

**INVESTMENT-INNOVATIVE ACTIVITIES AS THE FOUNDATION OF  
MODERNIZATION PROCESSES IN THE ECONOMIC SPACE**

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***Annotation:** the article presents methodological approaches towards organization and evaluation of the investment-innovative activities in the context of economic modernization. Essence, factors and trends of the investment-innovative processes are examined against the backdrop of existing economic conditions, and the important role of such activities in ensuring general economic growth is specifically highlighted. Method for evaluation of the investment-innovative prospects is proposed with the view to improve effective management decision-making, strategic planning and coordination of efforts with the aim of ensuring stable and sustainable economic progress.*

***Key words:** investments, innovations, investment-innovative activities, region, strategy, methodology, evaluation, indicators, regulation, management.*

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Successful development of the economic space, and regional economic systems that comprise it, largely depends on the complex interaction of internal and external factors among which very important role is played by the investment-innovative potential, ability to efficiently implement both investment and innovative processes along with realization of their strategic vector of development. Investment-innovative activities serve as the basis for the formation of competitive environment and competitive advantages of the regional economic systems at various hierarchical levels, and their efficient realization shall contribute to the necessary capabilities of the country and its regions to establish such conditions for economic space that would promote increased production efficiency as well as higher wellbeing of the people. The economic space, in the form of regulated by humans holistic economic system whose activities are based on nature-social relationship in the context of increased national security, presents a large-scale integrated structure which reflects specifics and character of the social-economic development of the country. One of its key spatial systems and powerful elements (together with economic, social, transport and infrastructure) is the investment space which is directly affected by investment activities. As an integral part of the entire economic space it represents the system of existing economic ties which get further developed and improved in the process of their interaction, and also ensures efficiency of investment structures through coordination of all investment-financial flows and respective management institutions.

At the current stage Ukraine is facing quite a hard task of modernizing its economy in order to remain an effective player in the global economic development processes and at the same time pursue the implementation of administrative territorial reform which is generally viewed as the decentralization process with devolvement of significant portion of regulatory functions on local governance bodies. Such dual task furthermore combined with significant economic-territorial differentiation of the country's regions based on their level of social-economic development requires comprehensive analysis and evaluation of pre-conditions for the formation and implementation of the modernizational and investment-innovative activities through targeted diagnostics as well as determining of investment and innovative potentials necessary to substantiate priorities and strategies of the investment-innovative development at various levels - national, sectoral, regional, local. Obviously, all this should be performed in combination with the efficient national regional policy.

In the process of organizing modernizational and investment-innovative activities the key role at the moment is played by the globalization processes whose economic manifestation is observed in modernizing national goods and services markets, changes in the scale of international capital movement directions, its territorial concentration as well as new forms of its integration. Scientific-technical aspect of globalization is realized through formation of technological knowledge and

technological system clusters, development of transportation, communications as well as in the new progressive organization of investment-innovative activities that require completely new mindset along with the continuous quest for new theoretical and legal premise for the formation, organization and regulation of such investment-innovative processes.

Thus, the important condition for the structural re-construction and economic growth shall be the enhancement and promotion of investment-innovative activities along with expansion of the realm of their application and utilization. The efforts to effectively resolve social-economic problems of the country's development dictate comprehensive changes in the role of regions by providing new substance to their investment-innovative activities which creates capabilities to renew their technical-economic base as well as produce competitive products. This inevitably leads to the strengthening of the region's position on domestic and external markets, and ultimately strengthens the economy of the country. Investments and innovations contribute directly to the formation of the holistic economic space, arising of the new society based on network relationships as well as the information fill-up and computerization of the social life, introduction of the new investment-innovative systems into all spheres of human activities.

