

# Effect of Capital Budgeting on Development of Organizations Empirical Studies of Kashinge Child Development Centre Kisoro District.

Alex Akankwasa, Teddy Akakikunda, Moses Ntirandekura, Caroline Masiko Murezi, Friday Christopher

## Correspondence

Alex Akankwasa Assistant Lecturer Faculty of Economics and Management Sciences/ PhD Student Kabale University  
Teddy Akakikunda Assistant Lecturer Faculty of Economics and Management Sciences Kabale University / PhD Student Kampala International University

Moses Ntirandekura Assistant Lecturer/ PhD Student Kampala International University

Caroline Masiko Murezi Assistant Lecturer Faculty of Economics and Management Sciences/ PhD Student Kabale University

Friday Christopher Assistant Lecturer/ PhD Student Kampala International University

**Abstract:** *The purpose of the study was to establish the effect of Capital budgeting on development of organizations at Kashinge Child Development Centre Kisoro District. The objectives of the study were to establish the need for Capital Budgeting, determine the techniques to be used in capital budgeting and to find out the relationship between capital budgeting and organizational development at Kashinge Child Development Centre Kisoro District. The research used a descriptive and cross sectional research design with a combination of both qualitative and quantitative approaches in data collection and analysis. The study population was 70 respondents selected from Director, Child Development Officers, other employees, and other beneficiaries of Kashinge Child Development Centre. The research study used Focus group discussion, questionnaires and interviews. The findings established that there is a great relationship between Capital budgeting and development of organization at Kashinge Child Development Centre. Capital Budgeting is very necessary for organizational development since it facilitates effective and efficient utilization of financial resources through making good investment decisions. The management of Kashinge Child Development Centre do not have clear policies concerning with Capital budgeting and this makes financial resources utilization not effective. The study therefore recommended that: Management should always have budgets in place and that issues concerning with expenditure of funds should consider segregation of duties. This will in the long run enable the organization to achieve its targets.*

**Keywords:** Capital Budgeting, Development, Organization, Liquidity

## 1.0 Back ground of the study

(Avram *et al*, 2009) expresses that Capital budgeting goes hand in hand with investment and involves the utilization of financial resources of an organization. This is done with the aim of easing utilization of resources in line with the goals and objectives of the enterprise.

An investment is the allocation and substantial consumption of resources that are either material, human or financial. Hence more emphasis is put on utilizing the resources on activities and programs that are more profitable and more viable. This is done in order to increase the shareholders equity through profit and dividend management. In case of poor and irrelevant decision making the organization may end making losses which may lead to its winding up.

Chan (2004) farther describes capital budgeting as “a core and important management tool that allows organizations to plan for resources that are necessary for ensuring good service delivery and also enhancing increased cash inflows.

The theory of resource based was used to explain the study. It states that organizations should organize enough resources in order to be able achieve its overall financial objectives. Organizations encounter very many issues in as far as capital budgeting is concerned and this leads to financial management problems which can be addressed by conducting a clear policies relating to proper utilization of finances.

The study considered two variable Capital budgeting and organizational development.

Kashinge Child Development Centre is located in Kashinge Sub County, Kisoro District. Its core mission is to provide holistic life to the vulnerable particularly the orphans, and abandoned through education, medical care and also social and Psychological support. It was recently established that many organizations have many challenges that are related to capital budgeting which has hence affected their overall development and hence call to carry out this study.

## 2.0 Related Literature Review

### 2.1 Factors affecting Capital Budgeting in Non-governmental Organizations

## **Organization practices**

According to Nshisso (2008) budgeting is a common and required practice for businesses and public sectors. Capital budgeting is the decision making process that managers use to identify projects that add value to the organization. It provides guidance to organizations in determining the advantages of investing in a project.

### **Planning**

Bozeman (1984) asserted the factors that are responsible for successful development of public sector capital budgeting. He highlights the development of official planning commissions and their attention to the development of the physical plan of the city and the influence of the administration on the Non-governmental organizations.

### **Depression**

The effect of great depression on organizations that led to the realization that unplanned massive public works can lead to bankruptcies and financial crisis and the World War II that resulted in resources and attention being diverted from maintaining the public facilities and infrastructures. He concludes by saying that the interaction of these factors opened a way for the development and inclusion of a capital planning and budgeting process at national, regional and local levels.

