

An Analysis of Influencing Factors of Listed Companies' Investment Decision-making

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Abstract. Analyzing the influencing factors of investment decision-making is expected to ensure the optimal effects of listed companies' investment decisions, so as to promote the development of companies. Recently, the analysis of influencing factors of listed companies' investment decisions has been far from extensive and in-depth, mainly due to asymmetric information, procurement and financial constraints. It is clearly stated in this paper that the objective of investment by listed companies is shareholder wealth maximization. This paper has an in-depth analysis of the influencing factors, from four perspectives, including macroeconomic perspective, industry development perspective, management perspective, and integrity perspective.

Introduction

Investment decision-making is not only the core behavior of a listed company, but also the core issue of the modern corporate management theories. As an integral factor of company development as well as the essential basis of future cash flow increases, investment decision-making is having a direct impact on financial strategies of the company, and more importantly, it is having an impact on the operation of the company as well as company's advancement in capital market. Thus, analyzing the investment decision-making of listed companies is of vital importance to better financial decision-making of companies.

The Connotation of Investment Decision-making

The accounts receivable refers to the accounts a business has a right to receive because it has delivered a product or service in regular business operation. The accounts include the taxes paid by the buyers or clients, freight and miscellaneous charges as advance payment. Accounts receivable may accelerate capital turnover, enhance sales capabilities, eliminate financial risks and adjust the balance sheet.

Internal control is viewed as a set of autonomous system for formulating, inspecting, restraining, assessing and adjusting internal operations in an organization, with the goal of ensuring the efficiency and effectiveness of business activities, the reliability of financial reports and the compliance with legal policies and regulations. This system involves the whole process of business activities, including environment control, risk assessment, activity management, information and communication, supervision and so forth, and is under the influence of the board of directors, board of supervisors, the management layer and other related personnel.

Influencing Factors of Listed Companies' investment Decision-making

The Macroeconomic Level. Businesses are an integral part of the market economy, and related national economic and legal policies and regulations have been regulating and promoting diverse economic activities of businesses. On the other hand, as a vital economic activity in market economy, investment decision-making is also effected by national economic and legal policies and regulations. For instance, when overheated investment occurs, the country is supposed to moderate this through raising interest rates on bank loans, raising the bank reserve requirement, and raising taxes. So when investment decisions are being made, listed companies are expected to make

deliberate consideration about the investment scheme, appropriately control the investment scale, properly plan the investment, so as to realize the optimal economic effectiveness. When the country provides incentive on investment strategies, such as lowering down interest rates on bank loans, decreasing taxes, the companies should adjust their investment strategies accordingly, expanding investment scheme, seize the investment opportunity in order to achieve the goals of investment. Moreover, when the country is adjusting the industrial structure or it is forecasted that the country is going to adjust the industrial structure, the listed companies are expected to conduct more careful and deliberate assessment of the investment project, ensuring the capital is going to be invested in the focused industries led by national strategies, and proper adjustment has to be made to the present scope of business and product range, in order to promote the long-term development of businesses.

Changes of needs for communities by customers also influence the investment decisions of businesses. Continuous development and long-term profitability have to be closely connected with customers' needs. Consequently, changes of consumption demand and consumer groups have exerted direct influences on the investment decision-making. The monitoring of industry development and constraints of policies by the country and related departments also may have impact on the investment decision-making by companies. The market economy system has not been sound and perfect yet, and there is still some degree of governmental intervention. On the macro level, China tends to promote the advancement of several industries and restrain the expansion of certain industries. The investment activities conducted by state-owned enterprises are monitored by State-owned Assets Supervision and Administration Commission, to ensure the continuous development of China's economy and provide strategic resources. However, local governments tend to intentionally plan out investment decisions for local companies, for the sake of local economic development and several special objectives for local development. Because of this, the central government has implemented the intervention on investments by local private enterprises, leading to shortage of channels for investments, severe monopoly of certain industries, so as to impede and restrain the process of investment decision-making by businesses. Although China has initiated a large amount of business support fund, such as scientific innovation fund, technological improvement fund and subsidized loan, it is rather challenging for private businesses to successfully be granted. Although the "State Office 47" and "New 36" have been launched, it still has a long way to go to perfect the investment environment for private-owned businesses. Thus, companies should take policy restrictions into consideration and avoid making investment plans on industries being restricted.

Management Rights. In China, we have special economic and legal system, so the shareholding situations of senior management layer released by listed companies have received massive attention by scholars, governmental institutions and investors. The shareholding allocation issues in listed companies in China are being resolved, so extensive attention are paid to the close tie between the enterprise's investment value and stakeholders' value. The establishment of modern corporate system put forward the notion of providing incentives for management layer by offering them opportunities to be entitled shareholding, so as to decrease the costs of compensation of management layer, moderate the capital flow, which is beneficial to the decision-making of investment plans. Stock option incentive plan is expected to be an effective method to resolve the differences between stakeholders and management, to ensure a stable policy for monitoring management, to link the interests of managers with the interests of companies. Thus, the stake holding ratio and basic compensation of management has direct connection with the planning and implementation of investment decision-making.

