THE ROLE OF START-UPS IN STIMULATING INNOVATIVE ECONOMIC GROWTH: CHALLENGES AND RISKS

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Abstract: Understanding how economic factors affect a business is essential to making smart decisions and leading a business. However, this starts with understanding the role of internal and external factors and how they play out in a business. A start-up is no exception, although it is hard to call it a full-fledged business; a start-up is a project of any kind that is just starting to develop in the market. For the successful implementation of a new project, a certain amount of start-up capital is required. No start-up can be implemented without appropriate financial injections, without attracting investments that are quite risky and require significant attention from the investor at the investment planning stage. Almost all start-up projects are financed by investors who are willing to invest their own capital in the development of a promising project. In general, any project begins with an idea that will form the basis of a new business. If an entrepreneur manages to offer consumers a high-quality product that has no analogues in the market but is in demand, his success will be guaranteed. But to achieve this, a good idea needs to be properly developed, involving specialised professionals and investors. Venture capital funds and investment companies that invest in innovative projects are engaged in the development of such ideas, and the state stimulates these processes through a system of mechanisms and levers of economic development of business. Given the significant importance of start-ups for the economic growth of the State, the purpose of the study is to determine the role of start-ups in stimulating innovative economic growth, taking into account the challenges and risks posed by the environment. To achieve this goal, the methods of statistical data analysis, generalisation of scientific sources, specification of opportunities and risks created by start-up projects for economic systems were used. In the process of developing the study, it was found that start-ups play an important role in ensuring economic growth opportunities for the entire state, since creating favourable conditions for the development of small businesses and stimulating investment activity in innovative projects can lead to a significant increase in tax revenues to budgets of various levels in the future, but an important aspect of stimulating start-up projects is risk assessment and prudent investment in such projects.

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1. Introduction. In today's environment, startups are becoming one of the most important tools that ensure the economic development of territories and the competitiveness of various industries. Start-ups in the modern world have become the main points of innovation and scientific progress, they are of exceptional importance in the development of the country's economy and its regions, they create new jobs, and stimulate the growth of the economic system. In addition, start-ups develop small and medium-sized businesses, but they can also become the foundation for large corporations.

Start-ups are the driving force behind economic development; they are nothing more than a new business at an early stage of its formation with the characteristic features of innovation, flexibility and risk-taking. Through innovation, companies can reduce costs, expand markets for their products, and improve efficiency. A start-up is the first step towards implementing new ideas and business development opportunities.

The proliferation of start-ups realises one of the main benefits of a business start-up, namely the creation of new jobs. The growing number of different start-ups leads to the emergence and development of new industries and competitive enterprises that diversify and stabilise the territory. At the same time, start-ups are highly risky and require entrepreneurs to be aware of all potential costs and threats that accompany the start-up process.

Many developed countries pay attention to the development of start-ups and encourage investment in such innovative companies, creating the preconditions for the spread of venture capital financing. However, it is important to understand the difference between start-ups and small business development. The main difference between a start-up and a small business is the availability of ready-made business solutions. In the former case, the project creators are looking for ways to implement an innovative idea, while in the latter case, they use a well-known business model. The main differences between start-ups and small and medium-sized businesses are shown in Table 1.

Table 1. Key differences between start-ups and SMEs

Characteristics	**Startup**	**Small or medium-sized business**
Idea.	New	Known for.
Primary goal	Creating a product that will win the market	Making a profit
Capital investments	Start-up capital may not be available	Financing from a single source, start-up funds are required
Product.	There is only an idea	We have a finished product
The speed of development	Focused on fast and rapid growth	Steady classical progress

Compiled by the authors based on (Denysenko et al., 2023a; Moiseienko et al., 2020; Raji et al., 2024)

In general, any start-up is risky, but, unlike companies already operating in the market, it involves a favourable difference from competitors. The development of established models is more stable in terms of profit. The choice of business area depends on the founder's goals and requirements. Given the relevance of the research topic, the objective is to determine the role of startups in stimulating innovative economic growth, taking into account the challenges and risks posed by the environment.

2. Literature Review. In the modern academic world (da Silva et al., 2021; Skawińska & Zalewski, 2020), it is widely believed that startups are the engine of innovation and economic growth, creating jobs and providing long-term opportunities for future economic development. There are a number of reasons why startups are so important. First, they are a source of job creation for young and ambitious entrepreneurs. For example, startups are responsible for almost half of the net job creation in the United States of America. As a result, they create new products and services that can transform everyday activities.

