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Full Length Research Paper

An investigation into the impact of investment appraisal techniques on the profitability of small manufacturing firms in the Nelson Mandela Metropolitan Bay Area, South Africa


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**Abstract**

This study investigated the impact of investment appraisal techniques on the profitability of small manufacturing firms in the Nelson Mandela Bay area of the Eastern Cape Province, South Africa. Small firms are widely considered important to solving South Africa's unemployment problems and the rejuvenation of its economy. The study used survey data generated from one hundred and twenty four small manufacturing firms in the Despatch, Uitenhage and Port Elizabeth areas of the Nelson Mandela Bay to analyze their capital budgeting practices. The study ascertained, by statistically testing the hypotheses of the study, that small manufacturing firms' owners do not use sophisticated investment appraisal techniques when evaluating their proposed projects. A multiple regression analysis was employed to confirm the impact of investment appraisal techniques on the profitability of the small manufacturing firms. The study concluded that the use of non-sophisticated investment appraisal techniques has a negative impact on the profitability of small firms. Recommendations were made to improve the managerial and financial skills of the owners of small manufacturing firms.

**Key words:** Small firms, investment appraisal techniques, profitability.

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