

DETERMINANTS OF INVESTMENT CHOICE: A STUDY OF AUSTRALIA AND SRI LANKA

Pratheepkanth P

University of Jaffna, Sri Lanka,

ppratheepkanth84@yahoo.com

INTRODUCTION

Firms are continually faced with the issue of deciding whether the current commitment of resources is likely to create optimal expected future benefits, as measured in present value (Bierman & Smidt, 2007). If the benefits are likely to accrue reasonably soon after the expenditure is made, and if both the expenditure and the benefits can be measured in monetary value, the analysis of the problem is simpler than if the expected benefits accrue over many years and there is considerable uncertainty as to the amount of these benefits (Bierman & Smidt, 2007). The term investment refers to commitments of resources made in the hope of realising future benefits. It is the process of allocating resources for major capital or investment expenditures (Bierman & Smidt, 2007) and is seen as being worthwhile to the extent it creates value for its stakeholders (Aharoni, 1966; Ross, Bianchi, Christensen, Drew, Westerfield, & Jordan, 2014). In this context, firms frequently invest funds in resources with the hope of net economic gains to investors via increased firm value leading to increased share value, or via higher dividend payments, or via a combination thereof (Atrill, 2012; Götze, Northcott, & Schuster, 2015; Porter, 1992). The invested funds are drawn from the firm's capital (i.e. its total resources or assets). The term capital, also, has come to mean the long-term funds of the firm (Gitman, Juchau, & Flanagan, 2011). When a firm allocates capital to long-term investments, the outlay is made in the expectation of future benefits, in the form of future increased cash inflows and/or reduced cash outflows (Frino et al., 2013). The process of planning and managing a firm's investments and the allocation of capital to such investments is known as capital budgeting (Ross et al., 2014). This study investigates whether investment choice differ significantly between Australia and Sri Lanka in terms of economic development. Australia is a typical example of a developed economy and albeit in the world arena it is often considered a small open economy, its business practices are well respected. Although Sri Lanka is an emerging economy, it is still considered developing. Since the conclusion of the civil war in 2009, Sri Lanka has witnessed considerable economic progress despite some on-going political issues. As a result, long-term investment has increased significantly, as the range of factors being considered by firms. This study compares the investment choice determinants of both Australian and Sri Lankan firms in order to provide insights and evidence of the use of differing investment choice to help managers determine the most appropriate determinants that will help maximise firm wealth.

RESEARCH METHODS

The questionnaires were posted to 150 Australian and 150 Sri Lankan-listed firms from Jun-Sep /2016 asking about firm and respondent demographics along with various determinants of investment choice. Seven questionnaires were posted to Australian firms (i.e. it was assumed that firms that could not be reached were no longer a part of the population) were returned without response, resulting in an effective population of 143. In order to increase the response rate, after a month, a reminder letter was sent to the Australian and Sri Lankan firms which did not respond to the questionnaires. The 45 and 73 returned questionnaires from, Australian and Sri Lankan firms respectively, give a response rate of 31.5 and 48.7 percent for, the Australian firms and Sri Lankan firms respectively.

RESULTS AND DISCUSSION

Table 1: The determinants of investment choice

No	Statements	Australia						
		Very import	Import	Neutral	Slightly import	Not at all import	Mean	Std
2	Quantitative analysis judgment	18	78	4	0	0	4.13	0.457
3	Consistency with corporate strategy	20	71	9	0	0	4.11	0.531
4	Improved market image for the firm	38	47	9	4	2	4.13	0.919
5	Improved competitive position	27	58	13	0	2	4.07	0.780
6	The ability to expand in the future	33	54	10	0	3	4.11	0.910
7	Increased market share	24	40	24	4	8	3.71	1.100
8	Business expansion/development	24	44	24	4	4	3.84	0.928
9	Increased saving from disposable expenses	16	44	27	11	2	3.60	0.923
10	Risk position	11	51	31	4	3	3.64	0.830
11	Environmental factors	7	51	29	4	9	3.42	1.011
12	Competitive advantage	16	44	27	9	4	3.58	1.011
No	Statements	Sri Lanka						
		Very import	Import	Neutral	Slightly import	Not at all import	Mean	Std
2	Quantitative analysis judgment	44	52	4	0	0	4.40	0.571
3	Consistency with corporate strategy	40	49	11	0	0	4.29	0.656
4	Improved market image for the firm	15	60	23	1	0	3.89	0.657
5	Improved competitive position	11	66	22	1	0	3.86	0.608
6	The ability to expand in the future	11	63	26	0	0	3.85	0.593
7	Increased market share	10	62	26	3	0	3.78	0.651
8	Business expansion/development	6	62	30	3	0	3.70	0.617
9	Increased saving from disposable expenses	3	53	41	1	1	3.55	0.646
10	Risk position	8	55	36	0	1	3.68	0.685
11	Environmental factors	11	51	34	4	0	3.68	0.724
12	Competitive advantage	7	63	26	3	1	3.71	0.697

