Proceedings of the 2nd International Conference on Financial Technology and Business Analysis
DOI: 10.54254/2754-1169/55/20231006

Analysis of Corporate Long-Term Investment Decisions

Tianying Ding[1, a, *]

[1]*Business studies, Macao University of Science and Technology, Macao Special Administrative Region, China, 999078*
a. 2009853VB011025@student.must.edu.mo
**corresponding author*

Abstract: The incorporation of long-term investment has consistently held a prominent position within the realm of business advancement, exerting a substantial influence on business circumstances and economic outcomes. Consequently, delving into the matter of effectively managing risk and attaining commensurate returns warrants thorough investigation. The company's experience is replete with examples of unsuccessful long-term investment choices. This paper discusses the implementation of long-term investment analysis in enterprises. It employs the methodology of literature analysis and review to examine the reasons behind enterprises engaging in long-term investments. Furthermore, it provides a detailed analysis of investment decision-making methods, identifies associated challenges, and proposes corresponding solutions. The goal of this paper is to assist enterprises in making informed decisions regarding long-term investments and ultimately selecting the most optimal choices.

Keywords: long-term investment decisions, short-term investments, cash flow

1. Introduction

Since the initiation of China's reform and opening up policies, there has been a significant transformation in the country's economic system, transitioning from a centrally planned economy to a market-oriented one. This reform of the economic system has played a crucial role in fostering investment growth and gradually enhancing the overall performance of the socialist market economy [1]. Enterprises encounter the task of selecting various forms of investment during their long-term growth trajectory. In the realm of long and short-term investments, long-term investments inherently entail greater risk due to the extended time frame involved. Consequently, this array of risk-related concerns can occasionally yield unforeseeable consequences for the company. Hence, it is imperative for enterprises to engage in proactive planning, meticulous analysis, and thorough comparison of alternatives when making long-term investment choices, with the aim of selecting the most advantageous decision that will enhance the company's competitive standing. This paper employs a literature analysis and review methodology to examine the process of selecting a company for long-term investment and the associated challenges. The objective is to encourage future enterprises to make informed decisions regarding long-term investment and development, with the aim of facilitating the company's progress and growth.

DOI: 10.54254/2754-1169/55/20231006

2. Main Reasons Affecting Long-Term Investment Decisions of Enterprises

2.1. Time Value of Money

The primary objective of long-term investing is to generate higher returns on a fixed capital. However, it is important to note that the value of a fixed capital, which may appear unaltered, will gradually diminish over time. Individuals who possess currency and seek to maximise their gains must possess a comprehensive understanding of the economic implications associated with the simultaneous occurrence of currency depreciation and appreciation. The currency holder anticipates not only recouping the amount lost due to currency depreciation, but also seeks to generate additional profit unaffected by depreciation. The individual who possesses the currency engages in investment or transfer of the currency into a profit-generating mechanism. Through the utilisation of capital, the value produced by labour is transformed into the monetary value of the currency, resulting in the acquisition of additional currency and monetary profit. This process represents the overall operational framework of the time value of the currency [2].

2.2. The Cost of Capital Factor of Money and Cash Flow Factor of Money

The cost of capital encompasses both the expenses incurred in utilizing funds for investment purposes and the accompanying opportunity costs. It is also regarded as the minimal rate of return that an investor can expect to obtain from a project. The cost of capital is influenced by the prevailing local financial policies, and the decision to invest in a project hinges on the combined value of the investment's rate of return and the cost of capital. This value serves as a crucial reference point for investors during the investment evaluation process.

The consideration of cash flow entails the examination of two distinct categories: cash outflow and cash inflow. It is important to note that cash encompasses not only paper money but also various non-monetary resources. When calculating the value of cash flow, it is customary to account for the time value of money. This involves determining the timing and magnitude of cash inflows and outflows during a specific period [3]. It is important to acknowledge that while cash flow holds significant importance in the decision-making process, additional information is necessary to compensate for the limitations inherent in this process. Factors such as the subjective awareness of the calculator and the various methods employed to calculate cash flow values can influence the final comparison of results.

3. Analysis of Long-Term Investment Decision of Storm Group Ltd.

3.1. Introduction of Storm Group Limited and Its Major Investment Direction

Established in January 2007, Storm Group is a renowned Internet video firm in China, with a registered capital of RMB 332 million and a workforce of over 1,300 individuals. The business operations of the group encompass a diverse array of sectors, such as Internet video, sports, film, television, virtual reality, games, electronic commerce, and finance, among others. The company possesses various brands, including Storm Sports, Storm Pictures, Storm TV, Storm Sunglasses, and Storm Video, with the aim of establishing a comprehensive "Storm Ecosystem." In 2015, the group was officially listed on the Shenzhen Growth Enterprise Market (GEM) under the stock code 300431 [3].

The company comprises over 20 participating and controlling enterprises, which are engaged in many sectors like finance, cinema and television, sports, culture, and games. The company's portfolio encompasses a diverse range of investments, including video players, Internet TV, sports, financial markets, virtual reality technologies, and the game market, among others.

