
**A STUDY ON CAPITAL BUDGETING TECHNIQUES USED BY
SMALL BUSINESS OWNERS IN INVESTMENT DECISION MAKING”**

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EXECUTIVE SUMMARY/ ABSTRACT

Capital budgeting is an important aspect of financial management that helps businesses evaluate long-term investment decisions such as purchase of machinery, vehicles, equipment, technology, and business expansion projects. Effective investment decisions are essential for improving profitability, reducing financial risk, and ensuring long-term business growth. Capital budgeting techniques such as Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), and Internal Rate of Return (IRR) are widely used to assess the feasibility and profitability of investment opportunities.

The present study titled “**A Study on Capital Budgeting Techniques Used by Small Business Owners in Investment Decision Making**” focuses on understanding how small business owners evaluate investment opportunities and which financial techniques they use before making investment decisions. The study also examines the level of awareness regarding capital budgeting, factors influencing investment decisions, methods used for estimating project cost and return, and problems faced during investment evaluation.

The research is descriptive in nature and is based on both primary and secondary data. Primary data was collected through a structured questionnaire from 10 small businesses operating in sectors such as transportation, retail, construction, manufacturing, IT services, furniture, automobile services, grocery, and pharmaceutical businesses. Secondary data was collected from books, research papers, journals, and financial management literature related to capital budgeting and investment decision-making.

The analysis of data was conducted using percentage analysis, tables, pie charts, bar charts, and interpretation methods. The findings of the study revealed that most small business

owners are aware of basic investment concepts, but many rely mainly on simple methods such as Payback Period due to ease of understanding and quick recovery of investment. Advanced techniques such as NPV and IRR are less commonly used because of limited financial knowledge and complexity. The study also found that expected profitability, availability of funds, and risk considerations are major factors influencing investment decisions.

The study highlights that lack of financial knowledge, shortage of funds, and difficulty in forecasting future returns are major challenges faced by small business owners while making investment decisions. The research suggests that increasing financial awareness, adopting simple financial planning tools, and seeking professional guidance can improve investment decision-making practices among small businesses.

Overall, the study emphasizes the importance of capital budgeting in small businesses and provides useful insights into practical investment appraisal practices followed by small business owners.

KEY WORDS: Capital Budgeting, Investment Decision Making, Small Business Owners, Financial Management, Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), Internal Rate of Return (IRR), Investment Appraisal Techniques, Time Value of Money, Financial Planning, Risk Analysis, Profitability Analysis, Long-Term Investment Decisions, Business Expansion, Capital Investment, Financial Awareness, Project Evaluation, Cash Flow Estimation, Return on Investment, Financial Decision Making, Small and Medium Enterprises (SMEs), Investment Risk, Financial Analysis, Budgeting Techniques, Cost and Return Evaluation, Investment Feasibility, Business Finance, Investment Planning, Financial Constraints.

Chapter I – Introduction

1.1 INTRODUCTION

Capital budgeting is one of the most important functions of financial management as it helps businesses make long-term investment decisions effectively. It refers to the process of planning, evaluating, and selecting investments in fixed assets such as machinery, vehicles, equipment, technology, plant expansion, or new business projects. These decisions involve large amounts of funds and have long-term effects on profitability, growth, and financial stability. Therefore, businesses must carefully evaluate investment opportunities before committing resources.

Financial experts such as Joel Dean and John Burr Williams emphasized that investment decisions should be based on systematic financial analysis rather than intuition or guesswork. Capital budgeting techniques such as Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), and Internal Rate of Return (IRR) are commonly used to evaluate the feasibility and profitability of investment projects. Among these methods, NPV and IRR are considered more scientific because they take into account the time value of money.

Small businesses also make frequent investment decisions related to expansion, purchase of vehicles, machinery, technology upgrades, and operational improvements. However, unlike large corporations, many small business owners may not use formal capital budgeting techniques while making investment decisions. Due to limited financial knowledge, lack of technical expertise, time constraints, or shortage of resources, investment decisions are often based on experience, personal judgment, liquidity availability, or urgency of business needs.

Improper investment decisions may lead to financial losses, inefficient use of resources, and increased business risk. Therefore, it becomes important to understand how small business owners evaluate investment opportunities and what factors influence their decisions. Studying the awareness and practical use of capital budgeting techniques among small business owners helps identify the gap between financial theory and actual business practice.

The present study titled “**A Study on Capital Budgeting Techniques Used by Small Business Owners in Investment Decision Making**” aims to examine the level of awareness regarding capital budgeting, identify the techniques commonly used before investing, analyze factors influencing investment decisions, and understand the challenges faced by small business owners during project evaluation. The study also attempts to provide suggestions for improving investment decision-making practices in small businesses.

1.2 Statement of the Problem

Capital budgeting is an important financial management process used for evaluating long-term investment decisions such as purchase of machinery, vehicles, equipment, technology, and business expansion projects. These investment decisions require substantial financial resources and directly affect the future profitability and growth of a business. Financial experts and scholars such as Joel Dean and John Burr Williams emphasized the importance of scientific investment appraisal techniques like Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), and Internal Rate of Return (IRR).

