

Ways to Improve the Economic Efficiency of Investment Policy and Their Economic Justification

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ABSTRACT

In the period of overcoming the consequences of the global economic crisis, enterprises are experiencing a difficult period of change due to the complex impact of many factors that have a destabilizing effect on its sustainable development. The main factor, restraining in 2009-2011. Investment activity of enterprises, is the lack of own financial resources. Despite some positive shifts compared to 2010, financial problems again were the predominant negative constraints. High interest rates, tightening of the requirements for the guarantee limit the possibility of attracting external resources. The problem of lack of financial resources is significant due to the deterioration of fixed assets. A key condition for renewal of fixed capital, increase in production capacity is the successful implementation of investment policy, which, on the one hand, minimizes the costs associated with the use of capital, and, on the other hand, ensures capital growth through increased production volumes, intensification of technological processes, etc. This is what determines the need to improve the quality of management decisions, which determines not only the scientific significance, but also the practical value of recommendations for assessing the effectiveness of investment policy.

JEL Classifications: G11, G18, R11, R58.

Keywords: Economic effect, investment, investment policy, business case.

1. INTRODUCTION

As international experience shows, investments are a key factor in economic development, which ensures the renewal of fixed capital, and contributes to improving the competitiveness of producers on domestic and foreign markets.

The results of the study, it was substantiated that the investment activities of the enterprises are not deprived of the whole complex of problems related to legislative, institutional, personnel matters, and concerning the taxation.

Given this, the overcoming of these obstacles, the need to enhance competitiveness and sustainable use of socio-economic potential of domestic enterprises makes the consideration and solution of problems of formation and realization of investment policy of the company, in particular, to assess its effectiveness and determine development prospects of the enterprise.

In the economic literature the essence of the investment policy of an enterprise is interpreted in different ways: from the standpoint of process, the effective, evolutionary, etc. approaches (Ivashkovskiy, 2009). Despite the existence of different points of view, they all boil down to the fact that the investment policy of the company is part of the overall strategy of the company, which is a combination of different approaches and solutions aimed at the formation and implementation of the most effective ways of investing capital, ensuring financial stability of the enterprise, as well as the permanent reproduction of the investment process, together ensure the implementation of the strategic objectives of the enterprise (increase of net profit; the welfare of shareholders the increase in the market value of the company; expansion of operating activities, etc.).

Investment policies should be appropriate to the nature and scale of the enterprise must be documented, regularly reviewed and adjusted, available to governments and investors.

To determine the optimal direction of investment capital and identify the most effective ways to use it for quite a long period with stable returns necessary to develop investment policy and its successful implementation (Sergeevich & Vladimirovich, 2015).

In the formation and implementation of decisions should be linked in time and resources and should not conflict with each other, the result should happen a clear separation of duties, which greatly increases the potential of successful implementation of investment policies and facilitates the development of corrective actions.

2. THEORETICAL ANALYSIS

Theoretical basis of research were works of domestic and foreign scientists devoted to problems of formation and implementation of investment policy, investment process management.

The methodological basis of the study was the laws of dialectics, principles and laws of logical, evolutionary and historical approaches to the development of socio-economic systems. As tools of research were used methods of expert estimations.

The information base of the study included the data of Federal state statistics service, materials of the Ministry of economic development of the Russian Federation, data of periodicals, monographs and other scientific literature on the topic.

It should be noted that in the scientific literature insufficiently studied and illuminated the factors influencing investment activity and investment performance. In addition, among the authors there is no common view in the study of this question.

On the basis of generalization of literary sources and personal researches of the author all the factors affecting the efficiency of investment, can be classified according to the following criteria.

Depending on the magnitude of their influence can be divided into three levels:

- factors affecting the efficiency of investment at the macro level;
- factors affecting the efficiency of investment at regional level;
- factors affecting the efficiency of investment at the level of the enterprise (organization).

Consider the classification of factors in more detail.

The factors affecting the efficiency of investment at the macro level, include:

- the effectiveness of government economic and social policies;
- investment risk;
- perfection of the tax system;
- the rate of inflation;
- political and social situation in the country;
- the refinancing rate of the Central Bank and interest rate of commercial Bank;
- investment attractiveness;
- perfection of regulatory base in the sphere of investment activity;
- the degree of perfection of investment infrastructure;
- created conditions for attracting foreign investment;
- the effectiveness of government investment policy.

