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Advances in Industrial Capital Budgeting Practice: An Overview of Responses and Discussions in Oman

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- ❑ The industry experts' views in this report do not represent the opinions of their affiliations. The authors retain responsibility for the research analysis reported herein

OUTLINE



4th ICASETM – 2021, Dubai, United Arab Emirates, 29th December 2021.

OBJECTIVES



- **PB, ARR, PI, NPV, IRR, etc.**

- **Real Options Valuation, optimization models, etc.**
- **DTA**
- **Scenario analysis, etc.**

- **Measurement and impact of non-financial/ESG factors**

- End project report
- Post completion
- Review

The motivation

- ❑ Few research papers in the Oman context, especially in the non-oil sector
- ❑ Extant contributions have focused on the country's oil sector.
- ❑ There has also been some renewed emphasis on ESG/non-financial factors which are lacking in pre-covid-19 papers.

Originality value...

- ❑ Comprehensive overview of CBPs in Oman
- ❑ Synthesis and development of capital budgeting frameworks and models reflecting new ideas and insights in the better management of capital budgeting.
- ❑ Rejuvenating new approaches to measuring ESG factors.

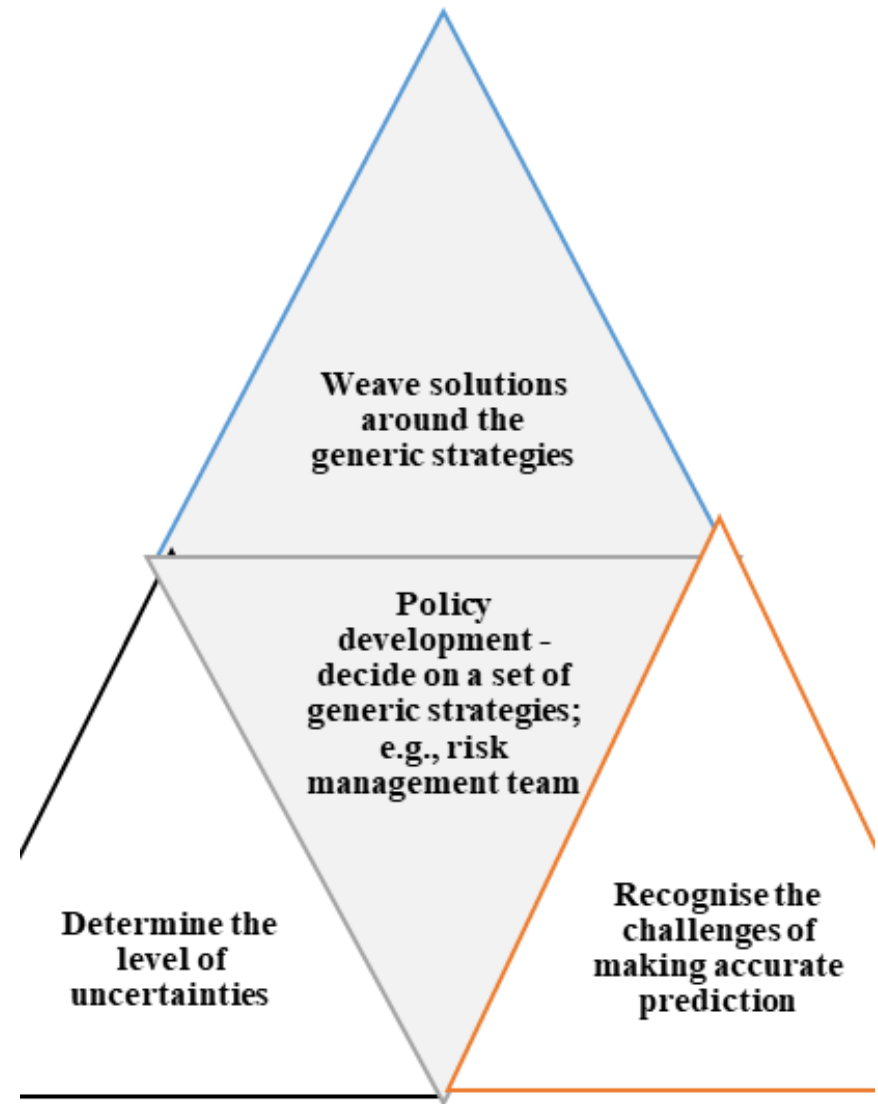
Research methodology

- Descriptive – analytical design - inspired by the extant literature such as Creswell, 2003; Kothari and Garg, 2014; Meijer & Webster, 2020; Polman & Wiston, 2021, CFA Institute 2021; and HBR, 2021.
- Primary data and secondary data – the present results emanated from analysis of the outcome of the virtual workshop/focus group discussion of international capital budgeting experts and moderators held in November 2020. 131 managers and executives attended the scholarly event.
- Study area – Oman – SDG 2030, Oman Vision 2040 economic diversification
- Purposive sampling - some qualification or experience required in capital budgeting, strategic planning, project management, finance and banking.
- Thematic content analysis of the research webinar workshop transcriptions, carefully edited to ensure scientific relevance to or alignment with our research purpose and objectives.

Findings...

1	Payback period appears to be prominent; NPV and IRR are used by bigger companies.
2	More advanced approaches such as real options for dealing with project risk and uncertainties have not gained ground, in part due to inadequate awareness, knowledge and training. A quartet model for dealing with CB under conditions of uncertainty was developed.
3	Projects with negative NPVs are common in 'public' projects where non-financial considerations is a major factor (e.g., aviation, infrastructure, mining). Measuring ESG impact on firm performance can be challenging.
4	Besides their more direct roles in financial management, CFO functions are changing towards inclusive culture building and expanding the knowledge base. A coalescent CB framework was developed to assist policy development.

A quartet model for dealing with capital budgeting under conditions of uncertainty



Inclusive management -CFO's emerging CB roles

Culture related roles

- Raising the culture of capital budgeting importance and the use of multiple techniques.
- Developing a collaborative workforce.
- Working with project and operations teams to do value engineering.
- Building and governing an aggregated and dynamic view of the budget portfolio

Knowledge related roles

- Developing budget team with financial, operational and regulatory knowledge.
- Leveraging invaluable information and knowledge.

Control related roles

- Creating a standard comparable model for capital budgeting.
- Developing investment policy with a clear decision tree and investment threshold.
- Developing robust monitoring and budget control system

The future is innovation and sustainability

1. Capital budgeting strategy, policy and practice need to be recalibrated to incorporate more advanced and sophisticated project appraisal and risk management techniques such as real options, decision tree analysis and insurance
 2. Systematic training in real options methods is apposite for a sustainable industrial capital budget under increasingly uncertain environment.
 3. Managers should adopt multiple approaches in evaluating new project proposals.
- *Scope for further studies* - The research scope could be extended to consider the effects of post-covid-19 inflation on modernisation projects having unequal lives and to include more interactions with experts from other economic sectors such as tourism and logistics to complement or validate the current findings.

Limitations

- ❑ *Bias for Oman*, big business, non-oil industrial sector – nonetheless, the perspectives from other similar economies in the GCC and elsewhere were reflected.
- ❑ *Data limitations* – project team is looking forward to March 2022 focus group seminar when further expert responses are expected.

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Thank you for your attention.



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