A model for regional management of the investment attractiveness of industry

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Abstract. This article explores the system of regional management of the investment attractiveness of industry. The author notes that managing the investment attractiveness of a region is, above all, about managing trends: creating the regulatory framework, establishing structural mechanisms, and initiating processes, the existence of which enables one to speak of a certain trend. The region will become attractive to the mass investor only when the real sector of the economy comes to be distinguished by the strategic orientation of activity, an optimum resource distribution structure, and the reliability of the management system. Based on the findings of the study, the author proposes a conceptual model for an integrated approach to ensuring sustainable regional management of the investment attractiveness of industry.

Keywords: region, investment, model, management, efficiency, industry

Introduction

Over the course of the transformation of the economic system, which was characterized by the transition to the market economy, the constituents of the Russian Federation ran into problems in ensuring social-economic sustainability and the need to work out relevant mechanisms for conducting economic activity at the regional level [1]. Despite the fact it has been a long time since the beginning of market reforms, this subject not only has not lost in topicality but has considerably gained in significance amid periodic financial-economic crises [2].

The situation in the country’s investment complex serves as a sort of barometer for the state of affairs in the economy. If the investment process is impaired, then there is no so-called “catalyst” for the development of the national economic complex and stepping up the production rate, the absence of which leads to economic slowdown and reform stagnation. Right now, attracting investment in the real sector of the economy is a matter of its survival. Only if there is investment, the sector will develop and, as a result, there will be an economic upturn.

Amidst growing demand for and limited supply of capital, investors are getting pickier in choosing investment media. They are concerned with not just the inner characteristics of an investment project but the quality of external environment conditions in which the project is going to be implemented. Increasingly more consideration has been given to the criterion of the territory’s investment attractiveness.

By tradition, the term “investment attractiveness” is associated with the investor’s preferences in choosing an investment medium. Experts have found [3-7] that the most significant factors in choosing a region to invest in are those that came to stand out over the course of one’s many years of economic activity: investment infrastructure and innovation and intellectual potential.

Realizing the fact that a territory’s investment attractiveness plays a substantial role in the placement of capital by a potential investor, regional authorities should be interested in getting it boosted.

What could facilitate this is a change in legislation in terms of granting investors tax concessions – however, this is a one-off and short-lived solution that does not resolve the issue completely. The actual capacity of local authorities to act on the degree of a territory’s investment attractiveness is quite limited.

In order to boost the investment attractiveness of regions and attract the volume of investment the economy needs, one needs to change the entrenched notion of managing the investment sphere and adopt as a priority objective not a one-off improvement of the investment attractiveness of the economy’s real sector but the practice of managing this process continuously.

Managing investment attractiveness is dedicated action on the part of regional authorities on conditions that can boost the reliability and efficacy of investment, help ensure the transparency of activity at all levels, and cultivate protectionism in respect of efficient investors [8].

In the stage of establishing mechanisms for ensuring the transparency of activity, managing investment attractiveness is about regulating the investor’s access to creating them and controlling their operation: the wider the access, the higher the medium’s investment attractiveness for the investor. When such mechanisms have been established and adjusted, management comes down to regulating the...
Managing a region’s investment attractiveness is, above all, about managing trends: creating the regulatory framework, establishing structural mechanisms, and initiating processes, the existence of which enables one to speak of a certain trend. The region will become attractive to the mass investor only when the real sector of the economy comes to be distinguished by the strategic orientation of activity, an optimum resource distribution structure, and the reliability of the management system. In these conditions, managing a territory’s investment attractiveness ought to be carried out based on a long-term concept of investment-innovation development, worked out in line with present-day global trends in science, technology, and capital placement.

Taking into account the arsenal of scientific studies conducted in recent years and the role of the concept as the primary instrument of the system of strategic management of a region’s investment attractiveness, we propose the following structure of the concept and major stages in forecast-analytical works.
1. The starting conditions and initial preconditions for boosting the region’s investment attractiveness.
2. The strategic goals of boosting the territory’s investment attractiveness.
3. The major dimensions to achieving them.
4. The management of investment activity in the region.
5. The mechanism for boosting the region’s investment attractiveness.

What ought to become the primary concept of strategic management of a region’s investment attractiveness is a scientifically substantiated methodology for assessing the territory’s investment attractiveness, which would ensure the economically substantiated subsuming of the region under a certain type.

