CHAPTER 4 – THE INVESTING DECISIONS

4.1 INTRODUCTION -

Investment decisions and financing decisions go hand in hand. Investment decisions can’t be discussed in isolation. The deployment of funds, raised through financing decisions is made through investment decisions. Raising the funds optimally and investing the same judiciously is major task in front of the finance manager. On the basis of judicious deployment of funds enterprise earns returns.

4.2 – THEORIES / CONCEPTS / APPROACHES IN INVESTMENT DECISIONS

The research work done by various researchers is studied in the light of various theories / concepts associated with the investment decisions. These theories / concepts along with the relevant normative statement associated with the theory / concept are as given below.

C A P M (Capital Asset Pricing Model): The Required rate of return of an asset can be calculated with the help of C A P M model, if the asset is added in the existing portfolio. The model says expected return of a security or a portfolio is equal to risk free rate of return plus the risk premium. If the expected rate of return does not match with the required rate of return, then such investment should not be considered. A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities.

\[ \bar{r}_a = r_f + \beta_a ( \bar{r}_m - r_f ) \]

Where:
- \( r_f \) = Risk free rate
- \( \beta_a \) = Beta of the security
- \( \bar{r}_m \) = Expected market return
The riskiness depends on the beta of the security. Securities having high Beta are perceived to be risky.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-1. The Asset Pricing Theory involves the characterization of investments that can be viewed as close economic substitutes and thus should have similar expected rate of returns.

ID-2. The Asset Pricing Theory is concerned with estimation of the cost of capital or the expected rate of return for a given financial security or portfolio.

ID-3. CAPM model is used by the managers while finalizing a Capital budgeting Decision, is universally accepted.

Cash flow : A revenue or expense stream which causes change in cash account over a period of time. The source of cash flow is in three activities viz, Financing, Investing and operations. Generally cash out flow denoted an expense. Every firm prepares a cash flow statement where in the non cash expenses are added back to net income and business generated by business is calculated. The cash flow is a major indicator of company’s health, more specifically the financial health. At personal level as well as at firm’s level adequate cash level maintains the solvency. All the stake holders as well as business analysts of a firm are in gauge the financial performance of the firm on basis of Cash flow.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-4. Leverage and Cash flow tend to be negatively correlated.
Cost of Capital

The cost of using funds is the cost of capital. Funds include own funds as well as borrowed funds. The investor’s expectation from the firm is the cost of capital. The Cost of Equity is

\[ Ke = \frac{D}{P} + g \]

where: D is dividend per share

P is Market Price per Share

\( g \) is Growth expected (in %)

Kp = Cost of preference Share

\[ \frac{D + \frac{(MV - NP)}{n}}{\frac{1}{2} (MV + NP)} \]

Where

\( D \) = Annual Dividend

\( MV \) = Maturity Value of the Preference Share

\( NP \) = Net Proceeds of the Preference Share

\( n \) = Number of Years

Kd = Cost of Debt

\[ \frac{I + (MV - NP) / n}{(MV + NP) / 2} \]

Where

\( I \) = Interest Payable per Debenture

\( MV \) = Maturity (Redemption value)

\( NP \) = Net Proceeds per Debenture

\( n \) = No. of Years

Particularly the following normative statement/s is/ are being considered by the researcher during this study.

ID-5. Expected return and cost of capital is negatively related to liquidity.

Efficient Capital Market

It is believed that the markets are efficient. Which means all the necessary information needed by an investor is available to him, to take investment decision.

There are three forms (Versions) of EMH viz. Weak, Semi Strong and Strong E M H. The Weak form believes that, prices of assets being transected (Viz. Property, Stocks, Debt)
already reflect the information available. The Semi Strong form believes that, though the prices are reflecting the available information, prices would suddenly change to new information available. The Strong form of EMH believes, prices suddenly change even to any hidden or insider information. E M H and random Walk hypothesis are closely associated. Efficient market hypothesis gained prominence in 60’s. This hypothesis believes that in absence of any change in the fundamental information the price of asset moves randomly. Particularly the following normative statement/s is / are being considered by the researcher during this study.


Financial Performance Management : Theories or concepts which are associated with the estimation of performance of the firm are considered under Financial Performance Analysis. Generally various ratios, used to measure the performance of the firm would be under Financial Performance Management.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-7. The Empirical results of firm's Value Maximization and firm's Size maximization are Consistent.

