Corporate Finance Practices in Nepal

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Abstract

The objective of the study is to explore the practices of capital budgeting, cost of capital, capital structure, and dividend policy adopted by firms in Nepal and to examine whether the practices differ with respect to various demographic variables like firms' size, sector, and leverage. The study follows quantitative approach and descriptive research design. Survey was conducted during the month of July and August, 2020 to a population of 978 Nepalese firms with a response rate of nearly 10.33 per cent.

The findings on capital budgeting practices of corporate Nepal show a strong preference for non-discounted methods like break-even analysis and profitability. The majority of respondents use a WACC as an appropriate discount rate when evaluating any potential investment decision. The scenario analysis and sensitivity analysis are the most widely used techniques for project risk analysis. The Nepalese firms calculate their cost of equity based on regulatory requirement followed by investors' requirements. Debt from financial institutions is the most preferred source of finance. Almost 80 per cent of the Nepalese firms have target dividend payout ratio and majority of firms focus on absolute level of dividend than dividend changes.

Key words: *capital budgeting, cost of capital, capital structure, dividend policy, size, sector, leverage.*

Introduction

1.1 Background of the study

Any decision made in a business has financial consequences, and any decision involving the use of money is a corporate financial decision (Damodaran, 2014). *Capital budgeting decisions* involve the decisions concerning investment in long-lived assets (Ross et al., 2013). Firms make capital budgeting decisions based on various capital budgeting methods to evaluate the investment in long term assets. Since a firm should always thrive to survive, grow, and meet (or even exceed) customers' expectation, it is never left out of competition to expansion and replacement decisions.

The decision as to how firms raise cash for required capital expenditure involves the *capital structure decisions*, which represents the proportion of firm's financing from current and long-term debt and equity (Ross et al., 2013). One of the most complex and most important issues in corporate finance is whether or not an optimal capital structure exists (Copeland et al., 2014).

The major source of financing involves debt and equity which involves different costs. Firms' cost of capital changes with the change in weights of different components. Hence, a firm must decide whether the expected rate of return exceeds the cost of the capital, making *cost of capital* critical element in corporate finance (Brigham et al. 2017).

Another important decision related to corporate finance includes *dividend decisions* which involves distribution of excess earnings to the shareholders. In practice, the decision on the distribution is taken in conjunction with the capital structure and budgeting decisions (Brigham et al., 2017). Firms with higher returns should usually tend to retain earnings, firms with deferrable investment opportunities can increase their dividend payout ratio, firms with certain free cash flows can pay out higher portion of their remaining earnings, firm whose cash flow are largely unaffected by the change in debt ratio can afford to set higher payout ratio (Brigham et al., 2017). Therefore, analyzing "whether or not" and "how much cash" to be returned to the shareholders of a firm is another most crucial decision a finance manager should make.

1.2 Objectives of the Study

With the advancement in theories of corporate finance, various emergent theories and advanced tools and techniques is continually incorporated in the academics by various business schools. However, the difference in institutional arrangements and other difference between countries may influence managerial decisions about the corporate finance practices they use (Baker et al. 2011). The advancement in theories or techniques are a result of refinement over the old ones or discovery of new, better alternatives. The use of the suboptimal tools, techniques and approaches may not achieve the maximum efficiency of the managerial decisions. So, it is necessary for the academicians and practitioners to continuously evaluate the practices. The major objective of the study is to explore the corporate finance practices being adopted by firms in Nepal and to examine whether the practices differ with respect to various demographic variables like firms' size, sector, and leverage.

2. Literature Review

2.1 Review of major literature

"Surprisingly large" number of US corporations utilized discounted cash flows (DCF) techniques in project evaluation, Internal rate of return (IRR) appeared to be the widely used method of capital budgeting followed by accounting rate of return (ARR), payback period (PBP) and net present value (NPV) method respectively (William Petty et al. 1975). Management-determined target rates of return were found to be the dominant criteria for investment proposal whereas weighted average cost of capital (WACC) followed the popularity after the former. Schall et al. (1978) uncovered the use of sophisticated capital budgeting techniques (DCF) in increasing trend. After-tax weighted average cost of capital was observed as the common method of determining a required rate of return; project risk was usually assessed subjectively by major number of firms; higher rate of return was used for riskier projects. IRR was used more frequently than NPV (Jog et al. 1995). Capital asset pricing model (CAPM) was yet to become widely adopted in the Asia Pacific Region (Kester et al. 1999). Executives use mainline techniques like NPV and CAPM to value projects and estimate the cost of equity (Graham & Harvey 2001). A substantial number of firms used company risk rather than project-specific risks in appraising new projects; sensitivity analysis and scenario analysis were the most widely used techniques for project risk analysis (Anand 2002). Firms believed that dividend decisions were important as they provide signaling mechanism of the future prospects of the firms and thus affects the market value. Use of DCF methods like NPV and IRR in Nepal was followed by ARR and PBP (Pradhan 2003) indicating negligible use of sound DCF methods in contrast with that of Western countries. While large companies often used present value techniques and the capital asset pricing