Generally, investments are viewed as the capital expenditures with the ultimate purpose of such capital enhancement at a later stage. Thus, investments can represent monetary funds, targeted banking investments, shares, equities and other securities, technologies, equipment, credits and loans as well as any other assets, and intellectual property which are channeled into entrepreneurial or other types of activities with the aim of receiving profit and obtaining positive social effect. It is also important to understand the difference between "general investments" and "capital investments": the first meaning acquisition of the means of production, and the other one being the purchase of financial assets. Taking into consideration such general interpretations of this notion, it can be concluded that the investments represent a very logical economic process which is realized through spending of investment funds on items and means of labour as well as the labour itself which are used for the production of material benefits. Large number of the types of investments calls for identifying their major groups and categories based on similar characteristics, like: the essence of an investment object (direct, portfolio, intellectual), purpose of investing (seed capital, extensive and efficient investments, re-investments), sources of financing (state, sectoral, municipal, private), substance of the invested capital (material, financial), timeframe of investment (long, mid and short-term) as well as based on investment entity, character of various investments' interaction, strategic purpose of investment (passive, active).

The development of investments and innovations as a result of effective investment-innovative and modernizational activities contributes significantly into implementation of progressive structural transformations in the economy which ultimately ensure stable and efficient social-economic development and growth of quantitative and qualitative indicators of the economic performance. In this context innovations represent a social-technological process which utilizes ideas and inventions and leads to creation of technologies and products possessing much better qualities and properties as compared to the existing products. Therefore, they perform reproductional function and become very closely associated and connected with the investments by enabling positive dynamics of the investment resources, and ultimately serve as the source for the formation of strategic development financial resources.

It can therefore be summarized that innovations represent a comprehensive process of creation, dissemination and utilization of the new practical experience as relates to the renewal of fixed capital or new production experience on the basis of realizing scientific-technical progress. Innovation as the process of development, introduction and exploitation of the production organizational-economic potential must result in the new product development which represents logical, positive and progressive change in material and non-material elements. One more natural connection between innovations and investments can be observed in the fact that innovations are the driving force behind the social progress, stimulating increased profits through introduction of new products, changes in technological, organizational and production processes, development of marketing and management techniques.

In Ukraine, despite its vast legal regulatory realm in the sphere of investment-innovative activities, the very scope of such activities falls far behind the existing potential in the country. Obviously, unstable economic situation and overburdened legal regulations are not conducive to the promotion of investment-innovative processes, establishment of favourable competitive environment, effective usage of regions' competitive advantages and ultimately enhancement of the competitiveness of the country's economy based on modernizational advance. This calls for respective scientific research, namely development of methodological base to clearly determine and analyze the substance and trends of negative processes directly affecting social-economic development, including character and dynamics of the investment-innovative transformations.

Clearly, the effectiveness of the investment-innovative activities depend on the received investments which reflect the very level of economic development as well as performance of available resources and extent of the scientific-technical activities. At the level of national economy the sources of investments include reimbursement funds (depreciation expenses) and accumulation funds as a portion of national revenue. With production enterprises, the sources of investments are primarily comprised of the own financial resources of investors, credits and loans, funds received directly from the people as well as national budgetary allocations. Such funds received through the investment process - actions to engage investor for the sake of receiving profit - are then channeled into the investment activities that represent a combination of practical steps and measures aimed at implementation of investments. Provision of such necessary resources should enable structural reconstruction in the economy which includes mobilization of all investment-innovative resources and their effective usage, creation of conditions for enhancement of investment resources, ensuring necessary conditions for the formation of favourable investment climate. Thus, the key task of the investment activities is to increase the volume of investments with the help of using all available sources of financing for the development of innovations with proper consideration of their priorities.

As of today the efficient investment-innovative activities remain one of the key issues for the country, firstly because innovations directly feed economic modernization, and on the other hand due to the fact that given the deficit of national budgetary resources investments become an increasingly important source of their fill-up. Unfortunately, the mechanism of investment-innovative activities yet remains far from optimal and lacks well-balanced methodological base, thus further elaboration is needed for the issues related to methodology of investments' formation, innovative financial mechanism for investment processes and reproduction of capital as well as mechanism for the formation of resources and sources of investments. Another serious issue is the establishment and development of efficient investment space within the coordinates of the existing economic space of the country along with formation and proper positioning of the investment and innovation market.

