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# Corporate Investment Decision: A Review of Literature

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**Abstract:** This study is an attempt to review relevant literature on the theme of corporate real investment decisions. We have conducted a comprehensive survey of literature on the studies published in well-reputed journals of finance, i.e., The Journal of Finance, The Review of Financial Studies, and The Journal of Financial Economics, during the years 2010 to 2022. The theoretical analysis reveals that information asymmetry, cash holdings, policy uncertainty, idiosyncratic risk, governance quality, financing diversification, financial development, managerial network, investor protection, tax policy, etc., are prominent factors influencing investment decisions. The current review analysis is useful and has certain policy implications for investment managers regarding investment decisions. It guides on the factors that can impede or boost investment volume. Our study has a novel contribution to the literature by summarizing the voluminous empirical literature arranged on physical investment decisions.

**Keywords:** capital investment; physical investment; theoretical review

**JEL Classification:** G30; G31



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## 1. Introduction

Corporate firms make multiple decisions, including funding, the expansion of existing operations, and the acquisition of new assets to achieve the underlying objective of growth (Rahayu 2019). In this context, long-term investment, specifically investment in the acquisition of fixed assets, is fundamental to ensure the long-term view of growth. Such investment decisions stem from other attached factors, i.e., rate of return, payback period, profitability index, etc. (Farooq and Subhani 2021). Industrial enterprises are mostly concerned with accomplishing such tasks through some policy tools that can help to achieve such objectives efficiently. Such policy tools are commonly known as determinants of corporate investment decisions, affecting the managerial thinking of investment structuring. Given that, there exists a stream of studies that deems to explore such determinants of investment by arranging the empirical analyses on different countries of the world (Adelino et al. 2017; Ajide 2017; Farooq et al. 2021a, 2021b). However, there is a scarcity in the literature on summarizing such determinants and giving a clear theoretical understanding of such determinants. Thus, our review study accomplishes this task by reviewing the previous empirical studies arranged on the topic of industrial investment and published in top-tier journals of finance[1] during the last decade. The current study attempts to respond to the following research question.

- What are the major determinants of corporate physical investment decisions?

In addition to other business decisions, corporate managers should also focus on long-term sustainability in their structured decisions processes. They should establish efficient investment strategies to make the corporate firms confident about their future

growth. From a corporate perspective, such strategies include, but are not limited to, achieving consistent sales growth, high profitability, more availability of funds, and higher returns on long-term investment (Ding et al. 2013). Such factors are more conducive in investment-intensive corporations that require substantial ramifications on the activities. Considering this, an array of empirical studies has attempted to find out the determinants that can escalate the investment decisions of corporate firms (Federici and Parisi 2015; Frésard and Valta 2016; Gao et al. 2019). Despite the enormous empirical studies, the literature is lacking in summarizing such determinants. Thus, this study addressed this gap by offering clear theoretical thoughts on corporate physical investment decisions.

The objective of the current study is to review the empirical findings of previous literature arranged on the theme of investment, specifically physical investment, and gives a clear theoretical understanding. For this purpose, we review the empirical studies published in three top-ranked journals of finance, including The Journal of Finance (JOF), The Review of Financial Studies (RFS), and The Journal of Financial Economics (JFE), during the period 2010 to 2022. Following the review analysis for studies published in the Journal of Finance, we noted that external financing, idiosyncratic risk, information asymmetry, firm age, the social connectivity of managers, behavioral biases, etc., are major determinants of investment decisions. Similarly, the review of studies published in RFS advocate that stock mispricing, country-level governance, cash holdings, loan availability, tax laws, employment protection laws, financing diversifications, etc., are the key factors that can influence investment decisions. Lastly, the review analysis for the studies published in JFE indicates that the Sarbanes-Oxley Act of 2002, herding behavior, political uncertainty, debt market access, managerial network, financial crisis, etc., are the main determinants of corporate investment decisions.

Our review study has several implications and literature contributions: first, this study reviews the large number of studies published in well-reputed journals and clearly guides on major determinants of investment decisions. Secondly, this review study tends to enhance the theoretical insights on relevant factors that can potentially determine industrial investment decisions. It further shows the significance of such factors in different eras and was considered by the research community. Third, this study can be a handful as an outline document of investment determinants for corporate managers because it provides a summarized review of a large body of literature. As for the concern of literature contribution, this study brings forward the empirical findings of past studies and adds new thoughts regarding determinants of corporate investment decisions. In literature, there exist numerous studies that empirically suggest the various determinants of industrial investment decisions, but no study has been found which offers such theoretical understanding. Thus, our study fulfills this instant gap in the literature by offering a review of studies and bringing them together into a single study. It was an immense need to summarize the voluminous literature published on investment during the recent decade.

Other parts of the paper consist of the following sections: Section 2 discusses the major theories on investment, Section 3 provides information on adopted methodology to obtain the objective. Section 4 attempts to conclude the whole discussion of the paper. The bibliographical detail of studies cited in the body of the paper is placed at the end of the paper.

