FINANCIAL CONSIDERATIONS WHEN MAKING CAPITAL INVESTMENTS ABROAD

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Abstract

There are many financial considerations which enterprises should take into account when they are contemplating the possibility to make capital investments abroad. The long-term nature of capital investments emphasises the importance of the financial decisions as enterprises are often not in a position to opt out easily. This research paper focuses on the *financial* considerations only and other considerations, such as political, economical and technological matters do not receive any attention.
The objective of this research focuses on the improvement of financial decision-making when enterprises are contemplating capital investments abroad. This objective is achieved by paying attention to the impact of following aspects: taxation, inflation rates, foreign exchange rates, interest rates, the capital structure and the cost of capital, capital and labour intensity, labour productivity, as well as the cash flow, liquidity, solvency and profitability considerations. An empirical study which has 29 top companies in South Africa as the respondents, provided detailed information concerning capital investments made abroad. As South Africa is a developing country with an emerging market economy, the empirical results should be valuable to enterprises in other countries with emerging market economies.

Keywords: Capital Intensity, Capital Structure, Cash Flow, Cost of Capital, Foreign Exchanges Rates, Inflation Rates, Interest rates, Labour Intensity, Labour Productivity, Liquidity, Profitability, Solvency, Taxation

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1. Introduction and objective of research

There are many financial considerations which enterprises should take into account when they are contemplating the option to make capital investments abroad. The importance of such a decision lies in the long-term impact which capital investments abroad have on enterprises, as they cannot opt out very easily.

Some of the financial considerations impact *externally* on an enterprise, such as taxation aspects, inflation rates, interest rates and foreign exchanges rates. The capital structure and the cost of capital, for example, depend to a large extent on the decisions of the executive managers employed *internally* by the enterprise. Both the external and internal financial considerations should therefore be evaluated. It must be emphasised that this paper focuses on the *financial* considerations only and that other considerations, such as political, economical and technological aspects are not part of this research.

The *objective* of this research embodies the improvement of financial decision-making concerning the employment of capital investments abroad. This objective is achieved by focusing on the literature of the various financial considerations which play a role in this regard. The results of an empirical study will thereafter highlight the most important financial considerations according to the leading companies in South Africa.

South Africa is classified as a developing country, as well as one of the 21 emerging market economies of the world. (MSCI Barra, 2010). It is also common knowledge that South Africa became one of the members of the BRICS countries recently (SouthAfrica.info, 2011). The results of this research which incorporate the responses of the leading companies in South Africa should therefore also be

valuable to enterprises in other countries with emerging market economies.

2. Financial considerations

Various financial considerations impact on the decision by enterprises whether to make capital investments abroad. The *external* financial considerations are mainly represented by taxation aspects, inflation rates, interest rates and foreign exchange rates. The *internal* financial considerations include, amongst others, the capital structure and the cost of capital of the particular enterprise, as well as the cash flow, liquidity, solvency and profitability considerations. The literature concerning these financial considerations will be addressed in the sections which follow.

2.1 Taxation

Taxation is one of the major factors which impacts on capital investments abroad when the home enterprise and the foreign enterprise are in different countries. Tax liabilities may be altered, avoided or reduced, but the fact remains that taxation plays a vital role in this regard and has a number of important effects on the profits and assets of enterprises. Counties may also apply various measures to influence foreign direct investments and to ease the tax burden of foreign enterprises.

Double taxation occurs when more than one country tax the same taxpayer on the same subject matter during the same period. (Sandler, 1998:15). In order to avoid double taxation, various measures and treaties are put in place by different countries. There are mainly two types of double tax relief systems available (Stiglingh *et al*., 2008:512). Unilateral relief takes place when tax credit relief is granted by a country to an enterprise abroad for taxes already paid there. The second type of tax relief involves double tax agreements where two countries concluded a double tax agreement in order to provide tax relief to enterprises which operate in both countries. Double tax agreements may either be of a comprehensive nature or may be applied to a particular type of income.

Tax incentives may also play a major role when considering capital investments abroad. There are different forms of tax incentives. Tax exemptions are the first class of tax incentives which may be applicable to different regions and industries for specified periods, while special performance requirements are stipulated in order to achieve the economic objectives of a particular country concerning foreign direct investments (Spitz, 2007:49). A deduction against an enterprise's tax base may also be applied by a country to attract foreign investments by using accelerated depreciation which focuses on the wear and tear allowances, initial allowances and/or the investment allowances. Countries may also utilise a reduction of the tax rate to promote activities of certain industries in specified economic zones (Spitz, 2007:51), while an investment tax credit may also be granted to lower the tax liability of enterprises (Chirinko & Wilson, 2008:2381). Cash grants may also be provided by counties when foreign enterprises make direct capital investments according to the stipulations of the country.

