

Analysis of Agricultural Enterprise Investment Appeal Factors

Elena Ilina¹, Mariya Tyapkina¹, Elena Domanova¹

¹Department of finance and analysis, Irkutsk state agricultural academy, Irkutsk, Russian Federation
ielena1771@bk.ru

Abstract: Purpose. Nowadays all the countries of the world are interested in development of an agro-industrial complex and agriculture as a fundamental industry thereof. The above development is impossible without investments since it's a capital-intensive industry. It is possible to provide investment inflow through influence on investment appeal factors of agricultural enterprises. These factors shall be reasonably divided into internal and external factors (of direct and indirect influence). The internal factors include financial situation and competitiveness of the enterprise. The external factors of direct influence include factors determined by the industry specificity, namely: natural and climate conditions of operation, state support of the industry, economical potential of the agro-industrial complex sector, an agro-industrial integration level. The external factors of indirect influence include factors specific to macroeconomic conditions of operation. In order to elaborate politics aimed to strengthen investment appeal of agricultural enterprises it is required to analyse factors influencing on the investment appeal in different countries.

[Tyapkina M., Ilina E., Domanova E. **Analysis of Agricultural Enterprise Investment Appeal Factors.** *Life Sci J* 2014;11(12):873-877]. (ISSN:1097-8135). <http://www.lifesciencesite.com>. 155

Keywords. Investment appeal, agricultural enterprises, factors.

1. Introduction

Economic globalization and accession of Russia to the WTO have aggravated existed structural problems of agricultural industry such as reproduction process disorder, low income, technological basis deterioration, price disparity, outflow of employable population and this situation complicates to solve the problem of national food security. Opening of the markets for the WTO countries worsen the above problems and results in competition between national agricultural enterprises and world leading food exporters operating on the basis of leading-edge technologies. Agricultural sector enterprises need to make reproductive process more active based on innovation approach in order to adapt to new conditions.

Development of the reproduction process strongly depend on volume of investment, at that it is important to use investments for replenishment and renewal of fixed and circulating assets, implementation of advanced technologies. Therefore it's is important to the agricultural enterprises to provide reproductive process with the required volume of investment recourses, at the same time an investor is interested in finding information about the most promising objects of capital investment and the state is interested in reducing of investment risks of the industry. Strengthening of the investment appeal of the agricultural enterprises will serve interests of the investment activity subjects.

Theoretical aspects of the enterprises investment appeal are reflected in papers of I.A. Blank (Blank, 2001), M.G. Egorova (Egorova, 2002),

D.A. Endovitsky (Endovitsky, 2010), V.G. Zakshevsky (Zakshevsky, 1999), I.V. Kovalyova (Kovalyova, 2008), M.N. Kreynina (Kreynina, 1994), V.A. Moscvin (Moscvin, 2001), F.M-T. Topsakhalova (Topsakhalova, 2009), Y.V. Sevryugin (Sevryugin, 2004), M.N. Svetovtsev (Svetovtsev, 2006), V.M. Zhuk (Zhuk, 2013) etc.

Despite of significant number of scientific sources, factors of the agricultural enterprises investment appeal are poorly studied.

2. Material and Methods

Method of scientific cognition were used in the present paper, particularly such a method of economic and statistical groupings, statistical series study, correlation analysis, analytical smoothing methods were used to describe extent of factors influence on investment appeal of agricultural enterprises of Russia. the EU member states and the USA.

3. Results

The most important goal of the agriculture development is to provide sustainable reproduction process, as per "prosess approach" it implies continuous resumption, functioning and development at all of the stages including production, distribution, exchange and consumption. From the point of view of "resource approach" reproduction process is a recreation of consumed factors of production (natural, production and labour resources). At the present time a main condition of sustainable reproduction at the enterprise is the availability of sufficient investment resources, which

can be own funds, borrowed and attracted funds (figure 1).

At that own funds of the agricultural enterprises are not sufficient to provide sustainable reproduction process, the state has to abandon co-financing of investment expenditures and an external investor is not interested in investment to the industry due to unfavourable investment climate which could be improved by strengthening of the enterprise investment appeal.

In our opinion characteristic of the agricultural enterprise investment appeals shall be done taking into consideration correlation of these approaches. Thus a strategic approach reflects the investor's assessment of such key parameters as availability and application of the required resources, production level, opportunities at the market where products are sold throughout the entire investment process, which is possible to describe as the assessment of the correspondent potentials. At that an effective use of the specified potentials implies profit maximization (financial approach)

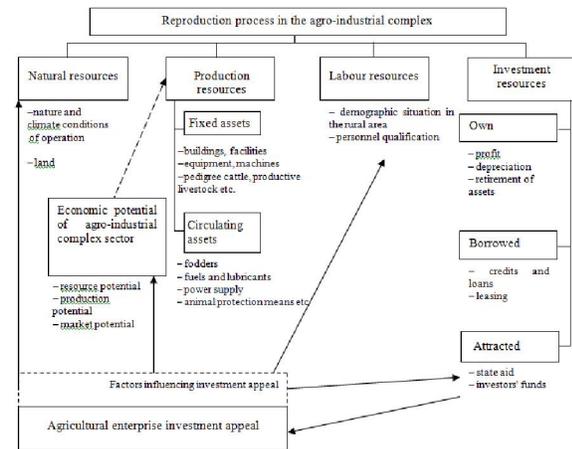


Figure 1. – Place of the enterprise investment appeal in the reproduction process.

