



Factors Considered While Deciding Capital Budgeting Techniques in the Print and Electronic Media of Vidarbha

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ABSTRACT

Sound financial management and capital investment decision making are critical to survival and long-term success for firms. Print and Electronic media are facing competition from new media entrants from digital. The developments in the twenty-first century have led to the requirement of large infrastructure and hence better capital management.

The capital budgeting methods are important tool to analyze and decide the investment decisions. The paper also looks into various challenges of Print and Electronic media. Proposed study specifically targets the factors to be considered while selecting the capital budgeting method and its impact on the basis of the perceptions of accounting professionals and management executives of the media industry. This paper covers the various factors and their relationship in capital budgeting methods like cash flow estimation, cost of capital, risks, hurdle rate, size and life of projects, size of firm, technological changes and viewers'/users' choice.

KEYWORDS : Capital budgeting, Print and Electronic media, Investment decisions, capital management

Introduction:

Capital expenditures often involve large cash outlays with major implications on the future values of the company. Therefore, capital budgeting analysis is critical to creating value within financial management.

Definition: "Capital Budgeting consists of planning the development of available capital for the purpose of maximizing the long-term profitability of the concern".

R.M. Lynch

Media are the collective communication outlets or tools that are used to store and deliver information or data. In a large consumer-driven society, electronic media (such as television) and print media (such as newspapers) are important for distributing advertisement media and have become an essential part of communication mix.

During the 20th century, the growth of mass media was driven by technology. The changes in technology have affected the medium of delivering information and also affect the economy of country and the economy of media houses themselves. The demographic factors, the technological factors, users/viewer's choice, government policies, etc. also affect the economy of media

The Indian Media houses have the competition from the international markets and also from other forms of medium. These changes require media industry to have the ultra modern equipments, high level of technological infrastructure, skilled and educated manpower, which leads to requirement of huge capital at most stages of operation. This huge capital deployment necessitates taking correct investment decisions.

Often companies have several opportunities and must measure each one's potential in order to make a comparison and choose just one or a few. Most capital budgeting analysis uses cash inflows and cash outflows. Others look more specifically at estimated cash inflows from customers, reduced costs, and proceeds from the sale of assets and salvage value, and cash outflows for the capital investment, operating costs, interest, and future repairs or overhauls of equipment.

To determine whether or not a particular asset will ultimately result in increased profitability it is important to answers to three key questions:

What projects are good investment opportunities for the firm?

From this group which assets are the most desirable to acquire?

How much should the firm invest in each of these assets?

Purpose of Selecting the Topic under Study

The developments in Electronics and communications have phenomenal effects on the production process, products and deliverables in Media. There is huge competition of faster delivery time, product and distribution/ delivery pattern of the information in the media industry. The new media like internet, mobile, digital media are penetrating and posing a big threat. Synchronizing with the technology trends and meeting the customer's expectations play important role in the survival of the media organizations.

Capital Budgeting has significant effect in determining and presenting the financial position and results of projects of an enterprise. The companies have to consider different factors before making the decisions about the use of the capital budgeting technique.

To predict the cash flow is a risky proposition. There are different risks involved in every project and project's required rate of return is the combination of cost of capital plus any additional return for the riskiness of the project.

In the Print and Electronic media Risk, Return, Change of Technology, Commercial Reasons, competition, New media entrants, Plan for Future up gradation, Change in User's choice, Nature of projects, the financial position of the firm, the ease of operation and calculation of cash flows, the organizational structure, and professionalism of the organization, life of organization and size of project all have the impact on the method used in investment decisions.

Valuing long-term business investments can be a challenge especially in Print and Electronic media because there are many uncertain factors to consider.

In light of the above discussions, the researcher has proposed following topic for study.

Specific title:

"Factors considered while deciding Capital budgeting Techniques in the Print and Electronic media of Vidarbha"

Objectives of the Study

Objective 1: To understand the major factors affecting the capital investment decisions in Print and Electronic media.

Brealey and Myers (2003) present a simple rule to make capital budgeting decisions to invest in all positive outcome projects, and reject those with a negative outcome. However due to limitations of availability of funds, the company has to limit the number of simultaneous projects. There are different factors which affect the capital budgeting methods to be applied. The researcher needs to study these factors

and their impact on the techniques to be used.