Factors affecting the efficiency of investment at regional level, are:

- the effectiveness of economic and social policies;
- investment attractiveness of the region;
- created conditions for attracting foreign investment;
- improvement of the tax system at the regional level;
- the effectiveness of regional investment policy;
- the degree of perfection of regional investment infrastructure;
- level of investment risk.

Factors affecting the efficiency of investment at the level of the enterprise (organization) are:

- the effectiveness of the enterprise economic and social policies;
- the existence of an effective investment policy;

- the quality and competitiveness of products;
- the level of fixed production assets and production capacity;
- the extent of rational use of available resources at the enterprise;
- competence of the managers of the enterprise and the degree of perfection of management of the enterprise;
- the quality and efficiency of implemented investment projects, etc.

Depending on the focus of the effect on the efficiency of investment all the factors can be grouped into two groups (Neshitoy, 2010):

- positive that have a positive effect on the efficiency of investments;
- negative, which adversely affect the efficiency of investment.

For example, positive factors include the reduction of inflation, the tax burden, the refinancing rate of the Central Bank of the Russian Federation, etc., and to negative — worsening economic crisis in the country; unstable social and political situation in the country, increasing inflation, etc.

Depending on the nature of the occurrence of all factors affecting the efficiency of investment, can be grouped into two groups:

- objective, i.e. factors, the occurrence of which is not related to human activities, and natural or due to such phenomena;
- subjective, i.e. factors, the occurrence of which is associated and caused by human activity, in particular managerial and creative activity.

All the factors affecting the efficiency of investment, depending on the time of their occurrence can be partitioned into temporary and permanent, existing.

Depending on the degree of influence on the efficiency of investment all the factors can be divided into three groups:

- have a significant impact;
- having a less significant impact;
- having a weak effect.

This classification is legitimate only for a short period of time, as the situation changes and the degree of influence of individual factors (Bai, Philippon & Savov, 2016).

It should be noted that between the investment efficiency, investment attractiveness and investment activity are closely linked, i.e. the efficiency of investment leads to investment attractiveness, which entails conducting investment activities.

Thus, the efficiency of investments determines the investment attractiveness and investment activity. The higher the investment efficiency, the higher levels of investment and bigger investment, and Vice versa.

3. DISCUSSION

In the conditions of market relations, priority should be given to the first economic levers, as they are by their nature best suited to a market economy.

Administrative tools should be used only if trying to achieve a certain goal, with significant economic and social importance for the country, economic instruments are insufficient or ineffective.

The state on the basis of improving the tax system, the implementation of sound fiscal policy and other levers should provide stability and a low inflation rate, which is a prerequisite for the revival of investment activity.

It is very important that investment activities in the country were regulated through specific legislative acts that have long-term character.

During the years of transition to market relations created a certain regulatory framework in the sphere of investment activity, which plays a positive role in investment activities. Its main disadvantages lie in the fact that it affected not all of the investment activities, changes often and is therefore still far from perfect.

All of this is one of the reasons for the weak flow of foreign investments into the Russian economy. A good regulatory framework provides the Foundation in managing the investment process.

Evaluation and selection of highly efficient investment projects is the main condition for the implementation of the current investment policy. Ultimately, the effectiveness of the investment policy and rate of economic growth is largely determined by the perfection of the system of selection of investment projects for implementation, its adaptation to existing and changing in time the conditions of economy functioning.

Directions of the Strategy Aimed at Value Creation

Implementation of the strategy aimed at increasing sizes of business, from the point of view of creating value for shareholders is based on three main areas:

- the formation of a package of investment projects, promoting business diversification, to reduce dependence on the market for the same kind of activity, entering new markets, etc. (Igonina, 2012);
- improving the efficiency of business operation (internal optimization), which includes cost management and risk management of the company, elaboration of optimal schemes for capital raising, financial, and organizational control based on key performance indicators, etc.;
- the effective interaction with the external environment, which includes interaction with the market (suppliers and consumers), Supervisory and regulatory bodies, investment and professional communities, etc.

