

Corporate Investments: Essence and Effectiveness of Capital Use

A Brodunov¹, O Ivanova¹, K Bunevich¹, E Gavrilova¹, O Nazarenko¹

¹Moscow, Moscow Witte University

E-mail: abrodunov@muiiv.ru

Abstract. This paper considers the essence and specific features of corporate financial investment. It describes the pros and cons of financial investment. Insight is provided into the peculiarities of such investment, its drawbacks, and how it specifically works.

Financial investment means deferring a fix amount of money that is expected to generate some return over a certain period of time. Financial investment regulates corporate spending and its structure. Before any company invests, it performs thorough analysis and chooses a focused approach. What should be done is to research the investment plans available in the market, consider the pros and cons of the investment plan, and analyze the risk factors before the plan is finished. Financial investment must be adjusted to maximize return.

Financial savings and investment both have their peculiar features that are important to understand. Savings help preserve and protect money while accruing complex interest, whereas investment helps money build up when the stock market is volatile. Both savings and investment are used as short- and long-term strategies for financial gain. *Research Methods:* observation, systemic approach, statistical analysis, induction and deduction, comparative analysis, etc.

1. Introduction

Financial investment secures the future. Carefully done investment gives a company a safe and secure future. Before choosing a plan, corporate employees calculate the risk factors, the tenure, the conditions, etc. Financial planning specialists take care of corporate investment, which is extremely important. They do understand what the company needs, what revenue it has available, how stable it is, etc. Corporate managers carefully study the documentation before allocating any funds for investment.

2. Expected outcomes

Financial investment is done outside the scope of purchasing securities, corporate rights, or other monetary instruments. Such investment pursues different goals. It is mainly done to convert savings into highly liquid property documents, to generate possible future income, or to take over the issuer. Financial investment is a form of utilizing the company's free funds. There are some peculiar aspects to it:

- financial investment can be external, whether domestic or international;
- financial investment helps the company pursue its strategic development goals while preserving the equity;
- financial investment takes far less time to take action than any real project;

- it is mainly pursued by well-developed companies after the corporate needs are covered;
- financial investment is an economic activity in its own right;
- companies can invest in speculative instruments without risk or act as serious conservative investors;
- financial investment requires decision-making when doing financial transactions.

Financial investment is not the same as economic investment. While economic investment implies considerable increase in fixed capital, financial investment is about redistributing resources among assets that will yield dividend over time.

In general, a more economically developed companies is likelier to have financial investment in addition to economic investment. Financial investment is usually a sign of the company having enough capital to keep its status and profitability, etc. Without financial stability and reserves to operate, a company is not likely to invest a lot. Some additional funds are allocated for economic investment to boost profits. Only when the company has a stable system to sustain growing economic investment, it can focus on financial assets.

Companies often invest in real estate as they grow. In particular, successful retail chains often generate most of their income from their real-estate stakes. This is one of the fastest ways to boost profits compared to other kinds of investment.

A company always need economic investment.

It is important to have both economic and financial investment. While these two types of investment overlap, they do not coincide; in combination, they can stabilize the company in the long term. Development mostly begins with economic investment, then switches to financial investment. Financial investment has a number of peculiarities, see Table 1.

Table 1. Features of financial investment.

#	Feature
1	Financial investment does not depend on what the company’s business is
2	Companies use financial investment to generate income from their cash, which is important when the temporarily disposable capital cannot be effectively utilized to expand the business; another function is protection against inflation
3	Financial investment enables the company to pursue the investment policy of its choice, whether ultra conservative or ultra aggressive; businesses have a choice of investment instruments available in the market in a wide range of yield-liquidity or yield-risk ratio, from risk-free instruments to high-risk speculative instruments
4	The whole financial investment management process enables easier and less labor-intensive controls, which is different from the real investment, where investment projects are costly to prepare.
5	Financial markets are more volatile than commodity markets, which is why the financial investment-related decision are often made on the go

Developed by the authors on the basis of https://booksforstudy.com/13761025/investuvannya/napryamki_investuvannya.htm (as of https://booksforstudy.com/13761025/investuvannya/napryamki_investuvannya.htm 31.08.2019) [15]

A company’s financial investment may take form of purchasing stock, bonds, and other instruments [8], [9]. This can be creation or purchase of rented real estate, property insurance, cargo and carrier insurance, employee insurance, and liability insurance. Any of these financial assets can be stabilized in the future. Income diversification and distribution of capital between multiple assets provides far better protection in case of bankruptcy [1], [3].

Economic and financial investment helps the company further its business. It is imperative to have both types, as it can protect the business from many pitfalls. As soon as an opportunity arises, the company should seek more financial investment to boost its capital and stabilize its own foundations.

There is a clear correlation between economic and financial investment. If financial assets generate profit, the profit can be reinvested for economic reasons. Since the company's stock will pay off in the future, these funds can be used to finance new equipment or upgrades. Similarly, economic investment, such as equipment upgrades, can be used to generate more profits, with surplus being turned into financial investment for extra profit. Purely economic investment limits the company's development [13], [14].

Consider the pros and cons of economic and financial investment.

Let a company investment in its operations by purchasing capital or assets such as stocks or bonds; this infers a risk. The probability of gaining additional profits or assets as a result of investment is higher than the probability of breaking even or losing money [4], [5], [6].

3. Cons of financial investment

1. High costs and commissions for sale. Tariffs decrease the total return.
2. Management abuse In case of misuse of authority, sales and turnover may drop.
3. Tax inefficiency

Investors have no choice when it comes to paying the capital gains in mutual funds. Due to yearly turnover, buyout, profits and losses in securities, investors mostly gain profit from the distribution funds, which are uncontrollable tax events.

