

THE INVESTMENT ATTRACTIVENESS EVALUATION: METHODS AND MEASUREMENT FEATURES

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Abstract: Today, enterprises operate under the fierce competition. So, there is a need of quick reaction on changes in external environment, and improvement of the performance. Constant development is the key to success for any organization. However, this process requires investment - the growth engine for the company. The only way to attract the capital and strengthen market positions is raising the level of the investment appeal. Approaches determination of the investment attractiveness evaluation, gives a deeper understanding of this economic category, and as a consequence the possibility of effective investment attractiveness management - one of the main tasks for any enterprise.

Keywords: investments, investment attractiveness, evaluation, enterprise, financial ratios, approach.

Introduction

Crucial step in investor's decision making process is the evaluation of the investment attractiveness of the enterprise. It characterizes operational activity, market position, and possible risks associated with the process of investing. Investment attractiveness of the company is an economic category, demonstrating the effectiveness of functioning, characterized by a set of quantitative indicators and qualitative components that cover various aspects of business and determine the possibility of profits maximizing for investors (in comparison with other objects of possible investment) in the presence of a certain risk level. Today, there are several approaches, in which developed a large number of methods that have their own features and characterize the investment attractiveness of enterprises from different sides.

The first approach - assessment using financial ratios

Quite common is an approach of investment attractiveness evaluation based on describing the financial situation in the organization with the help of necessary parameters (coefficients) [1, 2, 3, etc.]. Government agencies also use this approach; they have the approved methodology [4]. Financial situation is a complex concept and combines all main aspects of enterprise performance: solvency, business activity, organization of settlements and others. So, it is a good way to determine the investment efficiency, accurately estimate the prospects of analyzed company in terms of resources mobilization opportunity and future return of involved investments.

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The information source is accounting data, namely (balance sheet, income statement, statement of cash flows), the assessment is carried out for a specific period, so it is important to identify the major changes during this time to forecast future trends. There are a lot of methods based on the diagnostic of financial indicators [5], [6], etc. In spite of their diversity in the economic literature, the main differences are determined by the following circumstances:

- number of coefficients used;
- weight parameters estimation;
- methods of the integral indicator outputting.

Literature in finance and financial management proposes about 50 indicators to analyze the current state of the organization. However, in practice we use much smaller number of them. Authors whose works we have analyzed [7, 8 and others], observe the same opinion. Analysis includes the following groups of assessment:

Group I – liquidity indicators;

Liquidity ratios, expresses a company's ability to repay short-term creditors out of its total cash. The liquidity ratios are the result of dividing the total cash by short-term borrowings. It shows what number of times short-term liabilities are covered by cash.

Group II - indicators of financial stability;

The main objective in the analysis of financial stability is the determination of the degree of independence of the company from debt capital.

Group III – profitability indicators;

Profitability ratios show a company's overall efficiency and performance.

Group IV - indicators of business activity;

In the field of business activity, we are analyzing the turnover ratios, their levels and changes that occur.

Each group can be presented by different number of indicators, depending from the analysis or from the particular investor. The main problem is choosing the evaluation criteria after receiving actual data. For the comparison it is better to take the financial ratios of best companies in the industry or the average level. Also it is possible to analyze the dynamic of the indicators for the given period and characterize trends.

In our view, this approach is not complete, as the activity of an enterprise presented only in terms of its financial position and there are other equally important aspects of the performance. The obvious advantage of this approach is the simplicity and accuracy in the reflection of quality of companies work.

The second approach - assessment of securities indexes

The basis of second direction - is the dynamic of market indexes of securities, it includes the demand and supply on company's securities, the analysis of exchange value dynamic, etc. Scientists supporters of this approach [9, 10, 11, etc.], argue that firm's data, which become the object of the analysis are presented in the exchange rates. In the center of the evaluation are operations on purchase and sales

of securities. However, the state of the stock market in Ukraine not allows to make such analysis yet, so it is difficult to use it in the process of business investment attractiveness evaluation. Attempts to create the system of national indices and analytical information collecting are carried out by private organizations that specialize on consulting services in the investment field. However, it is difficult to talk about the reliability of presented data. Primarily it is because of lack information about enterprises and its low level, not because of the methods quality. Conducting of such analysis will become possible and even necessary in further development of the market economy. Making more transactions with securities will lead to the appearance of real quotations of stock instruments, but of course this assessment is not suitable for every business.

