CHAPTER TWO - REVIEW OF EARLIER LITERATURE

This chapter contains the review of earlier literature available on Investment Decisions. The literature has been reviewed from 1966 to 2007 i.e. for the period of 41 years. This chapter contains a summary of earlier literature available from the following four sources

1. Books
2. Journals
3. Newspaper articles
4. Digital Database

While going through the literature the researcher has observed that there is no major change in the basic concept of Investment Decision. However the researcher felt the need of reviewing the literature in the context of financial management, as the concept of Investment Decision was mostly discussed as part of basic financial management decisions.

Secondly the researcher has observed that many authors have elaborated on different dimensions of Investment Decisions such as :- What is an investment? What is the Role of an Investment in the organization? What is an Investment Decision? What are different approaches to Investment Decision making? What are the evaluation criteria for the investments?

Therefore the researcher had summarized and regrouped the literature reviewed from the books in following five major parts

1. The concept of an Investment
2. The Role of the Investments
3. The meaning of the term “Decision”
4. The concept of Investment Decision
5. The evolution and scope of Investment decision in the context of Financial Management

1. What is an investment?

The researcher has studied the term ‘Investment’ as defined from various perspectives. How is it defined under various disciplines like Finance, Accountancy, Economics? Is it different under each of them or are there any
common points under each of them? Has the definition of Investment changed with respect to time or has concept remained same? Are the investments and assets same? Can investments be classified into different types?

The researcher has analysed the concept of an “Investment” in the following sequence

1.A. Definition under Accounting including given under Accounting Standards
1.B. Definition under Economics
1.C. Definition under Financial Management
1.D. Conclusion related to differences and similarities in the definition under various streams.

1.A. Under Accounting

First the researcher has studied how the investment is defined under the faculty of Accountancy. Mr. J. A. Mauriella, has not made any specific reference of Investments. Overall assets were described to include tangible fixed assets, intangible fixed assets, permanent investments and current assets. But no detailed explanation was found about each category.¹

The author Philip E Meyer has described as, “Assets are economic resources having future service potential and this potential manifests itself in one of two ways. Those assets which represent an enterprise’s ability to expand cash to acquire goods and services and / or to reduce its liabilities through cash payments are called monetary assets. They include cash as well as receivables and certain investments in marketable securities that give them quality of being near cash in nature

Assets that enable an enterprise to engage in a revenue transaction are non monetary in nature. Such assets service potential is consumed in the revenue generating process in the sense that the asset is forfeited”.²

¹J. A. Mauriella, Accounting for the financial analyst, Revised Ed. (Homewood: IRWIN, 1971) pp. 5-6

This definition brings out the difference between fixed asset and current assets but does not throw any light on the term ‘investment’

The researcher also referred to Accounting Standard 10, International Accounting Standard 16 and Accounting Standard 13 to find out how the concept of Investment has been defined under each of them.

Under Accounting Standard 10 (AS 10), the term fixed asset is defined as an asset held with the intention of being used for the purpose of producing or providing goods and services and is not held for sale in the normal course of business

International Accounting Standards (IAS16)\(^4\) defines property, plant and equipment as tangible assets that (a) are held by an enterprise for use in the production or supply of goods or services for rentals to others or for administrative purposes and (b) are expected to be used during more than one period.

AS13 defines investments as assets held by an enterprise for earning income by way of dividend, interest and rentals for capital appreciation or for other benefits to the investing enterprise. Assets held as stock in trade are not investments.

This definition conflicts with meaning of investment followed in schedule VI to the Companies Act, 1956. The schedule VI does not make distinction between the investments held as stock in trade. Presently, the Investment & Finance Companies which hold investments as stock in trade may classify them under investments.

AS13 defines current investment as an investment i.e. by its nature readily realizable and intended to be held for not more than one year from the date on which such investment is made\(^5\).

Thus in accounting the term investment is not used in the same sense as being used in financial management. Accounting defines the term “Asset” more clearly than the term “Investment”. According to accounting the various

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\(^3\) Accounting Standard issued by The ICAI, AS No 10 on “Accounting for fixed assets” issued in 1985.

\(^4\) IAS – International Accounting Standard 16 on “Property, Plant and Equipment”

\(^5\) Accounting Standard issued by The ICAI, AS No 13 on “Accounting for Investments ” issued in 1985.
assets can be bifurcated into fixed assets, investments and current assets. However the meaning of the term investments used in accounting is restricted only to shares or debentures or any asset held for capital appreciation.