However, in the case of small businesses, investment decisions are often taken based on personal experience, intuition, or urgency rather than systematic financial analysis. Many

small business owners may not possess adequate knowledge regarding capital budgeting techniques or may avoid using advanced methods due to complexity, lack of time, or limited financial expertise. As a result, investment decisions may not always lead to optimal returns and may increase financial risk.

Although several studies focus on capital budgeting practices in large organizations, limited research is available regarding the awareness and practical application of these techniques among small business owners. Therefore, the present study aims to examine the awareness, usage, and effectiveness of capital budgeting techniques in investment decision-making among small businesses.

1.3 Purpose / Objectives of the Project

The main purpose of the project is to study how small business owners make investment decisions and to understand the extent to which they use capital budgeting techniques.

Objectives of the Study

- To understand the awareness of capital budgeting among small business owners.
- To identify which techniques such as Payback Period, ARR, NPV, and IRR are used before making investments.
- To study the factors influencing investment decisions of small business owners.
- To analyze how small business owners estimate project cost, expected return, and risk.
- To examine the problems faced while making investment decisions.

1.3 Theoretical Framework

The theoretical framework of the study is based on the concept of capital budgeting and investment decision-making in financial management. Capital budgeting refers to the process of planning and evaluating long-term investments to determine their profitability and feasibility.

The study focuses on the following capital budgeting techniques:

1. Payback Period

Measures the time required to recover the initial investment from project cash inflows.

2. Accounting Rate of Return (ARR)

Measures the average accounting profit earned from an investment as a percentage of investment cost.

3. Net Present Value (NPV)

Calculates the present value of future cash inflows and compares it with the initial investment. A positive NPV indicates project acceptability.

4. Internal Rate of Return (IRR)

Determines the discount rate at which the present value of cash inflows equals the initial investment.

The study assumes that awareness and proper application of these techniques improve the quality of investment decisions and reduce financial uncertainty among small business owners.

Conceptual Variables

1. Independent Variables

- Awareness of capital budgeting
- Capital budgeting techniques used
- Estimation of cost and returns
- Risk analysis
- Financial knowledge

2. Dependent Variable

Investment decision-making of small business owners

1.4 Significance of the Project

The present study is significant for the following reasons:

- It helps understand practical investment decision-making practices among small business owners.
- It identifies the level of awareness regarding capital budgeting techniques.
- It highlights the gap between theoretical financial concepts and actual business practices.
- It provides useful suggestions for improving investment appraisal methods in small businesses.
- It contributes to academic knowledge related to capital budgeting practices in SMEs.
- The findings may help small business owners make more effective and profitable investment decisions.

1.5 Definition of Terms

Capital Budgeting

Capital budgeting is the process of evaluating and selecting long-term investment projects based on expected costs and returns.

Investment Decision

An investment decision refers to the decision taken by a business regarding allocation of funds to long-term assets or projects.

Payback Period

The period required to recover the initial investment made in a project.

Net Present Value (NPV)

The difference between the present value of future cash inflows and the initial investment.

Internal Rate of Return (IRR)

The discount rate at which the net present value of a project becomes zero.

Small Business Owner

An individual who owns and manages a small-scale business enterprise and makes operational and financial decisions for the business.

Chapter II – REVIEW OF THE LITERATURE

2.1 Introduction

Review of literature refers to the systematic study and analysis of existing research, theories, books, journals, and scholarly articles related to the selected research topic. It helps in understanding previous work conducted in the field and provides a theoretical base for the present study. The literature review also helps identify research gaps and supports the development of research objectives and hypotheses.

The present study focuses on capital budgeting techniques used by small business owners in investment decision-making. Various researchers and finance scholars have studied the importance of investment appraisal techniques such as Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), and Internal Rate of Return (IRR), along with factors influencing investment decisions and financial planning in organizations.

2.2 Review of Existing Literature

1. Joel Dean – “Capital Budgeting” (1951)

Joel Dean explained the importance of capital budgeting in long-term financial planning. According to him, investment decisions should be based on systematic financial evaluation

rather than intuition. He emphasized that proper capital budgeting helps organizations allocate resources efficiently and improve profitability.

Contribution to Present Study:

Provides the theoretical foundation for scientific investment decision-making.

2. John Burr Williams – “The Theory of Investment Value” (1938)

Williams introduced the concept of discounted cash flow and explained that the value of an investment depends on the present value of future cash inflows. This theory became the basis for modern capital budgeting methods such as NPV and IRR.

Contribution to Present Study:

Supports the importance of time value of money in investment appraisal.

3. Ezra Solomon – “The Theory of Financial Management” (1963)

Solomon studied investment decision-making practices and observed that businesses often prefer simpler methods such as Payback Period due to ease of understanding and quick evaluation.

Contribution to Present Study:

Explains why small businesses may prefer traditional methods over advanced techniques.

4. Richard A. Brealey and Stewart C. Myers – “Principles of Corporate Finance” (2003)

The authors strongly recommended Net Present Value (NPV) as the most reliable method of evaluating investment projects because it measures the increase in firm value and considers time value of money.

