

## Suggestions for degree paper Bachelor 2018.

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I have my interest in how Capital budgeting techniques (CBT) are used among practitioners. CBT are defined as a tool box of techniques with operational rules that decides to accept or reject an investment, has shown to have several functions for the firm. Primarily (theoretically), CBT is shown to be used by decision-makers to make a selection between competing projects.

Previous research have mainly divided CBT into two categories: Sophisticated Capital Budgeting Techniques (SCBT)<sup>1</sup> and Non-Sophisticated Capital Budgeting Techniques (NSCBT)<sup>2</sup>. From these labels of categorization it is not hard to figure out that current research has been dominated by normative ways of approaching which CBT that are “best” to use. Researchers strongly recommend the practitioners to use SCBT among. The reason these are recommended are many, which we can discuss further later on.

Many studies have been performed to measure to which extant the various CBT is used among practitioners. It is commonly shown that practitioners do not follow the recommendations of the researchers but instead use NSCBT (especially among small firms).

So does that mean that firms can be seen as irrational by using NSCBT instead of SCBT? No, previous research shows that there might be a sophistication in using NSCBT and non-sophistication in using SCBT, and vice versa. It depends on which context the firm is operating in, however the studies that helps us understand under which circumstances SCBT or NSCBT becomes useful are few.

It is here I believe you students can further the research in the field of CBT. By exploring the determinants behind the choice of various CBT, one could enhance the understanding by scholars of the practical benefits and disadvantages of using NSCBT and SCBT and to depart from the theoretical that is currently dominating the field.

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<sup>1</sup> CBT such as the Net Present Value (NPV), Internal Rate of Return (IRR), Modified Internal Rate of Return (IRR), Profitability Index (PI) and Real Options (RO) are included in SCBT.

<sup>2</sup> CBT such as Payback Method (PB), Accounting Rate of Return (ARR), Return on Assets (ROA) and Return on Equity (ROE) are included in NSCBT

**So how can we develop the research further? – Below I list some suggestions that I think is worth to develop and focus on. Have a look at them, and contact me if you find one of them interesting.**

To identify how firms key stakeholders influences the choice of various CBT

How structural characteristics of the firm can explain the choice of various CBT

The relationship between the use of various CBT and firm performance (this is a tricky one, however worth to develop).

The reasoning behind using multiple CBT within a firm.

How the capital structure of the firm and “type of firm” can predict the choice of various CBT.

The capital budgeting *process* of the firm

What *actually* decides or rejects an investment?

Institutional forces influence on the choice of various CBT

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**Important:** These are just some suggestions. I am very flexible as a supervisor, and can supervise in other areas within bank and finance as well. If there is another topic/subject that you in anyway feel interested in, and which you believe will make you work hard for every day, don't hesitate to contact me. You are very welcome to contact me for a discussion on how to develop this interest of area into a bachelor degree paper.

*Whatever you choose, I expect my students to work very hard. Which makes me the wrong supervisor for the students who are not willing to do their very best, and work hard, every day.*

*For the students **who will work hard**, I will walk you through the paper with intensive discussions, development and lots of fun and joy.*

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