Key Features of Risks of Company Innovative Activities

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Abstract: The risks of innovative activities represent complex diversified concept. In order to successfully operate in risky environment, company employees need to possess deep comprehensive economic knowledge. The relevance of this paper is associated with the need to identify and manage the risks of company innovative activities as an effective process of creating a favorable economic and industrial environment for the organization, providing Russian companies to enter the innovative market. Nowadays, the importance of company innovative risk management is continuously increasing, as it has an influence on providing the enterprise leadership position, increasing its competitiveness in the domestic and international markets, as well as contributing to the economic and industrial potentials required to implement the strategy of innovative development of the country as a whole.

Key words: Risks of innovative activities • Innovation efficiency with the risk component • Innovative activities of enterprises • Risk minimization and neutralization methods • Risk management at the enterprise • Enterprise potential • Innovation life cycle in the presence of risks

INTRODUCTION

Nowadays serious attention of the scientific community is given to risk management in innovation. A significant contribution to the scientific development of certain theoretical, organizational and economic aspects of innovation management have brought the works of Russian authors, such as: Warshawsky A.E. Golichenko O.G. Golstein G.Y. Dezhin A.A. Ivanov I.I., Kiselev A.N. Kozyrev A.N. etc. In addition, among foreign researchers we may note Meadows D.L. Drucker P.F. Knight F.H. Schumpeter I.A. Reid G.S. Santo B. R. Coase R. and so on.

At the same time, the analysis of contemporary economic literature shows that at present the native and foreign theory and practice lacks the development of common approach to risk management in company innovation activity. It should be noted that quality developed risk management programs allows company top-managers and risk-managers to reduce economic losses and improve the efficiency of company’s innovation activity.

Innovative activity is risk-bearing to a greater extent than other entrepreneurial business areas as the full guarantee of successful results in innovative business virtually can not be achieved [1]. However, in large organizations this risk is much lesser because it overlaps with usual business processes (lean and most often diversified).

Main Part: The risk level of innovative activity is demonstrated by the fact that on the average, just one or two companies succeed out of every ten venture capital firms. However, high risk, as a rule, is accompanied by high risk mitigation: the possible profit margin when implementing innovative projects is much higher than usual profit rate, produced when carrying out other business activities. This is what allows innovation sector to exist and develop [2]. The more localized innovative project, the higher the risk of innovative activity; if there are many of such projects and they are dispersed in the industry sector, then according to the law of large numbers, the risk is minimized and the probability of
innovative business success grows. At that, the profit from the implementation of the successful innovative projects is so great that covers the costs of all the other failed developments.

In general, the risk of innovative entrepreneurship can be defined as the probability of company losses arising when investing resources into production of new products and services, developing new technical equipment and technologies, that possibly may not find the expected demand in the market, as well as investing in the development of managerial innovations that will not bring the desired result.

As noted above, the more localized the innovative project, the greater the risk of innovative activity. If there are many projects and they are dispersed in the industry sector, then the risk is minimized and the probability of success increases. At that, the profit from the implementation of the successful innovative projects is so great that covers the costs of all the other failed developments.

Innovative risk occurs also in the following situations [3].

- When implementing cheaper product manufacturing technology or service accomplishments compared to already in use. Such investments will bring the organization temporary excess profit as long as the organization is the sole owner of the given technology. In this situation, the organization is faced just one kind of risk - possible misestimation in demand of manufactured product;
- When creating a new product or the service using the old equipment. In this case, the risk of an incorrect assessment of the demand for a new product or service is added by the risk of non-compliance of the product or service quality level as a result of the use of equipment which is not capable to provide the required quality;
- When manufacturing a new product or the service using new equipment and technology. In this situation, an innovative risk includes the risk that new product or service will not be able to find a customer, the risk of non-compliance of the new equipment and technology to the requirements necessary for the production of a new product or service and the risk of impossibility to sale the manufactured equipment, because it does not meet the technical level required for the production of new products.

Thus, in general terms, the risk of innovative activity can be defined as the probability of losses arising from the company investments of the funds into production of new products and services, the development of new equipment and technologies that perhaps will not be able to find the expected demand in the market, as well as development of managerial innovations that possibly will not bring the expected result.

