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Investment Evaluation Methods and Required Rate of Return in Finnish Publicly Listed Companies

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Abstract


Financial literature and professors advocate the use of the Net Present Value method for the evaluation of investments. Its key parameter is the required rate of return on equity, which is to be calculated using the Capital Asset Pricing Model or a similar model especially if the company is publicly listed. However, there is ample evidence on companies not necessarily utilizing the NPV method or the CAPM in their capital budgeting and investment evaluation processes. This paper presents results of a survey conducted among the companies listed on the Helsinki Stock Exchange. The results show that the Finnish companies still lag behind US and Swedish companies in their use of the NPV, and the IRR method, even though it has become more commonly used during the last ten years. CAPM is used in surprisingly few companies, and 27 percent of the companies have not even defined their required rate of return on equity.

Keywords: Investment, payback rule, IRR, NPV, WACC, CAPM, HEX

JEL Classification: G31

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