INVESTMENT POLICY OF THE COMPANY IN CRISIS CONDITIONS

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Abstract. This report analyzes the relationship between the investment policy and the economic growth of the company in crisis conditions. The attention is focused, firstly, on the level of company activity, given the fact that it predetermines both the investment policy and the sources of financing. The issues concerning the specifics of the investment policy in crisis conditions are considered. The advantages and the disadvantages of the equity financing and the external financing for the implementation of the company's investment programs in an unfavorable economic environment are revealed. Conclusions have been drawn from the performed analysis, and the importance of the investment policy in building an optimal financial structure, preserving the independence and the prosperity of the company in crisis conditions is clearly emphasized.
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In crisis conditions, the investment policy pursued by the management is crucial for the adaptation of the company to the unfavorable economic environment. In this situation, the opportunities for new investments are a guarantee of maintaining the competitiveness and of overcoming the conjuncture in the economic development of the company (See UNCDAT 2009) .

In this regard, it is important what investments should be made, taking into account the company activity and the limited access to funding sources, the specific features of the implementation of the investment policy, as well as paying attention to the financial techniques for the relevant investments in a period of crisis

1. The Level and the Limits of the Company Activity

The level of the company activity predetermines the investment program in the crisis conditions. The activity depends on the turnover and on this occasion attention should be paid to:

- The sales survey.

First of all, the company's place in the industry to which it belongs (market share, current sales volume) must be determined. This actually makes it possible to specify whether the company has good positions in the industry and whether its development is relatively independent. In addition, it is important to know the degree of expansion of the company, whether it realizes mediocre growth related to the global economic development or belongs to a declining industry.

- The possibility of growth and stability in crisis conditions.

In this regard, it is interesting to know to what extent the company obeys cyclical fluctuations. There are not a few companies that suffer seasonal fluctuations, which increase in the economic crisis conditions, i.e. some activities have a more pronounced seasonal character than others and the management staff must quickly assess the company activity.

If the activity of the company is considered to be a border between different markets - markets for raw materials, labor, customers, suppliers and capital, this means that the investment policy of the management team in crisis conditions must comply with the following:

  - The type of production structure. It is good to compare the added value and turnover of the company. The amount of newly created value will be decisive in the development of the company activity, which implies a more flexible and rational management.

On the other hand, the study of the various costs should allow to reveal the possibility of their limitation when reducing the company activity. The purpose of such an analysis is to reduce certain types of costs without having a significant impact on the company's operations. This will allow to reveal the strategic policy of the company and the savings due to compliance with the degree of company activity in crisis conditions.

It is also important to specify what the structure will be - highly inert (a significant share of fixed costs) or vice versa - highly flexible.

  - The level of financial costs. In crisis conditions, they are usually small in terms of turnover, but they must be taken into account first of all with the company ability to make a profit.

Therefore, it is necessary to compare these costs with the gross income of the production before they are separated in order to see the amount that is used to cover them. The obtained financial result allows to reveal the burden of debts in terms of the percentage of return on capital of the company. They are the first assessment of the activities of the policy pursued by the management staff in the selection and allocation of financial resources.

However, one should not make the wrong conclusion that the company's rate of return is poor when the financial costs are high. On the contrary, the causality in some cases is reversed precisely because the company's return on capital is low and its financial costs are high.

- The realized current result. In this regard, it is necessary to assess the value of the current result in terms of turnover and the magnitude of the result in terms of the ability to financing of new venture investments with equity capital.
- Study of returns by comparing profit and equity. Here it is necessary to quickly understand the rate of return on capital and what it is due to the possibility of using equity or borrowed capital and what is the ratio between them, the degree of capital turnover and the effect of financial leverage.

2. The Peculiarities of the Investment Policy in Economic Crisis Conditions

In the context of an economic crisis, the importance of investment programs adopted for a given period must be measured. To do this, it is necessary to consider the following issues:

- the ability to financing with equity capital and investments;
- the activity and investment;
- net wealth at the beginning of the crisis period and investments.

The relationship between the ability to financing with equity and investments is as follows: to assess whether new investments made during the crisis period, if added to old investments, are a source of additional financing capacity. The comparison of the financing capacity and the investment, however, must be made in terms of the profitability and the dynamic equilibrium of the investment and the capital (Kirov, Velkov 2020).

In fact, sooner or later, the management's aspiration is that any investment strategy will lead to an increase in the financing capacity. When this is not the case, it is due to the fact that the investments made are not profitable enough. The management company will have financial problems if there is no opportunity to financing of risky investments with own capital in a crisis.