## 2. Theoretical Review

According to Fisher (1930) and Keynes ([1936] 2007), corporate firms do not make an investment until the future cash flow is adjusted against the net present value (NPV) of future cash flow from such investment becomes zero. Thus, net present value is an important criterion for making any physical investment. Later, Markowitz (1952) clearly indicated the other factors, including discounted cash flow, payback period, internal rate of return, etc., for portfolio selection of investment. Since this, certain theories have emerged that tend to explain investment behavior. Such theories define the underlying assumptions on which investment decisions are based. These theories are as follows.

### 2.1. Neoclassical Theory of Investment

Jorgenson (1963) provided the concept of neoclassical investment theory for the first time. This theory is called neoclassical theory because it utilizes the basic neoclassical production function. The standard assumptions for this theory are as follows:

- No uncertainty exists in the market;
- The enterprises are operating in full perfect competition;
- There exists a maximum employment rate in an economy;
- There is an efficient financial market that can offer loans to the industrial sector at given interest rates;
- Corporate firms are able to maximize the net present value of present and future cash flows.

These assumptions somehow explain the basic requirements to achieve maximum corporate investment. However, the achievement of such assumptions in the real economy is hard. Thus, such fictitious assumptions led to the development of other investment theories.

### 2.2. Accelerator Theory of Investment

This theory was originally argued by Clark (1917). However, the development of theoretical notions of this theory was greatly influenced by Keynesian thoughts in the 20th Century. After this overlapping, the accelerator theory of investment becomes public knowledge. The accelerator theory of investment stipulates that capital expenses relating to investment are a function of macroeconomic outputs, i.e., demand and income. During a high GDP growth rate and income, the demand for industrial goods increases. In such a situation, the corporate sector responds to such increments in demand either by raising the price of products or by widening the production capacity through capital investment. According to accelerator theory, corporate firms typically choose to enhance production through capital investment and thereby boosting profitability. Given that, it can be comprehended that macroeconomic factors, e.g., GDP growth rate and income, can induce more capital investment across the industrial sector. Supporting this, the study of Farooq et al. (2021a) has explicitly illustrated the pivotal role of macroeconomic factors in determining capital investment decisions. Kong et al. (2022) asserted that economic uncertainty inhibits corporate investment, which further has a material impact on corporate performance. Islam et al. (2022) vowed that corporate investment is a key determinant of corporate financial performance. Salehi et al. (2022) supported the positive link between investment efficiency and firm value. Their study further reveals the moderating role of board independence and institutional ownership.

### 2.3. Q Theory of Investment

There were some fundamental flaws in both neoclassical theory and accelerator theory. First, both theories vowed that the adjustment of capital is instantaneously relevant to each period. However, there also exists a role of adjustment costs function. Secondly, there is no importance of future expectations in making the investment. Resolving such ambiguities, Brainard and Tobin (1968) and Tobin (1969) offered a new investment theory that advocates that corporations do not make the investment until the replacement cost of existing assets become equal to the market value of assets. Thus, this theory provides a more relevant understanding by adding the adjustment cost function of investment into the profit function. According to the Q theory of investment, corporate firms make the physical capital investment when the replacement cost of such investment is less than the market value of installed capital. This theory is also known as Tobin's Q theory, where $q$ can be calculated as:

$$q = \frac{market\ value\ of\ installed\ capital}{replacement\ cost\ of\ capital}$$

### 2.4. The Internal Funds Theory of Investment

Tinbergen (1938) argued this theory for the first time. Following the conjectures of the internal funds theory of investment, the decision related to desired capital stock or investment is mainly dependent upon profit volume. Investment decisions are presumably attached to profitability capacity as it ensures the availability of funds for new investments. Alternatively, the corporate managers often make the investment following the availability of both internal and external funds, i.e., capital reserve, depreciation expenses that are set aside to adjust the depreciation expenses in the net value of assets, sale of stock, and other miscellaneous internal borrowings, e.g., the sale of bonds. Internally, the capital reserve or retained earnings and funds set aside for depreciation urge the corporate managers to acquire the new physical assets categorized as capital investment. Externally, corporate firms acquire the funds by issuing equity stock and bonds to make the investment. However, firms are often reluctant to acquire the borrowings through external sources due to fear of control loss and a high probability of bankruptcy. Due to such reasons, the proponents of the internal funds theory contend that corporate firms should arrange more funds for investment internally by focusing on profitability. In line with such theoretical notions, it can be advocated that internal funds and profitability ratio are two potential factors that can determine investment decisions.

## 3. Material and Methods

This review analysis is based upon the review of 13 years of investment literature ranging from 2010 to 2022 and published in different issues of the top three journals named The Journal of Finance (JOF), The Review of Financial Studies (RFS), and The Journal of Financial Economics (JFE). The initial population size for JOF consists of 875 articles published in 13 volumes (vol. 65 to vol. 77) and 77 issues. However, we have scrutinized the articles on the criterion of the word "investment" in the title and selected 61 articles for final review. Figure 1 provides the relevant information on the intensity of the total and selected articles for review. The publication intensity of investment articles in JOF is 6.971%. Similarly, the total strength of articles published in RFS during the selected span is 1443. For RFS, we have reviewed the 13 volumes (vol. 23 to vol. 35) and 156 issues and found the 90 articles that contained the word "investment" in the title. The intensity of investment-related articles in RFS is 6.237%. As likely to JOF and RFS, we have followed a similar criterion for JFE and reviewed the 51 volumes (vol. 95 to vol. 146) and 155 issues. The total strength of published articles in JFE is 1790, while on investment, it is 80 (4.469% of total strength). In our final review analysis, we mainly focused on the articles that discussed physical investment and its related determinants. Such a winnowing tool helps to focus on more specific articles and summarize the discussion. Figures 2 and 3 exemplify the comparison between total and selected articles for the journals of RFS and JFE.

