

CAPITAL BUDGETING PRACTICES AND GROWTH OF PRIVATE COMPANIES IN UGANDA: A CASE OF MOVIT PRODUCTS LTD

LULE SIMON

Lecturer Faculty of Business Administration and Management
Ndejje University, Kampala Uganda

<https://doi.org/10.37602/IJREHC.2023.4609>

ABSTRACT

This paper discusses the effect of capital budgeting practices on growth of Movit Products Limited. The study was carried out using components such as research and development, diversification and mergers/acquisitions. The researcher adopted cross sectional design where self-administered questionnaires were used to collect data from a sample of 40 respondents and a population of 44. The data was analysed using the statistical package for social science (SPSS). The findings revealed a positive moderate relationship between research and development and the growth of the private company at ($r= 0.621^{**}$). The study results also shows that diversification and growth of private companies had a positive moderate relationship at ($r=0.589^{**}$). The study further illustrates that there is a statistical moderate positive relationship between mergers/acquisition and growth of the company with a moderate positive relationship ($r=0.540$). The researcher concluded that Movit Products Limited must undertake capital budgeting practices in form of research and development, diversification and mergers/acquisition so as to affect the growth of private companies positively. This can be achieved through implementation of new machinery, replacement of machinery, new plants, new products, and projects through company's capitalization structure. The study shows that Movit Products Limited should comply with government rules and regulations in order to enhance growth of private companies.

Keywords: Research and Development, Diversification, Mergers or Acquisitions

1.0 INTRODUCTION

Capital budgeting is another area of finance that has attracted many academicians and many theories. Capital budgeting has been developed since Shapiro' pioneering work in 1968, however, the growth of any company depends upon the efficient utilization of available resources particularly budgeting of capital expenditure.

Capital budgeting is an investment decision-making process for the survival of a company and it involves a company decision to invest in long term ventures, make viable decisions of research and development, diversification in other products and services and asset acquisitions such as land, buildings and equipment for structural expansions.

Throughout the decades, theoretical breakthrough has led the way to more complex theories and techniques that companies use in capital budgeting decision (Ecole, 2006). Capital budgeting has a gap between theory and practice ranging from the project idea to monitoring and control.

The growth of any company depends upon the efficient utilization of available resources particularly budgeting of capital expenditure. The introduction of technological improvements and expansion of plant operations represents a major factor in economic growth and increased productivity (Mustapha, 2015).

Growth is a key factor in profit maximization and its relevance means enlargement, increase and expansion therefore it is something for which most companies large and small strive for. Small firms want to get big and big firms want to get bigger.

These new product lines are witnessed in new product development, acquisition of machinery, replacement and product design. This direction improves a company's profitability base, market share as well as return on investment (Smith, 2014).

Although other functions of finance like the capital structure, dividend policy, working capital management are equally important to the financial manager but it is the fixed assets that define the business of the firm (Pandey 2004).

Capital budgeting Practices involves the decision to take long-term investment decisions in research and development, diversification and mergers and acquisitions which are helpful in improving the production systems and deliver high quality products which leads to growth of private companies. According to Movit Products Limited Report (2017), however, the lack of resources to undertake sizeable investments, unpredictable inflationary tendencies and government policies hinders the company to favourably compete with rivals.

1.1 Purpose of the study

The general purpose of the study was to investigate the effect of capital budgeting practices on growth of Movit Company Limited.

1.2 Objectives of the study

To examine how research and development affected growth of Movit Products Limited.

2.0 LITERATURE REVIEW

The available literature highlights the effect of capital budgeting practices on growth.

Kalyebara, (2014) asserts that capital budgeting is how managers plan significant outlays on projects that have long-term implications such as the purchase of new equipment and the introduction of new products.

Lakew, (2014) noted that capital budgeting is the process of making long-term planning decisions for investments. It means a financial manager must be able to decide whether an investment is worth undertaking and be able to choose intelligently between two or more alternative projects.