What causes concern in terms of the investment is the non-compliance of the company activity with the amount of the investments. In times of crisis, management teams of companies that decide to invest excessively without taking into account the level of their ability to financing can worsen their financial situation and lead them to bankruptcy (Auboin, Meier-Ewert 2003). For this reason, it is desirable that the amount of the investments be consistent with the possible sources of financing. A good capital financing policy makes it possible, albeit more slowly during the crisis period, to systematically increase the ability to financing of the investments.

The investment policy in a crisis can be represented as a spiral of growth necessary for the financial equilibrium of the company through the following graphs:

First: Figure 1 shows a company with growth before investing consistently and significantly in projects that are characterized by a growth rate parallel to the ability to equity financing.

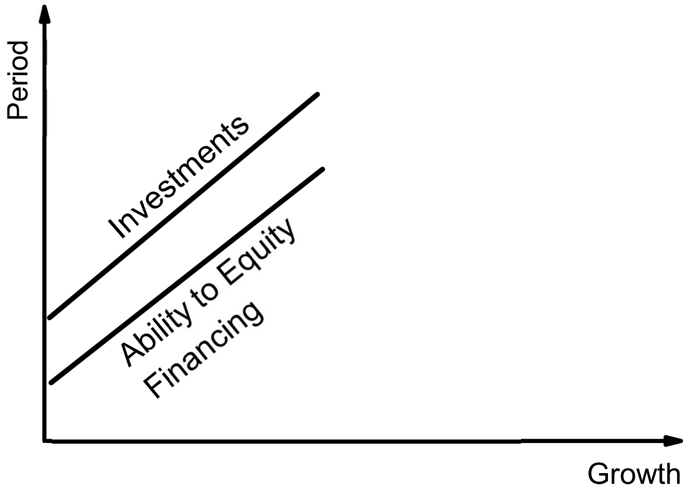

Figure 1

Second: In Figure 2, after a period of weak investments, the company implements a significant project that exceeds its financial capabilities and this leads to the impossibility of realizing them.

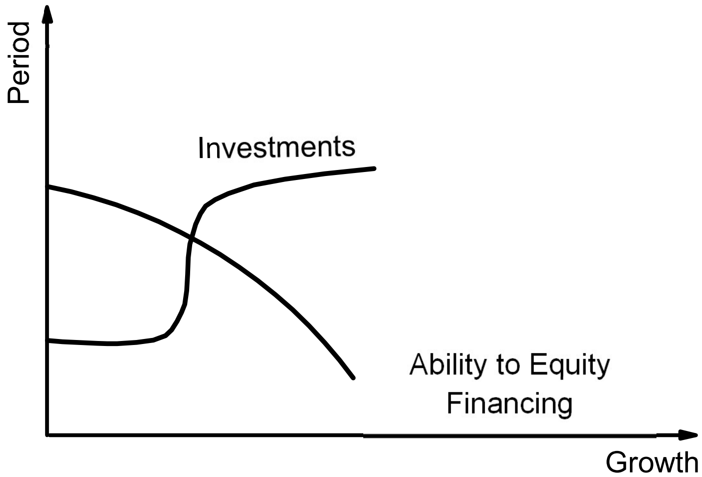

Figure 2

Third: In Figure 3, the company makes investments that have a high rate of return, consistent with the ability to financing with equity and borrowed capital.

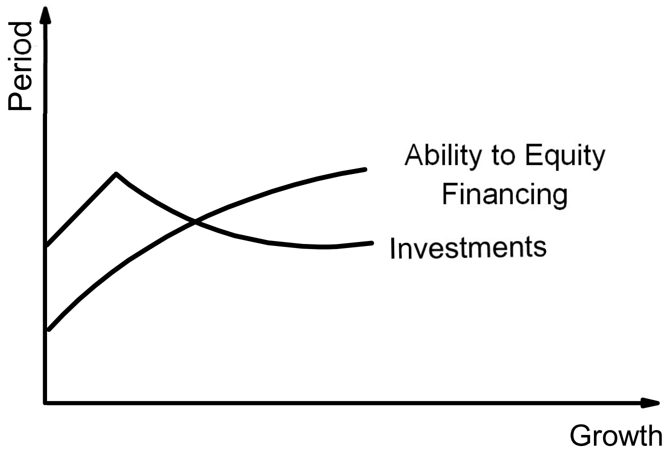

Figure 3

Fourth: In Figure 4, the management of the company does not renew its fixed assets and its rate of return decreases.

