
ECONOMIC SECURITY OF ENTERPRISE AND THE INNOVATIVE COMPONENT

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Abstract: *This article reveals the importance of the economic security of enterprise and its innovative component. Innovations represent the main tool in improving production efficiency and product quality, reducing costs, increasing competitiveness and thereby ensuring the economic security of the enterprise. The purpose of the article is to present main directions of improving innovative activity of enterprises. The contribution of this paper consists of reviewing the innovation system on the example of the Republic of Moldova and helping the management by presenting measures of increasing technological and innovative component of economic security of enterprise.*

Keywords: *development; economic security; innovations; state support.*

JEL Classification: M10, O10, O30

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Introduction

In conditions of competitive environment and economic instability, entrepreneurs assume almost all business risks. In this regard, the issues of ensuring economic security of enterprises become greatly important. Nowadays, the ensuring of economic security of enterprise is directly determined by the development and introduction of innovations in its activity. Innovation through the activities of research and development is deemed as crucial driver of economic growth. The management must ensure the innovative component of economic security of enterprise. At the same time, state must create conditions for innovative development. The contribution of this paper consists of overviewing the innovation system on the example of Republic of Moldova and helping the management by presenting measures of increasing technological and innovative component of economic security of enterprise.

The purpose of the article is to present main directions of improving innovative activity of enterprises.

Economic security of enterprise and innovations

Sustainability and economic security are the main sources of the company's development opportunities (Raudeliuniene *et al.*, 2014, pp. 71–79). There are several types of security by content, depending on the areas of public life and the direction of human activities: political, economic, information, ecological, military and others. Economic security holds a special place among the various types of security. This is because not all types of security anyway can be sufficiently realized without economic aspect.

E. Oleynikov (1997, p. 38) defines economic security as a state of the most effective use of resources to overcome threats and ensure stable operation of the enterprise now and in the future. Economic security of enterprise includes three important elements: economic independence, sustainability and development (Ianioglo & Polajeva, 2016, p. 5). It is an important factor of ensuring its sustainable development.

The main areas of economic security of enterprise: financial, personnel (human resources), production, technological and innovative components are four distinguished functional components. This structure is offered for an effective analysis of economic security.

1. The financial component of economic security of enterprise implies the condition of the most efficient use of corporate resources, which reflects in the best values of business profitability, its capital structure, financial stability, solvency and liquidity of its working capital, in quality management, etc.

2. Production component involves the efficient management of the production process. Sales volume, profitability indicators and others determine this component.

3. Personnel component. An employee can destroy native organization or vice versa to achieve its prosperity. Even at the beginning of the 20th century, G. Ford (2003, p. 89) said that if he had taken away all his automobile factories, but leave the people he would be able to restore his car empire. However, if, on the contrary, he will have only factories without people, he cannot do anything. Consequently, the personnel of the company is its most important resource, and at the same time is a potential source of major losses and even bankruptcy of an economic entity.

4. The essence of the technological component consist in how the level of technology used in the company meets the requirements of the present, level of their competitiveness. The object of technological component can be equipment, expertise, as well as the knowledge, skills and experience of the staff. Innovative component is closely connected with technological, as well as technological progress is 'the result of the innovation process' (Rosca, 2004, p. 174). In current economic conditions, innovative nature of technological development represents a decisive factor in improving the competitiveness of enterprises, and the economy as a whole.

Innovations are important component of enterprise economic security. They represent the main tool in improving production efficiency and product quality, reducing costs, increasing competitiveness and thereby ensuring the economic security of the enterprise. The innovation process can be defined as a totality of consecutive actions for setting and implementing new technologies or the improvement of already existing ones.

The performance of innovation in enterprise depends on the efficiency level of main departments, including research and development department, marketing, finance and human resources department. Both economic theory and empirical evidence support the idea that innovation plays a vital role in increasing productivity on a sustainable basis. Therefore the management of the enterprise must ensure the innovative component of economic security, but also conditions for innovative development of the country should be created.