4. Poor transaction execution. Investors seeking faster execution due to shorter investment horizons, day trading, or specific market timing, do not benefit from mutual funds.

5. Investment is volatile.

It is prone to multiple risks, as the market is volatile. Stocks fluctuate many times a day. These fluctuations are often unpredictable, and investors might face serious repercussions of such uncertainty.

6. Brokerage commissions.

Every time an investor buys or sells their stock, brokers levy a commission.

7. Investment is time-consuming as the procedures are excessively bureaucratic [9], [10], [11], [12].

Financial investment is currently the most common investment means, as it favors the speculators by enabling:

1. Advanced portfolio management

Administrative costs are incurred as the main item on the list of expenditures, which is what attract portfolio management experts that help buy or offer stock, bonds, etc. These are usually levied as the investment portfolio management fee.

2. Dividend reinvestment

As profits and other premiums are announced for reserving, they can be used to purchase extra offers in a regular store, which helps investment develop.

3. Lower risk (safety)

Portfolio risks are reduced by diversification.

4. Convenience and fair pricing

Common assets are normal and easy to purchase. They usually have less and less investment (some 2,500 USD) and are only traded once a day at net asset value (NAV). This helps avoid changes in value over the day as well as evade arbitration procedures that informal investors master. Chances are the investment will pay off shortly.

5. Minority property

The market residuals can be enlarged by placing funds in various businesses [15], [16], [17].

4. Conclusions

Thus, economic and financial investment offers enormous benefit, as its helps utilize the company's growth potential if this tool used cautiously, thoroughly, and timely. Carefully balanced, each financial investment will be crucial to the outcome. Thus, financial investment is intended to generate return in

the form of the invested company's cash flow. Unlike strategic investors, the investor here relies more on the current management. 'Investment' is an umbrella term that signifies each and any mechanism that generates profit. In financial sense, it covers the purchase of bonds, stocks, or real estate. Besides, a newly constructed building or any other facility used for manufacturing can be considered an investment. Manufacture of goods that will further be used to make other products is also an investment. Investing in financial markets has both pros and cons; however, one has to risk to secure their future.

5. Acknowledgments

We'd like to thank our parents and colleagues that supported us while we were doing this research.

6. References

- [1] <https://financetipster.com/practice-info-difference-economic-investments-financial-investments-discussion>.
- [2] <https://www.europeanfinancialreview.com/enterprise-investment-scheme-explained/>.
- [3] <https://www.managementstudyguide.com/financial-investment.htm>
- [4] Sanalieva L K, Kengzhegalieva G B, Idelbayeva A S, Niyazbekova Sh U 2018 Investigation of modern economic mechanisms for construction of the intellectual potential of the country as a moving factor of innovative economic development *Bulletin of the National Academy of Sciences of the Republic of Kazakhstan* **5** pp 144-148
- [5] Semenyuk O, Abdrashitova T, Belousova E, Nechay N, Listkov V, Kurbatova V, Niyazbekova S 2018 The influence of ecology and economic factors on eco-architecture and the design of energy efficient buildings *World Transactions on Engineering and Technology Education* **T 16 2** pp 186-192 URL: [http://www.wiete.com.au/journals/WTE&TE/Pages/Vol.16,No.2 \(2018\)/15-Semenyuk-O.pdf](http://www.wiete.com.au/journals/WTE&TE/Pages/Vol.16,No.2 (2018)/15-Semenyuk-O.pdf)
- [6] Niyazbekova Sh U, Bunevich K G 2018 Exchange rate mechanism *RMAT Gazette* **4** pp 45-50
- [7] Niyazbekova Sh U, Hakimov D D 2018 Activities of the Court of Accounts in ensuring the economic security of the Russian Federation *GosReg: state regulation of public relations* **2(24)** pp 188-194
- [8] Nazarenko O V, Niyazbekova Sh U 2017 Organization of public finances in the context of reform In the collection: Economics of the city in the period of structural transformation: theory, methodology, practice Materials of the IV International Scientific and Practical Conference Edited by Y S Rudenko, M J Parfenova, L G Rudenko pp 585-593
- [9] Ivanov O S 2018 Analysis of the investment climate of modern Russia In the collection: Growth potential of the modern economy: opportunities, risks, strategies Proceedings of the V International Scientific and Practical Conference Edited by A V Semenova, M J Parfenova, L G Rudenko pp 692-697
- [10] Zueva I A 2017 On Development of Methodology of Analysis and Assessment of Socio-Economic Development of Regions *Journal of Moscow University named after S.Y. Witte. Series 1: Economics and Management* **4(23)** pp 27-36 doi: 10.21777/2587-9472-2017-4-27-36
- [11] Salihova I S 2018 Analysis of qualitative integrity of creativity of economic agent *Journal of Moscow University named after S.J. Witte. Series 1: Economics and Management* **3(26)** pp 103-110 doi: 10.21777/2587-554X-2018-3-103-110
- [12] Zhansagimov A E, Niyazbekova S U, Eginbayeva A E Elements of interaction between state and business 2016 *Vestnik University Turan* **3(71)** pp 44-48
- [13] <https://blog.ipleaders.in/advantages-and-disadvantages-of-financial-investment/>
- [14] <https://aussiefinanceblog.com.au/frugal-living/savings-considered-financial-investment/>
- [15] https://booksforstudy.com/13761025/investuvannya/napryamki_investuvannya.htm
- [16] Kaverzina L A, Cherutova M I Finance Management in Functional Management System <https://doi.org/10.2991/iscfec-18.2019.27>
- [17] Chekavinskaya G Justification of the Institutional Approach to Audit