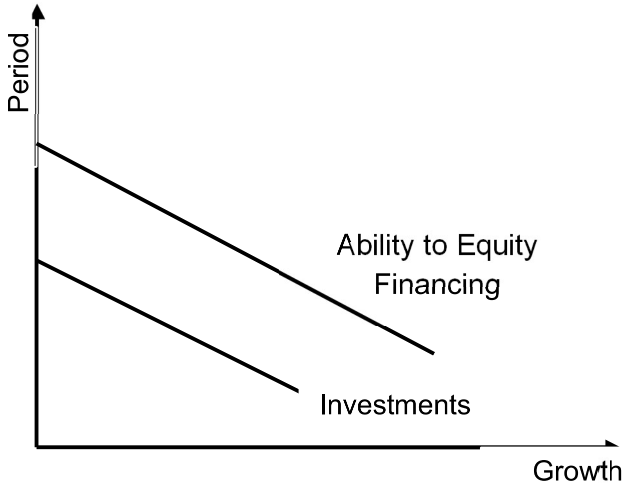

Figure 4

Characteristically, in Figure 4, the investments made during the crisis period are much lower than the ability to financing with the available capital. Therefore, the management staff must answer the following questions:

- whether it relies on any additional source of funding;
- whether the company's fixed assets are morally and physically worn out;

- whether the investments made in the company are consistent with the technological renewal of the industry.

The risk of similar situation is that the management company relies on existing fixed assets without renewing them. This will reduce its rate of return and therefore its ability to finance the necessary investments, making it uncompetitive.

Therefore, approaching the amount of investments to the level of the ability to financing with capital and to the rates of growth of the rate of return is crucial for overcoming the crisis and gradually realizing the economic growth of the company.

The analysis of the investments and the net wealth since the beginning of the crisis period helps to obtain information about the financial situation of the company. Any comparison of the investments with the fixed assets at the beginning of the economic crisis makes it possible to assess the importance of the investment program in relation to the existing fixed assets.

In general, it is necessary to disclose the appropriateness of the project investments (See Georgiev 2018). In fact, if their amount is consistent with the sources of financing of the company, it will adapt to the unfavorable economic environment and will more painlessly overcome the negative consequences of the economic crisis.

The dependence of the investment decisions during the crisis period on financing with equity and borrowed capital is determined both by the value of the invested capital and by the degree of risk assumed in the implementation of an investment project.

When the management prefers to use external financing for the realization of an investment, the value of the invested capital is measured by the interest rate, increased by tax expenses and bank expenses, the magnitude of which is quite large in a crisis. For the company that uses external financing, there is a cost of capital that is easy to determine with sufficient precision - a price that should be included in the profitability estimates. In the case of equity financing, the value of the invested capital is different, especially for risky investments.

In this regard, two categories of reasoning can be made - psychological and material.

From a psychological point of view, there is a fundamental difference between the failure to profit from the realization of the investment and the actual expense associated with the advance of money at someone else's account.

From a material point of view, the value seems difficult to determine. Here the question arises: should this value be tied to what the investment made in the company with its own funds will bring or to what it will cost to use external financing.

In both thesis, the multiplied rates can be envisaged as corresponding to different types of investments or to different external financing techniques. The percentage that is accepted in the latter case is probably higher - that of the loans that can be concluded, i.e. the percentage of bank coverage.

The equity financing is seen as a fictitious loan of the company to itself. It will be a cheaper means for the financing of the investments, because it is used without additional costs (tax and banking) and given that in times of crisis, access to external financing is severely limited.

On the occasion of the reinvestment of profits (financing with own funds), we can talk about a "subjective" interest rate, which predetermines the investments. When comparing the appropriateness of investments financed with external resources and through internal resources, it comes down to comparing one paid with one free operation.

It should be borne in mind that the equity financing also influences the company's investment decisions through other factors that are different from value and risk. These include both the company ability to access to external financing and the preservation and increase of the independence and prestige of the company. On this basis, the impact of the equity financing ends with the advance of the retained earnings, which is in fact the objective of the investment policy.

In order to realize an investment in crisis conditions, the financial management must have the necessary financial means. When the rate of profitability is higher than the interest rate and when the risk is low, the management company can find in the capital market the amounts it needs. In a crisis, demand is more important than the supply of foreign capital, but the unlimited elasticity of supply is also emphasized.

It is characteristic that for all companies, regardless of their growth and reputation in the financial circles, a certain limit of external financing has been formed (Georgieva 2022). In this situation, the boundary between the external financing and the equity financing of investments varies according to the growth, the quality of management and the industry affiliation of the company. It also changes depending on the phases of the conjuncture and the economic policy of the government. Therefore, each company, for itself, is aware of the maximum external financing, which it cannot exceed during the crisis period. The amount of this maximum represents the limit of the company's external financing. This limit also exists when the company operates in a booming environment and has access to all sources of external financing.