The third approach - a comprehensive evaluation of investment attractiveness

The third approach examined in detail E. Yakimenko [12] A. Dyskina [13] V. Mykytyuk [14] and other researchers. They evaluate the investment attractiveness as a comprehensive category. In this case it is characterized by a set of economic and psychological components that outline the opportunity to achieve the intended results from investments and risks associated with this process for the investors. Under the economic indicators we understand financial analysis (we discussed it above) and assessment of other sides of the company's performance (they can be calculated or defined through expert way). This method helps to describe each component of investment attractiveness (management, marketing, production, etc.). Under the psychological component we understand a subjective investor's preferences concerning the indicators of the enterprise activity. In this case, everything depends on the specific person or group of people, their expectations and desires. Using the approach which more comprehensively describes company's performance by covering various components, we need to use expert evaluations [15, 16 et al.]. Methods of peer review based on the subjective opinion of a specialist (individual) or selected group of experts (collective), who have the professional, scientific and practical experience. Methods of expert assessment apply when it is difficult to calculate an important component of organization's performance. In this case involving expert opinion solves the problem in the best way. To process the results it is better to use mathematical - statistical tools.

An integrated approach is more sophisticated and versatile for the estimation of company's investment attractiveness, primarily because it includes economic calculations and expert opinion, so comprehensively describes an enterprise. But it is better to use this approach in the case of making a choice between multiple objects. At the first stage, to exclude unnecessary variants, or simply to make rating by the level of investment attractiveness is much easier to use two previous approaches. Of course if the particular company estimates the level of its own investment appeal for further development, the integrated variant fits best.

In any case, no matter what type of the analysis we want to use (simplified method based on financial ratios, market or integrated approach), the grading will be as follows (Figure 1).

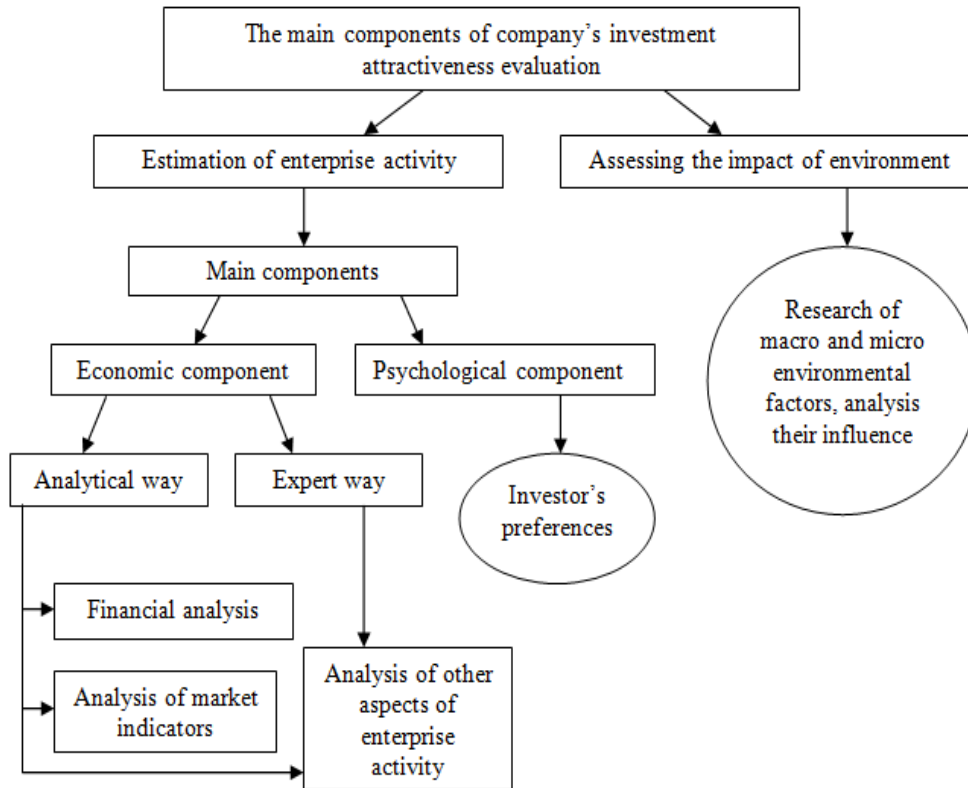


Figure. 1 Enterprise investment attractiveness evaluation
 Source: Own research

Importance of the determination of company's lifecycle stage

An important thing during assessing the investment attractiveness is a determination of company's life cycle stage, especially in terms of the analysis of financial coefficients. The weight of each indicator and its normative value may be different depending of the enterprise's life cycle stage. Different stages of the economic system in its own way define the need in investment capital, possible future returns and risks; determine the best strategy, which implementation will increase investor's interest. Using this theory helps in easiest way to predict the further course of company's development.

