008). The author has explained the necessity of focusing on the innovation component during its formation amid limitation and out-of-date material and technical base of the agricultural enterprises. N. Popova (2011) was engaged in the elaboration of applied aspects re-
Regarding the improvement of the operating efficiency of the entities based on stimulating the innovation processes. In their turn, I Akhmetov and L. Kostiuk (2008) demonstrated the necessity to build the clusters for ensuring innovation development of the regions. The authors have studied the activity of innovation performance, constructed the organizational structure of the regional cluster and specified the priority directions of innovative activities in the regions. N. Sapa (Sapa, 2009) emphasizes the importance of implementing the innovative strategies not only from a position of providing support to the economic sphere, but also the social and environmental ones, which are crucial in establishing the sustainable development of a society. O. Kalmuk (2011) researched the specification of human capital role in providing innovative development.

Despite the presence of numerous research and practice developments in the sphere of the implementation of innovation projects, the problems of the activation of the local business development innovation component in rural areas still remain insufficiently studied, which would provide the mechanisms of generate the interests and incentives for implementation of the innovation in the activity of the economic entities, the realization of a set of measures at the macro- and micro levels regarding the promotion of innovation projects and take into account the mentality of the rural population and the specific nature of the innovative business in rural areas. In order to achieve the main goal of the research, the next related aims have been formalized: identification of the main obstacles for the development of innovation component of entrepreneurship in rural areas, based on structuring the social and economic factors that determine the parameters of its development; complex diagnostics of modern prerequisites for the implementation of innovations in entrepreneurship in rural areas of Ukraine, taking into account the factors of internal and external economic environment of economic entities; developing mutually agreed tools at the macro and micro levels in relation to intensify innovative nature of local business development in rural areas.

Having examining the preconditions for the development of innovation component of local business in rural areas, based on the identification of the key problems hindering the realization of innovation projects, the main goal of the research was formalized. It is the development of a set of priority measures within the state economic policy and the organizational and economic instruments at the level of economic agents regarding the stimulation of the innovation component of local business in rural areas.

The concrete scientific methods were chosen to achieve the goal of the research, including system analysis, synthesis and scientific abstraction (to identify the main problems preventing the implementation of the innovation projects in the economic entities’ activity that operate in rural areas), monographic method (to understand the specific nature of the processes at the level of economic entities, concerned with the implementation of the innovation projects), SWOT-analysis (to determine the strengths and weaknesses of the internal environment of the economic entities in rural areas as well as opportunities and threats of the external environment of these
subjects in regard to the prospects of innovation implementation in business activities, planning and organizational methods (to develop measures for fostering innovation component of local business development in rural areas). Complex use of abovementioned methods provided the completeness, logical sequence and applied value of the performed research. The practical significance of the formed methodology lies in its effectiveness in relation to providing formulation of specific adequate research findings, which involves the prospects for the implementation of integrated actions towards promotion of innovation development of local business in rural areas and the applicability of these methods in the implementation of related studies on the rationalization of state economic policy and improvement of organizational economic management tools at the level of economic entities.

The achievement of the main goal of the research and its practical meaning becomes actual in the context of the lack of state economic policy consistency concerning the regional development; immature institutional environment and the inability of its entities network to provide the process of innovation projects development support in accordance to the needs and demands of time; presence of dissonance controversy and confrontation between hierarchical level of the institutional exchange in the context of innovative development. Given that above, the expedience of developing appropriate organizational and economic measures to overcome these destabilizing factors increases in the context of the promotion of innovation component of the local business development in rural areas.

2. Results of the research

The role of innovation in the ensuring the socio-economic development is enhanced under the conditions of scientific and technological progress and the extension of the human factor influence. Innovation is a tool that can provide support to the expanded reproduction and social and economic development, both under the fierce competition and a deep recession conditions. The provision of the mechanisms and incentives for innovation component of local business in rural areas of Ukraine becomes actual in the context of the necessity to ensure a multifunctional rural areas development, diversification of the rural economy and creation of provisions to overcome depressive nature of rural area development.

The representatives of the business environment in the rural areas are usually the small and medium enterprises, so the implementation of the innovation processes are possible, on the one hand, based on a radical restructuring, and on the other hand are limited to a relatively small range and parameters of their production and economic activities.

