

ACCOUNTING

A capital decision

As the complexity of securities regulation is compounded by the fundamental mismatch of applying domestic laws to increasingly globalised markets without national boundaries, it is proposed that a specialised Securities Court with an exclusive mandate to hear and adjudicate securities laws cases be established.

The rules of this court ought to be sufficiently proactive and flexible to meet the demands of the constantly changing securities markets and it must be empowered with a comprehensive range of legal and administrative orders. To prevent possible abuses of process, restrictions must be imposed on the use of damages that are awarded against directors as these would facilitate a better alignment of the interests of independent shareholders and the company.

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LIGHT RELIEF By Steven Moore



A recent case study on three foreign direct investment (FDI) projects in the 1990s by leading Greek ice cream maker Delta has endorsed previous findings on the role of information in the capital budgeting process. Results showed that financial analysis in FDI decision-making had limited influence. As Delta's treasurer says, "The financing study takes place at the implementation stage..."

Delta's enormous growth in a few short years meant it had to split its functions into operational and corporate activities. However, this decentralisation negatively impacted on intra-company relations.

A new reporting system provided more precise estimates on future sales and proved more useful in investment decision-making, budgeting and reporting.

Basically, Delta's FDI decision-making information is strategic, qualitative and informal, focusing on the macro-environment. Delta's mission was to build a high market share, allowing at least five years for a return. A break-even was considered essential for arguing the commercial viability of projects.

Financial analysis deviated from both the normative theory where discounted cash flow (DCF) would be expected to feature and from survey findings. Sales volume estimates and the average selling price of ice cream were the basic indicators of its project analyses.

Another use the capital budgeting system serves is management control. In FDI decisions, capital budgeting and business planning systems provide reassurance that important issues have been considered.

Cash flows are used to guarantee that whoever proposes a capital investment project has taken into account its most important elements and financial impact.

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