Scientific Papers Series Management , Economic Engineering in Agriculture and Rural Development
Vol. 13 , Issue 1, 2013
PRINT ISSN 2284-7995 , E-ISSN 2285-3952

ESSENCE AND ROLE OF THE INVESTMENT STRATEGY WITH REGARD TO REALIZATION OF ENTERPRISE'S INVESTMENT ACTIVITY

Angela SESTACOVSCAIA

Moldova State University, 60 A. Mateevici, MD-2009, Chisinau, Republic of Moldova, Phone: +373 22577460

Corresponding author: ashestakovskaya@bk.ru

Abstract

The article presented is dedicated to the problem of investment strategy within the framework of an economic entity. Numerous specialized references have been examined in this regard. Different visions of investment strategy concept within the framework of an enterprise and their importance in the course of enterprise's long-term development have been analyzed. As a result of this study, factors of influence on investment strategy elaboration have been systemized; principles of investment strategy elaboration have been established; investment strategy goals have been determined; and investment strategy types have been identified. The author proposed her vision of the contents of the investment strategy elaboration process, having divided it into certain phases.

Key words**:** *essence, factors, principles of the investment strategy.*

INTRODUCTION

Investment activity of an enterprise represents a long-term process and that's why it shall be carried out with a certain perspective. At the present stage, enterprises have been realizing more than ever that stable and equilibrated social-economic development is based on permanent investments. Long-term management of investment activity shall rely on scientific methodology of foreseeing directions and forms of this activity, as well as on adjustment to the general goals of an enterprise and to change of conditions of the external investment environment. An investment strategy is an efficient instrument of long-term investment activity management.
Successive development of investment activity at the economic scale needs investment strategy elaboration. An investment strategy within the framework of an enterprise is examined in the specialized references from many points of view: its contents and importance [3], [6], [7]; determinant factors [12], elaboration principles [8], elaboration stages, goals and typology. In the course of this article elaboration, there has been set the goal to systemize theoretical approaches regarding importance of investment strategy elaboration within the framework of an economic entity, as well as development of investment strategy concept and contents of this strategy elaboration process.

MATERIALS AND METHODS

Study of the problem of enterprise's investment strategy has been carried out on the basis of numerous scientific works in this sphere. Methods applied include: monographic study, analysis of scientists-economists' visions and opinions and their synthesis. Application of these methods has allowed us proposing our own vision of the contents of the investment strategy elaboration process.

RESULTS AND DISCUSSIONS

This In general, the word "strategy" means a way followed for the purpose of set goals realization; as for an investment strategy of an enterprise, different scientific visions have been formed in the economic theory and practice.
To a wide extent, a strategy is a way followed for the purpose of set objectives realization [1].

As for an investment strategy, different scientific visions have been formed in the specialized references.

An investment strategy shall be viewed at the macro- and microeconomic level [10].

Some authors view an investment strategy of an enterprise as a general plan composed of two component parts [4], [6], [7], [8]:

1. System of long-term goals of investment activity of an economic entity, determined by general development objectives and enterprise's investment environment;
2. Complex of efficient measures for goals realization.

I.A. Blank mentions that an investment strategy shall be subordinated to realization of enterprise's general goals under conditions of substantial modifications of macroeconomic indicators, market processes regulation by the state, and investment market conjuncture and unstableness relating to it [3].

Finally, an investment strategy shall give an answer to those three questions [9]:

1) What directions of economic activity shall be developed?
2) How much will constitute the necessity in long-term investment resources?
3) What will be a feasible output from the chosen directions of assets allocation?

In other economists' opinion, an investment strategy is viewed from a greater number of interrelated aspects: institutional, economic, legislative-normative, information and analytic ones [10].

Institutional aspect of an investment strategy is composed of such elements as: investments types, investment portfolio, and risks.

Legislative-normative aspect includes:

1) Legislative and normative acts of the state that form a legal base and fiscal environment, within the framework of which an enterprise (corporation) forms an investment strategy and realizes an investment process.
2) Accounting policy of an enterprise (corporation) and internal regulations acts that assure, in their aggregate, a unique investment process within the framework of an economic entity, subdivisions of a corporation.

Economic aspect represents economic parties of an investment strategy, namely: a system of economic indicators for investment strategy evaluation, management and financing of the investment process.