Innovations can be characterized, on the one hand, as an activities, which results in a new product, and on the other hand, as the development and improvement of the existing results of the embodied labour of the person. The activation of the innovation component of the business development involves the formation of favourable conditions for the redesign of the production and economic activities of the entity
or one of its subdivisions on the basis of introduction of non-standard approaches to the organization of these activities, which results in obtaining brand new product or service at the segment market. The theoretical understanding of the role of innovation activity lies in the formation of a brand new type of thinking, knowledge and experience that is able to produce non-standard ideas even under the conditions of increased volatility of the economic environment. The practical role of innovative development is based on the formation of reserves for increasing the business competitiveness level, enhancing their level of economic security, conquest of new markets for products and improving economic performance indicators. Structural and functional characteristics of innovations, on the one hand, require sustained research and economic development, and on the other hand – are a source of activation of scientific and technological progress.

An innovative component of the entrepreneurship in rural areas should be aimed at activation of non-agricultural activities. The economic activities, alternative agriculture, do not actually develop in rural areas for many years. This is determined by the relative low density of village population, lack of effective programs of state support for business initiatives, lack of appropriate opportunities for professional training and retraining of rural personnel, lack of informational support of non-agricultural economic activities. Purely agricultural specialization of rural areas not only leads to an underestimation of the income level of the rural population, causing deterioration of their life and even poverty, but also prevents full realization of personal potential of rural residents. The socio-economic role of the innovation component of local business in the rural development lies in the possibility to create a synergetic effect in relation to mobilize resources towards providing multifunctional rural areas development, increasing employment among the rural population, financial revenues to local budgets, improving human capital, infrastructure development and so on.

The development of the innovation projects may take the following basic forms: 1) creation of a brand new product, goods, service at the market; 2) introduction of a new product or goods at the level of specific economic entity; 3) implementation of new technologies in production; 4) the material and technical re-equipment of production, based on innovations; 5) creation of an integrated vertical and horizontal structures, clusters, aimed at consolidation of productive resources towards innovative development; 6) implementation of new approaches to the market promotion of products using innovative sales methods; 7) development and application of innovative approaches to the business management in the context of structuring the influence of internal and external environment factors. Both objective (resource capacity of the company, its life cycle, market position, etc.) and subjective (corporate culture, the presence of internal contradictions and confrontations in the team, an understanding of the economic entity management of to the necessity to ensure the innovative development of enterprise) factors influence the choice of the particular form of innovative projects realization by the economic entity.
Today, the innovative nature of the local business development in rural areas of Ukraine is complicated by the following problems: 1) resource limitation of the local budgets and the budgets of entities of rural economy, so it hinders the restructuring of the activities of the latter, their technical and technological re-equipment and expanded reproduction; 2) relative isolation of the representatives of the rural economy that is described by a low level of integration ties with the agent of the institutional environment resulting from both objective (remoteness from the towns, abandoned road and telecommunication infrastructure, etc.) and subjective factors (lack of internal incentives, the threat of autonomy loss, lack of understanding among the business managers on the necessity to build such ties, etc.); 3) the problem of the build-up and development of human capital in rural areas, intensifying under the conditions of urbanization, migration and lower educational level of rural residents if compared with urban ones; 4) mismatch between the level of institutional environment and the business growth rates that could have met up-to-date requirements and the needs of the businesses, high-quality business services and support. The businessmen can get improved access to the resources and markets only at the regional and district centres and other major towns of the region. There are no business incubators, business support centres, the territories with the preferential assistance to promote entrepreneurship; 5) there are actually no modern innovation infrastructure facilities in rural areas, first of all, technology parks, innovation and technology centers, business incubators, innovation and technology and engineering companies, modern facilities of information system, including analytical and statistical centers, data bases and networks, training and retraining services, venture companies and funds and the organizations, able to deliver quality expert advice to the producers and investors, effective systems of patenting, licensing and consulting, lack of experts in protection, evaluation and use of intellectual property, the commercialization of the scientific results; 6) underdevelopment of the network of information services’ providers in rural areas that cannot ensure the appropriate level of advisory support, improve the socio-psychological, organizational and professional environment for the business activities, provide the information support of the innovation processes; 7) underdevelopment of the horizontal vertical cooperative systems, which prevents the formation of a joint material and technological facilities of economic entities, that may enhance the innovation processes, consolidation and mobilization of the resources and improve the investment prospects of the economic entities in rural areas; 8) depressed nature of Ukrainian rural areas development, which reduces the priority level of the innovative developments activation and focuses on providing assistance to the simple reproduction for both regional economies and economic entities; 9) imperfect and inconsistent state economic policy in the area of supporting the innovation component of local business development in rural areas, resulting from the deficiencies in programming the stimulation of the economic development and formation of its implementation mechanisms; 10) low level of investment prospects of rural areas, which hinders the technical and technological re-equipment of the economic entities, prevents the development of infrastructure in rural areas, creates sec-
toral imbalances and disparities between the levels of businesses development in rural and urban areas.