Researchers (Mutalimov et al., 2021; Tsolakidis et al., 2020) also emphasise that startups stimulate economic growth. They are the main source of income and tax revenues for large cities that stimulate innovation activity. In addition, startups help attract talent and investment to the region. It is also worth noting that startups become a source of capital for other businesses. They invest in new technologies and ideas and help to commercialise and scale them further. This allows other companies to benefit from the latest innovations and helps create a virtuous circle of investment and growth.

Researchers (Patel et al., 2020; Wulandari et al., 2023; Zhavoronkova et al., 2021) identify many reasons why startups are important, but one of the most important is that they bring new ideas to the market. Startups are often at the forefront of innovation, developing new technologies and applications that can have a significant impact on society. For example, start-ups have been responsible for some of the most revolutionary technologies of the last decade, including social media, mobile apps and cloud computing.

Another reason that researchers (Davydiuk et al., 2023; Denysenko et al., 2023b) highlight for the importance of startups is that they create jobs. Startups are a major source of job creation not only in the United States but also in many European countries such as Norway, the Netherlands, Estonia, Romania, and Denmark (Choi et al., 2021). Startups provide employees with the opportunity to work in a fast-paced, innovative environment where they can make a difference to the company's success and realise their creative ideas. Startups also tend to offer higher pay than traditional companies, offering employees the opportunity to earn more by building equity in the company. This can lead to much greater profit potential in the future if the startup is successful.

The academic community (Hoogendoorn et al., 2020; Kofanov & Zozulov, 2018; Sydorenko, 2024) also agrees that startups play a crucial role in stimulating economic growth. They are the main source of new products and services, and their innovative nature helps to stimulate competition and capital efficiency.

It should also be borne in mind that while start-ups bring new ideas to the market, create jobs and contribute to economic growth, and are an important part of the ecosystem that drives innovation and moves the economy forward, start-ups carry a high risk of losing invested capital and not receiving a return on investment in a timely manner. It should also be borne in mind that about three-quarters of all startups fail to make it past the first year, and only about 3% become unicorns, companies that generate a billion-dollar capitalisation. It is the high percentage of start-ups that fail that becomes an argument for some researchers (Del Bosco et al., 2023; Kraus et al., 2021) who do not consider startup funding to be logical and justified for many countries.

Of particular note is the fact that while some start-ups can succeed without any external support, most require some form of support to realise the opportunities to create an innovative product and ensure that it can continue to thrive. There are a number of reasons why startups need support, including access to capital, mentorship and resources. One of the most important conditions for startups to grow is access to capital. When it comes to business, the word startup is often used to describe new and innovative companies. These businesses are typically characterised by their small size, young age and limited resources. They can indeed be found in any industry. Despite their potential, start-ups face a number of challenges. One of the most important challenges faced by startups is access to capital (Jo & Jang, 2022).

Practical aspects of the study are based on the collection of practical tools, how-to guides and inspiring practices to support implementation of EntreComp into education, youth, employment and business (EntreComp 360, 2023).

Many start-ups have difficulty securing the funding they need to get off the ground, lacking the collateral and credit history that traditional lenders look for. As a result, many start-ups rely on venture capital or angel investors to secure the necessary funding. In general, startups need sound and balanced investment to grow and scale. This can be capital in the form of equity financing from venture capital companies or loans from banks. Another important element for startup development is mentoring. Mentors can provide valuable advice and guidance to help startups navigate the early stages of their development. Startups also need access to resources that will be used in the development of a new product or service. These resources include office space, equipment and software. In developed countries, startups can access these resources through incubators, accelerators, and venture capital funds.

Another challenge faced by startups is attracting and retaining talented, ambitious employees. Due to their small size, start-ups often have difficulty competing with larger businesses when it comes to attracting and retaining the best talent. This is especially true in industries where there is high competition for specialists. To overcome this problem, startups need to offer competitive salaries and benefits and create a culture that is attractive to potential employees.

Finally, startups also face the challenge of scaling their business at some point in their development. Many startups find it difficult to scale their business due to their limited resources. This can be a particular problem in industries where the market is saturated or where there is a lot of competition. To overcome this problem, start-ups should focus on creating a rational and efficient business model that can be easily scaled. Despite the challenges faced by start-ups, there are a number of reasons why they are important. Start-ups are important because they are a source of innovation and creativity in the economy, and they provide an opportunity for people with new ideas to start their own businesses.

