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## **STAKEHOLDER APPROACH TO THE VALUE-BASED MANAGEMENT OF THE ENTERPRISE INNOVATION ACTIVITY**

**Abstract.** Fundamental researches in the sphere of innovation management state that the problem of development of the radically new paradigm of the value-based management of innovation development becomes more urgent. It could provide the increase of aggregate price of enterprise as the result of innovation implementation, through the growth of its efficiency and risk tolerance taking into account the interests of all stakeholders. *Results.* In this article on the ground of generalization of basis and rules of innovation activity management, scientific approaches to the interpretation of economic categories, the new definition of the notion of the value-based management of enterprise innovation activity was offered and theoretically substantiated. Depending on the level of representation of interests of the main groups of stakeholders, three levels of such management were distinguished. They are: level of strategic management, level of current management, level of external management. For each of these levels the indexes of value increment and indexes of enterprise risk tolerance provision within the accounting of interest of different groups of stakeholders were analyzed. *Conclusion.* The value-based management of enterprise innovation activity is the range of functions and rules as well as the methodological tools for making strategic and tactical decisions, concerning the development, introduction and commercialization of innovations that provide the growth of corporative value, accounting the monetized for the enterprise social value under condition of reconciliation the interests of different groups of stakeholders.

**Keywords:** value-based management, stakeholders, innovation activity, levels of management, risk tolerance.

**JEL Classification:** D61, G30, L20, O31

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## **СТЕЙКХОЛДЕРСЬКИЙ ПІДХІД ДО ВАРТІСНО-ОРІЄНТОВАНОГО УПРАВЛІННЯ ІННОВАЦІЙНОЮ ДІЯЛЬНІСТЮ ПІДПРИЄМСТВ**

**Анотація.** У статті теоретично обґрунтовано нове визначення поняття вартісно-орієнтоване управління інноваційною діяльністю підприємства. Залежно від ступеня представлення інтересів основних груп стейкхолдерів виокремлено три рівня такого управління: рівень стратегічного, поточного та зовнішнього управління. Для кожного з них проаналізовані індикатори приросту вартості та індикатори забезпечення ризикостійкості

підприємства в контексті врахування інтересів різних груп стейкхолдерів. Зроблено висновок, що вартісно–орієнтоване управління інноваційною діяльністю підприємства має забезпечувати зростання його корпоративної вартості з урахуванням монетизованої для підприємства суспільної цінності при умові узгодження інтересів всіх груп стейкхолдерів.

**Ключові слова:** вартісно–орієнтоване управління, стейкхолдери, інноваційна діяльність, рівні управління, ризикостійкість.

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## **СТЕЙКХОЛДЕРСКИЙ ПОДХОД К СТОИМОСТНО–ОРИЕНТИРОВАННОМУ УПРАВЛЕНИЮ ИННОВАЦИОННОЙ ДЕЯТЕЛЬНОСТЬЮ ПРЕДПРИЯТИЙ**

**Аннотация.** В статье теоретически обосновано новое определение понятия стоимостно–ориентированное управление инновационной деятельностью предприятия. В зависимости от степени представления интересов основных групп стейкхолдеров выделены три уровня такого управления: уровень стратегического управления, уровень текущего управления и уровень внешнего управления. Для каждого из этих уровней проанализированы индикаторы прироста стоимости и индикаторы обеспечения рискоустойчивости предприятия в контексте учета интересов различных групп стейкхолдеров. Сделаны выводы, что стоимостно–ориентированное управление инновационной деятельностью предприятия должна обеспечивать рост его корпоративной стоимости с учетом монетизированной общественной ценности при условии согласования интересов всех групп стейкхолдеров.

**Ключевые слова:** стоимостно–ориентированное управление, стейкхолдеры, инновационная деятельность, уровни управления, риски.

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**1. Introduction.** Achievement of high targets as the result of innovations' realization is impossible without provision of effective process of innovation activity management. Even the best innovation projects will not bring an expected benefit in case the process of their management is not well–organized. As the world experience of the successful business shows, in the current conditions of the economy management, it is necessary to use the value–based approach for the formation of the innovation management system at the enterprise.

Management of enterprise innovation activity within the value–based management foresees the formation of aims of innovation activity and implementation of all managerial functions. At this, the usage as the target index the maximization of the value increment and taking into account the interests of the definite stakeholders during the innovation projects' selection and realization of innovations is foreseen. But still, it is the stakeholder approach to the management of enterprise innovation activity that remains researched not enough that defines the problem of this work.

