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THE IMPACT OF EFFECTIVE CORPORATE CAPITAL BUDGETING ON FINANCIAL PERFORMANCE OF JORDANIAN FIRMS

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ABSTRACT
Corporate capital budgeting has become a major issue in many global corporate scandals. It can be interpreted as an action purposely conducted by managers of a firm to report the financial performance which are not in line with the economic reality of the firm for opportunistic or informative purposes. Opportunistic corporate capital budgeting can cause the quality of published financial performance to deteriorate, while also diminishing the trust that investors have in the financial reports. This study investigated the relationship between the corporate capital budgeting in relation to financial performance (ROA & ROE) in Jordan. The sample of the current study is 1210 firm-year observations on firms listed on the Amman Stock Exchange from 2013 to 2022. To test the hypotheses of the current study, multiple regression analysis using STATA software was employed. The results of this study revealed that a corporate capital budgeting is positively related to financial performance (ROA & ROE). The findings of the current study have implications on investors, regulators, and market participants by affording a considerable indication that the corporate capital budgeting is very crucial in explaining the financial performance.

Keywords: Corporate Capital Budgeting, Financial Performance, Jordan.

1.0 INTRODUCTION

1.1 Background of the Study

Financial performance is a critical indicator of an organization's health and long-term survival (Elvin & Hamid, 2016). It reflects the extent to which financial objectives are achieved and serves as a benchmark for comparing firms within and across industries (Mwangi, 2012). Financial performance can be categorized into accounting-based measures; such as, return on assets (ROA) and return on equity (ROE)and market-based metrics (Din et al., 2021). ROA and ROE are widely used to assess profitability, calculated by dividing net income by total assets and equity, respectively (Liu et al., 2021).In Jordan, corporate financial performance has been significantly impacted by macroeconomic challenges over the past decade. External shocks, including the Syrian refugee crisis, trade disruptions, declining tourism, and rising operational costs, have strained business profitability (Al-Serhan, 2021; World Bank, 2024). The manufacturing sector has been particularly affected, with studies showing a 22% decline in revenues among non-financial firms between 2010 and 2018 (Abdallah, 2019). Additionally, high corporate tax rates compared to neighbouring countries have further eroded margins (Al-Abdullah, 2017).

Amid these challenges, effective capital budgeting the process of evaluating and selecting long-term investments plays a pivotal role in financial performance. Capital budgeting techniques such as net present value (NPV), internal rate of return (IRR), and payback period (PBP) help firms allocate resources efficiently (Juliani & Rahadi, 2020). However, Jordanian firms predominantly rely on simpler methods like PBP rather than advanced discounted cash flow (DCF) models (Amini & Safavi, 2018). This reliance on traditional approaches may hinder investment efficiency, as evidenced by the underperformance of Jordanian banks

linked to poor capital budgeting practices (Abbadi & Abbadi, 2013).This study examines the relationship between corporate capital budgeting and financial performance in Jordanian non-financial firms listed on the Amman Stock Exchange (ASE) from 2013 to 2022. The research is motivated by Jordan's economic reforms and the need to understand how improved capital allocation can enhance firm profitability and strategic growth.

1.2 Problem Statement

Financial theory posits that firms aim to maximize shareholder wealth through optimal investment decisions (Brunner & Ostermaier, 2019). Capital budgeting serves as a key mechanism for achieving this by ensuring economically rational resource allocation (Sarwary, 2020). However, firms in developing economies, including Jordan, often rely on outdated capital budgeting techniques, leading to suboptimal financial performance (Mansaray, 2019; Andrew & Iwoye, 2020).Jordan's economy has faced stagnation due to sluggish GDP growth, declining productivity, and external shocks (World Bank, 2020). Many ASE-listed firms now face heightened bankruptcy risks due to inefficient capital budgeting and economic pressures (Shatnawi Marei, Hanefah, Eldaia, & Alaaraj, 2022). Studies confirm that Jordanian firms predominantly use traditional budgeting methods, which fail to account for dynamic market conditions (Alrabba,Ahmad, & Hamadneh, 2019; Atieh, Afifa, & Al-Manaseer,2020). Conversely, emerging research suggests that advanced techniques (e.g., NPV, IRR) significantly enhance financial performance (Kasasbeh, 2021; Shra'ah & Elayan, 2019).