3. Methodology and research methods. To achieve the research objective, the article analyses the scientific literature on the development of start-ups in different countries. The main challenges and prospects for the development of investing in startup projects were identified. The study also analysed statistical data using the methods of graphical analysis, generalisation, systematisation, structure and dynamics analysis.

The structure of the study consists of defining the essence of start-ups, analysing statistical data on the prevalence of start-ups in the world, identifying the conditions and opportunities that open up for investors who invest in financing start-ups. The research is based on scientific materials related to the issues of assessing the problems and prospects of start-ups and their importance for economic growth (monographs, articles from peer-reviewed scientific journals Scopus and Web of Science).

The research was based on relevant scientific sources from the last five years to obtain the most up-to-date information and take into account the realities of today. In the course of the study and identification of risks and challenges accompanying the development of start-up projects, the author outlines their differences and specifics depending on the scope of each project and the specifics of their implementation. The results and recommendations developed can be taken into account and used for different countries and companies operating in an unstable external environment, since the study was based on the analysis of scientific works of authors from different countries.

4. Results. An analysis of the importance of startups for economic development should begin with a look at the statistical data on the volume and performance of startups. By the end of 2023, the volume of investments in European tech startups was approximately $45 billion. This is more than half the figure recorded in 2021, when investments in such companies exceeded $100 billion for the first time (Key Insights from #GSER2023, 2024). The decline was mainly due to late-stage companies postponing fundraising. In addition, investors are more cautious about investing due to rising capital costs and high inflation.

However, it is worth noting that in the five-year period from 2018 to 2022, 257 European technology companies reached a valuation of $1 billion, with more than 150 startups becoming unicorns in 2021-2022. In addition to the dynamics of investment, the structure of the startup market is also worthy of attention. According to Key Insights from #GSER2023, 2024, more than half of all global startups are focused on providing services, and about 20% are in various types of analytics - Fig. 1.

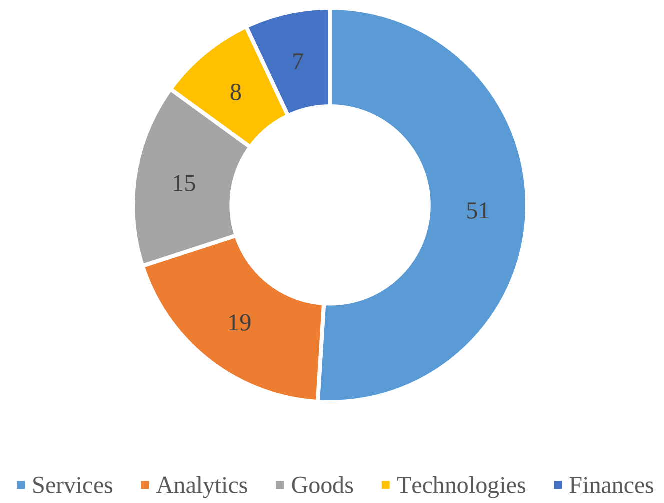

Figure 1. Startup concentration structure by different areas and **industries**
Source: (Key Insights from #GSER2023, 2024)

Start-ups are focused on the service sector because it is easier to find an untapped market niche and offer something new to the audience, while the phenomenon of information technology development is emerging, which today provides services to absolutely all other industries and touches on various areas of business and production development.

Of particular interest is the future of startups, which, according to statistical data, is quite ambiguous. According to Key Insights from #GSER2023, 202, 69% of all startups in the world are currently at the development and further development stage; 9% have closed without a positive result, and only 4% have gone public and can be considered large companies that attract investors' attention through the stock market.

