The Influence of Balance Investment in Enterprise Management

Zige Han¹,*

¹Macao Institute for Tourism Studies, Bachelor of Science in Tourism Business Management, Macao, China, 999078
*Corresponding author. Email: s190667@ift.edu.mo.

ABSTRACT
Today, an increasing number of businesses are opting to invest the remaining balance of their corporate books. Aspects of corporate financing that are particularly essential include investment and finance, which are both discussed below. The ability to communicate effectively between academics and practitioners is critical. On the impact of investment behavior on company and corporate management, this paper will focus on the relationship between enterprise investment and enterprise scale, the investment accomplishments made by China's social security fund, the risks associated with enterprise investment, and how enterprises can invest more effectively. Meanwhile, the primary study subjects of this paper will be publicly traded firms, foreign corporations, major corporations and social security foundation corporations.

According to the findings of this study, the effect of firm size on its investment behavior is influenced by a variety of variables, including information asymmetry, and that businesses should take steps to mitigate investment risks. Furthermore, the firm's investment is influenced by a variety of internal and external variables, and the profitability of investment operations continues to be one of the most significant aspects in determining whether or not a company will remain profitable.

Keywords: Risk management, Business management, Effective investment, Social security fund

1. INTRODUCTION
In recent years, an increasing number of publicly traded companies have made investments in trusts, private equity funds, and other projects. There has not been a lot of attention paid to this area of investigation. The purpose of this paper is to investigate the impact of the company's investment behavior on the scale, income, and risk management of the company. When it comes to company finance, both investment and financing are critical components to consider. Not only researchers, but also practitioners, place a high value on understanding their relationship with one another. According to Modigliani and Miller's theory of capital structure, a company will continue to invest until the result of marginal return is zero, at which point it will stop [1]. This paper, which seeks to understand the impact of corporate investment behavior on corporate management, focuses primarily on the relationship between enterprise investment and enterprise scale, the relationship between enterprise investment and the achievements of China's social security, the risks that investment poses to companies, and how enterprises can invest more efficiently. Additionally, this paper could serve as a source of additional references for more businesses on how to effectively invest and manage their wealth, as well as additional reference directions for enterprise valuation. To achieve this goal, this paper will teach businesses how to implement effective investment and wealth management reference methods, as well as provide additional reference direction for enterprise valuation. The risks that businesses may encounter during the investment process should be anticipated and avoided, and relevant case studies will be provided in this paper for further reference and discussion.

2. LITERATURE REVIEW

2.1. Enterprise investment and enterprise size

2.1.1. The link between investment and enterprise size
It is often assumed that the link between business investment and enterprise size is inversely proportional to the size of the company. Due to the prevalent impression that bigger organizations have greater book
balances and, thus, have more money available for investment than smaller companies, this is the case in most cases. In contrast to popular belief, Kumar's results reveal that the reality is considerably different from the a priori common assumption, and we discover that the largest cash flow-investment sensitivity is seen in big company size groups and the lowest in small firm size groups [2]. This shows that the bigger the firm, the more cautious it is about every investment it makes, and that smaller organizations, on the other hand, are not as sensitive as larger corporations to market fluctuations. According to Julio, who argues that in practice there is no evidence of substantial discrepancies in estimates between financially restricted and unconstrained enterprises, and that these findings are not the result of incorrect measurements of financial position [3] the same argument can be made for this finding. This shows that the amount of money a corporation spends on investment is not determined by whether or not the firm is financially limited. As a matter of fact, according to Audretsch and Elston, under the assumption of perfect capital markets, firm-specific investment decisions are typically independent of the firm's financial condition [4]. For better or worse, they think that the size of a company is typically unrelated to the investing behavior of the company. Firm size, on the other hand, accounts for a significant portion of the overall variance in corporate investment, according to Julio, and its contribution is equivalent to Tobin's Q and cash flow [3]. The size of a company is believed typically associated with the amount of money it invests, and that the size of a company is crucial when it comes to making investments in the future.