1.B. Under Economics
In economic terms, under full employment
Total Investment + Total consumptions = Total output.
i.e. Total Investment = Total output – Total consumption
At the same time
Total Income – Total Consumption = Total Savings
And Total Income = Total output
Therefore Total savings = Total investments
However under under-employment situation more investment would lead to more consumption and further lead to more investment.  
Thus under economics the term investment is defined from savings perspective. In the context of organization, savings would be reserves and surplus which are left after distribution of dividends. These savings would be invested further to generate more income. The forms can be different as fixed assets, investments or current assets. Thus from the economic point of view all the assets which are supported by reserves and surplus can be treated as Investments.

1.C. Under Financial Management
The term investment has been used under financial management to denote the commitment of the resources made in the hope of realizing the benefits that are expected to occur over a reasonable long future period of time. The authors have defined it as Capital formation. According to them it is the acquisition of resources to be used in production. According to the New

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Palgrave Dictionary of Money and Finance, it includes the acquisition of human and intangible capital as well as physical capital\(^9\). Investment is committing capital with the expectation of profit in the form of either dividend, interest or appreciation.\(^10\)

From the various definitions given above, it is clear that the underlying concept of investments has not undergone a major change over the period. The main feature of an Investment is commitment of capital for future benefit. Though the basic concept has remained same, we can see some distinguishing changes in some of the definitions. Dr. Pramod Kumar Sahu in his book Capital Budgeting in corporate sector\(^8\) has considered only fixed tangible assets to define investments. He has mentioned that fixed assets investment itself is a capital expenditure. The new palgrave dictionary of money and finance – volume 2(F-M),\(^1\)st ed. has included human and intangible capital also in the definition of investment. Mr. Neil Seitz and Mitch Ellison have linked the investment with the vision of the company. According to him each and every use of a resource must be treated as an investment. To be judged attractive, an investment must typically meet two tests 1. Does it contribute to the vision? 2. Will it provide enough benefits to satisfy the investors, who furnished the money? \(^11\)

1.D. conclusion of discussion on the meaning of Term “INVESTEMENT”

To sum up, under accountancy focus is more on assets than the investments. Under economics it is linked to savings. Under financial management it is commitment of any resources for future benefits.

2. Role of an Investment in the organization.

The researcher has studied what the various authors have to say about the role of investments in the organization. Why is it important to have proper


\(^10\) Encyclopedia of Banking and Finance, 10\(^{th}\) Ed., s. v. “Investment”, pp. 651

balance between the various investments? What is the ultimate objective of investment decision?

Mr. S. K. Chakraborty says that the firm itself in its totality be treated as a capital project. The firm’s ultimate goal is to continue to satisfy the various claims of long term financial resources on its income after meeting all the operational expenses of business. He further claims that the ability of the firm to meet this pattern of claims on itself is generated and supported by the total mix of current assets and planned future capital projects. Unless each project is able to contribute at a rate at least equal to the average rate of these claims, then the firm’s ability to meet such obligations may be impaired in the long run.\(^\text{12}\)

Therefore according to him, a series of related capital projects, begun at different points of time, constitutes the firm’s core. Without such projects a firm would not what it is and would not become what it wants to be.

Mr. A.H. Taylor and Mr. H. Shearing stated that fixed assets and current assets have different role to play in the organization. Therefore the treatment for maintaining them should also be different. Maintenance of total capital is the guiding factor in the determination of profit or loss, fixed assets represent the source from which income is obtained and they must be maintained in a condition to yield the desired income. Lack of adequate working capital for day to day needs may bring an immediate halt to business activity.\(^\text{13}\)

Thus both the authors have specified the role of fixed assets and current assets/working capital. Though the role of working capital would be important from liquidity point of view, fixed assets decisions would have a far reaching effect on company’s profitability and earning capacity.

Mr. Richard J Briston and Jack Liversidge have referred to investment motivations considered by Mr. Meyer and Mr. Kuh in their empirical work.