It has to be observed that the financial-economic difficulties which Ukraine is experiencing at the moment have slowed down the investment process practically at all levels which resulted in the reduced size of capital investments and deformation of sources of their generation, significant volatility of investment and innovative activities. Improving the efficiency of the investment-innovative activities should be based on proper consideration of the system of key principles which lie in the root of the methodological base for development of investment sphere. Those include: comprehensiveness, systemic approach, adaptability, continuity, scientific support, balanced approach, proportionality, optimal effectiveness, socially-targeted approach.

Rapid changes in internal and external factors of the investment-innovative activities require new approaches and directions for this process along with the quality changes in the role of local governance bodies as relates to development of investment environment and formulation of improved official policy on investments with proper balance ensured between the increasing role of the local governance in the process of de-centralization reform and efficient usage of the state investments as means of further attracting private and foreign investors into the development of priority sectors of the country's economy. Special role here should be given to the investment-innovative projects which should cover an entire spectrum of interconnected efforts aimed at achieving set goals under the circumstances of limited financial and other resources, and in essence present mixed investments with a portion of the state investments serving as a guarantee for the targeted approach in directing investment resources. Successful realization of the policy on regulating investment-innovative

activities should thus be based on the following principles: optimal combination of administrative-legal and economic instruments, ensuring justice and stability, coordinated approach, gradual development, effective state influence, economic efficiency, adequate regulation and stage-by-stage progress. In the effect, the enhanced competitiveness of the regions and the country as a whole should be achieved by following the set of strategic directions as described in Figure 1.

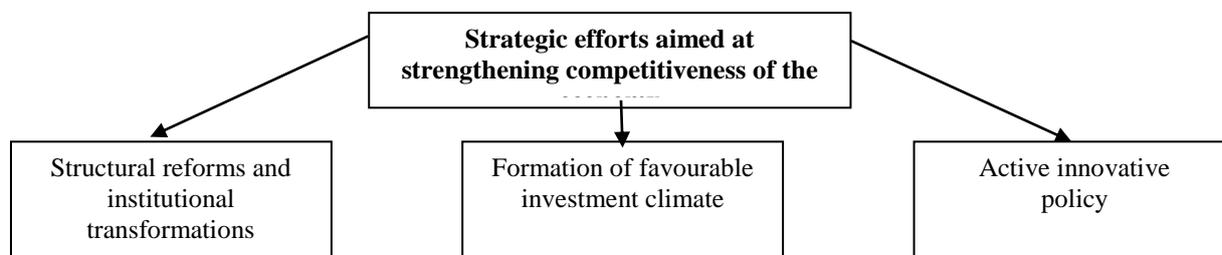


Figure 1. Strategic efforts to strengthen competitiveness of the Ukrainian regions.

The investment-innovative activities at all levels in the process of continuous and profound modernization of the economy face many hurdles, one of the most keen ones being ineffective management. In essence, the investment activities constitute an integral element of economic management over production activities and thus require identifying of adequate and efficient organizational-economic instruments, methods and management forms for all the stages of the investment-innovative process. Efficient management of investment and innovation activities is generally ensured by the following basic principles: management dynamism, varied approach, structural approach, integrity, adjustability, conformity with strategic goals, inter-dependence, integration into the general management system, comprehensiveness and systemic approach toward management decision-making. For instance, under the innovative system such factors as conformity and inter-dependence in the process of modernizing economic system manifest themselves in development, transfers and implementation of innovations, technical-technological modernization of production, improvement of organizational-economic mechanism of production and natural resources' system of a territory, restructuring of economic activities and institutional transformations in the system of relationship "economic activities - environment".

Coordination of actions between various entities of innovative activities with the high level of interaction and regulation of their efforts as well as clear division of functions requires streamlining of many goals, tasks and directions of development, and also determines the type of relationship which directly affects the character of their interaction. Innovative development of Ukraine is characterized by presence of individual elements with quite high potential, however lacks proper conditions for their systemic interaction which leads to the reduced profile of the country's innovative economy in general. Therefore, such factors as integrity, flexibility and proper shape-forming of innovative systems should ensure efficient modernization of technical base of the society given adequate financing mechanisms.

