

8.6: Capital Budgeting in Practice

While the data is starting to get dated, the most recent survey of capital budgeting techniques used in practice was conducted in 1999 and published in 2002 (Ryan and Ryan, 2002). This survey was based on Fortune 1000 firms and received 205 usable responses. Key findings include:

- 85.1% of respondents use NPV either always or often
- 76.8% of respondents use IRR either always or often
- 52.6% of respondents use PP either always or often

This tells us that not only is NPV the preferred choice from a theoretical perspective, it is also the preferred choice of firms in practice. However, equally important is the concept that many firms rely on multiple techniques rather than merely choosing one when evaluating capital budgeting decisions. Even though there are flaws with IRR and PP (which have been discussed above), they are still used in practice. Possible reasons for this include that the marginal cost of performing the additional calculations is small and there may be reasons where the benefits of communicating the results or factoring in the concerns of financial distress possibilities make it worthwhile to include IRR and PP in the analysis, even if they are not a primary decision tool.

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