According to them there are primarily three motives behind making an investment

1. **The profit motive**, which is the fundamental propelling drive in both

2. **The technical need** for **greater capacity** to meet an increase in demand for final product, which is the accelerator in its original and strictest construction and

3. **The desire to keep or increase one’s share of the market**, that is the trade position motive. \(^{14}\)

Mr. J. D. Agarwal, expressed that the Investment decisions are responsible for determining the total amount of assets held by the firm i.e. the wealth of an organization, its size, the composition of these assets, set the pace and direction of its growth and affects business risk complexion as perceived by supplier of capital. \(^{15}\)

According to The New Palgrave Dictionary of Money and Finance the role of investment lies in providing for the future. Additional investment must have a positive net product which is to say that additional capital must contribute more to future production than the value of resources used to create it. \(^{16}\)

According to James C. Van Horne, The objective of a company must be to create value for its shareholders. Value is represented by the market price of the company’s common stock, which in turn is a function of the firm’s investment, finance and dividend decisions. Investment of funds in assets determines the size of the firm, its profits from operations, its business risk and its liquidity.

He further adds that the creation of value takes place when you do something for the shareholders that they can not do for themselves. There are basically two pillars of value creation.


Industry attractiveness – is the relative position of an industry in the spectrum of return generating possibilities.

Competitive Advantage – A relative position of a company within an industry.

Mr. Aswath Damodaran describes the rationale behind acquisitions. According to him cash rich companies with limited investment opportunities available, acquire other firms with a ready supply of high return project. In such case these companies have to pay “Fair” price to acquire one of these firms, and earn more than the expected super normal returns, to be able to claim premium from the acquisition.

The author insists that in all such operations, it should be ensured that funds are applied in manner which will produce an adequate return to the owners…. The adequate return means not only basic rate of interest on the capital employed but also profit sufficient to compensate for the risk inherent in the whole enterprise.

These definitions are much broader in scope as compared to earlier definitions. Earlier definitions were related to composition of fixed assets and current assets. Whereas these definitions have a larger perspective like – value maximization, acquisitions, market share maximization, etc.

The investment decision of successful companies create wealth by implementing their strategy. An action increases wealth if the benefits gained exceed the benefits given up. In economics wealth creation was called economic profit. Strategy includes decisions as to what businesses we are in and how we intend to position our organization in relation to others in those business to gain competitive advantage. A company sets stage for wealth by


creating competitive advantage, which is elimination of some of the conditions for the perfect competition. So that economic profit is possible.\textsuperscript{20}

Mr. Lars Schweizer has discussed the key drivers and success factors for M&A strategies for the Pharmaceutical industries. He has mentioned that there are primarily two important reasons for mergers and acquisitions in the pharmaceutical industry. First is financial necessity whereby companies have to ensure about their future survival. The second one is driven by the need to acquire knowledge in order to remain competitive by having enough promising lead compounds.\textsuperscript{21}

**Conclusion of discussion on the “ROLE OF INVESTMENTS IN AN ORGANISATION”**

From the above reading it is clear that role of investments is fundamentally to provide for the future. The investments must ensure that they get an adequate return to cover their costs and leave behind reserves for further investments. Investments by organizations is something which investors can do by themselves. So the management has a better role to play in making the investments so that it can generate wealth for the organization.

3. Meaning of the term “DECISION”

A well accepted definition of decision making a reasoned choice from different alternatives.\textsuperscript{22} According to Mr. Stephen Lumby any decision making process consists of three components: a series of perceived alternatives, an expectation that these alternatives are not all equally desirable in terms of attaining an objective held by the decision maker and a common value base related to the decision objective. So it is with all financial decisions made in

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\textsuperscript{22} A. H. Taylor & H. Shearing, Op. Cit. – pp - 180
business. Common value statements refers to common parameters on which decisions would be based.  

MR. Robert G Murdick and Mr. Donald D Deming has referred to decision as meaning a cut. A cut between the past and the future which involves the making of some choice, the result of which will change the pattern of future events in comparison with situations or states of affairs which obtained in the past. Within the term decision rests the rationale of the inquiry.

4. The concept of “INVESTMENT DECISION”

The researcher has analysed definitions given by various authors for investment decisions. Some definitions have only explained what investment decision means; some definitions have classified the investments decisions into various categories; A few definitions have brought out the difference between capital budgeting and investment decisions.

The Researcher has studied various definitions given by various authors at different point of time. He has observed that there are some fundamental points in the definitions which have not changed over the years. The change was apparent in the scope of the definition. Therefore while summarizing the meaning of the Investment decision the researcher has given the common definitions first and then has brought out the deviation put by various authors.