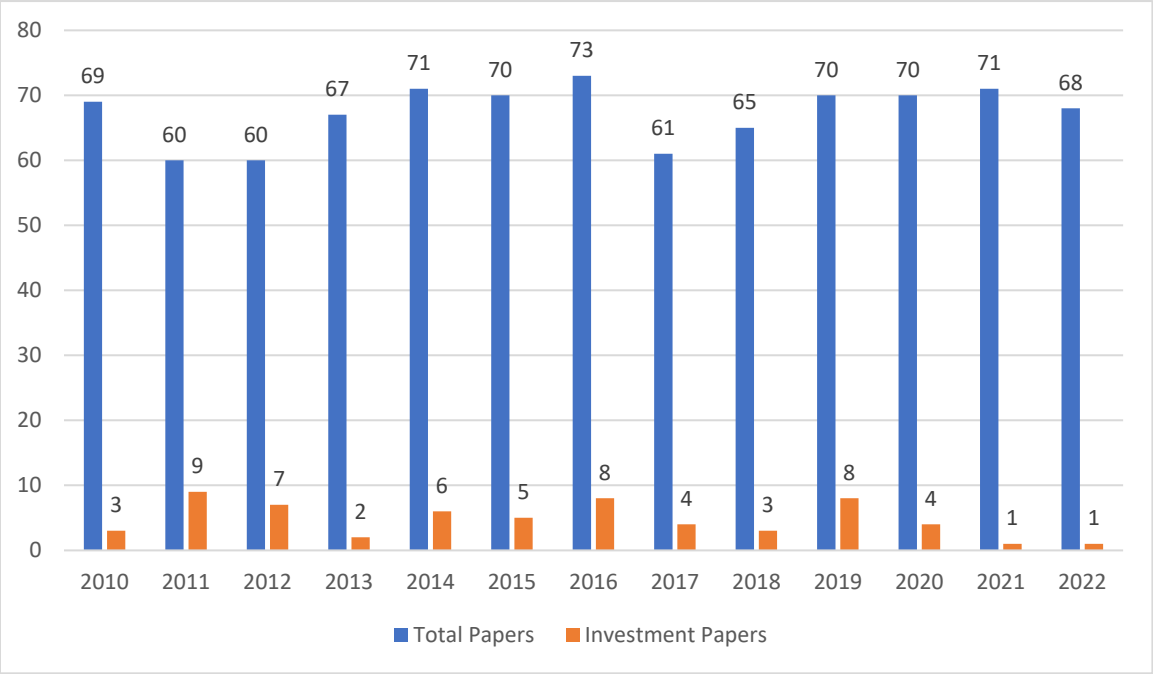


**Figure 1.** Intensity of Papers Published in JOF. **Source:** The information on the intensity of papers has been extracted from papers published in different volumes and respective issues. **Note:** Figure 1 shows the relevant comparison between the total number of papers and papers on investment published in The Journal of Finance.