Due to specifics of the agricultural production, this industry requires state assistance implying infrastructure creation, tax profits, policy of protectionism with regards to development of agricultural territory in order to stimulate the industry's growth and efficiency to provide national food security in situation of WTO membership.

Hence on the basis of this provision 'investment appeal' definition is given taking into consideration not just strategic and financial approaches but synthesis thereof (figure 2).

The agricultural enterprises' investment appeal is a prerequisite of reproductive process, reflecting availability of production and market potentials and efficient application thereof supported

by the government in situation of economic, natural and production risks.

Special feature of reproduction in this industry is conditioned by specificity of production process. Hence the main mean of production is land therefore capital expenditures are required to improve quality of soil. Unfavorable weather conditions are the major obstacle to obtain heavy yield for crop husbandry and provision of fodder for animal husbandry; this conditions also results in extra expenditures for capital farm construction, heating systems etc. Besides the production process is obviously seasonal, highly fund-intensive therefore it makes, ceteris paribus, operation of the industry enterprises more capital intensive with long period of recoupment and with higher risks.

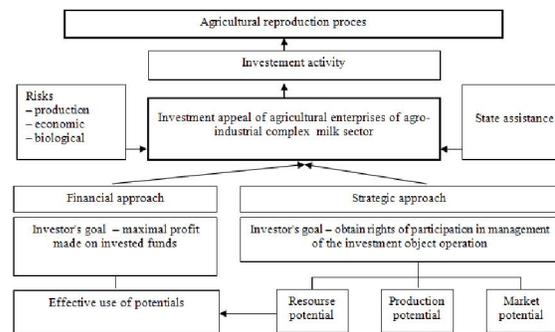


Figure 2 – Correlation of strategic and financial approaches with regards to interpretation of agricultural enterprise investment appeal in milk sector of agro-industrial complex

The author determined factors influencing the agricultural enterprises' investment appeal (figure 3) required to provide continuity of the reproduction process; besides the indirect factors (economic, technological, social, political conditions of operation) influencing the investment appeal in every industry it is necessary to take into considerations factors of direct influence (natural and climate conditions, state support for the industry, economic potential of the agro-industrial complex sector, level of agro-industrial integration) conditioned by the industry specificity.

Necessity of the government support for the industry enterprises is determined by specificity of agricultural production, vitally essential products and conditions required for stimulation of reproduction process. Economic potential serves as an overall assessment of potentialities within the application process of existing resources, at that it is important to assess economic potential of the enterprise agro-industrial complex sector making possible to assess the enterprise potentialities as well as the sector potentialities.

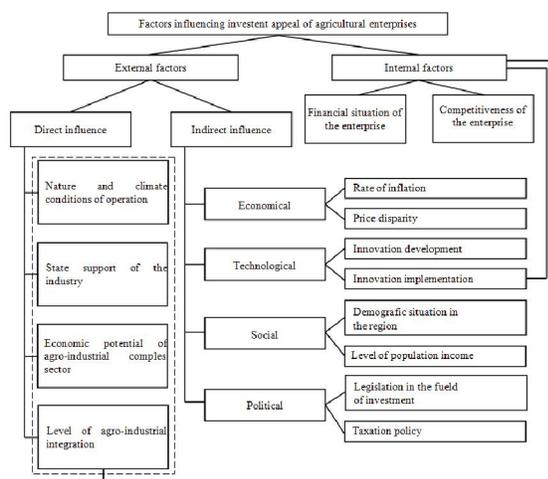


Figure 3 – Factors influencing the agricultural enterprise investment appeal (Ilina, 2013).

Agro-industrial integration of the enterprises positively influence on the reproduction process since this type of consolidation allows to reach operation sustainability, extend product markets and sell products on favourable terms.

It should be noted that agricultural enterprises of developed market economy countries are attractive for investments and thus able to obtain both state and private investors' funds. Thereupon it is required to carry out a comparative analysis of external factors (of direct and indirect influence) conditioned by the industry specificity.

Nowadays the world largest producers of the agricultural products are the European Union states (11% of the world agricultural output) and the USA (10% of the world agricultural output) [1]. Factors effecting the investment appeal of the agricultural enterprises at the above stated countries are observed with various degrees of influence (table 1).