Following are the definitions of Investment decisions

“An investment decision is essentially a largely irreversible commitment of resources made in the expectations of securing generally uncertain future gains”.

“Commitment of resources made in the hope of realising benefits that are expected to occur over a reasonably long future period of time.” “A capital expenditure project may be defined as any project which involves the outlay of cash in return for an anticipated flow of future benefits”

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“A capital investment may be defined as one which requires a current outlay or series of future outlays of cash resources in return for an anticipated flow of future benefits.”  

“An investment decision can be defined as one which involves the firm in cash outlay with the aim of receiving in return future cash inflows.”

“A decision to invest by a company means that shareholders forgo the opportunity of consumption now with the aim of increasing future consumption. This is what investment decisions are all about. The delaying of current consumption in order to increase future consumption. Or in non economic terms not spending money on consuming goods and services now, but investing the money instead so as to produce more money later which can then be spent on an increased quantity of goods and services.”

“Capital investment is defined as an outlay that is expected to result in benefits in the future.”

From the above definitions the essential features of investment decisions are evolved as follows:

I) Irreversible Commitment of resources
II) Present sacrifices for a future benefit
III) the fact that the benefits are not wholly exhausted in the short term

Thus most of the authors agree that Investment decision is a long term irreversible decision, benefits of which would defer over a long uncertain period. However following authors have widened the scope of the definition or have provided a different perspective of the definition.

According Mr. L. E. Rockley, A capital investment programme necessarily implies an allocation of limited resources Furthermore it implies a number of investment opportunities. It implies the allocation of resources over


27 ibid pp. – 21 & 22

alternative opportunities which exist. But such alternative avenues for business development do not always present themselves, they have to be sought out. Thus in this enquiry into the making of capital expenditure decisions it was thought to be of prime importance.29

Mr. Raymond P. Kent has named investment decision as asset management policy which is an indispensable prerequisite to successful financial management. He has given equal importance to current assets and fixed assets by saying that “trying to rank current and fixed assets in order of importance is much like trying to decide which blade of a pair of scissors is the more important for cutting cloth”30

According to Mr. Jerome S. Osteryoung any investment decision has three distinguishing elements: anticipated benefits, a time or temporal dimension and an element of risk involved in the realization of these benefits. The magnitude of these elements distinguishes capital investment decision from other type of investment decisions. In other words capital investments are characterized by potentially large anticipated benefits, a relatively high degree of risk and a relatively long time period between the initial outlay and the anticipated return. He stresses that the interrelationship of these three elements has significance for the capital budgeting decisions. 31

According to Mr. Anthony F. Herbst, Investment Decision is creating capital which can be economic or financial. Capital creation requires time and effort. The benefits that could have been expected to result are uncertain; It takes foresight to build capital. A very important point laid down by him is the .32

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30 Raymond P. Kent, Corporate Financial Management (Richard D Irwin Inc, 1969), pp. 3

31 Jerome S. Osteryoung, Op.Cit., pp. 3-4

Mr. James C. Van Horne has given the highest importance to the investment decision. The investment decision is the most important decision of the three decisions when it comes to the creation of value. Investment decision also include the decision to reallocate capital when an asset no longer economically justifies the capital committed to it. The investment decision then determines the total amount of assets held by the firm, the composition of these assets and the business risk complexion of the firm. Management of existing assets efficiently is also part of investment decision.33

Mr. Aswath Damodaran has widened the scope of investment decisions to quite a large extent. He has also included the decisions that save money, under investment decision. Further he has argued that decisions about how much and what inventory to maintain and whether and how much credit to grant to customers which were traditionally categorized as working capital decisions are ultimately investment decisions as well. At the other end of the spectrum broad strategy decisions regarding which markets to enter and acquisitions of other companies can also be considered Investment decisions34

INVESTMENT DECISION AND CAPITAL BUDGETING – DIFFERENCES AND SIMILARITIES.