ID-8. Optimal hedging strategy does not generally involve complete insulation of Firm Value from marketable Sources of Risk.

ID-9. Managers Purchase Projects, that increase the value of the Firm, than Utility.
Hurdle Rate: It is the minimum rate of return a project or an investment needs to earn, to compensate the risk. Higher the risk higher would be the hurdle rate. Hurdle rate cannot be less than cost of funds. IRR must be equal to or greater than the hurdle rate.

ID-10. The Hurdle Rate is similar for Growth and Value firms.

Investment Decisions: The Research Articles or Research Papers, which cannot be specifically classified as per particular theory or concept, but are in the domain of Investment Decision, are clubbed under the heading of Investment Decisions.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-11. The efficiency of capital allocation is negatively correlated with the extent of state ownership in the economy.

ID-12. The efficiency of capital allocation is positively correlated with the legal protection of Minority investors.

ID-13. In the presence of irreversibility, theoretically, demand and interest rate uncertainty both reduce demand for capital.

ID-14. Theory for Capital budgeting under uncertainty needs a rethinking

ID-15. One Firm's Bond is identical to other firm's Bond

ID-16. The Capital Budgeting Decisions of a Private enterprise and Public (Federal) enterprise are same.

ID-17. The Modern Capital Budgeting Techniques consider the total Risk of the project while
evaluating a Proposal.

ID-18. Lenders Syndication and inefficient behavior, Strategic Default of borrower are unrelated.

ID-19. Ownership Status of a firm and rate of Return are independent.

ID-20. Intra Group Cash transfers are made with the intention of earning return on idle cash.

ID-21. Sophisticated Capital Budgeting techniques are used by the CFO's globally.

ID-22. Capital investment and Appraisal methods are used on ad-hoc basis.

ID-23. The Firm Size has an impact on the way Asset Structure Correlate with Capital Structure.

Information Asymmetry: When one of the party in transaction, is having, superior information than the other one then it is termed as asymmetric information. With the advancement of technology and increased data communication speed, Asymmetric Information is on decline. This asymmetry leads to adverse selection and moral hazard. While deciding the capital structure, Information Asymmetry may have implication on the capital structure of the firm. Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-24. The efficiency of capital allocation is positively correlated with the amount of firm-specific information in domestic stock returns.

ID-25. Information and Incentive problems in Capital Market have important effects on Corporate Investments.

ID-26. Low-Risk as well as High-Risk firms are consistent with the models revealing effect of risk and Information Asymmetry in determining the debt maturity.
Internal Rate of Return (IRR): IRR is the rate at which NPV of Cash Inflow matches with NPV of Cash Outflow. Or NPV of Cash Outflow – NPV of Cash Inflow = 0. The IRR should be greater than Hurdle rate of the project. While ranking the projects on IRR, Projects having higher IRR are preferred. IRR works only for investments having initial cash out flow and then one or more cash inflows.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-27. IRR always reaches the same decision as NPV in the normal case where the initial outflows of an independent investment project are only followed by a series of inflows.
ID-28. Some projects have cash inflows followed by one or more cash outflows. IRR rule is inverted here: one should accept when the IRR is below the discount rate.

Net Present Value (NPV): This is the difference between Present value of cash out flow and present value of cash inflow. Because of Time value of money the value of money to be received in future and its value as of now would be different. NPV is use in all capital budgeting techniques.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-29. The Investment Opportunities are evaluated by NPV method is generally correct.
ID-30. Any adjustments for debt financing are reflected in the discount rate, not the cash flows.

Optimal Capital Structure: It is the ideal Debt Equity mix, in the capital of the firm, which maximizes the value of the firm. At Optimal Capital structure the cost of capital of the firm is minimum.
Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-31. Profitable firms have Optimal Leverage.

Ratio Analysis: The performance of the firm can be judged with the help of ratio analysis. There are four broad types of ratios A. Liquidity Ratios B. Profitability Ratios C. Capital Structure (Leverage) Ratios and D. Activity Ratios. Ratios are harnessed to compare the performance of the firm. This comparison could be with other firm in the industry or comparison of the firm with itself.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

ID-32. Ratio of Current Assets to Capital Stock is not associated with the size of the Firm.

