BA (Hons) Business Studies with Foundation

BUSINESS DECISION-MAKING

INDIVIDUAL ASSIGNMENT

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# Introduction

Business decision-making is a process in which data is analyzed and considered to make business decisions reducing the probability of facing any kind of problem. In order to make a good decision, the company needs to get all the necessary information to resolve an issue. Furthermore in the project, the calculation of the payback period with the calculation of net present value will be discussed. Financial and non-financial factors that affect business decision-making are described below. Recommendations to improve business decision making is also illustrated. Business decisions that may be small or big can turn out to be crucial for the company.

# Calculation of payback period

| Calculation of Payback Period Project A | | |
| --- | --- | --- |
| Annual period | Net Cash flow (£) | Cash Flow (£, Cumulative) |
| 0 | -98000 | -98000 |
| 1 | 32000 | -66000 |
| 2 | 41000 | -25000 |
| 3 | 63000 | 38000 |
| 4 | 96000 | 134000 |
| 5 | 110000 | 244000 |
| Payback Period | | 2 yrs 5 m |

| Calculation of Payback Period Project B | | |
| --- | --- | --- |
| Annual period | Net Cash flow (£) | Cash Flow (£, Cumulative) |
| 0 | -102000 | -102000 |
| 1 | 30000 | -72000 |
| 2 | 41000 | -31000 |
| 3 | 64000 | 33000 |
| 4 | 107000 | 140000 |
| 5 | 112000 | 252000 |
| Payback Period | | 2 yrs 6 m |

Table 1: Calculation of payback period

(Source: excel)

# Calculation of net present value

| Calculation of Net Present Value Project A | | | |
| --- | --- | --- | --- |
| Annual period | Net Cash flow (£) | Disc. Factor @ 7% | Present Values (£) |
| 0 | -98000 | 1 | -98000 |
| 1 | 32000 | 0.93 | 29906.54 |
| 2 | 41000 | 0.87 | 35810.99 |
| 3 | 63000 | 0.82 | 51426.77 |
| 4 | 96000 | 0.76 | 73237.94 |
| 5 | 110000 | 0.71 | 78428.48 |
| Net Present Value (£) | | | 170,810.72 |

| Calculation of Net Present Value Project B | | | |
| --- | --- | --- | --- |
| Annual period | Net Cash flow (£) | Disc. factor @ 7% | Present Values (£) |
| 0 | -102000 | 1 | -102000 |
| 1 | 30000 | 0.93 | 28037.38 |
| 2 | 41000 | 0.87 | 35810.99 |
| 3 | 64000 | 0.82 | 52243.06 |
| 4 | 107000 | 0.76 | 81629.79 |
| 5 | 112000 | 0.71 | 79854.45 |
| Net Present Value | | | 175,575.67 |

Table 2: Calculation of NPV

(Source: excel)

# Analysis and Discussion

The payback period of Project A is considered to be better than Project B. It takes lesser time than Project B to return the investment of the investors. Investors will be interested in Project A however it is low on NPV. As opined by Owusu-Ansah *et al*. (2023), investors are more focused on the data that shows the payback period and NPV but lean towards NPV more while making a decision. Earning the return on investment is the main aim of the investor so that is why they will be data-driven.

Higher NPV is preferred by investors because it gives them the opportunity to earn more. Project B is higher than Project A. Therefore the investors must be willing to invest in Project B. Project B will yield more profit in terms of money with time.

The NPV of a company can be increased with data-driven decision-making at the right time. Other management also like the management of finances should indulge in decision-making as well. The management do studies on how to improve the NPV and reduce the payback period. It will be beneficial for the company to invest in a good management to achieve the numbers targeted.

# Financial and Non-financial factors influencing the Decision-making

Effect of cost: Raising funds for management is an essential job. The management will always go for cost-effective funds rising. As opined by Tien *et al*. (2021), the top employees in the management will arrange funds from different places trying to expend less cost. Managers tend to reduce the cost of the company to have more effective costs.

Condition of the economy: Inflation is a major factor for every company. In reference to the words of Nyanga and Zirima (2020), the world is experiencing high inflation leading companies to lay off employees. These things play an important role in decision-making. The economy decides the course of action for the future.

Taxation: The tax rates fluctuate every year leading the companies to make changes from their side. As mentioned by Bertoldi *et al*. (2021), companies introduce few policies or techniques to reduce the chance of paying more tax. In order to control it, companies tend to follow certain rules within the company.

Company’s management: Decision-making is based on management only. Management decides the course of action that has to be taken in order to achieve the target. Data-driven decision making has more scope of getting successful than others. Companies with strong management have more success rate. As suggested by Salam, (2022), building an efficient management system helps the company to be productive with its respective work. The company’s management can help in the forecasting of sales performance which helps the sales team and product team.

Competition in the market: Competing businesses help the business to grow. Healthy competition brings the best out of companies. In reference to the words of Clauss *et al*. (2022), in course of competition between businesses, the customers get the best quality of products whereas sometimes customers get confused also. In order to retain customers and prospects, businesses have to make an extra effort which pushes them towards expending more cost. Advertisement competition between businesses is a concept that lasts for a long time. Nowadays, companies try to be creative in their approach towards acquiring customers.

Size of the business: Financial decisions depend on the size of the business for various reasons. As mentioned by Abbas, (2020), the business size affects the productivity and efficiency of the business. The assets play an effective role in the decision-making of the business.

# Conclusion

In this project, various decision-making aspects have been discussed. The payback period is a crucial factor in the investing round. The calculation of the payback period and NPV has been discussed. 2 calculations have been shown in the project above. The 2 projects reflect that the investors will be interested in Project B. As per the data given by PD plc, both the calculations have been derived. Evaluation of the financial and non-financial factors that should be taken into account is also described. It can be further concluded that the condition of the economy, size of the firm, taxation, company’s management, competition and cost can affect the decision making.

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