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BARRIERS AND STIMULANTS IN THE INVESTMENTS ACTIVITY OF ENTERPRISES

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Abstract: This paper presents the concept and importance of the investment activity of enterprises in the process of their development. The expenditures in this period can ensure maintaining or increasing the market share of the enterprise in the future. However, investment activities are characterised by substantial capital intensity. Therefore, the lack of financing sources can represent a barrier. Especially risky are the investment projects that require larger investment expenditures. In order to avoid failures during investment execution, risk should be professionally managed and threats should be detected in advance and prevented.

Keywords: enterprise investments, finance sources, investment risk

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Introduction

A prerequisite for the economic growth of any country is constant capital accumulation. The accumulation can result from collecting savings, investment activity and continuous improvement of human skills and implementation of the scientific and technological advances. Hence the role of investments in the development process is an important consideration. The intensity of investment activities determines not only the country's economic growth and its modernity but also the level of meeting physical and cultural needs of society. Therefore, the investments represent the major determinant of social development of a country and the enterprise (Lewicki, Czyżewska 2016). They affect the development in both micro and macro scale, thus being strategic decisions.

Making the decisions that involve risks, including investment activities, substantially depends on the opportunities of preventing their negative effects. From this standpoint, identification and systematization of the investment risk factors on the macro and micro scale and identification and verification of the methods to reduce this risk seem to be critical.

The role of investments in the development

The concept of investment stems from Latin *investio*, meaning, among other things, clothing and covering. Over the years, the understanding of investments has shifted to economic processes that allow for generation of durable goods and solutions used to meet any needs. More and more attention has been paid to financial aspects due to the necessity to ensure sources of financing of this activity.

In the business practice, investments are a complex and individualized process, which has an effect on the development of the enterprise and the increase in its value. Changes in the enterprise's assets induced by investments stimulate other changes that impact on its functioning, mainly on reinforcing its market position.

Specific properties of investments include collecting and spending capitals in the expectation of future return with additional benefits i.e. profits (dividends)[1].

An important component of each investment[2] is time from the investment to its completion. Risk is also inherent in investments aimed at future benefits[3]. It is worth noting that investments are closely related to financing[4], as they involve collecting and acquiring of capital (funds) and effective spending of the capital. Spending resources means changing them into necessary physical components of equity or purchasing securities or financing non-financial investments needed by the enterprise for operation and development.

Therefore, using some simplification, enterprise functioning can be reduced to two interrelated stages in investments (Duliniec 2011, p. 52):

– investing capitals in the enterprise by both owners and creditors, which ensures financing the activities,
– investing the capital in assets necessary for further functioning i.e. the use of the portfolio of the physical and financial investments.

From the standpoint of the role of investments in the development, the most important functions include e.g. creation and modernization of fixed assets in all domains of human activity (Kościelniak, Puto, Brendzel-Skowera 2014). This allows not only for the increased production and service capabilities (physical and non-physical) but it also improves conditions of life and work of a society. Nevertheless, an important function of investments is to equalize the level of the economic growth in various areas and to create conditions for modernization of the economic structure of a specific country. The importance of individual functions of investments for the economic growth is time-variable and depends on specific economic conditions in a specific period. It seems that one of the more important functions of investments is to create conditions for the exchange of the structure in order to modernize and, therefore, to improve its competitiveness not only in the national market but also in the foreign markets.

[1] Details of investment processes were analysed by A. Zachorowska in the study: *Ryzyko działalności inwestycyjnej przedsiębiorstw* (Zachorowska 2006, p. 11 and further).

[2] Investments in general are understood to mean spending a specific level of finance in order to ensure a return that would compensate for the time the resources were invested and the risk concerning the potential benefits (Reilly, Brown 2008, p. 5).

[3] The literature emphasizes three characteristics each investment needs to have: it should increase the value; produce benefits in the future; involve risk (see e.g. Jajuga, Jajuga 2008, p. 9).

[4] Financing is connected with two inseparable and interrelated stages that, on the one hand, involve the determination of the directions of investments and, on the other hand, indicate the sources used to cover costs of property acquisition (Kokot-Stępień 2012, p. 196).

The investment activities occur mainly in the domains which have the biggest opportunities for the development, contributing to the modernization of the economy of the whole country (Turek 2006). This has a significant effect on the development of competitiveness of enterprises and, consequently, creation of the conditions for cooperation with foreign companies.