Each of these areas differently, and to different degrees influence the creation of additional value for shareholders. But together, they allow the company to significantly exceed the pace of development compared to other market players and thus increase the well-being of their owners (Figure 1).

At the same time, one of the discussed areas, a special role is played by the development of investment programs, as the internal and external optimization are, first, the short-term nature (to optimize the

production process to infinity is impossible), and secondly, if business ran effectively, nothing special to convert or this option will have little value.

Therefore, the greatest emphasis, from the point of view of value creation must be done on the implementation of investment projects and programs, which would allow the company to grow more rapidly than the rest of the players and the industry as a whole.

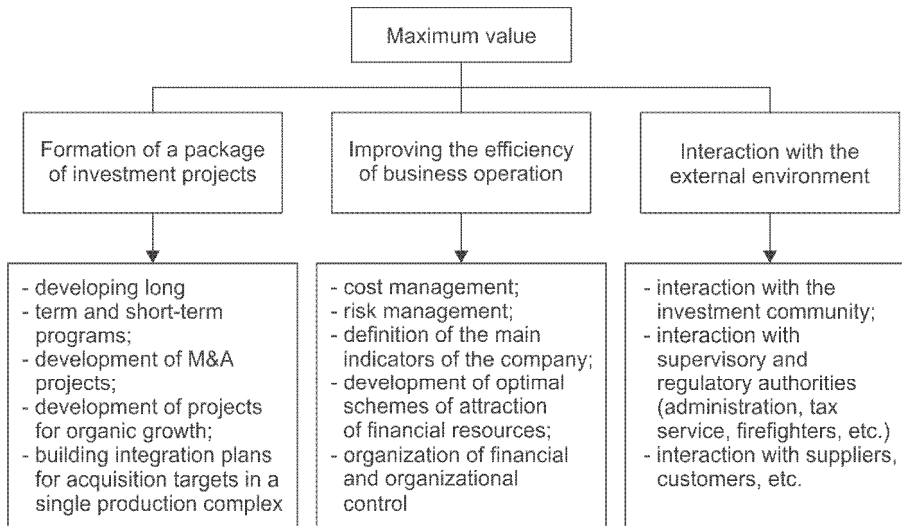


Figure 1: The Main directions of the strategy implementation aimed at value creation

To improve the efficiency of business, in addition to streamlining financial, production and organizational resources required, an estimate of feasibility and development prospects within the company, not peculiar to her business. Must be on time and without regret, get rid of non-core business to release additional resources and directing them to create value for the company.

The interaction with the external environment, of course, not an independent or individual work, as within the framework of internal optimisation, the company is still in contact with the outside world (in terms of suppliers, tax authorities, contractors, etc.) and, accordingly, builds the most optimal variants of cooperation and collaboration. We have singled out in order to focus readers' attention on this aspect, to show how it can be effectively influence market value. Especially in the diversified product or lines of business.

Returning to the sources of value creation it should be noted that the implementation of a number of programs, both investment and internal transformation requires substantial financial resources whose involvement is not always possible in a short period. In order to efficiently attract the necessary resources required making a number of adjustments as to the control system, reporting and interaction with the investment community, which requires greater transparency and openness. And this takes time and costs. It is therefore necessary to adequately assess their capabilities and optimal approach to their use.

In the system of management of real investments, the selection of efficient investment projects is one of the most important stages. Of how well carried out this selection determines the timing of return on invested capital, alternative options for its use, additionally generated income stream of the enterprise in the forthcoming period.

The use of traditional methods of economic evaluation involves a number of assumptions. For example, the NPV method assumes that the structure and cost of capital of the firm do not change during the entire life cycle of the investment project. In practice, however, this proposal is often not met.

Strong limitations associated with the use of to estimate of the accounting ratio (accounting earnings, profitability, etc.) cause the necessity of improvement to assess the effectiveness of the investment.

One of directions of perfection of selection of investment projects, the companies are recommended to consider the impact of so-called tax shield. It is a size reduction of the tax liabilities of the company caused by the increase of expenses deductible from taxable income (Hartwell, 2016). The effect of the tax shield arises when financing at the expense of attracted loans. In modern economic analysis, this method is known as “APV method”. It was proposed by S. Myers.