Integrity. In present economic market, credit economy has received increasing attention. "Honesty and integrity first" has been a common motto for people working in economic field. Mr. Wu Anglia stressed out the importance of integrity, "Credit deficiency is detrimental to the market." This sentence suggests the significance of integrity in market environment. In terms of market prospect and the long-term development of businesses, credit crisis may exert negative impact on the business; firstly, additional losses have been caused and transaction costs have been increased; secondly, there might be reputation risks which is detrimental to the development of the businesses;

thirdly, trust crisis might be caused which will weaken the enterprise competitiveness. It is not hard to figure out that credit means everything. If a business has lost integrity and credit, it might deteriorate the market environment, and in the end, the business has no prospect for development. Thus, integrity is the key to cooperation and communication between businesses.

Solutions and Suggestions

Perfecting Macro-economy of Capital Market, Promoting the Effectiveness of Management Decision-making. It is not always easy to make highly-efficient decision for a company as a member of management. First of all, it is certain that correct information about market has to be attained. To achieve this goal, we need to strive for a better capital market, considering every single factor related to future risks, to ensure wise and correct investment decisions have been made by managers. Factors influencing the investment decision-making are various, and the market information asymmetry might not be among the most vital factors, but we have to admit that there are still some deficiencies about the capital market in China. The related departments need to carry out more effective measures to improve the transparency of information about the listed companies and the market, to ensure the listed companies gain a clear understanding of the companies, the industries and the whole market; at the same time, monitoring and supervision need to be strengthened, the existing problems in capital market need to be corrected and tackled, in order to provide a fair environment and platform for competition.

In the special economic environment of modern capital market, a variety of industries have experienced more fierce competitions. To achieve stable operations and self-promotion in a particular industry, a company has to carry out effective competitive strategies and has a thorough understanding of the particular industry and the competitors, so as to make the investment decisions with high efficiency. Thus, having an appropriate self-positioning and analyzing the strengths, weaknesses, opportunities and threats in development by utilizing SWTO principle are essential for a company to seize the opportunities and avoid the risks and excel in competitions. On a macro level, analysis of competitors includes: 1. Identifying the competitors; 2. Identifying the goals of competitors; 3. Identifying the strategies used by the competitors; 4. Identifying the strengths and weaknesses of the competitors; 5. Identifying the response modes of the competitors. Based on the above categories, we compare with our competitors, identify our own weaknesses, adjust the business scale, take the initiatives in the industry, so as to make efficient investment decisions for lifting up the whole value of the company.

Strengthening the Regulatory Regime on Management Layer. Management layer are invited by stakeholders of listed companies to manage and supervise the operations of businesses, so the stakeholders bear the rights to monitor the practices by management layer. Through monitoring and regulatory regime, the investment decisions are expected to be optimized, so as to realize the goal of maximizing the benefits of stakeholders. With the aim of improving the correctness of investment decision-making by management layer, we hold the opinion that the board of supervisors should do real-time monitoring on investment activities by the management layer, the autonomy of board of directors and the inspection system on large-scale investment projects should be strengthened, collective decision-making system of stakeholders on the key investment plans should be strengthened. Another significant measure of strengthening the monitoring on management layer is to realize the diversification of stock rights. Since 2005 China has launched the split share structure reform, and the dispersion of equity has been improved, the share structure of listed companies has been rationalized, which promotes the regulation of the management.

Improving the Compensation and Incentive System for Management Layer. How to allocate the income of managers and how to realize the close connections between compensation of managers and the corporate income is a key issue to motivate managers of a business.

First of all, optimum selecting has to be carried out when selecting the managers. Second, ESOP (Employee Stock Ownership Plan) has to be made, and the shareholding ratio has to be elevated for managers, to make sure every manager believe in the notion of working for myself. In that case, investment activity could be wiser and more effective. MBO (Management Buy Out) the most

common way used to make the maximum benefits for stakeholders as the goal for decision-making. This method promotes the sense of belonging of the management layer. People in management layer tend to view themselves not only as employees, but also the owners of company. Management layer and stakeholders tend to have common values and understanding when decisions are made and strategies are proposed. This method of incentive has been carried out earlier abroad, and mainly has been carried out and received favorable results in most businesses. With the aim of effective implementation of investment decisions, this method has been increasingly adopted by many listed companies in China.

Conclusion

Investment decision-making is extremely important to every listed company. Not all the investments receive optimal returns. The best investment practice happens when the company makes good use of the resources without any wasting, and the optimal profits will be earned. Through the theoretical analysis in the third part, we can conclude that the influencing factors of listed companies' investment decision-making lie in macroeconomic, industry development, management layer, and integrity perspective.. Consequently, when listed companies plan to increase its investment spending, they should pay close attention to these four areas to ensure the effectiveness of this investment activity.

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