### **Inadequate resources**

Although many public sector projects are aimed at revenue generation and cost saving, the public sector's priority is not to maximize value but rather to allocate the scarce resources in a manner that will maximize the quantity and quality of the public service programs (Kee & Robbins, 1991). The scarcity of resources and infrastructure concerns has brought attention to how capital decisions affect operating expenditure (Bozeman, 1984).

### **Insufficient information**

Schwartz, Corbacho and Kunke (2008), expressed that the capital budgeting challenges as Policy makers lack adequate information regarding the costs and benefits of investment activities and lack of staff to support such projects. Therefore, sound and profitable capital budgeting decisions can have a positive influence on the financial performance of organization (Yadav, 2005).

## **2.2 Constraints to the selection of capital projects.**

### **Legal issues**

Pagano (1986) stated that Legal issues affect capital budgeting. "The more flexible the legal constraints, the less need to circumvent them in the nominal capital budgeting process. Legal limits establish broad parameters around revenue constraints".

### **Financial issues**

Miller (1988) explained that financial issues affect the selection of capital projects. Although the immediate revenues for capital projects are obtained by incurring debt, the state pays the loan over a number of years from general taxes or user charges.

### **Intergovernmental aid**

Chan (2004) asserted that intergovernmental aid do hinder the success and selection of capital projects. "The state may require projects that tend to rely on extra state revenues to be pursued ahead of projects requiring state only funding.

## **2.3 Capital performance and development of organizations**

### **Improvement of the future**

The improvement of future capital projects is influenced by the lessons learnt from the past projects using post audits (Pinches, 1981). Post audits may include among others a review on how the project performed.

### **Financial Performance**

Jacobs (2008) explained that Capital budgeting helps in enhancing Financial performance of business. This includes the amount spent vs. the approved amount and the reasons that led to the under or over expenditures.

---

### Time Performance

Pinches (1981) explains that the Time performance is easily– The more time it takes to execute a project than the approved duration, the more costs are incurred and late benefit realization.

### Stakeholder engagement

Agbude (2013) expressed that Stakeholder engagement is realized through Capital budgeting .The success of a project is dependent on how different stakeholders on the project responsible for different activities engage with one another to ensure that the dependencies are well managed.

## 3.0 Research Methodology

### 3.1 Research design

The research study used descriptive correlation survey as data was collected from the respondents at different periods of time. Purposive sampling was used with the aim of collecting the right information from the respondents who participated in the study.

### 3.2 Study Population

The population consisted of 70 respondents purposely chosen from the project Director, Project officers, other staff and the beneficiaries of Kashinge Child Development Centre Kisoro District.

### 3.3 Sample Size

This was determined using Solven formula of sample determination using a target population of 70 respondents.

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{70}{1 + 70(0.05)^2}$$

$$n = 60$$

Where n is the sample size

N is the target population

e-Sampling error

The table below shows the Sample size from a given population

Respondents	Population size	Sample size	Technique
Director	01	01	Purposive
Project Officers	03	03	Purposive
Other employees	15	10	Simple Random sampling
Beneficiaries	100	46	Simple Random Sampling
<b>Total</b>	<b>119</b>	<b>60</b>	

### 3.4 Data sources

The sources of data were both Primary and secondary data.

### 3.5 Data Collection Instruments /Methods

The methods of data collection used during the study included questionnaire, observation, documentary analysis and interviews.

### 3.6 Data presentation and analysis

Data was collected sorted coded edited summarized and presented using charts, tables and SPSS V.20

## 4.0 Data Presentation and Analysis of the findings

### 4.1 Age of the respondents

Table 1 Table showing the age of the respondents

Age	Frequency	percentage
15 – 25	15	25
26 – 36	20	33
37 – 47	12	20
48 – Above	13	22
Total	60	100

Source; Field source 2022

From the table above it is noted that majority of the respondents were in the age bracket of 26 – 36 represented by 33%, 15 – 25 stipulated by 25%, 37 – 47 shown by 20% and 48- Above expressed by 22%.

#### 4.2 Gender of the respondents

Table 2 Table showing the Gender of the respondents

Gender	Frequency	Percentage
Males	28	46
Females	32	54
Total	60	100

Source; Field Source 2022

As observed above, the majority of the participants in the study were females as stated by 54% and males were represented by 46%.