Table 1 – Comparison of external factor influence on the investment appeal in the USA, EU states and Russia (Ilina, 2012)

Factor	USA	EU	Russian Federation
Nature and climate conditions of operation	Perfect climate allowing to obtain high results at minimal costs	Favourable conditions for development of both animal and crop husbandry	Significant part of the state territory is in the area of risk farming.
State support of the industry	Active state support of the industry provided by different methods (of direct and indirect support as well as of output regulation) resulting in positive influence on the production efficiency	Application of all the state support measures specified by WTO aimed at unification of agricultural policy of protectionism leading to overproduction at the internal market	The state supports producers of agricultural goods however the support efficiency is low
Economic potential of agro-industrial complex	High potential, output is limited by internal consumption and export opportunities	High potential, output is limited by internal consumption and export opportunities	High potential however not demanded at the present stage of development and this is apparent, first of all, in a poor use of the existing resources.
Integration level	Farm enterprises united into cooperatives are widely spread	Farm enterprises united into cooperatives are widely spread	Agricultural and processing enterprises unite into vertically integrated structures
Economic factors	Rate of inflation is below 5%. Price ration is subject to wide fluctuation	Rate of inflation is below 5%. Price ration is subject to wide fluctuation	Rate of inflation is above 5%. Price ration is subject to wide fluctuation
Technological factors	Promotion of development and implementation of innovations at the agricultural enterprises.	Promotion of development and implementation of innovations at the agricultural enterprises.	System of development and implementation of innovative technologies in the agricultural production is destroyed
Social factors	Minimal influence since the internal demand is completely met	Minimal influence since the internal demand is completely met	Particular influence since the internal demand is not met
Plotical factors	Investors' interests are protected at federal level. Special financial aid is no available to agricultural enterprises with foreign participation. Progressive taxation principle	No unified legal regulation elaborated for the EU states. Investment protection is provided mainly by the international agreements. Differential taxation approach	No officially restricted industries however the laws are poorly observed locally. Widespread corruption. Tax policy has clear fiscal features while its regulatory function is suppressed,

Expert evaluation of the specified external factors made to determine degree of influence thereof on the agricultural reproduction process in the USA, EU and Russia (figure 4) indicates sustainable reproduction processes abroad conditioned by strong investment appeal.

4. Discussion

It should be noted that the investment activity subjects face different goals, i.e. the state is concerned with assessment of the elaborated support programs' influence on the strength of the enterprises' investment appeal, the enterprise is concerned with assessment of strength and dynamics of own investment appeal, with identification and elimination of "weak spots" and the investor is concerned with determination of the most effective investment objects. Therefore to assess

agricultural enterprise investment appeal it is required to use a methodological approach taking into consideration the specified factors conditioned by the industry special features and focusing on different subjects of the investment activity.

Application of the existing methods of the enterprise investment appeal assessment imply application of different analysis procedures beginning with expert polls and rating to multifactor regression model however the result of all the models is an integrated index obtained. Variance of the obtained results is related to adequacy both of the assessment model and the factors included in the assessment.

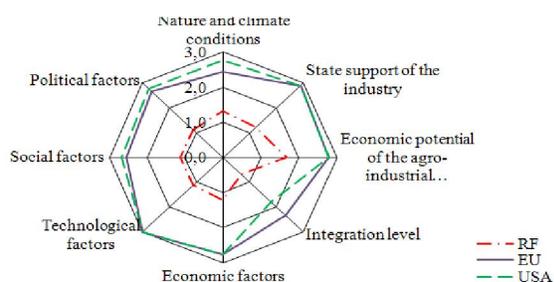


Figure 4 – Expert evaluation of positive influence of reproduction process factors at the agro-industrial complex of the USA, EU states and Russia.

Selecting factors for the enterprise investment appeal assessment the authors often opt for quantitative factors since it is easier to assess them and construct some mathematical assessment model on the basis thereof. Taking into consideration the fact that all the factors influencing on the enterprise investment appeal are not included in the assessment model it is impossible to claim with certainty that the present assessment procedure provides comprehensive description of the investment appeal level.

Should the model include quantitative as well as qualitative factors, the most common method of such data processing is expert poll. This method has major disadvantages such as significant man-hours for a significant number of enterprises, available information the potential objects of investment is possible to be incomplete.

5. Conclusion

To solve the state food security problem it is required to activate the agricultural reproduction process. Extended reproduction in this industry is possible to provide influencing the factors of the enterprises' investment appeal. The state policy in this area may influence the indirect factors (economic, technological, social, political conditions of operation) influencing the investment appeal in every industry and factors of direct influence (natural and climate conditions, state support for the industry, economic

potential of the agro-industrial complex sector, level of agro-industrial integration) conditioned by the industry specificity. The enterprises are capable to influence investment appeal factors such as financial situation and competitiveness level taking into consideration macroeconomic influences.

