An investigation of capital budgeting techniques on performance: a survey of selected companies in Eldoret Town

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ABSTRACT: *The study was carried out in selected companies found in Eldoret. The purpose of the study was to investigate the effects of capital budgeting techniques on profitability in selected companies in Eldoret. To meet this purpose specific research objectives include determining the contributions of various capital budgeting methods on profit levels of selected companies. The specific methods include the payback period, net present value, accounting rate of return, profitability index and internal rate of return .The study used a survey design with a targeted population of 110 tope level manager, departmental manager and supervisors of selected Companies found in Eldoret town. It used stratified sampling technique to sample a sample size of 85 which is 78% of the targeted population. Questionnaires and interview schedule was used to collect data from the respondents. Validity and reliability was tested through a pilot study. Descriptive statistics was used to analyze data. The common Capital budgeting techniques used by selected companies in Eldoret town to make Capital decisions were found: net present value, pay pack period and internal rate of return. The indicators of profitability projects in capital budgeting techniques in include: positive net present value, short recouping periods, less risks of failure alongside high average income. The effects of net present value, payback period, and internal rate of return and profitability index on profitability levels include reduction the cost of Capital, increases amount of returns from the project and reduce level of risk of projects as the main levels of profitability. The study therefore recommends the following to be adopted to improve the performance of the company and the profit levels using Capital budgeting techniques, Creation of a separate department to deal with project capital budgeting techniques and identification of suitable projects, Mixing of project capital budgeting techniques of both traditional and modern to enable the business to circumvent the risks of project failure, Listing of projects to be invested in order of priority before sourcing for their funding, Computing the costs of finance for each source of a particular project and compare it with the expected future returns from each project, Provision of enough finance to implement Capital decisions in all organizations and Creating an oversight body to foresee the implementation Training of employees A further study carried out on the following areas to assist beef up the areas not covered by the current study, Evaluation of costs of sources of finance and Capital decisions and Factors influencing the effectiveness of project budgeting.*

KEY WORDS: *Capital budgeting techniques, Performance*

I.   BACKGROUND INFORMATION

Capital budgeting refers to appraisal techniques which are used to appraise the viability of the project when making Capital decisions. These methods are classified into modern methods and traditional methods (Shapiro, 2004). Capital decisions largely shape the future with business and its ability to manage its future operations. It is therefore important to appraise the Capitals so as to make informed decision on portfolio Capitals. The criteria for appraisal of projects may be based on legal requirements or social and staff welfare needs. Modern methods of capital budgeting take into account the time value of money and they therefore discount the future cash inflows to reflect the current value of the returns from an investment. Most companies generally use project budgeting techniques to identify viable projects which are in turn used to enhance the performance of the business, in this sense each project such ahs a building is regarded as a discrete or separate activity (Shapiro 2004). In carrying out capital budgeting business are required to carry out scenario analysis to establish the strengths, weaknesses, opportunities and threats of the organization. Strengths and weaknesses arise from within whereas and opportunities and threats arise from outside. Capital budgeting has been a practice in companies either formal or informally in selecting projects, although the companies did not relate them directly to their profitability levels. However in majority of cases were on economical grounds (Mclaney 2000). The key being that projects accepted meets present financial criteria, generally a return greater than the

cost of capital is needed to finance Capital projects in addition they must also seek to maximize shareholders wealth by maximizing share holders returns, share holders are risk takers and aim to maximize returns. To measure profitability of companies businesses are required to make maximum use of indicators of profitability such as the sales volume levels, net profit levels and retained earnings while factoring in tax (Gittinger 1982).

There are so many methods of capital budgeting which include return on Capital budgeting method (ROI) or accounting rate of return (ARR), pay back period (PBP) net present value (NPV) internal rate of return (IRR) cost benefit analysis ratio (C/B) adjacent present value (APV) and viability index. When investing a capital opportunity it is important that all cash inflows are taken into account. So is the time value of money. The discounted cash flow methods are most acceptable methods. These methods simply measure the time period taken until the profits generated from the Capital equal the initial cost of the Capital. The aim is to calculate how much time will elapse before the capital project "pays back" the original amount invested from the profits generated by it (Potts, 2002). The result is compared to a predetermined company target, an Capital being accepted if the result meets or is less than the target length of time. When comparing different projects, one with the quicker payback period would be the one chosen. Discount cash flow (DCF) analysis is a technique used to determine the net value of a project in terms of today's money. It considers the time value of money, and the cost of capital to the organization (Shapiro, 2004). By using a discounted cash flow method it is possible to convert all future cash flows to their present value and then to assess them on a like for like basis. The net effect of all the cash inflows and outflows resulting from a project being discounted back to present values is known as a project's net present value (NPV).

In order to convert cash flow arising from a project into their present values, it is necessary to establish the cash inflows and outflows arising from it and what cost of capital should be used to evaluate such projects. In order to convert cash flows arising from a project into their present values, it is necessary to establish the cash inflows and put flows arising from it, and what cost of capital should be used to evaluate such projects. The cash flows, or sufficient information to determine them, will always be provided as given information and they should be recorded, and the year in which they occur, in a logical manner (Mclaney 2000).

The cost of capital used in evaluating such projects is generally the required rate of return of those investing in the firm – which we have seen to be its weighted average cost of capital (WACC). To calculate the cost of equity you should use either the divided growth model or CAPM, depending on the information provided. The resulting WACC will be slightly different, although both methods have advantages and disadvantages because they are based on different underlying assumptions. (Note that CAPM is generally used in the APV technique discussed in the next study unit.) However, we will discuss situations where an alternative rate should be used. Note that you may be presented with the cost of capital to be used, and you should always consider the information provided when determining the figure to be chosen or calculated (Shapiro, 2004).

The concept of net present value (NPV) is of vital importance in the field of corporate finance, and project appraisal. In order to determine the NPV of a project, we need to list all the cash flows related to the project. The decision rule in using the NPV technique is that if the NPV is positive the project should be accepted, and if the NPV is negative then the project should be rejected. The reason behind this is that when there is a positive NPV, the project offers you a return in excess of your cost of capital and acceptance of such a project will increase the wealth of the company (Mclaney 2000). For a negative NPV project, the cost of capital is not covered and acceptance of such a project will reduce the value of the firm. The primary objective of the firm is, of course, to maximize shareholder wealth by maximizing the value of the firm. The value of a company will increase by the NPV of a project provided that its WACC remains unchanged. The increase in wealth will be reflected in the share price because of the efficient market hypothesis (EMH). When using ARR the profit used should be profit after tax. ARR however is subjective because profits are not necessarily cash. Other methods such as IRR and viability index take into account the time value of money and the entire cash inflows and therefore more realistic (Potts, 2002).

Making the decisions is the most difficult job for a project manager. Even with the best project planning, there will always be a need to make good decisions in the face of unanticipated events in project management. For major decisions, which effect resource requirements, technical outputs or project schedules, this is a major activity because such a decision requires full support of several project constituents (beneficiaries, donors, sponsors) (Supra, 1997). It is therefore paramount for Companies rationing their capital to use different models to select projects. Most Companies in Kenya rarely use appraisal techniques but rather concentrate on payback period to accept or reject projects. At Selected Companies in Uasin Gishu County various projects are undertaken to improve production of products and other services. For the projects to be approved by the management, the future cash flows are discounted to be able to underscore their importance as

far as benefits are concerned. It has never been considered to find out how the Capital budgeting methods assist to select viable projects and their relationship with viability in most Companies.

