The Relationship Between Capital Budgeting Techniques And Financial Performance Of Banks Listed At The Nairobi Securities Exchange

This study overall agenda was to examine the capital budgeting techniques used in investment appraisal among banks listed in the Nairobi Securities Exchange. It sought out to establish the techniques of capital budgeting specifically used by the banks listed at the Nairobi Securities Exchange to undertake their firm’s investments and also to establish the relationship between the applied capital budgeting techniques and the financial performance of banks listed in the Nairobi Securities Exchange. The objective of this study arose due to the inconsistent research findings both elsewhere and in Kenya as well as the banking sector being an important industry in the determination of the Kenyan economy. The research adopted a correlational cross-sectional survey research design which is best suited for explaining or exploring the existence of two or more variables at a given point in time. The population of the study consisted of all the ten banks listed at the Nairobi Securities Exchange. Data was collected from the primary sources which comprised of the questionnaires administered to the officers directly involved in capital budgeting at the banks as well the secondary sources which comprised of the data derived from the published accounts of the banks. The data was analyzed using the regression analysis model to test the effect of the capital budgeting techniques on the financial performance of the banks. The study found out that all of the four capital budgeting techniques researched on; payback period, net present value, accounting rate of return and internal rate of return were being used by banks listed in the Nairobi Securities Exchange and results depicted that there was no correlation between the financial performance of banks and the capital budgeting techniques employed. The study concluded that payback period, net present value, accounting rate of return and internal rate of return capital budgeting techniques were all adopted by the banks listed at the Nairobi Securities Exchange and that there was no significant relationship between the capital budgeting techniques employed and the financial performance of the same. The study recommends staff awareness trainings on the investment appraisal techniques employed by the firm(s) be done regularly so as to properly put them to use as well as more trainings pertaining specifically to the management on the financial literacy of banks. The study suggests further research be conducted on other sectors across the Kenyan market to establish whether the results obtained were homogeneous as well as using a different financial performance variable(s) to test the same relationship. Researchers could also in future endeavor to use larger samples than the one used in this study to depict whether the results established would hold or differ as a result of expanding the sample size.