
Foreign Direct Investment in Intangible Assets of Tourism and Recreational Companies

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Abstract:

The relevance of the article lies in justifying the conceptual approach to the formation of management tools for attracting foreign direct investment in intangible assets of companies in the tourism and recreation sector.

The object of the research is the companies in the field of tourism and recreation in Russia, the subject of the research is the tools for managing direct foreign investments in the field of recreation and tourism in the Russian economy.

Scientific merit of the study is the expediency of attracting foreign direct investment in intangible assets of tourism and recreation companies and the use of a comparative approach in estimating the value of intangible assets of tourism and recreation companies.

Practical relevance is the development of methodical recommendations for applying a rating method for evaluating tourism and recreation companies in terms of the profit margin on investments in goodwill elements as a starting point for determining the level of a company's competitiveness when using a comparative approach to goodwill assessment.

Keywords: *Tourist and recreational companies of Russia, foreign direct investment in intangible assets, comparative approach, business reputation, tourism and recreation companies.*

JEL Classification Codes: F01, E24, J24, J28, J6.

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1. Introduction

Many Russian economists and practitioners believe that management decisions regarding the feasibility of attracting foreign direct investment in tourism and recreation require deep analytical elaboration. There are a number of reasons for this: a) attracting investment, and first of all, foreign ones, requires the concentration of significant amounts of own financial resources; b) as a rule, attracted investments do not give quick returns due to the existence of a time lag effect, sometimes significantly prolonged, generating a new effect of immobilizing the equity capital, in other words, “deadening” of assets that can be profitable only after some time; c) attracting foreign direct investment implies the direct participation of a foreign investor in the management of a company, often very substantial, which it is not considered necessary.

Consequently, it can be stated that the expediency of attracting foreign direct investment in tourism and recreation exists, firstly, only if companies have a certain financial reserve that allows them to painlessly survive the period of development of attracted investments in the development of current business (new tourist and recreational facilities, new infrastructure facilities, etc.), or in the reconstruction of obsolete business (Iskhanyan *et al.*, 2013; Papiashvili *et al.* 2017).

2. Features and feasibility of attracting foreign investment in the tourist and recreational sector of Russia

It is important to keep in mind that in most cases the investment is based on attracting borrowed capital, and therefore it is necessary to justify the use of certain sources, estimate the cost of their services, and justify arguments in favor of attracting potential foreign investors. There are many unsolved problems in improving the mechanism of the regulatory impact of the state on investment processes in the field of tourism and recreation. First of all, it concerns the need to improve the efficiency of tools for creating favorable conditions in the field of tourism and recreation to attract foreign direct investment, as well as the development of administrative regulators to attract investment in priority national projects (Katrakilidis *et al.*, 2017).

At the same time, it is known that at the disposal of state subjects of regulation of attracting foreign investments there is a whole complex of instruments and regulators implemented in the national investment policy. First of all, these are the following tools: integrated target long-term investment programs (TLIP) for investment in objects of recreation and tourism with the attraction of foreign direct investment (construction of the Olympic Center Sochi-2014, etc.); budget investments in priority investment projects; the provision of state guarantees for investment loans; subsidies from the state budget for the development of the tourist and recreational field; granting deferral or installment plans for the payment of taxes by tourist and recreational companies investing in fixed assets; subsidies to tourism

and recreation companies from the state budget in order to compensate part of the cost of paying interest on loans received for the implementation of investment projects (Lado González and Calvo Dopico, 2017).

3. The specific functions of foreign direct investment in tourism and recreation

Thus, we could argue that, by their economic nature, foreign direct investment in tourism and recreation is the investment of foreign capital in business activities, intended for the development of tourism and recreation at a new higher technological level in the Russian Federation. The authors believe that foreign direct investment in economic entities of the tourism and recreational field has specific functions that also have a positive effect on the development of the state's economy (Table 1).