The basic idea of this method is to separate the cash flow into two components: the real cash flow, i.e. directly associated with the operations of the project, and “third party effects” or cash flow associated with financial policy of the firm. Main side effect is the tax shield (tax shield). Because interest payments are tax deductible, use of debt capital reduces the tax costs and thus increase the free cash flows from the project.

Thus, the use of the APV method for the selection of investment projects allows the companies to share the cash flows of the investment project and to estimate separate discounting using the respective rates. You will also be able to perform the different sources of value creation of the project.

Algorithm of Selection of Investment Projects for the Enterprise

A clear implementation of the proposed algorithm of selection of investment projects will allow to provide transparency of each stage of investment management, will identify and consolidate a clear subject structure of authority and responsibility for effective planning and implementation of projects of the company. The proposed algorithm of selection of investment projects for enterprises of different type are presented in Figure 2.

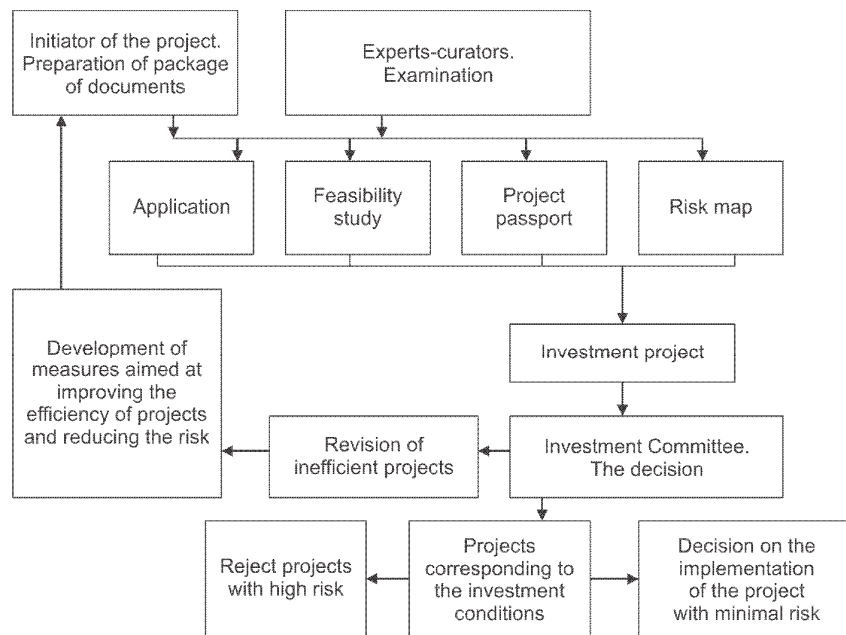


Figure 2: Recommended algorithm for the selection of investment projects for the enterprise

In a crisis economy management of investment activity of the enterprise should be conducted in conditions of increase of requirements to efficiency of investment projects.

Other areas of improvement of the mechanism of selection of investment projects, offered by us:

1. To set a specific priority analysis projects. Initially, you must evaluate the project for compliance with the company's development strategy, technical policy, requirements of industrial safety and environmental protection.
2. Then consider indicators of economic efficiency of the project. Profitability requirements must be installed by the owner of the company and to revise them only if the changed macroeconomic conditions, or if for a long time the vast majority of projects do not meet the specified "limit".
3. To consider only those projects that provide a certain level of profitability, the exception may be a status or social facilities.
4. If the project is small (the sum of the project amounts to \$1 million), and to combine with other projects it is impossible not to take it, even if the project corresponds to the level of profitability. After all, management would have to spend time on its maintenance out of touch with other projects that irrational.
5. With the aim of creating a unified algorithm of selection of investment projects and improve the efficiency of investment programs need to be developed regulating documents (regulations of the relationship between your business and complex investment management and other instructions, provisions, regulations).
6. Develop and implement a "risk Map" project, in which to assess the risks of projects scoring system. Projects that do not pass the examination on the risk map, to exclude from the project of the investment program.
7. To appoint curators of investment projects that have the opportunity to bring issues related to the implementation of the investment project for consideration by the investment Committee of the company.
8. For each investment project to carry out an individual procedure of technical, technological and financial feasibility with the expert opinion of experts about the investment attractiveness (feasibility) and profitability of the project.
9. Contractors and suppliers for investment projects must be determined on the basis of tender selection. Funding of projects to carry out within the allocated limits.
10. Monitoring of projects needs to be maintained for the main indicators at all stages of investment and post-investment periods (Bertsch, Hagspiel & Just, 2016).