Contribution to Present Study:

Provides conceptual understanding of modern capital budgeting techniques.

5. Aswath Damodaran – “Applied Corporate Finance” (2012)

Damodaran discussed practical difficulties faced by firms while applying capital budgeting techniques, including uncertainty in forecasting cash flows, lack of expertise, and financial constraints.

Contribution to Present Study:

Highlights challenges that small business owners may face during investment evaluation.

6. Harold Bierman Jr. – “Capital Budgeting Decisions” (1988)

Bierman observed that businesses with liquidity concerns often rely on Payback Period because it focuses on quick recovery of investment.

Contribution to Present Study:

Explains the practical preference for simple techniques among small businesses.

7. Arnold C. Cooper – “Strategic Management: New Ventures and Small Business” (1981)

Cooper found that many small firms lack formal financial planning systems and depend mainly on owner judgment while making investment decisions.

Contribution to Present Study:

Directly relates to investment practices followed by small business owners.

8. Eugene F. Brigham and Michael C. Ehrhardt – “Financial Management: Theory and Practice” (2010)

The authors explained various capital budgeting methods and emphasized that effective investment appraisal reduces financial risk and improves profitability.

Contribution to Present Study:

Provides theoretical explanation of capital budgeting techniques.

9. Pandey I. M. – “Financial Management” (2015)

Pandey discussed the application of capital budgeting techniques in Indian businesses and emphasized the importance of evaluating risk, return, and cost of capital before investment.

Contribution to Present Study:

Provides an Indian perspective on investment decision-making.

10. Prasanna Chandra – “Financial Management: Theory and Practice” (2011)

Prasanna Chandra explained practical approaches to capital budgeting and highlighted the importance of evaluating future cash flows and profitability before selecting investment projects.

Contribution to Present Study:

Supports the importance of scientific investment appraisal.

Chapter III – METHODOLOGY

3.1 Introduction

This chapter explains the method adopted for conducting the research study titled “**A Study on Capital Budgeting Techniques Used by Small Business Owners in Investment Decision Making.**” It describes the research design, subjects selected for the study, data collection methods, research instruments, and procedures followed during the study. The purpose of this chapter is to provide a clear understanding of how the research was conducted systematically to achieve the research objectives.

3.2 Research Design

The study follows a **descriptive research design** because it focuses on understanding and analyzing the awareness and practical use of capital budgeting techniques among small business owners. The descriptive method helps in collecting detailed information regarding investment decision-making practices, factors influencing investment decisions, and challenges faced during project evaluation.

The study uses both:

- **Primary Data**
- **Secondary Data**

Primary Data

Primary data is collected directly from small business owners through questionnaires and personal interaction.

Secondary Data

Secondary data is collected from:

- ✧ Financial management books
- ✧ Research journals
- ✧ Published articles
- ✧ Previous research studies
- ✧ Online academic resources

3.3 Subjects of the Study

The subjects selected for the study are **small business owners** involved in making investment decisions related to machinery, vehicles, equipment, technology, or business expansion.

The study includes business owners from sectors such as:

- ✧ Transportation and logistics

- ✧ Construction
- ✧ Retail businesses
- ✧ Manufacturing units
- ✧ Service businesses

The respondents are selected from local business areas accessible to the researcher.

3.4 Sampling Technique

The study uses the **Convenience Sampling Method**. Under this method, respondents are selected based on their availability, accessibility, and willingness to participate in the research study.

This method is considered appropriate due to:

- ✧ Limited time available for the study
- ✧ Easy access to respondents
- ✧ Practical feasibility of data collection

3.5 Sample Size

The sample size for the study consists of approximately **30 to 50 small business owners**. The selected sample size is considered sufficient for descriptive analysis and for understanding trends and patterns related to capital budgeting practices.

3.6 Data Collection Instrument

A **structured questionnaire** is used as the primary tool for collecting data from respondents.

The questionnaire includes close-ended and multiple-choice questions related to:

- ✧ Awareness of capital budgeting
- ✧ Techniques used before investment
- ✧ Estimation of cost and returns
- ✧ Risk evaluation
- ✧ Problems faced while making investment decisions

The questionnaire is designed in simple language to ensure easy understanding by respondents.

3.7 Procedure of the Study

The following procedure is adopted for conducting the research study:

Step 1: Identification of Research Problem

The researcher identified the problem related to the practical use of capital budgeting techniques among small business owners.

Step 2: Preparation of Questionnaire

A structured questionnaire was prepared based on the objectives of the study.

Step 3: Selection of Respondents

Small business owners relevant to the study were identified and selected through convenience sampling.

Step 4: Contacting Respondents

Respondents were personally contacted and informed about the purpose of the study.

Step 5: Collection of Data

Questionnaires were distributed through direct interaction and online forms. Respondents were requested to provide honest and accurate responses.

Step 6: Compilation of Responses

The collected responses were classified, tabulated, and organized for analysis.

Step 7: Data Analysis and Interpretation

The data was analyzed using percentages, tables, bar charts, and pie charts to draw meaningful conclusions.

