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PERCEPTION OF INNOVATIONS BY SMES: CASE OF UKRAINE

Introduction

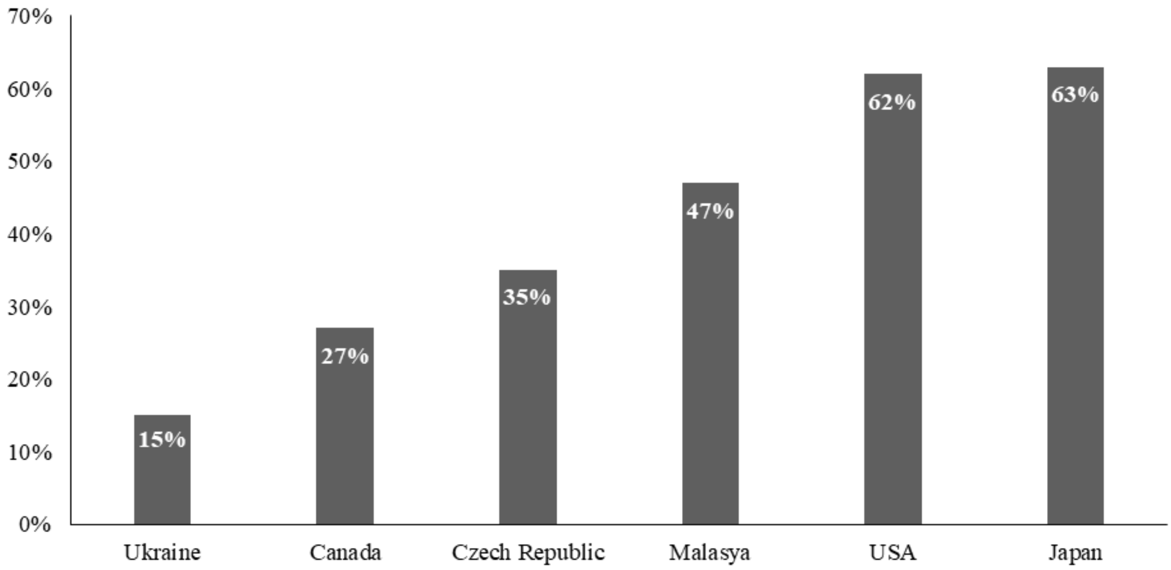
Constant innovations driven by fierce competition is a key factor of economic development in the global economy. Ukraine has had a significant industrial potential in 1990, but for many reasons has not been able to maintain and realize that potential. Since 2014 Ukraine has been focused on defending its territory from Russian aggression which culminated in a full-scale war in 2022. Introduction of innovations is even more critical considering significant damage caused by Russian invasion, as it is critical to build new instead of restoring old and inefficient infrastructure, buildings, production facilities, etc.

Background information on innovations introduced by SMEs SMEs play an important role in Ukraine creating over 79% workplaces. Still, the contribution to the GDP of Ukraine reaches only 16%, while in European countries share of the GDP created by the SMEs reaches 50-80%. In addition, Ukraine, as a transition economy has introduced reforms that liberalized the markets and formed conditions for the development of SMEs.

The healthcare reform fostered the development of entrepreneurship among doctors: over the last 5 years over 17 thousand healthcare professionals have registered individual entrepreneur status. As a results of transition from budget support of state hospitals the government introduced the model of financing per services provided to the patient thus providing doctors with an opportunity to start their own business. The key factors for doctors to start their own private medical service provision was an opportunity to provide services of higher quality, independence, and opportunity to have higher income.

Another difference between Ukrainian and European SMEs is that smaller number of Ukrainian SMEs participate in the global value chain creation, basically export the products. In Ukraine less than 75% of SMEs export their products, while in Germany over 98% of SMEs export their products.

Figure.2. Share of SMEs contribution to the country’s GDP in 2020, %



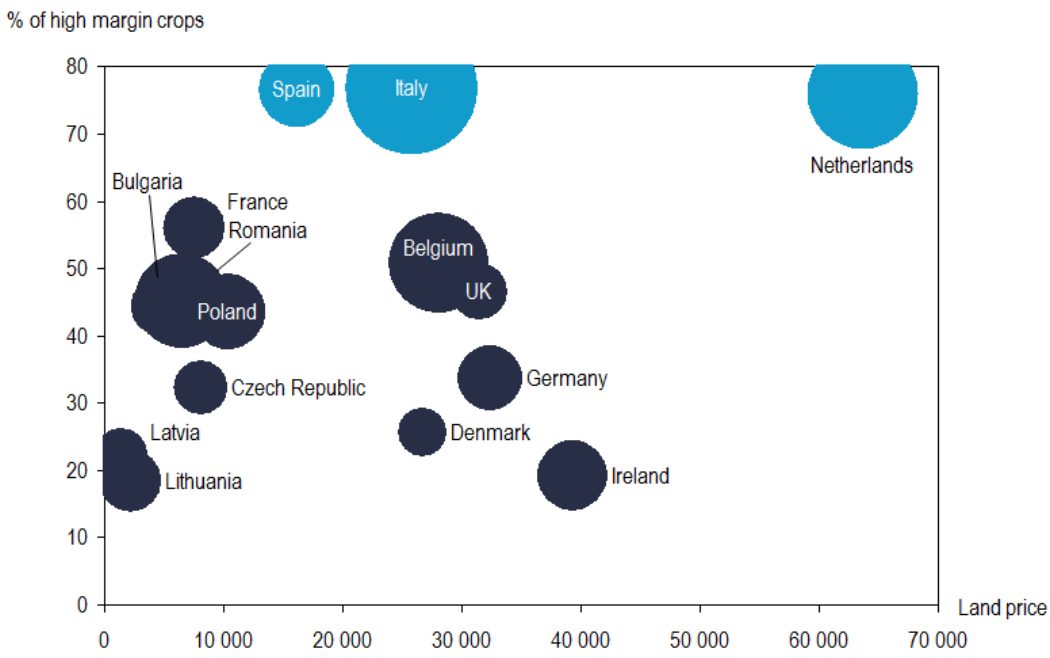
Source: Check point business media [6].

There are several factors that contribute to that difference

1. Perception of technologies and knowledge. Both age and cultural aspect influence, as most farmers are risk-averse, and they are not willing to take risk of implementing mew technologies. At the same time, level of introduction of smart farming technologies among large companies. The role of government is critical here as well as government provides subsidies not for new technologies, but rather on that operational capital which is used by farmers for the same old technologies.

2. Government policy. Government plays a key role today in establishing an environment that will support the development and implementation of innovative solutions. For instance, moratorium of farmland in Ukraine has led to situation when the price on farmland was 5-10 times lower than in other European countries which have formed a market.

Figure 2. Correlation analysis of share of high marginal crops and the farmland price by countries in 2020



Source: World development indicators

Cheap farmland has led to inefficiency of agricultural companies which tried to grow extensively and remain inefficient growing crops instead of starting the development along the value chain – food processing or shifting to high marginal products. In those countries where farmland market has been opened, such as Spain, Netherland, Italy has led to shift and production of fruits and vegetables which generate much more value per hectare than wheat and corn.

3. Access to capital and social attitude towards innovations and entrepreneurship.

This affects the source of capital that entrepreneurs can use for their business. As an example, in most European counties, government financing accounts for at least 25% of financing at the pre-seed stage of startups. Another source of capital is family which reaches over 30%. The culture of entrepreneurship has started to evolve recently, as the state banks started to launch loan programs for business.

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