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Methods of Increasing the Economic Efficiency of Investment Policy and its Economic Defense

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ABSTRACT

Investment Policy of a company and its analysis a topical issue at the moment due to the fact that investment policy is of major importance for the implementation of the company's core activities and its future development, regardless of its size, the branch of industry it operates in orientation and other factors. This policy determines the investment decisions and the ways to implement the most efficient ways to improve and increase the production process, scientific, technical, and financial capabilities, as well as achieve financial stability and create conditions for the development in the future. Favorable investment policy enhances benefits of companies in the sales market and thereby increases their competitiveness. The main methods of evaluation of company's investment attractiveness make it possible to increase the cost-effectiveness of investing in the production process. The article explains the expediency of investment to conduct a comprehensive assessment of investor friendly policies in a commercial organization. The considered groups of indicators determine their effectiveness, profitability and the achievement of the goal – receiving profit.

Keywords: Investment policy, investment, efficiency of investment policies, feasibility study, ways to increase investment efficiency, public policy.

1. INTRODUCTION

The main features of the market economy are the dynamics of the economic environment, the continuous change of external factors, which determine the policy of the organization, changes in the prices made by competing enterprises representing products of similar or superior quality, varying exchange rates.

To be efficient at the state market and competing markets, an enterprise needs to continuously introduce new technologies, modernize equipment, get rid of obsolete and purchase new equipment. To carry out that, a company will require investing significant financial resources that often become inaccessible due to lack of free funds.

At present, our country is lagging behind other European and world countries in attracting investment, both domestic and foreign, in its economic processes. In the markets of the leading countries, investments reach more than \$500 billion US dollars a year. The Russian market receives less than \$5 US billion dollars investments annually.

This figure is less than 1%, which in no way matches the volume and size of investment activity needed to realize the opportunities we have for the development of many enterprises and the country in general. This indicator is also not satisfactory in comparison with the growth rate of socio-economic development, which our country requires to regain its place among the most developed nations in the world.

To modernize the real sector of the economy and to make the process of improvement sustainable, taking into account the impact of global factors and global “economic climate”, it is necessary to invest a total of \$100 billion US dollars annually.

The exports of oil and gas and other domestic sources cannot give so much investment. Therefore, active integration of the Russian Federation in the world market, especially the capital market, is viewed by the Government as the main goal of the national investment policy. Attraction of large-scale Russian and foreign investments into the Russian economic system implies long-term strategic plans and goals for the formation of a civilized, socially-oriented society, with a high quality of life, based on mixed economy, which implies not only collectively effective operation of different forms of property, but also the internationalization of markets for goods and services, labor and companies' capital.

The world capital can introduce to our state the achievements of scientific and technical progress as well as advanced management practices (Ilyaschenko & Chinakhov, 2012). Therefore, the inclusion of the Russian Federation in the world economy and society and attraction of foreign capital is an essential condition for the creation of the civil society in Russia. Attracting foreign funds into production is more profitable than providing leverage for the acquisition of necessary equipment by internal structures since it is unsystematic and only adds to the debts of enterprises and the state in general.

Both foreign and domestic investment is necessary for the achievement of medium-term goals - gradual recovery from the current socio-economic crisis, overcoming reduction in the production and raising the standard of living in Russia.

However, at the same time we should not forget about the interests and demands of the society, the state, and the foreign investors, that rarely coincide completely.

Russia is interested in the restoration of the economic system of the state, in improving and upgrading its production capacity, in saturation of the consumer market with high quality and inexpensive products, as well as in the development and restructuring of the total export potential, carrying out anti-import policy, and introduction of the Western management culture into the production process.

It should also be noted that domestic public investment is even more important than foreign, since it is an indicator of public confidence in the national government. Domestic investors have an interest not

only in the economic benefits, i.e. maximization of profits, but also in the stability of economic activity of our country.

2. MATERIALS AND METHODS

Theoretical and methodological basis consists of the sources of information for writing this article, publications and reports, modern scientific approaches to the study of the features of investment policy, as well as works by foreign and domestic authors on the organization and development of ways to improve the economic efficiency of the investment policy. We have used the methods of comparative analysis, grouping, systematic approach based on a comparison of theoretical and practical material and solving practical problems.