The magnitude of the possible loans is also limited, as it depends on the percentage of maximum indebtedness. For the guarantee offered to lenders (commercial banks), as well as for their own security, the management must monitor the balance between equity and borrowed capital. In this situation, the large emissions on the financial market are sometimes limited by the narrowness of this market and are conditioned by the desire of banks and companies to share the risks when financing of investments, taking into account the following principles:

First: The use of bank credit to financing of investments is limited in both the medium and long term.

Second: In addition to the limits set by the maximum indebtedness rate (related to bank risk of loss assessments), there may also be limits related to the credit policy of the State. It can fight high inflation, especially in crisis conditions, by limiting the size of loans or by distributing investments in accordance with the national plan's predictions.

Third: The opportunities for external financing are limited in crisis conditions and if the company needs to realize additional investment, the investment decision is entirely determined by the opportunities for equity financing.

3. The Advantages and Disadvantages of Equity Financing and External Financing in Crisis Conditions

The management company aims to maximize its profit in economic crisis conditions, constantly striving to maintain its competitiveness and independence. It is about independence in terms of the ownership of capital by the competitors.

The ability to choose a technique for financing of the investment program guarantees the avoidance of threats to the independence of the company. Usually, when using borrowed capital, the lender imposes control and certain requirements before granting the loan - term, payment time. Before granting the loan, the bank that is supposed to lend the money or issue the bond loan conducts a thorough investigation. This investigation should establish both the general, present and future state of the company, as well as the exact purpose of the resources. In most cases, it also includes an analysis of the company budgets. By the way, this is an operation that requires cooperation between the bank and the management company.

A particularly strong threat to the independence of the company is the irrational use of the loan money, if the management has accepted the realization of low-profitability investments and the payment options have not been properly assessed. In such a situation, the company may fall under the dependence of the bank, which may turn out to be quite demanding and ask for participation in the capital or a seat on the management board.

The financing with equity capital of a new investment in crisis conditions does not pose any threat or need for the company to limit its activities. It does not pose any problem for the control and the payment terms.

The optimal combination of the financial techniques of investments when the company activity increases after the crisis period allows the use of the external financing, which can have a multiplier effect on the development of the company.

The equity financing plays a crucial role in strengthening the financial independence of the company, especially when it is related to the investments. On this basis, it can be said that no matter whether we take into account the value of the capital invested, the risks, the limited access to external financing or the independence of the company, the opportunities of equity financing are decisive for the implementation of the investment program of the in crisis conditions.

The realization of the planned investments in the company in a crisis depends mainly on the past profit. In this regard, in the practice of many companies, the amount of the resources available for new projects is determined not on the basis of the expectations of the future profits, but on the basis of the availability related to past profits. If two companies are placed under the same conditions - cost, competition, production capacity and have the opportunity to choose between the two methods of financing - equity financing or external financing, the company that practices equity financing will invest more than the company that borrows capital. But studies done in this area show that the lack of external financial resources is very often one of the main reasons for explaining the decline in investment growth.

The following conclusions can be drawn from the presented research:

First: The influence of the past profit is not limited to investments financed directly from internal resources. In accordance with the thesis of the multiplier, the past profits also determine the investments made on the basis of other financial sources. In this situation, the volume of investments of a company during the crisis period depends to a significant extent on the past profit, but not only on the profit collected during the transition period, but on the profit created during all transition periods. Here again, it should be pointed out that this privileged role of the past profit does not exclude the other determinants of the investments, nor does it ignore the role of the current profit in the investment decisions.

Second: After the crisis period, the investments are financing through equity are not always compliant with the strict requirements of the profitability, as the capital is considered as "free" - there is no term, as in the case of loans, and no depth of project research before the allocation of the external resources. The decoupling of the financing from the expected future profits can also be an expression of an incorrect attitude to risk, which will lead to a deterioration in the financial condition of the company.

Third: An investment project that cannot be implemented in a crisis because the external resources are very expensive and the internal profitability of the investment is assessed as insufficient can be implemented provided that it is financing with equity capital.

Fourth: It should be known that the risk occupies a fairly large place in the investment decisions. The risk is a fundamental element of the company's investment policy (See Radukanov 2019). Against this background, the study of the risk aspects of the investment financing undoubtedly deserves attention. In general, for riskier investments, the role of the equity financing in their implementation is greater.

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