Statement of the Problem :Capital is the allocation of excess funds in business in long term viable projects which are geared towards positive returns for the business which are measured in terms of high levels of profits and levels of sales. When businesses use capital budgeting techniques they are able to identify viable projects which have high value of present value of future cash inflows compared to cost (Graigmiller 2000).If the business invests in a number of viable projects it is referred to as portfolio Capitals (Bouner 2000). Portfolio Capitals are a strategy of diversifications of risks and the same time enabling capacity utilization of business resources. It is the roles of financial managers to use capital appraising techniques in making capital expenditures. Capital expenditures may be in terms of physical projects, securities and tangible assets and intangible assets (Graigmiller 2000). The common Capital budgeting techniques used include net present value payback period, cost benefit analysis, internal rate of return, viability index and breakeven analysis. However many financial managers either through ignorance or intentionally by pass this appraisal techniques and invest in projects which normally look attractive but scientifically and economically are not viable (Pragger 2000). This has seen many Companies including the American oldest insurance, Stock brokers in Nairobi stock exchange, and other Companies, performing disastrously and sinking with the funds of innocent and genuine investors (Munge 2008). Unless the Capital budgeting techniques are used it will be difficult to estimate the cut off rates and identify projects which are risky free or less risky viz a viz high returns. It is unfortunate that most financial managers treat this casually and end up loosing their jobs because they can't sustain the tempo of business growth and consistence returns to the risky capital providers (Maraja 2000). At Selected Companies in Uasin Gishu County project appraisal is carried out whenever Capital is made to determine the level of viability alongside the viability of those projects. The project appraisal emphasizes the positive net present value without assessing the profit levels. This is therefore ambiguous since businesses can have positive net present value but still experience losses. The current study therefore intends to investigate the common Capital budgeting techniques used by Companies and their contribution on selection of viable Capital portfolios viz a viz viability of the company.

Research Questions of the Study
- What are the effects of Net Present Value Capital budgeting method on profitability of companies?
- What are the effects of Internal Rate of Return Capital budgeting method on profitability of companies?
- What are the effects of the Payback Period rate of return Capital budgeting method on profitability of companies?
- To establish the effects of Accounting Rate of Return Capital budgeting method on election profitability of companies?
- What are the effects of Profitability Index Capital budgeting method on profitability of companies?

II. LITERATURE REVIEW
Review of theories
Capital budgeting theory : The capital budgeting theory is deeply in Modigiarian and Millers theory. It argues that when making capital budgeting making decisions five important elements are considered which include salvage value, cost of capital life of the project, initial investment and operating cash in-flows. Initial investment is the amount of capital required upfront to start a project which includes but not limited to the purchase price of the assets, sales taxes, transportation cost, installation cost and working capital needs. This approach bases a capital budgeting decision on the Net Present Value of the investment project which is the result of the discounted after the after-tax waited average coast of capital less the initial investment (Pandey, 2000).

Theory of Capital Budgeting Methods : According to Manasseh (2001), any prudent manager would be concerned as to how efficiently he/she can allocate funds at his/her disposal so that he can be able to improve the viability of the firm. Efficient Capital budgeting is important because it affects the size of the company, the risk of finance invested and the company's growth prospects. Capitals can be inform of new assets, research and development, development of new product lines, expansion and modernization of existing plants and machinery to enable it to meet the current needs of the company to make an acceptable return to its owners. The most important characteristics of Capital include long term in nature, their benefits are supposed to be in cash and the ventures are supposed to yield a return acceptable to both owners and creditors. According to Mclaney (2000), Capital budgeting is important because it leads to the decisions which result to viable ventures which will have an effect of increasing the value of the company shares in the stock exchange and thus the value of shareholders Capital, the decision expose the company's money to a risk and therefore risk analysis enables the company to

do Capitals in those projects which are less risky. It also enables the company to make prudent Capital decisions which will improve the liquid position of its operations. Capital decisions in the company are affected by the company's political environment, economic, social and technological environment. The common methods for the appraisal include: traditional methods such as payback period and Accounting Rate of Return. The modern methods include Net present Value, Internal Rate of Return and Profitability Index.

Traditional methods are those methods which have been used since time immemorial and do not take into account the time value of money. They include: the payback period and accounting rate of return. According to Mclaney (2000), the payback period method is a method which is used to find the duration or the period the projects will generate sufficient cash inflows to payback the cost of such Capital. It is perhaps one of the most popular projects in traditional methods.

PBP = Original cost of Capital

Annual cash returns

Manasseh (2001), argues that this method is advantageous because it is simple to understand and easy to use in evaluating the Viability of a venture and due to this, it has been relied upon to gauge the Viability of an Capital by most traditional financial managers; As opposed to modern methods which may call for the use of computers, this approach does not entail any cost on the part of the company and thus it is cheaper to use to gauge the Viability of a venture; For Companies operating in high-risk areas, it is a powerful tool as it will choose the venture that pay back earliest which minimizes the risks associated with returns which will be generated some time in future and which may be uncertain; it allows the company to identify those ventures which can pay earlier which will improve the liquidity position of the company. This means that for Companies which value liquidity (and most Companies will) PBP will identify which ventures are consistent with this objective.; Payback period will be realistic for those Companies which wish to re-invest intermediary returns asset will choose those ventures that generate big returns earlier and such early returns can be re-invested to generate some profits to the company before they are paid back to their lenders; payback period is also consistent with the most prudent method of financing the company's activities viz matching approach – and will thus choose those ventures which are self-liquidating, thus avoiding any unnecessary costs of further borrowing to pay off the existing loans.

Manasseh (2001), provides the disadvantages of using payback period is assessing the Viability of an Capital as follows: it ignores time value of money. Money loses value with time and a shilling now will have lesser value than a shilling received five years from now. The (PBP) approach ignores this fact and adds together a shilling received now and a shilling to be received five years from now, which isn't only unrealistic but imprudent in financial management as the two shillings in the above case are not of the same value so as to warrant them being lumped together, it ignores all the returns generated in the payback period and difficult to use incase the returns do not yield uniform returns. According to Mclaney (2000), Accounting Rate of Return method utilizes information obtained in financial statements in particular from the profit and loss account and the balance sheet to assess the Viability of an Capital proposal. This method divides the average income after taxes by average Capital i.e. average book value of Capital after allowing for depreciation. It may be noted that for analysis purposes, any Capital should not yield a return lower than the bank rates otherwise it may be more prudent to save such money with a bank where it may be more prudent to save such money with a bank where it is more secure than to invest in a risky venture. ARR can be computed using the formula

ARR = Average income x 100

 Average Capital

ARR is advantageous as a method of Capital budgeting because it is simple to understand and easy to use. It is conveniently computed from the accounting data which is readily available. It uses the entire return from a given Capital; it gives a fairly accurate picture of viability of a venture and it does not entail the use of computers. However, is suffers from the following disadvantages which include: ignoring time value of money; not being universally accepted; way of computing ARR; uses accounting profits rather than cash inflows which is highly subjective and ignores the fact that intermediary profits can be re-invested to generate the company extra return.

Modern methods of capital budgeting include Net Present Value, Internal Rate of Return and Profitability Index. According to Pandey (2000), modern methods of assessing the viability of capital consider the time value of money and appreciate the fact that a shilling received now is more valuable than a shilling

received in five years time and that the two can only be compared if they are of the same value i.e. after discontinuing them. However, when using the modern methods of Capital budgeting the following assumptions should be made most of which unrealistic: that uncertainty does not exist; that the appropriate rate to discount cash flow is known; that the company operates under financial constraints i.e. in a financial market where the amount of finances necessary for all viable ventures cannot be available to the company due to internal or external factors; that the company operates in a situation where inflation does not exist; that the cash flows or returns generated at the end of the year are strictly in cash form and that except for Capital made in phases otherwise all Capital are made at the beginning of the period or year zero. According to Pandey (2000), the modern Capital budgeting methods include: the net present value (NPV), internal rate of return (IRR) and viability index.