**4.3 CHRONOLOGICAL REVIEW OF RESEARCH PAPERS STUDIED**

Management researchers are studying the investing decisions since long. A sincere effort was made by Gordon and Shapiro (Myron J Gordon and Eli Shapiro, 1956). These researchers developed the mathematical model \( k = \frac{D}{P} + g \). The researchers presented the definition of rate of profit required by market on share of common stock. The researchers candidly said that before the capital budgeting theory can be made as a reliable guide to action, improvement in the techniques of future revenue estimation is must. Also they pointed out that the rate of profit market requires on a share, varies with the dividend.

The performance of the portfolio of risky assets was evaluated by Jensen (Michael C Jensen, 1969). when investors are risk averse, they prefer a certain stream of income over less certain stream of income. They would accept additional risk, if higher expected future returns are possible. Risky portfolio is expected to yield higher return than less risky portfolio. A
A mathematical model was developed and tested by Jensen. He expected that further such model be tested for managed portfolios using monthly, quarterly data. As well model should be tested for unmanaged portfolios. Thus The Asset Pricing Theory involves the characterization of investments that can be viewed as close economic substitutes and thus should have similar expected rate of returns does not hold true.

When firms can avail tax benefits when they borrow, then why firms do not borrow as much as they can? This question was studied by Myers (Stewart C. Myers, 1976). He observed that a form of capital rationing may exist from the lenders. He has answered why practical people set target ratios in terms of book rather than market values. It was also answered that firms match the maturities of assets and debt obligations. The notion of, Asset Pricing Theory is concerned with estimation of the cost of capital or the expected rate of return for a given financial security or portfolio is not subscribed by this study.

The efficacy of CAPM is questioned by quite a few researchers. The relevance of CAPM model, main input for capital budgeting decisions is estimation of cost of capital and for which managers require to know the market risk premium. Jagannathan and Meier (Ravi Jagannathan and Iwan Meier, 2002). The researchers raises a potent question that why did anyone from the academic fraternity not raised the question about the usage of a supposedly wrong model? These researchers claim that they have found the answer for this puzzle. The duo studied the literature for over 50 years to ascertain the market risk premium. It is noted that when the firms use the discount rate higher than the cost of capital then the selection of project could be justified.

The relation between the cash flow and leverage is studied by Shenoy and Koch (Catherine Shenoy and Paul D. Koch, 1995). The researchers used dynamic simultaneous equations. Their results were consistent with the behavior of Pecking order model as negative simultaneous relationship was found between the cash flow and leverage. The results were
consistent with the signaling theory as positive relationship between current leverage and future cash flow was observed. The researchers also observed that there is some variation across the industries in the extent of pecking order and signaling theory. The extent of variation needs to be studied further said these researchers. Hence leverage and cash flow tend to be negatively correlated is not acceptable in to-to.

Using the firm’s cost of capital to select the independent investment proposal was studied by Lorie and Savage (James H. Lorie and Leonard J. Savage, 1949). They cited the major problem distinguishing the acceptable and unacceptable investment proposal using the cost of capital. On the basis of hypothetical data, these researchers have proposed rate of return method for investment proposal selection. Given the cost of capital, which investment proposal be selected? Given the fixed sum of capital, which proposals be selected? And selecting the best among the mutually exclusive proposal was discussed by these researchers, so that the value maximization is achieved.

In Perfect capital Markets, Firm's Investment Decisions are independent of its Financial Conditions or not? Has been studied by Fazzati et al. (Steven M. Fazzari, R. Glenn Hubbard and Bruce C. Petrsen, 1988). On the basis of mathematical model, using COMPUSTAT data the researchers concluded that firm’s investment and financing decisions are not independent in perfect capital markets.

The study of value maximization and size maximization has been done by Mc Connell and Muscarella (John J. Mc Connell and Chris J. Muscarella, 1985). The corporate financial decisions and its impact on the value of the firm were studied by these researchers. Empirical prediction of the value maximization hypothesis is, unexpected increase in the capital expenditure should be accompanied by increase in the market value of the firm. As well unexpected decrease in the capital expenditure should be accompanied by decrease in the
value of the firm. The Size maximization hypothesis states, managers tend to overinvest to increase the size of the firm. They tend to invest beyond a point where where marginal return is equal to market expected return. The results of their study for size maximization are not consistent with the hypothesis. So the Empirical results of firm's Value Maximization and firm's Size maximization are not consistent. These researchers used the data of the firms listed on NYSE (New York Stock Exchange) or AMEX (American Stock Exchange) for the period of 1975-1981.