Agricultural industry of the USA and EU is a relatively sustainable business with low risk factor therefore the investment appeal of this industry in quite strong and the specified factors have positive influence.

High level of the investment appeal of the foreign agricultural enterprises is conditioned by the fact that the agricultural industry is one of the most regulated and "free play" of market forces is constrained by the state-determined frameworks.

It is possible to strengthen the agricultural enterprise investment appeal in Russia using foreign experience with regards to increasing number of the integrated enterprises' among the producers of agricultural goods since such enterprises obtain particular competitive strength i.e. coordination of all the production process stages (from production to selling of products to final consumers), efficient use of all the resources types (natural resources, personnel, finance), renewal of fixed assets and implementation of scientific and technical innovations, extended market share due to increased output and product selling and due to product range extension.

Foreign experience in the field of innovative activity arrangement is of also interest as priority projects are funded partly or in full by budget funds, producers are promptly informed of the innovative solutions through a developed system of informational support. Such strengthening of links between science and production could enhance industry performance.

Increase of economic potential utilization could positively influence the level of the agricultural enterprises' investment appeal, therefore it is required to reduce areas of abandoned fields, efficiently use product processing capacities. This could help the agricultural producers able to meet the internal demand.

It should be noted that the agricultural production in Russia is related with high level of risks which could be reduced only through effective measures of the direct and indirect state regulation, i.e. the state need to elaborate "play rules" enacting laws promoting integration, carrying out stimulating tax policy, assisting in implementation of innovations into production, solving social problems related to outflow of the employable population from rural areas. These are the conditions required to reduce risks related with agricultural production and to make the agricultural enterprises attractive for investors.

Corresponding Author:

Ph. D. Elena Ilina

Department of finance and analysis
Irkutsk state agricultural academy
Irkutsk, 664038, Russian Federation
E-mail: ielena1771@bk.ru

References

1. Blank, I.A., 2001. Investment management. pp: 448
2. Belykh, L.P., 1999. The financial analysis in an assessment of investment appeal of the enterprises. *Accounting. 10*: 92-99
3. Egorova, M.G., 2002. Mechanism of an assessment of investment appeal of the enterprise. pp: 20
4. Endovitsky, D.A. et al., 2010. Analysis of investment appeal of the enterprise. pp: 376
5. European Commission and Eurostat - <http://epp.eurostat.ec.europa.eu>
6. Federal State Statistics Service of the Russian Federation - <http://www.gks.ru>
7. Food and Agriculture Organization of the United Nations - <http://faostat.fao.org/>
8. Global value chains: investment and trade for development. World investment report, 2013. pp 44
9. Ilina, E.A., 2012. World experience of the state support of the agrarian enterprises. *Bulletin of the Siberian institute of business and information technologies. 1 (1)*: 17-22
10. Ilina, E.A., 2013. Investment appeal of the agricultural enterprises. *Economic analysis: theory and practice. 1 (304)*: 19-24
11. Kontorovich, S.P., Management of investment appeal of the enterprise (system and estimated aspect) - <http://www.smartcat.ru/Management/Profit.shtml>
12. Kovaleva I.V., 2008. Investment appeal of a molochnoпродуктовy subcomplex of agrarian and industrial complex (theory, methodology, practice). pp: 39
13. Kreynina, M.N., 1994. The analysis of a financial state and investment appeal of joint-stock companies in the industry, construction and trade. pp: 255
14. Krylov, E.I. и другие, 2003. Analysis of a financial state and investment appeal of the enterprise. pp: 192
15. Moskvina, V.A., 2001. Crediting of investment projects. pp: 240
16. Sevryugin Yu.V., 2004. Assessment of investment appeal of the industrial enterprise. pp: 26
17. Shchiborshch, K.V., 2000. Assessment of investment appeal of the enterprises. *Bank technologies. 4*: 32-36
18. Svetovtsev M.N., 2006. Management of development of the region taking into account integrated estimates of level of investment appeal of municipalities. pp: 23
19. Topsakhalova F.M.-G. et al., 2009. Current state and assessment of efficiency of use of investment resources in agrarian sector - <http://www.monographies.ru/45>
20. United States department of labor - <http://www.bls.gov>
21. Valinurova, L.S. and Kazakova, O.B., 2005. Management of investment activity. pp: 384
22. World Investment and Political Risk, 2013. pp 80
23. Zakshevsky, V.G., 1999. The economic mechanism of stabilization and development of agrarian production in system of state regulation. pp: 33
24. Zhuk, V.M., Bezdushna, Y., Vdovenko, O., 2013. Accounting Techniques in Providing Investment Appeal and Financial Security of Agricultural Enterprises. *Accounting and Finance. 4*: 32-38

12/13/2014