# How Firms Make Their Investment Decisions

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**Abstract.** To explore the influencing factors of corporate investment behavior, this paper takes Haier Group as a case study to analyze the factors affecting its physical investment, financial market investment, and strategic investment. Based on a review of the literature and an analysis of Haier Group's financial statements, this study finds that Haier's physical investments are primarily driven by market demand, its strategic investments mainly stem from corporate operational decisions and strategic development considerations, and its financial market investments primarily serve the company's needs for risk hedging and financial management.

**Keywords:** Physical Investment, Financial Market Investment, Strategic Investment, Haier

## 1 Introduction

Enterprise investment is a critical decision in corporate management and serves as an important indicator for understanding a company's development strategy. Therefore, analyzing the factors influencing corporate investment decisions is essential for evaluating enterprises. Given the complexity of corporate investment behaviors, the motivations behind different types of investments vary. This paper categorizes corporate investment into three dimensions: physical investment, financial market investment, and strategic investment, aiming to explore the factors influencing corporate decision-making in these three areas and thereby understand investment behaviors from a micro-operational perspective of the enterprise.

This paper first summarizes the relevant literature on factors influencing corporate investment. The literature categorizes the factors determining physical investment into demand factors and cost factors. Participation in financial market investments is motivated by considerations of capital management and hedging operational risks, while strategic investments serve the long-term goals of the enterprise's own development. Subsequently, this paper uses Haier Group as a case study, analyzing its investment behaviors and the aforementioned influencing factors through an examination of its financial reports.

In Haier's physical investments, equipment investment constitutes the vast majority and shows a stable growth trend, reaching a scale of 10 billion RMB in 2024. The judgment on future industry demand expansion is the primary consideration for Haier's



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physical investments. Haier's strategic investment targets include Haier subsidiaries, upstream and downstream partners, Qingdao Bank, and domestic and foreign distributors, reflecting Haier's influence over its subsidiaries and upstream/downstream enterprises, as well as considerations of operational decisions and strategic development during investment. The annual equity investment amount fluctuates between 1-2 billion RMB. Financial market investments are divided into derivative investments and trading financial asset investments. The former is mainly used for hedging and mitigating company risks, while the latter primarily serves the company's financial needs. The scale of trading financial assets fluctuates between 1.24 billion and 2.17 billion RMB, while the scale of derivative financial assets is relatively smaller, fluctuating between 100 million and 140 million RMB.

The rest of this paper is structured as follows. Section II summarizes the relevant literature. Section III provides case study of Haier group. Section IV concludes.

## 2 Literature Review

### 2.1 Classification of Corporate Investment Behavior

Corporate investment is divided into physical capital investment, financial market investment, and strategic investment. Physical capital investment refers to the allocation of funds by enterprises into assets with physical forms, such as factories and equipment. It is characterized by long project cycles and the ability to directly create output, representing a necessary path for enterprise expansion. Financial market investment refers to the allocation of funds by enterprises into the financial sector represented by monetary value, such as bonds and stocks. It is characterized by relatively short durations, savings-like nature, and high volatility influenced by financial markets [1]. Strategic investment refers to investment behavior with clear strategic intent undertaken by enterprises to achieve long-term development goals, enhance core competitiveness, expand market share, or acquire specific resources. Unlike ordinary financial investments, strategic investments focus not only on investment returns but also on strategic cooperation, resource sharing, and synergistic development with the invested enterprises [2].

### 2.2 Factors Influencing Physical Investment

The factors determining corporate investment can be divided into two categories: consumption demand factors and cost factors. Consumption demand factors mainly refer to the total demand for the product, including final consumer demand and the demand of downstream manufacturers for intermediate goods from upstream manufacturers. Production must inherently obey consumption, therefore investment must ultimately obey market demand. This means that expectations regarding future market demand are a key factor in determining whether a company invests. From the cost perspective, as the scale of corporate investment depends on the marginal revenue and marginal cost of investment, marginal cost primarily refers to the "cost of capital use," including physical capital cost, depreciation, interest rates, taxes, and various other forms of cost. If a company's marginal investment cost is low, it will expand investment to pursue profit maximization [3]. Therefore, the factors constraining physical capital investment are also these two: insufficient consumption constraints and excessively high cost constraints. If an economy faces insufficient consumption, leading to weak corporate investment willingness, the government can indirectly stimulate investment by stimulating aggregate demand. If companies are unwilling to invest due to high investment costs, the government can promote corporate investment by lowering interest rates, reducing taxes and fees, etc. [4].

