

Impact of Uncertainty on the Application of Capital Budgeting Practices: Perspectives of an Emerging Economy

Kengatharan, Lingesiya

Department of Financial Management, University of Jaffna.

lingesiya@yahoo.com

This study examined the impact of uncertainty on the application of capital budgeting practices since the application of capital budgeting practices indicate trends towards increasing greater sophistication with the performing of multiple tools and procedures in the current investment markets which are evolving within an increasingly volatile and intertwined global network in which investments are strongly exposed to uncertainties. Therefore, the study focused on investment decision making under uncertainty of an emerging market economy of 186 Sri Lankan companies. A comprehensive primary survey was conducted to collect data and exploratory factor analysis had been performed to identify the uncertainty factors, confirmatory factors analysis was used to validate whether capital budgeting practices are recognized in theory, in an emerging market. A hierarchical multiple regression analysis had been performed to investigate the impact of uncertainty on the application of capital budgeting practices where size of the company was the control variable. Results of the study revealed that an increase in financial uncertainty was associated with the application of NPV based advanced capital budgeting, sophisticated capital budgeting practices and, size of the company was also related to the application of NPV based and sophisticated capital budgeting practices. Overall, this study has made a theoretical contribution as melding with uncertainty factors with capital budgeting practices in the Sri Lankan emerging market and parametric contributions are identified as uncertainty factors on the choice of capital budgeting practices. In conclusion, in addition to its valuable contribution, this study serves as a springboard for future research.

Key words: *Capital budgeting practices, Uncertainty factors, Emerging market.*