Favorable conditions and obstacles for innovative development in the Republic of Moldova

It is necessary to analyze the situation that prevailed in the country. Nowadays, in Republic of Moldova innovation has become trendy word. It is widely used in scientific and economic circles and in the mass media.

For the analysis of innovative activity of SMEs, turn to 'Global Innovation Index' (GII), which evaluates the effectiveness of innovation activities of 143 countries and economies around the world based on 81 indicators. According to the Global Innovation Index (2015), the Republic of Moldova ranked 43 (out of 143 countries included in the analysis), behind former socialist countries Estonia (24), Czech Republic (26), Slovenia (28), Latvia (34) and others.

An analysis of business innovativeness reveals that among the EU Member States, the highest R&D intensities in 2014 were recorded in Finland (3.17 %), Sweden (3.16 %) and Denmark (3.05 %). According to Organization for Economic Cooperation and Development, gross domestic spending on R&D in per cent of GDP in European Union was 1.94 per cent, and in Republic of Moldova only 0.35 per cent (figure 1), that shows insufficient state support. Therefore, major factors, which are, still, constraining innovative activity of Republic of Moldova are shortage of financial resources and insufficient level of the state support.

Innovations are primarily to enhance the competitiveness of enterprises in the real sector of the economy, as well as the entire national economy. Secondly - to increase the success of the companies in the business. It should be noted, that now in Republic of Moldova there are both favorable conditions and obstacles to innovation development of economy.

Favorable conditions for innovative development are: the availability of scientific capacity (human and intellectual capital) and of a relatively developed scientific and technological base, which is represented by research organizations; the geographical proximity to the EU and a large market; widespread access to the Internet, the population of Republic of Moldova actively perceives technological innovations; the presence of foreign banking institutions in the domestic capital market; and others.

Basic problems of science and innovation in the country are insufficient funding; obsolete material and technical base; low rates of technology transfer, a large outflow abroad of achievements

of the Moldovan science, the weak involvement of young professionals in the research process; insufficient integration into the international and European Research Area; ineffective encourage of partnerships with small and medium-sized enterprises and the manufacturing sector.

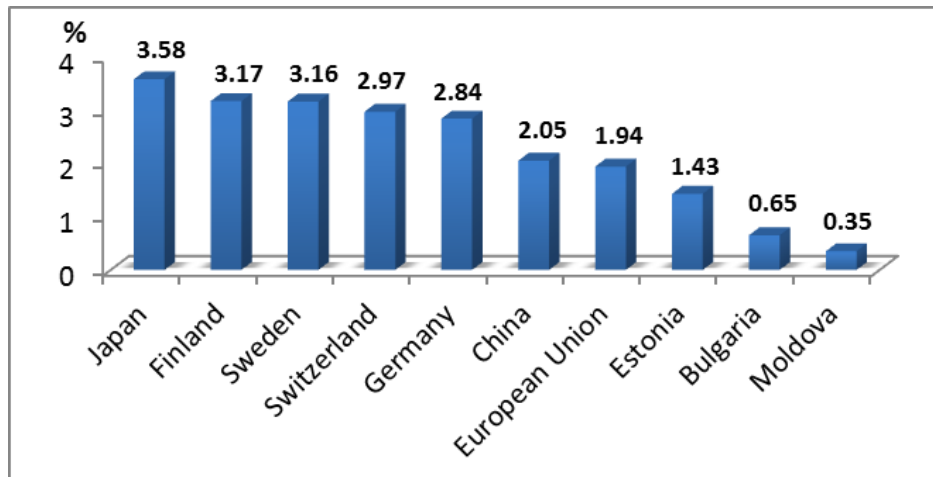


Figure 1. Gross domestic spending on R&D, percentage of GDP, 2014

Source: *Research and development (2014)*

Phases of ensuring economic security of enterprises

Unfortunately not all entrepreneurs are aware of the importance of establishing a reliable system of economic security of enterprise and determination of the main directions of its implementation. The instability and obstacles under which businesses operate requires from them a constant adaptation, adoption and improvement of measures of ensuring the economic security to achieve economic and social goals of the business, its innovative development.