3.8 Ethical Considerations

- ✧ Participation of respondents was voluntary.
- ✧ Consent was obtained before collecting data.
- ✧ Confidentiality of information was maintained.
- ✧ Responses were used only for academic purposes.

3.9 CONCLUSION

This chapter explained the method used for conducting the research study, including the research design, sampling procedure, subjects selected, instruments used, and detailed research procedures. The systematic approach adopted in the study helps in obtaining reliable information regarding capital budgeting practices among small business owners.

Chapter IV – DATA COLLECTION AND ANALYSIS

4.1 Introduction

This chapter presents the collection, classification, analysis, and interpretation of data related to the study titled “**A Study on Capital Budgeting Techniques Used by Small Business Owners in Investment Decision Making.**” The purpose of this chapter is to analyze the awareness and usage of capital budgeting techniques among small business owners and understand the factors influencing their investment decisions.

The following analysis is based on responses collected from 10 small businesses operating across different sectors. The collected data was analyzed to understand awareness and usage of capital budgeting techniques in investment decision-making among small business owners.

The chapter includes:

- ✧ Primary data collected through questionnaire responses
- ✧ Secondary data collected from books, journals, and research papers
- ✧ Analysis using percentages, tables, and interpretation

4.2 Data Collection

4.2.1 Primary Data Collection

Primary data was collected using a structured questionnaire prepared according to the objectives of the study. The questionnaire focused on:

- ✧ Awareness of capital budgeting
- ✧ Techniques used before investment
- ✧ Estimation of cost and return
- ✧ Risk analysis practices
- ✧ Problems faced during investment decisions

Sample Respondents

Sr. No.	Name of Business	Type of Business	Years of Operation
1	Priya Transport	Transportation & Logistics	8 Years
2	Vivah Collection	Retail Clothing Shop	5 Years
3	Sai Krupa Enterprises	Construction Contractor	10 Years
4	Vilas Chemicals	Manufacturing Unit	12 Years
5	Bhavani Motors	Automobile Spare Parts Retail	4 Years
6	Royal Trader Grocery Shop	Grocery Store	6 Years
7	Flylight Technologies	IT Service Firm	3 Years
8	Gurudatta Furniture	Furniture Business	9 Years

Sr. No.	Name of Business	Type of Business	Years of Operation
9	M.M. Pharma	Medical & Pharma Business	7 Years
10	Shikalkar Garage	Automobile Garage	11 Years

4.2.2 Secondary Data Collection

Secondary data for the study was collected from:

- ✧ Financial management textbooks
- ✧ Research journals
- ✧ Published research papers
- ✧ Academic articles
- ✧ Online financial resources

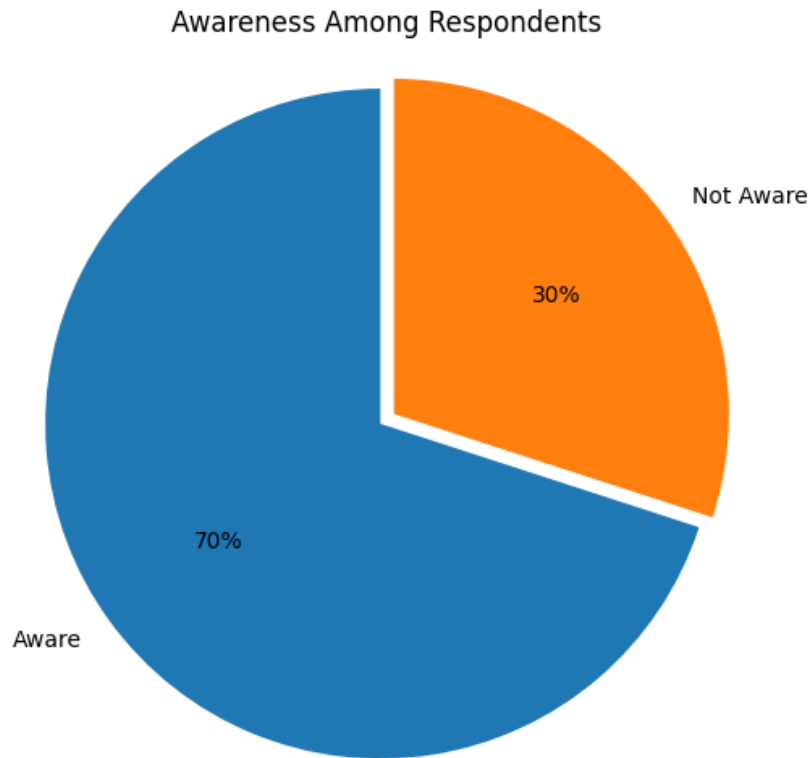
The analysis of secondary data revealed the following observations:

1. Capital budgeting is considered an important tool for evaluating long-term investment decisions.
2. Financial scholars such as Joel Dean and John Burr Williams emphasized the importance of scientific investment appraisal techniques.
3. Techniques like Net Present Value (NPV) and Internal Rate of Return (IRR) are theoretically considered superior because they consider the time value of money.
4. Research studies indicate that small businesses generally prefer simpler methods such as Payback Period due to ease of understanding and quick decision-making.
5. Lack of financial knowledge, uncertainty in forecasting cash flows, and shortage of funds are common challenges faced by small business owners.
6. Previous studies also suggest that many SMEs do not use formal investment appraisal systems while making business investment decisions.
7. Financial awareness and proper investment planning improve profitability and reduce investment risk.