Availability of internal funds and hedging has been studied by the researchers. Froot et al. (Kenneth A Froot, David S Scharfstein and Jermy C Stein, 1993). They used the COMPUSTST data and developed a mathematical model. while analyzing corporate risk management strategies the researchers noted, when the external sources of finance are more costly to corporations than internally generated funds then hedging benefits. It adds a value to the extent that the corporation has adequate internal funds to take advantage of investment opportunity. However optimum hedging strategy does not insulate the firm from marketable sources of risk.

The hedging aspect has been studied further. A question has been raised by researcher about hedging strategies and its value in the eyes of Financial Analysts. Chung (Sam Y. Chung, 2003).The results of this study confirm the usage of derivative to reduce the risk. Firms using intensive hedging strategies tend to reduce risk on its future cash flow and equity returns. Furthermore financial analysts take cognizance of firm’s hedging and it is reflected it their future forecast of firm’s earnings.

Ownership and Control are two different aspects of management of the firm. Researchers tried to analyze the behavior of manager in selecting the proposal. Whether the value maximization aspect is looked after by the manager or the utility aspect is considered by the managers?
Carpenter (Robert E. Carpenter, 1994). The researcher used regression and observed that managers select the proposal which enhances the value of the firm, rather than increasing the utility.

The comparison of hurdle rate for growth and value firms was made by Jagannathan et al. (Ravi Jagannathan, Iwan Meier and Vefa Tarhan, 2011). Basis of the study of the panel data, the researchers found that, hurdle premium is same as cost of capital, and varies across the firms. Hence the assumption of hurdle premium for growth firms and value firms is same does not hold true as per their findings.

Risk and uncertainty are studied by many researchers. The most frequently method of accepting an investment proposal is NPV. Projects are worth selecting when they yield positive NPV. Uncertainty of receiving the anticipated cash flow needs to be considered. Myers (Stewart C. Myers, 1967). In his study the researcher has raised question like, there is not only a specific question of whether projects can be considered as risk independent but also more general problem of determining the actual relationship between security risk characteristics and its market value. Myers proposed a mathematical model. The study insists that the theory of capital budgeting under risk and uncertainty needs a rethinking.

The uncertainty is not restricted to the anticipated cash inflow, there is element of uncertainty associated with the Initial cash outflow as well. Ehrhardt et al. (Michael C. Ehrhardt and John M. Wachowicz, Jr., 2006) Studied the uncertainty associated with initial cash outlay. Their study noted that most of the firms use Discounted Cash Flow(DCF) technique to evaluate a
capital budgeting decision. DCF assumes that initial cash outlay is known with certainty. However it is not the case, there is uncertainty in initial cash outlay. They propose that this uncertainty need to be incorporated as additional risk, in assessment of capital budgeting proposal. To study this proposal these researchers used survey method. They surveyed CFO’s. The weakness of certainty equivalence approach is also highlighted. They propose that sensitivity analysis is an effective tool to measure the risk.

The capital budgeting decisions of Public and Private enterprises are studied. The researchers are interested in knowing, when the form of enterprise changes, would it cause any change in capital budgeting decisions. Schwenninger (Sherle R. Schwenninger, 1990) it was noted that the priorities of public enterprises are essentially different than that of Private enterprises. Hence the capital budgeting decisions of both the types of firms are different.

