CAPITAL BUDGETING DECISION AND ITS IMPLICATION TO FIRM'S GROWTH IN NIGERIA

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Abstract
The study set to investigate capital budgeting and its implication on firm's growth in Nigeria. The data generated from annual reports and accounts of the selected firms was analyzed through Eviews Version 8, and multiple regression analysis was used to analyze the data. The findings show that there is insignificant relationship between the independent variables (acquisition of long-term assets, investment appraisal techniques, and outsourcing expenditure) and dependent variable (return on asset). Literatures on previous studies were also reviewed and the study concluded that capital budgeting decision has no implication on firm's growth in Nigeria.

Keywords: *Capital budgeting, Firm's growth.*

I. Introduction

Capital budgeting practices involve all activities that are conducted by an organization to determine whether the nature and type of long-term investments of an organization are suitable or worth funding by the stakeholders of a company. Profitability plays an important function in the business operations and determines the value by which a business is held. The businesses that operate without profitability ceases to operate for a long period of time meaning that profitability is a key measure that determines business continuity or closure (Ugwuoke, 2008)

The need to attain the wealth maximization objective of firms has given credence to capital budgeting. Effective corporate management involves the efficient planning and allocation of organizational scarce resources in order to achieve organizational goals and objectives (Mbat, 2001). This suggests a choice among various alternatives placed before corporate management. The need to select from alternatives makes corporate investment decision a risky endeavour that must be carefully analysed and evaluated to enhance sound judgments which lead to firm's growth. Risk involves the probability that the actual outcome of an investment will deviate significantly from the expected outcome. Capital budgeting involves investment decision which may be centered on the expansion, acquisition, modernization or replacement of industrial equipments or assets. It could also take the form of sale of a division or business, research and development (R & D), advertisement campaigns and changes in sales and distribution channels (Pandey, 2009; Udoka, Arzizeh & Anyingang, 2012).

Capital budgeting is the process by which firms determine how to invest their capital. Included in this process are the decisions to invest in new projects, reassess the amount of capital already invested in existing projects, allocate and ration capital across divisions, and acquire other firms. In essence, the capital budgeting process defines the set and size of a firm's real assets, which in turn generate the cash flows that ultimately determine its profitability, value, and viability. In principle, a firm's decision to invest in a new project should be made according to whether the project increases the wealth of the firm's shareholders and sustainable growth of the firm. For example, the net present value (NPV) rule specifies an objective process by which firms can assess the value that new capital investments are expected to create.

Firms exist to earn profit except for non-profit organization. Capital budgeting is very important for any firm as it impacts the growth and prosperity of the firm in the long term. It creates accountability and measurability. Some of the popular techniques are net present value, internal rate of return, payback period, accounting rate of return and profitability index.

The continuous poor performances of firms in a dynamic business environment suggest that financial managers must choose investments with satisfactory cash flows and rate of return. As rightly held by Femi & Oluwale (2008), financial managers should be able to decide if an investment is worth undertaking and should also have the ability to choose intelligently given

other alternatives. This study is therefore meant to investigate capital budgeting and its implication to firm's growth.

The researcher reviews works by different previous researchers in order to attain an understanding on the degree of available information that the researcher bases on to attain value for the study.

Objectives of the Study

In order to accomplish the research aim, this study seeks to address the following research objectives;

To assess how acquisition of long-term assets affects firm's growth.

To determine how investment appraisal techniques affect firm's growth.

To determine how outsourcing of capital expenditure decision affects firm's growth.

Hypotheses of the Study

H_{01}: Acquisition of long-term assets has no significant relationship with firms' growth.

H_{02}: Investment appraisal techniques have no significant relationship with firms' growth.

H_{03}: Outsourcing of capital expenditure decision has no significant relationship with firms' growth.

II. EMPIRICAL REVIEW OF RELATED LITERATURE

Klammer (2013) investigated the association between capital budgeting techniques and firms' performance. His sample included 369 manufacturing firms. The response rate was about 50%. The aim of study was operational return rates as adequate measure of the firms' performance. Capital budgeting techniques were used to test the payback method and the discounting techniques. Linear regression analysis was carried out to test various hypotheses. These results pointed out that despite the growing adoption of sophisticated capital budgeting methods no consistent significant association between performance and capital budgeting techniques was apparent. This implies that mere adoption of various analytical tools is not sufficient to bring about superior performance. The other factors such as marketing, product development, executive recruitment and training, labor relations deserve sufficient attention.

Olum (2012) studied capital budgeting from the viewpoint of shareholders' wealth maximization. He examined the extent to which capital budgeting techniques were applied by Kenyan corporations. He noted that the current capital investment appraisal techniques were not well applied. Only two fronts tend to utilize it, namely; private entrepreneur and the general public.