**2. Brief Literature Review.** The analysis of the scientific researches shows that the contemporary development of the concept of value–based management of enterprise in general and its innovation activity in particular, takes place under the influence of the stakeholder approach, in other words, under the theory of concerned parties. Variety of approaches to the enterprise

management from the point of view of different groups of stakeholders is presented in the works of the famous foreign scientists: G. Arnold (2004) [1], G. Charreaux & P. Desbrieres (2001) [2], M. Evans [3], B. Hall & R. Oriani (2006) [4], A. Rappaport (1998) [5], C. Yang, & J. Chen (2003) [6], T. Coupland, T. Koller & G. Murrin (2005) [7], and others.

Along with that, stating the undeniable advantages of stakeholder managerial approach, the majority of the researches discord from each other as to the finding out of all groups of the concerned individuals, and also as to the definition of the role of all the stakeholders in the process of value formation (Kaledonskij D. (2007) [8], Sytnik A. V. (2013) [9], Haritonov A. Ju., & Plastinin A. V. (2009) [10]). Also, scientists are not unanimous in the questions, concerning the choice of indexes, which characterize the value from the point of view of different groups of stakeholders, and factors, which influence it. For the present time, several approaches to the distinguishing of value groups of factors and their influence on the behavior of stakeholders are formed [1, 5, 11–16]. Thus, in their works H. Arnold (2004) [1], A. Rappaport (1998) [5] pay key attention to the financial factors of value, which appear during the operational, investment and financial monetary flows and meet the interests of owners in the best way. The second group of researches, to which O. Makaryuk (2011) [11], I. Novykova (2013), [12] I. Ivashkovska (2012) [13], S. Kazantseva (2011) [14], Z. Koval (2011) [15], M. Kostel, Y. Shyshova (2013) [16] refer pay great attention to the nonfinancial indexes of value, taking into account interests of external stakeholders.

Thus, there appears the necessity of generalization of the scientific and methodological approaches to the value-based enterprise innovation activity, taking into account of all its stakeholders.

**3. The purpose** is the development of the methodological basis of the formation and application of the stakeholder concept of the value-based management of enterprise innovation activity.

**4. Results.** The rules of the stakeholder concept of the value-based management of the enterprise innovation activity include general rules, implementation of which is directed to the effective management of the enterprise in general and specific rules, connected with the application of the value-based approach to the management of innovation activity.

Among the general rules the rules of integrity, flexibility of management, reasonableness of managerial decisions, priority of the strategic aims over practical ones, estimation of the activity results according to the achieving of strategic aims. Specific rules include: priority of intensive indexes of value increment, balance of interests of all stakeholders, orientation for the constant development, competitiveness, strategic view formation.

Based on the generalization of theoretical basis of enterprise management and scientific approaches to the interpretation of such categories as: “value-based management”, “innovations” and “innovation activity” [2, 4, 6, 7, 12], it is offered to recognize the notion of value-based management of enterprise innovation activity as the integral aggregation of functions and rules and also hierarchically structured according to the value and time targets of methodological toolkit of strategic and tactic decision making concerning the innovations’ development, implementation and commercialization. It provides the increase of corporative value, accounting the monetized for the enterprise social value, under condition of meeting all interests of all groups of stakeholders.

According to the author’s approach stakeholders concept of value-based management of enterprise innovation activity is based on the price (value) maximization for all enterprise’s stakeholders and is multileveled: it embraces three main components, depending on the level of representing the interests of all groups of stakeholders [5, 13]: that is the level of stakeholders, who perform strategic enterprise management (principals); level of stakeholders, who perform current enterprise management (agents); stakeholders, whose interests are accounted during accepting managerial decisions.

On the level of strategic management (meeting the interests of stakeholders–principals) classical stakeholder approach is applied and interests of enterprise shareholders as to the increase of market capitalization and market value of stock of business entity.

The administration of enterprise innovation activity, while the application of stakeholder concept on the level of current management, involves accounting of the interests of stakeholders–agents (enterprise managers of top and middle levels). The estimation of innovation effectiveness on this stage is done according to the indexes of increment in profit and pure cash flows, being the result of innovation project realization, increase of competitiveness and technological development of manufacturing, etc.

The third level of management is the broadest one, as it includes all enterprise stakeholders, whose interests are taken into account during the accepting of managerial decisions. They are: consumers, employees, suppliers, sharing partners, local communities, and state. Corresponding value indexes of innovation efficiency estimation include the creation of social value of innovations.