Mclaney (2000) says that the Net present value (NPV) is the difference between the present value of future cash inflows and the cost of the Capital. It is represented by the following formula

$$NPV = \frac{A_1}{(1+k)^1} + \frac{A_2}{(1+k)^2} + \frac{A_3}{(1+k)^3} + \ldots + \frac{A_n}{(1+k)^n} \; - \; C$$

Where

A1, A2, A3 …….An represents the cash flows or returns from a project

k - represents the cost or appropriate interest rate/discount rate

n - represents the expected life of Capital and

C - represents the cost of the Capital

Pandey (2000), argues that carrying out capital using net present value, the company will accept all those ventures whose net present value is positive and the highest rating will go to the ventures with the highest net present value. Also in the some cases a company may accept a venture whose net present value = zero at which point the cost and return will be break even thus the company may accept all the ventures with net present value greater or equal to zero and will reject all capital ventures whose net present value is less than zero or negative. According to Manasseh, (2001), This method is advantageous because it recognizes the time value of money in that it compares different amounts coming in a different periods in time when these are at their present values unlike traditional methods; NPV takes into account all the entire inflows or returns generated from a given project and as such it is realistic in gauging the viability of a project; it can rank projects according to their viability whereby the highest rank will be given to that project with the highest NPV which will be the most profitable project, thus enabling the management to choose which project to invest in and it uses cash flows and not profits which makes it a reasonable assessment of the Capitals Profitability.

According to Manasseh, (2001), The disadvantages of NPV include: it is more difficulty to use tan the traditional methods as it will involve tedious computations in assessing the Viability of a venture; NPV uses the cost of finance to discount the cash inflows, but it ignores the fact that the cost of finance is not only the explicit cost (interest) but also may involve implicit which makes it more complicated to be determined than NPV pre-supposes; it is only ideal in gauging the Viability of Capitals that are similar in a number of aspects, e.g. similar economic life, similar Capital outlay, all of which are unrealistic in the Capital market.; it ignores risks associated with an Capital which also makes it unrealistic as any Capital will bear some element of risk no matter how small.

According to Mclaney (2000), Internal rate of return (IRR) of a project can be defined as that rate which equates the present value of cash inflows to the present value of cash outflows, i.e. that rate internal to the project at which the present value of cash inflows and present value of costs are equal or it is that rate at which the NPV of a project is zero i.e.

$$C = \; = \frac{A_1}{(1+r)^1} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \ldots + \frac{A_n}{(1+r)^n}$$

Where r is an unknown rate internal to the project but which if found will equate the present value of the cost of the venture to the present value of the returns from the same venture;

A1, A2, A3 ……are the annual cash inflows or returns from the venture

N is the economic life of the project or the period of time when the project can no longer generate any returns.

Mclaney (2000), also give the advantages of using IRR to evaluate Viability of a venture include: it takes into account the time value of money and thus gives a sound measure of the Viability of a project as it lumps inflows together at their present values; it considers all the inflows or returns generated by a given venture and as such it will gauge the company's viability with more accuracy; it indicates the minimum rate of return at which the company will break even and any rate above such a rate will yield a return to the company to boost its profitability; in the absence of cost of capital which is usually the yardstick to gauge the Viability of a venture, IRR will identify the Viability of the venture in particular if the company is using internal finances in which case there is no cost to gauge the Viability of an Capital against. According to Mclaney (2000), The disadvantages of using IRR include: it may involve tedious computations in particular if the returns are earned for quite some time and this may necessitate the use of a computer which may not only be expensive but complicated and tedious; it may yield multiple and negative rates which may not have any meaning and also of assumptions will have to be made to allow the method to give a realistic rate and may not give a good measure of the Viability of Capital which differ in their economic life and returns. Profitability index refers to the present value of cash inflows and returns generated at a required rate of return. It also called cost benefit analysis. It is an ideal method because it takes into account the time value of money and utilizes all the returns generated.

PI = <u>Present value of cash inflows</u>

Cost of Capital

Critical Path Analysis (CPA) : According to Miller (1993) Critical Path Analysis is the organized application of systematic reasoning to planning, scheduling and controlling practical situations where many separate jobs, which make up the whole task, can happen simultaneously, almost simultaneously or in sequence such that it is difficult intuitively to establish the relationship between the separate jobs or project components. CPA identifies three phases: Planning Phase – this clarifies the objective of the project and the arrangement of project tasks into an order of precedence. Some tasks will be carried out in parallel, others in series; Scheduling Phase – this develops from the planning phase and converts the plan into a feasible and readily implemented schedule, having analyzed the path with reference to the optimum use of available resources such as time, human resources and equipment; Control Phase – this develops from the scheduling phase and allows actual progress to be monitored and corrections to be made to ensure adherence to the schedule or modified schedule.

PERT Analysis : Another component of network analysis is Programme Evaluation and Review Technique (PERT). PERT analysis differs from CPA in that it allows for uncertainty by building into the project scheduling time constraints for each activity, including: quickest reasonable time; most likely time; worst time. SWOT analysis is a very basic evaluative tool. It is the analysis of an organization's strengths and weaknesses and the opportunities and threats that it faces. While strengths and weaknesses tend to concentrate on the internal characteristics of an organization, opportunities and threats are more orientated at looking at the external resource, financial, economic and competitive environment. SWOT analysis may be used at any point within the project cycle. SWOT analysis is used in the private sector when considering a company or organization's competitive position in a particular market. It may also be a useful tool in corporate planning. SWOT analysis may be useful for both public sector and public private sector Capital projects. Further examples of its use include: a public sector-led Capital programme in integrated economic, social and environmental development in a rural region of Cornwall in the UK preparation of an action plan for environmental management in a coastal zone of Brazil where there is a need to balance environmental protection with economic and social development, including poverty alleviation; there is a major issue of balancing environmental management with the main sources of income generation – fisheries and natural resources extraction, agriculture, small business development and tourism; balancing the advantages and disadvantages of investing in centralized health service delivery as opposed to Capital in lower cost decentralized healthcare delivery based on rural clinics and preventative medicine. In each of these projects, SWOT analysis was carried out early in project preparation in order to assess how a project or development programme should use strengths in a project area (natural resource base, skills, stakeholder commitment) and deal with weaknesses (poor infrastructure, low skills base, low access to basic services). In the medium to long term, project planners need to take into account opportunities (market opportunities such as the demand for project production, the development of a Newport or airport) and threats (competition from other countries in the same sector or competition from other regions within the same country, technological change, economic shocks such as changes in oil and other world commodity prices) (HM Treasury, 2003).

Critical Review of Theories : According to Maclaney (2000) Contemporary budgeting theory emphasize limited life in capital budgeting and does not take into account the wear and tear of projects and how this can be factored in capital budgeting. The inaccurate criterion of capital budgeting theory has been predominate for decade and yet it didn't provide the effects of capital budgeting on profitability of business. Mclaney (2000) provided the capital budgeting method theory are subdivided into modern and traditional but does not explain the individual difference in different projects and how this can be taken care of when comparing investments in different firms. The PERT analysis theory provides for uncertainty and yet most capital budgeting techniques assume all other things to remain constant.