Information and analytic aspect of an investment strategy represents a data processing system and includes the following components: data selection and sorting subsystem, data storage subsystem, data search subsystem, and data analysis subsystem. The data processing system forms the base of operative information circuit within the framework of an investment strategy and allows: a) responding in the operative way to modifications into the legal base and fiscal environment; b) forecasting economic perspectives of a market; c) planning modifications within the framework of investment aspect; d) correcting principal parties of economic aspect of an investment strategy.

Enterprise's investment strategy is one of the most important characteristics of an enterprise. But it is often formed occasionally [10].

A direct premise for forming an investment strategy is the general strategy of enterprise's economic development, in comparison to which, an investment strategy has a subordinated character [12].

Necessity in forming an investment strategy of an enterprise (corporation) is conditioned by the fact that investment resources are limited but potential objects of investing have different investment attractiveness. That's why there is a need in formulating an investment strategy in order to optimally distribute investment resources [1].

Investment strategy elaboration within the framework of financial management of an economic entity is a relevant problem, as well.

Relevancy of investment strategy elaboration is determined by some factors that may be arranged in groups as follows [5]:

1. External factors:

a) Economic situation in the country;
b) Development of technical-scientific progress;
c) Fluctuations in the financial market;

d) State's policy with regard to investment activity;

2. Internal factors:

a) Evolution of an enterprise from a life cycle stage to another one;
b) Modification of operational activity objectives in connection with appearance of new commercial feasibilities.

An investment strategy of an enterprise is elaborated on the basis of a complex system of principles including the following [8]:

1. Environmentalism principle examining an enterprise as an open social-economic system with a capacity to contact with external investment environment and to self-organize.
2. Conformity principle that stipulates compliance of an investment strategy with a strategy of enterprise's economic development, and that's why an investment strategy shall be coordinated with strategic goals and directions of operational activity. In other words, an investment strategy is deemed to be a principle factor of assurance of enterprise's efficient development.
3. Combination principle that means realization of operative, current and perspective management of investment activity of an enterprise.
4. Priority orientation towards the style of a strategic management entrepreneur. This style is based on search for efficient investment solutions regarding all directions and forms of investment activity. Directions, forms and methods of investment activity realization have been permanently modifying, depending on factors of the external investment environment.
5. Investment flexibility and alternative, this meaning that an investment strategy shall be elaborated with adjustment to modifications of the external investment environment. An investment solution may be made as a result of examination of alternative variants of directions, forms and methods of investment activity, selection of an optimal one and formation of general investment strategy and a mechanism of efficient realization basing on this solution.
6. Innovation principle providing that investment activity is a mechanism of implementation of technological innovations that assure consolidation of the enterprise's competitive position in the market. Success of enterprise's strategic development substantially depends on the degree of applying the results of progress in science and technologies in the course of investment strategy realization.
7. Minimization of investment risks.
   This principle reflects the fact that solutions of investment nature, made within the framework of an enterprise, modify the degree of investment risks. Depending on investment behavior in the presence of a risk, its acceptable degree is established in the differential way within the process of investment strategy elaboration.
8. Competence principle. It promotes necessity of involvement of specialists-professionals in the sphere of investment activity management.

Investment strategy elaboration is a process going through a number of stages. Number of component stages varies in various economic researches. The most frequently met stages in the process of elaboration of enterprise's investment strategy refer to [3], [13], [7], [8], [12]:

1. Determination of general period of investment strategy formation;
2. Examination of factors from external investment environment and investment market conjuncture;
3. SWOT-analysis of an enterprise, determining the specificity of investment activity;
4. Formation of investment activity goals;
5. Analysis of strategic alternatives and selection of investment activity directions and forms;
6. Determination of strategic direction for investment resources formation;
7. Investment policy formation with regard to principal aspects of investment activity;

8. Elaboration of organizational and economic actions system with view to investment strategy realization;
9. Appreciation of efficiency of the investment strategy elaborated.

As it results from the presented structure of the process on elaboration of enterprise's investment strategy, the most detailed structure may be found in the works by [4], [8], [12].

We consider that the structure of the process of investment strategy elaboration may be improved. From our point of view, this process can be systematized in phases and stages.

We consider that the starting point of this process is appearance of the idea on developing investment activity in a certain or several directions.

The process of investment strategy elaboration goes through analytic stage, after appearance of the idea. The following actions are realized at this phase.

