ABSTRACT

This study was intended to evaluate theimpact of capital budgeting on organizational performance. This study wasguided by the following objectives; To determine the nature of capitalbudgeting; to determine the nature of organizational performance; to determinethe impact of capital budgeting on organizational performance; to determine theimpact of capital budgeting on the performance of ondo state ministry of works.The study employed the descriptive and explanatory design; questionnaires inaddition to library research were applied in order to collect data. Primary andsecondary data sources were used and data was analyzed using the chi squarestatistical tool at 5% level of significance which was presented in frequencytables and percentage. The respondents under the study were 50 employees of theOndo state ministry of works. The study findings revealed that capitalbudgeting significantly impacts on organizational performance; based on thefindings from the study, efforts should be made by the Nigerian government andstakeholders in promoting and ensuring capital budgeting and implementation.

CHAPTER ONE

BACKGROUND OF THE STUDY

An efficient economic system calls for adependable mechanism to allocate its resources. Christy (1966) describesthatland, labour and capital are to be directed to their best uses, and shouldhence be placed in the hands of those who can use them most capably. In amarket economy, this allocation process consists largely of a set of privatedecisions, which are directed by a network of free markets and flexible prices. Important among these decisions are capital investments decisions thataccording to Northcott (1995) are vital at two levels: for thefutureoperability of the individual firm making the investment, and for theeconomy of the nation as a whole. At the firm level, capital investmentdecisions have implications for many aspects of operations, and often exert acrucial impact on survival,profitability and growth. At the national level, theproper planning and allocation of capital investment are essential to anefficient utilisation of other resources,poorly placed investment reduces theproductivity of labour and materials and sets a lower ceiling on the economy'spotential output. With this in mind it is no wonder that capital investment orcapital budgeting is a central application of financial theory .the advantagesand applications of sophisticated capital budgeting procedures based on cashflows, risk and the time value of money are seen as tools for maximisingshareholders' wealth, which is the same as maximising the value of the firm(Copeland & Weston, 1992). This fact is often approximated to the relationshipthat firms using more sophisticated capital budgeting procedures should be ableto perform better over time (Christy, 1966; Klammer, 1973). Empirical studies
concerning the adoption of sophisticatedcapital budgeting procedures
have shown that even though the degree ofadoption has increased over time, there is an obvious "theory-practice gap"(Klammer, 1972; Schall, Sundem&Geijsbeek, 1978; and Graham & Harvey,2001).

The research therefore seek to evaluate theimpact of capital budgeting on organizational performance

STATEMENT OF THE PROBLEM

Investment on capital projectconstitute amajor financial budget ofa firm.

Therefore it is pivotal thatit impactspositively on the firms performance in terms of profitability, market share,growthand shareholders value.

However many organization make huge capitalinvestment without exacting Positive result on the firmsoperations.This is as aresult of lack of proper Appraisal to determine the relative worth of suchinvestment.Capital budgeting is the process in which a business determineswhether projects such asbuilding a new plant or investing in a long-termventure are worth pursuing. Oftentimes, a prospective project's lifetime cashinflows and outflows are assessed in order to determine whether the returnsgenerated meet a sufficient target .Also known as "investmentappraisal.Ideally, businesses should pursue all projects and opportunities thatenhance shareholder value. However, because the amount of capital available atany given time for new projects is limited, management needs to use capitalbudgeting techniques to determine which projects will yield the most returnover an applicable period of time.Popular methods of capital budgeting includenet present value (NPV),internal rate of return (IRR),discounted cash flow(DCF) and payback period

Therefore the problem confronting theresearch is to determine the impact of capital budgeting on organizationalperformance.

RESEARCH QUESTION

What is the nature of capital budgeting

What constitute the nature of organizational performance

What is the impact of capitalbudgeting on organizational performance

What is the impact of capital budgeting inondo state ministry of works

OBJECTIVE OF THE RESEARCH

To determine the nature of capital budgeting

To determine the nature of organizationalperformance

To determine the impact of capital budgetingon organizational performance

To determine the impact of capital budgetingon the performance of ondo state ministry of works

SIGNIFICANCE OF THE RESEARCH

The researchshall providean analysis ofcapital budgeting and the techniques applicable in capital budgeting tecniques.

It shall serve as a source of information tomanagers and other professionals.

STATEMENT OF HYPOTHESIS

Ho Capital budgeting is notsignificant in ondo state ministry of works

Hi Capital budgeting is significant in ondo state ministry of works

Ho organizational performance in ondo state ministry of works is low

Hi organizational performance in ondo state ministry of works is high

Ho The impact of capital budgeting on performance in ondo state ministryOfworks is low

Hi The impact of capital budgeting on performance in ondo state ministryOfworks is high

SCOPE OF THE STUDY

The study focuses on the evaluation oftheimpact of capital budgeting on organizational performance with a case study ofthe ondo state ministry of works.

DEFINITION OF TERMS

CAPITAL BUDGETING DEFINED

Capital budgeting is the process in which abusiness determines whether projects such asbuilding a new plant or investingin a long-term venture are worth pursuing. Oftentimes, a prospective project'slifetime cash inflows and outflows are assessed in order to determine whetherthe returns generated meet a sufficient target .Also known as "investmentappraisal.Ideally, businesses should pursue all projects and opportunities thatenhance shareholder value. However, because the amount of capital available at anygiven time for new projects is limited, management needs to use capitalbudgeting techniques to determine which projects will yield the most returnover an applicable period of time.Popular methods of capital budgeting includenet present value (NPV),internal rate of return (IRR),discounted cash flow(DCF) and payback period

ORGANISATIONAL PERFORMANCE DEFINED

organization performance relates to howsuccessfully an organised group of people with a particular purpose perform afunction. Essentially, this is what weare speaking about when we refer to organisational performance and achievementof successful outcomes. High organisational performance is when all the partsof an organisation work together to achieve great results with results beingmeasured in terms of the value we deliver to customers.

Strategic objectives – provide the directionin which everyone within the organisation should head. They provide focus and ensure we are allworking towards the same end.

Organisational structure – this representsthe form in which the organisation will deliver its services. The structure must support the strategy justas the strategy must have regard to the structure. For instance, an on-line delivery strategywill not be successfully executed unless the organisation has on-linecapabilities.

Business performance measures – represent themeasures by which each area of the organisation will be assessed. There is no single set of measures that maybe applied across all organisations. Inorder to be relevant and of use to the organisation, the measures must bedetermined in light of the organisation's goals and the strategies put in placeto achieve those goals. It is thismeasurement process that will direct behaviour more than any other system thatmay be put in place. Further, theinformation must be easily obtainable – in a timely manner. This requires the management informationsystems to be developed to collect the right data in an efficient way.

Allocation of resources and processes –relates to the decision making approach that takes place within theorganisation. It is how the organisationgoes about deciding where to apply its scarce resources – including money, timeand effort – in order to achieve its objectives.

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THE IMPACT OF CAPITAL BUDGETING ON ORGANIZATIONAL PERFORMANCE