Empirical Review

Capital Budgeting Process : A study carried out by Miller, (1993), on the appraisal and evaluation of Capitals, projects, programmes and policies is best seen in the context of business profits and are tailored to enable businesses to make profits found out that the process begins with project identification and ends with project evaluation. To ensure that projects meet their original objectives, it is usual to set up an evaluation framework, which allows project finance agencies, policy makers and other stakeholders to assess the success of the project through the monitoring and evaluation process. The Capital budgeting process involves identification, preparation, evaluation and monitoring, appraisal and implementation. Pragger (2000) the idea behind the project cycle is that there are a number of sequential processes from the identification of a project through to the completion of the project. It is important that ex-post project evaluation is carried out in order to assess the impacts of the project and whether it achieved its original objectives. There are a number of different tools you will learn later in this course which are used at different stages in the project cycle. They include: financial and economic analysis; impact analysis (monitoring and evaluation and ex-post project evaluation); risk analysis (project preparation, ex-ante project evaluation and project appraisal.The study carried out by D.I.D, (2003), established identification stage in a project's life cycle is very paramount. In the past, the procedure that led national governments and other borrowers to generate proposals for external financing was fairly ad hoc (meaning that proposals were generated in isolation, as and when they were considered necessary, and with no reference to other potential projects). In recent years, major donor agencies (such as the World Bank) place much emphasis on project identification as an important element in the overall success of the project. Defined priority areas within broad development strategies are used to encourage project generation, for instance, or to screen incoming projects. In-depth knowledge and experience of local conditions can be an important source of suggestions for project formulation, as can occasional field missions and technical surveys aimed at identifying potential projects.

Capital/Project Appraisal and Evaluation is a Process or from political imperatives of national governments and their agencies, whereas private sector projects usually result from the identification of an opportunity for profit. Factors that complicate project identification in practice are numerous and include such issues as conflicting interests between involved parties (local and regional bodies, sectoral ministries, national governments and external donors) and varying levels of capability in project formulation (MRAG,1995).

According to Lewis (2001), Preparation identifies need to be prepared and analyzed before money is allocated to them. Although this is formally a borrower responsibility, in practice it is common for donor agencies to extend technical and financial assistance to borrowing countries to assist them in the preparation and analysis of projects. A 'project brief' is used to describe the project's objectives, its main issues and the timetable within which its implementation and processing are conceived. The length of time taken for preparation and analysis is not fixed: it will almost certainly be a function of the nature of the project (its size, borrower experience, whether it is a new project or the extension of an existing one, etc). Often it may also involve a feasibility study (or a sequence of them) to establish at an early stage which projects are worth pursuing further.

Consideration of alternatives is important at this stage as another 'early signalling' mechanism for deciding worthwhile projects. Through careful and detailed analysis, projects are likely to be shaped and redefined (sometimes to the point where they do not look anything like their original form) to take them a step closer to the realistic conditions under which they may be implemented. This is required for detailed planning, which should take account of the full range of technical, institutional, social, environmental, commercial, financial and economic aspects of the project.According to Pandey (2000), Appraisal of Capitals this is probably the best-known stage of the cycle, and how to appraise Capital projects is at the heart of this course. The purpose of project appraisal is to establish whether a project is worthwhile in the light of its costs in terms of resource commitments and the projects expected benefits. That is, appraisal is an ex ante assessment of a project and is the key element in the decision as to whether or not to proceed with a project. This will involve the consideration of alternative projects or alternatively, by comparison with the status quo (that is, the do-nothing option). In practice, this is an intricate and sophisticated process of enquiry, with substantial data requirements.

Examination of the Viability of the project may require the specialize services of appraisal missions and appointed consultants. Appraisal covers four major aspects of the project: technical, institutional, financial and economic.Project appraisal as a stage of capital budgeting involves engineering or other data on which they are based, proposed procurement arrangements, procedures for obtaining engineering, architectural or other professional services, the potential impact on the human and physical environment, and a range of other similar concerns related to the technical adequacy and soundness of the project. For instance, in the technical appraisal of an educational project considerations will have to be given to the curriculum, the number and nature of educational establishments, their physical facilities (classroom, space, laboratories, libraries, and equipment), personnel, skills gaps and training requirements, etc (O.D.A, 1995).

A study carried out by Prasan, (1988) found out the institutional aspects are the objective of many projects is not merely to add to physical assets and capital, but also to create and enlarge human and institutional capabilities to manage and maintain development undertakings. Institutional appraisal is concerned with a large number of questions which deal with the adequacy or otherwise of such human capability and the institutional framework in which projects are implemented. This is possibly the most challenging aspect of the project's overall success. There may be no shortage of technically well-designed and well-endowed projects (in terms of their 'hard' inputs). However, many projects have limitations at the human and institutional level (the so-called 'soft' inputs). Therefore project appraisal requires careful and sensitive consideration of the institutional dimension and local conditions.James, (1993), established that financial and economic aspects play an important role during capital budgeting and therefore must be factored in when appraising projects. Since these two aspects of project appraisal constitute a main part of the course, they are only briefly reviewed here. Financial appraisal (Capital budgeting) is concerned with such questions as the adequacy of funds, the financial Viability of the project, the borrower's ability to service debt, procedures for recovering Capital and operating costs, etc, and, ultimately, does the project return a profit? This is different from economic appraisal which addresses the issue of whether a project is worthwhile from the broader point of view of its contribution to aggregate or national economic and social welfare through the use of social cost-benefit analysis as the appraisal technique. The appraisal process consists of the following steps (all these are covered, as indicated, in subsequent units in this course): Identifying and valuing the costs and benefits of each option If required, adjusting the valued costs and benefits for distributional impacts (the effects on different groups in society), Adjusting for the timing of the incidence of costs and benefits, by discounting them, to obtain their present values; Adjusting for risk and uncertainty.

According to Potts, (2002), implementation and monitoring of projects should be taken into account during capital budgeting. A project that is considered to be worthwhile at the appraisal stage qualifies for implementation. In practice, implementation tends to be complicated by many unforeseen problems. Therefore flexibility is required at this stage to enable the successful execution of the project. The process of implementation can be long and drawn out (depending on the nature of the project and the time period over which it spans). It is normal to consider it over three phases: Capital; development; operation; There is considerable variation in the length of each of these stages between different projects (infrastructure projects tend to have long Capital periods, for example). It is probably true to claim that a project is as good as its execution. Thus, implementation of a project is another critical stage in the project's life cycle. While the project is being carried out, continuous monitoring is required to satisfy those people implementing the project that things are proceeding according to plan. Monitoring typically requires an effective information gathering and management system that can check the progress of the project according to the plans which have been drawn up and the project objectives. Hurtley, (2000) found out that once the project is completed (and possibly also several times during its implementation), it needs to be evaluated so as to enable analysts (borrowers or lenders) to assess its performance and outcome. Thus, evaluation is an ex post assessment of whether the project was worthwhile. It seeks to answer such questions as: has the project been successful in attaining its objectives? If not, in what respect has it failed? How might its design and/or implementation have been improved? All World Bank-assisted projects are now subjected to an ex post audit. It allows a reworking of the estimates of the economic rate of return on the basis of actual implementation costs and updated information on operating costs and expected benefits. Evaluation thus helps to identify elements of strength and weakness, success or failure. The results are valuable in planning future projects and in attempts to avoid repeating or committing 'mistakes'. Thus the results of the evaluation process need to be disseminated. This is why Baum (1982) described the evaluation system as 'a gold mine of information,

Capital Budgeting Effects : There are various stakeholders who have different interest in the business and indicate their interests where these are relevant to the project. These interests could include the expectations of stakeholders, the resources they are willing to commit, and any conflicts of interests. It is conventional to show the potential impact(s) as positive, negative or uncertain. The indication of relative priority is normally given on

a scale of 1 (high priority) to 5 (low priority), and usually relates to the definition of primary and secondary stakeholders. Clearly, different projects will have different stakeholder groups and different complexities. The issue is the degree to which stakeholder analysis successfully balances all the different interest groups involved in projects (Gittinger, 1982).The next step is to assess the importance, power and influence of stakeholders in relation to their ability to influence the outcome of the project or programme. Some stakeholders will possess formal power derived from legal sources, control of resources, leadership authority, possession of knowledge etc, whereas others may have more informal power and influence. Importance is defined as the degree to which stakeholder groups may gain or lose from the project; influence refers to their ability to affect the success of the project (Ahonen, 1999).

