

PECULIARITIES THE COMMERCIALIZATION OF INNOVATIONS

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The analysis of the current situation in Georgia's social and economic development shows, that intensification of innovative activities during the transitional period and realization of Georgia's potential in this field can play a critical role in improving the efficiency of the national economy and reducing unemployment, which can help to resolve the strategic tasks of government and realize the European Neighbourhood policy Action Plan. One of the main components of this plan is Georgia's integration with the European Research Area (ERA).

The European Research Area created in 2000 by the EU is designed to implement high technologies in the Europe and the neighbour countries, engage new talented people in research and stimulate private investments. This implies creation of the unified area across the Europe to enable: researchers to move and cooperate easily, use world-class infrastructure, improve communication systems of the research institutions, share, transfer and use effective knowledge for the social, entrepreneurial

and political reasons, open and coordinate the European, national and regional research programmes and develop close relationships with the partners all over the world [1].

The processes which have recently taken place in the world, have led to slowing down the innovative activities. This situation was further exacerbated by the world financial crisis. The owners of capital are reluctant to invest in risky projects. Swollen financial operations, totally torn away from the real economy, are supposed to be one of the main reasons of the financial crisis. Presumably, increase in the real sector of the economy and the development of entrepreneurship will return the world to the high growth rates. Innovative activities will revive dull reality in the world and in Georgia too. Many industries are not sufficiently developed in our country and science-intensive industries are almost unexploited. High expenditures on labour-intensive and resource-intensive industries are not bringing returns because of low profit rates. Realization of innovative ideas will enable to exploit new industries, make the existing ones less costly and optimize many sectors of the economy. Successful commercialization of innovative ideas can open opportunities of entering the world markets, create jobs and induce local and international investors to invest in long-term projects [2].

Intellectual capital – technological, technical and managerial novelties based on advances in science and experience, as well as the latest materialized and recognized by the market scientific ideas – represent the most valuable asset in the knowledge economy. This fact is manifested in the leading international stock markets, which reflect both existing financial conditions and future expectations of firms. For example, during the Internet boom only Microsoft Corporation's capitalization exceeded that of the whole mining industry of the USA, which holds huge production capabilities. Thus any commercially viable idea is an asset, which can bring millions of dollars of profits. This is quite normal that in the heart of the USA high technology industry – Silicon Valley much attention is paid to "Million – dollar ideas". Besides, according to the estimations of economists, any unfulfilled prospective innovative idea is a missed profit which equals to loss [3].

Generation of an innovative idea does not mean that it will necessarily have future success. People with sufficient competencies in a given field can generate innovative ideas, although there is long way from an idea to its realization. First of all, the idea should be actual, responding to the needs of the market and the society. Then it should be optimized in order to be viable and profitable. The important things are: certain degree of uniqueness and competitiveness of the innovative goods; whether they outperform the existing goods; attractiveness for lobbyists and sponsors; funding of the investors; what part of funding is attracted from the external sources and where these sources can be found, time needed to get returns and become profitable.[4] Potential partnership opportunities, resource accessibility, means of market promotion and sustainability of the achieved position should be pre-estimated. It is also reasonable to identify the opportunities which can bring success without large efforts and investments. Of course, the future of any idea depends on its goodwill and reputation in the society.

The economists, Chan Kimm and Rene Mauborne devoted ten years to the innovative idea evaluation issues, discussing 200 innovation implementation cases. In 2000 they published work titled "Identification of the Profitable Business Idea" and distinguished four essential economic pre-conditions for commercially viable business idea. These pre-conditions are integrated in Prospective Business Idea Index, which can be applied by the innovative firms and include the following:

1. Benefits to the consumers: whether new goods and services attract attention of consumers.
2. Strategic price calculation: what price strategy does the firm choose to attract consumers to the new goods and services.
3. Business model: How profitably can the firm implement new idea? Do the innovator's capabilities respond to the task resolution needs?
4. Identification of the expected difficulties: Can the firm identify the reasons for inattentiveness of the society, partners and employees towards the novelty?

In innovation idea commercialization process a special importance is given to the selection of the partner correctly. The following should be taken into consideration:

- Partner's innovation priorities.
- Innovation implementation experience.
- Competitive position in local and international markets.
- Degree of interest towards strategic partnership with the innovator.