Thus, summing up the discussion of the problems of improving the management of investment policy, it may be noted that in the system of management of real investments, the selection of efficient investment projects is one of the most important stages.

Decisions on the selection of projects and distribution of funds are made on the basis of the priorities established in the investment policy for the current period. The application of existing methods of an

estimation of efficiency of investment projects (simple and discounted) is always associated with a number of assumptions, but in practice these assumptions are often not met. In this regard, it is necessary to search alternative methods in varying degrees, to address the identified problems.

The implementation of a number of programs, both investment and internal transformation requires substantial financial resources whose involvement is not always possible in a short period. In order to efficiently attract the necessary resources required making a number of adjustments as to the control system, reporting and interaction with the investment community, which requires greater transparency and openness. And this takes time and costs. It is therefore necessary to adequately assess their capabilities and optimal approach to their use.

On this basis, proposals have been developed for improvement of the mechanism of selection of investment projects for implementation in the activities of the company. The use of the proposed algorithm will ensure the effective selection of investment projects based on risk and to give an objective assessment of the investment potential of the enterprise.

4. RESULTS

Valuation gives you a realistic idea of how the company will operate in the future. This is valuable for everyone: owners, managers, customers, suppliers, bankers, employees of insurance and tax services, investors.

Valuation has become an integral tool in the Arsenal of the modern Russian businessman, financier, or Manager. Without the knowledge of the evaluation activities it is difficult to do in conditions of market economy and the entrepreneur and government official, and politics and the ordinary citizen.

Valuation allows both buyer and seller to conclude a transaction based on the reasonable cost of goods, because the market value takes into account not only individual costs and expectations, how the market situation in General, market expectations, the current economic development, market reaction to the object of the transaction.

The process of enterprise valuation is the basis for the development of his strategy. Knowledge of the value of the market value gives the property owner to improve the production process, to develop a set of measures aimed at increasing the market value of the business. Periodic valuation allows to increase the efficiency of management and therefore to avoid bankruptcy and ruin.

To date, there are several approaches and implemented in their composition methods, which are given a monetary valuation of enterprise (business). In the domestic theory are declared and are borrowed from the Western practice three basic approaches to business valuation:

- the income approach (income approach);
- the cost approach (asset based approach);
- comparative (market) approach (market approach).

Income approach – a set of methods of valuation of the valuation object based on the determination of expected income from the subject property.

Cost approach – a set of methods for assessing the value of the assessment based on the determination of expenses necessary for restoration or replacement of the object of evaluation, taking into account its wear (Gorbachenko, Kuznetsova & Silnov, 2016).

The possibility of applying the comparative approach depends on the availability of an active financial market, because this approach involves using data on actual transactions. The second condition is an open market or the availability of financial information needed by the appraiser (Silnov, 2016). The third necessary condition is the availability of special services, collecting pricing and financial information. These approaches have certain strengths and weaknesses, and have a suitable field of application. However, when assessing the value of a business with the purpose of increase of reliability of calculations, the value normally uses several approaches and methods that complement each other.

The assessment helps to make the right investment decision, while reducing traditional costs. If each member of the proposed transaction tried to evaluate a particular object, then its expenses would have been pretty substantial because I would make a certain information base to acquire computer program, etc., which would use only one or two times and could not pay for themselves.

5. CONCLUSION

In the performance of any enterprise you might need in building a quality system of management of investment activity. Performed in the study showed that the improvement of the investment policy of domestic enterprises is a multi-factorial problem and must be tackled on many fronts simultaneously.

On this basis, proposals have been developed for improving the effectiveness of investment policies and improve the mechanism of selection of investment projects for implementation in the activities of the company. Using the proposed algorithm will ensure the effective selection of investment projects based on risk and to give an objective assessment of the investment potential of the enterprise. Any enterprise independently forms a system of criteria for the selection of attractive investment projects based on the priorities of the corporate investment policy and the desire to gain competitive advantage, perhaps developed in this proposal will improve the governance and investment policies to improve the organization of cash flow management in the enterprise to a new level.

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