2.2 Inflation rates

As the inflation rate indicates the average increase in the general price level, it should impact on various economic and financial aspects (Bierman & Smidt, 2007:334). Research has shown that there is a negative relationship between inflation and economic growth of a country in the long run (Valdovinos, 2003:173). Judson and Orphanides (1999:132) also found that a high inflation rate as well as volatile inflation both lead to negative economic growth.

The *nominal interest* rate consists of two components, viz. the *real* interest rate as well as an adjustment for inflation (Bierman & Smidt, 2007:343; Gitman, 2000:262). It is therefore clear that an expected increase in the inflation rate should impact on the nominal interest rate and the nominal cost of capital when the real interest rate remains constant. When the nominal interest rate is fixed while the inflation rate increases, a lower real interest rate will be applicable. This may advance an increase in the financial leverage of an enterprise.

The inflation rate should increase the operating cost of an enterprise, but may also lead to higher (inflated) *nominal* net profits if a rise in the selling price of the products is possible. The cash flows of an enterprise may benefit by inflation in this way. The *real* net profits will however be lower than the nominal net profits due to the impact of inflation, while the purchasing power of the cash flow will also be negatively influenced by inflation. The inflation rates in the home country compared to the foreign country are therefore vital when capital investments are made abroad.

2.3 Foreign exchange rates

As a foreign exchange rate is the value of two currencies when they are compared, the accounting and economic exposures should be taken into account (Gitman, 2000:833 & 837). The exchange volatility must be considered when making capital investments abroad as foreign exchange rates change continuously.

According to Chen *et al.* (2006:282) exchange rate uncertainty has a negative impact on the foreign direct investments of companies as the investments are usually irreversible. When a foreign currency depreciates, it may increase foreign direct investments as the depreciated currency may lead to an increase in

the value in the foreign country, on the assumption the value will not be transferred back to the home country (Ang, 2008:188).

A combined comparison of the foreign exchange rates and the inflation rates between the home and the foreign countries is vital for decisions to invest abroad, as the currency of countries with a high inflation rate will tend to depreciate more relative to countries with a low inflation rate. On the other hand, foreign exchange rates may also impact on the inflation rate of a country as the prices of imported commodities may increase the general price level in that country.

2.4 Interest rates

The structure of interest rates usually refers to the combined impact of the real interest rate and the inflation rate, which provides the nominal interest rate applicable in a country. The long-term and the short-term interest rates in the home country should be compared with the interest rates in the foreign country when capital investments abroad are considered. The negative effects of high interest rates on an enterprise highlight the debt burden of the cost of financing and the detrimental influence thereof on the net profit of the enterprise (Dua & Pandit, 2002:874). The possibility of corporate default may also be increased by higher interest rates as interest payments represent part of the legal liabilities of an enterprise (Pattanaik & Mitra, 2001:4419).

A correlation between interest rates and foreign exchange rates may be possible, although there are not necessary hard and fast rules in this regard. When the interest rate in the home country changes relative to the interest rate in the foreign country, it may impact on the home currency in the foreign exchange market to accommodate the change in the relative interest rates.

2.5 The capital structure, the cost of capital and capital intensity

The capital structure of an enterprise depicts the manner according to which its assets are financed (Brigham & Daves, 2004:994). Without going into a lengthy discussion on the theory of the capital structure, the cost of the various components of a multinational capital structure of a company play a vital role in the decision to make capital investments abroad. These components of the cost of capital consists of the cost of ordinary and preference share capital as well as the after-tax cost of debt. The cost of these components of the capital structure in the home country compared to the cost thereof in the foreign country should be contemplated before making this long-term decision.

The degree of financial leverage employed by an enterprise depends on the percentage which preference share capital and/or debt capital comprises of the total capital structure (Gitman, 2000:138). As the financial leverage increases, the return of an enterprise should also increase to compensate for the higher financial risk involved. The financial leverage can either have a positive or negative effect on the financial position of an enterprise. When a positive financial leverage exists, the difference between the return on and the cost of the preference share capital and/or debt capital will benefit the ordinary shareholders. When enterprises are considering making capital investments abroad, the degree of financial leverage which can be obtained, should be determined as it may benefit the ordinary shareholders' value.