### 2.3 Factors Influencing Financial Market Investment

Enterprises participate in financial market investments out of considerations for capital management and hedging operational risks. The core essence of corporate financial investment management lies in achieving the appreciation of corporate assets and risk control through the rational allocation and effective operation of funds. Financial investment management involves an in-depth understanding and application of various financial instruments and investment channels, enabling wise investment decisions under different market conditions. This includes investments in traditional financial products such as stocks, bonds, and funds, as well as exploration into emerging financial fields like venture capital and private equity. The focus of financial investment management is on balancing returns and risks, ensuring that the company pursues returns while effectively managing various potential risks, providing stable financial support and strategic guarantee for the sustainable development of the enterprise [5]. Furthermore, corporate participation in financial market investments can also serve a risk hedging function. Financial hedging is an external risk management method and a form of risk transfer. Risk transfer involves shifting part or all of the potential losses caused by risk to others through certain risk management measures. Financial hedging involves transferring risk to others by signing certain economic contracts, including options, futures, and other foreign exchange derivative tools. Numerous empirical studies have shown that the use of foreign exchange derivatives by enterprises can, to some extent, reduce their foreign exchange risk [6]. Financial hedging instruments have a certain impact on corporate value. Guo Fei (2012), after studying US multinational corporations, found that the use of foreign exchange derivatives brought about a value premium of approximately 10% [7]. Si Wen (2013), through a study of listed manufacturing companies in China, found that the hedging premium effect was larger and more significant for enterprises with a higher degree of exchange rate risk exposure [8].

### 2.4 Factors Influencing Strategic Investment

Based on company’s long-term development goals, it make strategic investment by acquiring shares in other companies to obtain financial returns or strategic synergies. Strategic investment can help enterprises gain more advantages in resources, technology, and innovation. By investing in companies with relevant technologies or innovation capabilities, an enterprise can quickly enter a new business area, obtain better technology patents or innovation achievements, and apply them to existing production activities, thereby accelerating its own transformation and upgrading process. In summary, corporate strategic investment is an important strategic choice adopted by enterprises when facing changes in the macro-environment and external competitive pressures. It enables them to achieve their strategic goals faster and better through strategic investment [9].

Corporate strategic investment can generate synergistic effects. Synergistic effects refer to the situation where, after the investing party invests in the target enterprise, the integrated resources lead to significantly improved performance of the merged company, often exceeding the expected performance of the two companies operating separately, thereby demonstrating a "one plus one greater than two" value-added effect [10]. For example, Haier Smart Home's business ecosystem strategic investment is primarily driven by a combination of external factors such as national policy support, intensified competitive environment, and high product iteration costs, and internal factors such as leveraging innovative synergies, improving the supply chain system, and building an ecosystem.

## 3 Case Study

This paper uses Haier Smart Home as an example to analyze the influencing factors of corporate physical investment, financial investment, and strategic investment. Haier is a globally leading home appliance manufacturer, ranking first in global retail sales of major home appliances for 16 consecutive years. The company has formed a business layout including food preservation and cooking, washer and dryer, air conditioner, and other businesses. In 2024, the company's operating revenue reached 286 billion yuan (2024 financial report).