Respondents are asked to rate on Likert scale of 1 (not at all important) to 5 (very important). Researchers report the overall mean, standard deviation (Std) as well as the % of respondents that answered 1 (not at all important) to 5 (very important).

In Table 1, 98 and 97 per cent of, respectively, Australian and Sri Lankan respondents said that the accept/reject decision phase was very important or important. Quantitative analysis judgment is described as being very important or important by 96 of Australian and Sri Lankan respondents. Consistency with corporate strategy is very important or important for 91 and 89 percent of, respectively, Australian and Sri Lankan respondents. Improved market image for the firm is seen as very important or important by 85 percent of Australian and Sri Lankan respondents; who also see improved competitive position as being very important or important (85 and 76 percent of, respectively, Australian and Sri Lankan respondents). The ability to expand in the future is ranked as very important or important by 85 and 76 percent of, respectively, Australian and Sri Lankan respondents. Increased market share is slightly less important (64 and 72 percent of, respectively, Australian and Sri Lankan respondents see it as very important or important). Australian and Sri Lankan respondents have very similar views on: Business expansion/development; Increased saving from disposable expenses; Risk position; and Environmental factors. Competitive advantage appears to be somewhat more important to Sri Lankan firms (it is very important or important to 60 and 70 percent of, respectively, Australian and Sri Lankan respondents). This last set of perceptions appears to be converse to that expressed by Australian respondents on improved competitive position.

CONCLUSION

This paper will add insight to the corporate sectors of Australia and Sri Lanka and be of value to countries in comparable situations. It will also benefit decision makers, investors, regulators and scholars as well as assist the policy makers to set new and improved standards for best practices of investment decisions. This study found that the cultural and business environment of firms is a major determinant of the effectiveness of investment processes along with: ever shortening life cycles of products, the need for quick recovery of investments, and the need for quick decision making (Shinoda, 2010). It was found that the nature of a firm tends to trump the nurture of the development level of the country in which the firm is embedded. Also, the study adds to the general knowledge on the determinants of investment choice by showing that the nature of the firm appears to swamp the nurture of the environment in which it is embedded. Therefore, this study contributes to understanding the role investment choice play in business decision making by demonstrating the need for more sophistication in firms' analysis of long-term investment decision making and underinvestment can be minimised.

REFERENCES

- Aharoni, Y. (1966). *The foreign investment decision process*. Boston, US: Harvard Business School.
- Atrill, P. (2012). *Financial management for decision making* (6 ed.). Essex, England: Pearson Education Limited.
- Bierman, H., & Smidt, S. (2007). *The capital budgeting decision: Economic analysis of investment projects* (9 ed.). New York, US: Routledge.
- Frino, A., Hill, A., & Chen, Z. (2013). *Introduction to Corporate Finance* (5 ed.). NSW, Australia: Pearson Australia Group.
- Gitman, L., Juchau, R., & Flanagan, J. (2011). *Principles of managerial finance* (6 ed.). NSW: Pearson Education.
- Götze, U., Northcott, D., & Schuster, P. (2015). Capital budgeting and investment decisions. In *Investment appraisal: Methods and models* (2 ed., pp. 3-26). Berlin, Heidelberg: Springer.

- Porter, M. (1992). Capital choices: Changing the way America invests in Industry. *Journal of Applied Corporate Finance*, 5(1), 579-589.
- Ross, S., Bianchi, R., Christensen, M., Drew, M., Westerfield, R., & Jordan, B. (2014). *Fundamentals of corporate finance* (6 ed.). NSW, Australia: McGraw Hill Education.
- Shinoda, T. (2010). Capital budgeting management practices in Japan. *Economic Journal of Hokkaido University*, 39(1), 39-5

PROCEEDINGS

2nd Annual Research Symposium in Management

22nd June 2018