2.1.2. The influence of information asymmetry on company investment

At the same time, according to Weinberg, he believes that the size of the enterprise also affects the information problem. Informational difficulties may have a greater impact on the investment decisions of small organizations, according to recent research into the investment behavior of small and big companies. There is evidence that investment by smaller enterprises is more sensitive to variables that, in a world of ideal capital markets, would not be anticipated to have an impact on investment. It is in this first part that we examine some of the data on the variations in financial behavior across business sizes, including the evidence on investment behavior, among other things [5]. This leads to the fact that information asymmetry plays an influence when firms compete with each other. Weinberg argues that the issue of incomplete or asymmetric information is one defect on which a great deal of attention has been focused recently. When one party to a transaction knows knowledge that is significant to the choice of the other party, the transaction is said to be done under incomplete information. For example, a seller may be aware of specifics on the quality of the product or service that is being offered. It is possible that the buyer will not be able to distinguish all of these subtleties during the inspection process, or even after obtaining the goods or service. In such a circumstance, a seller of a really high-quality goods may find himself or herself unable to get a price that accurately represents the product's superiority. The inability to collect a higher price for high-quality services may result in high-quality suppliers being forced out of the market if high-quality services are more expensive to deliver. The "lemons" issue, also known as the "adverse selection" problem, was originally studied in depth by Akerlof (1970), and is one of the most difficult to solve [5]. In general, information asymmetry is one of the factors that companies of different sizes should consider when making investments.

3. EFFECTIVE INVESTMENT AND RISK MANAGEMENT

Companies make expenditures in order to increase efficiency and enhance management practices. One of the most crucial things that any firm should consider is how to implement good management practices and procedures. It is based on empirical research that Jafari has conducted that the link between comprehensive risk management and corporate performance is examined. In this study, the researchers discovered that overall risk management has a positive and significant relationship with firm success in companies that have made significant investments in research, development, and innovation, as well as in companies with higher levels of intellectual capital and industries that are experiencing rapid knowledge expansion. The results corroborate previous research findings in terms of functional and practical behavior methods [6], which are discussed below. This demonstrates that organizations with a strong desire to invest are more dynamic, and their staff are better at executing their plans. At the same time, smart investment makes it easier for businesses to manage risk. In the event that a firm is able to reduce the negative consequences of external risks and adapt to environmental changes, it will be less exposed to the economic consequences of market fluctuations. As a result, when a firm effectively manages its risks, it is better equipped to adapt to changes in the environment, and profit fluctuations are decreased [7]. Businesses spend a majority of time to improve their ability to manage and protect themselves against external market risks.
4. FACTORS AFFECTING INVESTMENT

4.1. The risk of investment

Making investments is a high-risk endeavor for businesses, and high-risk investments put businesses at danger of disrupting their capital chains. In addition to wind mitigation measures, firms must consider risk management not only as a defensive approach, but also as a critical success factor in preserving profitability and increasing overall company performance, as suggested by Mohammeda and Knapkovaa [8]. The effectiveness of risk management has a direct influence on the financial performance of an organization. Consequently, the corporation must carefully analyze each investment and make a judgment on the risks that may be associated with it. In addition, non-systematic risks should also be taken into consideration by the firm. Companies should develop their own projections for the possibility of future widespread financial crises and take necessary defensive measures in response to such forecasts. According to Matt, there is a negative link between risk (both total and unsystematic risk) and firm investment. There is no effect on this negative association based on the estimation technique utilized [9].

4.2. Other influencing factors

A firm's investment is also impacted by external variables, such as the economic policies of the region in which the company is located. According to Guo, the genuine option theory influences the investment choice made by a business firm. In other words, when economic policy uncertainty increases, the firm becomes more ready to wait for the most advantageous investment opportunity, resulting in a higher level of investment income for the enterprise as a result of the increased uncertainty. Furthermore, choices on company investment have an impact on the adjustment of national policy as a result. For example, if business investment is low, the government would implement a policy adjustment to encourage enterprise investment and boost market vitality in order to increase market vitality [10]. Therefore, it is crucial for companies to comply with local economic policies. Different economic policies influence the investment behavior of local enterprises to a certain extent. However, there are also disparities in the elements that contribute to business profitability, with investment activities contributing to profitability to a higher degree than concern about the direction of the country's economy. On a long-term basis, both economic policy uncertainty and company investment activities have shown an increase in the amount of explanation provided for corporate profitability [10]. In general, the profitability of investment activities remains one of the most important factors for companies to remain profitable.

