

## Abstract

The general objective of the study was to find out the relationship between capital budgeting techniques and financial performance of companies listed in the Nairobi Stock Exchange. The specific objectives of the study were to determine the Capital budgeting techniques used in investment appraisal decisions amongst Companies listed at the Nairobi Stock Exchange. The study also aimed at establishing the relationship between Capital budgeting techniques and the financial performance of companies listed at the Nairobi Stock Exchange. The study employed a survey design to determine the capital budgeting techniques and their relationship with financial performance in companies quoted at the NSE. Primary data was collected through questionnaires which were dropped and picked from the respondents. Secondary data was collected from the published accounts of the companies. The target population consisted of all the 47 companies listed at The Nairobi Stock Exchange as at 30th June 2010. The choice of quoted companies was preferred because they represented the main sectors of the Kenyan economy, and are therefore considered as adequate representation of companies in Kenya. 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 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. The finding of the study indicated that there is a significant relationship between capital budgeting techniques and the financial performance of the companies registered in the Nairobi Stock Exchange method. This is demonstrated in the part of the analysis where R<sup>2</sup> for the association between capital budgeting techniques and the financial performance of companies listed at the Nairobi Stock Exchange was 76%. It was 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.