The system of ensuring economic security (SEES) of the enterprise represents a set of organs, tools, methods, and events, aimed at protecting the business from the actual and / or potential external and internal threats that could lead to economic losses.

The purpose of this system is to ensure the efficient operation and sustainable development of the enterprise based on implemented set of measures. Authors identify four phases (Figure 2).

The first phase of ensuring the economic security system at an enterprise is planning. Planning involves not only the ability to take all the necessary actions, but also to anticipate any surprises that may arise, and be able to deal with them. Enterprises cannot eliminate all threats and risks in their activities, but they can prevent and counteract them through the planning system.

The second phase is to monitor the external environment and internal conditions of the company. In the process of monitoring, the principle of continuity of the observation of enterprise state with considering the actual state and tendencies of its potential development, as well as the development of the economy, the political situation, and other factors.

The third phase includes the identification and implementation of measures to respond to threats. The economic security of business entities is provided by the implementation of two approaches: based on preventive measures and an approach that responds to threats. Depending on the existing state of the financial and economic activity of the enterprise, and on the external and internal factors, the ensuring of economic security of the enterprise is carried out by its main functional components: financial, personnel (human resources), production, technological and innovative components. These measures can be both proactive and reactive, depending on the specific situation.

The fourth phase represents the control and improvement of the system of economic security. The economic security is not a static phenomenon and should be provided, maintained and improved on a regular basis. The main results of ensuring economic security of the enterprise should be achieving its economic performance and staff security that will allow enterprise to ensure sustainable development and achieve business goals.

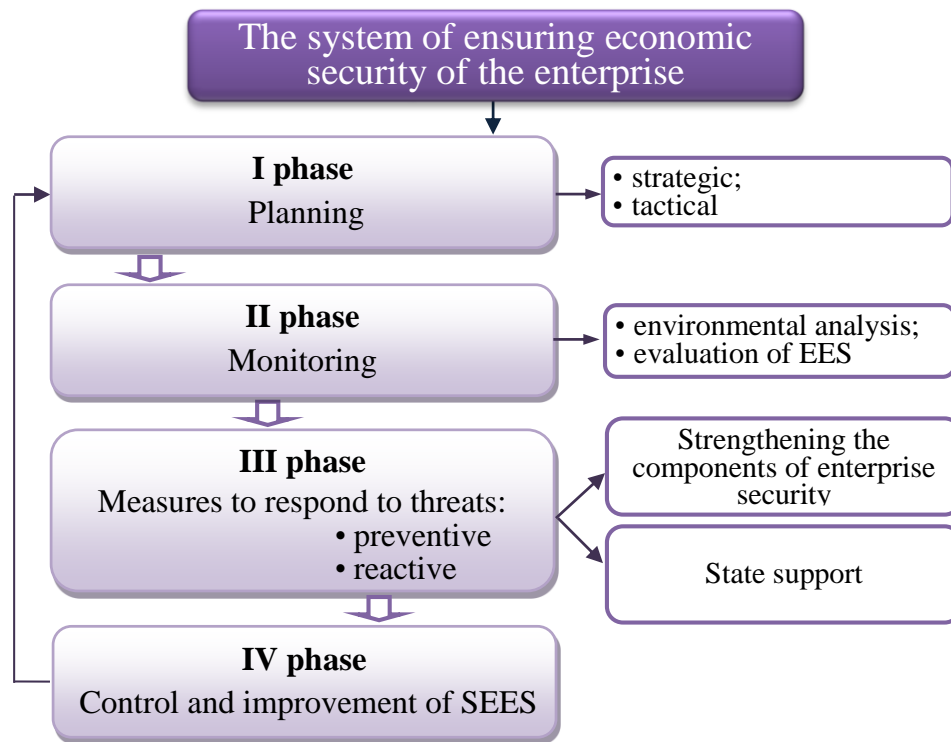


Figure 2. Phases of ensuring the economic security of the enterprise.

