

Investment Clubs as an Institutional Tool in the Modern Russian Economy

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In the present state of affairs, working out a proper procedure for reforming investment business is, increasingly, becoming a topical issue. Among a variety of ways to activate this process today, institutionalisation is the most significant.

Some currently available economic institutions are being "decorated" and thoroughly reorganised both from the inside and outside, new ones are being established, while some old ones – failing to meet market demands – are being liquidated. Some concrete examples of this are a two-tier banking system which is not yet strong enough, and a network of investment and innovative enterprises, which are all still very new to our economy. These are: investment funds; leasing, trust and consulting companies; technological consortiums, etc.

Having opened to the outside world, the Russian economy soon became a breeding ground for these reforms, and the dramatic change in the way of looking at the conventional principles of Soviet economy has made these reforms the focus of attention today. Therefore, the already existing organisational structures promoting the development of investment business – which is in a stage of serious crisis today – need to be adjusted to the new market economy.

Investment clubs may serve here as an economic model. The club, as a form of public and social organization, has had a strong tradition. In the Soviet social system it used to have very heavy political and ideological overtones, which caused it to abandon its major principles and exaggerate the minor ones. The principle of almost compulsory belonging was indicative of the social and political influence that the administration exerted on the club members. However, even in this misshapen form, the club remained the most important source of first-hand information. In former days, clubs as political organisations, had the following functions: to introduce people to communist ideas, to bring them up in the spirit of communism,

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to encourage creativity and social activity, to provide togetherness, to form the public opinion and to promote leisure activities.

This type of cultural institution was meant to promote scientific and technical advancement, to expand the knowledge of manual and office workers, to give them instruction on a regular basis. Basically, it was rightly believed that all those could only be achieved through various forms of "club education", including lectures, lecture-films and public universities.

It is remarkable that at some later point the communist leading elite focused its attention on economic education in trade union clubs. Theme parties were held under the cover name of "Total Accountability" and "Each working minute to be accurately accounted for". Workers were offered lectures on industrial economy. To us these slogans sound merely allegorical and just as mysterious as the constellation of Andromeda, yet they have become a reality today.

In the transition period, the institutions that played a leading role in the country socially, politically and economically were reformed. At present, the problematic nature of our financial and economic conditions has become overwhelming and yesterday's mottos are total absurdities today.

Actually, clubs of this type might be very helpful to make contacts and acquire knowledge in the area of economics. However, nowadays, people might join these clubs voluntarily and lay down their own rules and regulations that are acceptable to each and every member. The goals of this type of organization and its activities would, in this case, be set by the club members themselves instead of being imposed from the outside.

Investment clubs have all the ingredients to be quite acceptable here. They are meant not for professionals, but for private holders of financial capital who prefer to avoid the risks of the securities market.

This type of club might be beneficial to small investors who have no opportunity to control their own capital or whose gain from their "individual investments" is inadequate. Several investors gather together and set up a monetary fund for buying shares, securities and/or other similar purposes. The benefits of this kind of arrangement is obvious – it increases the investors' financial opportunities and reduces the charges of brokers and mediators, all of which boost profits.

Investment club members share the risks, the responsibility and the results of their activities equally. Each member is given a good opportunity to closely study and analyse that part of the financial market that is allocated to him/her.

It is important to regulate the current tendencies on the investment market. The major tendency determining the volume of investment is the transfer of financial capital from the primary market to the secondary market and vice versa. This tendency should be taken into account when working out the strategy of institutional reform. To some extent, this practice confirms one of the lines of the theory of institutionalisation, which states that the economy is subdivided into two parts: consumption and production. Likewise, the investment market is subdivided into secondary and primary markets, where the volume of investment services depends on the self-regulation policies of the State economy.

The primary financial market evolves in the conditions imposed by the innovative market. Setting up new institutions, i.e. further investments into the primary financial market, should follow further innovations possibly to the detriment of the secondary market. Innovation attracts cash on condition that it may be reproductive and may be more effectively used in the turnover of the industrial capital than it is normally possible under the current conditions.

Innovative developments may be presented in technical cycles. A new incentive has appeared with market institutions that set up conditions for promoting and implementing investment services. In this situation it is necessary to use the most advanced systems of protecting intellectual property, as remarkably little protection is offered to innovation and unregistered information ("know-how") in present-day Russia. From this point of view, as well as from many others (e.g. that of finance) Techno-Parks (TP) seem to be the most effective institutions. These research centres normally have less trouble patenting a new idea and offer better terms for investment.

Incidentally, these terms are set by the banks that are controlled by the TPs. Therefore, the perfection of a banking system is one of the strategies of innovation, and special attention should be paid to the institutional infrastructure of banks. Precise accountability is the major principle of banking, meant to save a lot of trouble.

