

FORMATION OF PRINCIPLES OF INVESTMENT STRATEGY OF INDUSTRIAL ENTERPRISES

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Annotation. *The types of entrepreneurial activity and form of enterprises are investigational. Described business system and her elements. Sequence of executions and in accordance with principles which provide the acceptance of effective administrative decisions aimed at realization of investment strategy of industrial enterprises is offered. Tasks which must be the strategies of industrial enterprise taken into account in the process of choice are certain. The stages of life cycle of industrial enterprises are set from the period of "birth" to the period of "expansion". Expediency of different forms of strategy of diversification of investment activity of industrial enterprises is reasonable.*

KEYWORDS. *Forms, strategy, diversification, investment activity, task, life cycle, stages, decisions, systems, principles.*

Results. A business system being an economic system has such elements: entrepreneurial business; state business; consumer business.

The subjects of entrepreneurial business are businessmen - legal entities and individuals- who are interested in getting income through production and selling, fulfilling work and delivering services.

The types of entrepreneurial activity depend on the forms of ownership and organization.

There are different organizational forms of enterprise: state, rent, individual, private, domestic, different societies, and joint ventures. There are big, medium, and small companies. The companies differ in their relation to property. The functions of a businessman and an owner are separated at a large enterprise; that means that the capital function is separated from the capital owner. The functions of the owner and the businessman coincide at the small company. The middle business is on border of the large and the small enterprise and combines the features of the first and the second one [1, p.13].

The combination of such types of enterprises creates market environment, in which every businessman occupies the niche, finds the place and solves the management problems considering the criteria of production efficiency, own interest, and commercial success.

A small enterprise is accessible to population. Small business must be encouraged by the state for strengthening entrepreneurial environment. Development of small business creates bigger employment opportunities and is the main "supplier" of workplaces for the state.

Entrepreneurial business is subdivided also into production, commercial and financial.

Production business is the production, consumption of commodities and services and is represented by enterprises, firms, establishments.

Commercial business is the exchange, distribution and consumption of commodities through trade establishments and exchanges.

Financial business is circulation and exchange of costs through banks and stock exchanges.

State business is carried out by state bodies; that means they enter the market with business propositions. State business interest is providing the priority of national scientific and technical, production, and other objectives which satisfy interests of national economy. The state encourages firms participating in these programs, to provide their performance. The basis of state business is national property on capital goods, information, money resources, and securities.

Consumer business is carried out by public with the aim of getting commodities and services by the independent selection of producers and salespeople on the basis of maximal benefit. For the consumers of commodities a benefit is a commodity (favour) which satisfies their needs the best way. The basis of such business is the property for consumer goods and services.

Business strategy is maximization of benefit (profit, income) in the process of realization of various agreements. This

strategy is realized depending on a definite case considering the terms of realization, period and subject of an agreement [2, p.77].

An entrepreneurial environment is a complex of external terms and strengths, which effect the opportunities and results of entrepreneurial activity of subjects of market relations. It is divided into external and internal environment.

External environment is foremost legislative and regulative bases, competition, market infrastructure, stimuli, and features of economic development of the state, socio-political terms and so on [3, p.94].

Internal environment is the presence of outset capital, the system of doing business (marketing, management).

Entrepreneurial environment can be favourable, or unfavourable. The level of favourableness of entrepreneurial environment depends on the following factors:

- property rights of a businessman to capital goods, product and incomes;
- certain rights and freedoms, choice of type of economic activity;
- favourable psychological climate;
- the level of market competition development;
- the reliability of protection of a businessman rights;
- the state support [4, p.15].

An unfavourable environment is the absence of the above-mentioned conditions. Partially favourable environment exists in the case of instability of economy and society. Entrepreneurial environment constantly changes due to various cyclical and not cyclical factors

Cyclical factors are divided into evolutionary and wave, and not cyclical – into constantly operating and not constantly operating.

Evolutional factors are irreversible factors which in the absence of other influences operate in a certain direction (for example, the tendency of increase of population, increase of general production).

Wave factors change an entrepreneurial environment in the different intervals of time with an identical or similar conditions (for example, labour productivity, price, interests on a capital, rate of unemployment and so on).

Constantly operating not cyclical factors signify the change of level of economic development, scientific and technical progress, monopolization, government control, militarization of economy, competition. Inconstantly operating non-cyclical factors are seasonal fluctuations, social conflicts, political crises, calamities.

The driving force of business development is the needs and personal economic interest which is the basis of needs.

Business development is impossible without corresponding operating conditions. They provide a legislative and normative base, competition environment, market infrastructure and stimuli of entrepreneurial activity.