Table 1. *The authors' characteristic of the specific functions of foreign direct investment in tourism and recreation*

Functions	Features
1. Regulatory	regulatory and stimulating processes of introducing scientific and technical achievements, innovative technologies in the production activities of economic entities of the tourism and recreation sector, in the development of their infrastructure, which have a multiplicative effect on the associated sectors of the economy and increase the level of socio-economic development of the territories of their location
2. Distributing	Is manifested as a distribution regulator of the created social product in the field of tourism and recreation between individual owners, territorial and federal levels of social production, production and social fields of development
3. Activational	A stimulator of activation of economic activities of tourism and recreation subjects through the attraction and effective use of foreign direct investment to ensure high production growth rates and achieve new competitive quality characteristics of tourism and recreation product
4. Monitoring	Monitoring process related to the control of the effective use of attracted foreign direct investment in economic activities of subjects of tourism and recreation

Thus, attracting foreign direct investment in the field of recreation and tourism can be considered expedient if the main functional task in this area is being resolved, which is to provide investment in the development of production capacities on a new, high scientific and technological basis for the long term, and also to promote the high-tech transformation of the production capacities. Moreover, attracting foreign direct investment in the tourist and recreational sector plays an important

role in solving the problems of sustainable development in social and economic sectors, the main of which are as follows:

- widespread use of previously unclaimed scientific and technical potential in the field of tourism and recreation;
- activation of the processes of promotion of tourist and recreational goods and services to the world market;
- structural transformation of Russian exports due to the development of high-tech tourist and recreational products and services' exports;
- ensuring the inflow of foreign investments in subsidized regions with significant tourist and recreational potential ensuring the growth of the regional domestic product and accelerating their socio-economic development;
- development of new forms of organization of innovative production in the field of tourism and recreation, as well as in related sectors of the economy, contributing to the creation of new jobs;
- promoting the development of production and transport infrastructure.

Thus, we could state that foreign direct investment in tourism and recreation can play a very important stimulating role in accelerating Russia's socio-economic and technological development, updating and modernizing production management tools, mastering innovative methods of organizing it, providing employment and training of highly qualified personnel not only in tourism and recreation but also in the economy sectors associated with it, but the key function is to contribute to a significant increase of GDP in Russia.

At the same time, we should not forget about the need to create the necessary favorable conditions for attracting foreign investors. So, foreign direct investment in tourism and recreation could actually contribute to the development of the country and its regions, and in some cases take the most important place and even the prevailing volume in the structure of sources of funding economic development of regions like depressed, undeveloped ones.

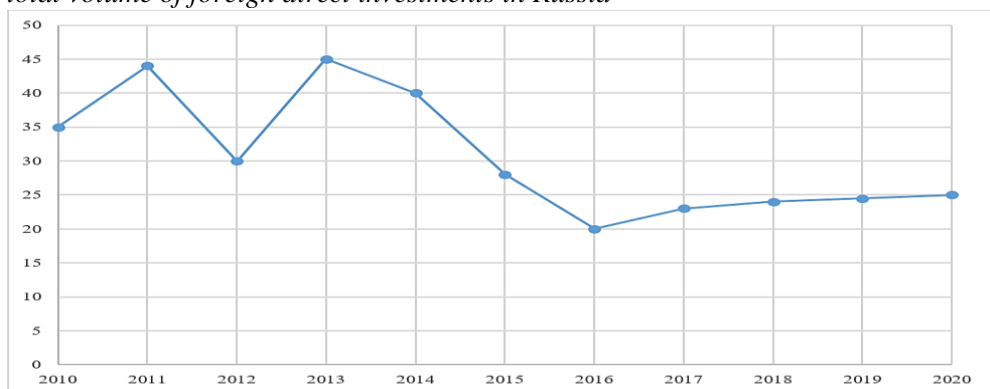
In this regard, we consider details the specific features of foreign funding sources of the tourism and recreation field. External (foreign) sources of financing in the field of recreation and tourism could be classified into 3 main groups:

The first group is: a) foreign direct investments in the tourism and recreation sector, i.e. investments made by foreign investors who intend to become either direct owners of tourism and recreational companies where investments are made, or to get the right to manage companies, controlling at least 10 % of shares of their authorized capital; b) investment in fixed assets of tourism and recreational companies (real estate, equipment, etc.); c) loans that can be provided by co-owners of companies - non-residents of tourist and recreational companies; d) finally, the reinvested income of foreign investors from investments in fixed capital of companies.

