CHAPTER - VII
CHAPTER VII

CONCLUSION

This chapter presents the conclusions of the study based on the analysis done in previous chapters.

As stated earlier the objective of this study is to systematically analyse the capital expenditure decision in private and public sector enterprises and to compare the findings and recommend possible improvements to enable public sector also to perform like private sector enterprises.

[1] The first hypothesis of this study is that the performance of public sector enterprises is poor compared with private sector enterprises.

From the analysis it is found that average profit earned by the public sector during the period of study as a percentage of sales is only 5.62 (ref. Table 6.4 - Chapter VI) in the five groups of companies studied under the public sector.

The performance of private sector companies is comparatively good. Profit during the period of study as a percentage of sales in all the groups of companies studied is 7.91 (ref. Table 6.4 - Chapter VI)
Moreover, the difference of the mean of the profit earned by the sample private sector enterprises is statistically significant from the mean of the sample public sector enterprises covered by this study (ref. 6.5.1 in Chapter VI).

The hypothesis that the performance of public sector enterprises is poor compared with private sector enterprises is thus accepted.

[2] The second hypothesis of this study is that performance of public sector enterprises can be improved by improving the capital expenditure decision.

The following findings from the analysis show that capital expenditure decisions in public sector companies are poor compared to the decisions in private sector companies.

[a] The actual amount of capital expenditure spent against the planning in every year is low in public sector (44.16%) compared with private sector (67.34%) This has been found out in 6.3.1.5 (chapter VI) Also it is found out that capital expenditure planned in every year as a percentage of sales is high in private sector (6.69%) against public sector (4.95%) Similarly the actual capital expenditure amount spent in every year as a percentage of sales is high in private sector (4.60%) against public sector (2.17%) This is evident from the analysis done in 6.3.1.6 (chapter VI) This also shows that spending of capital expenditure against planning is high in private
sector companies compared with public sector. The same pattern is found true in high profit making companies compared with low profit making companies in private sector also.

The difference of the mean of the capital expenditure actually spent as percentage of sales by the sample private sector companies from the mean of the capital expenditure actually spent by the public sector companies is found statistically significant (ref. 6.5.2 - Chapter VI)

[b] Effectiveness of project planning and scheduling is better in private sector (84.54%) compared with (68.55%) public sector (ref. Table 6.15) Similarly in project monitoring the effectiveness is 85.28% in private sector against 74.37% in public sector (ref. Table 6.16)

[c] The delay in capital expenditure implementation is low in private sector - 23.04% - against 32.56% in public sector (ref. 6.3.3.1 of chapter VI)

[d] The increase in cost is low in private sector (21.46%) compared with 31.84% in the public sector (ref. 6.3.3.1 of chapter VI)

[e] Post audit is very poor in Indian companies. In private sector it is 21.68%. In public sector, it is only 14.8% (ref. Table 6.20)

For comparing the results, the findings of the analysis are tabulated in Table 7.1
### Table 7.1
**Comparison of analysed data**

<table>
<thead>
<tr>
<th>Description</th>
<th>Private sector</th>
<th>Public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Profit as % of sales</td>
<td>7.91%</td>
<td>5.62%</td>
</tr>
<tr>
<td>2. Capital expenditure actually spent against planning</td>
<td>67.34%</td>
<td>44.16%</td>
</tr>
<tr>
<td>3. Planning for capital expenditure</td>
<td>1.509 y</td>
<td>1.892 y</td>
</tr>
<tr>
<td>4. Planning for non-routine capital expenditure</td>
<td>5.1 y</td>
<td>5.3 y</td>
</tr>
<tr>
<td>5. Use of evaluation method</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payback method</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>DCF method</td>
<td>61.54%</td>
<td>75.00%</td>
</tr>
<tr>
<td>NPV method</td>
<td>15.40%</td>
<td>43.75%</td>
</tr>
<tr>
<td>6. Efficiency of project evaluation</td>
<td>87.80%</td>
<td>78.58%</td>
</tr>
<tr>
<td>7. Effectiveness of detailed financial report</td>
<td>88.00%</td>
<td>80.33%</td>
</tr>
<tr>
<td>8. Delay in implementation</td>
<td>23.04%</td>
<td>32.56%</td>
</tr>
<tr>
<td>9. Increase in cost</td>
<td>21.46%</td>
<td>31.84%</td>
</tr>
<tr>
<td>10. Effectiveness of project planning and scheduling</td>
<td>84.54%</td>
<td>68.55%</td>
</tr>
<tr>
<td>11. Effectiveness of project monitoring</td>
<td>85.28%</td>
<td>74.37%</td>
</tr>
<tr>
<td>12. Effectiveness of negotiation</td>
<td>86.93%</td>
<td>71.18%</td>
</tr>
<tr>
<td>13. Use of computerised project management technique</td>
<td>51.03%</td>
<td>43.63%</td>
</tr>
<tr>
<td>14. Effectiveness of network technique</td>
<td>76.22%</td>
<td>63.11%</td>
</tr>
<tr>
<td>15. Effectiveness of post audit</td>
<td>21.68%</td>
<td>14.80%</td>
</tr>
</tbody>
</table>

Source: Survey data
Table 7.1 shows that profit is low in public sector and capital expenditure, both planning and implementation, are better in private sector. But time taken for planning capital expenditure for routine and non-routine jobs are almost the same in private and public sector companies. In the case of capital expenditure evaluation, public sector companies are found using more of discounted cashflow and net present value method compared with private sector. Everybody is using payback method.