The operating leverage of the enterprise is furthermore influence by the *extent* of the capital structure, as well as the *application* of the capital to obtain fixed versus current assets. An enterprise with a higher degree of operating leverage will have a higher percentage of fixed costs compared to the percentage of variable costs and therefore a higher business risk (Brigham & Daves, 2004:489-494 & 994; Garrison & Noreen, 1994:295). The extent of an enterprise's capital structure, as well as the application of the capital to acquire fixed versus current assets, emphasise the role which an enterprise's capital structure plays and the impact thereof on the capital intensity of the enterprise.

2.6 The labour intensity and labour productivity

When an enterprise chooses to employ labour intensity instead of capital intensity, the cost of labour in the home country compared with the labour cost in the foreign country should be considered before making a decision regarding capital investments abroad. Foreign direct investments are often undertaken in less developed countries to take advantage of lower labour costs (Tsai, 1991:276).

Although the wage differentials between the home and foreign countries are important financial considerations, labour productivity is also imperative. Ramstetter (2004:881) found that the labour productivity of multinational enterprises were considerably higher than that in the local Thai manufacturing plants. The labour productivity is thus an important financial consideration when an enterprise is contemplating capital investments abroad.

2.7 Cash flow considerations

According to the research by Carpenter and Guariglia (2008:1901) there is a positive relationship between cash flow and investments. They found that when the cash flow to capital ratio increases by 10%, investments will increase by 1,62%. Minton and Schrand (1999:438) however found that there is a negative relationship between investment levels and

cash flow *volatility*, which indicates that investment level is sensitive to cash flow volatility. This negative relationship even becomes stronger when the level of cash flow volatility increases. It is therefore concluded that an increase in the cash flow to capital ratio should further the level of capital investments, but that cash flow volatility will impact negatively on the investment level.

2.8 Liquidity considerations

Liquidity represents the ability of an enterprise to generate cash in the short-term which is a much broader concept than only cash flow considerations which were discussed in the preceding section. Lambrechts (1990:113) described liquidity as the continuous ability of an enterprise to meet the required short-term payments in order to proceed with its usual operations, which embodied much more than only the available cash flow of an enterprise.

Goldstein and Razin (2006:288) found that enterprises which have higher liquidity needs will opt for foreign portfolio investments instead of foreign direct investments, due to the possibility of selling the portfolio investments when liquidity is needed. As enterprises may be more dependent on liquidity during recessions, Kato (2006:1128) found that enterprises tend to emphasise the benefits linked to liquidity when their profitability decreases.

Liquidity will without any doubt play a vital role when enterprises are considering capital investments abroad. The ability as well as the cost associated with obtaining liquidity in the home country compared to the foreign country should be weighed, focusing on the ease with which additional cash flow can be obtained and the impact of the business cycle in this regard.

2.9 Solvency considerations

Solvency considerations focus on the creditworthiness of an enterprise and the ability to settle debt payments over the longer term. Gallinger and Healey (1991:6) mentioned that solvency has two meanings, viz. the actual solvency which emphasises the positive difference between an enterprise's assets and its debt, while technical solvency focuses on the ability of an enterprise to settle its financial liabilities over the longer term. An enterprise may therefore be actually solvent, but technically insolvent when it cannot pay its financial obligations when they fall due.

When a company does not want to issue ordinary shares to finance capital investments as it may impact on the control of the enterprise, the solvency of the enterprise may allow it to utilise debt capital for financing purposes. The creditworthiness of the enterprise is therefore of prime importance as creditors require a safety margin focusing on the positive difference between an enterprise's assets and its liabilities (Lambrechts, 1990:119-120). A comparison between the solvency norms required in the home country with that in the foreign country is important when an enterprise considers capital investment abroad, as it impacts on the ability of an enterprise to obtain loan capital to finance the capital investments.

2.10 Profitability considerations

Profitability is often seen as the ultimate test to determine the efficiency of management. Sakakibara and Yamawaki (2000:6) found that the efficiency of an enterprise has a positive relationship with the profitability thereof. The emphasis should however be on the profitability ratio instead of the absolute amount of profit earned by an enterprise (Lambrechts, 1990:20).

Profitability is very useful as the expected profitability and the cost of capital can be compared to determine whether a positive financial leverage is applied. Studies by Qian (2002:625) as well as Anastassopoulos (2004:54) found that multinationality has a positive relationship with profitability, emphasising the importance of capital investments abroad. The profitability of the enterprise in the home country and that of the enterprise in the foreign country should however be compared to determine whether the capital investments abroad will benefit the enterprise in the home country.

