



<https://doi.org/10.15407/economyukr.2022.04.028>

UDC 330.322.01

JEL: E20, E22, O16

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## **METHODS AND APPROACHES TO ASSESSING INVESTMENT ATTRACTIVENESS**

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*The authors present the relevance of the study of investment attractiveness of the enterprises of Ukraine. The study analyzes the existing interpretations of the category «investment attractiveness». It is established that today there is not a single universal method of assessing the attractiveness of the territory.*

**Keywords:** *investments; investment attractiveness; assessment; capital; evaluation methods.*

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The investment attractiveness of an enterprise for investors is determined by the level of income that an investor can receive on invested funds. The level of income is determined by the level of risks of non-repayment of capital and non-receipt of income on capital. In accordance with these criteria, investors determine the requirements for enterprises when investing. Efficient activity of enterprises, ensuring high rates of their development and increasing the level of competitiveness of products to a large extent characterize the level of their investment activity.

The level of activity of an enterprise is characterized by the degree of its investment attractiveness, which in this case acts as an incentive when an investor chooses an investment object and makes a decision to start investing.

In this regard, the analysis of investment attractiveness acquires the importance of an important economic category, planning and increasing the level of investment attractiveness of an enterprise must be considered as independent tasks of its activities in terms of attracting foreign investment. To this end, each enterprise should look for ways to increase investment attractiveness.

**C i t a t i o n:** Proskurnina N., Chornomord Ye. Methods and approaches to assessing investment attractiveness. *Economy of Ukraine*. 2022. No. 4. P. 28-36. <https://doi.org/10.15407/economyukr.2022.04.028>

Analysis of the investment attractiveness of an enterprise for most investors in Ukraine is a priority when choosing an investment object in comparison with other structural levels of the economy, such as a country, region, industry.

One of the decisive conditions for overcoming the crisis of the Ukrainian economy is the growth of investment in various sectors of the national economy. The intensification of investment activity contributes to the rise and further development of the economy, with the help of investments, new enterprises are created and, accordingly, additional jobs, existing production facilities are expanded, and new types of goods and services are developed and entered the market. The state that receives additional tax revenues also wins.

The relevance of the topic is due to the fact that the assessment of the investment attractiveness of an enterprise occurs in almost all transformations: when buying and selling an enterprise, its corporatization, mergers and acquisitions, as well as in many other situations. Knowledge of the value of the market value enables the owner of the object to improve the production process, develop a set of measures aimed at increasing the market value of the enterprise. Periodic valuation allows you to improve management efficiency and, therefore, avoid bankruptcy and ruin.

Published in periodicals or posted on the Internet methodological materials for assessing the investment attractiveness of industrial enterprises are based on the use of only quantitative or only qualitative factors and does not fully take into account the whole set of financial, economic, marketing and production characteristics of industrial enterprises. Practical methods of assessing the investment attractiveness of leading Western consulting firms and investment companies are considered a trade secret, not available to the general scientific community and not adapted to Ukrainian economic conditions, which indicates the urgency of studying this problem.

The subject of this study is the methodological issues of assessing the investment attractiveness of an enterprise.

The object of the study are various methods for assessing the investment attractiveness of an enterprise.

The methods used: synthesis, comparison, dimension.

**The purpose of this article** is to identify methods for assessing the investment attractiveness of an enterprise.

To achieve the stated goal, the following tasks were set:

1. To study the concept of investment attractiveness of an enterprise.
2. Determine the factors affecting the investment attractiveness of the enterprise.
3. Analyze in detail the methods for assessing the investment attractiveness of enterprises.

## **THE CONCEPT OF INVESTMENT ATTRACTIVENESS OF AN ENTERPRISE**

The key concept in determining the creditworthiness of an enterprise is its financial stability, but today this is no longer enough to make a final decision. Diversification of enterprises in various fields of activity, the presence of qualitative factors, differences in the production base — all this requires a single, integrated approach to making investment decisions. And the investment attractiveness of the enterprise comes to the fore. But how to evaluate it?

In order to determine the maximum efficiency of an investment decision, the concept of the investment attractiveness of an enterprise is introduced. The concept is quite new, it appeared relatively recently in economic publications and is used mainly in the characterization and evaluation of investment objects, rating comparisons, and comparative analysis of processes. The study of different points of view on its interpretation made it possible to establish that in modern ideas there is no single approach to the essence of this economic category.

One of the most common points of view is the comparison of investment attractiveness with the feasibility of investing in an enterprise of interest to the investor, which depends on a number of factors that characterize the activity of the entity. Although the definition is correct, it is rather vague, and does not give grounds to talk about the assessment<sup>1</sup>.