4.3 Data Analysis and Interpretation

Table 4.1 Awareness of Capital Budgeting

Response	Number of Respondents	Percentage
Aware	7	70%
Not Aware	3	30%
Total	10	100%

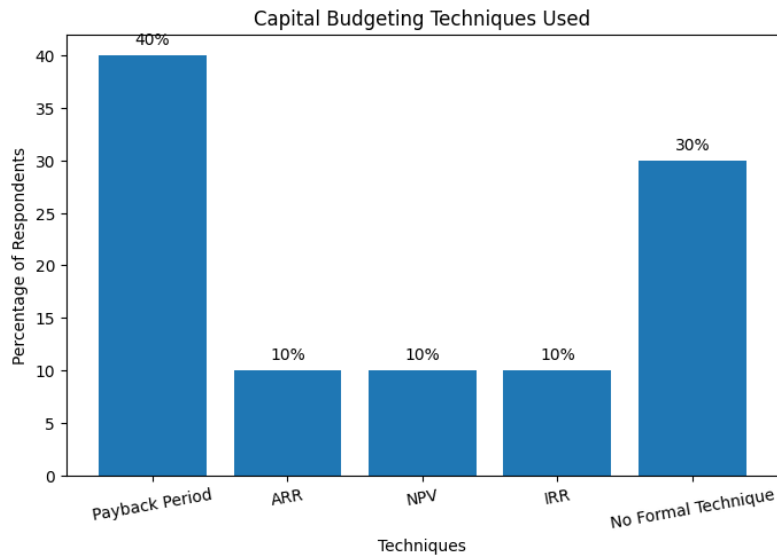


Interpretation

The above table shows that 70% of the respondents are aware of capital budgeting concepts, while 30% are not aware of formal investment appraisal techniques.

Table 4.2 Techniques Used Before Investment.

Technique Used	Number of Respondents	Percentage
Payback Period	4	40%
ARR	1	10%
NPV	1	10%
IRR	1	10%
No Formal Technique	3	30%
Total	10	100%



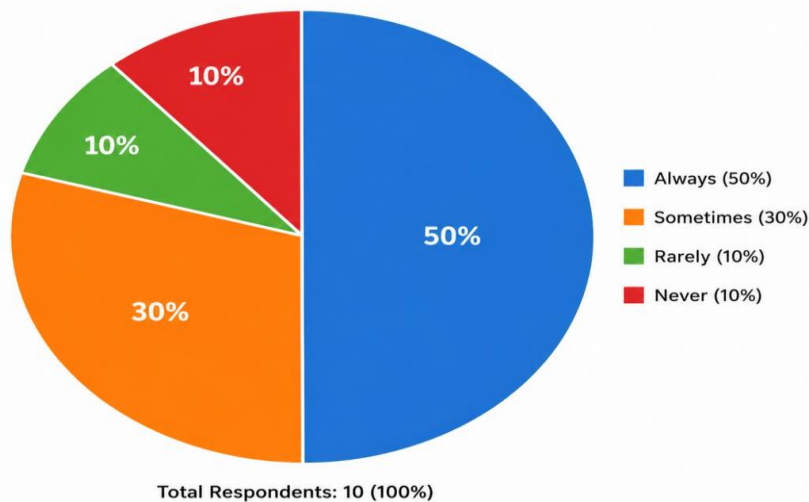
Interpretation

The analysis indicates that the Payback Period is the most commonly used technique among small business owners because of its simplicity and focus on quick recovery of investment. A significant number of respondents do not use any formal capital budgeting technique.

Table 4.3 Evaluation of Cost and Return Before Investment.

Response	Number of Respondents	Percentage
Always	5	50%
Sometimes	3	30%
Rarely	1	10%
Never	1	10%
Total	10	100%