The Measurement of Profitability levels in the Company : According to Taguchi (1992), the measurement of profitability levels in the companies was indicated by reduction in cost of investment, increases in amount of returns from the company, increases in the value of future cash flows, reduction in the level of risk in the company and reduction in recouping period of the company. These may be used to compare the profitability levels with other companies (again, care must be taken to ensure that one is comparing like with like). Performance indicators may be defined during project design and could be taken from the logical framework matrices (observable verifiable indicators) or they may be defined separately. Each sector will require specific performance indicators that are appropriate and relevant to that particular kind of activity. Performance indicators are useful management tools, but it is important that they are developed by management in collaboration with the workforce in order to reduce the possibility of misunderstanding; for example, it is possible for the workforce to consider that indicators may be used to reduce the number of people employed.

Knowledge Gap : According to Lewis (2001), Projects that survive the early stage of successful identification need to be identified and analyzed before money is allocated to them. However the author has not exhaustively outlined the Capital Budgeting techniques used and their applicability to improve the profit levels in a manufacturing concern. According to James, 1993), since these two aspects of project appraisal constitute a main part of the course, they are only briefly reviewed here. Financial appraisal (Capital budgeting) is concerned with such questions as the adequacy of funds, the financial Viability of the project, the borrower's ability to service debt, procedures for recovering Capital and operating costs. The study has failed to capture the relationship between Capital budgeting techniques and their contributions to the profits of the firm which the current study endeavours to do. According to (Potts, 2002), A project that is considered to be worthwhile at the appraisal stage qualifies for additional investment. However it is not clear from the above study how the appraisal stage influences Capital decisions to increase the profit levels of the firm which the current study endeavors to attain and assist to reduce the gap. According to Hurtley, (2000), Once the project is completed (and possibly also several times during its implementation), it needs to be evaluated so as to enable analysts (borrowers or lenders) to assess its performance and outcome. The study did not capture the relationship between capital budgeting and increasing profitability

Research Design : This study adopted survey as a research design. The aim of the survey study is to know precisely the factors and causes which explain the complex behavioral patterns of related units and the place of each unit in its surrounding about a person or a group or unit. The survey study method, mostly, studies the subject matter qualitatively and covers all aspects of related units (Crothy, 1998). The method aimed at description as well explanation of units it studied. It is both intensive and extensive study unit. Thus this study extensively and intensively studied the contribution of internal control systems on the management of working capital of manufacturing industry in Eldoret town. Survey studies were particularly useful in depicting a holistic portrayal of a client's experiences and results regarding a given program. Survey studies were used to organize a wide range of information about a survey and then analyzed the contents by seeking patterns and themes in the data and by further analysis through cross comparison with other firms. A survey could be of individuals, programs, or units, depending on what the program evaluators want to examine through in-depth analysis and comparison. A survey design was used in this research because it involved a detailed analysis of Capital budgeting techniques of selected companies which would be interrelated with viability levels of the project. It was possible to generalize to all those bodies (Rubin and Babbier, 2002).

Target Population   : The target population was one to which a researcher generated the results. It was also called the universe. It was therefore the manageable population. It consisted of the population of eight Company managers, forty departmental managers and sixty two supervisors of selected companies found in Eldoret town (Selected Companies in Eldoret town Appendix II). The basis of selecting companies in Eldoret town was the sales turn over of Ksh 500 million and above per year, and 100 and above permanent employees. The target population comprised of 110 respondents who comprised of 8 company managers, 40 departmental managers and 62 of supervisors in financial department in different companies found in Eldoret town. This is shown in table 3.1.

Table 3.1 Target Population

Strata	Target Population
Company managers	8
Departmental managers	40
Supervisors in accounts department	62
Total	**110**

Source: FKE (2012)

Sampling Size and Techniques : The concern which arose when designing this statistical study was how many subjects were involved in the sample. The target population was moderately large and it was prudent to be economical so that conclusions drawn were certain. The sample size depended on the three factors identified by Juhani (2008) which are the level of confidence required, (95%), the margin of error and the variability of the population that is under the study. In selecting the sample size the researcher will be guided by the formula illustrated by Israel (1992) which uses a 95% level of confidence and p is equal to 5%.

$$n = N / [1 + N(e)^2]$$

Where n-Sample size

N – Target Population   e-confidence level

$$n = 110 / (1 + 110(0.05)^2$$

$$n = 85$$

Therefore a sample size of 85 respondents was selected from the target population which represented 78% of the target population. The sample size was selected using stratified sampling technique. The researcher used stratified sampling method to sample 6 managers, 31 departmental managers and 48 supervisors in accounts department. This is shown in table 3.2.

Table 3.2 Sample Size

Strata	Target Population	Sample Size
Factory managers	8 x 0.78%	6
Departmental managers	40 x 0.78%	31
Employees in accounts department	62 x 0.78%	48
Total	**110**	**85**

The researcher used stratified sampling to sample the respondent from each stratum of supervisors, top management departmental heads and supervisors in accounts department, their names were written down, put in a basket and shaken and then the required number was picked. Each subject had equal chance to be selected. The researcher then distributed the research instruments to the selected respondents.

Data Collection Methods : Data collection was done using questionnaires as the main data collection tools. The researcher collected data from the selected respondents after obtaining permission from the Catholic University of East Africa to carry out research in the identified area of study. The researcher visited selected companies of Eldoret town to seek permission and explain the purpose of the research. The researcher sought the assistance of the heads of departments to distribute questionnaires to supervisors of selected companies in Eldoret town and other related respondents who distributed the data collection instruments/tools. After familiarization, data was collected from the respondents using questionnaires and interview. Questionnaires were administered personally by researcher to the respondents whose reactions were written down. A follow up was made to ensure that all questionnaires are returned. The researcher carried out structural interviews to secure information from departmental heads and managers. The completed instruments were verified and collected from the respondents within a period of ten days from the day of distribution.

Validity and Reliability of the Instruments : Content validity of the instrument was ensured thorough constructive criticism from the project supervisor who had an extensive experience and expertise in questionnaire construction and in addition through the use of peer views. The items were revised and improved according to advice and suggestions made by the research supervisor. Reliability is the extent to which any measuring procedure yields the same results on repeated trials (Carmines and Zeller, 1999). The reliability of the instrument improved through piloting and pre-testing. Furthermore, the reliability and validity of the results was obtained through member checks to help indicate whether the findings appeared to match with perceived authenticity. This was done in order to limit the distorting effects of random errors on the findings. The help of the project supervisors of the Catholic Universities was sought to review the results of the study and to find out if the results did match with actuality. The research instruments was given to the expert and supervisors to check extend to which measure what is expected as stated in the research objectives. Reliability was checked by carrying out pilot study to test the relevance of questions and also to confirm the reliability of the responses of the study was finally recorded.