DOI: 10.54254/2754-1169/55/20231006

3.2. Three Main Long-Term Investment Projects of Storm Group

1) Storm Magic Mirror Project. With the emergence of the virtual reality (VR) concept, Storm Group holds the belief that the VR industry exhibits significant potential for growth. Consequently, the company made its foray into the VR sector in 2015, primarily focusing on the research and management of hardware and content. The Internet industry is characterised by a significant level of uncertainty and a high degree of business risk. In order to assess the viability of a project within this industry, the return period hair is employed as a method of evaluation. The current analysis indicates that the recovery of the capital invested in the project in the short term is challenging due to the calculation of the storm group. Consequently, the project is currently in the investment stage, which carries the potential for unforeseeable impacts on the enterprise. These impacts have resulted in a series of unfavourable reactions, thereby raising concerns about the future of this investment decision.

2) Storm sports project. In 2016, Storm Group made its foray into the sports business through the acquisition of a 65% ownership in MP&Silva. MP&Silva primarily specialises in the management of distribution and acquisition of sports event rights. The evaluation of this project was conducted using the net present value technique. When the limit value is positive, it signifies that the project is expected to yield a positive return on investment. The net present value (NPV) of the sub-project in 2016 is determined to be 16,556. Based on this calculation, it can be inferred that the project will not achieve cost recovery until the year 2024. The primary rationale behind the choice of this project stems from MP&Silva's copyrights and market, which serve as the basis for constructing the company's ecosystem. However, the substantial expenditure of $1 billion may potentially impede the growth of the Group's core business.

3) Storm TV project. Internet television encompasses a range of profit models and places significant emphasis on enhancing user experience. Diverging from conventional television, it offers viewers a multitude of utilisation options. In evaluating the Storm TV project, the internal rate of return is employed as a metric. The computation yields an internal rate of return of 6%, above the market discount rate. If the stability and development of the group have been observed, it is likely that the profit margin will be bigger. However, this may result in increased financial strain in the near term due to initial losses incurred.

The primary characteristic of the company's investment decision is its disregard for the significance of human capital. The decision-making authority is concentrated within the leadership, disregarding input from other personnel. Additionally, the decision fails to account for the time value of money, resulting in relatively lengthy payback periods for the aforementioned investments. Furthermore, the group has not adequately assessed the investment risk [4].

4. A Basic Approach to Long-Term Corporate Investment Decision-Making

4.1. Payback Period

The payback period can be calculated by dividing the net cash investment by the annual net cash benefits. When the project's daily net cash benefits demonstrate a high level of consistency, it is possible to utilize this method in order to determine the approximate time required to repay the principal investment. When selecting a project, it is preferable to opt for a shorter payback term, provided that the project's payback duration is shorter than its whole implementation length. In such cases, the organization can proceed with the project and its subsequent implementation. The primary benefit of this approach lies in its simplicity of calculation. However, it is important to note that this method does not consider several other elements, such as the time value of funds, cash flow,

DOI: 10.54254/2754-1169/55/20231006

and other relevant considerations. Consequently, it can only serve as one of several indicators in the decision-making process and cannot be solely relied upon as the decisive data.

4.2. Net Present Value

The specific formula for calculating NPV is:$NPV = \sum_{t=1}^{n} \frac{R_t}{(1+i)^t - C_o}$, where: i represents the discount rate, C_o represents the net cash investment, Rt represents the net cash benefit in year t, and NPV represents the net present value. When the NPV is negative, it means that the enterprise will incur a loss if it invests in the project, and vice versa, the project will be profitable. Its advantage is that it takes into account the time value of money and discounts for each cash flow, and its disadvantage is that the discount rate is difficult to determine and it is difficult to compare projects of different years horizontally.

4.3. Internal Rate of Return

The specific formula for calculating the internal rate of return (IRR) is:$\sum_{t=1}^{n} \frac{R_t}{(1+r)^t} - C_o = 0$, where C_o represents the initial net cash investment and Rt represents the annual net cash benefit. The internal rate of return IRR is also the discount rate when the net present value is equal to zero, if the IRR is greater than the cost of capital of the project, it means that the corresponding net present value is greater than zero, then the programme is feasible, and vice versa, it is not feasible. If IRR is greater than zero in several project comparisons, the higher IRR is preferred.

In relation to the prevailing market structure, the payback period approach has proven to be mostly unfeasible. Instead, the NPV method and the IRR method are frequently employed, with the NPV method being more aligned with market economics [4].

5. Problems with Long-Term Investment Decisions in Enterprises and Options to Address Them

5.1. Corporate Decision-Making Level Issues

When evaluating the feasibility of an investment project, it is crucial for decision makers to consider factors such as the time value of money, cash flow, and many company-specific variables. By employing rigorous scientific calculations, decision makers may comprehensively assess the potential rewards and risks associated with altering their investment strategy. In the aforementioned Storm Group television production, the leaders of the organization committed a comparable error. When making project decisions, the use of big data analysis is frequently more precise compared to relying just on empirical assertions. Additionally, the inclusion of excessively high or low arithmetic projections throughout the calculation process can lead to significantly divergent results, potentially resulting in the failure of the final investment.