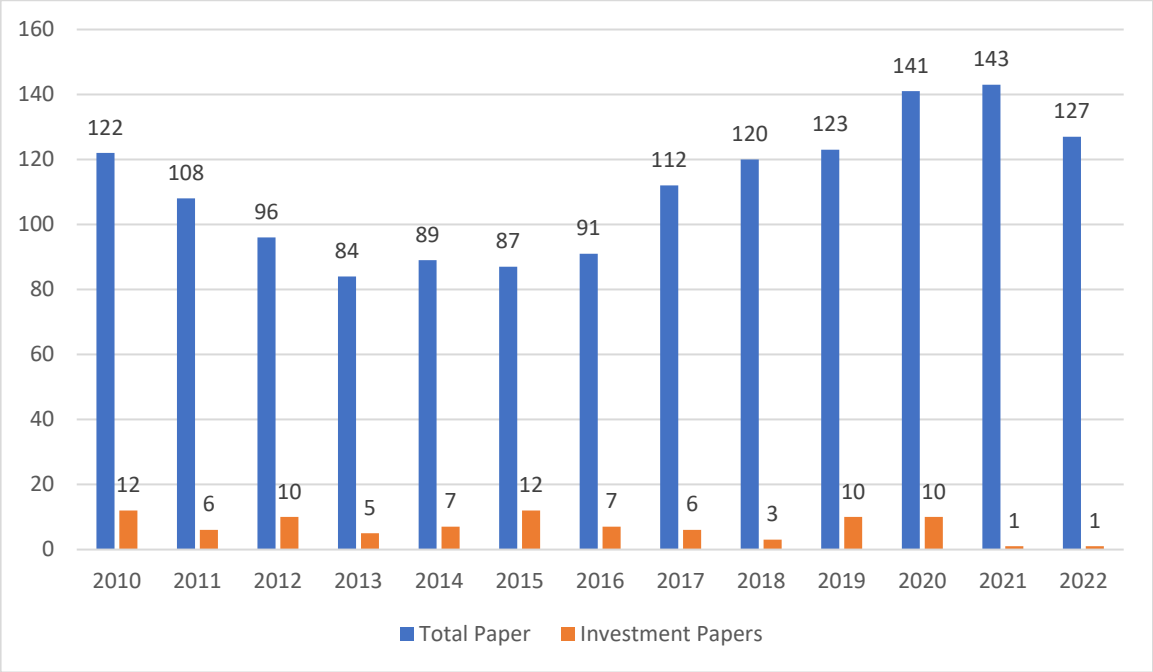


**Figure 2.** Comparison of Papers Published in RFS. **Source:** The Review of Financial Studies (RFS). **Note:** Figure 2 compares the studies published in RFS during the period 2010 to 2022.

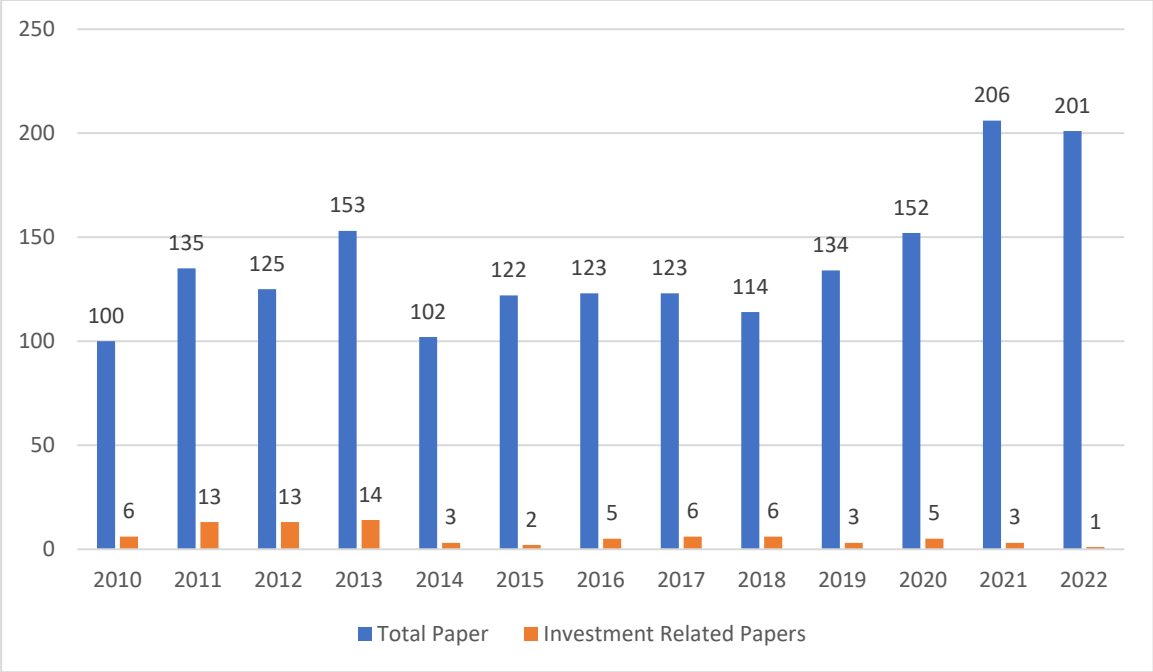


**Figure 3.** Comparative Analysis for JFE. **Source:** Journal of Financial Economics (JFE). **Note:** Figure 3 illustrates the total number of papers and papers on investment published in JFE from 2010 to 2022.

## 4. Conclusions and Implications

In the literature on finance, the discussion on corporate investment decisions, specifically physical investment, has attracted the attention of researchers. The topic of investment has gained more popularity since the seminal works of Markowitz (1952) and Sharpe (1964). A stream of recent studies was found in the literature that tends to explain the different factors influencing investment decisions. However, the literature is scarce on summarizing the voluminous empirical literature and giving better theoretical insights. Given that, this study attempted to review the empirical studies about corporate investment that were published in the top three journals of finance, including The Journal of Finance, The Review of Financial Studies, and The Journal of Financial Economics. We have reviewed the studies published in the journals during the period 2010 to 2022. The theoretical review of previous studies, as appeared in Tables 1–3, offers knowledge on various factors that can determine investment and be comprehended by the research community. Based on the review analysis, some prominent factors that can influence investment decisions are peer effect, the network connection of managers, internal funds, information asymmetric, governance, financial crisis, policy uncertainty, financing diversification, idiosyncratic risk, cash holdings, etc. Additionally, the emergence of such factors from the review of studies demonstrates the association of such factors with investment decisions.