The researcher has found that many a times two terms - Investment decision and capital budgeting are used as synonyms in the academic text. Therefore the researcher has tried to found out the differences and similarities of the two. Following are the various definitions of Capital Budgeting

Harold Blerman, Jr and Sey Mour Smidt emphasized on the selection and evaluation process which is core part of the capital budgeting decision. “Capital Budgeting is a many sided activity that includes searching for new and more profitable investments proposals, investigating engineering and


marketing considerations to predict the consequences of accepting the investment and making economic analysis to determine the profit potential of each investment proposal."³⁵

J. D. Agarwal has taken the view that capital budgeting and investment decisions conceptually are same. He mentioned, “The Investment decision of a firm are commonly known as the capital expenditure or capital budgeting decisions. Thus the capital budgeting decision may be defined as the firm’s decision to invest its funds most efficiently in long term activities in anticipation of future benefits over a series of years.”³⁶

Dr. Promod Kumar Sahu states, “The capital expenditure decision through which a firm invests funds in plants, equipments and other long lived assets.”³⁷

Mr. Neil Seitz and Mr. Mitch Ellison has defined Capital budgeting as the process of selecting capital investment.³⁸

Thus the two terms Investment Decision and Capital Budgeting convey the same meaning in respect of scope of the definition. However there is thin line of difference between the two. Capital budgeting is a process of evaluation of various investment proposals, whereas Investment decision is the actual decision taken or to be taken. Therefore we can say that capital budgeting is the tool that facilitates the investment decision.

**CLASSIFICATION OF INVESTMENT DECISIONS**

Various authors have classified the investment decisions into various categories.

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³⁵ Harold Blerman, Jr and Seymour smidt, Op. Cit. - pp-4
³⁷ Dr. Promod Kumar Sahu, Op. Cit. – pp.- 57
According to Mr. Harold Blerman Jr and Sey Mour Smidt, investment decisions can be tactical or strategic. A tactical investment decision generally involves a relatively small amount of funds and does not constitute major departure from what the firm has been doing in the past. Strategic investment decisions involve large sums of money and may also result in the major departure from what the company has been doing in the past. Acceptance of a strategic investment will involve a significant change in the company’s expected profits and in the risks to which these profits will be subject. These changes are likely to lead stockholders and creditors to revise their evaluation of the company.

According to Mr. J. Batty, there can be no hard and fast rule on whether a business should stay small, grow large, diversify, centralize or decentralize. These and other variations are all possible. A classification of possible approaches to growth is summarized below:

- Horizontal Integration – expanding within the same industry
- Vertical Integration – Allows a business to bring within its control all stages of preparation, manufacture and marketing.
- Conglomerate Diversification – Growth in the areas which may be quite unrelated.

Quirin (Q1, p-16) stresses the distinction between capital widening proposals, which are intended to broaden the product range or to increase capacity in existing product lines and capital deepening proposals, which are designed to reduce costs at the existing level of production.

Merret and Sykes (M2 p 378), on the other hand suggest a classification which is based mainly upon the risk attached to each investment and involves the following categories:

i) Obligatory investments i.e. those required by law, safety and regulations

ii) Welfare and amenity investments

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40 J. Batty, Corporate Planning and Budgetary Control, (London: Macdonald and Evans Ltd., 1970) pp-8
iii) Risk free projects e.g. a large proportion of cost saving projects and replacement outlays, such projects being generally free of marketing risks.

iv) Normal projects involving appreciable risks and policy implications but not to the extent that detailed analysis is impractical.

v) Speculative projects such as those involving new products or processes, which are highly risky in the sense that there is inadequate information to measure the risks involved.

For practical purposes he has recommended a system of classification which is based upon the appropriate method of evaluation and degree of analytical refinement for each category. For such a system the following categories may be adopted:

i) Investments for which quantitative methods of assessing benefits have not been adequately developed. – welfare, prestige, research, HO building, training.

ii) Investments for which no detailed evaluation is necessary - obligatory, obviously highly profitable, insignificant.

iii) Investments for which detailed evaluation procedures have been developed and are necessary. This category may be sub-analysed to have regard to the strategic implications of each project.

a) replacement investment, including both virtually identical replacements (where savings result primarily from removing operating inefficiencies caused by physical wear and tear) and modernization.

b) expansion and diversification, investments including major modifications to existing products, expansion of the capacity to produce and sell existing products and the development of new products and the appropriate production and marketing facilities.
Mr. Stephen Lumby has included staff training programme also in investment decision. He has also mentioned that investment decisions can occur either when the business is started or when business is expanded

Dr. Pramod Kumar Sahu has bifurcated investment decisions depending upon nature of an asset. Physical plant: New building, major repairs and renovations

1. Equipments: of new type, for greater production, replacements, cost reduction, major overhaul
2. Tooling
3. Administration: Office equipment and renovation

Investment decisions may be either long run or short run. Short run decisions involve the use of available funds to meet current or immediate objectives. This type of investment decisions can be called a working capital decisions. Investment decisions involving relatively large amounts of funds to effect long term objectives are known as capital budgeting decisions.