5. A GOOD EXAMPLE OF INVESTMENT IN CHINA

China's social security fund produces a fair return on investment and runs effectively. In this article, we will use the social security fund as an example to show how to invest properly. In 2020, the basic pension fund equity investment income reached 113.577 billion yuan, with an investment yield of 10.95%, according to Zhen on September 14. An estimated 1.4 trillion yuan worth of assets [11]. These include bank deposits, central bank bills and interbank certificates of deposit; treasury bonds, policy and development bank debt, financial debt with credit ratings above investment grade, corporate (company) and local government debt; convertible debt (including separate transaction convertible debt); asset-backed securities (ABS) and bond repurchases. Financial instruments include stocks, stock index futures, and treasury bond futures. Aside from that, the basic pension insurance fund may invest in major national initiatives and large-scale projects in an appropriate manner. The basic pension insurance fund may invest in equity to help reorganize and list state-owned companies [11]. The Social Security Fund's investment strategy and processes are worth investigating since they are comparable to many huge enterprises and state-owned firms. Because public funds are actively involved in developing the third pillar of pensions and researching market-oriented and sustainable operational methods for reforming China's pension system, their investment has wide-ranging implications. This has been found to improve the investor structure of the capital market [11].

6. CONCLUSION

There are several factors to consider when a firm chooses to invest, including the company's size, risks involved with the investment, and how to effectively manage the business produced as a result of the investment, among others. For starters, the investing behavior of businesses of all kinds is impacted by a variety of variables. Taking steps to shield oneself from the dangers connected with investing, which remains one of the most essential determinants in a company's capacity to retain profitability, is a good idea. The last point is that adequate investment is beneficial to the health and growth of a business's operations. External influences, such as local economic policy, have an impact on an enterprise's investment decisions. The primary goal of this research is to give investment recommendations for huge corporations. The purpose of this research is to conduct a review of the literature. It is possible that relevant data will be gathered in the future in the form of questionnaires since there is not enough actual data to support it at this time. Research on the return on investment of a company's book balance will continue to be the primary focus of future investigations.
The significance of the research results in this paper is to provide more enterprisers with the things they should consider when investing and the corresponding risk prevention.

AUTHORS’ CONTRIBUTIONS

This paper is independently completed by Zige Han.

ACKNOWLEDGMENTS

I would like to express my gratitude to my thesis advisor Ms. Wang for her academic advice, to my professor Parakhonpyak for inspiring me in my thinking, and to my mother for her encouragement and support during the preparation of my thesis, despite her sickness.

REFERENCES

[1] Zhi, X., Tong, P. Management pay-performance sensitivity, internal cash flow and investment behavior: A test of the free cash flow theory and asymmetric information theory. Front. Bus. Res. China 3, 2009, pp. 413–431.

[2] Gala, V., & Julio, B. Firm Size and Corporate Investment. Finance and Financial Management Commons. December 9, 2016.

[3] Kadapakkam, R., Kumar, P.C. and Riddick, L.A.. The impact of cash flows and firm size on investment: The international evidence. Journal of Banking & Finance 22, 1998, pp. 293±320.

[4] Audretsch, David B.; Elston, Julia Ann. Does firm size matter? Evidence on the impact of liquidity constraint on firm investment behavior in Germany, HWWA Discussion Paper, No. 113, 2000.

[5] Weinberg, John A., Firm Size, Finance, and Investment. Available at SSRN, 1994. https://ssrn.com/abstract=2125388

[6] Leckie, S., & Pan, N.. A review of the National Social Security Fund in China Pensions. Vol. 12, 2007 (2), pp. 88 – 97.

[7] Jafari, M., Chadegani, A. A. and Biglari, B. Effective risk management and company’s performance: Investment in innovations and intellectual capital using behavioral and practical approach. Journal of Economics and International Finance Vol. 3 (15), December 7, 2011, pp. 780–786.

[8] Mohammeda, H. K. and Knapkovaa, A. The Impact of Total Risk Management on Company’s Performance. 19th International Conference Enterprise and Competitive Environment 2016, ECE 2016, Brno, Czech Republic, March 2016, pp. 10–11.

[9] Matts, M. R., FIRM RISK, INVESTMENT, AND EMPLOYMENT GROWTO Journal of Economics and Finance; Summer, ProQuest Central, 2004; 28, 2, pp. 164.

[10] Guo A, Wei H, Zhong F, Liu S, Huang C. Enterprise Sustainability: Economic Policy Uncertainty, Enterprise Investment, and Profitability, Sustainability. 2020, 12(9):3735.

[11] Zan, X. L.. The return on investment of the basic pension fund reached 10.95 percent last year. China Securities Journal. Edition A01, 2021.