**Table 1.** Analysis of Studies Published in The Journal of Finance.

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 1 | (Bolton et al. 2011) | A Unified Theory of Tobin's q, Corporate Investment, Financing, and Risk Management | Not specific | J. of fin. | Investment depends upon the marginal q ratio. |
| 2 | (Babenko et al. 2011) | Employee Stock Options and Investment | 1773 firms listed at NASDAQ over the period 2000 to 2005 | J. of fin. | Corporate firms enhance equity financing by responding to increments in external financing which further has a positive influence. |

**Table 1.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 3 | (Lerner et al. 2011) | Private Equity and Long-Run Investment: The Case of Innovation | 472 leveraged buyouts transactions | J. of fin. | Leveraged buyouts (LBOs) have no effect on long-term investment. |
| 4 | (DeMarzo et al. 2012) | Dynamic Agency and the q Theory of Investment | Not specific | J. of fin. | Idiosyncratic risk led to impede the investment, while past profit, investment, and managerial compensation enhance the investment. |
| 5 | (Panousi and Papanikolaou 2012) | Investment, Idiosyncratic Risk, and Ownership | 1987–2009, publicly traded firms of US | J. of fin. | Idiosyncratic risk has a negative effect on investment. However, this adverse is mitigated by offering options to executives. |
| 6 | (Julio and Yook 2012) | Political Uncertainty and Corporate Investment Cycles | Firm level observations for period 1980 to 2005 from 48 countries. | J. of fin. | Corporate firms reduce investment expenditures by 4.8% during an election year, corroborating the hypothesis that political uncertainty impedes investment. |
| 7 | (McLean et al. 2012) | Why Does the Law Matter? Investor Protection and Its Effects on Investment, Finance | Firms listed on World scope for the year 1990 to 2007. | J. of fin. | Investor protections are positively associated with investment, reducing financial constraints and achieving investment efficiency. |
| 8 | (Alti and Tetlock 2014) | Biased Beliefs, Asset Prices, and Investment: A Structural Approach | A cross-section of 1000 firms, containing 20 samples of 40 years each. | J. of fin. | Information processing biases may cause mispricing, which can further distort investment decisions. |
| 9 | (McLean and Zhao 2014) | The Business Cycle, Investor Sentiment, and Costly External Finance | 1965 to 2010 of all U.S. firms | J. of fin. | Responding to external finance, investment and employment is less sensitive to Tobin's q while more sensitive to investor sentiments and cash flow. |
| 10 | (Tsoutsoura 2015) | The Effect of Succession Taxes on Family Firm Investment: Evidence from a Natural Experiment | 1999 to 2005, Greek | J. of fin. | The succession taxes lead to a more than 40% decline in investment volume. It further affects sales growth and cash reserves. |
| 11 | (Adelino et al. 2015) | Investment Decisions of Nonprofit Firms: Evidence from Hospitals | 1999 to 2006, Non-profit hospitals of U.S. | J. of fin. | The cash flow from financial assets can increase the investment by 10 to 28%. |
| 12 | (Kumar and Li 2016) | Capital Investment, Innovative Capacity, and Stock Returns | 1976 to 2011. NASDAQ listed firms | J. of fin. | Capital investment has strong implications for innovative behavior, future stock returns, and profitability. |
| 13 | (Schneider and Spalt 2016) | Conglomerate Investment, Skewness, and the CEO Long-Shot Bias | period not specified, U.S. | J. of fin. | Behavioral biases have a strong impact on capital investment. Additionally, CEOs allocate more funds for capital investment, responding to long-shot bias. |
| 14 | (Gilje and Taillard 2016) | Do Private Firms Invest Differently than Public Firms? Taking Cues from the Natural Gas Industry | 74,670 individual projects in the U.S. | J. of fin. | Private firms invest differently from public firms. Additionally, external capital access plays a key role in investment decisions. |

**Table 1.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 15 | (Adelino et al. 2017) | Firm Age, Investment Opportunities, and Job Creation | 2000 to 2007 | J. of fin. | Firm age has a significant role in investment decisions that further generate new jobs. This effect is equally applicable to newly established firms. |
| 16 | (Rantala 2019) | How Do Investment Ideas Spread through Social Interaction? Evidence from a Ponzi Scheme | data set from a large Ponzi scheme | J. of fin. | Social connection has strong connectivity with investment decisions. This effect is more explicit across the age, education, and income of the inviter. |
| 18 | (Cavagnaro et al. 2019) | Measuring Institutional Investors' Skill at Making Private Equity Investments | 1991 and 2011 | J. of fin. | Institutional investors' skills matter in achieving a higher return on investment. |
| 19 | (Goldstein and Huang 2020) | Credit Rating Inflation and Firms' Investments | Not specified | J. of fin. | The high rating ranked by credit rating agencies has a positive effect on investment volume. |
| 20 | (Ouimet and Tate 2020) | Learning from Coworkers: Peer Effects on Individual Investment Decisions | | J. of fin. | Peer effect exists in investment decisions making. This effect magnifies when co-workers have high information and are well educated. |
| 21 | (Ungeheuer and Weber 2021) | The Perception of Dependence, Investment Decisions, and Stock Prices | 1963–2015 | J. of fin. | Investors perceive dependence, and this perception of stocks further affects investment decisions. |
| 22 | (Meeuwis et al. 2022) | Belief Disagreement and Portfolio Choice | 2016 | J. of fin. | Political beliefs play a vital role in selecting the portfolio of investment |

**Source:** Past studies arranged on the theme of investment. **Note:** This table specified the main findings of studies arranged on the theme of investment and published in The Journal of Finance during the period 2010 to 2022.