Frequency of Using Capital Budgeting Techniques

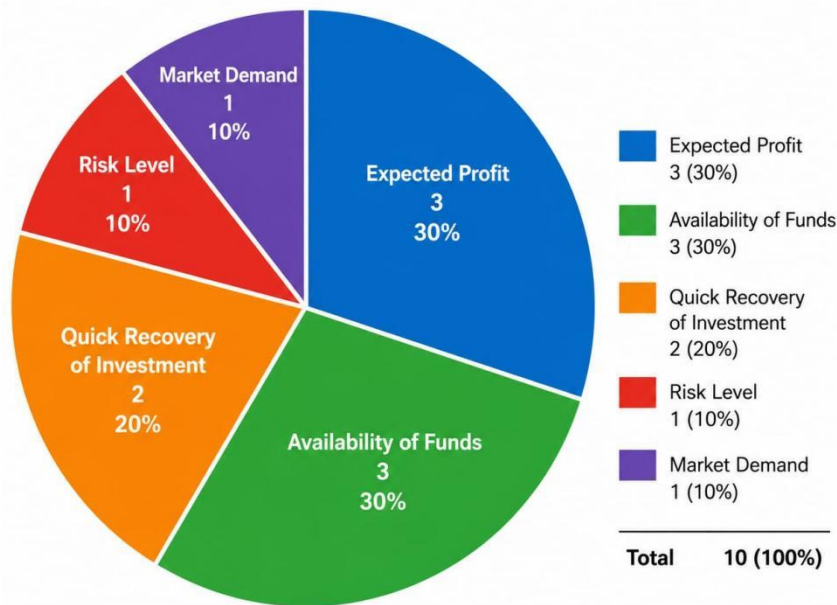


Interpretation

The table reveals that 50% of respondents always evaluate expected cost and return before investment, while 30% do so occasionally. This indicates moderate financial planning among small business owners.

Table 4.4 Most Important Factor Influencing Investment Decisions.

Factor	Number of Respondents	Percentage
Expected Profit	3	30%
Quick Recovery of Investment	2	20%
Risk Level	1	10%
Availability of Funds	3	30%
Market Demand	1	10%
Total	10	100%



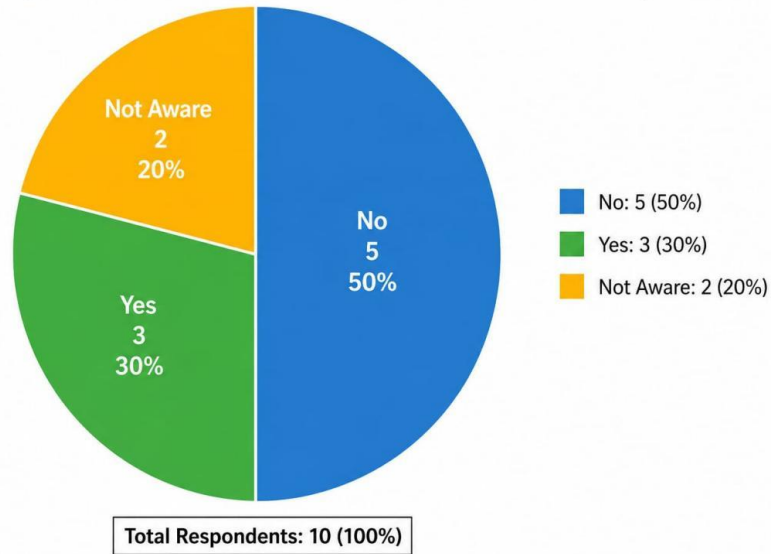
Interpretation

Expected profit and availability of funds are the most important factors influencing investment decisions among respondents. Small business owners mainly focus on profitability and liquidity before making investments.

Table 4.5 Consideration of Time Value of Money.

Response	Number of Respondents	Percentage
Yes	3	30%
No	5	50%
Not Aware	2	20%
Total	10	100%

Figure 4.5: Consideration of Time Value of Money



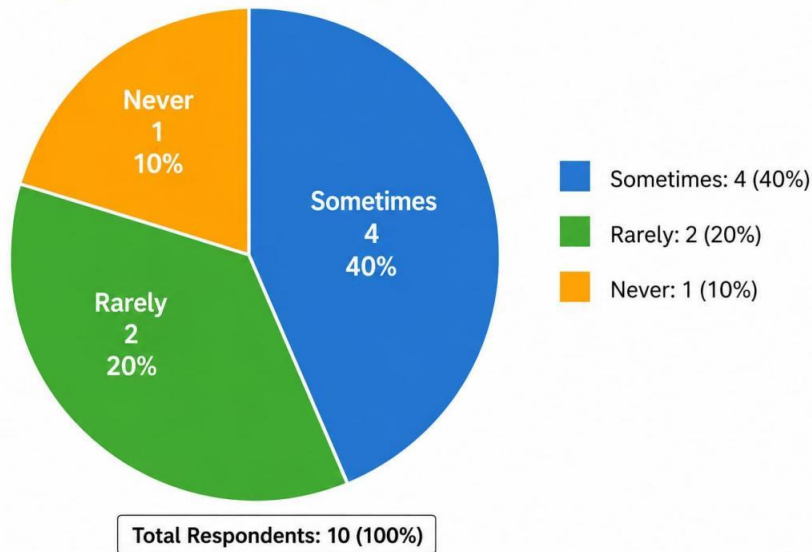
Interpretation

The findings show that only 30% of respondents consider the time value of money while making investment decisions. This indicates limited awareness regarding advanced capital budgeting concepts such as NPV and IRR.

Table 4.6 Risk Analysis Before Investment.

