ABSTRACT

Wrong investment decisions today can lead to situations in the future that will be unsustainable and lead eventually to the bankruptcy of enterprises. Therefore, good financial management combined with good capital investment decision-making are critical to survival and long-term success of the firms. Traditionally, the net present value (NPV) and discounted cash flow (DCF) methods are worldwide used to evaluate project investments. These techniques have been classified in two major groups: sophisticated and non-sophisticated. In the former group, techniques like the DCF methods (e.g. NPV and IRR) can be found. In the latter group, techniques like the Payback Period and the Accounting Rate of Return have been included. However given that, today investments are characterized by high risks and uncertainty, DCF methodologies are inadequate to deal with these issues. Some authors argue that only the techniques that can appropriately address the problem of uncertainty (like the Real Options theory) should be applied. In this paper, the major differences between DCF methods and Real Options (RO) theory will be analyzed. Using an example, the advantages of the RO theory, compared with other methods, such as the DCF methods, in the search of better decisions will be shown. This work is expected to contribute to an increase of application of the RO Theory, by showing this technique potential.

EVIDENCE ON THE INVESTMENT-CASH FLOW SENSITIVITY FOR A PANEL OF PORTUGUESE MANUFACTURING FIRMS

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KEYWORDS
Capital Investment, Financing constraints, Asymmetric information

ABSTRACT

In the last two decades, a renewed interest about the influence of financial factors on a firm's capital investment decision emerged. In fact, theoretical developments that occurred in the field of information economics, which emphasised the existence of information problems in financial markets, allowed to rationalise a close relationship between financial factors and investment expenses of firms.

This paper aims at contributing to the empirical literature on this subject, presenting the results of an empirical study undertaken for a panel of Portuguese manufacturing firms. The results obtained suggest that the impact of financial factors on investment decisions of firms is greater for those facing higher information problems in financial markets, such as: small, young and low retention firms.

WHICH PROJECT CHARACTERISTICS ARE IMPORTANT? WHAT ARE THE PROJECT SUCCESS FACTORS?

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KEYWORDS
Non-Financial issue; Project Success; Capital budgeting

ABSTRACT

The evaluation process of real investment projects must consider not only the traditional financial approach, but also non-financial aspects that can provide additional relevant information about projects. We investigate financial and non-financial areas most relevant in project appraisal, main critical success factors and areas of analysis that lead to the perception of project success, through nine hypotheses that are empirically tested. Companies are also segmented to verify their financial and non-financial practices, considering industries, type of project, size and duration of the project. The results show that non-financial factors affect the investment decision with larger importance than financial ones, specifically the strategic, technical and commercial areas. Perceived success of a project is related to the consideration of strategic, political and human resources aspects in its evaluation. There is a greater perception of success when companies attribute greater importance to financial and commercial aspects in project appraisal. The existence of many financial and strategic factors is associated with a greater perceived success of the project. We found that there is a greater perception of success in companies with larger projects, when the chairman of the board has higher tenure and when the project manager has a higher education degree and has variable reward.

THE COST/BENEFIT ANALYSIS IN THE SCOPE OF NEOCLASSICAL ECONOMICS

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KEYWORDS
Neo-Liberalism, Cost/Benefit analysis, Business competitiveness

ABSTRACT

The age of the globalization is inherently the age of the Neo-Liberalism, and it is therefore normal that Neoclassical theory dominates economics nowadays. On another strand, Cost/Benefit Analysis (CBA) is also critical for economics. A first main conceptualization of CBA was made by Alfred Marshall in the early 20th century. The CBA estimation measures the equivalent value of the benefits versus costs to the community of a wide range of projects, from highways to hospitals. "If the benefits to whomever they accrue [be] in excess of the estimated costs" then a given project will be worthwhile under CBA (US Congress, 1936, 1939).

Using a CBA approach, this paper examines whether the interventions of the monetary authorities in the financial sector were beneficial for the economy, and for business overall. Widely criticised, the authorities' "socialisation of the losses" resulted in higher budgetary deficits, forcing governments to hike taxes and therefore increasing costs for businesses, reducing competitiveness. Nevertheless, a non-intervention would result in a massive increase of business failures and in a major surge in unemployment, likely leading to a possible depression that would take years to tackle. Therefore, this paper contributes for the discussion of the desirable role of governmental and monetary authorities in the economic activity.