Abstract

The study was set out to determine the Capital Budgeting techniques used in investment appraisal decisions amongst Companies listed at the Nairobi Stock Exchange, and to find out the relationship between capital budgeting techniques and the financial performance of 47 companies listed in the Nairobi Stock Exchange. The study employed a census survey. Primary data was collected through questionnaires which were dropped and picked from the respondents. Of the target population of the study, 39 questionnaires were returned and this represented 82.9% response rate. The study found out that all the four capital budgeting techniques; payback method, accounting rate of return ,internal rate of return and net present value were being used by the companies listed in the Nairobi stock exchange. On the relationship between capital budgeting techniques and corporate performance, the earnings before interest and tax and total assets, the data was collected from the capital Markets authority and NSE records. The data was analyzed using the statistical package for social sciences (SPSS) version 17. The study used multiple regression analysis to find the association between capital budgeting techniques and the financial performance of companies listed at the Nairobi Stock Exchange. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that model was significant. This is demonstrated in the part of the analysis where R^2 for the association between capital budgeting techniques and the financial performance of companies listed at the Nairobi Stock Exchange was 76%. In other words the results revealed a consistent, significant positive association between capital budgeting techniques and corporate performance measured by ROA. It is recommended that a similar study be carried out in other companies not listed in the Nairobi stock exchange to test the same relationship and also in a specific industry to obtain homogenous results.