According to Wüstenhagen, (2015), capital budgeting is the process in which a business determines and evaluates potential expenses or investments that are large in nature.

Hornstein, (2017) stated that research and development refers to the part of a company's business plan that seeks to gain knowledge to develop, design and enhance company products, services, technologies or processes.

Zhou, (2016) revealed that research and development (R&D) refers to the work a business conducts toward the innovation, introduction and improvement of its products and procedures.

3.0 RESEARCH METHODOLOGY

The study used a cross sectional research design combined with descriptive methods where both primary and secondary data were collected using self-administered questionnaires comprising both open and close ended questions from a sample of 40 respondents including accountants, financial officers, auditors, cashiers, managers, operation officers and procurement officers. The study utilized both probabilistic sampling design and probabilistic sampling designs who had critical information relevant to the study. The data was then utilized quantitatively and quantitatively using SPSS to obtain frequencies, standard deviation, mean correlations and regression. The overall response rate was 90.9% as 40 questionnaires out of the overall total of 44 were returned.

3.1 Data quality and analysis

Table A: Cronbach’s Alpha Reliability Test

Responses	No. of Items	Cronbach’s Alpha Coefficiency (α)
Research and Development	18	.833
Diversification	20	.719
Mergers/acquisition	15	.911
Growth	8	.794
Total Cronbach’s Alpha		0.81

Source: primary Data

The reliability of the data is 0.7 and above, then the questionnaire is reliable for research. The instruments were deemed reliable since it scored 0.81.

Research findings the parameters that were highlighted during the analysis of the collected data were namely;

Whether research and development were put in place for appropriate growth of private companies and also whether diversification influence growth of private companies and whether mergers/acquisition influence growth of private companies.

Table B: Descriptive statistics on research and development and growth of private companies

Response	Mean	Std
Research and Development		
Movit Products Ltd. conducts Research & development to gain knowledge, develop and design new products	2.53	1.261
There is usually efficient utilization and allocation of resources in Movit Products Ltd.	2.35	1.167

Research and development enables the company to achieve higher competitive advantage over other firms.	3.33	1.269
Research and development is often a crucial component of innovation and a key factor in growth of a company	3.10	1.336
The company always lowers its future capital requirements and operating costs.	2.48	1.281
The company usually increases its sales volume.	2.82	1.010
The successfully leverage of R&D efforts translates in building new products development	3.03	1.310
The company always follows and stays ahead of market trends.	2.35	1.051
There is usually improvement in the company productivity level as a result of R & D	2.23	1.025
There is always an increase in market participation in Movit Products Ltd.	2.23	1.025
Movit Products. Ltd has increasing market share.	2.32	1.071
Movit Products. Ltd usually comes up with innovative new products.	2.58	1.152
The return on equity for the company always increases.	2.20	1.203
With research and development, the company develops new technology.	3.15	1.027
The company often discovers new materials and manufacturing techniques that bring down costs.	2.30	1.067
R&D is a catalyst on growth of private companies in Uganda	3.35	1.202
The company usually provides consumers the products that they have never seen before.	2.50	1.301
The company has the required ability for commercialization of production efforts.	2.53	1.240

Source; Primary data, 2019

The results of finding were represented by the overall score of 1.010 which provided that research and development normally broadens the growth insight for companies in Movit Company Limited.

In an effort to find out the basic relationship between research and development and growth of private companies, the researcher carried out a correlation analysis and the results below was provided:

Table C: Correlations results on the relationship between research and development and growth of Movit Products Limited

		Research and Development	Growth of Movit Products Limited
Research and development	Pearson Correlation	1	.621**
	Sig. (2-tailed)		.000
	N	40	40
Growth of Movit Products Limited	Pearson Correlation	.621**	1
	Sig. (2-tailed)	.000	
	N	40	40

*. Correlation is significant at the 0.01 level (2-tailed).