Response	Number of Respondents	Percentage
Always	3	30%
Sometimes	4	40%
Rarely	2	20%
Never	1	10%
Total	10	100%

Figure 4.6: Risk Analysis Before Investment



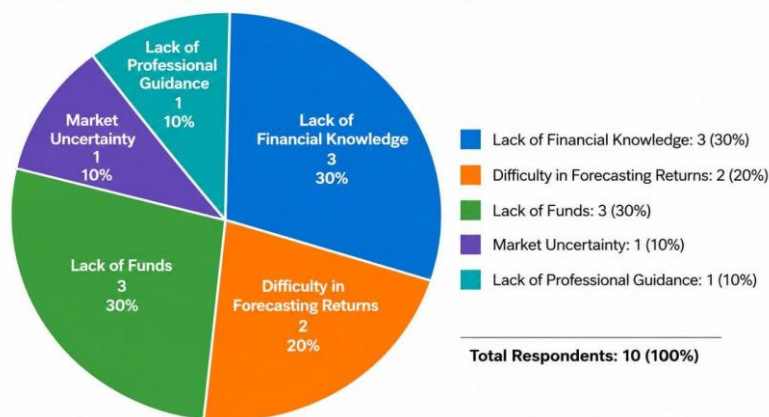
Interpretation

The analysis indicates that most respondents analyze risk either always or sometimes before investment. However, a few businesses still do not conduct proper risk analysis.

Table 4.7 Major Problems Faced During Investment Decisions.

Problems Faced	Number of Respondents	Percentage
Lack of Financial Knowledge	3	30%
Difficulty in Forecasting Returns	2	20%
Lack of Funds	3	30%
Market Uncertainty	1	10%
Lack of Professional Guidance	1	10%
Total	10	100%

Figure 4.7: Major Problems Faced During Investment Decisions



Interpretation

The major problems faced by respondents are lack of financial knowledge and shortage of funds. This indicates the need for financial awareness and better investment planning among small businesses.

4.4 Analytical Tools Used

The following analytical tools and techniques were used in the study:

- Percentage Analysis
- Frequency Distribution Tables
- Comparative Analysis
- Interpretation Method

These tools helped in understanding trends and patterns related to investment decision-making practices among respondents.



Figure 1: Sai Krupa Enterprises — Construction Site Overview, Pune.



Figure 2: Gurudatta Furnitures — Furniture Manufacturing Workshop, Solapur.



Figure 3: Vivah Collection — Retail Store Front View, Pune.



Figure 4: Priya Transport — Fleet Yard, Pune.



Figure 5: Vilas Chemicals - Front View of Chemical Shop, Solapur.



Figure 6: M. M. Pharma - Front View of Pharmaceutical shop, Chichwad.



Figure 7: Bhavani Motors- Automobile spare part retailer, Loni kalbhor.



Figure 8: Shikalkar Garage, Loni kalbhor.



Figure 9: Royal Traders, loni kalbhori.



Figure 10: Flylight Technologies, Pune.

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Chapter V – RESULTS / FINDINGS & SUGGESTIONS

5.1 Introduction

This chapter presents the major findings, results, and suggestions derived from the analysis of data collected from small business owners regarding the use of capital budgeting techniques in investment decision-making. The findings are based on the responses collected through questionnaires and the analysis conducted using tables, percentages, charts, and interpretation methods.

The chapter also highlights important issues, opportunities, trends, recommendations, and lessons learned during the research process.

5.2 Results and Findings of the Study

Based on the analysis of primary and secondary data, the following findings were observed:

5.2.1. Awareness of Capital Budgeting

The study revealed that majority of the respondents were aware of the concept of capital budgeting and understood the importance of evaluating investments before making financial decisions. However, a significant number of business owners still lacked proper knowledge regarding advanced financial techniques.

Finding:

- 70% of respondents were aware of capital budgeting concepts.
- 30% were not aware of formal investment appraisal methods.

5.2.2. Most Commonly Used Capital Budgeting Technique

Among the different capital budgeting techniques, the Payback Period method was found to be the most commonly used by small business owners because of its simplicity and easy understanding.

Finding:

- Payback Period was preferred by most respondents.
- Limited use of NPV and IRR was observed.

5.2.3. Limited Use of Scientific Techniques

The study showed that advanced techniques such as Net Present Value (NPV) and Internal Rate of Return (IRR) were not widely used among small businesses.

Finding:

- Many respondents did not consider the time value of money while making investment decisions.
- Investment decisions were often based on personal judgment and practical experience.

5.2.4. Factors Influencing Investment Decisions

The analysis indicated that expected profitability and availability of funds were the major factors influencing investment decisions.

Finding:

The important investment decision factors identified were:

- Expected profit
- Availability of funds
- Quick recovery of investment
- Risk level
- Market demand

5.2.5. Risk Analysis Practices

The study found that most businesses considered some level of risk before investing, but the process was generally informal and not based on systematic financial analysis.

Finding:

- Majority of respondents analyzed risk either always or sometimes.
- Formal risk assessment methods were rarely used.

5.2.6. Major Problems Faced by Small Businesses

Small business owners faced several difficulties while evaluating investment projects.

Major Problems Identified:

- Lack of financial knowledge
- Difficulty in forecasting future returns
- Shortage of funds
- Market uncertainty
- Lack of professional guidance

5.3 Key Issues Identified

The following key issues were identified from the study:

- Lack of awareness regarding advanced capital budgeting techniques.
- Dependence on simple methods such as Payback Period.
- Limited consideration of time value of money.
- Lack of formal financial planning systems.
- Financial constraints and uncertainty affecting investment decisions.
- Inadequate professional guidance for project evaluation.