Objective 2: To study the effect of nature of project while deciding the capital budgeting method in the capital investment decisions of the Print and Electronic media companies.

The companies have different methods of capital budgeting to choose for their investment decision. The methods cannot be same for the projects of different nature. The researcher has the objective to study how the nature of project may affect the type of capital budgeting method selected by the organization.

Objective 3: To study the influence of competition in the media on the Capital investment decisions.

The Print and Electronic media has the competition within the same media as well as the new entrants from different category. The competition also affects the capital budgeting method. The researcher wants to know whether the competition affects the application of the method and what is the effect?

Period of Study:

The Print and Electronic media had seen the slow and steady growth till last decade. The present decade is dominated by the new emerging media like Internet, mobile. Hence the researcher has considered the period of study from 2002-2012.

Collection of Data and methodology used:

On considering the requirements of the study under the topic selected, the researcher has collected the data from the following primary sources. The participants included in the study thru questionnaire or Personal interviews include the accounting professionals, senior management executives working in Print and Electronic media organizations from Vidarbha.

The close ended questionnaire was put before the respondents.

The methodology consists of a simple random sampling methods and survey of approx 40 professionals of the media companies out of which 35 responded.

Utility of the Study

The researcher claims that the study will help the number of beneficiaries in the process as under.

This study is useful to Print and Electronic media in Vidarbha for better investment decisions as the study gives the detailed reference to various factors considered before taking a final decision.

The study may serve as reference to the accounting professionals of the print and Electronic media organizations.

Questionnaire:

Following questions were prepared for the present paper study.

When deciding on an investment opportunity, which factor is more important out of Risk or Return?

Which competition is more prevalent while deciding on the capital budgeting techniques (investment decisions)?

Do you feel the need of discounted cash flow methods in replacement decisions or Payback period method serves the purpose?

Data analysis and Hypothesis testing:

Following two hypotheses are designed for the study.

Hypothesis 1 = "When deciding on an investment opportunity the factors considered do not have any relation with the type of media organization."

Hypothesis 2 = "The reasons for not using the DCF analysis in the replacement decisions of capital nature projects are independent of the type of media organization."

The Researcher has used simple statistical techniques for the purpose

of the said study by applying the Chi square test, degree of Freedom.

Factors Considered while deciding Investment Opportunity

The risk–return trade off is the relationship between the amount of return gained on an investment and the amount of risk undertaken in that investment.

Hence two important factors to decide while investing are Risk and Return. In the present analysis the Researcher wants to know which factor plays crucial role in investment decision and how does the media organizations react to it.

Question: Which Factors play more important role while deciding investment opportunity?

The table drawn below shows the media type wise classification of respondents; what is the importance given to different factors while deciding to invest in an opportunity.

The below stated hypothesis is tested to know the importance of factors considered.

H₀ 1 = "When deciding on an investment opportunity the factors considered do not have any relation with the type of media organization."

Table 1: Media type wise distribution for factors considered in Investment opportunity

Media Type -Wise distribution of the Respondents				
Sl. No.	Factors considered for investment opportunity	Print Media	Electronic Media	Total
1	Risk	1	0	1
2	Return	3	3	6
3	Risk and return	15	12	27
4	Other	0	1	1
	Total	19	16	35

Chi-sq. = 2.092, DF=3

(Source: Survey)

At 3 degree of freedom, the calculated value of chi square i.e. χ^2 = 2.092 and the Table value at 5 % probability is 7.82. As the table value $T_c >$ calculated Chi sq. χ^2 ; therefore the difference is not significant. Hence the null hypothesis is accepted.

Use of capital budget analysis in the Replacement decisions

The review of earlier studies revealed that the replacement nature decisions are easier and almost mandatory in the industry for continuation and development of business. The need of sophisticated and modern DCF techniques may not be that much essential in the media industry for various reasons. The researcher decided to understand the viewpoint of media industry professionals and the current practices on this.

Question: Discounted cash flow analysis might not be used for replacement decisions for various reasons.

The table drawn below shows the media type wise classification of respondents on various reasons which might avoid the discounted cash flow analysis to be used for replacement decisions of capital nature.

The below stated hypothesis is tested to know what are different reasons which lead to not using the DCF analysis in the replacement decisions even in the capital nature projects.