model to assess the feasibility of an investment opportunity, small business CFOs relied on the payback criterion (Dirk Brounen et al. 2004). Instead of relying on single technique, multiple techniques were applied for evaluation of investments (Verma et al. 2009). Dangol et al. (2011) revealed that there was an increasing shift towards use of modern, sophisticated capital budgeting techniques like IRR and NPV. Subjective risk assessments were preferred for adjusting discount rate, risk analysis, projecting cash flows and estimating the cost of equity capital (H. Kent Baker et al., 2011). Kuzucu et al. (2015) found that the level of earnings and the stability of future earnings are the most significant factors affecting dividend decisions and the majority of financial manager's report attempting to preserve consistency with the historical level of dividends consistent with Lintner, 1956. Nevertheless, they were also found not to agree to smoothing dividends as proposed by Lintner.

2.2 Hypothesis of the Study

The following null hypotheses are framed on the basis of various empirical evidences from earlier studies in relation to the testing of relationship between the demographic variables.

$H_0(1)$: The size of the firm does not affect the corporate finance practices of the firm.

$H_0(2)$: The leverage of the firm does not affect the corporate finance practices of the firm.

$H_0(3)$: The sector of the firm (private or public) does not affect corporate finance practices of the firm.

3. Methodology

3.1 Research design

The study follows quantitative approach and descriptive research design. Structured questionnaire was designed with the composition of option questions, Likert-type-scale questions, and close ended questions. The survey was drafted on the basis of a careful review of the existing literature with the objective of minimizing biases induced by the questionnaire and maximizing the response rate. The draft survey was circulated to a group of prominent academics and practitioners for feedback. The suggestions were incorporated and survey was revised. For most questions, survey recipients are asked to indicate how frequently they use each of the capital budgeting, risk analysis, cost of capital techniques and financing alternatives provided in the survey using a five-point Likert scale where 1 = never, 2 = rarely, 3 = sometimes, 4 = often and 5 = always. Similarly, for dividend policy statements, receipts are asked to indicate their level of agreement in five-point Likert scale where 1 = strongly disagree, 2 = disagree, 3 = sometimes, 4 = agree and 5 = strongly agree.

3.2 Delivery and response

The study surveys a large cross-section of firms of Nepal. The list of managers of various firms in Nepal in a position of making financial decisions was retrieved from the membership list of Association of Chartered Accountants of Nepal (ACAN). ACAN maintains the database of its members who are qualified Chartered Accountants (CA). The study is based on the population of 1,079 firms selected by way of judgmental and purposive sampling. The sample excludes not-for-profit organizations, banks, insurances and financial institutions which do not fall under the scope of this study.

Survey was conducted by way of google form questionnaire delivered through mail. To encourage the managers of the firms to respond, the approximate timing of filling the firm was notified in the preface of the mail and the objectives of the study was clearly mentioned. The population of the study was 978 firms. To maximize the

response rate, limited mails were sent each day and the managers of the firm were followed up by telephone by the author after sending the mail. However, no follow up mail was made. A total of 101 usable surveys were obtained, for a response rate of nearly 10.33 per cent. Given the technicality (only finance practitioners could understand and fill up the questionnaire), length (nearly ten pages) and depth (2 sections, 17 questions, over 50 sub questions) of the survey, this response rate compares favorably to the survey through mail. The survey by Graham, J. R., & Harvey, C. R. (2001) obtained a 9 per cent response rate in a survey of cost of capital, capital budgeting and capital structure practices.

3.3 Summary statistics and data issues

Table 1 presents the firm composition based on type of industry. From the composition, 22 per cent of the firms have long term debt to total capital ratio of 1% to 24%, another 37 per cent of the firms have debt ratio between 25% to 49%, and the remaining 42 per cent have the debt ratio above 50%. In subsequent analysis, firms with debt ratios greater than 25 per cent are referred to as "highly" levered. Approximately half of the firms (51.49%) are service industry related. The remaining firms are spread across various industries, including energy based (7.92%), manufacturing (8.91%), agro and forest based (4.95%), minerals (0.99%), construction/infrastructure (5.94%), tourism (13.86%), and information technology, communication technology, and information broadcasting technology related (5.94%). The categories of the firms are taken from Industrial Enterprises Act, 2020.