- Retrospective analysis of enterprise's development;
- Analysis of the present economic-financial state of an enterprise;
- SWOT-analysis;
- Examination of capacity of the realization market – internal and external ones;
- Study of resources suppliers;
- Analysis of the external investment environment factors and investment resources market conjuncture.

Upon carrying out respective analysis, one shall proceed to the determination and projection phase. This phase foresees elaborations in the following directions:

- Determination of investment directions;
- Formation of investment activity goals;
- Elaboration of investment policy, programs and projects with regard to realization of investment activity goals;
- Determination of financing policy for investment activity in the perspective;
- Examination of strategic alternatives and selection of directions and forms for investment activity;
- Elaboration of a complex of measures of organizational nature with regard to investment activities realization.

Realization of this phase results in enterprise's investment strategy that is to be appreciated and approved. This refers to the phase of appreciation of the investment strategy elaborated and realization of some corrections if necessary. At this phase:

- Efficiency of investment activity is evaluated from the point of view of incomes evolution, financial results, realization market development, enterprise's position in the certain market segment, indicators of economic efficiency of production, economic-financial profitability of an enterprise;
- Principal investment risks and possible financial consequences are examined;
- Economic results obtained are also examined (growth of the enterprise's image, improvement of labor conditions of the personnel, improvement of customers servicing, etc.);
- Corrections in projects and programs are made in case of detection of some insufficiencies.

A decision on adoption of the investment strategy elaborated is taken.

Enterprise's investment strategy has certain goals and objectives. In other words, we shall mention that in the specialized references, there are more restricted and more broadside approaches to this problem.

As for the restricted approach, goals of enterprise's investment strategy are mostly viewed through the prism of operational activity development.

These goals include [10]:

- Maintenance of production capacities;
- Production expansion;
- Production intensification and modernization;
- New products launching;
- Loans contracting;

At the same time, Mihailov O.V. admits the goal of obtainment of incomes from financial investments, as well [10].

Other authors present a more broadside approach to the goals of enterprise's investment activity. Thus, Sohin E.I.

considers that an investment strategy has two principal goals [12]:

1. Maximization of profit from investment activity;
2. Minimization of investment risks.

The following objectives shall be realized in order to achieve these goals:

- Examination of external investment environment and forecasting of investment market conjuncture;
- Technical marketing examinations;
- Search for new, more profitable, investment possibilities;
- Appreciation of attractiveness investment projects and financial instruments with selection of the most efficient ones;
- Budget elaboration;
- Formation of optimal investment structure.

The author I.A. Blank emphasizes other objectives of enterprise's investment strategy [4]:

1. Assurance of strong rhythm of development of enterprise's operational activity through investment support.
2. Assurance of maximal profitability of real and financial investments apart and of enterprise's investment activity as a whole at the acceptable level of risk.
3. Minimization of risk of real and financial investments apart and of enterprise's investment activity as a whole.
4. Optimal liquidity of investments and possibility to rapidly reinvest assets in case of modification of internal and external conditions of investment activity.
5. Formation of sufficient investment resources in conformity with forecasted proportions of investment activity.
6. Search for way of acceleration of investment program in effect.
7. Financial equilibrium of an enterprise in the process of investment activity realization.

E.V. Kalinikova considers that formation of investment strategy goals is the initial stage in the process of investment activity and proposes the following [7]:

- Assurance of capital growth;
- Growth of profitability of investments and incomes from investment activity;
- Modification of proportions in forms of real and financial investments;
- Modification of branch and regional directions of investment programs, etc.

Goals of enterprise's investment strategy shall be determined on the basis of a system of principles including [3]:

1. Subordination of principal goal to investment management within the framework of an enterprise.
2. Orientation towards high results of investment activity.
3. Reality of goals.
4. Valuation of results – each goal shall be expressed in concrete value indicators.
5. Equivalence of treatment. Each goal of an investment strategy shall be perceived in the same way by all persons involved in its realization.
6. Scientific rationale – the base of formation of investment strategy goals shall be composed of objective economic laws determining the level of enterprise's investment activity and efficiency of its investment activity. Methodology of real evaluation of investment process parameters shall be used and system of goals correlation shall be determined.
7. Support – a system of investment strategy goals shall be formed so as realization of some goals would assure achievement of others. In order to do this, goals shall be classified depending on priority, dividing them into direct ones and supporting ones in the general hierarchy.
8. Flexibility – this means feasibility of correcting a system of investment strategy goals as a whole or some quantitative parameters due to modification of external investment environment factors or of internal potential parameters.