Source: compiled by authors

Main directions of improving innovative activity of enterprises

The ensuring of economic security of the enterprise is carried out by its main functional components: financial, personnel (human resources), production, technological and innovative components. One of the major threats to economic security of enterprise is a low level of innovation activity. This is due to the use of obsolete technologies, imperfect methods and forms of production organization and management, ineffective scheme of interaction of scientific institutions with innovative structures and others. All this leads to higher costs and lower competitiveness. Therefore, it is necessary the formation of the economic mechanism to increase innovative activity of enterprises in real sector of economy, which includes following main directions:

- Strategic innovation management represents the prediction of changes in the economic situation and focuses on achieving future results directly through the creation and development of innovations;
- Innovation planning includes a set of tools, information and processes to achieve the goals.
- The system of financing innovative processes include multi-channel sources of financial resources, the principles of investing accumulated funds, a mechanism for monitoring the use of investments, evaluation of the effectiveness of innovative projects;
- The taxation of enterprises that create and use innovations. Here, the state has considerable role, for example providing tax benefits to enterprises that modernize their production, and reduction of customs duties on equipment purchased abroad, in order to renew fixed assets.
- Strategic and tactical innovative marketing, aimed at maintaining the company's competitiveness and entering new markets. Innovative marketing considers market research, management of the production and sale of innovative products.
- Pricing of innovative products and services, which should be in accordance with a specific marketing strategy. Pricing depends on many factors (type of market, business strategy, supply and demand, the level of income of the buyer and others).
- State support and stimulation of innovation activity. State support should be focused on funding innovative programs, research and production farms (Lomovtseva & Trofimova, 2014, pp. 402-403).

Today, in the development of the economy of the leading countries still play an important role nano, bio and IT-technologies. Therefore, Moldova needs also to take one of the innovative niches. There exist conditions for this: necessary capabilities, a unique scientific school, which allows carrying out both basic and applied research.

Even the successful start of operation of young Moldovan innovative companies does not guarantee further development: big businesses do not need them, but they cannot afford to survive on their own. Young innovators facing bureaucratic obstacles in the ministries sell abroad ideas and technology themselves or leave the country. Transition to an innovative model of economic development is possible only when small and medium-sized industrial enterprises of the republic will use their own development. The republic must inherit experience of developed countries (Japan, China, Singapore, Finland and others), which had favorable innovation climate in the country and carried out their innovative leaps by creating the conditions to inventors so that they do not migrate.

Measures in order to increase technological and innovative component of economic security of enterprise involve:

- monitoring of the market development of high technologies and competitors' actions;
- planning of technological development of the enterprise;
- ensuring the competitiveness of technologies used at the enterprise;
- the sale or utilization of technologically and physically obsolete equipment;
- the modernization of the technical equipment of the enterprise;
- introduction of new innovative technologies in the production process;
- the use of competitive advantages to attract investments;
- increase the qualification of managers and specialists involved in the innovation activity;
- promoting the inventive and innovative activities of employees and others.

Conclusions

Innovations are important component of enterprise economic security. The management must ensure the innovative component of economic security of enterprise. In addition, conditions for innovative development at the state level must be created. Main directions of increasing innovative activity of enterprise were determined: strategic innovation management, innovation planning, financing innovative processes, taxation, innovative marketing, pricing of innovative products and services, state support and stimulation of innovation activity.

Depending on the existing condition of the financial and economic activity of the enterprise, and on the external and internal factors, the ensuring of economic security of the enterprise is carried out by its main functional components. Several measures were determined to increase technological and innovative components of economic security of enterprise. They include: the sale or utilization of technologically and physically obsolete equipment; the modernization of the technical equipment of the enterprise; introduction of new innovative technologies in the production process; increasing the qualification of managers and specialists involved in the innovation activity; promoting the inventive and innovative activities of employees; etc.

Innovations represent the main tool in improving production efficiency and product quality, reducing costs, and increasing competitiveness. They are an important factor of success and well-being of economic entities and the whole economy.

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