A SWOT-analysis was conducted in order to identify the strengths and weaknesses of the internal environment of local business in rural areas as well as the opportunities and threats of the external environment of these subjects in regard to the prospects of innovation implementation, the results of which are shown in the table.

Table. The results of SWOT-analysis of innovation implementation in production and economic activities of economic entities in rural areas

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<th>Internal environment of local business</th>
<th>Strengths</th>
<th>Weaknesses</th>
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<td>Free reserves for the development and high natural resources potential; comparatively low-paid manpower; possibility date-to-date resource management and restructuring of the production and economic activities of economy entity; non-competitive conditions in the market of innovation products in rural area; advantages in marketing the innovative products; presence of internal incentives to implement innovation projects; vacant segments in innovation sector available.</td>
<td>Substandard institutional, social, road, consumer, telecommunications infrastructure; remoteness of existing facilities of institutional environment; financial and resource limitations of economic entities; underdevelopment of intellectual component of human capital; low sectoral and inter-sectoral integrative horizontal-vertical relationships; rigidity of existing production and economic relations that resist the changes; complexity to take out a loans.</td>
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<table>
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<th>External environment of local business</th>
<th>Opportunities</th>
<th>Threats</th>
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<td>The ability to come into the vacant market segments of innovative products; diversification of the national economy; improvement of the rural population welfare; development of inter-industry relations; activation of business incubators, venture and innovation funds, technology parks; infrastructure development in rural areas; stimulation of socio-economic development of rural areas; intensification of international scientific and business cooperation; attraction of foreign investment; implementation of international experience and so on.</td>
<td>Loss of existing established relationships; risks of realization of non-profit investment and innovation projects; information leak, containing commercial secrets; risks, related to the volatility of consumer preferences; financial and economic threats; risks of inefficient technologies implementation; threat of non-execution of signed contracts and agreements with contractors; partial loss of market share as a result of the company’s redesign; risks, related to the inefficient outsourcing usage; possibility of unpredictable expenditures; necessity of entity’s adaptation to the innovative changes.</td>
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The results of the SWOT-analysis provided the structuring of the positive and negative aspects of innovation activities development, as well as the formation of conditions for stimulating innovation component of local business in rural areas of Ukraine on the basis of a comprehensive implementation of specific measures on their support at the macro and micro levels, which are formalized both in the state economic policy and in the context of organizational and economic instruments at the entity level.

An important aspect is to ensure the concurrence of actions on enhancing the innovative nature of local business development in rural areas in order to maximize
their effectiveness and minimize the possibility of conflicts between the actors of institutional exchange. The following high priority measures should be implemented within the frames of the state policy in regard to stimulation of the innovation component of local business development in rural areas of Ukraine:

- institutional measures, aimed at forming the network of institutional environment actors by bringing it line with the requirements and needs of economic entities, improving the institutional and legal groundwork for empowering the companies to implement innovative programs, enhancing the functional capacity of the central authorities and local government in regard to the formation of a favorable business environment to intensification of the innovation processes;

- improvement of infrastructure provision of innovation activities in rural areas to overcome the existing disparities between rural areas and cities through the development of socio-economic, road, servicing, telecommunications infrastructure, creation of business incubators, venture funds, technology parks, etc.;

- investment measures, aimed at increasing of the investment prospects of the rural economy, mechanisms formation for protection of the potential investors rights and interests, development of regulatory legal acts on the cooperation and responsibility of the investor and local state administrations, local governments and rural communities, minimization of possible control procedures;

- focused on the formation of positive social and psychological incentives of the economic entities representatives to innovation implementation, realization of the innovation projects, intensifying of the innovation initiatives, creating a favorable environment for the restructuring and redesign of economic entities, minimizing the potential conflicts and contradictions that may arise in the process of innovation implementation;

- scientific and informational measures, involving the creation of the scientific consultancy mechanisms providing activation of the innovation component of local business development in rural areas based on establishing the closer cooperation of economic entities with academic institutions, integration of theoretical and practical training for entities in the rural economy, promoting the activation of innovative development of the entrepreneurship through mass media, conferences, seminars, symposia, round tables, creating a network of information and advisory support for the innovation projects.