It shows that through bivariate means, there is a positive correlation of $r = .621^{**}$ and significance of 0.000 between research and development and growth of private companies

which is predictive. Therefore, the simple correlation and is 0.621 which indicates a statistical significance relationship between research and development and growth of private companies in Movit Companies Limited.

3.2 A single regression analysis on research and development and growth of private companies

In addition to the descriptive statistics above, research and development were regressed against growth of private companies to confirm the results got from the descriptive statistics as well as test Movit Companies Limited of the relationship as shown in the results below;

Table D: Model summary on research and development and growth

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621 ^a	.386	.370	.62485

a. Predictors: (Constant), Research and Development

Table D. above illustrates that the adjusted R square estimates the population R square for the model used in the study and thus gives a more realistic indication of its predictive power. The adjusted R squared of 0.370 at standard error of 0.62485 indicates the proportion of variance in growth that can be explained by implementation of research and development. The R square value of 0.386 indicates that research and development contributes 38.6% in influencing growth of Movit Products Ltd therefore, 61.4% of its growth is influenced by other factors.

Table E: ANOVAa for research and development and growth of private companies

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.332	1	9.332	23.900	.000 ^b
	Residual	14.837	38	.390		
	Total	24.168	39			

a. Dependent Variable: Growth of Movit Products Limited

b. Predictors: (Constant), Research and Development

The F-test of 23.900 is highly statistically significant, thus it can be assumed that the model explains a significant amount of the variance in growth where by p-value (0.00<0.01) at 95% confidence level. If this test is significant, the model in general has predictive capability on growth of Movit Products Limited.

4.0 DISCUSSION AND RECOMMENDATIONS

Basing on the findings above, the regression beta coefficient the regression model indicates the dependent variables significantly well. The F-value of 23.900 and P value of 0.000b which is less than 0.05 confirms that there is a relationship between research and development and growth of private companies in Movit Companies Ltd. The standardized beta coefficients implies that one unit increase in growth of private companies is caused by 0.621** unit increase in research and development basing on the $Y = \beta x + C$, where $Y =$ growth, $X =$ research and development, $\beta = 0.621^{**}$ and C is constant.

4.1 Research and development

The study also revealed that the overall mean in research and development and growth of private companies with mean score of 1.010 and standard deviation at 1.336 which represents that research and development provides morals to growth in the Movit Product Ltd.

The study results provided that basing on the findings that there is a statistical significance relationship between research and development and growth of private companies with $r = 0.621^{**}$ and significance of 0.000. Therefore, the study confirmed that any changes in the research and development correlate with changes in growth of private companies.

5.0 RECOMMENDATIONS

5.1 Research and development

The researcher recommended that the financial advisory management should review on capital budgeting Practices by allocating funds to facilitate research and development projects.

The researcher recommended that management should define investment policies to support research to improve investments process to generate results.

6.0 CONCLUSIONS

The study on the effect of capital budgeting on growth of private companies was carried out in Movit Companies Limited and it was to examine how research and development affected growth, to examine the effect of diversification on the growth and to establish the relationship between Mergers/acquisition and growth of Private companies of Movit Companies Limited. Findings were positive towards the achievement of the study as discussed above.

REFERENCES

- Mustapha (2011) Organizational Innovativeness and Measures of Organizational Performance. 2nd Ed. Omega, Publishers, 631-647.
- Kalyebara, B., (2014). Corporate governance, capital markets, and capital budgeting. Springer.
- Lakew, D. M. (2014). Determinants of Capital Budgeting Sophistication: Evidence from Ethiopia. *Journal of International Academic Research for Multidisciplinary*, 2(11).
- Hornstein, A. S., & Zhao, M. (2017). Corporate Capital budgeting Practices and information sharing. *Journal of Economics & Management Strategy*, 20(4), 1135-1170.
- Qiu, T. (2014). Product diversification and market value of large international firms: A macro-environmental perspective. *Journal of International Marketing*, 22(4), 86-107.
- Chatterjee (2015) Horizontal Merger Merald insight.Com.