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Use of Investment Controlling and its Impact into Business Performance

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Abstract

We analyzed issue of investment measurement and management in companies and we focused on investment effectiveness evaluation methods applied in investment projects or business plans. In mentioned area we especially interested in using of investment controlling indicators in tested companies. Valuation based on investment controlling is only one of several ways of approaching valuation, however, as the results show, this approach has its benefits. Aim of our research was to detect if companies in Slovakia apply investment controlling in their management and use certain investment valuation methods. Consequently, the goal was to find out if using of investment controlling has the impact into company´s performance. We have collected data trough questionnaire. Research sample consisted from 164 firms from Slovakia. We applied certain statistical methods appropriate for tested variables. Results of our research confirmed our assumption and we concluded that use of investment controlling has an impact into better business performance.

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Keywords: Investments; Investment Valuation Methods; Investment Controlling; Business Performance; Slovakia.

1. Introduction

Recent development in most enterprises suggests that the effects of the global economic crisis have a significant impact on the performance of enterprises, with direct impact on the level of economy as well as the level of investment. The development of each sector or company requires appropriate investment. Without investment cannot fully meet particularly economic objectives of the business (Merková, Drábek, Polách, 2011). Providing

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required technical level of tangible fixed assets and its continuous renewal, which is the basis of competitive production, requires a substantial investment. Investment decisions (how much, to what, when, where and how to invest) belong among fundamental decisions, which greatly affect the future development of the company and its efficiency (Sujová, Hlaváčková, Šafařík, 2015). There is a review by the perception of prices, while investors will not certainly decide for the lowest current price - as low production costs and cheap labor or low tax cost - but primarily on the lowest cost throughout the life cycle of the investment (Merková, Drábek, Jelačić, 2012).

In evaluation of investment we evaluate their suitability, efficiency and feasibility of the particular project. Moreover we evaluate the impact of the project on total effectiveness, prosperity and financial stability of the company (Polách et al., 2012, Rajnoha, Jankovský, Merková, 2014 and others). Successful economic development require besides the application of traditional methods also the application of new modern methods based on traditional systems of financial indicators and are completed by time and qualitative indicators (Sujová, Marcineková, 2015). In the issue of investment we analysed modern approach based on controlling indicators.

In our research we focus on complex area of investment measurement and management and in this part we investigated the investment effectiveness evaluating. The research objective of this paper was to analyze relationships between the use of investment controlling evaluation methods and performance given by the indicator Return on Equity (ROE). The goal was to find out statistically relevant evidence that exist determinants with the impact in better performance of companies. Consequently, we tried to analyse categories (groups) of performance reached by using of investment controlling as tool in investment measurement and management.

2. Material and methods

In theoretical sources (Brealey, Myers, 2003, Levy, Sarnat, 1986, Drábek, Polách, 2008 and others) authors say that it is harder to calculate estimated money income out of investment then certain capital expenses. Some capital expenses in a form of machines, appliances, etc. can be calculated easily. Therefore, calculation of estimated money income is taken as critical, as a main point in a process of capital planning and investment decision making. Hard circumstances are as follows:

- Investment life cycle is longer than a process of getting investment.
- Time factor has bigger influence on decision making, evaluation, return of assets.
- Amount and time definition of estimated income are limited by more factors (especially expenses like), then capital expenses.
- Level of entrepreneurial risk can influence on the difference between real and estimated income, i.e. keeping the proposed time line and level of returning the foreign capital.

The basis of investment effectiveness evaluation lays on equalizing invested capital with estimated income project brings, i.e. it is about calculation of short-term investment expenses and estimated annual income during investment life cycle. The final result of that calculation is a selection of suitable project (alternative), i.e. decision making on which we recommend to start the project realization in given circumstances or that the project brings to much entrepreneurial risk and it is not possible to realize it, so we decline it (Drábek, Jelačić, 2007).

Only complex evaluation of investment project can assure fulfilment of entrepreneurial goals – increase of production abilities, cost decrease, ennobling of invested capital, increase of the enterprise market value. If investment basis is placed correctly and investment projects properly prepared, it is necessary to evaluate them equally well.

Based on the theoretical sources (Baum, Hartzell, 2012, Brealey, Myers, 2003, Damodaran, 2012, Drábek, Jelačić, Merková, 2014, Levy, Sarnat, 1986, Renkema, Berghout, 1997, Ward, Taylor, Bond 1996 and others) can be commonly used investment evaluation methods briefly summarized and characterized below.

Evaluation methods based on **annual indicators** are useful for short-term evaluation of project effectiveness. Countries with developed market economy don't use those methods as relevant because they don't use the so called time factor into consideration. Mainly, we talk about methods as Comparison of costs (cost minimization), Comparison of profit (profit maximization), Return on investment, Return on investment from cash-flow and Payback period.

Discounted methods for investment evaluation remove faults of annual valuation methods. In the process of quantification of chosen criteria they take time factor into consideration. In economic life time factor makes things