ESSENCE, MEANING AND CLASSIFICATION OF INVESTMENT DECISIONS

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Development of enterprise, improving production and increasing its efficiency are directly related to investment activities’ run. The problem of investment activities realization became one of the most important ones in the process of economic reform in Ukraine. Adopting the effective investment decisions becomes an important task herein. Making an investment decision is impossible without taking into account such factors as the investment type, the investment project value, the existence of alternative projects, limiting the financial resources available for investment. Specific feature of investment decisions is that they are associated with uncertainty and risk, provides for a mandatory use of special tools (risk analysis).

Unsolved parts of problem

At nowadays Ukraine economy particularly difficult is the process of making investment decisions. The enterprise’s investment activities represent one of the important directions of multidimensional activities in a market environment. The company’s success in both short and long terms depends on the intensity and effectiveness of investment processes. The existing definition of "investment decision" describes a complex of managerial decisions made at the pre-investment stage of the investment process’ life cycle. The classic definitions do not relate to real investment never describing the nature of decisions taken in the sphere of the investment project. To make effective investment decisions at the industrial enterprises necessary is to determine the nature, characteristics and to generate the appropriate classification of investment decisions made on the investment project implementation stage.

Analysis of the recent research and publications

The definition of "investment decision" is discussed in scientific studies of Ukrainian and foreign scientists: Kurelenko T.P., Khrustalev V.V. [5], Gavrilova N.V. [3], Vlasyuk T.M.[2], Atamas P.Y. [1], Petrun J.E.[7]. Determining the term "investment decision" the authors divided into two groups; the first one believes that "investment decision" is a kind of management decisions, the second is asserting that it is a decision with the financial losses issuing as a consequence.
Classification of the investment decisions represented in scientific studies of: Gavrilova N.V., Cherep A.V. [8] Kurelenko T.P., Khrustalev V.V., Petrun Y.E. Most extensive classification of investment decisions is presented at the manual "Knowing of investments" Cherep A.V. [8]. Later this one has been developed and presented in the work of Kurelenko T.P. and Khrustaleva V.V. "The logic of decision-making investment character" [1].

Such authors as Gavrilova N.V. and Petrunya Y.E. suggest their own classifications that significantly differs from each other and the classification presented by Kurelenko T.P. and Khrustaleva V.V.

The article purpose

To describe and to analyze all the existing definitions of "investment decisions" notion forming a classification of investment solutions for industrial enterprises.

The basic essence

The term of "investment decision" is considered as a kind of management decision. The studies revealed a need for close considering and clarifying the meaning of "investment decision". Let us consider the existing definition of "investment decision" (table 1).

Authors Gavrilova N.V. [3] and Vlasyuk T.M. [2] believe that the investment decision represent is a type of management decisions that require significant expenditures and provide changes in social and economic development of the enterprise and its employees' state subsequently investing into real or financial objects. Also Vlasyuk argues that investment decision relates to the formation of the company's assets optimal composition and structure, by choosing the most appropriate options for investing [5].

Table 1. The interpretation of the term "investment decision" by different authors

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Kurelenko T.P., Khrustalev V.V. [5]</td>
<td>The investment decision is a kind of decision whose outcome represents significant financial costs and changes in the position of the whole enterprise. The investment decisions represent complex decisions that require the collaboration of many people who have different qualification and different points of view onto investment.</td>
</tr>
<tr>
<td>Gavrilova N.V. [3]</td>
<td>The investment decisions are a kind of management decisions that require significant costs and provide changes in social and economic development of the company and its employees as a result of investing real or financial investment into several objects.</td>
</tr>
<tr>
<td>Vlasyuk T.M. [2]</td>
<td>The investment decisions represent a type of administrative decisions concerning the formation of the optimal composition and structure of company's assets, by choosing the most appropriate options for investing.</td>
</tr>
<tr>
<td>Atamas P.Y. [1]</td>
<td>The investment decisions are these ones aimed onto current costs in order to generate income in the future. They have the following characteristics: — costs are usually preceded benefits; — after investing the invested resources are tied for a long time and can never be used for other purposes nor quickly return with a profit; — invested resources will be required to generate revenue during the whole period of functioning acquired assets, herewith the rate of return should be higher than investments’ returns in other (current) assets; — in the late period of the use an investment object may have some liquidation value. In such a way, the investment decisions can be determined as a strategic character decisions designated for a long period of time and associated with uncertainty and risk.</td>
</tr>
<tr>
<td>Shvydanenko G.O. [9]</td>
<td>The investment decision is this one taken on the matter of assets' expansion and the company's needs for funds.</td>
</tr>
<tr>
<td>Dolan, Edvyn J. [4]</td>
<td>The investment decisions are the decisions about investment of financial resources for the long term and at more large risk level.</td>
</tr>
<tr>
<td>Petrunya Y.E. [7]</td>
<td>The investment decisions are these related to investing into assets for a certain period of time to obtain a benefit in the future.</td>
</tr>
<tr>
<td>Morschenok T.S. [6]</td>
<td>The investment decision is a decision on investing into assets at a certain time in order to profit in the future.</td>
</tr>
</tbody>
</table>

By the opinion of Kurelenko T.P. and Khrustalev V.V. [5] investment decision is:

1) a solution, with the effect of significant financial costs and changes in the position of the whole enterprise;
2) complex solutions that require collaboration of many people having different skills and different views on investment.