13 has classified capital investments as physical, financial or intangible. According to him intangible investments are not physical in nature, do not serve any claims for payments but are expected to result in future benefits.

**The Evolution of Investment Decision under Financial Management**

Financial Management has relatively recent origin. The literature generally divides financial management in three different functions. Though the nature of functions of financial management did not change drastically over the years, it was found that the focus has shifted considerably over the years. Secondly the terminologies used for these functions have also undergone a change over these years.

The reference was found in a book by Mr. R. J. Chambers regarding the literature available on financial management in 1920. Mr. Chambers has clearly mentioned that very little is written about Financial management.

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42 Dr. Promod Kumar Sahu, Op. Cit. – pp- 7
policies. Therefore Dewing’s “The financial policy of corporations” – 1920 offered no list of the subjects of financial policies of company which would enable to distinguish between financial policies and financial operations generally.

The definition given by D. R. Anderson, practical controllership, Chicago, Irwin 1947, P 459 about financial management is reproduced below

“Financial management comprises the planning, organizing, directing and controlling of all activities relating to the acquisition and application of the financial resources of a business entity. Its purposes are the maintenance of such a financial position and of such relationships with external parties as will be conducive to the economical supply, when necessary of finance from external sources for the general purpose of the entity.”

This definition clearly focuses on the acquisition of funds. Not only that, but the purpose of financial management was also maintaining the relationships with external parties, so as to get the required finance. Thus the function of application of funds was not dominant in this era of time.

Another definition given by Christy and Roden of finance was, “Finance is the study of the nature and uses of the means of payment. Though the focus is on money other things which can be used as a means of payments are also included in the definition.”

This definition also concentrates on “means of payment”, which ultimately denote the finance available for investment and running the business.

It was observed by the researcher that Financial management was generally bifurcated in three different areas. Financial decisions were regarded as financial “Policies” till 1969. These policies were classified in three general varieties.

One variety was the particular concern of top management policies relating to the financing of business operations. Second category was mainly internal in application and effect. These policies are laid down by top management with

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the objective of focusing attention on long run purpose of the entity so that it’s financial resources may be deployed in a way that will serve for an indefinite period the general objectives of the entity. This would include 1. Selection of projects 2. Authorisation of executives.

Third category was quasi financial. Objectives of this category were

1. The procurement of maximum amount of new capital for improvements and for development and expansion up to the point of optimum rate of growth and so far as consistent with the maintenance of a sound financial structure


The close look of these three categories bring out the difference in first two categories and the third category. The first two categories are related to the planning of financing decision and investment decision, whereas third category is application oriented. Interestingly the authorization of executives was also regarded as an important function of financial management.

Mr. Christy and Mr. Roden have described three main branches of finance as 1. Money 2. Business Finance 3. Investments. Here Money includes overall financial institutions and various policies, interest rate theories etc. Business Finance includes a. Anticipating Financial needs b. Acquiring financial resources and c. Allocating the funds in the business. Investments are related to investment in Bonds market or debt market\textsuperscript{45}

In this definition investment decision is restricted only to the investments in bonds and shares. Thus a very narrow scope has been laid down. Whereas Business finance function includes what is termed as finance function and investment function in today’s environment. Money function which was specified separately at that time has become a part of financing function now.

According to James C Van Horne and John M. Wachowcz, a recent classification of financial management functions can be 1. Investment 2. Finance 3. Asset Management. Investment decisions considers all assets of the balance sheet including its compositions. Finance decision would cover

\textsuperscript{45} Christy and Roden, Op. Cit – pp - 8
dividend decision also. Asset Management decision be more concerned with the management of current assets than with that of fixed assets. In the past the management of working capital dominated the role of financial manager. Although this traditional function continues to be vital, expanded attention is now being paid to the management of long term assets and liabilities.

