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The Impact of Assets-in-place on Corporate Financing and Investment Decisions for Capital Budgeting

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Abstract
The investment capacity of organisations is dictated by their present assets. Corporate financing and investment decisions for capital budgeting can be dependent on the organisational capacity to make profitable and long-term investments. The study analyses the impact of assets in place on corporate financing and investment decisions for capital budgeting. A qualitative and deductive approach was adopted by the paper to ensure that the collection of data was conducted on various reliable, relevant and authentic secondary resources. The findings of the study indicate that flexibility and uncertainties while decision-making for investments are impacted by assets in place as it provides greater opportunities for growth. However, certain internal and firm-specific factors may emphasise uncertainties in investment decisions. In conclusion, the assets in place help the company to grow through the maturation and lifecycle management of these assets.

Keywords: assets in place, capital budgeting, investment decision-making, corporate financing

Introduction

Multiple layers of corporate financing are considered for investment decision-making and capital budgeting. The financial capacity of an organisation is decided by its capacity to make effective investment decisions based on its assets. The assets in place are the present investments by the corporate already purchased and owned. Assets in place are essentially those investments that can be strategically aligned to aid the business in determining its capital investment capacity. These assets in place are further related to the firm's ability for future decision-making based on its linkage with cash flow and lifecycle management. On the other hand, capital budgeting is defined by the specific functions undertaken by the business to evaluate its future investments. According to Hikmah and Tulus (2020), assets in place often imply the majority of organisations use that financing in comparison to the high-growth firms without assets in place which use equity financing for early investments. It further helps in the assessment of return and risk on investment to help the organisation to gain optimal profitability. Therefore, the study analyses the impact of assets in place on corporate financing and investment decisions for capital budgeting, identifying the scope for benefits acquired by firms.

Literature review

The role of assets-in-place on a firm's investments

The role of assets in place on a firm's investment capacity is to be analysed based on its information analysis capacity. In essence, incompleteness of information analysis can impact the accounting process significantly as assets in place dictate the present financial capacity for the firm to acquire new investments. Hu *et al.* (2022) analyse the standard capacity choice model for the firm's dynamic stance on upgrading its beliefs for the expected rate of growth and realisation of shocks in demand. It is further indicated that firms with dynamic updating become conservative. The myopic firm may overestimate its marginal value for capital while, contrarily, underestimating the firm value. Therefore, dynamic learning for evaluating the firm's value by decomposing the assets in place and current growth opportunities can be beneficial for informed assessment and decision-making.

The assets in place may play a role in identifying the growth opportunities related to investments. Proper scaling of the firm's capital value helps to enhance its expansion decision. As articulated by Niu *et al.* (2019), the principles of Knightian uncertainty can be included in the standard model for capacity choice to indicate that it reduces the capital of marginal value. It makes the firm's investment decision more conservative. It may also be related to the role of the stationary distribution of the firm's value and the rise of the user's cost of capital. Therefore, the level of ambiguity increases and decision-making is more conservative and the probability density function also increases for the firm value. Thus, the uncertainties of decision-making are majorly associated with the current capacity evaluation and the prediction for future growth through investments while the value of assets in place acts as a supportive tool for investment evaluation.

Influence of Assets in Place on capital budgeting

Establishing a quantitative view of the firm's assets is used to determine the acceptance or rejection of future investments. Long-term investments are aided by the current assets owned by the firm to determine whether the investment opportunities are beneficial. According to Alles *et al.* (2021), capital budgeting techniques, especially for SMEs, revealed that Payback Period (PBP) is the most common capital budgeting technique. In foreign SMEs, Net Present Value is used more. It is also used beneficially in mature firms.