The accepted wisdom is that innovators entirely depend on "good luck" in their innovative activities, because the chances of complete loss and huge success are almost equal while implementing innovations. Thus investing in innovative ideas is very risky. Therefore the problem of lack of financial resources – the situation, when internal financial sources are no longer sufficient, while traditional external sources (bank credits, bonds, security market) are inaccessible – is especially acute for innovator firms. Despite this, as ERA data show, the share of private funding of innovations is larger and more successful, than that of governmental funding. Despite its riskiness, investing in innovative ideas can bring huge profits. This, as a rule is achieved at the expense of the rapid capitalization growth of the newly created innovation firm. The evidence is that private investments in innovative ideas are very important for the economic development of the country and continuous growth of its welfare. There was a time when such risky projects were telephone, automobile, airplane, personal computer, etc.

Until the mid XX century, private investments in innovative ideas were fragmented. There were no risky investment standards and managers with special competencies. There were no approved mechanisms for identification, selection and evaluation of innovative ideas. As a result, separate investors had to create everything themselves relying their intuition.

The situation was radically changed in 1950–60 years. The development of consumer society and increase in military expenditures in the USA increased demand for high technology products, especially for machines, equipment, computers. This led to the increase in the number of people willing to invest in innovation ideas. The growth of high-risky investments helped investors to combine their capabilities that resulted in standardization of investment forms and infrastructure development. Large institutional investors, banks, insurance companies, pension funds, corporation – engaged in the process. As a result, Venture industry, in its modern sense was formed in the USA, and later in Europe.

Venture business undertook the function of the financial engine of innovative firm development. Such firms as Intel, Microsoft, Genentech, Apple, Hotmail got funding from venture capital. According to the data of the US National Venture

Capital Association and analytical agency Global Insight, in 1970-2005 American companies financed by venture capital created 10 mln jobs and 2,1 trln dollars revenues. They employ 9 % of the US workforce and produce 16.6 % of GDP. In addition, 80 % of venture investments were made in high technology sector [5]. Venture financing became the driving force of the USA economy. It secures bright future by the California receipt "high tech – High life- high risk".

Venture investment is a mechanism, which can eradicate financial deficiency of the innovative firm by means of internal risk minimization sources:

Active participation in management, making useful contacts, sharing advanced experience and methods of doing business protect innovators from mistakes. Venture is a special economic relationship, within which the firm gets not only financial resources, but also experienced managers, consultants and team members.

Venture represents collective investments : venture funds are created in order to distribute risks fo various investors. In the developed countries the capital of venture funds exceeds 30 mln dollars on average. The fund is directed by the professionals and the shareholders, as a rule, are institutional investors with great financial capabilities, such as pension funds, insurance companies, banks and large corporations.

Risk diversification by means of investing simultaneously in several projects play a critical role. Typical ratio is « 3-3-3-1 », when 3 firms from ten funded by the venture, are unsuccessful, 3 firms have little profits, 3 ones have large profits and one has super-profit, which entirely covers the costs of the failed projects.

The interests of both sides (venture fund and the recipient) are protected by the agreement, which has a complex structure and sets the rules of game in case the conflict arises. This point is related to the use of complex financial instruments – various privileged stocks, options, convertible loans. The mechanisms which protect the investors' share from « dilution » and help them to sustain their ownership while issuing new securities, are also used.

During the past decades standards, rules, traditions, terminology, managerial parameters, project evaluation methods, criteria for investment efficiency and project comparison, risk diversification methods were created in venture investment field. In many countries there are legal and consulting agencies, local and international venture investment associations. Among them one of the most recognized and important is European Venture Capital Association (EVCA), in which Georgia still does not have presence. This impedes the development of the innovative sector in the country. ECVA is an association based on membership to protect the interests of the full and associated members. 1300 members of ECVA represent the group with special interests, which invest in firms and industries operating in expanding markets and have talented and qualified personnel. Based on negotiations and consensus the Association tries to establish favourable legal and economic environment for the development of direct investments and venture capital. Through negotiations with the legislative bodies EVCA tries to simplify the activities of its members and, at the same time, it serves to the interests of the society and the state itself. EVCA attracts long-term investments in various industries, what helps long-term development of the economy and increases employment. The association makes systematic research in industries and economic zones, provides recommendations and standards for rising the professional level and secures permanent contacts and information dissemination among the members.

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