### 3.1 Physical Investment of Haier Group

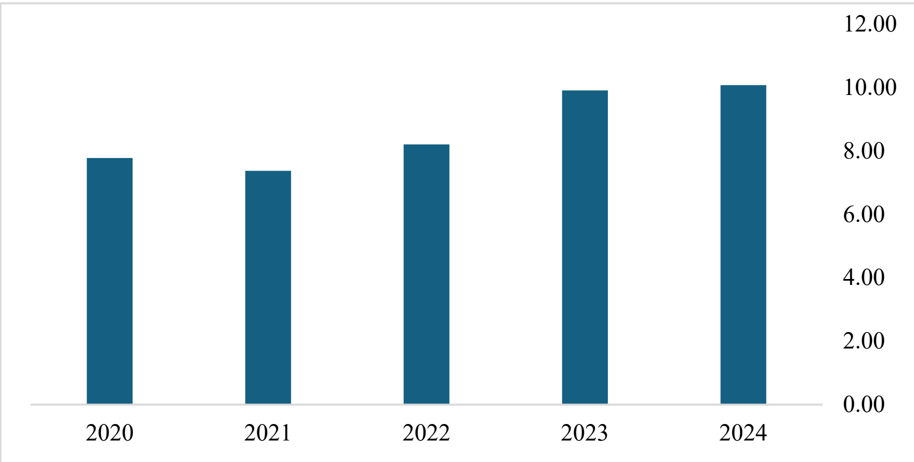


**Fig. 1.** Cash paid to acquire fixed assets, intangible assets and other long-term assets (billion RMB)

In Haier's physical investment, equipment investment constitutes the vast majority, approximately 4.5 billion yuan. According to Haier Group's 2024 annual report, production equipment assets account for two-thirds of fixed assets. Similarly, in the fixed capital formation for 2024, production equipment investment also accounts for two-thirds of total fixed asset investment. Production equipment mainly refers to the company's production lines, equipment, etc. The remaining portion of physical investment mainly comes from buildings and structures, approximately 3 billion yuan, including factories and some investment properties. Investment properties consist of land value and the value of buildings thereon. Figure 1 uses data from the cash flow statement item 'Cash paid to acquire fixed assets, intangible assets and other long-term assets' to measure the company's investment expenditure. The data shows that Haier's fixed asset investment shows a stable growth trend, reaching a scale of 10 billion yuan in 2024.

In the annual report, Haier makes judgments on future demand trends, which also became the reason for its large-scale investment and production expansion in 2024. Domestically, consumer demand has been upgrading. According to GfK data, by the end of 2023, the stock of home appliances in China exceeded 6.9 billion units; 66% of purchase motivations were for replacement, and 34% were for new additions or additional purchases. As consumers' demand for improving quality of life continues to rise, driven product upgrades are expected to bring product value growth. Therefore, expanding production lines for higher value-added products helps meet consumer demand. In terms of demand volume, the "2025 Government Work Report" pointed out that in 2025, the state will firmly implement the strategy of expanding domestic demand and arrange ultra-long-term special treasury bonds of 300 billion yuan to support the replacement of consumer goods with new ones. As white goods products with high value, they are expected to continue benefiting. According to predictions from institutions like AVC, the overall scale of the home appliance industry is expected to continue growing in 2025. Therefore, Haier also has the motivation to invest and expand production to meet demand. In overseas markets, the OECD predicts that the US economic growth rate will be 1.9% in 2025, and the Fed predicts PCE inflation at 2.7%. Tariff policies continue to impact consumers' disposable income and corporate investment willingness, putting pressure on the home appliance market demand. Nevertheless, constrained by rigid demand in the context of high inflation, high-efficiency and energy-saving home appliance products are expected to remain favored by consumers. The European economy is still affected by the uncertainty of the Russia-Ukraine conflict and fluctuations in energy prices. However, with the gradual downward trend in European natural gas prices, home appliance production costs and terminal prices are expected to decrease. Although trade uncertainties put downward pressure on the EUR/USD exchange rate, EU fiscal expansion and potential increases in defense spending may alleviate some economic pressures. The European home appliance market is expected to continue focusing on sustainable development, with green, environmentally friendly, and high-efficiency energy-saving home appliances becoming mainstream. Competition among manufacturers in ESG performance and product innovation will intensify. For Haier, overseas market demand will be weak in 2025, but structurally, there is a preference for greener and more energy-efficient products, which provides insights for Haier's investment decisions.

## 3.2 Haier's Strategic Investment

Haier's strategic investment targets include Haier subsidiaries, upstream and downstream partners, Qingdao Bank, and domestic and foreign distributors, reflecting Haier's influence over its subsidiaries and upstream/downstream enterprises, as well as considerations of operational decisions and strategic development during investment. Haier's long-term equity investment fluctuates significantly. From the long-term equity investment items on the balance sheet, it can be seen that Haier's long-term equity investment amount fluctuates between 1-2 billion RMB. As shown in Figure 2, according to the 2024 Haier Group annual report data, the top three companies invested in by Haier are Haier Group Finance Co., Ltd., Controladora Mabe, S.A. de C.V., and Qingdao Bank Co., Ltd., which are Haier's wholly-owned subsidiary, overseas distributor partner, and domestic business affiliate, respectively. Investments in these three companies account for 75% of Haier's total investment, showing the high concentration of Haier's equity strategic investment.