The proposed measures will deliver the maximum efficiency within the state economic policy if the implementation of organizational and economic steps at the level of economic entities receives inverse support. The key steps are rationalization of investment and financial policy based on structuring the priority interests of enterprises, a clear identification of sources and mechanisms of financing the innovation projects, refinancing of the profits, external fund raising; improvement of strategic and tactical business planning of the production and economic activities based on the use of the internal and external operational results, structuring of the risks and threats of the company’s economic environment; rationalization of market policy, which involves a constant search for trending targets for the enterprise, definition of market
conditions, continuous research of the tendencies change of customers needs and preferences, formation of the real-time correction mechanisms for the entities cooperation with the contractors; optimization of the personnel policy, based on the use of the transparent mechanisms for recruitment, career progress, the use of instruments of material and non-financial incentives, conflict management and creating a favorable moral and psychological climate in the team; the creation of the mechanisms of natural resources sustainable use in rural areas, based on the support of sustainable development, introduction of the resource-saving and environmentally-friendly technologies to keep the pollutant emission within the maximum permissible limits, conservation of the natural landscapes in their original form, etc.

3. Conclusions

1. Depressive nature of the development of Ukraine’s rural areas calls for the creation of the adequate mechanisms to solve their problems. The priority area of activity is the promotion of the innovation component of local business development in rural areas through the implementation of specific measures. Theoretical and applied meaning of the innovations lies in their ability to activate the processes of economic and technological development, which quantitative and qualitative parameters are the source for creating the reserve of the solutions of both economic and social problems. Innovations are able to produce a new type of thinking, form non-standard approaches to overcoming the obstacles, project development strategic options for the development on the basis of leadership, determination of clear priority ranking of main objectives and strengthening of the competitiveness of economic entities and rural areas. The choice of the particular form of the introduction of innovation project depends on a combination of both objective and subjective factors, and the consideration and structuring of these factors ensures risk minimization and improving the efficiency of a particular project.

2. The main obstacles for the innovative development of the local business in rural areas are the resource limitations; the imperfection of the institutional environment that lies in the prevalence of informal institutions over the formal ones in decision-making; deterioration of human capital in rural areas; immature of the communication relations between the actors of institutional exchange; depressive nature of Ukrainian rural areas development. The results of conducted SWOT-analysis provides an opportunity for a clear structuring of modern prerequisites for innovation introduction in business activities in rural areas of Ukraine, taking into account the factors of internal and external economic environment of economic entities in the context of its strengths and weaknesses as well as the opportunities and threats.

3. The diagnostics of the economic environment of the local business development in the rural areas provided an opportunity to draw up the set of measures within the frames of the state economic policy of the institutional (aimed at the overcoming of the disparities of institutional exchange), infrastructural (aimed at boosting the development of socio-economic, road, servicing, telecommunications infrastruc-
ture), Investment (aimed at the creation of the mechanisms of attracting private domestic and foreign investors to the rural economy), social and psychological (aimed at creation of psychological incentives for the intensification of the innovation initiatives among the representatives of the economic entities and rural population) and scientific and informational (aimed at the informational support of business activities based on innovations) nature of the promotion of the innovation processes development. The effectiveness of these measures should be provided by the appropriate organizational and economic support at the micro level by simplification of the investment and financial, market and personnel policies, improving of the business planning and technological re-equipment of the economic entities.

4. The promoting of the innovation component of the local business development will support the processes of solving not only the economic problems (increasing of the economic efficiency of the enterprises, their technical and technological re-equipment, risk diversification, marketing development, competitive recovery of the enterprises and rural areas, improvement of the investment prospects of the latter, increase in domestic consumer demand etc.) but also social (prosperity increase in rural areas, job creation, development of social and economic infrastructure, activation of local initiatives, improvement of the human capital in rural areas, reduce of the migration rate, etc.) ones.

Proposed measures towards the stimulation of the innovation component of the local business development can be used by the local state administrations and the local government in the process of the elaboration of the mechanisms for investment policy implementation, activation of the local business development in rural areas and also directly by the economic entities during the simplification of internal and external production and business processes, based on their innovative development.

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Įteikta 2014 05 10; priimta 2014 05 28

Santrauka


Reikšminiai žodžiai: inovacijos, inovacijų procesas, institucinė aplinka, kaimo vietovės, valstybės ekonominė politika, verslumas.

JEL kodas – R11.