The study of the major resulting characteristics of the activity of entities taking part in the investment process is based on a dynamic approach. To derive the indicator for the efficiency of the activity of the region’s economic system, which is considered as testifying to the level of its investment attractiveness, we are employing correlation-regression analysis, rank statistics, and the Spearman and Kendall rank correlation coefficients. The probability and validity of obtained results are ensured through the use of methods of analysis and synthesis, logical summarization, techniques from systemic and technical analysis, mathematical statistics, and economic-mathematical modeling [9].

As an alternative, we can use the methodology for rating the investment attractiveness of the regions of the Russian Federation, developed by Y. Lukashin and L. Rakhlina [5, pp. 91]. It was built based on summarizing indicators adjusted for a number of factors affecting the activity of investors. The authors calculate the integral indicator based on rating each of the factors. In the study’s final stage, they perform grouping regions in accordance with obtained integral indicators, there being four groups: the most attractive regions, regions with a high level of attractiveness, as well as regions with a medium and low level of attractiveness.

After selecting the methodology for assessing investment attractiveness and performing analytical calculations, it makes sense to examine conceptually the very model of government management of the investment process at all levels and determine in what ways it needs to be transformed to make strategic management of regions’ investment attractiveness possible and efficient.

Attention-worthy are financial stimulation methods related to granting entrepreneurs who intend to attract foreign investment monetary resources in the form of government loans, government guarantees, subsidized loans, and the government’s share participation in investment risks [10].

The objective of government policy in respect of regions attractive investment-wise ought to be not pumping funds out of them but granting them the opportunity to independently use their earnings and attract investment to the best of their ability. The return per invested unit of financial resources is much higher here than in less attractive regions. This principle can also be the most desirable option in terms of creating centralized opportunities for the development of weak regions amid the state’s limited financial resources, since further on in the economy under the influence of the multiplication effect strong regions will involve weak ones into common economic turnover, which will be a sign of general economic revitalization. [11]

Analysis of existing methodological approaches to assessing the regional management of industry’s investment attractiveness revealed a large variety of models employed: input-output balance models, construction of strategic matrices, functional analysis models, sociological models, etc. These models enable us to assess specific aspects of the sustainability of a region’s development. We believe that, on the whole, to get a maximally objective and correct assessment of the regional management of industry’s investment attractiveness, we need integrated assessment using various groups of interconnected and intercomplementary models. Note
that such assessment should be predicated on accurate quantitative models based on official statistical financial reports.

The conceptual model of the proposed integrated approach to ensuring sustainable regional management of industry’s investment attractiveness is provided in Figure 1.

Figure 1. A conceptual model of ensuring efficient regional management of industry’s investment attractiveness

The major characteristics of the proposed approach to ensuring efficient regional management of industry’s investment attractiveness are:

– objectiveness in calculating index indicators for regional management, the absence of expert assessments, which impair the representativeness of end results and can distort the dimensions of managing industry’s investment attractiveness;

– using as the private components of regional management efficiency indexes the growth rate values of the most significant indicators characterizing various aspects of regional management of industry’s investment attractiveness, which lets us examine them within a single coordinate system;

– the orientation of the system of the regional management of industry’s investment attractiveness towards the formation of the system of institutes providing for this kind of sustainability in the long run, while the implementation of specific mechanisms for ensuring efficient regional management of industry’s investment is seen as unproductive if there are no corresponding institutes in place or their quality is low.

The proposed approach can be viewed as, first of all, a way to reduce contradictions in conducting regional investment policy. Second of all, it is a selective opportunity to boost the investment attractiveness of specific economically sustainable territories through the system of financial concessions and fiscal measures in effect in these enclaves. Note that we get a double effect: conducting economic reforms inclusive of the minimization of government expenditure, on the one hand, and stimulating investor activity on the other. Third of all, the establishment of priorities at the regional level will help mark out regions with a strong production base. By granting them a number of preferences, the government a sort of stimulates and directs capital flows into regions that turn out real products, thus limiting the possibility of funds going to media that are of low significance to the economy. There occurs the artificial manipulation of capital flows in favor of regions with a powerful production base. But if this process is left unbridled, capital can still come into commerce and non-production establishments – but not the fund-creating sector of the economy.

The concept as the base of the system of strategic management of a region’s investment attractiveness ought to become a guideline for action for a management unit of the territorial level. Its implementation can be effected through strategic plans and policy measures aimed at ensuring the territory’s investment-innovation development. The success of the concept will depend on the extent to which the region’s scientific-technical, innovation, intellectual, and investment potential is engaged in the process of its implementation.

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