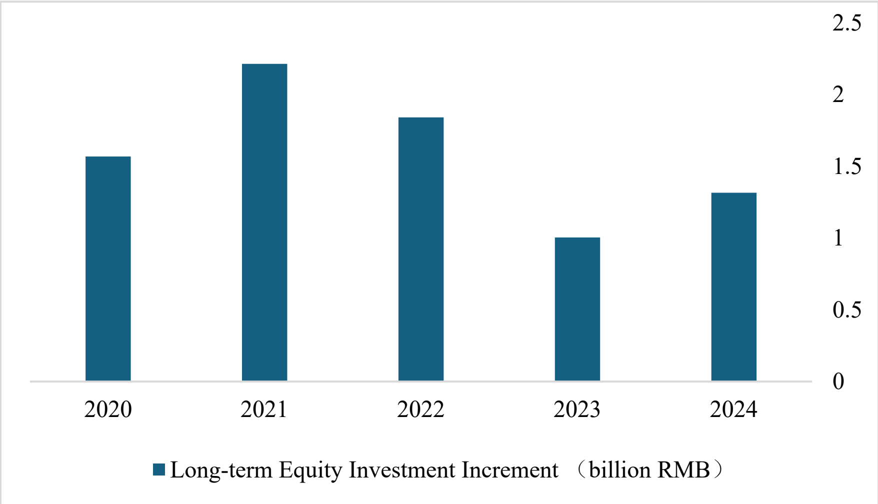


**Fig. 2.** Scale of Haier's Strategic Investment (billion RMB)

## 3.3 Financial Market Investment

Financial market investment is divided into derivative investment and trading financial asset investment. The former is mainly used for hedging and mitigating company risks, while the latter primarily serves the company's financial needs, corresponding to the 'derivative financial assets' and 'financial assets held for trading' on the balance sheet, respectively. The primary purpose of holding the former is for risk management or speculation, including contracts such as futures, options, and swaps, characterized by high leverage and intertemporal nature. The latter is mainly used for short-term trading to earn price differences, aiming to profit from price differentials by trading short-term held stocks, bonds, funds, etc., characterized by strong liquidity.

As shown in Figure 3, the scale of trading financial assets fluctuates between 1.24 billion and 2.17 billion RMB, while the scale of derivative financial assets is relatively smaller, fluctuating between 100 million and 140 million RMB. Trading financial asset investments are more volatile, while derivative investments are relatively stable. Trading financial asset investments decreased from 2.17 billion yuan in 2020 to 1.24 billion yuan in 2024, consistent with the performance of the capital market, for instance, declining as the capital market weakened in 2022-23. Derivative investments grew relatively steadily, increasing from 100 million yuan in 2020 to 140 million yuan in 2024, reflecting the company's increasing hedging needs as its business expanded.

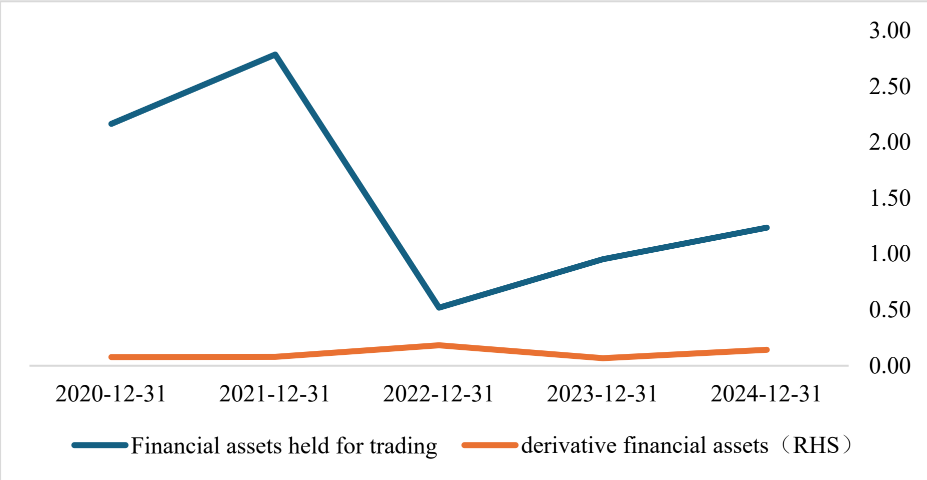


**Fig. 3.** Scale of Haier's Financial Market Investment (billion RMB)

## 4 Conclusion

Through a case study of Haier Group's investment behavior, this paper analyzes the factors influencing the company's physical investment, financial market investment, and strategic investment. The results indicate that corporate investment decisions are not driven by a single factor but are formed based on different factors leading to different investment directions. Firstly, physical investment primarily targets equipment and real estate, indicating that the main influencing factors for physical investment are the investment costs and demand for its products. Secondly, the targets of strategic investment are mainly upstream and downstream companies and their subsidiaries. The main factors influencing strategic investment are the company's long-term development strategy and the need for upstream and downstream integration. Finally, financial market investments aim for both hedging and investment returns. Their influencing factors mainly include the company's need to hedge risks and the performance of the financial markets. Based on the case study in this paper, it can be seen that corporate investment is a complex behavior with diverse underlying reasons, which requires analysis through the decomposition of different investment behaviors.

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