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Financial Management Practices in Public Sector Institutions: A Study of Capital Budgeting Techniques in Sri Lanka

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Capital budgeting decisions are vital to an organization in each and every country as they directly affect the profitability and ultimately the survival of the organization. Most of the capital budgeting decisions in both private and public sector relate to fixed assets, which earn profits for the enterprise or the organization. On the other hand, these capital budgeting decisions result in enormous amounts of cash outflow or funds from the organization for a long period of time while stressing funds to an investment. Hence a wrong decision related to capital budgeting will have an effect not only on the profitability of the organization, but also there will be an effect on the survival of the organization or the enterprise. At the same time, it is obvious that a good capital budgeting decision will play a good and important role not only on the profitability but also on the wealth creation of the public enterprise and wealth maximization of the government sector and general economy which can be recognized as the one of the primary objectives of public sector financial management.

This paper presents the study of a sample of 90 public sector enterprises. Primary and secondary data have been used for this study. The study covers 10 years from 2000 to 2010 for the purpose of research. Accordingly, the study focuses on identifying the capital budgeting techniques used by the Government enterprises, and establishes appropriate capital budgeting techniques that could be more constructive for such enterprises as a key to economic development.