Analyzing the situation with attracting foreign direct investment in tourism and recreation, starting in 2010, we concluded that the share of direct investment in recreation and tourism in Russia in the total foreign direct investment in the Russian economy declined steadily, falling from 2010 to 2016 from 35% to 20% of the total foreign direct investment in the country (Figure 1).

It should be noted that the declining dynamics of attracting foreign direct investment in tourism and recreation is caused not only by restrictive measures in recent years from Western European states, but also by a number of sectoral restrictions related to the rules of utilization of national recreational resources, historical and cultural heritage, monuments, units with a production infrastructure (roads, airports, bus and railway stations, etc.). A substantial negative factor that takes place when attracting foreign investment in the tourist and recreation sector, requires a proper discussion. The fact is that almost all foreign investors require guarantees of the safety of their rights to investments, for example, in the form of dividends and controlling stake or part of the land holdings of an enterprise, etc.

Figure 1. *The share of foreign direct investment in tourism and recreation in the total volume of foreign direct investments in Russia*



Surely, these circumstances could adversely affect not only the specific economic entities of the tourism and recreation sector, but also the entire national economy, since they contribute to the uncontrolled influence of foreign investors on the nature and direction of the companies. In the early years of the development of a market economy in Russia, the best guarantee of foreign investment was the guarantee of ministries and departments of the country, as well as business structures. However, at present, official guarantees are not enough for a significant amount of FDI to enter Russia; active government action is needed.

To solve this problem, the President proposed creating in a short time a special fund to support foreign investments, which could play the role of a guarantor for foreign investors.

Group 2 may include foreign portfolio investments in tourism and recreation companies. There is a nuance consisting in the fact that the portfolio investment of small and medium-sized enterprises in Russian practice is poorly developed due to the high risk. Portfolio investors are attracted by the securities of large companies, but there are few of them in the field of tourism and recreation.

Group 3 is other foreign investments, which include foreign loans. They could be financial-industrial and trading companies, banks, the state as well. Cases of foreign loans to tourist and recreational companies are extremely rare.

Based on the foregoing, we believe that the most appropriate type of foreign investment for economic entities in the sphere of tourism and recreation is foreign direct investment in fixed capital of tourism and recreation companies. Consequently, the solution to the problem of improving FDI regulation instruments in the field of tourism and recreation as the basis for increasing the country's international competitiveness in the world services market comes to the fore.

Based on the above, the reorientation of investment flows seems particularly relevant to us. It is necessary to significantly raise the level of business reputation of tourist and recreational companies, which, will have a positive impact on improving their competitiveness in the global market for services. But for this we consider necessary to intensify the attraction of foreign direct investment in the intangible assets of tourist and recreational companies (Egorov, 2012).

4. The economic nature and role of goodwill of tourism and recreational companies in ensuring competitiveness in the global market of services

At the new, modern stage of post-industrial development, the role of the tertiary sector in the development of both the global economy and the economies of countries has steadily increased. The importance of this process belongs to the tourist and recreation sector. At the same time, the importance of business reputation (goodwill) of companies in the tourism and recreation sector in ensuring their competitive stability in the global market of services has steadily increased. (Starkova *et al.*, 2015). This circumstance is interesting for us from the standpoint of justifying the expediency of attracting foreign direct investment in the development of intangible assets (IA) of tourism and recreational companies and adapting the international practice of evaluating the goodwill of companies in order to justify the return on investment (Egorov, 2012).