Native and foreign authors are investigating risks in the context of different conceptual approaches and criteria. This causes the emergence of different characteristics of the economic nature of the innovative activity risks. Having analyzed a variety of definitions of risks and innovation activities, we offer our interpretation of the risks in innovative activity.

Risk factors of innovative activity represent the process of innovation transformation into a new or improved product, introduced to the market; new or improved technological process used in practice, or a new approach to social services, accompanied by jeopardy and/or danger of increasing the losses and profit or earnings diminution due to a random change in terms of economic activity.

For the release of a new product or implementation of technological innovation, usually enterprise forms new production unit or division. This problem is solved based on a partial reorganization of the enterprise and through the creation or selection of a new strategic business unit (depending on the industry sector and the scale of production) [4]. To introduce the improving technology, the enterprise can establish just a new product marketing department or build a new team within this department.

However, the key aspect of this phase is aggregate demand and supply management, rather than carrying out individual structural changes in the company. The efficiency of the commercialization of innovation depends largely on the effectiveness of marketing support in distribution process, including the distribution, promotion and sales of a new service or improved product [5].

Analyzing the above, we came up with the definition of innovation efficiency with the risk component.

The efficiency of innovation with the risk component is the result, leading to savings of labor, material and natural resources, conservation of time and money per unit of all the necessary and expected beneficial effects of created products, technical systems, or allowing one to increase the means of production, consumers items and services, which are assessed taking into account the
specific mechanisms of identification of risk factors and methods of their minimization when evaluating the innovative projects efficiency.

Innovative activity originates, develops, leads company to a fortune and than tapers and eventually comes to its end [6]. Just a few of innovations are capable to exist forever, whereas no one can exist without changes. Innovations are generated daily. At the same time every day hundreds of innovations remain unfulfilled. Those able to adapt succeed, the inadaptable innovations vanish. The manager must know at what stage of development currently is the innovative activity of the company and to assess whether adopted leadership style corresponds to this stage. That is why in recent years, increased attention has been paid to the concept of the innovation life cycle as a predictable logical changes of the stages in the course of time [7]. Applying the concept of innovation life cycle, we can see that there are distinct stages in the development of the innovation and that the transitions from one stage to another are predictable, rather than random.

In our research we have developed the definition of company innovation activity. Based on the conducted analysis of the risks in innovative activity, the following definitions were derived: "risk of innovative activity", "innovation efficiency with the risk component" and "innovation life cycle in the presence of risk" that make it possible to reveal the essence of multi-functional transformation process of innovative ideas under the conditions of uncertainty and the risk of unexpected losses, as well as the risk of business profits or income underpayments. Innovative activity is associated with the uncertainty of economic situation arising from the instability of demand and supply of products, money and factors of production, the multiple-option scope of investment and diversity of investing preference criteria, as well as the limited knowledge about business and commerce areas and many other circumstances [9].

The economic behavior of the entrepreneur in the market environment is based on individual business program, selected and implemented within the undertaker’s capabilities and at his own risk. In the beginning, each participant of market relations lacks the parameters known in advance and clearly defined, that may make for success. These are: a secured interest in the market, access to productive resources at fixed prices, the stability of the purchasing power of monetary unit, invariability of the rules and regulations, as well as other instruments of business and economic activities [10].

The scientific novelty of present study concludes in the formulation and theoretical justification of new approaches concerned to the risk management in company innovation activity. Based on the conducted analysis of the risks in innovative activity, the following definitions were derived: "risk of innovative activity", "innovation efficiency with the risk component" and "innovation life cycle in the presence of risk" that make it possible to reveal the essence of multi-functional transformation process of innovative ideas under the conditions of uncertainty and the risk of unexpected losses, as well as the risk of business profits or income underpayments.

CONCLUSIONS

The conducted study on the problem of improving the company risk factors of innovative activity management allows us to formulate a set of generalizations, conclusions and suggestions.

We Have Analyzed the Following Issues:

- Native and international experience in risk management in the contemporary conditions, that allowed one to highlight the problems in concerned issues;
- Sources and approaches of company risk of innovative activity management.
Authors Propose:

- Definition of the following concepts: the risk of innovative activity management, the innovation efficiency with the risk component and the innovation life cycle in the presence of risk. These definitions allow one to better understand the complex process of innovative ideas transformation in the face of uncertainty and the risk of unexpected losses, as well as the risk of business profits or income underpayments.

REFERENCES