Theoretical aspects of capital budgeting are not properly conveyed to the students. The selection of a particular project and its impact on the value of the firm is questioned by Stulz (René M. Stulz, 1999). Stulz argues that when a new capital budget project is added, firms ignore the impact of new project on firm’s total risk. Almost always this disregard, ignorance to total risk leads to inappropriate selection of the project. It is further argued that empirical evidence shows that total risk does matter still such concept is not conveyed to students learning capital budgeting techniques. Hence, the Modern Capital Budgeting Techniques consider the total Risk of the project while evaluating a Proposal is not true.
Syndicated loans are one of the important source of corporate fund raising. A decade ago $1 Trillion worth syndication loan transactions took place. Sufi (Amir Sufi, 2004). Sufi observed Information asymmetry and renegotiations considerations influence the syndicate structure and choice of participant lenders. He further observed that, when the borrower requires more intensive investigation and close monitoring by financial institution, then lead arranger retains large portion of the loan, forms concentrated syndicate and chooses participants that are closer to the borrower. This evidence is consistent with moral hazard in a setting of Information asymmetry. Also, he noted, when the borrower needs renegotiation then lead arranger adds participants with small portions of loan to syndicate. This suggests that lenders for syndication to reduce inefficient behavior and strategic default by the borrower. He used COMPUSTAT data base for his study. So, Lenders Syndication and inefficient behavior, Strategic Default of borrower are unrelated is not justified by this study.

Internal Rate of Return is used to calculate the return on the investment proposal. Fama and French method to calculate IRR was used by McGraw (Patricia A. McGraw, 2005). Researcher used DataStream data from 1993-2001, for 81 firms. 10 firms listed on New Zealand Stock Exchange. It was noted that Nominal return on value is 7.07 % and real return on value is 5.07 %. The nominal return on cost is 11.59 % and real return on cost is 9.48 %. It was noted that 10 former state owned firms have nominal and real returns significantly higher than 71 publically listed companies. The return on corporate investment has been profitable but real and nominal compound returns have declined over time. Hence this study throws light on the fact that ownership status of the firm and rate of return are not independent.

Firms belongings to a business group, receive financial assistance when such firms are in distress. A detailed study was made by Gopalan et al. (Radhakrishnan Gopalan, Vikram Nanda and Amit Seru, 2006). These researchers made a study of Indian firms. They used multivariate analysis. Internal capital markets were examined by them. They have
documented that intra group transfers of cash in the form of loan are typically used to support financial weaker firms in the group. These loans are given to such firms on very soft terms. Many a times at 0% interest. This reduces the risk of bankruptcy. The stronger firms in the group are concerned about the potential default risk of weaker firms and the spillover of the same on the group. Consequences of bankruptcy are more serious when the bankrupt firm has closer ties with the group firm. The main motive of cash transfers between group firms is not to earn return on idle cash but an effort to save the weaker firm from potential default.

How many of the CFO’s are savvy in using the sophisticated capital budgeting techniques, while finalizing the project? Whether geographic foundries cause any effect on usage of capital budgeting appraisal technique? A detailed study has been made by Hermes et al. (Niels Hermes, Peter Smid and and Lu Yao, 2006). These researchers compared the capital budgeting practices between China and the Netherlands. It was candidly observed by them that, Dutch CFO’s use NPV method more significantly than Chinese CFO’s. Chinese CFO’s use ARR method more significantly than Dutch counterparts. Chinese CFO’s compute cost of equity less significantly than Dutch counterparts. Hence it is not prudent to assume that most sophisticated capital budgeting techniques are used by the CFO’s across the globe. Variations in the techniques and priorities are noted by the researchers.

In line with the earlier study, Danielson and Scott (Morris G. Danielson and Jonathan A. Scott, 2006) studied the Capital budgeting decisions of small firms. Is there any role of gut feeling in finalizing the capital budgeting proposal? Do smaller firms differ in usage of capital budgeting techniques then the larger ones? These aspects are studied by these researchers. These researchers noted on the basis of Survey data compiled by the National Federation of Independent Business that, large firms favor Discounted Cash flow Analysis, many smaller firm rely on simpler methods, not considering the time value of money aspect in account. Smaller firms rely more on Payback period method as well as owner’s gut feel. The reasons
cited by the researchers are limited educational background of owners and very small size of the firm. Their results are suggestive of the fact that, optimal investment evaluation procedures for small and large firms differ significantly.

One more study in line with the earlier one, discusses the effect of political risk on the capital budget evaluation technique. Holmen and Pramborg (Martin Holmen and Bengt Pramborg, 2009). These researchers considered the Swedish Firms data, to analyze the Capital budgeting techniques for Foreign Direct Investment. It was observed that, use of theoretically correct NPV method decreases when political risk in the host country increases and then use of payback method increases. They concluded that in presence of capital market imperfections, unsystematic and country specific political risks managers tend to use simpler methods for capital budgeting proposal estimation. Hence rule of thumb is used by the decision makers. Their results are in line with the earlier studies in this regard. So, globally sophisticated capital budgeting techniques are used is not true.