In this regard, we paid special attention to such an important element of intangible assets as intellectual capital, since it has the most significant impact on the quality of the company's business reputation and, most importantly, on the formation of the investment attractiveness of a tourism and recreation company, as well as on ensuring victory in competitive struggle in the world market of services (Gryaznova and Fedotova, 2004).

The economic basis of the IA is the intellectual potential of the top management of the company, the positive results of the intellectual activity of the top management and equated means of individualization of the company as a legal entity (company name, trademark, brand, etc.).

But since the business reputation of a tourism and recreation company includes, first of all, broad business connections, the company's name, brand name, company's brand, which are formed through the direct manifestation of the intellectual and business qualities of the company's top management, that is, an intellectual asset., then it could be argued that this is the market realization, i.e. the commercialization of the EA.

But the commercialization of intellectual activity results is the most difficult problem, which manifests itself both at the level of the company and at the state level. Confirmation of the state's interest in solving this problem could be served by the Decree of the President of the Russian Federation "On the state policy on engaging the results of scientific and technical activities and intellectual property objects (IPO) in the field of science and technology". We believe that the most important characteristic of the economic nature of an intellectual asset and, in general, goodwill of a tourism and recreation company is the possibility of using it as collateral for investment lending. But in modern Russian and foreign banking practice this type of collateral is not applied, since the assessment mechanism has not yet been fully developed.

5. The specificity of approaches and methods for assessing the intellectual asset of tourist and recreational companies

The most important factors complicating the assessment of the intellectual asset of a tourism and recreational company, even if we represent it as goodwill elements, should include:

- unpredictability of the process of creating new knowledge. Therefore, existing knowledge and past experience, established economic phenomena cannot fulfill the role of a counterpart in assessing newly created knowledge, the value of which is determined only by its own results of use, even if they are expected in the far foreseeable future;
- integrity (absolute indivisibility) of the newly created knowledge that are directly related to the indivisibility of information about new knowledge. Therefore, the required amount or part of a new knowledge cannot be bought / sold;
- the inadmissibility (unacceptability) of copying the newly created knowledge by simulators, since the value of new knowledge as a commodity for the original owner decreases in the case of copying it by simulators.

Summarizing both the author's idea and scientific statements on this issue (Lev, 2003), we can distinguish a number of positive and negative externalities that affect

both the quality of an intellectual asset (mediated by the quality of a company's goodwill) and its impact on the company's revenues, therefore, on the valuation of the company and the level of competitiveness of the tourism and recreation company in the world market of services (Srimuk and Choibamroong, 2014).

We attribute to positive externalities: the ability to develop an IA, as they have a unique feature, an “increasing scale effect”, which results in an increase in the value of an IA in the process of using it; the ability of an IA to network effects, which are expressed in a multiple increase in the value of its constituent network elements in network markets.

Agreeing with the opinions of Lukacheva (2010) in the definition of negative externalities of impact on the AI, we include the following: a high degree of uncertainty of ownership of the structural elements of the IA and a significant dependence on the influence of external effects, which reduces its value to the owner; a high degree of riskiness of an EA, arising in connection with the growing irretrievable losses resulting from irrational use; illiquidity of an information agency, since in practice neither knowledge, nor skills, nor the experience of the top management of a tourism and recreation company can be separated from its carriers.

Thus, it is possible to make a reasonable conclusion about the specificity of the intellectual asset, and, consequently, the goodwill of the tourism and recreation company, which must be taken into account in the methodological approaches and methods for estimating the value of intangible assets of these companies.

6. Assessment model of the intellectual asset of a tourism and recreation company

It seems legitimate to us that the valuation model of the intellectual asset of a tourism and recreation company should reflect its specific intellectual advantages in comparison with other companies, which can be formalized as the following equation:

$$V_{IATR} = V_{MVTR} - (V_{BT} - V_{IATV}),$$

where V_{IATR} - cost of IA of the tourism and recreational company,
 V_{MVTR} - market value of the tourism and recreational company;
 V_{BT} - balance total of tourism and recreational company;
 V_{IATV} - value of intangible assets in the total value of the tourism and recreation company.