**Table 2.** Key Empirical Findings of Studies Published in Review of Financial Studies.

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 1 | (Bakke and Whited 2010) | Which Firms Follow the Market? An Analysis of Corporate Investment Decisions | 1862 and 2647 observations per year | Rev. Fin. Std. | Stock market mispricing does not affect corporate investment decisions. |
| 2 | (Leuz et al. 2010) | Do Foreigners Invest Less in Poorly Governed Firms? | 4409 firms from twenty-nine countries | Rev. Fin. Std. | Corporate firms residing in bad governance countries attract fewer investors. Additionally, earning capacity and information asymmetric have key roles in investment attractiveness. |
| 3 | (Morellec and Schürhoff 2010) | Dynamic Investment and Financing under Personal Taxation | 1970 and 2008, U.S. industrial firms | Rev. Fin. Std. | The asymmetric taxation on capital gains and losses may enhance Investment. |
| 4 | (Denis and Sibilkov 2010) | Financial Constraints, Investment, and the Value of Cash Holdings | 1985–2006, U.S. public companies | Rev. Fin. Std. | Cash holdings allow constrained firms to make more investment decisions. |
| 5 | (Campello et al. 2011) | Liquidity Management and Corporate Investment During a Financial Crisis | 2008–2009, U.S. sample (397 non-financial, for-profit firms) | Rev. Fin. Std. | The availability of credit lines when companies face internal liquidity problems can enhance investment spending. |

**Table 2.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 6 | (Favara 2012) | Agency Problems and Endogenous Investment Fluctuations | Not specified | Rev. Fin. Std. | Agency problem arising from too much control or too less control jeopardizes firm productivity, which negatively influences real investment. |
| 7 | (Ozdagli 2012) | Financial Leverage, Corporate Investment, and Stock Returns | monthly data of all firms in the NYSE, AMEX, and NASDAQ from 1962 to 2008. | Rev. Fin. Std. | Deducting the tax due to interest payments can enhance investment irreversibility. |
| 8 | (Faulkender and Petersen 2012) | Investment and Capital Constraints: Repatriations Under the American Jobs Creation Act | firm's 10-Ks from 2004, 2005, and 2006, U.S. | Rev. Fin. Std. | Responding to the American Job Creation Act, the reduction in taxation costs of corporate firms can lead to more investment. However, this effect does not exist in financially unconstrained firms. |
| 9 | (Hackbarth and Mauer 2012) | Optimal Priority Structure, Capital Structure, and Investment | Not specified | Rev. Fin. Std. | Financially constrained firms prefer more senior debts, while unconstrained firms prefer junior debt. Such preferences further have a dynamic effect on investment decisions. |
| 10 | (Arif and Lee 2014) | Aggregate Investment and Investor Sentiment | U.S. financial statement data over the period 1962–2009 | Rev. Fin. Std. | Corporate investment is positively related to investor sentiments. |
| 11 | (Bharath et al. 2014) | Do Going-Private Transactions Affect Plant Efficiency and Investment? | 1981 to 2005 | Rev. Fin. Std. | Privatization has little effect on corporate investment efficiency due to restrictions on control groups, including age, size, and past productivity. |
| 12 | (Gale and Gottardi 2015) | Capital Structure, Investment, and Fire Sales | Not specified | Rev. Fin. Std. | Due to tax advantages on debt financing, corporate firms prefer more debt which enhances the liquidity of firms and thus results in fire sales of assets. Responding to fire sales, corporate firms face underinvestment. |
| 13 | (Hugonnier et al. 2015) | Capital Supply Uncertainty, Cash Holdings, and Investment | Not specified | Rev. Fin. Std. | Capital supply uncertainty and cash holdings have significant roles in determining the investment costs that differ in firms facing higher costs as compared to firms having low costs. |
| 14 | (Asker et al. 2015) | Corporate Investment and Stock Market Listing: A Puzzle? | 409,762 firm-years for 99,040 private firms over the period from 2001 to 2011. | Rev. Fin. Std. | Publicly listed firms invest less as compared to private firms and are less responsive to any investment opportunities. |