Table 1. Composition of Sample

Type of Industry	Sample size	Percentage
Energy based Industry	8	7.92%
Manufacturing Industry	9	8.91%
Agro and forest based industry	5	4.95%
Mineral Industry	1	0.99%
Construction/Infrastructure Industry	6	5.94%
Tourism Industry	14	13.86%
Information technology, communication technology, and information broadcasting technology related industry	6	5.94%
Service Industry	52	51.49%
Total	**101**	**100%**

Demographic correlations of control variables from the survey revealed that large firms have higher proportion of debt in their capital. Also, public sector firms are significantly larger than the private ones. However, no significant correlation seems to exist between the sector of the firms (private or public) and leverage.

4. Analysis and Results

4.1 Capital Budgeting Decisions

4.1.1 Size of Investment for Capital Budgeting Decisions

In response to the question as to from what size of investment do the respondents use capital budgeting decisions, it was found that nearly 55.4% of the firms use capital budgeting decisions in almost all cases notwithstanding the financial value of the investment. While 37.6% of firms used CBD in investment values of more than 10 million, most of the public sector firms comprised the group. As the small firms are more sensitive to their investment due to their size, it seems reasonable that almost two-third of the small firms use CBD in all of their investment decisions while most of the large firms (57.7%) seem to use CBD in investment size greater than 10 million. Surprisingly, high levered firms use CBD less frequently than compared to low levered firms for small size investment despite their debt bearings.

4.1.2 Capital Budgeting Techniques

Table 2 investigates the techniques used for capital budgeting decisions. Break even analysis was found to be the most favorite of the techniques used for analyzing the capital budgeting decisions with 90.1% respondents using it often and always (response of 5 and 4) with mean score of 4.64. 80.2% of the respondents use IRR and Profitability index as often and always for analyzing capital budgeting decisions, IRR being the second most preferred technique with mean score of 4.31.

It was found that firms with high leverage are significantly more likely to use IRR than firms with low leverage (mean score 4.41 versus 3.95). High levered firms are significantly more likely to use Break-even analysis than the low levered firms (mean score 4.77 versus 4.18). Surprisingly, public sector firms are significantly more likely to use Profitability Index than private sector firms (mean score 4.83 versus 4.07). No significant difference was found in the techniques used by small and large size firms.

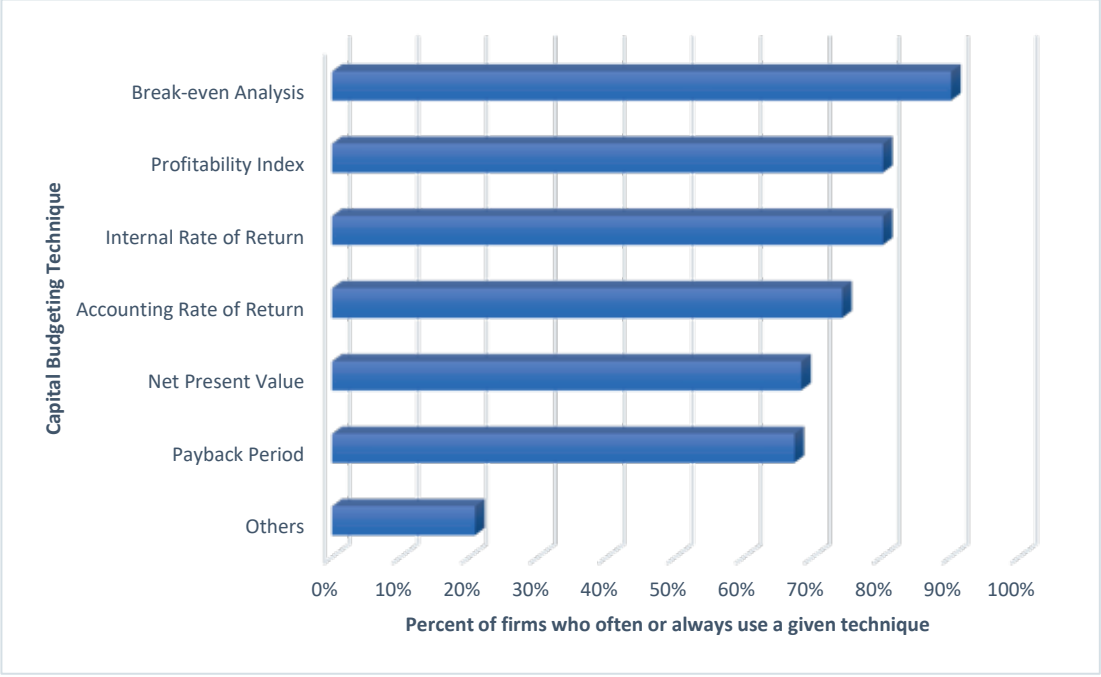

Figure 1. Survey evidence on the popularity of different capital budgeting techniques.