The research methodology is based on the dialectical method, system and strategic approaches to the analyzed objects. Scientific provisions, conclusions and recommendations made in the article are founded on the use of combined methods of historical and logical analysis, comparison and synthesis, induction and deduction, economic-statistical method and expert assessments.

The information base of research is comprised of the laws of the Russian Federation, the official publication of state statistics, the program of development of the regional economy, thematic collections and directories, information published in scientific journals and periodicals, Internet resources.

In writing the article, we took into consideration the data characterizing the development trends of state policy and the international community in attracting investment and, as well as the basic principles and methods of economic justification of investment in the structure of the state economy and the market.

3. DISCUSSION

One of the key performance indicators of the economic system or the company is the high activity of investment policy. Investment activities of organizations is reflected in every industry and every sphere of production. In determining the direction of the investment flow, an organization is faced with all types of problems to be solved in the future, for example, the types of investments, the cost of the investment project, risks, and the limited funds.

Currently, there are many definitions of investment, each of which carries the complete information about the primary purpose of the investment policy and its effectiveness.

“Investments” derived from the English verb “to invest”, to allocate. In other words, we can say that investment is a set of values that are allocated in economic activities, in order to get the desired and expected results.

It is no secret that for all the participants of economic activity, the result of this is to obtain the maximum profit (Bashkov & Silnov, 2015). As far as foreign investments are concerned, the state is interested in them, since the enterprises may find themselves at risk of failing to provide their own finances while the state might have no possibility of funding at a time when all the equipment used in the production process becomes worn out.

However, the influx of foreign investment adds additional obligations, which contributes to economic dependence, not only of the enterprise, but also of the whole country. The investment cycle involves

the formation period - from the initial financing of economic and industrial projects to making effective decisions.

The investment cycle includes four main stages:

- planning;
- design;
- realization of investments;
- operational period.

The first phase, ensuring the efficiency of investments is ensured by the fact that the company has an already developed plan (assured success document) and expects to obtain the most efficient outcome. This result can be achieved by allocating the investment flow into the product with the highest level of profitability, and where the use of investment has a wide scope of application on site.

The second stage is described by compressing the projection time and improving the quality of the project activities. Some of the ways to improve the economic efficiency of investment policy at this stage are to design an effective project, hire highly skilled workers, ensure competent management, decrease the time of construction and commissioning, increase the quality of reconstruction, construction, reduce material costs, and use high technologies and modernized equipment.

At the stage of implementation of the investment policy the following is developed: a concrete project plan, schedule of the preparatory period, schedule of the major tasks, supply of materials and raw materials, a bill for the equipment and the necessary resources. At this stage, strategic decisions are made that give a clear notion of the timing and amount of investment to the investors; capital investments are also made and contracts with partners are concluded.

The last phase - operational period – is connected with the completion of the investment project of the company; in some cases, an early termination of the project is possible. The early completion of the project can occur because the investor may change his plans, but also because of miscalculations and lack of financial resources for the implementation of the plan.

The problem of increasing the economic efficiency of investment policy is one of the major focuses in the activities of the state and businesses during the transition to a market economy. Ultimately, ways to increase investment efficiency are a major component of the financial - economic activity of an enterprise. The implementation of more rational projects will ensure the effectiveness of the organization in obtaining the maximum profit with minimum costs, government support, attraction of foreign investments, with an even resource allocation providing liquidity of investment and minimizing risks.

The main criterion for investment is obtaining the maximum profits. For a business profit is the basis of its functioning while profitability is the result, which ensures the project's ability to generate revenues.

All the processes of investment policy and gaining profit may take place in different temporal orders (Ragulina, Lebedev & Popov, 2013). During parallel processes, the income is obtained gradually in parallel with the investment process. In sequential processes, revenue and profits come after the complete investment of money in the activities of the organization.

Investment policy is a necessary link in the economic policy of the organization in general. While forming its investment policy, an organization is guided by the following principles: the existence of a work in progress, a sufficiency of own funds, assessment and analysis of the enterprise's financial well-being, the price of goods and revenues, the tax environment and the condition of social insurance, information on completed payments, the structure of the financial market and many other principles.