In addition, resource dependence theoryapplies in this study to explain how capital budgeting enhances financial performance. The theory posits that firms compete based on resource allocation efficiency. Effective capital budgeting acts as a strategic tool, enabling firms to optimize investments and improve financial outcomes(Ali, Qamar, et al. 2021; Elareshi et al. 2022; Habes, Elareshi, and Ziani 2021).Finally, this study bridges a critical research gap by analysing the impact of capital budgeting on Jordanian firms' financial performance. By examining a decade of data (2013–2022), it offers insights into how advanced budgeting techniques can mitigate financial risks and drive sustainable growth. The findings will benefit corporate managers, investors, and policymakers, reinforcing the importance of strategic capital allocation in a challenging economic environment.

2.0 LITERATURE REVIEW

2.1 Financial Performance

Financial performance is a critical determinant of a company's sustainability and its ability to retain stakeholder confidence, including customers, creditors, and investors (Orbunde, Lambe & Onuigbo, 2021). In today's competitive market, profitability is not merely an outcome but a strategic necessity that influences a firm's survival (Liu, Fisher & Chen, 2018). Corporate managers face persistent challenges in optimizing financial performance, as it directly impacts on management effectiveness (efficient utilization of limited resources), investor objectives (maximizing shareholder wealth), and creditor expectations (ensuring debt repayment and interest obligations) (Daniel & Nduka, 2020).

Financial performance can be assessed through multiple indicators, including profitability, dividend growth, sales turnover, asset base, and capital employed (Ibrahim, Ahmed, Muhammed, Abdulsalami, & Tanko,2022). However, there remains ongoing debate regarding the most effective metrics for evaluating firm success and the factors that influence it (Tien, Anh & Ngoc, 2020).

ROA is a widely used accounting-based performance metric that measures how efficiently a company utilizes its assets to generate profits (Tarigan, Hatane, Wandy & Widjaja,2019). It is calculated as: Total Assets divided by Net Income.

ROA provides investors with insights into the returns generated from capital investments (Sari & Endri, 2019). A higher ROA indicates superior asset utilization efficiency (Hirdinis, 2019), making it a key short-term performance indicator (Nguyen & Nguyen, 2020).
However, ROA has faced criticism due to potential discrepancies between accounting earnings and economic earnings, as well as the fact that book values of assets may not reflect true market values (Allam, 2018). Despite these limitations, ROA remains a fundamental tool for assessing operational efficiency(Ezmigna et al. 2025).
In addition, to evaluates the profitability from the shareholders' perspective should use ROE, which computing as Net Income divided by Shareholders' Equity (Al-Nsour, & Al-Muhtadi, 2019).ROE serves as a critical indicator of how effectively a firm uses equity financing to generate profits and create shareholder value (Panigrahi & Vachhani, 2021). A high ROE suggests strong profitability, optimal debt-equity balance, and efficient capital allocation factors that attract investors and facilitate fundraising (Hahn & Chinta, 2017).
ROE has become a cornerstone of financial analysis due to its ability to assess the profitability by net income generation), asset management efficiency through revenue generation from investments), and financial leverage by use of debt to amplify returns (Majka, 2024).
Firms rely on ROE to guide capital allocation strategies, ensuring investments are directed toward high-return projects (Bunea, Corbos & Popescu, 2019). Lenders also incorporate ROE into credit evaluations, as it reflects a company's financial stability and repayment capacity.
Ultimately, financial performance metrics such as ROA and ROE play a pivotal role in corporate decision-making, investment analysis, and strategic planning. While ROA emphasizes asset efficiency, ROE focuses on shareholder returns, making them complementary yet distinct indicators(Tahat et al. 2025).

