

Financial Performance of Industrial Projects
An Ex-post Evaluation of the Ex-ante Values of Project Parameters

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Abstract

1. Background to the study

“.....if the project is delayed in completion by just one year, the break-even goes four years more into the future. Now you see how high the stakes and how important timely completion can be.”

- Project Cost control by O P Kharbanda, EA Stallworthy and L.F. Williams, 1980: Gower Publishers

Despite the Government's policies encouraging new industrial ventures, a major impediment in achieving pre-set targets is the poor management of resources leading to performances which are inferior to that projected. While a plethora of literature exists on the performance of new industrial ventures undertaken by the Public Sector, primarily through copious reports of Government bodies such as Committee on Public Undertaking (COPU), Public Accounts Committee (PAC), Bureau of Public Enterprises (BPE), etc, little or no published literature exists on new ventures in the Private Sector. The present research aims at filling this gap.

The broad objectives of this study are:

- a) to assess performance of industrial ventures vis-à-vis their projections in both Project Implementation and Production Phases; and
- b) to identify factors which are common to incidences of deviations from projections in both Project Implementation and Production Phases.

2. Methodology Adopted

2.1 Data Collection

Data relating to 135 new industrial ventures was collected. The sample was decided by Simple Random Sampling. Data collected were projections made at the time of applying for funds and actually achieved values of these parameters.

This data was collected from the Industrial Development Bank of India (IDBI) and related to projects financed by Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI) and the IDBI.

2.2 Defining Parameters

Certain ratios were defined for effecting the comparison between actual and projected values of parameters. The ratios used by IDBI could not be directly used, as these cannot be computed for actual operational conditions owing to lack of adequate data.

(Sec. 2.2 & 2.4)

2.3 Analysis

Using the above ratios an assessment was made of the actual performance compared to the projections made. In addition certain hypotheses were tested with a view to identify factors common to incidences of deviations. This was carried out both for the Implementation and Production Phases.

(Ch. 2)

To obtain a closer appreciation of the problems encountered four new ventures were studied in detail.

(Ch. 4)

Final conclusions were drawn from the above analysis and based on the findings, certain areas for further research were identified.

(Ch. 5)

3. Results

3.1 Project Implementation Phase

3.1.1 Analysis

It was found that 85.4% and 71.1% of all projects exceeded the scheduled time and cost respectively. The average cost and time overruns were found to be 18.72% and 15.28 months.

3.1.2 Conclusions

None of the factors, normally believed to influence overruns, were found to have a significant influence barring Backward Areas.

Case Studies revealed the following problems encountered in Project Implementation which leads to Cost Overruns:

- a) Changes in Parity Rates;
- b) Delays in Governmental Sanctions;
- c) Inadequate Project Conceptualising
- d) Lapses in Executing Work;
- e) Employing Inexperienced Persons; and
- f) Improper Projections.