Selection of a strategy is a central problem of enterprise's strategic plan. As a rule, a company chooses a strategy from several possible variants.

Investment strategies of enterprises include several types.

From the point of view of the economists, investment strategies can be divided into 3 types [9]:

a) agressive; b) stabilizing, c) defensive;

Within the framework of these strategies, basic strategies of a company are identified, depending on the role of long-term investments and financial resources.

Aggressive strategy can be realized through:

a) Penetrating strategy (of restricted growth);
b) Strategy of accelerated growth.

A penetrating strategy (of restricted growth) directs its efforts towards deeper penetration into market and additional services in order to increase growth rhythms of sellers. Long-term investment programs and investment projects foresee organizational, technical and economic measures. A special attention is drawn to modernization of fixed assets, scientific researches and consolidation of financial positions.

A strategy of accelerated growth is aimed to absolute use of internal and external possibilities for company's development. This stage of growth shall be accompanied by economic efficiency growth. An investment program and portfolio of investment projects shall be oriented towards realization of the strategy of accelerated growth. Plans of capital allocations shall be correlated with long-term and current plans of a company.

Stabilizing strategy. Under conditions of economy not adjusted to enterprise's development cycles, the latter may go through a difficult period of unstableness when sales incomes and profits are lowering. There appears a necessity in elaboration of some special procedures of analysis that allow capturing the period when an enterprise is going from the stage of growth to the stage of decrease, i.e. reorientation from an aggressive strategy to an aggressive-defensive strategy.

A stabilizing strategy is oriented towards compensation of sales and profits and their future growth, i.e. towards going to the following stage of growth.

The defensive type manifests itself through a surviving strategy that is implemented in case of total disaster of economic activity, under conditions proximal to bankruptcy. The goal of this strategy is stabilization of the situation, i.e. going to a stabilizing strategy and later – to a strategy of growth. Such a strategy cannot last long. Here is a necessity in taking rapid and coordinated actions, on the one hand, and in great precaution in the decision-taking process, on the other hand. Due to these reasons, in the process of surviving strategy realization, severe centralization of management takes place and a managerial anti-crisis body is created promoting the following program:

- Management reorganization;
- Marketing reorganization;
- Financial reorganization.

It is extremely important to mobilize financial resources in order to realize investment projects with a high degree of recuperability for the purpose of launching new products and modernization of production capacity.

A variant of a defensive strategy is a liquidation plan. Such a plan includes measures for elimination of objects, which an economic entity does not need any more and which impede its development, these being non-profitable products and measures, non-efficient assets, and some subdivisions of an enterprise.

As for classification of enterprise's investment strategies, there is also another position.

Investment strategies can be divided in two types depending on the investment activity goal [10]:

1) pure ones if a goal has been determined;
2) mixed ones if two or more reasons have been determined.

Pure investment strategies are divided, in their turn, into:

a) conservative ones having the goal to maintain production capacities;
b) extensive ones – orienting towards production extension;
c) intensive ones – their reason being production intensification and modernization;
d) progressive ones – aspiring to new products promotion;
e) a strategy based on loans.

Mixed investment strategies mean various combinations depending on goals determined. For instance:

a) conservative-intensive one – foresees maintenance of production capacity but based on production intensification and modernization;
b) extensive-progressive one – foresees production extension and renewal of products assortment.
c) extensive-intensive one – foresees production extension based on its intensification and modernization.
d) conservative-progressive one – foresees maintenance of production capacity and renewal of products assortment.

Selection of an investment strategy depends on various factors. Pure investment strategies are selected due to significant influence of a factor.

Thus, a conservative strategy is chosen due to insufficiency of circulating monetary assets. An extensive strategy is determined in case of qualified personnel deficiency; an intensive strategy is accepted due to great competitiveness from the part of imported products; a progressive strategy takes place in case of scanty demands.

Enterprise's investment strategy is elaborated and later realized in correlation with other strategies, such as a financial strategy, innovational strategy, and market price strategy.