2.2 Effective Corporate Capital Budgeting

An expanding body of research has established the critical relationship between capital budgeting practices and corporate financial performance (Jama, 2018). As the fundamental objective of any business is value maximization, managers must prioritize investments that enhance firm value through optimal resource allocation (Castro, Ramírez, & Escobar, 2021). Capital budgeting serves as the primary mechanism for achieving this goal by providing a structured decision-making framework that replaces subjective judgments with data-driven analysis, enabling systematic evaluation of competing investment opportunities, and ensuring alignment between capital allocation and long-term strategic objectives (Rounaghi, 2019)
Alayli (2023) conceptualizes capital budgeting as an organization's capacity to efficiently finance long-term investments amid resource constraints and competing alternatives. This definition underscores the strategic dimension of capital budgeting beyond mere financial calculation. In the same vein, Alles, Jayathilaka, Kumari, Malalathunga, Obeyesekera and Sharmila (2021) characterize capital budgeting (or investment appraisal) as the formal process of assessing large-scale, long-term investment opportunities through future cash flow estimation, risk assessment, and return evaluation.
The irreversible nature of major capital projects which typically require substantial commitments and extended time horizons makes rigorous capital budgeting essential (Sahlman, 2022). Khan and Khan (2019) emphasize that effective capital budgeting techniques allow managers to optimize scarce resource deployment, mitigate investment risks, and enhance stakeholder confidence through transparent decision-making.
Contemporary research identifies multiple approaches to capital budgeting evaluation like traditional Valuation Metrics; whereby, Purnamasari and Adriza (2024) highlight that different capital budgeting methods offer complementary perspectives; such as, discounted cash low (DCF), payback period analysis (PPA), accounting rate of return (ARR), net present

value (NPV), and internal rate of return (IRR). So, each method presents unique advantages and limitations, necessitating careful selection based on investment characteristics and organizational context(Al-Skaf et al. 2021; Ali, Habes, et al. 2021).

While, recent theoretical advances propose more sophisticated evaluation frameworks like Marginal q Theory (Mujtaba, 2025; Durnev, Morck, & Yeung,2004), ehich measures capital budgeting efficiency through the ratio of marginal change in firm value to contemporaneous investment. It is worth noting, establishes an optimal benchmark value of 1.0. Whilst, $q > 1.0$ indicates underinvestment (missed opportunities); and, $q < 1.0$ suggests overinvestment (value destruction). By all means, accounts for external factors (e.g., tax policies) that may modify the optimal threshold. Hence, this approach provides a market-based assessment of capital budgeting effectiveness, complementing traditional cash flow analyses.

Undoubtedly, the literature demonstrates that effective capital budgeting contributes to superior financial performance through enhanced resource allocation efficiency, reduced investment risk exposure, improved stakeholder confidence, and stronger alignment with value maximization objectives(Ziani et al. 2021).

In light of the aforesaid, this study establishes capital budgeting as a multidimensional process combining financial analysis, strategic planning, and value optimization. While traditional methods remain prevalent, emerging approaches like marginal q analysis offer promising avenues for enhanced investment evaluation.

2.3 The Effect of Effective Corporate Capital Budgeting on Financial Performance (FP)

Businesses build value by making investments, some short-term and some long-term (Safitri, Sari, & Gamayuni, 2020). A corporation must first determine its objectives with regard to the market or markets in which it wishes to compete before moving further with capital investments. After that, the business must devise a plan by first analysing the macroenvironment for risks and opportunities, and then determining its own strengths and limitations(Al-Skaf et al. 2021; Elareshi et al. 2023). The quantity of investments a corporation can make will be constrained by the amount of capital that is available to spend (Block, Fisch, Vismara & Andres, 2019).

Capital budgeting describes decisions made by an organization to allocate resources in profitable investments and projects so as to maximize the wealth of shareholders (Sureka, Kumar, Colombage & Abedin, 2022). Capital budgeting is also called investment decision and it is systematically undertaken within an organization.

Klammer (1973) conducted a survey study to prove a causal relationship between the firm's performance and the sophistication of its capital investment procedures and practices. He surveyed 369 manufacturing firms to determine the level of sophistication of each firm. The unit of measurement for performance was the operating rate of return. Klammer (1973) also created dummy variables for the discount valuation techniques, profit contribution, firm size, firm's risk and capital intensity of the firm. Regression analysis was then used to formulate a linear relationship between these factors(Wang et al. 2023). The result was that the accounting rate of return and discounting variables were found to have a negative performance relationship. The return on assets, which measures operating performance rather than capital investment efficacy, was one of the performance metrics utilized by Klammer (1973).

Similar research was done by Kengatharan and Clamenthu (2017) using the same performance assessment as Klammer (1973), with adjustments for firm size, operating and financial risk, strategic analysis, and other factors. The financial performance showed a positive correlation with the sophistication of capital budgeting practices.

In the same vein, Mgobhozi (2012) included strategic analysis, return/risk goals and cash flow forecasting as additional components of identification and development to the capital

budgeting practices analysis. Although it was an advance over Klammer's (1973) approach, this analysis also omitted the vital selection and control related components of capital budgeting, which are relevant to the capital budget's implementation and administration. Businesses might excel in the planning stage of capital budgeting, but they might struggle to implement and manage long-term investments(Sarwar et al. 2023).The main idea of resource dependence theory is that how companies compete in the market on the basis of their resources. The association of this theory with the current study is how effective corporate capital budgeting is useful in providing the resources that will helpful in the business market to improve the financial performance.