In economics and valuation practice, both in Russia and abroad, cost-effective and profitable approaches are used to evaluate companies' goodwill, and the comparative or analogue ones are not used, since it is impossible to find the necessary analogue.

This problem arose for at least two reasons: firstly, in cases of applying the so-called “unofficial” methods of assessing goodwill, the use of financial and non-financial indicators is not distinguished; secondly, it is practically impossible to substantiate the use of non-financial indicators scientifically, since it is difficult to understand the essence of the activity (costs) reflected, associated with the creation of goodwill. It is the circumstances that explain the controversial approaches in choosing methods for assessing the value of goodwill.

7. Justification of applying a comparative approach in assessing the goodwill of a tourism and recreation company

Considering the difficulties in choosing approaches to assessing the company's goodwill, we believe that the comparative approach can still be used, including for tourism and recreation companies. And the role of analogue could be performed by the integral indicator with the necessary degree of reliability. It is recommended to determine it on the basis of a rating method based on comparing the value of the rate of return of companies from investments in goodwill elements.

We are aware that the degree of debatable use of both the analog approach and the rating method in evaluating a company's goodwill is very significant, since, firstly, it is practically difficult to control the comparison of costs (investments) in goodwill elements and the growth of the company's performance under the influence of goodwill transformations from these investments; secondly, it is difficult to specify what kind of additional effect in the activities of the company was provided by investments in goodwill elements.

Taking into account the specifics of the choice of assessment indicators, we propose to determine the difference in the value of investments (costs) in the elements of goodwill (Z_{Ig}) and the total benefits of the company from investments ($\sum P_I$) as the value of profit margin (P'_{Ig}) on investments in goodwill:

$$P'_{Ig} = (Z_{Ig} - \sum P_I) \times 100\%,$$

We also propose to consider the value of the profit margin from investments in goodwill, i.e. the elements of a company's intangible assets, as the starting point in the rating of companies for this indicator, which will make possible substantiating the potential analog base for assessing the goodwill of tourism and recreation

We propose to apply a comparative approach and in a method of estimating goodwill based on rating evaluations, because it provides an opportunity to assess the value of goodwill based on the significance of its impact on the performance of a tourism and recreation company, and, above all, on its level competitiveness in the global market of services (Egorov, 2012).

We consider the main aspects of applying the proposed method for estimating the value of goodwill of a tourism and recreation company in three stages:

Stage 1. The choice of features for constructing a rating of companies-analogs.

Stage 2. Determination of the best option for the formation of the rating base, which allows to determine the place of a particular tourist and recreational company in the studied set of companies.

Stage 3. Determination of the share of the company with the highest rating (R_{max}) in the studied set of companies.

Stage 4. Determination of the share of the analyzed company (R_N) in the studied set of companies.

$$R_{max} = V_{max}/Q_{max}$$

$$R_N = V_n/Q_n$$

where V_{max} is the value of the company having the highest rating in the selected set of companies;

Q_{max} - the share of the company with the highest rating in the studied set of companies;

V_n - the cost of the analyzed company;

Q_n - the share of the analyzed company in the selected set of companies.

Stage 5. Determining the ratio (K) of the share of the company with the highest rating with the share of the specific tourism and recreation company analyzed.

$$K = (R_{max} * 100)/R_n$$

Stage 6. Determining the value of goodwill of a tourism and recreation company under analysis based on an individual rating.

$$G_N = K * A_N$$

where G_n – the value of goodwill of the analyzed tourism and recreation company by individual rating;

A_n – the value of the assets of the analyzed tourism and recreation company.

8. Conclusion

Thus, we can reasonably argue that the rating method proposed by us for choosing an analogue in evaluating the goodwill of a tourism and recreation company as part of using a comparative approach can objectively reflect the cost of goodwill of a tourism and recreation company, which allows it to be used as a starting point for

investment and credit solutions, as well as determining the level of competitiveness in the global market for services.

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