#### 4.3 Level of Education

Table 3 Table showing the level of education of the respondents

Level of education	Frequency	Percentage
Secondary level	30	50
Diploma	16	27
Bachelor's degree	11	18
Post graduate	3	5
Total	60	100

Source; Field source 2022

From the table above it is noted that 50% Of the respondents were secondary level leavers, 27% diploma holders, 18% bachelor's degree holders and 5% were postgraduate holders.

#### 4.4 Factors affecting capital budgeting

Table 4 Table showing the factors affecting capital budgeting

Factor affecting capital budgeting	Frequency	Percentage
Business practices	12	20
Official planning	10	17
Depression	11	18
Scarce Resources	09	15
Insufficient information	18	30
Total	60	100

Source; Field source 2022

The factors affecting capital budgeting were represented in the table above ; business practices was stated by 20% of the respondents, official planning 17%, Depression 18%, Scarce resources 15% and Insufficient information 30%.

#### 4.5 Constraints to selection of capital projects

Table 5 Table showing the constraints to selection of capital projects

Constraints to selection of capital projects	Frequency	Percentage
Legal Issues	21	35
Financial Issues	20	33
Intergovernmental issues	19	32
Total	60	100

Source; Field Source 2022

As indicate in the table above, the constraints to selection of projects were ; Legal issues represented by 35% of the respondents, Financial issues shown by 33% and intergovernmental aid issues stipulated by 32% of the respondents.

#### 4.6 Relationship between Capital Budgeting and development of organization

Table 6 Table showing the relationship between Capital Budgeting and development of organization

Relationship between capital budgeting and development of an organization	Frequency	Percentage
Improvement in the future	24	40
Financial Performance	20	33
Stakeholders engagement	16	27
Total	60	100

From the table above it is stated that 40% of the respondents asserted that capital budgeting leads to improvement in future of the organization, 33% stipulated Financial Performance and 27% expressed Improvement in stakeholders' engagement.

#### 5.0 Conclusion and Recommendation

##### 5.1 Conclusion

There is a high and great relationship between Capital budgeting and development of organization at Kashinge Child Development Centre. Capital budget is very important and fundamental for enhancing effective resource utilization and hence improving good quality service delivery and development of an organization.

The management of Kashinge Child development Centre do not implement capital budgeting practices and this has led to misuse of the financial resource and hence limiting the organization to meet its se targets. In case capital budgeting is adopted then the organization is able to enjoy more benefits such as proper financial resource utilization, good investment decision making and also sustainability of the organization. This research farther established that there are very many instances whereby capital budget is not followed such as appraisal and evaluation of projects which has led to collapse of such projects and hence affecting their sustainability.

##### 5.2 Recommendation

The management of Kashinge Child Development Centre needs to ensure that the most viable budgeting techniques such as Cost Benefit ratio and Net Present value are adopted since they help in enabling the organization to determine the rate of return and hence facilitating decision making. There is also need by the organization to train the employees in issues relating to financial management to facilitate proper financial resource utilization which helps in the realization of the organizational goals and objectives.

#### REFERENCES

- Agbude, B., Uwalomwa, U., & Agbude, G. (2013). Capital Budgeting, Government Policies and the Performance of SMEs in Nigeria: A Hypothetical Case Analysis.
- Avram, E., Savu, L., Avram, C., Ignat, A., Vancia, S., & Horja, M. (2009). Investment decision and its appraisal. *Annals of DAAAM International*, 20(1), 1905-1906.
- Bozeman, J.L. (1984). The capital budget: history and future directions. *Public budgeting and finance*. 18 – 30
- Chan, Y.L. (2004). Use of capital budgeting techniques and an analytic approach to capital investment decisions in Canadian municipal Governments. *Journal of Management Accounting Research*, Investment projects evaluation by simulation and multiple criteria decision aiding procedure.
- Jacobs, D.F. (April 2009). Public Financial Management Technical guidance Note. International Monetary Fund Retrieved on 27th August, 2014 <http://blog-pfm.imf.org/files/capital-expenditures-and-the-budget.pdf>
- Kee, R., Robbins, W. (1991). Capital Budgeting in the Public Sector: A Comparative Analysis. *Journal of Managerial issues*, III (1), 288 – 302.
- Miller, A. (1988). Selecting capital investment projects for local Government. *Public Budgeting and Finance*, 63 – 77.

Nshisso, N.J. (2008). Capital budgeting and public financial management: Why the democratic Republic of Congo can't improve its economy.

Pagano, A.M. (1986). State Capital Budgeting: Controls and Constraints over Project Selection. *State and Local Government Review*. 95 – 100.