Mooi and Mustapha (2011) have investigated on degree of sophistication of capital budgeting practice and firms' performance. Using a sample of 42 firms, 19% used average capital budgeting methods and 43% fairly superior methods. To test the level of association, they performed a t-test. Their results showed that the degree of capital budgeting sophistication did not significantly affect firm performance using ROA and EPS. Generally, the use of superior capital budgeting process should increase the effectiveness of the firms' investments decision making. Thus their study failed to conform to the theory.

Gilbert (2015) determined the application of capital budgeting methods and their association with firm performance among South African manufacturing firms. A sample of 318 firms was surveyed. The response rate was 37%. The survey tested the application and impact of payback method, return accounting rate, net present value and the internal return rate. The return on assets was used as a measure of the firms' performance. From this study, it was noted that 15% of the firms employed the payback method, 8% used purely the discounting methods while the rest employed a mixture of both. Even though the managers were aware of the cost benefits of using the discounting methods, their responses involved the use of shortcuts and approximations. It was concluded that while discounted cash flow methods play an important role in capital investment decision-making, their costs and proper application were extremely underestimated.

Olawale et al. (2010) conducted an investigation into the companies which make use of sophisticated investment appraisal techniques in investment decisions. The study sample size was 124 firms. The response rate was 39% indicating to be using sophisticated investment appraisal techniques in investment decisions. Moore & Reichert (1983) studied 500 US firms using modern analytical tools and financial techniques. Overall, firms which adopted sophisticated capital budgeting techniques had better average financial performance. Specifically, firms which used modern inventory management techniques and Internal Rate of Return (IRR) reported superior financial performance.

III. METHODOLOGY

Research Design

The study adopts cross-sectional data research design, and the period of study is 2018. The study also employs a positivist approach in which a quantitative design is employed to test the hypotheses. Secondary data is used from the annual reports of the selected firms. A multivariate regression is used to examine how capital budgeting decisions affect firms' growth in Nigeria. The sample of the study consists of top fifteen (15) listed manufacturing companies in Nigeria as at 31 December 2018, which is the free recession period.

Model Specification

The model used in this study is given below:

$ROA_i = \alpha_0 + \alpha_1 AQFA_i + \alpha_2 IVAT_i + \alpha_3 OLTD_i + \alpha_4 SIZE_i + \varepsilon_i$

ROA= Return on Asset

AQFA= Acquisition of Fixed Assets

IVAT= Investment Appraisal Techniques

OLTD= Outsourcing Long-term Debt

α= Slope

ε= Stochastic Variable

IV. FINDINGS AND DISCUSSIONS

In this section, data collected in the course of carrying out the study were presented and discussed. The hypotheses formulated for the study were tested to know the impact of capital budgeting decision on firms' growth in Nigeria.

Table 4.1 Regression Analysis

Dependent Variable: ROA
Method: Least Squares
Date: 02/02/20 Time: 12:10
Sample: 1 15
Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AQFA	3.07E-14	4.12E-13	0.074538	0.9422
INV	4.44E-13	2.58E-11	0.017225	0.9866
OLTD	3.05E-13	6.88E-13	0.444074	0.6675
SIZE	4.29E-14	3.27E-13	0.131261	0.8985
C	0.029402	0.017826	1.649375	0.1335

R-squared	0.587760	Mean dependent var	0.056429
Adjusted R-squared	0.404543	S.D. dependent var	0.059563
S.E. of regression	0.045963	Akaike info criterion	-3.049523
Sum squared resid	0.019013	Schwarz criterion	-2.821288
Log likelihood	26.34666	Hannan-Quinn criter.	-3.070650
F-statistic	3.207991	Durbin-Watson stat	1.653632
Prob(F-statistic)	0.067587		

Source: Generated by the researcher from annual report (2018) of sampled manufacturing firms in Nigeria using Eviews V.8.

Table 4.1 shows that AQFA has positive relationship of 3.07 with ROA and the p-value of AQFA is 0.9422 and the relationship is insignificant because the p-value is greater than 0.0009 at 5% level of significance. Therefore, we failed to reject the null hypothesis.

Moreover, INV also has positive relationship of 4.44 with ROA and the p-value of INV is 0.9866; therefore, the relationship is insignificant because the p-value is greater than 0.0009 at 5% level of significance. Therefore, we failed to reject the null hypothesis.

Finally, it also shows that OLTD has positive relationship with ROA and the p-value of OLTD is 0.6675, so the relationship is insignificant because the p-value is greater than 0.0009 at 5% level of significance. Therefore, we failed to reject the null hypothesis.

V. SUMMARY AND CONCLUSION

The study examines the impact of capital budgeting decisions on firms' growth in Nigeria 2018 being the year free from recession. The study finds that acquisition of fixed asset, investment and outsourcing long-term debt has positive and insignificant relationship with return on asset of the sampled firms. Therefore, the study concluded that capital budgeting decision has no any impact on firms' growth in Nigeria.

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