3. Research methodology

The research population of the empirical study consisted of the top 50 companies in South Africa according to the Financial Mail's 2008 Top Companies issue, ranked according to turnover (Financial Mail, 2008:29). Companies with head offices in Johannesburg and Cape Town were included. A questionnaire was compiled, based on a comprehensive literature study. Personal interviews were applied as far as possible, where the questionnaire served as an *aide memoire* to direct the interviews. After following up, 29 completed questionnaires were available. It should be emphasised that the respondents are the top companies in South Africa and are therefore regarded as the business leaders who should set the example for the other companies in the business community.

A Likert interval scale was used, ranking the five possible answers from 'extremely important' to 'not important'. In order to enable the weighting of the raw data, it was stated explicitly on the questionnaire that the five options form a continuum (Albright, Winston & Zappe, 2002:224-229 & 245). The raw data was weighted to enable weighted scores of the various financial considerations. The following weights were applied: a score of five for 'extremely important', four for 'highly important', three for 'moderately important', two for 'little important' and one for 'not important'. The *weighted* responses are

depicted in the following tables and discussed thereafter (Conrad, 2011:118-141).

4. Empirical results

The empirical results of this survey are presented in the following sections which serve as a classification of the various financial considerations when enterprises are contemplating capital investments abroad.

4.1 Taxation considerations

The weighed responses with regard to the importance of the taxation considerations as perceived by the responding companies are depicted in Table 1.

Table 1. Weighted responses with regard to the importance of the taxation con siderations as perceived by the responding companies, in a declining order of importance

Total weighted score calculated	Declining order of importance	Taxation considerations
113	1	Taxation in the country of the foreign company
110	2	The event of double taxation without any recourse from countries
106	3	The use of unilateral relief agreements between countries
99	4	Taxation in the country of the home company
98	5	The response to tax incentives offered by countries to induce foreign direct investment
97	6	Appeal of a reduction in the rate of taxation to be used in the foreign country as an incentive to invest (excluding tax havens)
97	6	The use of a residence-based or source-based principle of taxation by a foreign country
96	8	Appeal of a tax exemption as an incentive to invest
94	9	The establishment of a controlled foreign company
92	10	The use of thin capitalisation from the home country and debt from the foreign country
85	11	Appeal of a deferral of the tax liability to a later time as an incentive to invest
79	12	Undertaking a capital investment in an international tax haven

It is clear from the preceding table that the *most* important consideration in this regard was the taxation in the foreign country. As tax is not a stagnant topic and legislation changes constantly, it is important to monitor these changes continuously as the tax system of the foreign country will eventually impact on the home company. The *second* most important consideration links in with the preceding one, as the event of double taxation without any recourse from the countries is emphasised. The *third* most important taxation factor highlights the aspect of unilateral relief agreements between countries. Countries may conclude agreements according to the needs that arise and the provisions and conditions of the arrangements between the countries may vary.

As the *fourth* most important consideration focuses on the taxation in the home country, it is clear that the first four factors mentioned have a relationship with each other, focusing on the taxation in the foreign and home countries, as well as the impact of the relationship between the countries on the companies involved. As the topic of this research embodies capital investments abroad, it is not surprising that the *fifth* most important taxation consideration is the response to tax incentives offered by countries to induce foreign direct investments.

4.2 Interest rate, inflation rate and foreign exchange rate considerations

The weighted responses concerning the importance of the interest rate, inflation rate and the foreign exchange rate considerations as perceived by the responding companies appear in Table 2.

Table 2. Weighted responses with regard to the importance of the interest rate, inflation rate and foreign exchange rate considerations as perceived by the responding companies, in a declining order of importance

Total weighted score calculated	Declining order of importance	Interest rate, inflation rate and foreign exchange rate considerations
102	1	The availability of foreign financing relative to the home country
99	2	The extent to which foreign exchange rates between countries need be considered
94	3	The relationship between foreign exchange rates and inflation rates in the home as well as the foreign country
84	4	The relationship between inflation rates and the interest rates which will impact on the real interest rates in the home and the foreign country
81	5	The foreign inflation rate in comparison to the home country's inflation rate
80	6	The level of foreign interest rates in relation to the home country's interest rate

It is important to note that the *most* important consideration according to the preceding table embodies the availability of foreign financing relative to the home country. As capital investments abroad are considered, the home company wishes to obtain financing in the foreign country. Due to the fact that moving capital or monetary assets between countries give rise to foreign exchange risk, the foreign exchange rates between countries are the *second* most important consideration in this regard. The relationships between the inflation rates and respectively the foreign exchange rates and the interest rates are the *third* and *fourth* most important consideration according to Table 2.