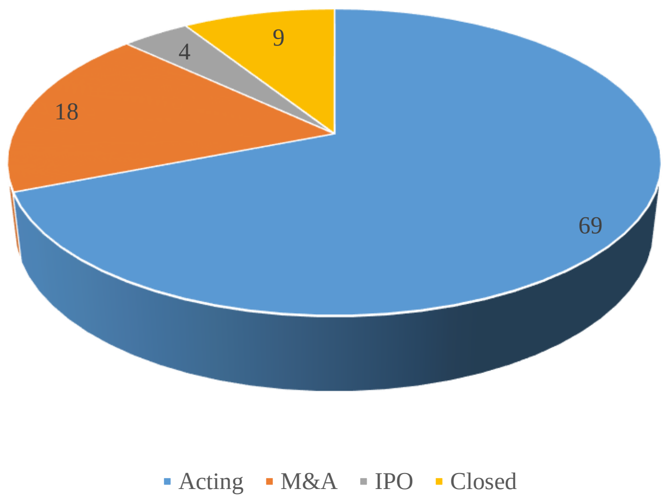

Figure 2. Structure of startup development performance in the world
Source: (Key Insights from #GSER2023, 2024)

According to large analytical agencies (Santisteban et al., 2021), only a small percentage of startups and investors who have invested in them succeed in building a business. According to the Startup Genome Report (Key Insights from #GSER2023, 202), 92% of launched startups fail to enter the market, 74% of internet startups close due to premature scaling, overestimating their strength and inflating the company's staff several times. Half of startups close within the first five years, and this is true across all sectors. This means that at the beginning of the journey, any entrepreneur and the investor who has become their partner face maximum risks.

The success of a startup is influenced by the composition of partners, the geography of investments and their history, as well as the availability of a venture capital fund that can take on partial or full funding of a startup project. A successful fund with a positive reputation can attract more projects with great potential. For example, the Sequoia Fund, which has been operating since 1972, has made investments, many of which have already been monetised in companies with a combined value approaching $1.5 trillion (Kurakhchishvili et al., 2024). The probability of effective investment for investors of such a fund increases several times. As a rule, funds of this level give a relatively low valuation of the company at the time of entering the project, because there is an expectation of the value that participation in the development of such a fund can provide to a start-up business.

For example, in the US, in Silicon Valley, which is the area of maximum support for start-ups, mostly in the technology sector, there are business angels and funds specialising exclusively in early-stage investments, and they are successful due to their focus. For example, the Tech Coast Angels business angel network claims an IRR of 26%, while according to some reports, the average annual return on a US business angel's portfolio is just over 20% (Mazur, 2023). Business angels are companies that invest in startup projects at the idea stage and are ready to finance the project for a long period of time.

However, it should be understood that companies are not created for profit, but to implement the idea of an entrepreneur, who almost always needs to develop a project for self-realisation. The entrepreneur is ready to implement the idea and take risks at the stage of idea development, but most entrepreneurs do not have the funds to ensure the full cycle of idea implementation, so they need investors who can finance such ambitious ideas for a share of the profits from its implementation in the future.

Business angels and venture capitalists investing in early-stage companies diversify their risks by building a portfolio of a large number of companies. But, as global average statistics show, they receive lower returns over a number of time periods and experience higher investment volatility compared to later-stage venture capital funds and private equity funds (Table 2).

Table 2. Return on investment by investors in start-up projects (according to various analytical agencies)

Index.	One quarter	Year	1st year	3rd year	Year 5	Year 10	15th year	20th year	25 years	30th year
Cambridge Associates LLC U.S. Venture Capital Index	0.65	-2.61	-1.39	18.12	13.22	10.22	5.27	26.05	25.84	18.30
U.S. Venture Capital - Early Stage Index	0.92	-2.26	-2.19	19.85	14.34	10.47	4.33	51.89	34.92	22.92
U.S. Venture Capital - Late & Expansion Stage Index	-0.31	-2.79	-1.32	13.45	9.86	11.67	7.08	9.62	12.71	12.20
U.S. Venture Capital - Multi-Stage Index	0.48	-3.12	-0.07	16.81	12.53	9.39	6.65	10.23	14.34	11.99
Bloomberg Barclays Government/Credit Bond Index	2.67	6.23	6.70	4.20	4.11	5.22	5.19	5.74	6.28	6.62
Dow Jones Industrial Average Index	2.07	4.31	4.50	8.99	10.41	7.66	6.23	8.39	10.14	10.62
Dow Jones U.S. Small Cap Index	3.23	4.78	-5.74	7.90	9.08	7.41	8.34	9.04	-	-
Dow Jones U.S. TopCap Index	2.47	3.56	3.25	11.46	11.88	7.57	5.96	7.91	-	-
Nasdaq Composite Index	-0.56	-3.29	-2.89	12.48	11.79	8.35	5.53	7.29	9.72	8.62
Russell 1000 Index	2.54	3.74	2.93	11.48	11.88	7.51	6.02	8.03	9.60	9.82
Russell 2000 Index	3.79	2.22	-6.73	7.09	8.35	6.20	6.96	7.61	9.52	8.54
S&P 500 Index	2.46	3.84	3.99	11.66	12.10	7.42	5.75	7.87	9.40	9.81
Wilshire 5000 Total Market Index	2.77	3.98	2.95	11.27	11.64	7.46	6.30	7.95	9.53	9.65

