

# DCF Techniques and Nonfinancial Measures in Capital Budgeting: A Contingency Approach Analysis

Shimin Chen

+ [Author & Article Information](#)

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This study empirically examines capital budgeting methods. Based on 115 responses from a cross-sectional survey and two approaches to contingency fit, this study produces three basic findings. First, both discounted cash flow (DCF) techniques and nonfinancial measures are widely used in capital budgeting. However, DCF techniques are more important than nonfinancial measures, and nonfinancial measures appear to serve as a partial substitute when DCF analysis is less efficient. Second, DCF techniques and nonfinancial measures are not unconditionally appropriate. Although the impact of firm strategy on capital budgeting methods is not supported by the present results, the study shows that product standardization affects both capital budgeting methods, as hypothesized. Firms with high product standardization tend to place more emphasis on DCF analysis, while firms with low standardization are more likely to focus on nonfinancial measures. Third, an appropriate fit under contingency theory between product standardization and the two capital budgeting methods is significantly associated with a firm's satisfaction with the capital budgeting process.

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