Data Analysis : The data collected for the purpose of the study was adopted and coded for completeness and accuracy of information at the end of every field data collection day. Data capturing was done using SPSS software. Data analysis was carried out using descriptive statistics using frequencies and percentage.

III.   RESULTS AND DISCUSSION

Common capital budgeting techniques used in selected companies in Eldoret town to make Capital decisions : It was paramount to find out the common capital budgeting techniques used in selected companies in Eldoret town to make Capital decisions so as to embrace their applicability in identifying viable projects. The capital budgeting techniques were itemized as net present value, pay pack period, accounting rate of return, internal rate of return and modified rate of return. It was established from the study that on net present value 45.3% strongly agreed, 37.3 agreed, 5.3% neutral, 6.7% disagreed and 5.3 strongly disagreed that NPV was used to make Capital decisions. On pay pack period 34.7% strongly agreed, 26% agreed, 6.7% neutral, 5.3% disagreed while 4% strongly agreed. On accounting rate of return 20% strongly agreed, 20% agreed, 9.3% neutral, 40% disagreed and 10.7% strongly disagreed. On internal rate of return 13.3% strongly agreed, 20% agreed, 13.3% neutral, 16% disagreed and 21.3% strongly disagreed and On modified accounting rate of returns, 20% strongly agreed, 20% agreed, 5.3% neutral, 40% disagreed, 14.7% strongly disagreed. This is shown in Table 4.3 below:

Table 4.3: Common Capital budgeting techniques

	SA		A		UD		D		SD	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Net present value	34	45.3	28	37.3	4	5.3	5	6.7	4	5.3
Payback period	26	34.7	37	49.3	5	6.7	4	5.3	3	4.0
Accounting rate of return	15	20.0	15	20.0	7	9.3	30	40.0	8	10.7
Internal rate of return	10	13.3	15	20.0	10	13.3	24	32.0	16	21.3
Modified accounting rate of returns	15	20	15	20	4	5.3	30	40	11	14.7

Source: Field data (2012)
It implies from the above findings that the common Capital budgeting techniques used by selected companies in Eldoret town to make Capital decisions include: net present value, pay pack period and internal rate of return.

Factors which influence selection of capital budgeting techniques at selected companies in Eldoret town
        The researcher sought to establish the factors which influence selection of capital budgeting techniques at selected companies in Eldoret town so as to find out their relationship with Capital decisions alongside profitability levels of the business. The factors were itemized as Capital policy of the company, availability of finance, business risks, economic situation prevailing, availability of finances, nature of Capital and management style. On Capital policy of the company, 34.7% strongly agreed, 40% agreed, 6.7% neutral, 6.7% disagreed 6.7% strongly disagreed. On availability of finance, 40% strongly agreed, 40% agreed, 6.7% neutral, 6.7% disagreed 6.7% strongly disagreed. On business risk, 48% strongly disagreed, 26.7% disagreed, 10.7% neutral, 8% agreed 6.7% strongly agreed, On finance risk, 5.3% strongly agreed, 21.3% agreed, 21.3% neutral, 21.3% disagreed 32% strongly disagreed while on economic situation prevailing as a factor which influence the selection of the capital budgeting method to measure level of profitability in selected companies in Eldoret, 36% strongly agreed, 37.3% agreed, 13.3% neutral, 6.7% disagreed 6.7% strongly disagreed, On availability of finance, 22.7% strongly agreed, 33.% agreed, 6.7% neutral, 16% disagreed 21.3% strongly disagreed. Still on the factor which influence the selection of the capital budgeting method nature of Capital was used to measure level of profitability in selected companies in Eldoret with 29.3% strongly agreed, 29.3% agreed, 14.7% neutral,

13.3% disagreed 13.3% strongly disagreed. Lastly on management style 8% strongly agreed, 12% agreed, 12% neutral, 40% disagreed 28% strongly disagreed. This is as shown in Table 4.4.

Table 4.4: Factors which influence selection of capital budgeting techniques

	SA		A		UD		D		SD	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Capital policy of the company	26	34.7	30	40.0	5	6.7	5	6.7	9	12.0
Availability of finance	30	40.0	30	40.0	5	6.7	5	6.7	5	6.7
Business risk	5	6.7	6	8.0	8	10.7	20	26.7	36	48.0
Finance risk	4	5.3	16	21.3	16	21.3	16	21.3	24	32.0
Economic situation prevailing	27	36.0	28	37.3	10	13.3	5	6.7	5	6.7
Availability of finances	17	22.7	25	33.3	5	6.7	12	16.0	16	21.3
Nature of Capital	22	29.3	22	29.3	11	14.7	10	13.3	10	13.3
Management style	6	8.0	9	12.0	9	12.0	30	40.0	21	28.0

Source: Source: Field data (2012)

The results therefore shows that majority of the respondents agreed that Capital policy, availability of finance, nature of Capital on management style are the major factor which influence Capital decisions in selected companies in Eldoret town .

Indicators of profitability of projects in capital budgeting techniques at selected companies in Eldoret town : The researcher sought to find out the indicators of profitable projects in capital budgeting techniques at selected companies in Eldoret town. The indicator of profitable projects were itemized as positive net present value, short recouping periods, less risks of failure, high average income and profitability index more than one. On positive net present value 38.7% strongly agreed, 42.7% agreed, 6.7% neutral, 10.7% disagreed 1.3 % strongly disagreed. On short recouping periods, 30.7% strongly agreed, 44% agreed, 10.7% neutral, 6.7% disagreed 8% strongly disagreed. On less risks of failure as an effect of capital budgeting technique 14.7% strongly agreed, 21.3% agreed, 6.7% neutral, 28% disagreed while 29.3% strongly disagreed. Still on the effects of capital budgeting techniques on profits levels profitability index of more than one was looked at with 20% strongly agreed, 14.7% agreed, 12% neutral, 36% disagreed 17.3% strongly disagreed. Finally on high average income 25.3% strongly agreed, 38.7% agreed, 8% were undecided, 12% disagreed and 16% strongly disagreed. This is as summarized in the Table 4.5 below:-

Table 4.5: Effects of Capital budgeting techniques on profit levels

	SA		A		UD		D		SD	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Positive net present value	29	38.7	32	42.7	5	6.7	8	10.7	1	1.3
Short recouping periods	23	30.7	33	44.0	8	10.7	5	6.7	6	8.0
Less risks of failure	11	14.7	16	21.3	5	6.7	21	28.0	22	29.3
Profitability index more than one	15	20.0	11	14.7	9	12.0	27	36.0	13	17.3
High average income	19	25.3	29	38.7	6	8.0	9	12.0	12	16.0

Source: Field data (2012)
Results from the table above shows that the indicators of profitability projects in capital budgeting techniques in selected companies in Eldoret town include: positive net present value, short recouping periods, less risks of failure alongside high average income.