This course of investment policy requires the choice of methods of its implementation, as well as finding the most promising and effective ways to expand and modernize the scientific and technical progress. The main problem in the implementation of investment policy is to achieve economic, social, scientific and technological effect.

Public policy directly influences investment activities through depreciation policy using the following scientific methods.

Technical policy related to foreign investment. In this case, depreciation policy is developed and the government is guided by the following factors: timely revaluation of fixed assets, depreciation charges (used in the functional purpose), potentials of accelerated depreciation and the payback period of the investment income and economic efficiency derived from it.

In realizing this policy, the government allows the company to receive funds in the form of depreciation charges on manufacturing fixed assets.

The investment policy of a company is carried out in accordance with its ongoing investment program. Without a well-formed and developed policy of investment flows, the project may become uneconomic and its possibilities will be limited. There is a number of factors by which the effectiveness of a project is evaluated before it is put into action. They include the discounted payback period, net present value, the average rate of return, profitability index, internal rate of return, the viability of the project, etc.

Thus, we can say that investment policy and investments are an important element of the activities of an enterprise. They determine not only its present characteristics, but also its future prosperity.

Knowing all the details, every enterprise forms, develops and carries out its investment policy, taking into account all the strategic objectives, considering all the possibilities and ways to improve the economic efficiency that results from the implementation of such policy.

It is very important that all the components were taken into account at any of the stages of the investment process. The result will be an increase in overall efficiency of investment.

4. RESULTS

The economic efficiency of the investment policy as a whole is evaluated in order to determine the potential attractiveness of the project and the feasibility of its approval by the other participants. When analyzing the effectiveness of the project and carrying out the policy, not only the economic component should be taken into account, but also its social significance in view of the application of the scale. All environmental, economic and social consequences of megaprojects have an impact on the lives of the entire country's population.

Thus, the efficiency of the investment policy as a whole must be divided into 2 types: socio - economic (for the public projects) and commercial (for almost all projects).

Socio - economic efficiency takes into consideration the effects of implementing the investment project for the society as a whole, including direct costs and benefits from investment activities.

Commercial efficiency reflects the economic results of the project for each participant implying that he alone meets all the costs of the project, and uses all of its results.

The effectiveness of participation in any given project makes it possible to evaluate the result of investments, taking into account all the financial capacity and interest in it from all its participants.

Economic justification of the efficiency of an investment project is carried out in several stages:

Stage 1 shows the main indicators of the effectiveness of the project as a whole.

Stage 2 is launched after the development and formation of the financing system. This stage includes an updated list of participants, determines the financial realization and effectiveness of participation in the process of each participant.

There are also the main methods of economic justification of the investment policy: simple, statistical and discounted.

Simple or statistical methods do not take into account the time value of money and are based on the fact that the income and costs, are of equal value for different time intervals, during which the evaluation of the project is made. One of the best-known methods is the simple rate of return and payback period.

This value is compared with a required rate of return of the investor. If this value is greater, it means that the project is beneficial for the investor.

Statistical methods involve a comparison of indicators, which belong to different time intervals, with the main challenge being the comparison itself.

The methods used in the analysis of the investment policy can be divided into two groups: the ones based on accounting estimates ('statistical' methods) and those based on discounted estimates ('dynamic' methods) - the net present value, internal rate of return, index of return on investment, discounted payback return on investment.

The implementation of the investment policy is a far-reaching process that encompasses the totality of various directions of activity of the commercial organization. Therefore, it is always important what policy is most effective, what criteria stipulated the growth, which indicators and solutions to plan in order to analyze the results in case of an unfavorable outcome.

These issues are currently not sufficiently described in the economic literature, but still there are certain indicators and studies that are directly related to the efficiency of the investment policy.

The effectiveness of investment policies implemented by the commercial organization should be assessed from the perspective of achieving the goals, which include:

- implementation of strategic plans and an increase in overall economic efficiency;
- increase the profitability of financial - economic activity;
- positive results of investment;
- optimal ratio of risk and return on investments.