4.3 Cost of capital, capital structure and financial leverage considerations

Table 3 depicts the weighted responses with regard to the importance of the cost of capital, the capital structure and the financial leverage considerations based on the perceptions of the responding companies.

Table 3. Weighted responses with regard to the importance of the cost of capital, capital structure and financial leverage considerations as perceived by the responding companies, in a declining order of importance

Total weighted score calculated	Declining order of importance	Cost of capital, capital structure and financial leverage considerations
111	1	Future growth of the home company compared to the foreign company
109	2	The consideration given to the existing capital structure and planned capital structure of the home company compared to the foreign company
104	3	The realisation of the net asset value of the home and foreign companies' assets to provide security for debt financing
96	4	Income variability and cash flow variability of the home company compared to the foreign company
96	4	The effect of financial leverage on the home company compared to the foreign company

It did not come as a surprise that the future growth of the home company compared to the foreign company was selected by the respondents as the *most* important factor within this section. The future growth of the home company is one of the main reasons why companies are making capital investments abroad. When the market in the home country has matured or has a large number of competitors, companies may seriously consider the option to move abroad.

The existing and planned capital structure of the home company compared to that of the foreign company, is the *second* most important factor according to the preceding table. This ties in with the weights of the equity and debt capital which management wants to achieve, and it emphasises the importance which the interest rate, inflation rate and foreign exchange rate play in this regard. While focusing on the capital structure, the *third* important consideration supports this financial aspect as the realisation of the net asset value of the home and foreign companies' assets is important to provide security for employing debt financing in the capital structures of the companies.

4.4 Labour and capital intensities

The weighted responses of the respondents' perceptions regarding the importance of the labour and capital intensity considerations appear in Table 4.

Table 4. Weighted responses with regard to the importance of the labour and capital intensity considerations as perceived by the responding compa-nies, in a declining order of importance

Total weighted score calculated	Declining order of importance	Labour and capital intensity considerations
101	1	The degree of business risk experienced by the home company compared to the foreign company
98	2	The level of capital intensity used by the home company compared to the foreign company
92	3	The level of labour intensity used by the home company compared to the foreign company
92	3	The degree of operating leverage used within the home company compared to the foreign company

The logical link which exists between the business risk, operating leverage and the capital intensity of a company was already discussed in Section 2.5 of this paper. It was stated that the business risk is caused by, amongst others, the operating leverage, and that the higher the operating leverage of a company, the higher the percentage of fixed cost will be, due to a higher level of capital intensity. Three of the weighted responses shown in Table 4 confirms this logical link.

4.5 Financial ratio analysis

When considering capital investments abroad, the financial ratio analysis will evolve around the cash flow, liquidity, solvency and profitability considerations. The weighted responses of the responding companies with reference to the importance of the financial ratio analysis in this regard are depicted in Table 5.

Table 5. Weighted responses with regard to the importance of the financial ratio analysis considerations as perceived by the responding companies, in a declining order of importance

Total weighted score calculated	Declining order of importance	Financial ratio analysis considerations
134	1	Profitability of the home company and foreign company
127	2	The effect of cash flow in the home company and foreign company
123	3	Liquidity in the home company and foreign company
120	4	Consideration of solvency in the home company and foreign company

According to the preceding table the profitability of the home company and the foreign company is perceived by the responding companies as the *most* important financial ratio. The cash flow ratios in the home and foreign company are the *second* most important financial consideration. This finding does not come as a surprise as the cash flow considerations remove the important drawback of the profitability considerations, viz. availability of different profitability results when more than one accounting standard is applied.

The liquidity and solvency ratios of the home company and the foreign company are respectively the *third* and *least* most important financial consideration when capital investments abroad are considered. While liquidity ties in with the concept of cash flow, the solvency consideration focuses on the ability of the company to meet its long-term obligations.

4.6 The sixteen most important financial considerations

The weighted responses shown in the five preceding tables are compared in order to obtain the most important financial considerations as a whole when capital investments abroad are considered. The following table lists the ranking of the 16 most important financial considerations according to this study in a descending order of importance.