Net Present Value on Level of Profitability : The researcher sought to find out the if NPV affects the level of profitability of the Capitals in selected companies in Eldoret town. The indicator of profitability projects were itemized as if NPV reduces the costs of Capital, increases the amount of returns from the project, increases the

value of future cash flows, reduces the level of risk of projects and if NPV reduces the recouping period of the project. On if NPV reduces the costs of Capital, 32% strongly agreed, 28% agreed, 12% neutral, and 14.7% disagreed 13.3% strongly disagreed. On increasing the amount of returns from the project, 9.3% strongly agreed, 8.0% agreed, 17.3% neutral, 34.7% disagreed 30.7% strongly disagreed. On increasing the value of future cash flows, 37.3% strongly agreed, 25.3% agreed, 8% neutral, 18.7% disagreed 10.7% strongly disagreed. On reduction in the level of risk of projects, 14.7% strongly agreed, 20% agreed, 13.3% neutral, 29.3% disagreed 22.7% strongly disagreed and lastly looking at if NPV reduces the recouping period of the projects on unpredictable political stability, 24% strongly agreed, 21.3% agreed, 10.7% neutral, 21.3% disagreed 22.7% strongly disagreed. This is shown in table 4.6 below:-

Table 4.6: Net Present Value on Level of Profitability

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Reduces the cost of Capital	24	32.0	21	28.0	9	12.0	11	14.7	10	13.3
Increases amount of returns from the project	7	9.3	6	8.0	13	17.3	26	34.7	23	30.7
Increases the value of future cash flows	28	37.3	19	25.3	6	8.0	14	18.7	8	10.7
Reduces level of risk of projects	11	14.7	15	20.0	10	13.3	22	29.3	17	22.7
Reduces recouping period of the project	18	24.0	16	21.3	8	10.7	16	21.3	17	22.7

Source: Field data (2012)

Apparently it shows that majority of the respondents identified reduction the cost of Capital, increases amount of returns from the project and reduces level of risk of projects as the main levels of profitability.

Accounting Rate of Return (ARR) on Level of Profitability : It was also important for the researcher to find out the from the respondents if Accounting Rate of Return (ARR) affects the level of profitability of the Capitals in selected companies in Eldoret town. The indicator of profitable projects were itemized as if NPV reduces the costs of Capital, increases the amount of returns from the project, increases the value of future cash flows, reduces the level of risk of projects and if AAR reduces the recouping period of the project. On if AAR reduces the costs of Capital, 24% strongly agreed, 25.3% agreed, 10.7% neutral, and 30.7% disagreed 9.3% strongly disagreed. On increasing the amount of returns from the project, 8% strongly agreed, 17.3% agreed, 14.7% neutral,26.7% disagreed 33.3% strongly disagreed. Still on if AAR increases the value of future cash flows, 18.7% strongly agreed, 17.3% agreed, 10.7% neutral, 22.7% disagreed and 30.7% strongly disagreed. On reduction in the level of risk of projects, 28% strongly agreed, 33.3% agreed, 10.7% neutral, 14.7% disagreed 13.3% strongly disagreed and lastly looking at if AAR reduces the recouping period of the projects on unpredictable political stability, 30.7% strongly agreed, 30.7% agreed, 8% neutral, 16% disagreed 14.7% strongly disagreed. This is shown in table 4.7 below:-

Table 4.7: Accounting Rate of Return (ARR) on Level of Profitability

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Reduces the costs of Capital	18	24.0	19	25.3	8	10.7	23	30.7	7	9.3
Increases the amount of returns from the project	6	8.0	13	17.3	11	14.7	20	26.7	25	33.3
Increases the value of future cash flows	14	18.7	13	17.3	8	10.7	17	22.7	23	30.7
Reduces the level of risk of project	21	28.0	25	33.3	8	10.7	11	14.7	10	13.3
Reduces the recouping period of the project	23	30.7	23	30.7	6	8.0	12	16.0	11	14.7

Source: Field data (2012)

It can be summarized that accounting rate of return affects the level of profitability with majority of the respondents identified reduction the cost of Capital, increases the value of future cash flows and reduces the recouping period of the project as the main levels of profitability.

Payback period (PBP) on Level of Profitability : The researcher also sought to establish if Payback period (PBP) affects the level of profitability of the Capitals in selected companies in Eldoret town. The indicator of profitability projects were itemized as if PBP reduces the costs of Capital, increases the amount of returns from the project, increases the value of future cash flows, reduces the level of risk of projects and if PBP reduces the recouping period of the project. On if PBP reduces the costs of Capital, 12% strongly agreed, 9.3% agreed, 6.7% neutral, and 25.3% disagreed 46.7% strongly disagreed. On increasing the amount of returns from the project, 10.7% strongly agreed, 14.7% agreed, 9.3% neutral, 33.3% disagreed 32% strongly disagreed. On increasing the value of future cash flows, 34.7% strongly agreed, 26.7% agreed, 12% neutral, 13.3% disagreed 13.3% strongly disagreed. On reduction in the level of risk of projects, 32% strongly agreed, 28% agreed, 10.7% neutral, 17.3% disagreed 12% strongly disagreed and lastly looking at if PBP reduces the recouping period of the projects on unpredictable political stability, 9.3% strongly agreed, 16% agreed, 6.7% neutral, 30.7% disagreed 37.3% strongly disagreed. This is shown in table 4.8 below:-

Table 4.8 Payback period (PBP) on Level of Profitability

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Reduces the cost of Capital	9	12.0	7	9.3	5	6.7	19	25.3	35	46.7
Increases the amount of returns from the project	8	10.7	11	14.7	7	9.3	25	33.3	24	32.0
Increases the value of future cash flows	26	34.7	20	26.7	9	12.0	10	13.3	10	13.3
Reduces the level of risk of projects	24	32.0	21	28.0	8	10.7	13	17.3	9	12.0
Reduces the recouping period of the project	7	9.3	12	16.0	5	6.7	23	30.7	28	37.3

Source: Field data (2012)

Results from the table above imply from the above that Payback Period affects level of profitability in selected companies in Eldoret town which include: increases the value of future cash flow and reduces the recouping period of the project thus affects levels of profitability.

Internal Rate of return (IRR) capital budgeting method and the level of capital budgeting : The researcher sought to find out the if Internal Rate of return (IRR) affects the level of profitability of the Capitals in selected companies in Eldoret town. The indicator of profitable projects were itemized as if IRR reduces the costs of Capital, increases the amount of returns from the project, increases the value of future cash flows, reduces the level of risk of projects and if IRR reduces the recouping period of the project. On if IRR reduces the costs of Capital, 12% strongly agreed, 9.3% agreed, 6.7% neutral, and 25.3% disagreed 46.7% strongly disagreed. On increasing the amount of returns from the project, 10.7% strongly agreed, 14.7% agreed, 9.3% neutral, 33.3% disagreed 32% strongly disagreed. On increasing the value of future cash flows, 34.7% strongly agreed, 26.7% agreed, 12% neutral, 13.3% disagreed 13.3% strongly disagreed. On reduction in the level of risk of projects, 32% strongly agreed, 28% agreed, 10.7% neutral, 17.3% disagreed 12% strongly disagreed and lastly looking at if IRR reduces the recouping period of the projects on unpredictable political stability, 9.3% strongly agreed, 16% agreed, 6.7% neutral, 30.7% disagreed 37.3% strongly disagreed. This is shown in table 4.9.

Table 4. Internal Rate of return (IRR) capital budgeting method and the level of capital budgeting

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Reduces the cost of Capital	9	12.0	7	9.3	5	6.7	19	25.3	35	46.7
Increases the amount of returns from the project	8	10.7	11	14.7	7	9.3	25	33.3	24	32.0
Increases the value of future cash flows	26	34.7	20	26.7	9	12.0	10	13.3	10	13.3
Reduces the level of risk of projects	24	32.0	21	28.0	8	10.7	13	17.3	9	12.0
Reduces the recouping period of the project	7	9.3	12	16.0	5	6.7	23	30.7	28	37.3

Source: Field data (2012)

Results from the table above imply from the above that Internal Rate of return (IRR) affects level of profitability in selected companies in Eldoret town which include: increases the value of future cash flow and reduces the level of risk of project as the main levels of profitability.