In reference to the enterprises, the investment policy[5] is a part of not only the survival strategy but, first and foremost, development strategies. This concerns in particular physical investments since they allow for the increase in production capabilities of the enterprise and the increase in competitiveness of its products. Consequently, this impacts positively on the economic growth of a country.

Therefore, physical investments are a precondition for the development of any enterprise. The expenditures in this period can ensure maintaining or increasing the market share of the enterprise in the future. This process results from the incessant scientific, technological and economic advances, which represent both a driver of the development in both individual enterprises and the whole economy.

Sources of financing the investment activities in enterprises

The characteristic feature of investment activities is relatively substantial capital intensity. Therefore, equity is usually insufficient. This leads to the necessity of supplementing equity with various forms of the outside capitals. The definition of the sources of investment financing should be preceded by the choice of an optimal financing structure (Łukomska-Szarek 2011). Optimization of the choice of sources of investment financing is performed based on the economic account. Based on detailed analyses, one can choose the most effective structure of financing of the investment processes. The methods of financing the investment projects depend on various factors. Among them, the most frequent include credibility (e.g. financial credibility), prospects for growth in a specific sector, availability of individual sources of financial feed, negotiating skills of entrepreneurs and the fiscal system. The costs of capital, financial risk and the structure of previous financing are also considered important (Ostaszewski 2000, p. 50-53; Łukomska-Szarek 2016).

An important problem is availability of individual forms of financing (Worzała 2015). Contrary to small business units, which are usually forced to make choices which are not always optimal to them, the respected and large enterprises have substantial opportunities for the choice of the form of financing. Financing of the investment projects by small business entities occurs mainly through owner's payments, loans or leasing. These forms are considered as the most universal. Apart from the above mentioned forms, bigger economic entities can also use more varied sources of financing.

[5] The investment policy in the enterprise represents a set of any current and long-term activities that are aimed at indication of the investment needs of the business entity and those aimed to satisfy the needs. The investment policies are used to derive an investment strategy that consists in determination of the reasons and aims of investing and, eventually, making the investment decision. More details on this problem are discussed by A. Zachorowska and P. Kokot-Stępień in a study *Inwestycje w strategii rozwoju przedsiębiorstwa* (Zachorowska, Kokot-Stępień 2008, p. 24-31).

In the case of financing the investments, uniform financing is a rare occurrence and mixed financing is used instead, with part of capital being equity, while the other part representing the foreign capital. There are no normative values of foreign capital share, whereas the main criterion for the development of the capital structure is maximization of the benefits. The change in the capital structure of the enterprise involves changing the incomes generated by the enterprise. On the one hand, there is a new liability which reduces the level of profits. On the other hand, the owners and decision-makers expect the increase in profit rates and the improvement in financial situation. In the literature, capital structure has been defined equivocally (see e.g.: Zachorowska 2006; Janasz 2010). It can be defined as a target combination of debt and equity maintained by a specific enterprise to finance e.g. investment activities (more details were given by e.g. Brigham, Daves 2007, p. 508; Baker, Martin 2011, p. 2 and further). At the same time, most authors define this structure as a financial structure. Furthermore, they approach the capital structure as a combination of long-term debt and equity maintained by the enterprise. Determination of the capital structure depends on the stage in the enterprise growth. A substantial demand for capital is observed in the growth phase, with its principal source being foreign capitals.

One of the most important problems during the investment execution is to develop the structure of capital that supports the investment process, as the capital structure impacts on the level of the investment risk. It should be emphasized that there is a theoretically justified "model" proportion between the equity and foreign capital. This is also supported by the results of practical examinations. The structure of capital is affected by a number of factors, with the most basic being risk profile. Each investor has different risk profile. Furthermore, it is also time-dependent. The activity of each investor is accompanied by a number of risk types with a universal character. Among many types of investment risk (see also abot risk Wójcik-Mazur 2012, p. 36-37; Wójcik-Mazur, Szajt 2015), the most important and basic are financial risk and enterprise risk (see: Zachorowska 2005; Kościelniak et al. 2016).