This definition clearly mentions that now the focus of financial manager has shifted from working capital management to long term assets. This definition uses different terminologies for the same traditional functions of finance. Dividend decision was not treated a separate decision. Investment decision and assets management decision are overlapping. However investment decision is broader than asset management decision.

Thus a combined reading of definitions of finance and functions of finance reveal that finance functions has not changed much over the years. The change has taken place in the focus and scope of a particular function. Initially the focus was on financing decision i.e. acquisition of funds and wooing of financial institutions. Then it shifted to working capital management and now the focus is on long term assets decision i.e. investment decision.

Mr. Chriesty and Roden have defined very elaborately how the role of financial manager has changed over the years. He has distinguished between Corporate Finance and Financial Management. According to him, “A generation ago business student ordinarily took a dry course called corporate finance. More often than not, it described 57 or so varieties of stock and bonds and revealed which kind of big corporations should issue when they needed long term capital. Today the business students study ‘Financial Management’ The dynamic evolving art of making day to day financial decisions in a business of any size”. Thus the ‘Financial Management’ was regarded as more dynamic and concerned with day to day activities as compared to ‘Corporate Finance’.

The authors have also brought out the difference between the old treasurership and the modern controllership. Treasurer was the one who used to keeps track of money and raise it when necessary from the banks or

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securities. Controller’s duties extend to planning analysis and improvement of every phase of company’s operations capable of being measured with a financial yardstick.

According to them the treasurer’s job also has grown bigger and more challenging. Earlier, aside from infrequent episodes of external financing the treasure was regarded as a passive custodian of company funds. By 1980s he was still a custodian but no longer passive. Most of all he was a watchdog of firms financial environment. It was his responsibility to give timely warning of tighter more costly money, to pick up the cheapest lenders, and to devise new tactics for raising money when needed.47

From the researcher’s point of view important point is focus has shifted from episodic nature of raising the funds to art of getting involved in day to day activities. However, even by 1973 the focus was not on Investment Decision.

JOURNALS:
Following journal were browsed through, to find out the contribution by various authors on Investment Decisions.

Journal of Finance : From the year 1980 to year 2005
Financial Management : From the year 1995 to year 2005

The relevant portion from various articles are summarized below chronologically

Article One
Carliss Y. Baldwin in his article48 “Optimal sequential Investment when capital is not readily reversible” has discussed the concept of irreversibility of investment decision

“Investment may also cause transitions to lower valued states: for example adding new capacity and increasing output may lead to a decrease in prices. If an investment results in a transition to a less advantageous state and regaining the initial state is costly then the investment is termed as

48 Carliss Y. Baldwin, “Optimal sequential Investment when capital is not readily reversible,” Journal of Finance, 37, 3 (June, 1982) : p. 764
irreversible. Irreversibility may be caused by technological or environmental factors or by the relative cost advantage of sunk capital over new investment. Irreversibility may be permanent if the initial state is never regained or temporary if the initial state is regained after some time. Whatever its origin or duration, the negative impact of irreversibility on the firm’s future opportunities is relevant to investment decisions and appropriate adjustments should be incorporated into capital project evaluations for irreversibility."

**Article Two**

Mr. Prem C. Jain has studied the effect of voluntary sale announcements of the company on shareholders' wealth\(^49\). This article is found to be relevant because divestment, sale off, hive offs are also treated as investment decisions. He has defined sell off activities arise when a firm sells part of its assets (segment, division) but continues to exist in essentially the same form. His study investigated the effect of voluntary sell offs on stock returns. From a sample of over 1000 sell off events, the evidence showed that both sellers and buyers earn significant positive excess returns from these transactions. The excess returns earned by buyers were smaller than those of sellers. There was also evidence that sell off announcements were preceded by a period of significant negative returns for the sellers which suggests that the sellers, on average, performed poorly prior to their sell off activities.

**Article Three**

The purpose of this paper\(^50\), written by Sasson Bar-Yosef, Jeffrey L Callen, Joshua Livnat, was to empirically test the relationship between corporate earnings and investments. The study investigates whether knowledge of past investments improve the predictions of future earnings beyond predictions based on past earnings alone. Similarly it investigates whether knowledge of past earning improves the predictions of future investments beyond


knowledge of past investments alone. This was the empirical definition of Granger Causality. The empirical results showed that the bi-variate past series of earnings and investments is superior to the univariate series in predicting future investments but not in predicting future earnings. The article was found to be of relevance for studying the relation between earnings and investments of the sample companies.