Table 2. Capital Budgeting Techniques

This table presents the responses by managers of Nepalese firms on how frequently their firm employ which capital budgeting techniques their firms use when deciding which investment project to choose. *, **, *** indicate significance at the 0.10, .05 and 0.01 levels, respectively

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	% of Often or Always	Full Sample		Firm Size		Leverage		Sector	
		Mean	Std. dev.	Small	Large	Low	High	Private	Public
Payback Period	67.33	4.06	1.20	4.00	4.23	3.73	4.15	4.02	4.67
Accounting Rate of Return	74.26	3.99	1.06	4.01	3.88	3.86	4.01	3.95	4.50
Net Present Value	68.32	3.82	1.20	3.79	3.96	3.68	3.87	3.79	4.50
Internal Rate of Return	80.20	4.31	1.13	4.28	4.38	3.95	4.41*	4.27	4.83
Profitability Index	80.20	4.14	1.07	4.09	4.19	3.82	4.20	4.07	4.83*
Break-even Analysis	90.10	4.64	0.85	4.69	4.50	4.18	4.77**	4.64	4.67
Others	20.79	2.78	1.21	2.61	3.15	2.77	2.75	2.72	3.33

4.1.3 Approach to determine the Minimum Acceptable Rate of Return

In response to the question as to which approaches is used by the firm to determine the minimum acceptable rate of return or discount rates to evaluate potential capital investment project, it was found that 40.6% of the firms employ a weighted average cost of capital, 28.7% use cost of debt, and 22.8% use a measure based upon past experience. The remaining 5.9% use cost of equity as their minimum acceptable rate of return while only 2% use an arbitrary rate.

4.1.4 Vitality of Risk

The respondents were asked as to whether risk consideration is always vital during deciding on an investment opportunity, 95% of the respondents find risk consideration as always vital, 2% reject the concept whereas 3% are not sure about it.

The response results on risk assessment criteria indicated that 67.3% of the respondents assess risk on individual project basis, 31.7% of the respondents assess risk subjectively while the remaining 1% doesn't assess risk in investment decisions.

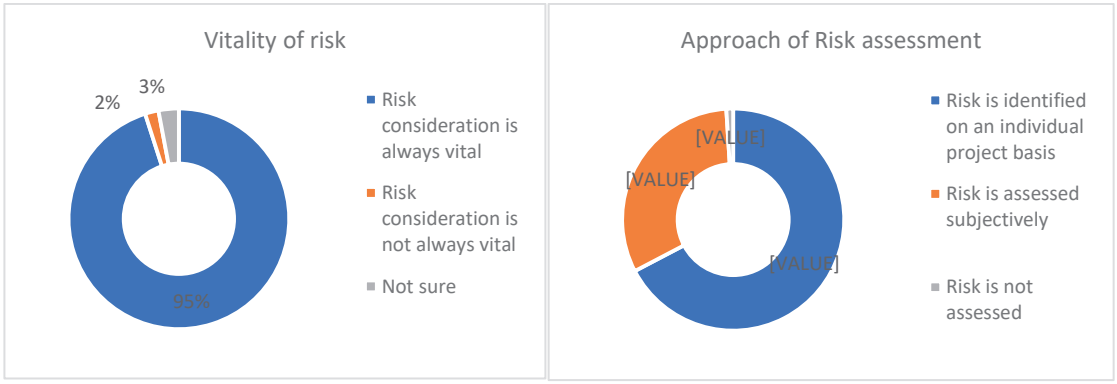

Figure 2. Risk assessment in investment decisions.

4.1.5 Risk Assessment Techniques

The results in Table 3 indicate that scenario analysis is the most widely used technique for assessing project's risk with 83.17% of respondents using it often or always (response 5 and 4) with mean score of 4.45. Sensitivity analysis is the second more preferred technique with 67.33% use often or always and mean score of 3.93.

Large firms use decision tree analysis, Monte Carlo simulation, and other techniques more significantly than small firms (mean score 3.35 versus 2.72, 2.35 versus 1.87, and 2.88 versus 2.23 respectively). Similarly, firms with high leverage use sensitivity analysis significantly widely than firms with low leverage (mean score 4.04 versus 3.55). No significant difference was found in use of risk assessment techniques between private and public sector firms.