Source: (Key Insights from #GSER2023, 2024)

According to Table 2, it can be argued that most projects defined as start-ups have a long payback period and are able to bring investors a sufficient return on investment only after 10 years of participation in the project. Accordingly, it becomes clear that investors and venture capital funds investing in start-up projects should not expect quick results, as it is a matter of rather large expenditures and a long period of time with high risks, but the effectiveness of start-up development in the United States, for example, is also quite high.

According to the results of 1653 venture capital funds (Kurakhchishvili et al., 2024), the majority of them, namely 1051, are at the early stages of implementation; 190 are at the late stages and expansion stage, and the rest are waiting for funding and are looking for venture capital funds.

Thus, after a fairly thorough and comprehensive analysis of the statistical material, it is possible to state that in the world of modern technology, start-ups play a significant role in the formation and development of the economy. Especially in the field of information technology, as they create the preconditions for the movement of capital in this area and provide opportunities for the development of innovative ideas. Accordingly, it is necessary to determine how startups affect economic development and what challenges and risks arise alongside the positive impact of startups (Table 3).

Table 3. Summary of the impact of start-ups and the development of the economic environment

Sphere of influence of startups	A positive aspect of economic development	Risks associated with start-up development
Creating jobs	Start-ups are a powerful source of job creation. As technology develops, so does the demand for specialists in the industry. Young and promising start-ups are actively hiring programmers, developers, designers and other professionals, which helps reduce unemployment and stimulates economic growth	There is a risk of an outflow of specialists from static industries to dynamic areas of start-up development, without a guarantee of success for risky projects

Attracting investment	Startups are an attractive target for investors. Innovative ideas and high potential for growth and development make start-ups attractive to venture capitalists and technology funds. Investment in startups helps to develop their products and services and creates a favourable investment environment for other companies	At the same time, venture capital investment has the highest risks and the least predictable financial return on investment
Fostering innovation	Startups are leaders in innovative technologies. They are actively researching and applying new methods of work, developing unique solutions and products. This applies not only to the IT sector but also to other industries. IT start-ups develop new technologies that can be implemented in processes in other areas, such as medicine, manufacturing, transport, and others. Their innovative thinking and solutions lead to lower costs, higher productivity and better quality of services, thus contributing to economic growth	Sometimes start-ups divert funds to projects that do not have a significant social impact, away from projects that could be funded to fulfil a deficient social or economic function
Creating new markets	Startups are able to create new markets. They identify needs and problems that were previously little known or did not have a satisfactory solution and find innovative ways to address them. An example of such a market is the popularity of mobile apps for ordering food and services. Previously, there was no such possibility to order food or call a taxi conveniently and quickly, and it was IT startups that created this new market segment	Startups can develop areas that are not regulated by law or require special attention from the state
Improving the quality of life	Startups are introducing technologies that improve the quality of life. These can include mobile health apps, convenient online services for work and study, remote communication platforms, and other solutions. Startups help to automate processes and increase the availability of services, which leads to a higher level of comfort and satisfaction of end users	The overall riskiness of investing in start-up projects can stop investors from investing in such innovations

Source: compiled by the authors.

After analysing their strengths and weaknesses, we can say that startups play a key role in shaping the future of the economy. They create new jobs, attract investment, drive innovation, create new markets and improve the quality of life. Governments and various organisations are strongly supporting start-ups, recognising their importance and potential benefits to the economy. The main goal of the government in supporting startups is to create an environment that fosters innovation and entrepreneurship. This includes creating rules that allow new businesses to flourish, encouraging the provision of research and development funding, and developing infrastructure investment. The private sector, on the other hand, is primarily focused on making a profit. Thus, their support for start-ups usually takes the form of investment capital.