Thus, the maximization of the value on each stage of the enterprise innovation activity management (taking into account interests of each group of stakeholders) is in the created value accreting and is the following:

- maximization of the stock capital value by means of increment of return on equity and increment of stock capital value for the stakeholders–principals, who are the main group of enterprise stakeholders.;

- increment of economic additional cost, operating and pure income, pure money flow on the level of enterprise management – when meeting the interests of stakeholders–agents;

- creation of social value when taking into account the interests of external stakeholders while the innovation activity management in the form of positive external effects.

Conceptual approach to the enterprise innovation activity management on the ground of stakeholder concept of value–based management is schematically presented in the fig. 1.

The first level of the innovation activity management concerns taking into account the interests of the enterprise founders (stockholders, investors). The influence of the stockholders is of primary importance as this the very same group of stakeholders provides the formation of the original source of enterprise financial resources and actually defines the possibility of its functioning. For the stockholders innovation activity of the enterprise is the source of additional income. It can provide additional dividend income and increase of enterprise market capitalization due to the increase of its competitiveness during the introduction of the innovation products into the market, increase of the enterprise functioning efficiency as a result of increase of productivity or usage of less expensive technologies, etc.

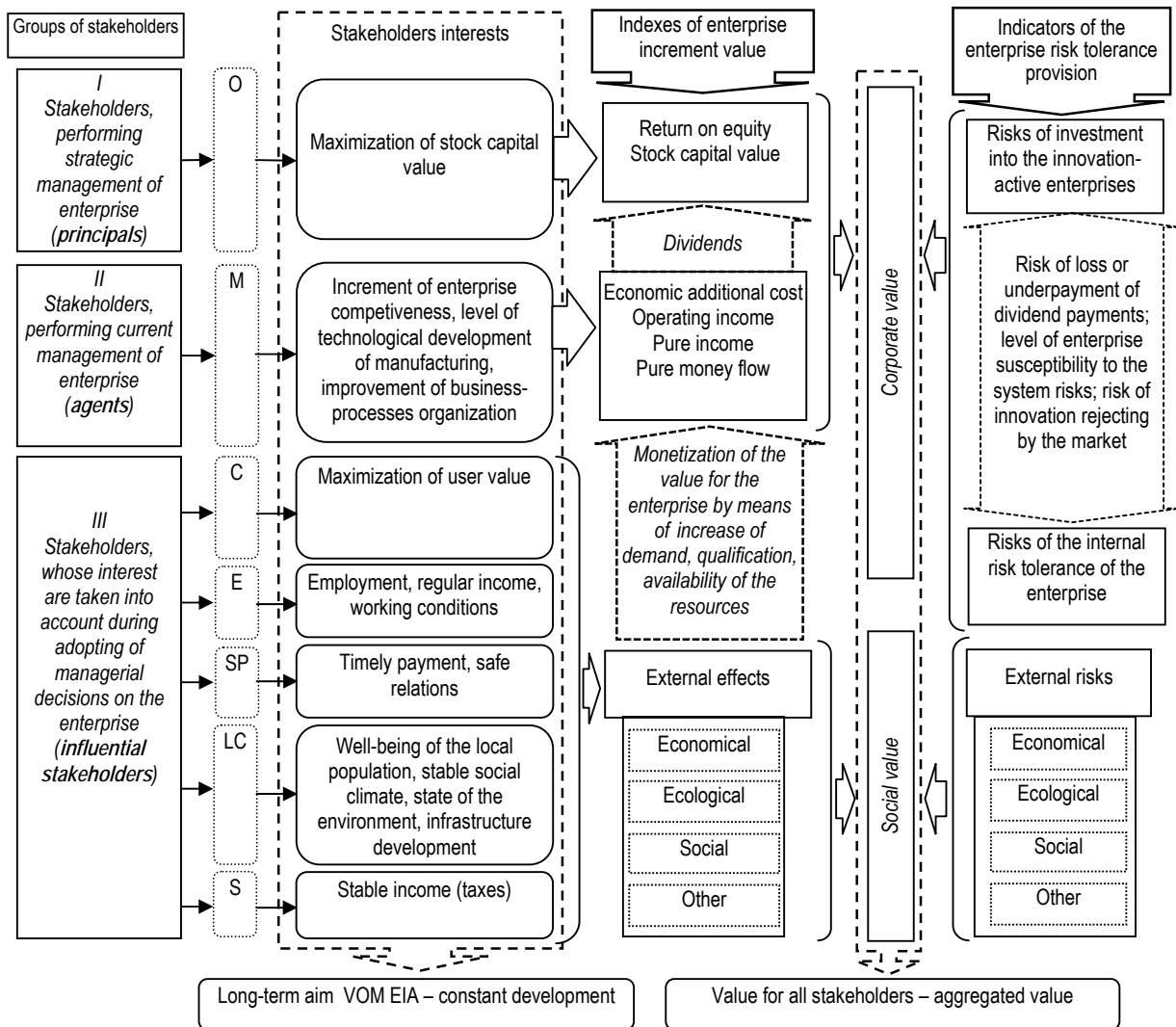
From the other side the market reaction for the innovation introduction cannot be predicted in advance and the accuracy of the prediction of the income from the innovation activity is low. Innovation activity is directly connected with the increased risk of investment resources input; therefore, two criteria can be distinguished – correlation of risks and profitableness at the same time is analyzed by the investors and have the backward character of the influence on their interest in performing the investments into the innovation–active enterprises.