Table 6. Weighted responses showing the 16 most important financial considerations as perceived by the responding companies, in declining order of importance

Total weighted score calculated	Declining order of importance	The 16 most important financial considerations.
134	1	Profitability of the home company and foreign company
127	2	The effect of cash flow in the home company and foreign company
123	3	Liquidity in the home and foreign company
120	4	Consideration of solvency in the home company and foreign company
113	5	Taxation in the country of the foreign company
111	6	Future growth of the home company compared to the foreign company
110	7	The event of double taxation without any recourse from countries
109	8	The consideration given to the existing capital structure and planned capital structure of the home company compared to the foreign company
106	9	The use of unilateral relief agreements between countries
104	10	The realisation of the net asset value of the home and foreign companies' assets to provide security for debt financing
102	11	The availability of foreign financing relative to the home country
101	12	The degree of business risk experienced by the home company compared to the foreign company
99	13	Taxation in the country of the home company
99	13	The extent to which foreign exchange rates between countries need be considered
98	15	The response to tax incentives offered by countries to induce foreign direct investment
98	15	The level of capital intensity used by the home company compared to the foreign company

The preceding table depicts a clear picture of each factor's ranking in the entire context and not just in its particular section. The 16 factors can be classified according to five categories of factors. The *first* category consists of the *four financial ratios*, viz. the profitability, cash flow, liquidity and solvency considerations of the home and foreign companies. It can therefore be concluded that these four factors are individually and collectively of prime importance when capital investments abroad are contemplated, as they represent the benchmarks against which the financial performance of the investments will eventually be measured.

The *second* category of factors focuses on *taxation*. The five factors of this category deal with the taxation in the country of the foreign company, the aspect of double taxation without any recourse from countries, the use of unilateral relief between countries, the taxation in the country of the home company, and tax incentives which countries offer to induce foreign direct investments. It is clear from this category of factors that taxation should be considered carefully as it can have serious detrimental effects on the financial performance of capital investments abroad.

The *third* category consists of only one factor, namely the *future growth* of the home company compared to the foreign company. When the market in the home country is saturated or lacks feasible growth opportunities, the future growth of the foreign company is important to benefit the home company in the long run.

The factors in the *fourth* category address the existing and planned capital structure of the home company compared to the foreign company, the realisation of the net asset value of the home and foreign companies' assets in order to serve as collateral for debt financing, the availability of foreign financing relative to the home country, and the extent to which foreign exchange rates between countries need to be considered as it will impact on the transfer of capital between countries. The factors of the fourth category therefore focus on various *applications to the capital structures* of the home and foreign companies.

The *fifth* category has two factors, namely the degree of *business risk* experienced by the home company compared to the foreign company, as well as the level of *capital intensity* used by the home company compared to the foreign company. The *link* between the business risk, operating leverage and the capital intensity of a company, which was discussed previously in Section 2.5 of this paper, is thus confirmed.

5. Conclusions

The *objective* of this research embodies the improvement of financial decision-making concerning the employment of capital investments abroad. As South Africa is a developing country with an emerging market economy and recently became a member of the BRICS countries, the empirical results should be valuable to enterprises in other countries with emerging market economies. The following important conclusions are emphasised by this research paper:

(1) The financial ratios focusing on the profitability, cash flow, liquidity and solvency considerations are individually and collectively of importance when capital investments abroad are assessed. The financial performance of the investments will eventually be measured against the benchmarks set for these four financial considerations.

(2) The various aspects of taxation which apply to capital investments abroad, should be carefully and thoroughly studied as they have the potential to impact negatively on the financial performance of capital investments which are made abroad. The taxation in the country of the foreign company, the aspect of double taxation without any recourse from countries, the use of unilateral relief between countries, the taxation in the country of the home company, and tax incentives which countries offer to induce foreign direct investments, should receive the attention of investors.

(3) The future growth of the home company compared to the foreign company is of importance when capital investments abroad are contemplated. The growth of the company in the foreign country may bring about long-term financial benefits to the home company.

(4) The existing capital structure, as well as the planned capital structure, of the home company compared to the foreign company should be carefully analysed and designed, as there are various variables that have a bearing on the capital structures. The realisation of the net asset value of the home and foreign companies' assets in order to provide security for debt financing, the availability of foreign financing compared to the home country, and the extent to which foreign exchange rates between countries need to be considered when transferring capital between countries, are important aspects in this regard.

(5) The link between the business risk, operating leverage and the capital intensity of a company should be carefully considered by financial decision-makers. This link entails that the business risk of a company is caused, amongst others, by the operating leverage, and the higher the operating leverage of a company, the higher

the percentage fixed cost will be as an indication of a higher level of capital intensity. A high level of capital intensity should therefore increase the business risk of an enterprise.

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