One key aspect pertains to the centralization of decision-making authority. It is imperative for the board of directors of an organization to judiciously allocate decision-making power. This allocation serves to prevent scenarios where a single individual's decision encounters opposition from a multitude of individuals. By achieving this balance, the enterprise can effectively manage the risk and return associated with its investments. Furthermore, employing a proper analytical and deliberative approach to decision-making ensures the accurate and efficient implementation of project decisions. This underscores the importance of enhancing the organizational structure. Furthermore, the deficiency in expertise among decision-makers, coupled with the rapid pace of societal progress, necessitates a continuous enhancement and expansion of knowledge systems. Exceptional decision-makers must also acquire new knowledge to enrich their experiences.

DOI: 10.54254/2754-1169/55/20231006

Consequently, it is imperative for enterprises to opportunistically engage professionals to facilitate knowledge transfer within the organization. This approach enables decision-makers to achieve comprehensive development while simultaneously propelling the company forward, thereby yielding positive outcomes for both superiors and subordinates. This will provide positive effects on both individuals in positions of authority and those in subordinate roles.

5.2. Risk Assessment Issues

Long-term investments in extensive projects entail higher risks for enterprises. In the initial stages of preparation, there is a possibility of failing to identify and foresee future risks, resulting in a lack of intervention and contingency planning. Consequently, the project plan may be implemented without due consideration of potential challenges. Following the execution of the project, a series of issues arising from the associated risks have emerged. The enterprise has encountered difficulties due to the absence of a suitable response programme, leading to the occurrence of various crisis situations without a viable solution. In some cases, attempts to address these crises have been made without a comprehensive understanding of the situation, resulting in a gradual deterioration of the circumstances and an eventual loss of control. The neglect of risk management by enterprises and its impact on their ability to sustain progress is a critical concern.

The enhancement strategies can be categorised into two segments. During the initial phase of enterprise preparation, it is advisable to thoroughly anticipate potential hazards, such as cash flow disruptions and technological advancements, and conduct a comprehensive analysis and evaluation to assess the risk and reward factors. In order to effectively address potential risks that may arise in the future, it is crucial to develop suitable contingency plans. By doing so, organisations can adequately prepare themselves to confront these challenges and avoid the risk of survival difficulties. Moreover, this proactive approach enables enterprises to establish a favourable position in their developmental journey.

5.3. Management Accounting Issues

Irrespective of the previously mentioned concept of the time value of money, the expenses associated with the fund as well as the cash flow, the primary determinant in evaluating a project remains arithmetic. Long-term investment prioritises long-term objectives and disregards short-term profits or declines. Conducting data research is an essential component of the decision-making process and serves as a crucial indicator for making informed judgements. Neglecting the significance of management accounting in enterprise development can potentially restrict the growth of the enterprise and hinder its long-term progress.

Enterprises must make prudent selections regarding their future development trajectory, while concurrently enhancing employee motivation. It is recommended that enterprises implement regular training programmes for management accountants in order to enhance their business knowledge and elevate the status of management accounting within the organization. This can be achieved by improving the business acumen of management accountants and aligning their skills with the economic realities of the enterprise. By doing so, the management accounting team can effectively contribute to the overall success of the organization [5].

6. Conclusion

The paper aims to investigate the rationales behind long-term investments in enterprises. Subsequently, it analyses three investments made by Storm, focusing on the calculation methods employed to determine the optimal solution for long-term investment selection. Moreover, it identifies the challenges encountered during the implementation process and proposes potential

DOI: 10.54254/2754-1169/55/20231006

solutions to address these issues. This study solely examines the three investments made by Storm from a theoretical perspective, without conducting specific investigations or research. It also does not provide a comparative analysis of other companies' long-term investment choices. However, further research and discussion on this aspect will be conducted in the future. Long-term investment is a crucial strategic component in the developmental trajectory of a company, serving as a pivotal juncture for the company's future growth. It is anticipated that the company will employ novel and precise methods in its long-term investment endeavors, thereby establishing a robust foundation for both the company's development and the broader business environment.

References

[1] *Wang Wan Ling, Zhao Yue. Problem analysis of long-term investment decision in enterprise management[J].Journal of Baicheng Normal University,2019: 98-99*

[2] *SHI Hong. How enterprises make long-term investment decisions[J].Logistics Technology,2019: 98-99*

[3] *Dun hao. An Exploration of the Optimisation of Long-term Investment Decision of Enterprises --Taking Storm Group Limited as an Example. [J]Investment Wide Angle,2019:13-14*

[4] *Sun Ailing,Teng Shuzhen. Comparison of net present value method and internal rate of return method - Which method is better for investment decision-making[J]. Finance and Accounting Monthly, 2012(5):66-67*

[5] *Zhou Hang, Xu Jing. Management accounting [M]. Beijing: Science Press, 2018: 9-12*