More precisely, the economic essence of investment attractiveness is given in the definition of L. Valinurova and O. Kazakova. They understand this term as a set of objective signs, properties, means and opportunities that determine the potential effective demand for investments. This definition is broader and allows taking into account the interests of any participant in the investment process.

There are other points of view (including L. Gilyarovskaya, V. Vlasova and E. Krylov and others). Here, investment attractiveness is understood as an assessment of the effectiveness of the use of equity and borrowed capital, an analysis of solvency and liquidity (a similar definition is the structure of equity and borrowed capital and its placement between different types of property, as well as the efficiency of their use).

Assessing the investment attractiveness in terms of income and risk, it can be argued that this is the presence of income (economic effect) from investing funds with a minimum level of risk.

The role of this concept in characterizing the investment environment and investment activity in general can be seen in the following diagram:

Thus, it becomes obvious that, regardless of the approach to the definition used by an expert or analyst, most often the term «investment attractiveness» is used to assess the feasibility of investing in a particular object, choosing alternative options and determining the efficiency of resource allocation.

It should be noted that the determination of investment attractiveness is aimed at the formation of objective, purposeful information for making an investment decision. Therefore, when approaching its assessment, one should distinguish between the terms «level of economic development» and «investment attractiveness». If the first determines the level of development of the object, a set of economic indicators, then the investment attractiveness is characterized by the state of the object, its further development, profitability and growth prospects [1].

## **METHODS FOR ASSESSING THE INVESTMENT ATTRACTIVENESS OF AN ENTERPRISE**

Currently, there is no single approach to both the definition and evaluation of investment attractiveness. Among the criteria defining it for the investment attractiveness of an enterprise, such aspects of the enterprise as the attractiveness

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<sup>1</sup> World Investment Report 2020. United Nations. URL: <https://worldinvestmentreport.unctad.org/world-investment-report-2020/>

of products, personnel, financial, territorial, and others are usually considered. Product aspects include: quality, price, level of diversification. To personnel — the quality of staff and management. As for the financial aspects, here investors most often pay attention to the structure of property, liquidity, profitability, financial stability and solvency of the organization.

Currently, the most popular methods for assessing investment attractiveness are the following:

- 1) discounted cash flow method;
- 2) assessment based on the analysis of factors of external and internal impact;
- 3) seven-factor model;
- 4) integrated assessment based on internal indicators;
- 5) comprehensive assessment.

1. Method of discounted cash flows. The discounted cash flow method or DCF is a tool for estimating future cash flows. In other words, it is an attempt to evaluate the attractiveness of any investment opportunity based on what cash flows they are able to generate in the future. The essence of the method is based on a simple statement — money «now» is worth more than money «later» — in the future.

And this statement has objective reasons:

- inflation;
- presence of investment risks;
- the possibility of alternative investments of funds (for example, bank deposits) [2].

The discount factor is calculated by the formula [3]

$$k_d = \frac{1}{1+r^i},$$

where  $r$  — discount rate,  $i$  — period number.

Discounting cash flows. Calculation formula

$$DSF = \sum_{i=1}^n \frac{CF_i}{1+r^i},$$

where  $DCF$  — discounted cash flow,  $CF$  — cash flow in the period  $i$ ,  $r$  — discount rate,  $n$  — number of time periods [3].

The discount rate is the main element in the formula for discounting cash flows. This indicator shows what the investor should expect.

The main advantages of the method are that it allows you to evaluate a business with uneven, and often negative financial results. Also, the advantages of this method include the realism of estimating the value of the enterprise, as well as the ability to see the hidden potential. The disadvantages of the method include the fact that the indicators in dynamics are carried over to the future period, these indicators are subjective, therefore, there is no guarantee that the calculated values will be absolutely correct.

2. Method for assessing investment attractiveness based on the analysis of factors of external and internal impact.

Stages of assessing investment attractiveness according to this method:

- a) determining the factors of investment attractiveness of an enterprise based on the Delphi expert method;
- b) analysis of investment attractiveness, taking into account these factors;

c) the concept of a multifactorial regression model of the influence of factors is considered, and a forecast of the investment attractiveness of the enterprise is carried out;

d) development of recommendations.

Internal factors include those that directly depend on the performance of the enterprise. Such factors are the main ones, due to their change it is possible to regulate the level of the financial condition of the enterprise and thereby influence its investment attractiveness.

External factors do not depend on the activities of the enterprise, it is possible to change them, but this is already a more complex and time-consuming process.

The main advantage of this method is that it takes into account both external and internal factors that affect the investment attractiveness of the enterprise, that is, an integrated approach is carried out to some extent. But there are also disadvantages, which include the use of expert assessments at the first and third stages of this technique. This factor reduces the accuracy of the results, since it depends on the subjective assessments of experts.