Implementation of the current management of innovation activity is directly connected with the interests of the following group of stakeholders – stakeholders–agents, for whom the results of innovation implementation are estimated on the ground of the analysis of their direct effect on the financial indexes of enterprise activity – income and expenditures. At the same time, innovation activity risks, connected with the probable character of the success of any innovation project and receiving of expected benefits from its implementation are also analyzed.

It is necessary to take into account that the scientific–research activity in general and the process of innovation introduction, in particular, require great capital expenditures are quite long–term, that can negatively affect the indexes of profitability and recoupment of the innovation projects. That is why the definition of the possibility of the enterprise to create additional cost due to the innovations introduction, in spite of the mentioned above expenditures, is one of the main trends in the work of managers within the current management of the innovation activity.

Functionally-targeted subsystem of provision of total value increment through the enterprise efficiency

Functionally-targeted subsystem of provision of total value increment through the enterprise risk-tolerance



Specifications: O – enterprise owners (stockholders, investors); M – managers of the top and middle level; C – consumers; E – employees; SP – suppliers and partners; LC – local communities; S – state.

Fig.1. Stakeholder concept of the value-based management of the enterprise innovation activity (Source: compiled by the authors)

The next level of the innovation activity management concerns the creation of the cost (social value of innovations) for the external enterprise stakeholders, whose interests are taken into account while decision making as to the innovations and creating the model of double interaction between the enterprise and stakeholders. Analyzed on this stage groups of stakeholders include: consumers, employees, suppliers and partners of the enterprise, local communities, mass media, state.

For each distinguished group of stakeholders, creation of the cost (value), being the result of innovation activity of enterprise, will depend on various factors[14]. For example, for the consumers the cost of innovations may depend on the increase of products quality and its consuming features. For the employees the value of the innovation activity is grounded on the introduction of the less harmful technological processes, reducing the risks of work-related disorders and improving other work conditions. For the suppliers and partners the index of innovation activity can be reflected on the provision of stable ordering and structure of supplying.

From the point of view of the local communities, mass media and regulating bodies the general influence of the enterprise innovation activity on the society in form of different economical, social and ecological effects is estimated [16].

The task of the management of innovation activity from the point of view of enterprise stakeholders, whose interests are taken into account while adopting managerial decisions, is the estimation of the created social value in the process of innovations realization and also the calculation of the index of aggregate price, being the sum of social value and corporate value, and accounting the positive external effects from the enterprise innovation activity while choosing innovation projects.

**5. Conclusions.** The task of balancing of all stakeholders' interests and maximization of value increment as the result of enterprise innovation activity greatly refers the concept of value-based management on the ground of value for all stakeholders. The application of this concept to the enterprise innovation activity management is presented as the multilevel process of the managerial decisions coordination according to the groups of stakeholders, their interests, indexes of value increment and markers of risk tolerance provision for agreement of two functional subsystems of provision of enterprise aggregate price increment.

The stakeholders concept of the value-based management of enterprise innovation activity consists in distribution of three groups of stakeholders and correspondent levels of management – stakeholders, who perform strategic management, stakeholders, who perform current management, stakeholders, whose interests are taken into account while the adoption of the managerial decisions. For each of the identified groups of stakeholders correspondent indexes of value increment and risk tolerance provision are applied. Generalizing value indexes for the stakeholders are the corporate cost, social value and aggregate price.

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