It is known that the principal goal of a financial strategy of an economic entity is maximization of its owners' prosperity based on increase of enterprise's market value. Realization of investment strategies is impossible without respective financing. Since a financial strategy has two aspects in its final – formation of monetary funds and use of monetary funds, it is evident that realization of activity, including investment one, will attract accumulated sources, on the one hand, and will bring new incomes and profits, on the other hand.

Investment strategy financing and obtainment of successful (economic and non-economic) results will lead to the following la effects:

- increase of net profit value;
- maintenance and improvement of dividends policy;
- growth of equity capital;
- synergism effect;
- improvement of enterprise's image.

Aggregate of these effects will result in increase of enterprise's market value.

An investment strategy shall be combined with an innovational strategy. Their symbiosis contributes to appearance of new products in the market, to a better quality, to reduction of production costs and, respectively, to competitive and adequate prices. These phenomena will be reflected in successive settlement of social-economic problems both at the micro- and macroeconomic level.

Connection between an investment strategy and a market price strategy is evident, in our opinion. An economic entity forms its incomes and, respectively, a part or all its investment resources namely through prices. At the same time, specificity of connection between these strategies is observed under conditions of unstableness (crisis and post-crisis period).

That is to say, the economist N. Raiskaia mentions that [11]:

An investment strategy means technological modernizations of products. From the aspect of competitiveness reestablishment, an investment strategy has maximal efficiency but it needs significant financial resources. It is evident that concomitant consolidation of financial resources in big volumes is very difficult under crisis conditions. During this period, efficiency of economic operations decreases and enterprises face the necessity in forming reserves for covering eventual losses in operational activity. Support of the real sector from the part of creditors is minimal namely during the crisis period. Insecurity of the future supplemented by reduction of resources base of banks (deposits withdrawal and diminution of capital market) provokes a more conservative strategy of banks under crisis conditions than under economy extension conditions) [11].

A market price strategy is a compensation for insufficient competitiveness of products through a flexible price policy. Under crisis conditions, enterprises promoting such a strategy maintain and even reduce prices through assimilation of controlled losses. A price strategy allows accumulating financial resources in accelerated way through increase of prices in a quicker rhythm if compared to expenses.

CONCLUSIONS

An investment strategy is an extremely important element for long-term development of enterprise's activity. A number of moments shall be taken into consideration when elaborating an investment strategy, such as: internal and external factors; elaboration principles, determination of the system of objectives, investment strategy type and establishment of relation between investment strategy and other strategies. Approach to an investment strategy through the prism of these essential moments will contribute to successful management of enterprise's investment activity in the competitive environment.

REFERENCES

[1] Bandurin A.V., B.A. Ciub., 1998, Corporation's Investment Strategy at the Regional Level, Science and Economics, Moscow, 176 p.
[2] Belousova Olga, 2005, Mechanisms of Investment Strategy Realization, Problems of Management Theory and Practice, Moscow, no.12.
[3] Blank I.A., 2001, Innovative Management, Elga-N, Nika-Center, Kiev, 448 p.
[4] Blank I.A., 2006, Enterprise's Financial Strategy, Nika-Center, Moscow, 520 p.
[5] Cernov V.A., 2003, Investment Strategy, Course of Studies of Higher Educational Institutions, UNITY-DANA, Moscow, 158 p.
[6] Dorofeev V.D., 2006, Anti-Crisis Management, Publishing House of the Penza Institute of Economic Development and Anti-Crisis Management, Penza, 209 p.
[7] Kalinikova E.V., 2011, Innovative Management, Ulyanovsk State Technical University, 147 p.
[8] Lahmetchina N.I., 2006, Enterprise's Investment Strategy, KNORUS, Moscow, 148 p.
[9] Mihailova E.A., Orlova L.N., 2008, Economic Evaluation of Investments, Rybinsk State Aviation Technology University, Rybinsk, 176 p.
[10] Mihaliov O.A., 2004, Enterprises' Investment Strategies, EKO, Moscow, no.2.
[11] Raiskaia N., 2010, Interrelations of Investment and Price Strategies in Industry, Moscow, no.10.
[12] Sohin E.I., 2004, Financial Management, BK-PRESS, Publishing House, Moscow, 408 p.
[13] Zubova Olga, 2009, Stages of Formation of Asset Portfolio Investment Strategy, Entrepreneurship, Moscow, no.1.