Investment risk management

Current enterprises operate in a dynamically changing environment. With contemporary investment development and the necessity of the implementation of the scientific and technological progress, they are unable to recognize all aspects of risk. With greater capital involved in the investments, the evaluation of the future enterprise growth becomes more important and forces entrepreneurs to implement risk policies with full awareness, especially because the investment projects that require larger investment expenditures are particularly riskye (more about project management Skowron-Grabowska 2012; Brzozowska, Szymczyk 2017, p. 377-387). The investment needs of the enterprises and readiness to invest are closely correlated with their strategic orientation and changes in the environment. The investment strategies mean starting and execution of investment projects aimed not only to increase investment effectiveness but also on the increase in the market value of the enterprise. This leads to the conclusion that investment activities of enterprises are closely related to the adopted strategy of development and taking into consideration the changes of the economic, political and social nature, also with ecological conditions. Furthermore, if the country is the European Union member state, investment decisions result not only from the adopted strategy of the development but also from the settlements and solutions used in the EU, concerning, among other things, the natural environment (more details on this problem are discussed by Kościelniak 2016, p. 63-73).

In order to avoid failures during investment execution, risk should be professionally managed and threats should be detected in advance and prevented. Effective risk management depends on the concept of the project, immediate working environment, previous status of studies on the project and identity and activity of other project participants. It should be also emphasized that the effective risk management allows not only for verification of the adopted project solutions but also on the improvements in the project itself, thus ensuring the achievement of the goals, which has been emphasized by many authors (see e.g. Czekaj, Dresler 2006, p. 110 and further).

Risk management is a term which has been commonly used in the investment practice. In the economic practice and, consequently, the investment activity, risk management means in general identification of events that can represent a threat to the financial result of this activity and planning the protective actions to limit the negative effect of the risks (more broadly on the main areas of risk for Poland in the opinion of foreign investors by Limański, Drabek 2017, p. 239). However, the investors use mainly micromanagement with respect to individual risk exposures whereas because of high costs, they use global management in this area (see: Hommel, Pritsch 2002, p. 1-21).

A central decision-making problem in risk management is the assessment and choice of alternative methods, strategies, projects and means of risk reduction. The risk should be identified, analysed and controlled regularly while the methods and instruments of its reduction should be corrected adequately to the variable conditions of the environment. This means the *ex ante* process, which consists in recognition and preventing the negative effect of the risk or using the factors which have a positive effect on the investment process[6]. At the same time, it is also oriented towards the absorption of the effects of negative deviations from the desired state, being the *ex post* activity. The idea of both risk management variants (*ex ante and ex post*) is to minimize the negative effect of the risk.

There are studies in the literature that use either narrow or broad approaches to this process. With broad understanding, risk management involves all types of activities aimed at elimination or limitation of each risk that is actually present or can potentially occur in the future. With the narrow approach, this means the actions taken to prevent or limit the potential negative effects of a specific risk (Zachorowska 2006).

[6] A broader analysis of the investment risk, including risk management, was presented by K. Marcinek in a study *Ryzyko projektów inwestycyjnych* (Marcinek 2000). See also D. Dziawgo, *Zarządzanie ryzykiem w banku komercyjnym* (Dziawgo 1999, p. 354).

Conclusions

Making investment decisions has an effect on the capital structure. Consequently, the previous relation between equity and foreign capital is not adequate for evaluation of its costs. Therefore it is critical to take into consideration the effect of a new investment on both the capital which was present in the enterprises before the potentially new capital. The planned capital structure should reflect the optimal structure in the enterprise. The development of the capital structure, especially the structure of investment financing sources, is one of the most difficult tasks in the decision processes of the enterprise. In this respect, the decisions impact not only on the risk level in the investment projects but also on the financial standing of the investors, in both short and long period of time.

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BARIERY I STYMULATORY DZIAŁALNOŚCI INWESTYCYJNEJ PRZEDSIĘBIORSTW

Streszczenie: W artykule przedstawiono istotę i znaczenie działalności inwestycyjnej przedsiębiorstw w procesie ich rozwoju. Poniesione w obecnym okresie nakłady pozwolą w przyszłości na utrzymanie bądź zwiększenie udziału przedsiębiorstwa na rynku. Jednakże działalność inwestycyjna cechuje się znaczną kapitałochłonnością, dlatego też brak źródeł finansowania może stanowić barierę jej rozwoju. Za szczególnie ryzykowne należy uznać te przedsięwzięcia inwestycyjne, które wymagają dużych nakładów inwestycyjnych. Chcąc uniknąć niepowodzeń, w czasie realizacji inwestycji powinno się profesjonalnie zarządzać ryzykiem, rozpoznawać wcześnie niebezpieczeństwa i zapobiegać im.

Słowa kluczowe: inwestycje przedsiębiorstw, źródła finansowania, ryzyko inwestycyjne