**Article Four**

Randall Morck, Andrei Shleifer and Robert W Vishny\(^5\) have brought out a very debatable issue of agency problem. Their view was that the investment decisions are influenced by the personal benefits of the managers. They have observed that when a firm makes an acquisition or any other investment, its manager considers both his personal benefits from the investment and the consequences for the market value of the firm. Some investments are particularly attractive from the former perspective. They contribute to long term growth of the firm, enable the manger to diversify the risk on his human capital or improve his job security. When an investment provides a manager with particularly large personal benefits, he is willing to scarify the market value of the firm to pursue that investment. Other things equal, the NPV of an acquisition with high private benefits should be lower than that of an acquisition with no such benefits. Put it differently managers will overpay for targets with high private benefits.

The article would provide a guideline to observe whether such statement holds good for the sample under consideration. The view expressed in the article is controversial and provides a major area for further research.

**Article Five**

Quitting at the right time is also a vital aspect of investment decision. Understanding that a project is not doing well and putting an end to it to save further losses is difficult for managers. The same conclusion has been drawn

by Arnoud W A Boot, in his article\textsuperscript{52} “Why hang on to losers? Divestitures and takeovers?”.
The author has shown that a manager may choose to avoid a value maximizing divestiture because a divestiture is essentially an admission that an inappropriate project choice was initially made which may adversely affect perceptions of his ability. Our analysis suggests that firm specificity of assets is an important determinant of the presence of credible takeover threats, as well as the degree of distortion in managerial divestiture decisions. Thus this article also brings out the inseparable relationship between the managers decision making capacity and investment decisions.

\textbf{SUMMARY OF THE LITERATURE REVIEW}

The researcher has summarized the views expressed by various authors mentioned above. While reviewing the data in the context of the objectives mentioned in Chapter Three, the researcher has considered the following summarized gist.

\textbf{Meaning of Investment}

In researcher has observed that in accounting the investments are described in terms of various long term assets. Under economics investments are the savings done from income after meeting the expenses. Under Financial management commitment of the resources made in the hope of realizing the benefits that are expected to occur over a reasonable long future period of time.

The common feature observed under all the definitions is that investments are the committed resources having future potential. Investments are supposed to earn income by way of dividend, interest and rentals for capital appreciation or for other benefits to the investing enterprise.

\textbf{The role of Investments}

The investments are linked to overall vision of the organization. The investments have responsibility to provide enough benefits to satisfy their

\textsuperscript{52} Arnoud W A Boot, in his article\textsuperscript{52} “Why hang on to losers? Divestitures and takeovers.”. \textit{The Journal of Finance}, 47, 4, (September, 1992) p. 1418
investors. Fixed assets and current assets have different role to play in the organization. Lack of adequate working capital for day to day needs may bring an immediate halt to business activity. There are primarily three motives behind making an investment 1. The profit motive 2. The technical need for greater capacity 3. The desire to keep or increase one’s share of the market. Additional investment must have a positive net product which is to say that additional capital must contribute more to future production than the value of resources used to create it. Many a times, Cash rich companies with limited investment opportunities available, acquire other firms with a ready supply of high return project. The investment decision of successful companies create wealth by implementing their strategy.

**The meaning and scope of investment decision**

An investment decision is essentially a largely irreversible commitment of resources made in the expectations of securing generally uncertain future gains. Investment Decision is creating capital which can be economic or financial. It takes foresight to build capital. decision not to invest is a capital investment decision also. Investment decision includes searching for new and more profitable investments proposals, investigating engineering and marketing considerations to predict the consequences of accepting the investment and making economic analysis to determine the profit potential. Investment decisions can be tactical or strategic. Investment decisions may be either long run or short run. Its purposes are the maintenance of such a financial position and of such relationships with external parties as will be conducive to the economical supply.

These policies are laid down by top management with the objective of focusing attention on long run purpose of the entity so that it’s financial resources may be deployed in a way that will serve for an indefinite period the general objectives of the entity. In this definition investment decision is restricted only to the investments in bonds and shares.

Investment decisions considers all assets of the balance sheet including its compositions Asset Management decision be more concerned with the management of current assets than with that of fixed assets In the past the management of working capital dominated the role of financial manager.