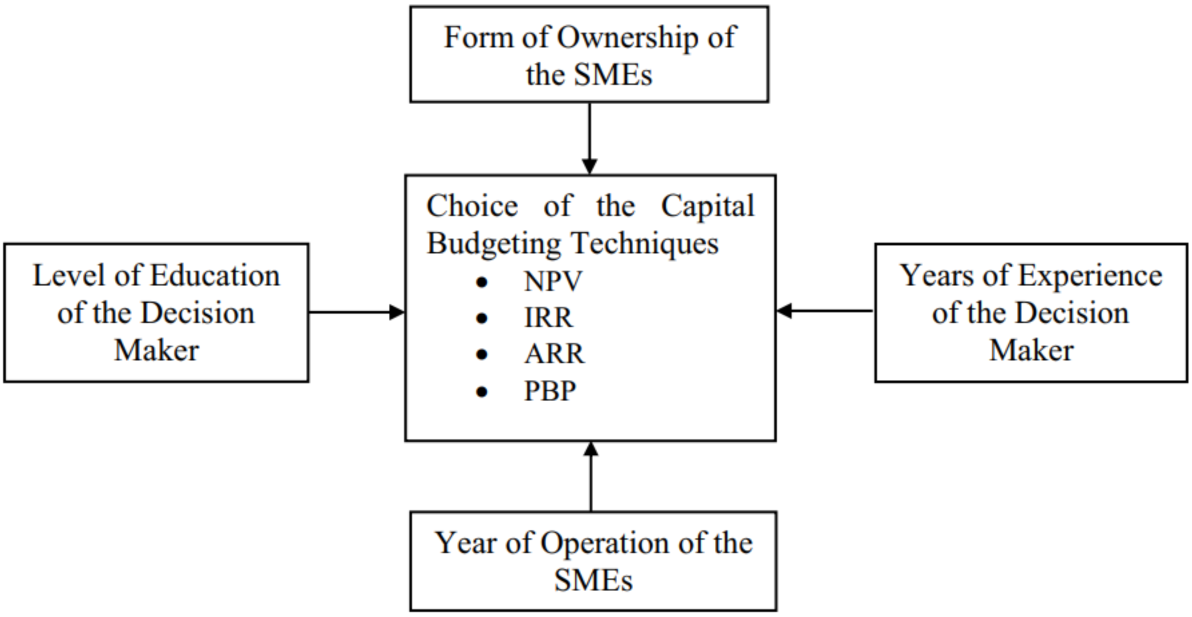

Figure 1: influencing factors for capital budgeting technique selection

(Source: Alles *et al.* 2021)

The firms with more assets in place show confidence in incorporating debt financing for making investments as they can rely on present assets. The assets in place can also be shown as the capacity for collateral while making a new investment which makes debt financing attractive for firms with a positive assets structure. As stated by Ariyani *et al.* (2019), the present assets structure of a company positively impacts the capital structure and leads to the company's growth. However, the profitability variables must be assessed with greater importance to ensure that the firm's current capacity is not exhausted when accepting a new investment. Thus, during capital budgeting, the firm analyses its current strength for investments accurately.

Methodology

The methodological structure of the paper was established to comprehensively analyse the critical impact of assets in place for a firm's investment decision-making during capital budgeting. It required the collection and analysis of extensive data to assure reliable findings. A qualitative and deductive approach was adopted by the paper to ensure that the collection of data was conducted on various reliable, relevant and authentic secondary resources. The descriptive research design observed for the study further enhances its capacity to demonstrate the different dimensions associated with corporate financing and capital budgeting. The primary objective for the established research methodology was to focus on the financial capacity of firms with major assets in place and how it is utilised for future investment decision-making.
The data collection process was systematically structured to initiate a targeted search for resources in different online databases such as Google Scholar, ProQuest, Scopus and so on. Through the adoption of a purposive sampling technique with appropriate inclusion-exclusion criteria, sufficient data were measured and collected for the study. Specific keywords (assets in place, capital budgeting, investment decision-making, corporate financing and so on) were used for data search and the final selection of resources was conducted based on abstract screening. Thus, a qualitative discussion is made for addressing the impacts of assets in place on a firm's capacity for capital budgeting and decision-making.