According to the previous studies mentioned above with also the resource dependence theory and the research questions and objectives. Thus, the following hypothesis was formulated:

H1: Corporate Capital Budgeting has a positive effect on ROA.

H2: Corporate Capital Budgeting has a positive effect on ROE.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

In fulfilling the study's primary objective, this study employs a quantitative research design to systematically examine the relationship between corporate capital budgeting practices and financial performance among Jordanian listed companies(Habes, Elareshi, et al. 2022; Habes, Salous, and Al Jwaniat 2022; Ullah et al. 2024; Ziani et al. 2021). The choice of a quantitative approach is justified by its ability to provide measurable, statistically valid insights into the hypothesized relationships while controlling for relevant firm-specific and macroeconomic factors. Also, quantitative research offers several advantages for this study enables precise measurement of financial performance indicators (ROA, ROE) and capital budgeting sophistication levels. Afterwards, the research design follows a deductive approach, moving from theoretical proposition resource dependence theory to empirical testing through structured data analysis.

STATA software will be employed for data analysis due to its advanced panel data capabilities for longitudinal analysis, robust regression techniques to handle heteroskedasticity and autocorrelation, user-friendly interface for complex statistical modelling.

This study conducts a longitudinal analysis of Jordanian companies listed on the Amman Stock Exchange (ASE), which are categorized into three sectors. The sectors are service, industrial and financial sectors. This study focuses specifically on the industrial and service sectors over a ten-year period (2013-2022). The selection of these sectors is methodologically significant for several reasons:

These sectors constitute approximately 68% of ASE's market capitalization, providing a comprehensive view of Jordan's non-financial corporate landscape.

To ensure data quality, this study implement a multi-stage filtering protocol for the sample screening procedure are as follows:

- Data availability screen that excludes firms with missing financial statements for >2 consecutive years.
- Companies with missing data of the variables are excluded.
- Remove companies delisted during the study period.
- Exclude firms undergoing major restructuring (e.g., mergers).
- Excluded the financial sector because the sector is bound with the regulations of the Insurance Commission and Central Bank of Jordan, making it impossible to compare relevant indicators between the financial industry and nonfinancial industries.

This study's data is obtained from the Amman Stock Exchange (ASE) database. To mitigate the interferences of extreme values of variables in the research model, all continuous variables are subjected to tail reduction at the levels of 1% and 99%.

Bottom line, the baseline sample comprises 1,210 firm-year observations derived from industrial sector which contain 72 companies (720 observations); and, service sector which contain 49 companies (490 observations).

As previously mentioned, the data used in this study will be primarily secondary data from the annual reports of ASE listed companies in Jordan and from the Thomson One Data Stream database or directly from the websites from each firm or from the website of the ASE, including information on the effective corporate capital budgeting and financial performance.

3.2 Measurement of Variables

All of the study variables' operational definitions are provided in this section (i.e., dependent variables, independent variable and control variables):

Financial Performance (FP):

ROA is used as accounting-based measure. ROA measures how much profit a firm can make using the assets it owns (Arosa, Iturralde,& Maseda,2010). ROA is calculated as net income before extraordinary items scaled by total assets.

ROE is used as accounting-based measure due to is one of the main financial ratios, which is derived from net income and equity (be formed from owner equity and retained earnings). ROE is a measure of how the stockholders fared during the year (Ross et al., 2010).

Effective Corporate Capital Budgeting

In relation to this study and following to Biddle, Hilary, and Verdi (2009), this study interprets investment efficiency as proxied by the difference between capital expenditures and asset sales for firm i at year t, scaled by capital stock at the beginning of the period. Salesi,t is the change in sales from year t - 1 to year t for firm i scaled by prior sales. "i,t+1 is residuals raised from equation to proxy for investment inefficiency for firm i at year t + 1. The reason for using the model is that according to the neo-classical framework (Hayashi, 1982), the marginal Q ratio should describe solely corporate investment when markets are perfect (Houcine, 2017).

$INVi,t+1 = \beta0 + \beta1 * Sales_{i,t} + "i,t+1$

Where:

INVi,t+1: Total investment of firm i in year t, defined as the net increase in total assets and scaled by the previous year's total assets

Sales: The rate of change in sales of firm i from t − 2 to t − 1. Current year sales – prior year's sales)/prior year's sales.