Overall, there are several ways in which the government and the private sector can work together to support start-ups. One way is for the government to provide seed funding to help start-ups get off the ground, as was done in Estonia between 2010 and 2020. This seed funding can be used to cover research and development, marketing and other early stage costs. The government can also help start-ups by providing them with access to resources such as office space, laboratory facilities and mentoring programmes.

In turn, the private sector can support start-ups by providing them with access to capital. This can be in the form of loans, equity investments or venture capital. For government and the private sector to support start-ups in the most effective way, it is important that they work together to create a comprehensive system of support for innovative projects. This support system should include a variety of programmes and services that provide start-ups with access to the resources they need to succeed. Government and the private sector can create an environment that fosters innovation and entrepreneurship, which will ultimately lead to a stronger economy. Every startup goes through several stages before it is ready to take off. However, in some cases, the author of an idea may deliberately skip several stages if the situation allows. The main thing is to determine what will happen to the startup after it attracts investment before launching. This could be a transition to a traditional business, a sale, or a stock market launch. This information is especially important for potential investors to understand the risks and return on investment. In general, there are several main stages that a startup goes through - Fig. 3.

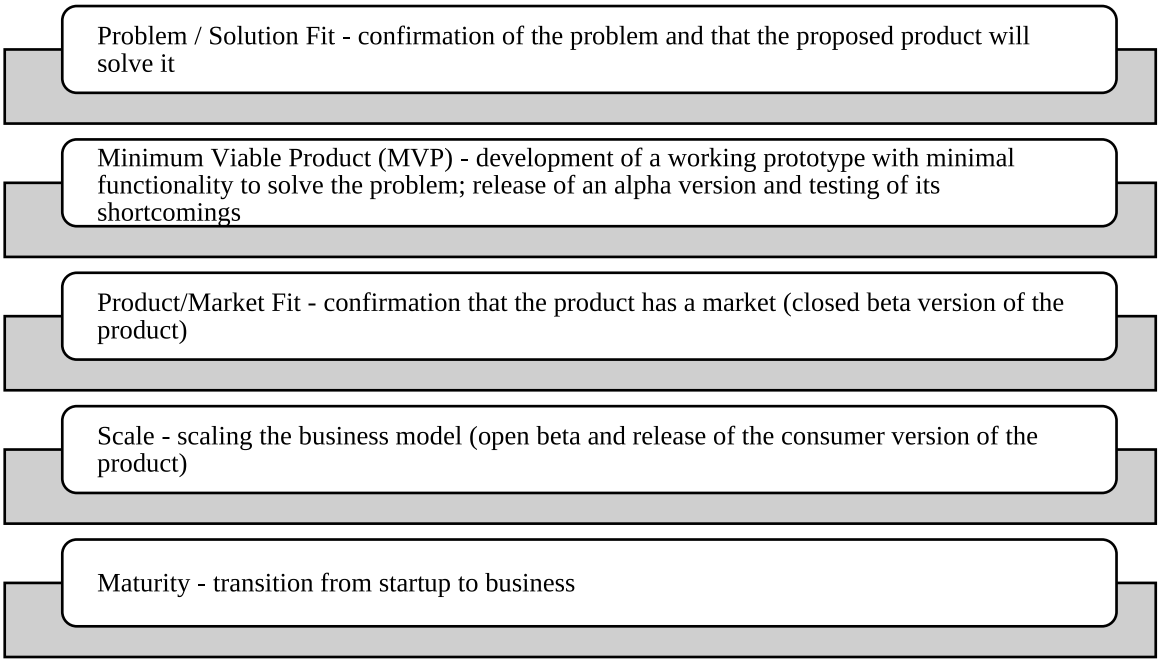

Figure 3. Key stages of startup implementation
Source: compiled by the authors.

In order to successfully support young entrepreneurs, the state should provide measures to stimulate innovation activity at all stages, as the state is primarily interested in business development and its further scaling, as a successful business with a high potential for capitalisation will increase tax revenues in the future and enhance the country's investment position in the international space.

5. Discussion. Start-ups are an important driver of economic development. They create new jobs, stimulate innovation and technological progress, attract investment and improve the economic situation. The development of start-ups helps to attract talented and skilled professionals, creates conditions for the development of small and medium-sized businesses, and improves the economic competitiveness of the region. This opinion is shared by many authors (Abdurazzakov, 2015; Denysenko & Yurynets, 2022a; Ferrucci et al., 2021) in the scientific literature, but it should be emphasised that the task of developing startups and stimulating innovative development should be taken care of not only by the Government, but also by the business itself, and accordingly, structures should be created on the business level to support innovative ideas.