The main goal, however, is to create conditions that ensure positive development of the company and its sustainable economic growth. To justify the goal of each individual subject, the following system of efficiency of the investment policy is offered.

The indicators of economically viable investment policy fall in the following categories:

1. Indicators of the actual state of fixed assets:
 - the structure of investments into fixed capital; the structure is deemed effective if the largest part of the investment funds is channeled into the active part of productive assets;
 - the state of fixed assets (machinery, equipment, vehicles) - wear and suitability rates. The lower the wear rate is and the higher suitability rate, the better technical condition of the main assets of the company is;
 - interval of replacement of fixed assets - reflects replacement and retirement rates for a certain period of time. Greater values indicate high activity of the organization in updating fixed assets that is a necessary criterion for the implementation of investment policy;
 - annual growth dynamics of net investments in fixed assets. Net investment is the value of the cash flow directed into investment policy minus depreciation;
 - the flow of investments in fixed and current assets.
2. Indicators that characterize the flow of investments in real assets:
 - rate of return on equity;
 - liquidity rates;
 - turnover rates of fixed and current assets.

An effective investment policy also requires achievement of the parameters laid down in the investment project of the enterprise:

- the ratio of the planned and actual investments, and identifying deviations percent;
- the ratio of the planned and actual funding of individual areas of investment projects.

As a rule, all enterprises experience an identical problem of deficit of sources of investment and the lack of actual funds. Investment programs are not aimed at the number of investment projects; rather they are realized based on actually available funding sources. The structure of sources of investment may vary, but in most cases they are depreciation, the net profit and long-term borrowings. Own funds usually go into the modernization of the existing production process.

Investments and financial flows in assets have their performance efficiency indicators:

- the share of financial investments in the sum total of investment;
- the ratio of long-term and short-term investments;
- return on financial assets, both in total value and for individual instruments.

The indicators that characterize the investment policy of the enterprise as a whole:

- return on assets (the higher, the better);
- economic value added.

In addition, the company has indicators that characterize the investment policy as innovative:

- integral indicator of innovation capacity;
- profitability index, which reflects the ratio of investment and the final results.

The task of maintaining and increasing investment activity is usually solved by the market and by the state influencing the investment process. The state can stimulate investment activity of economic entities, as well as directly finance state investment projects using various economic regulatory tools - tax, fiscal, customs and tariffs, etc.

With regard to the investment situation of today, starting from 2013 Russia has not been among the 25 most attractive countries for investors, with the first three places occupied by the US, China and the United Kingdom. The top 25 countries will receive more than 50 per cent of all global foreign direct investment. While many would be willing to invest in Russia, the current sanctions and counter sanctions present a major obstacle, with the problem further exacerbated by political instability and unpredictability, state intervention into the economy and the crisis over Ukraine. In 2014, direct foreign investments decreased threefold, most of the investment was in the first two quarters. In the second half of that year, investors actively withdrew money from Russia.

According to the investors, the country reduced the number of major projects, which could attract large amounts of investment. While there still are interesting projects in Russia, they are not large enough to attract world investors.

Another important factor that may deter foreign investors and companies is the Russian tax system. To improve the investment attractiveness and retention of funds in our country it is necessary to conduct an intelligently thought-out investment policy, and to draw attention to investing into individual regions.

The main goal of the investment policy is to attract and retain capital, contributing to the socio-economic development of the territory and to the increase in the standard and quality of life.

5. CONCLUSIONS

The article contains a system of indicators that together assess the effectiveness of the company's investment policy on a number of factors, in particular, allowing to evaluate the effectiveness of investments in real and financial assets.

The effectiveness of the investment activities of the organization lies in the achievement of the set target parameters of the investment program, which show the degree of innovation of the process, and the degree of correlation of basic indicators of the investment project.

Only complete program of improving the investment policy of the enterprise can show if such policy is cost-effective and profitable, and whether or not it can meet the needs of the manufacturer, investor, consumer, and the entire state.

The interaction between the state program and the company's development program for the implementation of investment projects will launch a system of mutual support and improvement of the production process.

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