

Zhichi Co is a large, listed engineering company involved in the development and manufacture of environmentally friendly products for businesses worldwide. Until a few years ago, the value of its shares had been increasing steadily and it regularly outperformed its main rivals. However, more recently its shares have been underperforming and many financial analysts are recommending that Zhichi Co shares should be sold. Zhichi Co's investors are becoming increasingly concerned.

The analysis concluded that this underperformance was due to three policy failures in the company's financial strategy, as follows:

- Zhichi Co does not undertake post-completion audits of its investment projects;
- Zhichi Co has used a fixed discount rate of 10% to assess all investment projects for some years now. None of the company's senior management can remember why this rate was chosen; and
- Zhichi Co has continually funded new investment projects using equity finance and the analysis concluded that this financing strategy sent the wrong signals to investors.