Resolving the issues related to improvement of the investment-innovative relationship is directly connected to the state strategic development of the economy under the proclaimed course for European integration. The state policy on foreign investments, involvement in international agreements, strengthening of state institutions, extent of state's interference into the economy, and maturity of the investment climate all play decisive role in the economic development of the country.

Investment climate here can be characterized as a special sub-system in the institutional system of economy which creates pre-conditions for the most optimal utilization of social-economic relations for the promotion of scientific-technical renovation of the productive forces through efficient investment activities. In order to make an assessment of the existing investment climate a number of basic parameters and factors should be taken into consideration, namely: general economic situation; operation of currency, financial and credit systems; customs regime; availability and access to labour, etc. All such parameters should be properly adjusted and coordinated to ensure economic growth as well as help formulate key ideas influencing the formation of favourable investment climate, i.e.

macroeconomic factors and acquired potentials which must include: natural resources, financial-credit system, production system, investment, labour, scientific-technical potential along with the existing market environment and social sphere. To ensure their optimal operation some special conditions should be created in relation to the general state of the economy, operating market, legal-regulatory base, informational support, motivational efforts, progress stimulation, and protection of environment.

Investment climate and favourable investment environment enable effective investment-innovative activities in the context of economic growth. So, increase in the efficiency of the investment-innovative environment and scope of investments, as resources used to compensate and replenish operating fixed capital, depends on a number of factors whose priority is determined based on set goals. Scope of investments becomes a function of a whole range of economic indicators which, as factors, continue to directly influence its growth, namely: size and structure of cumulative demand (used as indicator for producers and investors); state and regulatory mechanism of the financial-credit system (transformation of savings into investments); interest rate (indicating the extent of accessibility of positive resources); scale of innovative activities; ultimate effectiveness of capital performance (measurement of effectiveness of every unit of invested capital upon growing volume of investments).

Another important component of the methodology for researching investment-innovative activities is the need to determine methodological approaches or methodology for evaluating its efficiency. Among the methods to evaluate efficiency of such activities the following deserve special attention:

- universal method, which takes into consideration the maximum number of economic characteristics as relates to the investment climate;
- comparative analysis, on the basis of assessment of results of the implemented reforms with comparison to other territories;
- factor evaluation of innovative and investment potential, based on quantitative correlation of major indicators of investment climate and investment capabilities of a specific region.

Moreover, macroeconomic indicators which relate to the dynamics and structure of gross domestic product, state of solvent balance of the country, financial market and external debt are also quite often used to evaluate the investment climate.

Formation of favourable investment climate is closely connected with the investment appeal and competitive advantages which are used to determine directions of investments, develop investment-innovative projects with the general focus on new product introduction based on the existing investment potential. Investment appeal can be characterized as the capability to reliably and timely achieve goals of an investor on the basis of economic results of production into which such investments had been made, and it reflects a whole spectrum of various factors whose number and influence would vary depending on the type of investors and production-technical specifications. Such factors generally include the following: existing conditions, processes, mostly objective phenomena, and regional state policy based on geographic location, natural resources, labour potential, level of infrastructure and consumer market development, etc.

Generally, the entire system of factors can be divided into such categories:

- factors which determine the extent of appeal of specific territory;
- factors which directly affect the level of investment and innovative potentials of the region;
- factors determining the extent of investment risk;
- factors which influence the investment-innovative activities.

Last group of factors should be considered as a measure of available investment potential utilization rather than of an investment appeal. Thus, investment potential becomes the combination of available factors of production and spheres of capital application, specific accumulation of resources which under existing external and internal conditions can be channeled to realize effective innovative activities of an economic entity. It can also be understood as a maximum capability of economic systems to generate investment resources with the help of financial infrastructure components and transform them into innovation process.