The methodological basis of business is a theory of market management.

A market is a form of economy functioning, and a market mechanism is an important regulator of economic development.

Functioning of market mechanism has some conditions, which allow to make important conclusions about the character, type and level of organization of market:

- independence and freedom of action of businesses;
- an opportunity to independently place an order and to freely dispose of own incomes;
- responsibility for the use of resources, for possible losses and ineffective decisions;
- the opportunity of mutual choice of partners at the market;
- competition as a result of sufficient amount of producers and consumers of commodities.

Forming of enterprise environment and effective market mechanism need taking the following measures: denationalization and privatization; reformation of financial, credit money system and pricing; demonopolization of economy; creation of the effective system of population protection.

Forming of market environment presupposes the encouragement of such activity by tax deductions, direct state grants, financing of important innovative projects [5, 69].

The specification of investment strategy according to the periods of its realization means sequencing in the terms of achievement of definite goals and strategic tasks. In the process of this specification external and internal synchronization in time is provided. External synchronization means synchronization of the investment strategy with the general strategy of economic development of a corporate structure, and also with the forecast changes of the investment market. Internal synchronization means synchronization of separate directions of investing, as well as synchronization with forming the necessary investment resources.

The last stage is the estimation of the developed investment strategy and its correspondence to the principles of the investment strategy forming.

The basis of the process of the choice of strategic directions of investment activity is the aims of this activity. The following tasks must be taken into account in the process of choice:

- 1) determination of correlation of different forms of investing on the definite stages of the considered period;
- 2) determination of branch orientation of investment activity;
- 3) determination of regional orientation of investment activity.

Correlation of different forms of investing on the definite stages is related to directions of activity of a corporate structure.

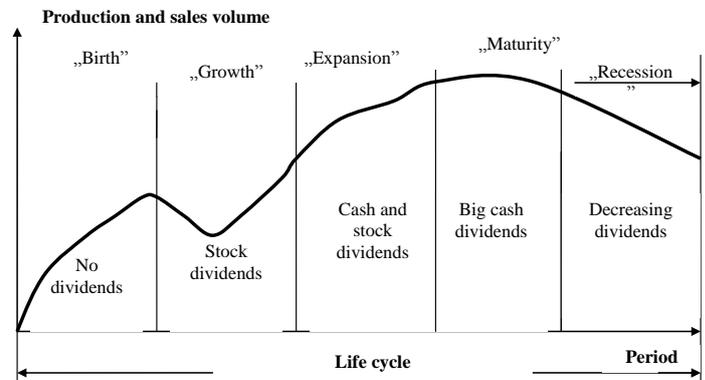
Institutional investors carry out the investment activity mainly at the stock market. Thus the main form of a long-term investment activity is investing in stocks, bonds, saving certificates and other financial instruments. Real investing in such structures can fluctuate within the limits set by norms and regulations developed for each of the group of investors.

Production corporate structures have real investments as the basic form of investing. This form of investing allows such structures to develop in the highest pace, to master new products, to penetrate into new commodity and regional markets. Financial investments of such structures are short-term investments of temporally free money carried out with the purpose of instituting control (or influence) over the activity of definite companies (partners, competitors and so on).

Solving this task substantially depends on the stages of life cycle of a corporate structure (Picture 1). On the stages of "birth" and "growth" most part of investments is the real, on the stage of "expansion" the real investments (capital and circulating capital) prevail as well; and only on the later stages of the life cycle ("maturity") corporate structures can increase the share of financial investments. In order to avoid the period of "recession" and prolong the period of "maturity", it is necessary to diversify the activity of the corporation; that means to give up those directions of activity, which do not bring income, and to develop new directions of activity, which bring income.

Besides the basic directions of production or financial activity many corporate structures (holdings, financial industrial groups, multinational corporations) buy publishing organizations, TV and radio companies, participate in show business as sponsors or direct shareholders, organize tour operators and so on.

The business timely diversified allows to avoid the period of "recession" of a corporate structure. Instead the duty stage of the life cycle of a corporation starts but not from the period of "birth", but from the period of "expansion".



Picture 1 Character of stages of the life cycle of a corporation

Note: Created by the author on the basis of [6, p. 120]

There is a correlation between forms of investing and the size of a corporate structure. Investment activity of small and medium size structures is related to the real investments, when large corporations perform mostly financial investments. The general economic situation which determines the situation at investment market influences the correlation of the real and financial investments. When the economy is unstable, the inflation is high, permanent change of tax rates takes place the efficiency of the real investing is low and the investment risks are high. Financial investments especially short-term are more effective in such periods (on condition that the profitability of these investments exceeds inflation rates).