H₀ 2 = "The reasons for not using the DCF analysis in the replacement decisions of capital nature projects are independent of the type of media organization."

Table 2: Reason for not using DCF in replacement decisions

Media Type -Wise distribution of the Respondents				
Sl. No.	Reason for not using DCF in replacement decisions	Print Media	Electronic Media	Total
1	PBP is sufficient	5	4	9
2	PBP with judgment gives better results	7	4	11
3	DCF is essential	7	7	14
4	DCF increases analysis	0	1	1
	Total	19	16	35

Chi-sq. = 1.6845, DF=2**(Source: Survey)**

2 degree of freedom, the calculated value of chi square i.e. $\chi^2 = 1.6845$ and the Table value at 5 % probability is 5.99. As the table value $T_c > \text{calculated } \chi^2$; therefore the difference is not significant. Hence the null hypothesis is accepted.

Findings and Conclusions:

The operations of Print media are less affected by new technological trends as compared to the Electronic media.

The specific factors to be considered for capital budgeting in Print and Electronic media include; technical changes, the users' choice and other standard factors like Accounting /commercial factors and plan for future up gradation and quality improvements.

It is revealed that the Technological changes and Future plans for up gradation are two most prominent factors influencing 40 % and 37 % cases of decision making respectively.

Use of capital budgeting techniques varies as per nature of projects and size of projects.

Size of the firm has direct causal impact on the use of Capital budgeting methods.

Required rate of Return is different in different projects. In replacement decisions lower required rate of return is considered whereas in other projects the required rate of return is considered higher.

There is not much change in the risk management of the projects during the time of enquiry. The general and popular methods like increase of hurdle rate/ increase of cost of capital to manage the risky projects are still followed and methods like CAPM are not much used.

The study revealed that Vidarbha based media industries do not consider the Risk and Return of the investment in isolation.

Almost 77 % respondents responded that the Risk and Return both are considered while deciding to invest in the capital nature project.

The capital budgeting techniques reflects the mutually inclusiveness of intra media and inter media both types competition in Print and Electronic media.

It is revealed that 31 % respondents consider inter media competition where as 40 % respondents still consider the intra media competition while making the capital budgeting decisions. However 20 % feels that both types of competitions are considered while making the capital budgeting analysis.

57 % respondents from Media companies consider 5 years as good time to get their ROI and make analysis based on 5 years time period. However more than 25 % consider less than 5 years time for their returns and 17 % may accept the project for time period more than 5 years.

The seasonal factors are also important in consideration of capital budgeting technique as the Advertisements Revenue in the India media has very high seasonal variations.

Firms use different methods for short-term projects than for long-term projects in Print and Electronic media.

To meet the project risk the Print and Electronic media companies in India use the shorter payback period and higher cut-off rate.

Key challenges for the print media sector are Newsprint Costs, Foreign Currency Risk, Effect of Govt. Policies, Rising alternative Media Space.

The Indian broadcasting industry is subject to significant Government regulation. For example the digitization policy of Govt. has necessitated the requirement of high capital suddenly.

The demand for regional print media and the highly fragmented viewership in Electronic media has led to decentralizing their operations (production and distribution).

Timely Review and expenditure on capital nature equipments are key factors to achieve the fair capitalization in the media industry.

New distribution technologies like DTH, Conditional Access System (CAS) and IPTV, hold the future of the media industry as increasing digitization will radically alter the ways in which consumers receive channels. The mandatory digitization all over India will bring in more subscription revenues for the broadcasters.

Suggestions and Recommendations for Future:

From the early mass media to present interactive social media, the changes in socio-economic-demographic pattern of Indian citizens and technical developments have been highly influential on the media operations. The globalization has also big impact on the media and entertainment industry.

The continuous developments in the capital budgeting techniques are helpful tools to the industry.

The inflation, RBI policies with respect to Exchange rates, Interest rates are very important aspects affecting the time value of money. Hence the Print and Electronic media organizations need to monitor the macro and micro economical changes in the banking sectors which will help in better investment decisions.

This study is just an effort to spotlight various issues specially related to factors influencing the application of Capital budgeting methods in Print and Electronic media. The study would provide guidelines for capital management and other financial aspects like capitalization and capital structure.

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