Evaluation of quantitative character factors can be performed by calculating the integral coefficient of investment appeal. The practical value of classification of factors enables their

differentiation into objective and subjective ones, although such differentiation would most certainly lack constancy due to positive dynamics of such factors continuously flowing from one group to another. Nevertheless, such division of factors makes it possible to identify problematic aspects of the prospective program of actions to attract additional volumes of investments, outline priorities in the regional realm and formulate respective investment-innovative strategy. The main elements of evaluation of the regional investment appeal could thus include the level of general economic development in the region, level of investment infrastructure development, demographic situation, maturity of market relations and commercial infrastructure, level of safety of investment activities in the region.

Integral coefficient should embrace indicators from all groups of factors, namely:

1) General economic development of the region:

- percentage of the region in overall GDP and national revenue of the country;
- volume of industrial and agricultural production per capita;
- average population income;
- average yearly capital investments into the region;

2) Demographic situation:

- percentage of the regional population in overall number of country's population;
- correlation between urban and rural populations;
- employment level;
- level of professional qualification of economically active people;

3) Development of market relations and commercial infrastructure:

- percentage of privately owned enterprises in contrast to the state-owned ones;
- volume of such enterprises' production in the general production output (both industrial and agricultural);
- number of joint ventures with foreign partners;
- number of active banking institutions, insurance companies in the region;

4) Safety of investment activities:

- level of economic crimes;
- percentage of unfinished construction;
- percentage of enterprises polluting the environment.

Based on such approach the integral indicator of investment appeal can be calculated with the following formula:

$$IC = \sum_{i=1}^n ER_i \times VE_i$$

where:  $IC$  - integral coefficient of regional investment appeal;

$ER_i$  - average specific indicator as per analyzed element of regional evaluation;

$VE_i$  - value of respective element in general evaluation of the region.

As a result, calculation of integral indicator will provide not only better understanding of the regional investment appeal but will also contribute to the development of efficient investment strategy with substantiation of effective management decisions. Such strategies should be formed in the context of new paradigm of regional development and must include the following aspects:

- identification of prospective parameters of the investment-innovative activities with due consideration of requirements of external and internal environment;
- identification of existing and substantiation of renewed structure of investment-innovative systems pursuant to strategic goals and tasks, and further improvement of those;
- increasing the number of science-intensive works in the structure of production;
- improvement of production structure accompanied by more active structural changes and transformations on the basis of investments and innovations;
- adaptation of investment systems to market demands along with detecting their influence on the organization of investment process;

- expedited technical-technological renovation of production on the basis of higher resource-saving techniques;
- ensuring national security.

With the general approach that innovations constitute the foundation of modern economic modernization, the investment-innovative activities and their quantitative and qualitative parameters along with the system of relationship between entities of such activities and potential of their interaction determine specifics of the economic space formation in the country and strengthen the basis of its continuous development. Attracting investments and introduction of innovations in this context have long been and still remain the key issue of regional economic development and modernization. Given the current situation with the development of investment-innovative processes, existing investment-innovative systems in regions and methodological support to ensure their efficient operation it becomes strategically important to provide efficient inter-regional coordination and ensure balanced goals, tasks and substance of the investment and innovation policies of the state. Detailing of investment-innovative trends of regional development should be based on the development of respective programs of investment-innovative projects, formulation and implementation of the strategy of investment-innovative activities with streamlining and improving of management techniques which in the event would contribute to active reproduction processes and continuous economic growth.

Evidently, one of the most important aspects of balanced investment development is the institutional factor which includes a wide range of methods, techniques, rules, behavioural norms, mechanisms of implementation, organizational and interaction forms, directions of social-economic systems' development which should ensure resolution of ecological, economic, social and scientific-technical issues for the sake of stable and sustainable development. Regional institutional system is deemed efficient only if it provides stable economic growth. Existing practice in Ukraine demonstrates that the progress of general economic growth along with the country's further development on the basis of the socially-oriented model directly depend on the scale and dynamics of investments, their structure, quantitative characteristics as well as directions of their implementation. Enhancement of volumes and active promotion of the investment-innovative activities, expansion of the realm of investments' attraction and application should therefore be duly regarded as a very important pre-condition for the structural transformation and modernization of the entire economic space of the country.

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