Determining the role of each separate bank in the innovative process also needs institutional reformation. Banks may act as financial advisers, depositories, and/or direct participants in investment operations.

Thus, apart from their major deposit/credit activities, banks act as trust institutions, e.g. as managers of property by proxy and mediators on financial markets. Trust business has a very strong tradition, and acting as a trust institution, banks gain in authority and attract more capital.

With time, specialised trust companies tend to be managing an increasingly wide range of property: first cash, next realty and then capital in its various forms. A technological centre (TP) may serve as a base for a trust company, which will be managing the property, in case the owners (professors) are too busy working both at the University and the TP.

Stock exchanges and investment funds may also participate in controlling the various forms of capitalisation. While financial market agents in the Russian Federation are not yet capable of conducting stock exchange operations independently, investment funds can exercise an effective control of the business. The institutional infrastructure of an investment fund allows it to be of two types: "open" or "closed". The first one implies easy entry and exit mechanisms for investors but, at the same time, offers easier access to confidential information. Therefore, it is essential for this type of fund that a system of thorough accountability should be used on an even more regular basis than what is required for an investment fund of the "closed" type.

While it is true that stock exchanges and investment funds play an important role in the process of allocating investments in the innovation sphere, leasing companies are more directly involved here. They control functional flows marked by heterogeneity and great differences in time zone.

Leasing may suggest the possibility of redemption of movable and real property. Interestingly, one and the same institution may either take a lease or let on a lease. This allows double leasing, three-fold leasing, etc. In this particular case, a reverse flow of capital may transform into some material form, – yet not by way of barter of goods but of leaseholds. Leasing should therefore be regarded as a significant strategy for the development of innovative investment crediting.

Many nations have a strong social tradition of an institution combining all the aforesaid types of investment allocation. Yet, it is only in the USA that there is an economic model of it – in the form of investment clubs – where the shareholders invest their financial capital in securities. In Russia such transactions are not common or secure enough at the bank institutional level, so such investment club activities need to be adapted to the specific conditions in Russia.

While investment clubs may be involved in practically all kinds of investment activities, such an institution as Techno-Parks (TPs) may embrace institutions whose names are indicative of their activities. TPs have been established as an effective means of connecting science with production and financial structures. These technological centres are most effective where the organisers of the institutional infrastructure choose the best combination of institutional conditions for TPs in a

particular context. It may help to classify TPs according to the size of financial structure and the stage in its development; the nature of privileges; the structure of administration; the types of "business incubators"; the character of participation in the innovative operation of a specific TP, in terms of the proportional correlation and co-ordination of the various services within the TP. Therefore, the most efficient TPs are those that manage not only industries but also various sources of high-technology investment. Setting up TPs leads to institutional reforms in the areas of science and production, professional training, communications and investment. That is how Saratov State Technical University has been transformed. It has become a base for TP "Volga Machinery". This innovative association develops and promotes machinery, equipment for agriculture and food industry, technical appliances and measuring instruments, medical equipment, consumer goods, scientific and technical complexes and equipment, high-technology operations etc.

There are several different approaches to institutionalisation. The social approach is based on a claim that an individual's outlook has an impact on a group of individuals. Thus, social groups are formed, which establish relationships among themselves by means of institutions. The industrial approach is based on the principle of dividing economy into several parts: agriculture, industry, services. At present, this approach – laid down by D. Clark – suggests two parts: production and consumption.

These approaches define the essence of institutionalisation and explain the dynamics of its development. To facilitate the research, it is necessary to set up an institutionalisation pool that would aggregate and differentiate a great number of institutions.

Is it possible to establish an institutional database with the aid of classifications worked out by economists? The classification in question has been made within no more than ten parameters: private property, enterprise, state, household etc. That is to say, they are reflective of a certain conception of economic institution, which seems to be too abstract. In this instance, the institutions must be first of all divided into two groups. The first group embraces innovative and investment funds (establishments and organisations). The second includes property, collective contracts (rules, norms, institutional regulations), etc. Each of the groups may be subject to further differentiation and subdivision.

The effectiveness of the methodological study may be increased, if we apply a distinct classification and the marketing matrix method in order to define the characteristics of a model investment institution. The matrix in question defines,

first of all, on which of the two financial markets the institutions are established: the primary or the secondary market.

Investment services should therefore be graded according to Karl Marx's expanded formula of the turnover of industrial capital, which is reflective of the diversity of investment services and their possible involvement in various metamorphoses of investment business. However, this formula does not reveal the complexity of the nature of investment services on financial markets, for example.

These remain to be done by researchers whose main priority will be to set up a basis for institutional reform.