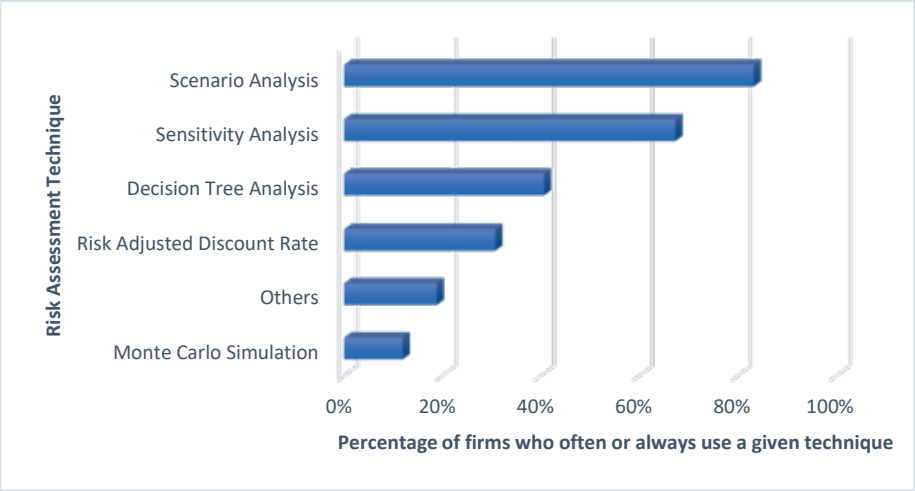

Figure 3. Survey evidence on the popularity of different risk assessment techniques during CBDs.

Table 3. Risk Assessment Techniques

This table presents the responses by managers of Nepalese firms on how frequently their firm employ which techniques to measure a project's risk. *, **, *** indicate significance at the 0.10, .05 and 0.01 levels, respectively.

	% of Often or Always	Full Sample		Firm Size		Leverage		Sector	
		Mean	Std. dev.	Small	Large	Low	High	Private	Public
Sensitivity Analysis	67.33	3.93	1.19	3.85	4.15	3.55	4.04*	3.89	4.50
Scenario Analysis	83.17	4.45	0.96	4.41	4.54	4.23	4.51	4.45	4.33
Risk Adjusted Discount Rate	30.69	2.70	1.39	2.64	2.88	2.68	2.71	2.65	3.50
Decision Tree Analysis	40.59	2.88	1.43	2.72	3.35*	2.50	2.99	2.86	3.17
Monte Carlo Simulation	11.88	1.99	1.16	1.87	2.35*	2.00	1.99	1.96	2.50
Others	18.81	2.40	1.36	2.23	2.88**	2.50	2.37	2.36	3.00

4.2 Cost of Capital

4.2.1 Percentage Cost of Capital

The numerical value of firms cost of capital (in percentage) lie between 10 to 12.99 per cent with 64.3 per cent of total firms lying within the given bracket. Maximum number of firms (35.6 per cent) had cost of capital within 10 to 10.99 percent bracket.

4.2.2 Cost of debt

It was found that almost 52.5% of firms use before tax cost of capital whereas 47.5% firms use after tax cost of debt. While the method of calculation of cost of debt was almost similar for small and large firms as well as low and high levered firms, notable difference was found between private and public sector firms where almost 83% of public sector firms was found using "after" tax cost of debt.

4.2.3 Cost of Equity

Most of the firms seem to calculate their cost of equity based on regulatory requirements with 50.5% firms using it often or always (response of 5 and 4) with mean score of 3.10. 49.5% of firms was found to calculate their cost of equity based on average historical returns on common stock and same percentage of firms also calculate their cost of equity based on whatever their investor tell they require. Sophisticated techniques like Dividend yield model, CAPM, multifactor models were used comparably less frequently with multifactor model being the least preferred with only 13.86% of firms using the technique often or always.

The cross-sectional analysis was found to be particularly revealing (Table 4). Public sector firms are much likely to use the multifactor model than are private sector firms (mean score 3 versus 1.97). Highly levered firms are more likely to use based on whatever their investor require than low levered firms. Similarly, large firms calculate their cost of equity based on average historical returns on common stock, CAPM, based on investors' requirement and based on regulatory requirement significantly more than small sized firms.

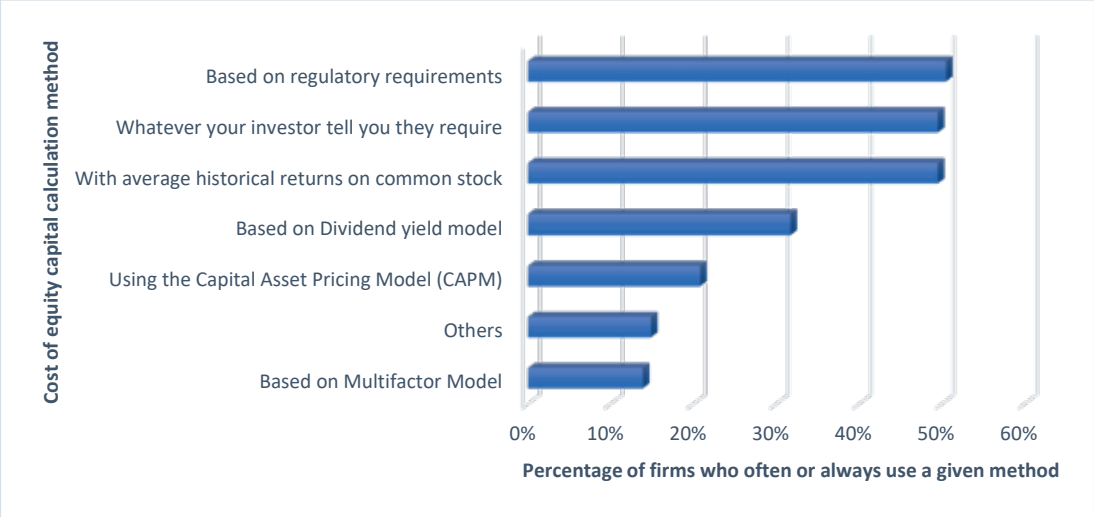

Figure 4. Survey evidence on the popularity of different methods of calculation of the cost of equity capital.

Table 4. Cost of equity estimation

This table presents the responses by managers of Nepalese firms on how frequently do they use which methods to calculate the cost of equity capital. *, **, *** indicate significance at the 0.10, .05 and 0.01 levels, respectively.

	% of Often or Always	Full Sample		Firm Size		Leverage		Sector	
		Mean	Std. dev.	Small	Large	Low	High	Private	Public
With average historical returns on common stock	49.50	3.19	1.51	3.00	3.73**	2.73	3.32	3.13	4.17
Using the Capital Asset Pricing Model (CAPM)	20.79	2.36	1.42	2.21	2.77*	2.09	2.43	2.33	2.83
Whatever your investor tell you they require	49.50	3.17	1.55	3.01	3.62*	2.59	3.33**	3.14	3.67
Based on regulatory requirements	50.50	3.10	1.56	2.93	3.58*	2.68	3.22	3.06	3.67
Based on Dividend yield model	31.68	2.59	1.50	2.48	2.92	2.32	2.67	2.54	3.50
Based on Multifactor Model	13.86	2.03	1.25	1.96	2.23	2.05	2.03	1.97	3.00**
Others	14.85	2.10	1.32	2.04	2.27	2.14	2.09	2.07	2.50

4.3 Capital Structure

The respondents were asked to rank the frequency of usage of various financing options to meet the financing requirements of their firm. The results are presented in Table 5 which indicate that loans from financial institutions are the most preferred source of financing by Nepalese firms. Nearly 93.07 per cent of firms use loans from financial institutions often or always (response of 5 and 4) with mean score of 4.68. The second most preferred source of financing was found to be retained earnings with almost 69.31 per cent of firms using it often or always. Issue of equity capital to fulfill the financing requirement was third most preferred with 57.43 per cent of firms using it often or always. The findings aren't consistent with the pecking order theory. For Thai firms, a study by Pandey, Chotigeat and Ranjeet (2000) revealed that Thai firms' managers prefer loans from financial institutions and are very reluctant to issue public equity or public offerings of debt. The results of this study are quite consistent with such results.

Large firms were found to be more likely to use "other" financing option in comparison to small firms (mean score of 2.5 versus 1.99). Similarly, it was found that issue of preference capital to meet the financing requirement was significantly higher for low levered firms over high levered firms (mean score of 2.41 versus 1.61) and public sector firms over private sector firms (mean score 2.5 versus 1.74). Similarly, issue of bonds and debentures were significantly higher for public sector firms over private sector firms (mean score 2.67 versus 1.68).

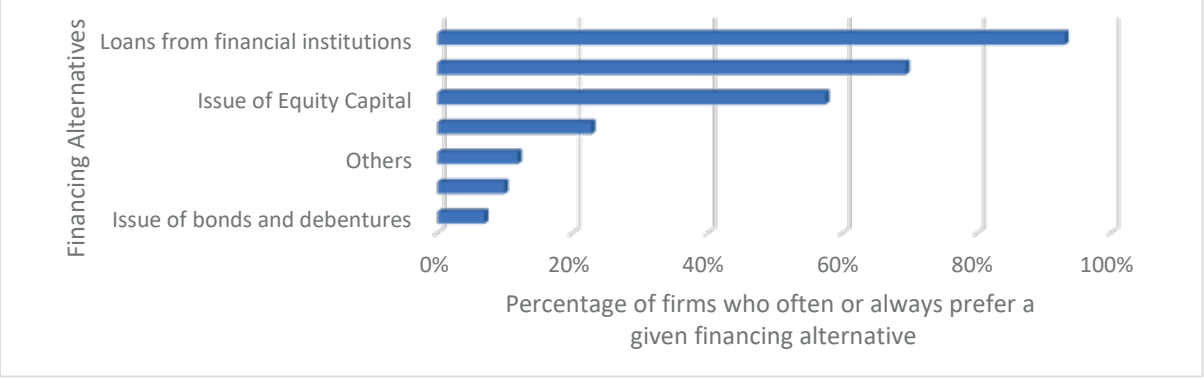

Figure 5. Survey evidence on the popularity of different alternatives of financing.

Table 5. Capital structure

This table presents the responses by managers of Nepalese firms on how frequently their firm employ which financing pattern for meeting financing requirements of their firm. *, **, *** indicate significance at the 0.10, .05 and 0.01 levels, respectively.

	% of Often or Always	Full Sample		Firm Size		Leverage		Sector	
		Mean	Std. dev.	Small	Large	Low	High	Private	Public
Loans from financial institutions	93.07	4.68	0.73	4.61	4.88	4.68	4.68	4.68	4.67
Issue of bonds and debentures	6.93	1.74	1.06	1.72	1.81	2.23	1.61	1.68	2.67***
Private Placement of Debt	22.77	2.58	1.30	2.59	2.58	2.59	2.58	2.60	2.33
Retained earnings	69.31	3.88	1.19	3.95	3.69	4.18	3.80	3.91	3.50
Issue of Preference Capital	9.90	1.78	1.05	1.72	1.96	2.41	1.61***	1.74	2.50*
Issue of Equity Capital	57.43	3.61	1.16	3.67	3.46	3.77	3.57	3.60	3.83
Others	11.88	2.12	1.28	1.99	2.5*	2.09	2.13	2.07	2.83

4.4 Dividend Policy

The results presented in Table 6 indicate that 80.20 per cent of the managers of Nepalese firms strongly agree/agree that their firm has long-term target dividend payout ratio. Nearly 73.27 per cent of respondents strongly agree/agree that their firm focuses more on absolute level of dividends than dividend changes. Nearly 67.33 per cent of the respondents strongly agree/agree that their firm is willing to cancel dividend increase in the event of growth opportunities. Nearly 58.42 per cent of respondents believe that dividend decisions convey information about their firm to investors. Large size firms are significantly more likely to believe so compared to small firms (mean score of 4.19 versus 3.41). Approximately 46.53 per cent of Nepalese firms believe that an optimal dividend policy strikes a balance between current dividends and future growth that maximizes stock price. Public sector firms are more likely to believe the importance of optimal dividend policy to maximize the stock price as compared to private firms (mean score 4.33 versus 3.17). Almost 45.54 per cent of respondents believe that dividends provide signaling mechanism of the future prospects of the firm. The belief is significantly strong among the public sector firms as compared to private firms (mean score 4.17 versus 3.13). Nearly 43.56 per cent of respondents strongly agree/agree that dividend payout ratio affects the market value of the firm. Public sector firms are significantly more confident that the dividend payout ratio has a role in market value of the firm as compared to private firms (mean score of 4.5 versus 3.04). Only 40.59 of the respondents strongly agree/agree that dividend payments provide a bonding mechanism to encourage managers to act in the interest of the shareholders. Public sector firms are more likely to believe so as compared to private firms (mean score of 4.33 versus 2.84).

Table 6. Dividend Policy

This table presents the responses by managers of Nepalese firms on their belief about firm's dividend policy. *, **, *** indicate significance at the 0.10, .05 and 0.01 levels, respectively.

	% Strongly Agree/ Agree	Full Sample		Firm Size		Leverage		Sector	
		Mean	Std. dev.	Small	Large	Low	High	Private	Public
The firm has long-term target dividend payout ratio.	80.20	4.16	0.82	4.15	4.19	4.05	4.19	4.13	4.67
The firm focuses more on absolute level of dividends than dividend changes.	73.27	4.18	0.95	4.25	3.96	4.00	4.23	4.19	4.00
Dividend decisions convey information about our firm to investors.	58.42	3.61	1.18	3.41	4.19**	3.45	3.66	3.59	4.00
The firm is willing to cancel dividend increase in the event of growth opportunities.	67.33	3.92	1.18	3.77	4.35	3.59	4.01	3.93	3.83
Dividend payout ratio affects the market value of the firm.	43.56	3.13	1.52	3.05	3.35	3.41	3.05	3.04	4.50**
Dividends provide signaling mechanism of the future prospects of the firm.	45.54	3.19	1.39	3.12	3.38	3.50	3.10	3.13	4.17*
Dividend payments provide a bonding mechanism to encourage managers to act in the interest of the shareholders.	40.59	2.93	1.38	2.77	3.38	3.09	2.89	2.84	4.33***
An optimal dividend policy strikes a balance between current dividends and future growth that maximizes stock price.	46.53	3.24	1.36	3.16	3.46	3.59	3.14	3.17	4.33**

4.5 Limitations

As with any survey, this study also has some limitations to it. Despite taking several measures to minimize non-response bias such as maintaining confidentiality for respondents, and making the survey relatively short and easy to complete, non-response bias may exist and may affect the results. In addition to the non-response bias, there may also be some other drawbacks, such as extent of the respondents' comprehension of the questions, degree of truthfulness in answering the questions, etc. This study measures convictions rather than actions. By doing so, the study simply believes that executives "do as they claim they do." The limitation of survey research is potential respondent bias. Hence, when composing samples and constructing questionnaire the study has taken this drawback into consideration, so that the bias can be kept to a minimum.

5. Summary, Conclusion and Recommendation

5.1 Summary and Conclusion

This study uses a survey to investigate the financial practices of Nepalese firms. The results are both reassuring and puzzling. Contrary to the finance theory and various empirical evidences (see William et al., 1975, Schall et. al.1978, Jog et al.,1995, Kester et al., 1999, Graham, J. R., & Harvey, C. R., 2001) the findings on capital budgeting practices of corporate Nepal show a strong preference for non-discounted methods like break-even analysis and profitability index rather than NPV and IRR. The low preference for the use of discounted methods is however consistent with the study on Nepalese firms by Pradhan, R. S. (2003). However, it is reassuring that high leverage firms are significantly more likely to use IRR than firms with low leverage. In contrast, it was puzzling to find that public sector firms use

Profitability Index more frequently than private sector firms.

Consistent with the finance theory, majority of the firms assess risk on individual project basis rather than subjectively. Also, almost 95 per cent of the firms find the risk consideration always vital in every investment decision. More than half of the firms use capital budgeting decisions in almost all projects irrespective of the value of investment. Consistent with the results of Verma et al. (2009), the majority of respondents use a WACC as an appropriate discount rate or minimum acceptable rate of return when evaluating any potential investment decision.

The scenario analysis and sensitivity analysis are the most widely used techniques for project risk analysis. The results are consistent with the survey work of Anand, M. (2002) which revealed the use of sensitivity analysis and scenario analysis (in the given order) as most preferred project risk analysis techniques in India. It is also reassuring that use of sophisticated techniques like decision tree analysis and Monte Carlo simulation are used more frequently by large firms rather than small firms. One of the major support of the argument may be the presence of qualified manpower in large firms.

The average cost of capital for Nepalese firms was found to lie between 10 to 12.99 per cent with a majority of firms within 10 to 10.99 per cent bracket. Almost half of the firms calculate their cost of debt as "after tax" and remaining half as "before tax". However, almost 83 per cent of public sector firms use "after tax" value for estimating the cost of debt.

The Nepalese firms calculate their cost of equity based on regulatory requirement followed by investors' requirements and average historical return on common stock. The mainline techniques taught academically like CAPM, dividend yield model, multifactor model are much less likely to be followed to estimate the cost of equity. The results are inconsistent with various empirical studies including Graham, J. R., & Harvey, C. R., (2001). However, the results are also reassuring from the finding that public sector firms are more likely to use the multifactor model than private sector firms and large firms are more likely to use CAPM than small firms.

The study finds that debt from financial institutions is the most preferred source of finance for corporate Nepal followed by retained earnings and then issue of equity. The results are inconsistent with the pecking order theory of capital structure however consistent with a similar study in case of Thai firms by Pandey, Chotigeat and Ranjeet (2000). Low levered firms and public sector firms are more likely to issue preference capital as compared to high levered firms and private sector firm respectively. Also, issue of bonds and debentures to finance their requirements is significantly more likely by public sector firms than the private ones.

Almost 80 per cent of the Nepalese firms have target dividend payout ratio and majority of firms focus on absolute level of dividend than dividend changes. The firms are also willing to rescind dividend increase in the event of growth opportunities. The managers believe that dividend decisions convey information of firms to their investors and large firms are more inclined to the belief than are small firms. Therefore, dividend decisions do matter to the managers and the investors. Managers of public sector firms strongly believe that dividend payments provide a bonding mechanism to encourage them to act in the interest of the shareholders.

Conclusively, the Nepalese firms yet use the traditional non-discounting finance tools and techniques. The basic corporate finance tools and theories like IRR, NPV, CAPM, pecking order theory which have been

taught for years by various business schools are used less frequently.

5.2 Implications and Recommendation

The findings raise concerns of additional thought and research. The study confirms that "one size does not fill all" in corporate finance practices over various countries or economies. Important institutional, cultural and other differences exist between countries which affects various areas including corporate finance practices. The difference also exists due to the history of schooling, history of development of corporate practices, corporate governance, and ownership structures. As such differences could influence managers on decision making about which practices they use, there is a greater need for researchers to explore and consider these differences. Academicians also should understand such issues as well as the views of the practitioners and address them in their academic researches. Because the low popularity of advanced tools and techniques for corporate finance decision-making among the Nepalese managers may be mainly due to a lack of expertise and knowledge, business schools should place greater emphasis on those powerful tools and techniques in their academics. The empirical evidences of the study show that, despite improvements in Nepal's financial practices over time, there is a need for more effort to encourage Nepalese firms, to use more objective approaches, and to take greater advantage of advanced tools and techniques of corporate finance.

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