**Table 2.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 15 | (Bustamante 2015) | Strategic Investment and Industry Risk Dynamics | 1968 to 2008, CRSP listed firms | Rev. Fin. Std. | In an imperfect market, the firm's systematic risk is not only affected by its own investment strategies but also by its peers' strategies. |
| 16 | (Cingano et al. 2016) | Does Credit Crunch Investment Down? New Evidence on the Real Effects of the Bank-Lending Channel | sample of 38,797 non-financial incorporated firms active in 2006 | Rev. Fin. Std. | A bank lending channel has a positive association with investment expenditures. |
| 17 | (Warusawitharana and Whited 2016) | Equity Market Mis valuation, Financing, and Investment | 1994 to 2013. Firms listed at COMPUSTAT | Rev. Fin. Std. | Different financing options, e.g., debt, equity, or cash, have a dynamic relationship with investment decisions. |
| 18 | (Gulen and Ion 2016) | Policy Uncertainty and Corporate Investment | January 1987 to December 2013 | Rev. Fin. Std. | Policy uncertainty has a strong negative impact on capital investment. |
| 19 | (Bottazzi et al. 2016) | The Importance of Trust for Investment: Evidence from Venture Capital | A survey of 685 VC firms in fifteen European Union countries | Rev. Fin. Std. | Trust has a positive relationship with investment decisions. |
| 20 | (Edmans et al. 2017) | Equity Vesting and Investment | Q1 2008–Q4 2009 | Rev. Fin. Std. | Equity vesting has a negative link with capital investment expenditures. |
| 21 | (Kim and Kung 2017) | The Asset Redeployability Channel: How Uncertainty Affects Corporate Investment | November 1989 to July 1991 | Rev. Fin. Std. | During a high uncertainty period, the utilization of redeployable capital can uplift the investment. |
| 22 | (Lambrecht and Myers 2017) | The Dynamics of Investment, Payout and Debt | Not specified | Rev. Fin. Std. | Risk-averse managers follow the debt level and payout while making decisions about investment. |
| 23 | (Jacob et al. 2019) | Consumption Taxes and Corporate Investment | 2009–2015, Dutch firms | Rev. Fin. Std. | Consumption taxes would lead to a decrease in capital investment due to a reduction in demand for industrial goods. |
| 24 | (Grieser and Liu 2019) | Corporate Investment and Innovation in the Presence of Competitor Constraints | 2010–2012, Patent data at Harvard Patent Database | Rev. Fin. Std. | In the presence of financially constrained competitors, corporate firms increase their investment to compete with competitors. |
| 25 | (Dessaint et al. 2019) | Noisy Stock Prices and Corporate Investment | All firms present in TNIC from 1996 to 2011. | Rev. Fin. Std. | Stock market inefficiencies reduce investment. This effect is parallel even for those firms that are not facing any financial constraints and agency problems. |
| 26 | (Lyandres et al. 2019) | Owners' Portfolio Diversification and Firm Investment | 1999–2010, European publicly traded firms | Rev. Fin. Std. | Portfolio diversification has a positive link with the capital investment of public firms while negatively associated with private firms. |

**Table 2.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 27 | (Bai et al. 2020) | Employment Protection, Investment, and Firm Growth | 1969–2003, CRSP firms founded in U.S. | Rev. Fin. Std. | The adoption of employment protection laws can impede capital investment, following negative sales growth and cash flow. |
| 28 | (Li et al. 2020) | Political Investment Cycles of State-Owned Enterprises | 2001–2015, 140,000 state-owned enterprises from 25 European countries | Rev. Fin. Std. | State-owned firms increase their capital investment during the national election years. |
| 29 | (Dicks and Fulghieri 2021) | Uncertainty, Investor Sentiment, and Innovation | Not specified | Rev. Fin. Std. | Risk-averse investors pay more intention to innovation and thus have more investment. |
| 30 | (Abel and Panageas 2022) | An Analytic Framework for Interpreting Investment Regressions in the Presence of Financial Constraints | Not specified | Rev. Fin. Std. | In the presence of financial constraints, the average q and cash flow are the main determinants of investment. |

**Source:** Past studies arranged on the theme of investment. **Note:** In this table, we have reported the main empirical findings of studies arranged on the topic of investment and published in Review of Finance Studies. The time span is 2010 to 2022.

**Table 3.** A Pilot-view of Studies Published in Journal of Financial Economics.

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 1 | (Duchin et al. 2010) | Costly external finance, corporate investment, and the subprime Mortgage credit crisis | July 2007 to March 2009. | J. fin. Econ. | Following the recent financial crisis, corporate firms face a decline in investment due to an increment in external financing costs. This negative effect was more explicit in firms having low cash reserves, short-term debt, and being financially constrained. |
| 2 | (Kang et al. 2010) | The Sarbanes-Oxley act and corporate investment: A structural assessment | 1998 to 2005, U.S. and U.K. | J. fin. Econ. | The Sarbanes-Oxley Act of 2002 has an asymmetric impact on corporate investment and is significant across small firms. |
| 3 | (Butler et al. 2011) | Corporate financing decisions, managerial market timing, and real investment | 1971–2008, all firms on CRSP | J. fin. Econ. | Net financing matters more rather than the composition of financing for future stock returns and corporate investment decisions. |
| 4 | (Morellec and Schürhoff 2011) | Corporate investment and financing under asymmetric information | Using a sample of 60,000 artificial firms | J. fin. Econ. | Asymmetric information induces firms to make more investments due to the distortion of options stocks. |
| 5 | (Billett et al. 2011) | The influence of governance on investment: Evidence from a hazard model | 1990–2007, firms listed at Compustat | J. fin. Econ. | Firms with good governance indulge in long-term investment and have low over-investment. |
| 6 | (Caggese 2012) | Entrepreneurial risk, investment, and innovation | 1995, 1998, and 2001 Mediocrities Centrale Surveys | J. fin. Econ. | Investment risk has a negative impact on the innovation investment of entrepreneurial firms, while it has no effect on other firms. |