Atamas P.Y. [1] gives the definition of "investment decision" and its characteristics as: the investment decision is a decision about current costs in order to generate income in the future. They have the following characteristics:

— the expenditures are usually preceding the benefits;
— those costs represent disposable and relatively large amounts, and benefits received as a stream of smaller amounts and for quite a long time;
— investment made the invested resources are tied for a long time and may not be used for other purposes or quickly return a profit;
— invested resources will be required to generate revenue during all period of the acquired assets’ functioning, herewith rate of return should not be less than the returns of investments in other (current) assets;
— at the end of use the investment object may have some liquidation value. Taking into account specific features of investment decisions the author formulates the following definition: an investment decision is a strategic decision designed for a long period of time and associated with uncertainty and risk. Primarily they relate to planning and financing of capital investments in the construction of new facilities, replacement of equipment, automation of production processes, the implementation of social programs, etc.

Petrunya Y.E. [7] gives the following definition: the investment decision is a decision associated with investing into assets in a certain period of time to obtain a benefit in the future (table 2).

![Table 2. Analysis of the definitions of "investment decisions"](image)

Foreign scientists [10, 11] believe that the "investment decision" is this one regarding the options for the use of company's assets, such as the introduction of new products.

Proceeding from the basic characteristics concept of "investment decision" suggest the following definition: "Investment decisions represent a type of managerial solutions bearing a comprehensive and strategic character and associated with investing into assets in a certain period of time to obtain a benefit in future and anticipate changes in social and economic development of the enterprise and its employees’ state subsequently investing into real or financial objects". The obtained definition of "investment decision" represents a decision relating to pre-investment stage. Thus, the essence of the concept of investment decision taken at the implementation stage of the project is not disclosed. The main stage represents the project implementation determined by the return of the investment project. That is why it is important to give the definition of "investment decision" on the implementation stage of the investment project.

The next step of research is to determine the classification of investment decisions. Most extensive classification of investment decisions has been presented by the author Cherep A.V. [8], and later improved by Kurelenko T.P. and Khrustaleva V.V. at "The logic of decision-making investment character" being formulated as follows:

1) the decision for implementation forced (compulsory) investments, i.e. which are necessary for normal functioning of the company and continuation of its activities:
— decision aimed to reduce the impact on the environment;
— decisions aimed at improving the working conditions and compliance with safety rules.
2) the decision, which aim is to ensure the reduction of costs:
— decisions regarding the improvement of used technologies;
— decisions aimed at improving the organization of labor and production;
— solutions to improve the quality of products and services.
3) The decision aimed at enlarging and modernizing the enterprise:
— investment decisions of new construction (construction of facilities that will have legal status);
— solutions whose aim is to improve the enterprise (creating objects investing in new areas);
— decisions regarding the reconstruction of the company (carrying the construction works on existing areas of partial replacement of equipment and facilities);
— decision on technical upgrading (replacing and upgrading equipment and facilities).
4) the decision regarding the purchase of financial assets:
— decisions aimed at forming strategic alliances (syndicates, consortiums, etc.);
— decisions about merger of other enterprises;
decisions regarding the use of complex financial instruments in transactions with fixed capital.

5) the decision on expansion of existing and developing of new markets.

6) the decision concerning the acquisition of intangible assets.

GavriloVA N.V. [3] supposes that investment decisions taken by the company, may be divided into tactical and strategic ones.

Tactical investment decisions usually operate small sums of money and do not involve drastic changes in the enterprise. In-depth analysis of real investment objects at the same time tends to be low.

Strategic investment decisions operate large sums of money and can cause significant changes in the enterprise. All these changes are calling for radical reconstruction and provide the enterprise restructuring.

Petrunya Y.E. [7] classifies investment decisions in the following types:

— material (investment in real capital);
— financial (investment in financial assets - securities, etc.);
— intangible (investment in intangible assets).

Conclusions

Based on the basic characteristics the considered concept of "investment decision" offers such definition: "Investment decisions represent a type of managerial solutions that are comprehensive and strategic and associated with investing into assets in a certain period of time in order to obtain benefit in the future and predict changes in social and economic development of the enterprise and its employees’ state as a result of investing into real or financial objects."

This definition of "investment decision" is a generalization of definitions given by the various authors. But even the totality of all existing definitions does not expose a complete reflection of the investment decisions’ characteristics. It describes only the administrative decisions taken at the stage of selecting an investment project. The main task is to determine the specifics of the investment decisions which accompanies the implementation of the project. Payback period of the investment project depends on the effectiveness of these investment decisions.

Analysis of recent research and publications showed that there are several classifications of investment decisions which depend on: the character the objects of investment, the volume of investments and their terms. But none of those classifications is never characterizing a set of decisions taken at the stage of the investment project implementation, determining the participants of investment process and risk associated with the adoption effective investment decisions.

Questions about the definition of "investment decision" and the classification of investment decisions needs for further study and mandatory creation of generalized, extended classification.

References:


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