Improved capital budgeting decision making: evidence from Canada

Karim Bennouna (Kubota Canada, Ontario, Canada)
Geoffrey G. Meredith (Graduate College of Management, Southern Cross University, Tweed Heads, Australia)
Teresa Marchant (Graduate College of Management, Southern Cross University, Tweed Heads, Australia)
Management Decision
ISSN: 0025-1747
Publication date: 9 March 2010

Abstract

Purpose
The purpose of this article is to evaluate current techniques in capital budget decision making in Canada, including real options, and to integrate the results with similar previous studies.

Design/methodology/approach
A mail survey was conducted, which included 88 large firms in Canada.

Findings
Trends towards sophisticated techniques have continued; however, even in large firms, 17 percent did not use discounted cash flow (DCF). Of those which did, the majority favoured net present value (NPV) and internal rate of return (IRR). Overall between one in ten to one in three were not correctly applying certain aspects of DCF. Only 8 percent used real options.

Research limitations/implications
One limitation is that the survey does not indicate why managers continue using less advanced capital budgeting decision techniques. A second is that choice of population may bias results to large firms in Canada.

Practical implications
The main area for management focus is real options. Other areas for improvement are administrative procedures, using the weighted average cost of capital (WACC), adjusting the WACC for different projects or divisions, employing target or market values for weights, and not including interest expenses in project cash flows. A small proportion of managers also need to start using DCF.

Originality/value
The evaluation shows there still remains a theory-practice gap in the detailed elements of DCF capital budgeting decision techniques, and in real options. Further, it is valuable to take stock of a concept that has been developed over a number of years. What this paper offers is a fine-grained analysis of investment decision making, a synthesis and integration of several studies on DCF where new comparisons are made, advice to managers and thus opportunities to improve investment decision making.

Keywords
Capital budgeting, Discounted cash flow, Investments, Decision making, Canada

Citation

Publisher: Emerald Group Publishing Limited
Copyright © 2010, Emerald Group Publishing Limited

To read the full version of this content please select one of the options below

You may be able to access this content by logging in via Shibboleth, Open Athens or with your Emerald Account.

To rent this content from Deepdyve, please click the button.

If you think you should have access to this content, click the button to contact our support team.
We made changes to the Canada Student Loans Program (CSLP) to allow more students to qualify for support and be eligible for greater amounts. The changes include: doubling the Canada Student Grants for all eligible full-time students to up to $6,000 and up to $3,600 for part-time students in 2020-21. The Canada Student Grants for Students with Permanent Disabilities and Students with Dependents would also be doubled. Supporting Indigenous partners in developing innovative strategies to address substance use and to improve access to treatment services. Funding under this program will flow through distinction-based allocations to national Indigenous organizations. Making personal hygiene products and nutritious food more affordable. Decision Making in Finance: Capital Budgeting Babita Goyal. Key words: Capital budgeting, discounting criteria, non-discounting criteria, urgency, payback period, ARR, NPV, IRR, PI, and BCR; benefits, costs, depreciation, cash flows, simple and non-simple investments, pure and mixed investments, ACC, capital rationing, divisible and indivisible projects, linear programming. Suggested readings: 1. Chandra P. (1970), Appraisal Implementation, Tata-McGraw Hill Publishing Company. Limited, New Delhi. 2. Hampton J.J. (1992), Financial Decision Making (4th edition), Prentice hall of India Private. Capital budgeting decisions are of paramount importance in financial decision. The profitability of a business concern depends upon the level of investment made for long period. Moreover, the investments are made properly through evaluating the proposals by capital budgeting. So it needs special care. In this context, the capital budgeting is getting importance. Capital budgeting decision making is a difficult and complicated exercise for the management. These decisions require an over all assessment of future events which are uncertain. It is really a marathon job to estimate the future benefits and cost correctly in quantitative terms subject to the uncertainties caused by economic-political social and technological factors. Management Decision Emerald Article: Improved capital budgeting decision making: evidence from Canada Karim Bennouna, Geoffrey G. Meredith, Teresa Marchant Article information: To cite this document: Karim Bennouna, Geoffrey G. Meredith, Teresa Marchant, (2010),“Improved capital budgeting decision making: evidence from Canada”, Management Decision, Vol. 48 Iss. 2 pp. 225 - 247. Permanent link to this document: http://www.emeraldinsight.com/0025-191X.htm#48210005 Design/methodology/approach – A mail survey was conducted, which included 88 large firms in Canada.