**Table 3.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 7 | (Kahle and Stulz 2013) | Access to capital, investment, and the financial crisis | Multiple sampling, U.S. firms | J. fin. Econ. | Financial crises have a negative impact on investment. However, bank-dependent firms do not decrease their investment during a financial crisis. |
| 8 | (Harford and Uysal 2014) | Bond market access and investment | 1990–2001, firms at CRSP | J. fin. Econ. | Lack of debt market access has a negative effect not only volume of investment but also on the quality of investment decisions. |
| 9 | (Foucault and Fresard 2014) | Learning from peers' stock prices and corporate investment | 1996–2008, U.S. public firms | J. fin. Econ. | Peer effect exists in investment decisions. A 1% change in peers' valuation could change corporate investment by 5.9%. |
| 10 | (Ai and Li 2015) | Investment and CEO compensation under limited commitment | 1992–2009, all firms listed in Execucomp and Compustat | J. fin. Econ. | Under optimal cost contract function, the smaller firms invest more, have high Tobin's q, and enjoy better growth rates as compared to larger firms. |
| 11 | (Frank and Shen 2016) | Investment and the weighted average cost of capital | CRSP listed firms | J. fin. Econ. | The measurement of the weighted average cost of capital through CAPM has a negative effect, while measurement through the implied cost of capital has a positive effect on investment, implying that the implied cost of capital better reflects the cost of capital. |
| 12 | (Favara et al. 2017) | Debt enforcement, investment, and risk taking across countries | 2000–2010, 41 countries | J. fin. Econ. | The link between debt enforcement, risk exposure, and investment decisions is exposed to firm characteristics of default. |
| 13 | (Peters and Taylor 2017) | Intangible capital and the investment-q relation | 1975–2011, Compustat firms | J. fin. Econ. | Total physical investment is more sensitive to Tobin's q and less sensitive to cash flow. At the macro level, Tobin's q explains that intangible investment is better than physical investment. |
| 14 | (Jens 2017) | Political Uncertainty and Investment: Causal Evidence from U.S. Gubernatorial Elections | Q1 1984–2008 | J. fin. Econ. | Before election years, firms delay debt and equity issuance, which negatively determines the physical investment. |
| 15 | (Bargeron et al. 2018) | Financing Investment Spikes in the Years Surrounding World War I | 1914–1921, U.S. firms listed as public firms in 1905. | J. fin. Econ. | During World War 1, corporate firms increase their investments due to spikes in demand for industrial goods. Additionally, firms largely acquire external debt due to tax advantages and to meet investment objectives. |
| 16 | (Lin et al. 2018) | Investment, Tobin's q, and interest rates | 1963–2014 | J. fin. Econ. | The credit spread and Tobin's q have significant ability to predict investment efficiency. |
| 17 | (Rossi et al. 2018) | Network centrality and delegated investment performance | 1984–2004, U.K. firms | J. fin. Econ. | Greater network connections have a favorable impact on investment efficiency and the exploitation of more investment opportunities. |

**Table 3.** *Cont.*

| Sr No. | Authors | Title | Sample | Journal | Findings |
|---|---|---|---|---|---|
| 18 | (Bernard et al. 2020) | Information Flows among Rivals and Corporate Investment | 2004–2015 | J. fin. Econ. | The analysis corroborated the existence of peer effect in investment decisions and vowed that rival information derives more investment. It further facilitates product differentiation strategies and mergers and acquisitions. |
| 19 | (Barattieri et al. 2021) | Banks funding, leverage, and investment | 1994–2014, 14,000 financial institutions from 30 OECD economies | J. fin. Econ. | Non-core funding provides insurance against risk, which further makes the leverage more attractive. Such an increase in leverage enhances the investment. |
| 20 | (Guceri and Albinowski 2021) | Investment responses to tax policy under uncertainty | 2005–2016, | J. fin. Econ. | In low uncertainty, tax incentives enhance investment. |
| 21 | (Livdan and Nezlobin 2021) | Investment, capital stock, and replacement cost of assets when economic depreciation is non-geometric | 1971–2017, firms in Compustat | J. fin. Econ. | Non-geometric efficiency changes the fundamental investment stocks and replacement costs. |
| 22 | (Fakos et al. 2022) | Investment slumps during financial crises: The real effects of credit supply | 2008–2015, Greek firms | J. fin. Econ. | The reduction in credit supply during depression impedes the investment. |

**Source:** Past studies arranged on the theme of investment. **Note:** In this table, we have specified the key findings of studies arranged about corporate investment decisions and published in The Journal of Financial Economics. We have reviewed the studies published from 2010 to 2022.

Our review analysis has several implications for corporate managers and researchers. This study provides comprehensive guidance to investment managers on different factors that can affect investment decisions. This study can be a handful for investment managers to comprehend the dynamic role (both negative and positive) of different factors in determining investment decisions. The current study brings voluminous literature together and offers a brief understanding of various determinants of investment decisions. For the research community, this study urges them to think about investment determinants and augment the existing literature by exploring the other factors that can affect investment decisions. However, our study is limited to not including the other well-known journals in the review analysis due to time limitations. Future studies can be arranged by setting the other criterion, i.e., country and methodology distinctions, and adding more journals to the analysis.

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## Note

[1] According to JCR (journal citation report) journal lists, the top three journals of finance are The Journal of Finance (JF), The Review of Financial Studies (RFS), and The Journal of Financial Economics (JFE).

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