5.4 Opportunities and Trends Observed

The study also identified certain positive trends and opportunities among small business owners:

- Increasing awareness regarding financial planning.
- Growing interest in evaluating investments before decision-making.
- Adoption of basic financial practices in small businesses.
- Availability of digital accounting and financial tools.
- Scope for training programs related to capital budgeting and financial management.

5.5 Suggestions and Recommendations

Based on the findings of the study, the following suggestions are recommended for improving investment decision-making among small business owners:

5.5.1. Increase Financial Awareness

Small business owners should be provided with basic financial education and awareness regarding capital budgeting techniques such as NPV, IRR, and ARR.

5.5.2. Use Simple Financial Planning Tools

Businesses should adopt simple and practical financial planning tools for evaluating investments before committing funds.

5.5.3. Consider Time Value of Money

Business owners should consider the time value of money while making long-term investment decisions to improve profitability and decision quality.

5.5.4. Seek Professional Guidance

Small businesses should consult accountants, financial advisors, or professionals while evaluating major investment projects.

5.5.5. Improve Risk Analysis Practices

Businesses should adopt proper methods for analyzing market risk, financial risk, and operational uncertainty before investment.

5.5.6. Maintain Proper Financial Records

Accurate financial records and cash flow statements should be maintained for better investment planning and forecasting.

5.6 Lessons Learned from the Study

The research study provided practical understanding regarding:

- Real-world investment decision-making practices
- Financial challenges faced by small businesses
- Difference between theoretical concepts and practical implementation
- Importance of financial awareness in business growth

The study also highlighted that small businesses require simple, practical, and easy-to-understand financial tools for effective decision-making.

5.7 Scope for Further Work and Improvement

The present study can be further expanded in the following areas:

- Conducting research with a larger sample size.
- Including businesses from multiple cities and industries.
- Comparing capital budgeting practices between small and large firms.
- Studying the impact of technology and digital finance tools on investment decisions.
- Conducting sector-wise analysis of investment appraisal techniques.

5.8 CONCLUSION

The study concludes that although small business owners recognize the importance of investment decisions, the use of formal capital budgeting techniques remains limited. Most businesses rely on simple methods and personal judgment rather than scientific financial analysis. Increasing awareness, financial education, and adoption of practical investment

appraisal techniques can significantly improve investment decision-making and long-term business growth among small enterprises.

Chapter VII :- Annexure

Questionnaire

A Study on Capital Budgeting Techniques Used by Small Business Owners in Investment Decision Making

Respondent Information

1. Name of Business (Optional): _____

2. Type of Business:

Transportation & Logistics

Construction

Retail

Manufacturing

Services

Other: _____

3. Years of Business Operation:

Less than 2 years

2–5 years

5–10 years

More than 10 years

4. Number of Employees:

Less than 10

10–25

25–50

More than 50

Section A – Awareness of Capital Budgeting

1. Are you aware of the concept of capital budgeting?

Yes

No

2. Have you heard about the following capital budgeting techniques?

Technique

Yes No

Technique	Yes	No
Payback Period	<input type="checkbox"/>	<input type="checkbox"/>
Accounting Rate of Return (ARR)	<input type="checkbox"/>	<input type="checkbox"/>
Net Present Value (NPV)	<input type="checkbox"/>	<input type="checkbox"/>
Internal Rate of Return (IRR)	<input type="checkbox"/>	<input type="checkbox"/>

Section B – Investment Decision Practices

3. Does your business make long-term investments such as machinery, vehicles, equipment, or expansion?

- Yes
- No

4. Before making investments, do you evaluate expected costs and returns?

- Always
- Sometimes
- Rarely
- Never

5. Which capital budgeting technique do you mostly use?

- Payback Period
- ARR
- NPV
- IRR
- No formal technique

6. Which factor is most important while making investment decisions?

- Expected Profit
- Quick Recovery of Investment
- Risk Level
- Availability of Funds
- Market Demand

7. Do you consider the time value of money while making investment decisions?

- Yes
- No

Not Aware

Section C – Estimation of Cost, Return, and Risk

8. How do you estimate project cost before investment?

Past Experience

Financial Calculations

Advice from Accountant/Consultant

Market Research

Other: _____

9. How do you estimate expected returns from investment projects?

Past Profit Trends

Sales Forecasting

Cash Flow Estimation

Personal Judgment

Other: _____

10. Do you analyze risk before making investment decisions?

Always

Sometimes

Rarely

Never

11. What type of risks do you mainly consider?

Financial Risk

Market Risk

Operational Risk

Competition

Economic Conditions

Section D – Problems Faced in Investment Decision Making

12. What major problems do you face while evaluating investment projects?

Lack of Financial Knowledge

Difficulty in Forecasting Returns

Lack of Funds

Market Uncertainty

Lack of Professional Guidance

13. Do you think formal capital budgeting techniques improve investment decisions?

Yes

No

Maybe

14. Would you like training or guidance on capital budgeting techniques?

Yes

No

Section E – Suggestions and Feedback

15. According to you, what can improve investment decision-making in small businesses?

Any additional suggestions/comments: