

**THE RELATIONSHIP BETWEEN CAPITAL BUDGETING SYSTEMS, NATIONAL
CULTURE AND FIRM FINANCIAL PERFORMANCE**

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ABSTRACT

The aim of this study was to investigate the relationship between capital budgeting systems (CBS), national culture (NC) and firm financial performance (FFP). A two-phase mixed methods design incorporating both qualitative and quantitative approaches was utilised.

During Phase One of the study, categories of CBS used by 14 finance managers of listed firms in Australia and Indonesia emerging from qualitative, semi-structured interviews were analysed to address research question 1. Four categories and 29 sub-categories of CBS used by listed firms in making project investment decisions were identified. The four categories of CBS included capital budgeting techniques (CBT), risk management techniques (RMT), capital budgeting procedures (CBP) and non-financial information (NFI). Findings addressing research question 1 supported that the perceived types of CBS emerging from interviews were mostly similar in both Australia and Indonesia. Further analysis of interviews supported the selection and use of subcategories of CBS may be used to cater for environmental uncertainty in making project investment decisions. Analysis of interviews also supported higher levels of perceived environmental uncertainty in Indonesia than Australia, highlighting the potential importance of NC in understanding CBS use.

The sampling frame for Phase Two of the study was listed non-financial firms in Australia and Indonesia. Hypotheses were developed based on Phase One qualitative findings, relevant theory and a review of the historical, political, legal, economic, and social underpinnings of NC in Indonesia and Australia. It was thought that Indonesian firms may use more sophisticated categories of CBS consistent with contingency theory. More sophisticated categories of CBS may be suited to the Indonesian setting due to higher levels of environmental uncertainty, Sharia based governance rules in Indonesia influencing risky transactions, and Indonesian NC encouraging team based discussion and consensus, humanitarianism, unity and social justice. Sophisticated CBS may be suited to the Indonesian setting as they reduce uncertainty associated with capital expenditures through better estimating of long-term outcomes and uncertainty associated with capital expenditures than naïve CBS. Sophisticated CBS also incorporate formal procedures, team based approaches and NFI.

Empirical results from Phase Two quantitative analysis addressing research question 2, supported that Indonesian firms used more sophisticated CBT, RMT, CBP and NFI than

Australian firms, consistent with hypotheses for differences due to NC in use of CBS in Indonesia and Australia.

Findings addressing research question 3 did not support an interaction between NC and categories of CBS impacted on FFP. Overall, firms using more sophisticated CBP performed better than firms using less sophisticated CBP. Interestingly firms using more sophisticated NFI did not perform as well as firms using less sophisticated NFI.

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ARR	Accounting Rate of Return
APEC	Asia pacific economic cooperation
ASX	Australian securities exchange
BCa CI	Bias corrected confidence interval
CAPM	Capital Asset Pricing Model
CBP	Capital Budgeting Procedures
CBS	Capital Budgeting Systems
CBT	Capital Budgeting Techniques
CD	Confusion dynamism
CE	Capital Expenditures
CPI	Consumer price index
DCFT	Discounted cash flow technique
DFAT	Department of foreign affairs and trade
DP	Discounted Payback
EVA	Economic Value Added
FFP	Firm Financial Performance
GDP	Gross domestic product
GFC	Global financial crisis
GICS	General industry classification codes
IAI	Indonesian institute of accounts
IASB	International accounting standards board
IDV	Individualism/Collectivism
IDX	Indonesian stock exchange
IFAS	Indonesian financial accounting standards
IFRS	International financial reporting standards
IRR	Internal Rate of Return
LTO	Long term orientation
MF	Masculinity Femininity
NC	National Culture
NFI	Non-Financial Information
NPV	Net Present Value
PCA	Post completion audit
PD	Power distance
PI	Profitability Index
PP	Payback Period
RI	Residual Income
RMT	Risk Management Techniques
ROI	Return on Investment
UA	Uncertainty avoidance