Control Variables

Firm Sizeis represented by the market capitalization of the firm; logarithm of the firm's market capitalization is used of total assets.

Firm Age is the number of years since the firm was incorporated is how the current study defined the firm age (Rahman,& Yilun, 2021).

Leverageis defined as total debt percentage in the capital structure of the firm which is the most common proxy for leverage and calculated as the total debt divided by total assets (Makhlouf, Laili, Basah, & Ramli,2017; Bonna, 2012).

4.0 DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Descriptive Statistics

Displayed in Table 4.1 the total observations mean, standard deviation, minimum, and maximum values for all the employed variables.

Table 4.1: *Descriptive Statistics*

Variables	Obs	Mean	Std.Dev.	Min	Max
ROA	1210	5.068	5.780	-22.330	33.660
ROE	1210	5.013	8.065	-36.460	46.440
ECB	1210	745313.31.000	2035750.8.000	-2084510.7.000	35887800.000
FS	1210	7.251.000	1.569.000	-5.350.000	9.250.000
FA	1210	29.482	15.138	10.000	76.000
LEV	1210	32.859	22.031	-26.430	99.830

Note: ROA =Return on Assets, ROE = Return on Equity, ECB = Effective Corporate Capital Budgeting, FS = Firm Size, FA = Firm Age, LEV = Leverage.

The table 4.1, presents descriptive statistics provides a comprehensive overview of the variables analysed in the study on Jordanian non-financial firms listed on the Amman Stock Exchange from 2013 to 2022 for 1,210 firm observations, detailing key financial performance indicators (ROA & ROE), effective corporate capital budgeting, and firm-specific characteristics (firm size, firm age and leverage). These metrics are instrumental in understanding the operational efficiency of Jordanian firms.

4.2 Multivariate Regression Diagnostic Tests

The diagnostic tests were executed on the obtained data, and to assure the validity of data for the OLS results, the following assumptions have to be met: normality, heteroscedasticity, multicollinearity, autocorrelation and cross-sectional dependency.

In this study, the normality test was conducted using (Skewness and kurtosis) and a P-plot graph. Moreover, a heteroscedasticity test was conducted using Breusch and Pagan (1980). Besides, the variance inflation factor test was conducted to check the multicollinearity issue. Next, the study tests for autocorrelation using the Wooldridge test, and finally, cross-sectional dependency was checked using Pesaran's cross-sectional dependency test.

All the mentioned tests were carried out as assurance that the data fulfil the parametric check requirements. It should be noted that the inferences on the estimates from the OLS would become inefficient or invalid statistically if the assumptions are violated (Gujarati, 2003; Greene, 2009). Accordingly, this study employed various statistical analyses from the STATA statistical tool in testing the assumptions.

Table 4.2:*Normality test*

	Before Winsorizing		After Wisorizing	
Variables	**skewness**	**kurtosis**	**Skewness**	**kurtosis**
ROA	0.309	6.376	0.309	6.376
ROE	-0.433	5.748	-0.433	5.748
ECB	10.394	137.535	1.897	6.979
FS	-3.801	20.016	-0.654	4.859
FA	0.529	2.523	0.529	2.523
LEV	0.925	3.422	0.925	3.422

4.3 Results of the Relationships

The results offered in Table 4.3 show that ECB are positively and significantly related to Financial Performance (ROA and ROE). In addition, Table 4.3 shows that the relationship is negative and significant between LEV with ROA. Conversely, the relationship between LEV with ROE in Table 4.3 shows positive and significant. Moreover, Table 4.3 revealed that FS and FA is not related to Financial Performance (ROA and ROE).