Taking into account these terms of estimation of different forms of investing differentiate according to the separate stages of investment activity of a corporate structure.

The experience of investment activity of the corporate systems in the second half 1990s shows that a branch orientation is the most difficult task of the investment strategy development. This decision requires the stage-by-stage approach to forecasting the investment activity together with the general strategy of economic development of a corporate structure. On the first stage the expediency of two basic strategic directions of investment activity is investigated: Branch concentration. Investment activity diversification.

As a rule, the initial stages of activity of a corporate structure are related to its concentration on the industry which is most familiar to investors.

The review of the western practice shows that many of the most successful investors attained the high level of welfare using the strategy of concentration that is staying within the diversified activity. Especially bright examples are provided by the production of separate types of technological products (computer technique, computer software and so on) or products that meet the needs of a larger circle of consumers. At the same time there is the biggest amount of bankruptcies among investors which use this strategy. It is determined by the fact that the concentration is connected with the higher level of investment risks, than can be afforded by most investors.

The strategy of branch concentration (if chosen by an investor regardless the high level of risk) can be used only on the first three stages of the life cycle of a corporate structure, because under favourable circumstances it provides the highest rates of

production development of capital increase. On the next stages of the life cycle as the demand satisfaction in the products is reached the strategy of branch diversification of the investment activity is to be developed.

On the second stage the expediency of different forms of branch diversification of the investment activity is investigated within the framework of a certain group of industries, for example, of agricultural industry, food industry, transport and so on. Such branch diversification allows an investor to use the accumulated experience in the field of marketing, production technologies and so on and to determine the efficiency of investment. In addition, the use of branch diversification even within these limits allows to substantially reduce the level of investment risks.

The diversification of investment activity of a corporate structure within the certain group of industries is connected with forming the so-called "strategic areas of business". Such formation is carried out in the process of the development of the general strategy of economic development of a structure and is an independent economic segment, which carries out the activity in a number of contiguous industries, united by consumer demand, raw material or technology. The strategic area of business is responsible for the development of the list of competitive products, effective sale strategy, and also providing the investment strategy.

At the same time, such strategy of investment activity has some drawbacks. The basic is the fact that contiguous industries have similar in time branch life cycle within their group. This increases investment risk, especially in traditional industries of economy. In addition, the products of such industries are effected by identical cycles, that increase investment risk in certain unfavourable periods. Therefore the use of the strategy of diversification of investment activity within the certain group of industries is effective only at the favourable prognosis at corresponding commodity markets.

On the third stage the expediency of sharp forms of diversification of investment activity is investigated from the point of view of different, unconnected with each other groups of industries. The necessity of use of such strategy is determined by the fact that for many large and medium size companies which perform for a long period, the traditionally chosen industries (separate or within the certain groups) slow down the rates of perspective development, high yield from investments, and sometimes cause strategic vulnerability in competitive activity. The condition of such diversification of investment activity, as the analysis shows, is forming "the strategic economic centres".

Conclusions. A strategic economic centre is an independent structural unit of CS, which includes a few strategic areas of business (the system of such strategic economic centres was first realized at the American firm "General electric", that allowed the company to considerably increase the efficiency of the investment and economic activity). A strategic economic centre fully develops the investment strategy which is an independent element of investment strategy of a corporation. Due to the choice of industries with the different stages of the life cycle and with the different fluctuations periods the level of investment risks substantially goes down.

Diversification of the investment activity, carried out in the process of the second and third stages of the investment strategy development, is carried out considering the forecast estimations of development of separate industries (or groups of industries).

Regional orientation of investment activity when developing the corresponding strategy of CS is determined by two basic factors: the size of corporate structure; performance period.

Most of medium size firms and considerable part of small firms carry out the activity within the limits of the region of investors' residency. For such firms the opportunity of regional diversification of investment activity (especially real investments) is limited due to the insufficient volume of investment resources and substantial complication of the investment and economic activity management. The fundamental opportunity of regional diversification is possible only for financial investments, however their volume is small; that is why investment decisions can be made

not within the developed strategy but when developing the investment portfolio (that is on the stage of investment activity tactical management).

The second factor which determines the necessity of such development is the corporate systems performance period. On the first stages of its life cycle the economic and investment activity is concentrated, as a rule, within one region, and only with further development of CS there come a need in regional diversification of the investment activity.

The basis of development of regional investment activity is the estimation of investment attractiveness of different regions. Due to stability of many regional development factors the results of estimation of investment attractiveness of regions usually is not subject to dramatic changes and can be used for development of investment strategy.

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