3. In the seven-factor model, an indicator of the investment attractiveness of an enterprise is the return on assets: the higher it is, the more efficiently the enterprise operates, therefore, it is more attractive in terms of investment [3].

This model is used to study the impact of sustainability indicators on the efficiency of the organization's assets.

The formula of the seven-factor model [4, p. 71]:

$$P_a = \frac{\text{ЧП}}{B} \cdot \frac{B}{\text{OA}} \cdot \frac{\text{OA}}{\text{KO}} \cdot \frac{\text{KO}}{\text{ДЗ}} \cdot \frac{\text{ДЗ}}{\text{K3}} \cdot \frac{\text{K3}}{\text{3К}} \cdot \frac{\text{3К}}{A} = a \cdot b \cdot c \cdot d \cdot k \cdot l \cdot m,$$

where  $a = \text{ЧП}/B$  — net return on sales,  $b = B/\text{OA}$  — turnover of current assets,  $c = \text{OA}/\text{KO}$  — current ratio,  $d = \text{KO}/\text{ДЗ}$  — the ratio of short-term liabilities and receivables,  $k = \text{ДЗ}/\text{K3}$  — the ratio of accounts receivable to accounts payable,  $l = \text{K3}/\text{3К}$  — the ratio of the organization's accounts payable to the amount of borrowed funds,  $m = \text{3К}/A$  — the ratio of borrowed capital to the total assets of the enterprise.

4. When assessing investment attractiveness by the integral method, only relative internal indicators of the economic activity of the enterprise are taken into account. Then all calculations are reduced to an integral indicator of the investment attractiveness of the enterprise.

The advantage of the integral method is the reduction of calculations to the final integral indicator. The disadvantages include the use of only internal indicators of the enterprise in the calculations; external factors that also affect the activities of the organization are not taken into account.

5. A comprehensive assessment of the investment attractiveness of the enterprise. The most popular method is the analysis of the financial condition of the enterprise, it takes place in three stages.

At the first stage, the economic potential of the enterprise is analyzed. To do this, one should take into account the direction of the business, its organizational and legal form, volumes and scope of activity.

At the second stage, the financial condition of the enterprise is analyzed for investment purposes. An assessment of the financial position of the enterprise is made, indicators of business activity, solvency, profitability, and liquidity are analyzed.

At the third stage, the level of business planning is assessed.

All of the above aspects make it possible to qualitatively and fully assess the investment attractiveness of the enterprise

After evaluating all the criteria for the investment attractiveness of the proposed projects, it is necessary to form a rating indicator, which will determine the most profitable and investment-attractive project for investment.

After analyzing various methods for assessing investment attractiveness, it can be noted that many approaches either do not provide a complete assessment of the investment attractiveness of an enterprise, or the assessment results are quite subjective and, therefore, may be inaccurate, so they need to be corrected. For example, if the enterprise is a limited liability company, then the second approach cannot be applied, since it is designed for a joint-stock company, therefore, it needs to be adjusted.

The presented approach makes it possible to take into account the largest number of factors, which in turn allows reducing the risks of a potential investor and giving an objective assessment of the investment attractiveness of an enterprise. However, it is labor intensive and requires a lot of attention.

A comprehensive methodology for assessing investment attractiveness is based on an analysis of the financial condition of an enterprise and is carried out according to financial statements. The methodology for assessing the investment attractiveness of an enterprise involves combining data into groups. First of all, the financial condition of the enterprise is analyzed on the basis of financial statements:

- profitability analysis;
- the level of innovative activity of the enterprise;
- analysis of financial stability;
- analysis of liquidity and solvency;
- the company's share in the product market.

Profitability is a coefficient showing the level of income of the enterprise. The profitability ratio reflects the efficiency of the enterprise as a whole, as well as the profitability of various areas of the enterprise. Therefore, profitability is quite an important indicator for the investor. To obtain the most accurate data on the profitability of the enterprise, it is necessary to calculate the following coefficients:

- return on assets;
- profitability of sales;
- return on equity;
- profitability of production assets.

The indicator of financial stability shows the ability of the enterprise in the future to secure the necessary funds for the purpose of implementing the production plan. When analyzing the financial stability of an enterprise, the dependence of the enterprise on borrowed funds is considered [5].

According to the results of expert studies, a scoring of characteristics was developed, according to which the investment attractiveness of an enterprise is assessed. In this case, when assessing investment attractiveness, indicators for the reporting year are taken into account, which are adjusted taking into account the dynamics for the previous year. In accordance with the table below, each assessment corresponds to a certain number of points. 2 points are assigned if the assessment is «good», 1 point if the assessment is «satisfactory». If the value of the indicator is

**Assessment of investment attractiveness**

Good	Satisfactory	In the region of the maximum permissible value	Unsatisfactory	Extremely unsatisfactory
20 points	10-20 points	0-9 points	-5-0 points	<-5 points

Source: authors adapted from [6].

within the allowable value, this corresponds to 0 points. If the indicator is rated as «unsatisfactory» — minus 1 point. In the case when the value of the indicator falls into the «extremely unsatisfactory» column, minus 2 points are assigned.