This leads to the conclusion that in the case of planning and evaluation of capital expenditure, public sector companies are equally competent or even slightly better than private sector companies. In other words, public sector companies generally do a detailed planning and evaluation.

But in the case of efficiency of project evaluation, effectiveness of detailed financial report, project planning and scheduling, project monitoring, project negotiation etc., private sector companies are better than public sector. This shows that effectiveness of planning and control is low in public sector compared with private sector. Similarly the delay in implementation and increase in cost are about 33% less in private sector compared with public sector companies. Private sector companies are found using more modern network techniques and computerised project management techniques. Effectiveness of post auditing is 50% more in private sector compared with public sector.
This study shows that there is not much difference between public sector and private sector companies in planning and in evaluation of capital expenditure, but there is significant difference in the effectiveness of scheduling, monitoring, negotiation etc. Delay in implementation and increase in cost are the two areas where private sectors companies are far better than public sector companies. If proper attention is given to these areas capital expenditure decision in public sector will also be better as in the case of private sector and hence the performance of the companies.

To get a bird's eye view the various parameters related to the performance of capital expenditure are plotted in a radar chart - Exhibit 7.1 for comparison.

Radar chart is a chart used to compare various parameters. For example, implementation of capital expenditure is excellent if the delay is zero. The radius of the radar chart is divided into 10 parts starting from zero at the circumference and ending at 100% at the centre of the radar circle. Depending on the percentage of delay it may vary from zero to 100. Similarly for effectiveness of project evaluation, if the effectiveness is 100% it will be on the circumference. On the other hand if the effectiveness is zero, it will be at the centre of the circle. In other words, the location of a parameter if moves towards the circumference it will be better, if it is moving towards the centre, it will be bad. By joining all the points of the parameters the radar chart is obtained.
EXHIBIT 7.1
RADAR CHART SHOWING THE PERFORMANCE OF PRIVATE AND PUBLIC SECTOR COMPANIES

EFFECTIVENESS OF POST AUDIT

USE OF COMPUTERISED PROJECT MGT. TECHNIQUE

CAPITAL EXPENDITURE PLANNED VS. ACTUAL

DELAY IN IMPLEMENTATION

INCREASE IN COST

EFFECTIVENESS OF MONITORING

EFFECTIVENESS OF PROJECT PLANNING AND SCHEDULING

100 EFFICIENCY OF PROJECT EVALUATION

100 EFFICIENCY OF NEGOTIATION

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PRIVATE SECTOR

PUBLIC SECTOR
After plotting various parameters related to capital expenditure, it is found that the points related to private sector are moving towards the circumference and hence its performance is better, whereas the points related to public sector are more close to the centre than the private sector and hence the performance of capital expenditure in public sector is poor compared with private sector. Since capital expenditure being the 'lubricant' which keeps the 'wheels of the industry' moving, it can be concluded that the main reason for the poor performance of public sector enterprises is the poor capital expenditure decision.

The analysis also shows that the low performing private sector companies are also poor in capital expenditure decision compared to the high performing private sector companies. For example, the percentage of capital expenditure actually spent against planning is high (77.01%) in high profit making companies and it is low (63.91%) in low profit making companies. Also it is found that capital expenditure planned as a percentage of sales is high (6.78%) in high profit making companies compared with 2.67% in low profit making companies. Similarly the actual capital expenditure amount spent as a percentage of sales is high (5.31%) in high profit making companies compared with 1.803% in low profit making companies. (ref.6.4.6 of chapter VI)

This shows that even in private sector companies capital expenditure management is poor in low profit making companies compared with the high profit making companies.
If the capital expenditure spending is improved against the planning, the return or gain from the capital expenditure project will also improve. This will add to the profit of the company and hence to the growth of the company. If whatever capital expenditure planned is not spent, more than the loss of expected return or gain from the project, the amount blocked, either own capital or borrowed capital will result in a cost to the company either as lost opportunity or as interest charges paid. This will adversely affect the profit of the company.

This leads to the conclusion that if the capital expenditure decisions are improved, the performance of the companies will also be improved. Therefore the hypothesis that performance of public sector enterprises can be improved by improving the capital expenditure decision is accepted.