Therefore, one of the key factors in the success of start-ups is the support of the state and the business community. The government should create conditions for the development of start-ups, provide tax breaks and other preferences, assist in obtaining financing and establishing contacts with potential investors. The business community can support start-ups by providing advice and expertise, organising events to find and support promising projects, investing in start-ups and helping them expand their business network and establish contacts with potential customers and partners.

If properly and prudently developed, start-ups can become a major driver of economic development if they are supported and favourable conditions are created for their development (Bellavitis et al., 2020; Demianenko et al., 2021). We can fully agree with this opinion and add that startups can attract investment, create new jobs, stimulate innovation and technological progress, and increase the economic competitiveness of the region. In order for startups to become the main driver of the region's economic development, it is also necessary to improve the infrastructure for startup development. This includes the creation of incubators, accelerators, coaching programmes and other support programmes to help start-ups acquire the necessary knowledge, skills and resources to successfully launch and grow their businesses.

It is also important to ensure the availability of financing for start-ups, especially in the initial period of development (Storozhyk, 2024; Yurynets & Yurynets, 2022a; Zarrouk et al., 2021). To this end, special funds and financing programmes should be created to help startups obtain the necessary funds to develop their business. This opinion is controversial, as such entities attract funds to a very risky area and such investments are justified only when investors or investment or venture capital funds have free funds to invest in high-risk projects.

Finally, in order for start-ups to become a major driver of economic development in the region, a favourable economic and legal environment needs to be created. This includes simplifying business registration procedures, reducing bureaucratic barriers, improving tax policy, and other measures that will help startups grow and prosper (Boiarynova & Kopishinska, 2021; Sivaruban, 2021; Yurynets & Yurynets, 2022b). We should fully agree with this, since it is the favourable legislative environment that creates the preconditions for the development of investment activity in this area. A technology park, as an organisation that provides infrastructure, services and resources for the development of start-ups and other innovative companies, can be a good platform for the development of start-up projects. Technology parks can be an effective place to support and grow new businesses, as they provide many benefits for start-ups.

First, technology parks should provide space for startups to operate, including offices, laboratories and other facilities that are equipped with all the necessary equipment and technology to successfully launch and grow their business. Secondly, technology parks should provide access to expertise and advice from experienced professionals in various fields, such as business strategy, marketing, finance and technology. This helps start-ups gain the necessary knowledge and skills to successfully launch and grow their business. Thirdly, technology parks should provide access to finance and investors, which helps start-ups to obtain the necessary funds to grow their business.

Therefore, it can be added that it is important for big business, as well as for the state, to create an effective place to support and grow new businesses, as there is a need to provide many benefits for start-ups, including access to infrastructure, expertise, financing and industry and public relations.

6. Conclusions. Modern society cannot be imagined without innovation. Innovation has become a key driver of economic growth and technological breakthroughs in society. Start-ups, in turn, are one of the pillars of innovative progress in the country. The creation of a favourable system for start-ups in the form of technology parks, scientific and research centres, business incubators, etc. contributes to the creation of a well-built economic landscape. Stimulating start-ups by promoting these infrastructures should be a key task for the government. To support young entrepreneurs and businesses at different stages of promoting their product or service, the state should create the preconditions for creating new ideas and developing investment activity in the innovation sector. Start-ups are usually very attractive to investors, as they can generate additional profit in a short time. This helps small companies to get quick funding for expansion and development. However, start-ups are also a highly risky investment area.

The study found that startups often offer updated products and services, which can be attractive to customers. This helps small businesses stand out and find funding to develop their ideas and scale them up. However, despite their great prospects and potential, start-ups also have a significant number of challenges and can pose risks to investors willing to invest. The main risks are associated with a lack of understanding of the audience's further perception of the finished product and a lack of understanding of the return on investment. Statistics show that only a small proportion of start-ups grow into large companies that can scale their operations and develop in the long term.

The study also proves that start-ups play an important role in the economic growth of the entire country, as creating favourable conditions for the development of small businesses and stimulating investment activity in innovative projects can lead to a significant increase in tax revenues to budgets of various levels and the formation of a positive image of the state in the international arena.

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