After evaluating all the indicators and determining the scores for each of them, it is necessary to calculate the sum of all the scores for the presented characteristics.

Further, according to the table, it is necessary to determine the level of investment attractiveness of the enterprise by the amount of points scored. In order for an enterprise to be investment-attractive for an investor, the sum of points scored based on the results of the analysis of all characteristics should be more than 20.

When comparing several enterprises, the most investment-attractive one will be the one with the sum of points for all characteristics will be greater than the rest.

**CONCLUSION**

Having considered several methods for assessing the investment attractiveness of an enterprise, it can be noted that all methods have their drawbacks and advantages. For example, the seven-factor method and the method of integral assessment by internal indicators evaluate investment attractiveness only taking into account internal factors. The complex method and the method based on the analysis of external and internal factors take into account not only internal, but also external factors that were not taken into account in the first two methods. But these methods have a significant drawback: the analysis uses expert estimates, therefore, the result obtained is to some extent subjective, and, therefore, inaccurate. Having considered all approaches to studying and evaluating the investment attractiveness of an enterprise, one can single out the final indicator of the level of investment attractiveness, which includes the strengths of existing methods. A comprehensive assessment of investment attractiveness, which is based on an analysis of the financial condition of the enterprise, allows you to fully highlight the final indicator of the level of investment attractiveness. This technique has the following advantages: an integrated approach, analysis of a large number of indicators and coefficients, accurate mathematical calculation of the indicator, which serves as a criterion for assessing investment attractiveness. This method allows you to take into account the dynamics of indicators over several years. Nevertheless, to obtain a more accurate result of assessing investment attractiveness, several methods should be used.

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Received on March 12, 2022

Reviewed on March 29, 2022

Revised on April 04, 2022

Signed for printing on April 07, 2022

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Надійшла: 12.03.2022

Прорецензована: 29.03.2022

Доопрацьована: 04.04.2022

Підписана до друку: 07.04.2022

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МЕТОДИ ТА ПІДХОДИ ДО ОЦІНЮВАННЯ  
ІНВЕСТИЦІЙНОЇ ПРИВАБЛИВОСТІ ПІДПРИЄМСТВА

Найважливішим аспектом прийняття будь-якого інвестиційного рішення є оцінка інвестиційної привабливості об'єкта інвестування. Інвестиційні рішення — одне з найскладніших завдань з точки зору процедури відбору. Вони базуються на багатоваріантній, багатокритеріальній оцінці низки факторів і тенденцій, які часто діють у різних напря-

мах. Як інтегральна характеристика інвестиційних можливостей, що формується на основі оцінки ступеня доцільності інвестування в конкретний суб'єкт господарювання за певний період часу, використовується інвестиційна привабливість підприємства. Знання величини ринкової вартості дає можливість власнику об'єкта вдосконалити процес виробництва, розробити комплекс заходів, спрямованих на збільшення ринкової вартості підприємства. Періодично проведена оцінка вартості дозволяє підвищити ефективність управління і, отже, уникнути банкрутства і руйнування. Практичні методи оцінки інвестиційної привабливості провідних західних консалтингових фірм та інвестиційних компаній вважаються комерційною таємницею, не доступною широкому науковому загалу і не адаптованою до українських економічних умов, що свідчить про актуальність дослідження даної проблеми.

Визначено сутність інвестиційної привабливості підприємства, проведено критичний аналіз методів її оцінки. У поточних умовах господарювання склалося кілька підходів до оцінки інвестиційної привабливості підприємств. Перший базується на показниках оцінки фінансово-господарської діяльності та конкурентоспроможності підприємства. Другий — використовує поняття інвестиційного потенціалу, інвестиційного ризику і методи оцінки інвестиційних проєктів. Третій — базується на оцінці вартості підприємства. Кожен підхід і кожен метод мають свої переваги, недоліки й межі застосування. Чим більше підходів і методів буде використано в процесі оцінки, тим вищою буде ймовірність того, що підсумкова величина об'єктивно відобразить інвестиційну привабливість підприємства. Виявлено переваги й недоліки кожного методу, надано практичні рекомендації щодо вибору того чи іншого методу в процесі прийняття інвестиційних рішень.

**Ключові слова:** *інвестиції; інвестиційна привабливість; оцінка; капітал; методи оцінки.*