A deliberate effort is made by Shinoda (Tomonari Shinoda, 2010) to study the prevailing practices followed by the Japanese managers to assess the capital budgeting proposals. In the study the researcher used survey method. 225 responsible officials, taking the decisions regarding capital budgeting assessment and selection of the project, from firms listed on Tokyo Stock Exchange. The study was confined to October 2008 to January 2009. The study showed that managers used payback period as well as Net present Value method for assessing the proposal. Most of the managers used multiple tools for assessing capital budgeting proposals. Further researcher commented that, this observation is in line with views of academia. So, it is not prudent to assume, that firms use sophisticated methods to assess capital budgeting proposals.
Irrespective of the performance of the firm, whether selection or rejection of the project is justified? A project worth rejection, would be rejected by all the companies? Questions like this made the study done by Dragota and Tatu (Victor Dragota and Lucian Tatu, 2011) very interesting. These researchers claim recovery of losses create mirage. They said using NPV method the performing companies would reject non performing proposals. However some less performing companies would accept the same projects. They also suggest that the classical principle of evaluating the proposals independently should be done cautiously. Hence these results also claim that Globally CFO’s do not use sophisticated capital budgeting techniques to finalize the projects.

In line with earlier studies, this study makes an attempt to know whether usage of sophisticated Capital budgeting techniques is harnessed by CFO’s globally. The researcher selected the companies from Western Europe and Western Africa. Ekeha (George Ekegey Ekeha, 2011). Researcher considered 28 European and 8 West African firms. Questionnaire method was used. The data received was analyzed by multivariate regression analysis. The focus was on “Country Effect”. He observed that, European CFO’s NPV more than their African counterparts. West African CFO’s use ARR more than European CFO’s. West African CFO’s minimally estimate cost of capital compared to European CFO’s. However use of IRR does not differ significantly in both the countries. So, as well in this study it is observed that Globally CFO’s are not using sophisticated capital Budgeting techniques.

The usage of sophisticated techniques for capital budgeting decisions has been studied by the researchers across the globe. A study of Portuguese firms has been made by Afonso and Cunha (Paulo Afonso and Jorge Cunha, 2009). These researchers noted that, the sophisticated
capital budgeting techniques are used on ad hoc basis. However they observed different level of sophistication and completeness. They used survey method for the study and they studied 500 non finance companies for their research.

The impact of firm size on the asset structure and capital structure co relation has been studied by bereznicka (Julia Koralun-Bereźnicka, 2013). The research confirms the asset-capital structure relationship far from straightforward. The impact of country dependence and industry dependence is seen, while studying the asset-capital structure relationship.

The access to information and its effect on corporate investment has been studied by Hoshi et al. (Takeo Hoshi, Anil Kashyap and David Scharfstein, 1991). Researchers examines two sets of Japanese Firms. First Set of Firms, having close ties with large Japanese banks, raise external finance through debt, as these banks were well-informed about these firms. While second set of firms, having weak ties with banks faced difficulty in raising finance. Investment is more sensitive to liquidity for second set of firms. Hence information and incentive problems in capital market have important effects on corporate investments.

In their study on Stakeholders and Transparency of the firm Almazan et al. (Andres Almazan, Javier Suarez and Sheridan Titman, 2004). Researchers observed that, firms which are highly levered are forced to raise capital more often, a process which leads to generate information. Transparency improves the allocation of capital.

While studying the corporate leverage, Philippon (Thomas Philippon, 2004). His study has given a model, where firms optimally choose the dynamics of their optimal capital structure, taking into account their target leverage as well as adjustment costs associated with the debt
and equity changes. The target is higher for large and profitable firms and lower for firms having growth option and high R & D expenses.

### 4.4 FINDINGS AND CONCLUSIONS ABOUT INVESTING DECISIONS

Table No: 7

<table>
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<th>Theory / Concept / Approach</th>
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It is observed from the data analysis that all the mean values are negative and not near to 0.

While information asymmetry mean value is 0. This signifies that all the theories / concepts / approaches considered under Investment Decisions are neither fully accepted nor fully rejected.