Findings and discussion

Findings

The assets in place may influence the firm's decision-making for future investments. As indicated by Higgins (2020), an assessment of the pharmaceutical industry indicated that loss of market exclusivity can be utilised for separating the impact of generated cash flow and current assets in place. It is used for analysing future opportunities for investments as loss of exclusivity results in a decline in a firm's profitability along with the debilitation of cash balances and stock repurchases. Thus, traditional capital budgeting can be inaccurate in its market predictions. Chew and Stewart (2022) indicate the valuation of assets in place for capital budgeting, however, the firms are required to develop a long-term investment goal to aid the process of decision-making. In corporate financing, the evaluation of the current market contributes to the establishment of various divisions of budgeting and forecasting. While establishing an effective framework may be critical, the use of assets in place as a support for debt financing and capital budgeting can be fruitful.
The responsibilities of a firm to establish an effective model for decision-making are impacted by multiple factors. The assets in place can aid the forecasting process by providing the firm with a higher ground for considering long-term investments. The cash flow must be stabilised to ensure that the market prediction,

if inaccurate, can save the company in need. As mentioned by Salehi *et al.* (2020), risky market spaces demotivate the investor's interest in investment. The current assets of the f current assets of the firm may provide it with collateral capacity. However, such risky decision-making is rarely witnessed as the process of capital budgeting can predict the future of the investment early on. On the other hand, Miroshnychenko *et al.* (2020) articulated that the investment opportunity set (IOS), essentially embedded in the firm's assets in place, helps to achieve growth opportunities through investment. Negative effects can be faced by firms in case of the inability to exercise proper investment options when such investment opportunities are presented. The importance of investment for R&D is emphasised for the firm, indicating that the higher level of sensitivity to information assessment the greater the positive impact of assets in place during investment. Thus, favourable IOS among corporations aids the process of profitable investment decision-making.

Specific uncertainties must also be analysed during capital budgeting to ensure that the internal organisational factors are included during predictive assessments. The firms are required to establish a certain level of dynamicity when considering new investment opportunities. As stated by Chortareas and Noikokyris (2021), firms under specific conditions such as high intangible assets in place tend to give greater importance to financial flexibility as it allows them to maintain their investment capacity. On the other hand, firms with lower market power tend to face financing constraints that limit their capacity for investments. Financial uncertainty is related to a lack of flexibility which influences the decision-making process for investment. These interconnected variables related to market power and investment capacity can be aligned with certain risk-taking behaviour showcased by firms. Thus, the uncertainty matrix related to decision-making during capital budgeting is considered to be important for long-term profitability.

Discussion

Based on the above analysis, the impact of assets in place is largely seen in the firm's behaviour during decision-making. The capital budgeting process is further impacted by tits as the assets in place act as instruments for positive support for firms. Chortareas and Noikokyris (2021) explore the concepts of flexibility and uncertainties while decision-making for investments to be impacted by assets in place. Mature firms with a high proportion of assets tend to exercise more flexibility during investments. The firms without assets in place are more likely to feel constrained as their capacity for capital investment is critically limited.

On the other hand, debt financing is utilised by mature companies with considerable assets as it is calculated as their capacity for collateral payback in case of negative results upon investment. Through proper lifecycle management of each asset, organisations can predict the potential for investments and acquire greater opportunities for growth and profitability. The capacity choice model further indicates multiple layers of decision-making during investment. Net Present Value is used by companies for capital budgeting, predicting the future of new investments. However, certain external factors may also influence the decision-making processes of firms such as the presence of high market competition. It can demotivate investors as the impact of external volatility can influence their ROI. In essence, despite the significant impact of assets in place on capital budgeting and investment decisions, other associated factors such as the external environment, market predictions and firm-specific constraints can also impact the decision-making process. Thus, it can be stated that assets in place help investment decisions through capital budgeting as it provides confidence and flexibility to the firm and enhances growth opportunities.

Conclusion

During corporate financing assets in place are calculated to indicate the capacity of the firm to accept or reject new investments. Capital budgeting, the process through which market predictions about future investments are made, is also crucial to investment decision-making. The paper analyses the major impact of assets in place on corporate financing and investment decisions for capital budgeting. Flexibility and uncertainties while decision-making for investments are impacted by assets in place as it provides greater opportunities for growth. Loss of market exclusivity can be utilised for separating the impact of generated cash flow and current assets in place for making accurate market predictions during capital budgeting. In conclusion, assets in place act as a supportive financial instrument that helps the firms to determine their capacity and utilise the opportunities for investments.

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