The origin of the theory was the result of biological cycle adaptation, but it should be noted that this is only an analogy. There is always some uncertainty in the company's development, and not necessarily that its activity will have a curve

decline. Researchers determine different number of stages of the life cycle of an enterprise [17, 18, etc.], range from four to ten. In the economic literature mainly uses approaches that have four stages, but there are other interesting theories. For example, a very popular theory among scientists, is represented by I. Adizes, his model includes ten stages [19].

For the determination of the life cycle stage, it is better to use a comprehensive approach, which requires detailed research, using analytical and expert methods. But if we don't have the opportunity of such analysis, market information can help in the assessment. It is more important to reflect the development specificities of each organization, considering changes in time, than comparing companies with each other. Providing the investment attractiveness is necessary to develop a strategy based on the life cycle stage of the company, because measures that should be taken can differ.

Finally, we want to present all steps in the company's investment attractiveness research process on the scheme (Figure 2).

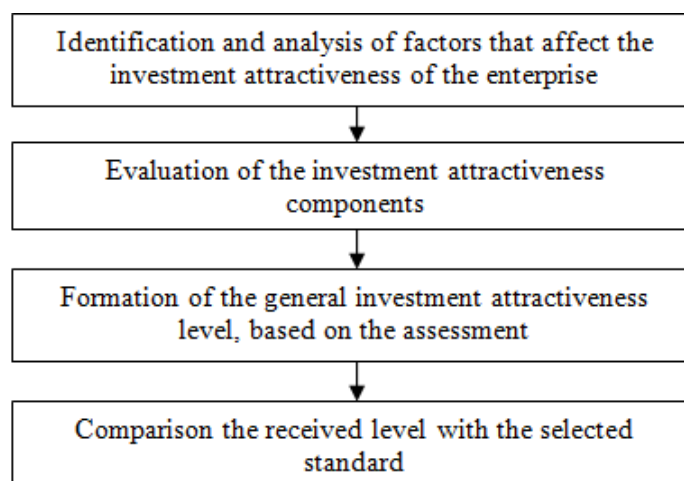


Figure. 2 Steps of the company's level of investment attractiveness determination

Source: Own research

Summary

As a final point, we can conclude, that there is no single and completely faithful version of enterprise investment appeal evaluation. In the process of method choosing, many factors should be considered, including: the determination of goals, the availability of reliable information, business specific etc. We have already learned that there are different indicator systems, which we can use. These systems vary depending on the evaluation approaches of companies, but they still have to build the overall level of investment attractiveness which will characterize the organization in comparing with others or with the standard. Using any of the

assessment approaches we need to remember about indirect (the state of economy, political situation etc.) and direct (market conditions) effect of environmental factors; they must be analyzed to examine the impact on the company, its investment appeal, to identify the opportunities and threats for the enterprise. Determination of the investment attractiveness level is very important for both investors and managers. They need to understand the company's position on the market, its strengths and weaknesses to make sure what steps are necessary to take.

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METODY I FUNKCJE POMIARY OCENY ATRAKCYJNOŚCI INWESTYCYJNEJ

Streszczenie: Obecnie przedsiębiorstwa działają w warunkach ostrej konkurencji. Tak więc istnieje potrzeba szybkiego reagowania na zmiany w otoczeniu zewnętrznym i poprawa wydajności. Ciągły rozwój jest kluczem do sukcesu każdej organizacji. Jednakże proces ten wymaga inwestycji – silnika rozwoju organizacji. Jedynym sposobem aby przyciągnąć kapitał i umocnić pozycję na rynku jest podniesienie atrakcyjności inwestycyjnej. Określenie podejścia do oceny atrakcyjności inwestycyjnej daje lepsze zrozumienie tej kategorii ekonomicznej a w konsekwencji możliwość efektywnego zarządzania atrakcyjnością inwestycyjną – jako jedno z głównym zadań każdego przedsiębiorstwa.

Słowa kluczowe: inwestycje, atrakcyjność inwestycyjna, ocena, przedsiębiorstwa, wskaźniki finansowe, podejście

的投資吸引力評估：方法和測量功能

摘要：今天，企業在激烈的競爭下運作。因此，有必要對外部環境變化，和改進的性能的快速反應。不斷發展的關鍵是任何組織的成功。然而，這個過程需要投資 – 該公司的增長動力。只有這樣，才能吸引資本和加強市場地位，提高投資吸引力的水平。方法確定的投資吸引力評估，給出了一個更深入的了解這個經濟範疇，作為一個後果，有效的投資吸引力管理的可能性 – 對任何企業的主要任務之一。