Table 4.3:*OLS with Linear regression*

ROA	**Coef.**	**St.Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
ECB	0.000	0.000	4.21	0.000	0.000	0.000	***
FS	0.268	0.226	1.180	0.237	-0.177	0.712	
FA	0.006	0.012	0.450	0.654	-0.019	0.030	
LEV	-0.010	0.008	-3.270	0.015	-0.006	0.006	**
Constant	2.711	1.664	1.630	0.104	-0.554	5.976	*
Mean dependent var		5.068	SD dependent var			5.780	
R-squared		0.125	Number of obs			1210	
F-test		5.218	Prob > F			0.000	
Akaike crit. (AIC)		7669.066	Bayesian crit. (BIC)			7694.558	

ROE	**Coef.**	**St.Err.**	**t-value**	**p-value**	**[95% Conf**	**Interval]**	**Sig**
ECB	0.000	0.000	4.960	0.000	0.000	0.000	***
FS	0.004	0.317	0.010	0.990	-0.618	0.626	
FA	-0.005	0.015	-0.35	0.729	-0.035	0.024	
LEV	0.012	0.011	3.09	0.020	-0.009	0.013	**
Constant	3.935	2.384	1.65	0.099	-0.743	8.612	*
Mean dependent var		5.068	SD dependent var			5.780	
R-squared		0.162	Number of obs			1210	
F-test		5.218	Prob > F			0.000	
Akaike crit. (AIC)		7669.066	Bayesian crit. (BIC)			7694.558	

4.3.1 Corporate Capital Budgeting and Financial Performance (ROA and ROE)

About the first and second hypothesis (H1 & H2), it was expected in the current study that a positive and significant relationship would exist between corporate capital budgeting and financial performance (ROA and ROE). According to Table 4.3 corporate capital budgeting (ECB) is significantly and positively related to ROA at a 1% level ($t = 4.21$, $p < 0.01$); and ROE at 1% level ($t = 4.96$, $p < 0.01$).

Arguably, the result indicates that higher corporate capital budgeting investments lead to higher ROA, which it measures how efficiently a firm uses its assets to generate profit. More broadly, well-planned capital budgeting (e.g., investments in productive assets, technology, or expansion) improves asset utilization and profitability. Regarding to the relationship with ROE, the result shows that positive direction for ECB suggests that higher capital budgeting investments also enhance ROE, which it measures how effectively a firm generates profit from shareholders' equity. Alongside, the findings suggest that strategic capital investments lead to higher returns for shareholders, possibly due to improved operational efficiency or revenue growth. Given this, companies that invest wisely in capital projects tend to achieve

better financial performance that reinforces the importance of effective capital allocation in corporate financial strategy.

Consequently, such finding supports H1, H2 and agrees with the main idea of resource dependence theory is that how companies compete in the market on the basis of their resources. The association of this theory with the current study is how effective corporate capital budgeting is useful in providing the resources that will helpful in the business market to improve the financial performance. Also, this result is consistent with (Sureka et al., 2022; Gatti,&Edward, 2021; Kengatharan & Clamenthu, 2017) who found the relationship between corporate capital budgeting and financial performance is positive and significant.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

The findings of the current study indicated that corporate capital budgeting is associated significantly with financial performance (ROA & ROE) as the research assumed. Arguably, the result indicates that higher corporate capital budgeting investments lead to higher ROA, which it measures how efficiently a firm uses its assets to generate profit. More broadly, the significant relationship means, how the firms planning and allocate their long-term investments (corporate capital budgeting); also, refers to how companies evaluate and decide on major investments (e.g., new projects, acquisitions) on their financial performance, that measured by ROA & ROE.

5.2 Practical Implication

Firms should optimize capital budgeting decisions through strategic project selection; whereby, firms should prioritize high-return projects through rigorous financial appraisal techniques. Research demonstrates that companies employing sophisticated capital budgeting methods (e.g., NPV, IRR, real options analysis) achieve higher ROA compared to those relying on basic techniques like payback period to select investments; also, align capital allocation with strategic goals. Ultimately, through corporate management prioritize high ROI projects due to capital budgeting directly impacts ROA and ROE (Darmansyah, Ali, & Parveen, 2025).

5.3 Limitation of the Study

Despite the contributions made by the present research, it is subjected to some potential limitations. Specifically, a common and predictable deficiency is in the objections concerning the impeccable model for measuring corporate capital budgeting. To date, there is no perfect model generally accepted by scholars and practitioners. Hence, the Biddle et al. (2009) model used in this study might not flawlessly capture all the streams of corporate capital budgeting. Besides, this study is limited to listed non-financial firms; consequently, attention must be occupied in generalizing all the listed companies because other firms, such as insurance, banks, and other regulated firms, were excluded.

5.5 Suggestions for Future Studies

The current study offers numerous avenues that could be explored by future researchers. The study proposes that the forthcoming studies could further venture on the other corporate capital budgeting practices to making sound investment decisions, maximizing shareholder value, and ensuring long-term financial sustainability, such as net present value, internal rate of return, payback period and profitability index.

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