Profitability Index (PI) capital budgeting method affects level of profitability of capital budgeting : The researcher sought to find out the if Profitability Index (PI) affects the level of profitability of the Capitals in

selected companies in Eldoret town. The indicator of profitability projects were itemized as if PI reduces the costs of Capital, increases the amount of returns from the project, increases the value of future cash flows, reduces the level of risk of projects and if PI reduces the recouping period of the project. On if PI reduces the costs of Capital, 36% strongly agreed, 22.7% agreed, 10.7% neutral, and 13.3% disagreed 17.3% strongly disagreed. On increasing the amount of returns from the project, 10.7% strongly agreed, 17.3% agreed, 12% neutral, 34.7% disagreed 25.3% strongly disagreed. On increasing the value of future cash flows, 28% strongly agreed, 28% agreed, 13.3% neutral, 21.3% disagreed 9.3% strongly disagreed. On reduction in the level of risk of projects, 30.7% strongly agreed, 29.3% agreed, 12% neutral, 13.3% disagreed 14.7% strongly disagreed and lastly looking at if PI reduces the recouping period of the projects on unpredictable political stability, 24% strongly agreed, 21.3% agreed, 10.7% neutral, 21.3% disagreed 22.7% strongly disagreed. This is shown in table 4.910 below:-

Table 4.10 Profitability Index (PI) capital budgeting method affects level of profitability of capital budgeting

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Reduces the costs of Capital	27	36.0	17	22.7	8	10.7	10	13.3	13	17.3
Increases the amount of returns from the project	8	10.7	13	17.3	9	12.0	26	34.7	19	25.3
Increases the value of future cash flows	21	28.0	21	28.0	10	13.3	16	21.3	7	9.3
Reduces the level of risk of projects	23	30.7	22	29.3	9	12.0	10	13.3	11	14.7
Reduces recouping period of the project	18	24.0	16	21.3	8	10.7	16	21.3	17	22.7

Source: Field data (2012)

Findings in the table above imply from the above that Profitability Index (PI) affects level of profitability in selected companies in Eldoret town which include: reduces the costs of Capital, increases the value of future cash flows and reduces the levels of risk of projects as the main levels of profitability.

Challenges in selecting Capital portfolio/projects : The researcher sought to find out the common challenges facing the company in using Capital budgeting techniques so as to provide solutions for the same. On lack of data/information, 16% strongly agreed, 41.3% agreed, 14.7% neutral, 22.7% disagreed 5.3% strongly disagreed. On lack of enough finance, 14.7% strongly agreed, 14.7% agreed, 16% neutral, 34.7% disagreed 20% strongly disagreed. On lack of management goodwill, 12% strongly agreed, 12% agreed, 12% neutral, 32% disagreed 32% strongly disagreed. On unpredictable economic situation, 16% strongly agreed, 41.3% agreed, 12% neutral, 17.3% disagreed 13.3% strongly disagreed and on unpredictable political stability, 38.7% strongly agreed, 28% agreed, 10.7% neutral, 9.3% disagreed 13.3% strongly disagreed. This is shown in table 4.11 below:-

Table 4.11 Challenges in selecting Capital portfolio/projects

	SA		A		UD		D		SD	
	F	%	F	%	F	%	F	%	F	%
Lack of data/information	12	16.0	31	41.3	11	14.7	17	22.7	4	5.3
Lack of enough finance	11	14.7	11	14.7	12	16.0	26	34.7	15	20.0
Lack of management goodwill	9	12.0	9	12.0	9	12.0	24	32.0	24	32.0
Unpredictable economic situation	12	16.0	31	41.3	9	12.0	13	17.3	10	13.3
Unpredictable political stability	29	38.7	21	28.0	8	10.7	7	9.3	10	13.3

Source: Field data (2012)

IV.   The table above shows that majority of the respondents identified lack of data/information, Unpredictable economic situation and unpredictable political stability as the main challenges which affect project/capital budgeting techniques.

V. Discussion of the Findings

The common Capital budgeting techniques used by selected companies in Eldoret town to make Capital decisions were found to be net present value, pay pack period and internal rate of return. This is supported by the findings of Shapiro (2004) who established that the use of discounting cash flow methods such the net present values and the waited average cost of capital were frequently used to appraise projects during capital budgeting, on the other hand Mclaney (2000) established that in order to convert cash flow from a project into there present value its necessary to establish the cash inflows and out flows. According to Pandey (2000) organizations use modern methods and traditional methods to carry out capital budgeting. Modern methods take into account the time value of money and they include net present value, internal rate of return and profitability index whereas traditional methods include payback period and accounting method rate of return. Mclaney found out that if capital budgeting is effectively done, it will reduce the risk of investment and increase efficiency. The results shows that majority of the respondents agreed that Capital policy, availability of finance, nature of Capital on management style are the major factor which influence Capital decisions in selected companies in Eldoret town . This concurs with findings of Manasseh (2001) which identified the factors influencing capital budgeting as the type of investment opportunities, the term of finance, the market conditions, borrowing policy and many others. Results from the above findings shows that the indicators of profitability projects in capital budgeting techniques in selected companies in Eldoret town include: positive net present value, short recouping periods, less risks of failure alongside high average income. The findings concur with the findings of Taguchi (1992) who showed that indicators of performance alongside profitability include increase in volume of sales profit level and retained earnings.

Majority of the respondents identified the effects of net present value reduction the cost of Capital, increases amount of returns from the project and reduces level of risk of projects as the main levels of profitability. This is supported by the findings of Manasseh (2001) which established that if net present value is used to carry out capital budgeting it will enable the business to select a viable project which will improve the liquidity position of the firm.The study found out that accounting rate of return affects the level of profitability with majority of the respondents identified reduction the cost of Capital increases the value of future cash flows and reduces the recouping period of the project as the main levels of profitability. The findings were inline with the findings of Mclaney which established that utilization of accounting of return enables businesses to improve the profit levels by matching incomes with expenses, computing the rate of return and comparing it with industry average.Results from the above findings imply from that Payback Period affects level of profitability in selected companies in Eldoret town which include: increases the value of future cash flow and reduces the recouping period of the project thus affects levels of profitability. This is supported by findings of Mclaney (2005) which argues that in using payback period firms are able to identify projects which can pay soonest to recoup its cost. Results from above imply from the above that Internal Rate of return (IRR) affects level of profitability in selected companies in Eldoret town which include: increases the value of future cash flow and reduces the level of risk of project as the main levels of profitability. The findings are in line with the findings of Miller (1993) who carried out a study in India on the role of internal rate of return in establishing viable projects and improving profit levels of business. Findings of the study imply that Profitability Index (PI) affects level of profitability in selected companies in Eldoret town which include: reduces the costs of Capital, increases the value of future cash flows and reduces the levels of risk of projects as the main levels of profitability. According to Potts (2002) profitability index can only be used to substitute internal rate of return.

VI. CONCLUSIONS

The common Capital budgeting techniques used by selected companies in Eldoret town to make Capital decisions were found: net present value, pay pack period and internal rate of return. The indicators of profitability projects in capital budgeting techniques in selected companies in Eldoret town include: positive net present value, short recouping periods, less risks of failure alongside high average income. The effects of net present value reduction the cost of Capital, increases amount of returns from the project and reduce level of risk of projects as the main levels of profitability. It can be summarized that accounting rate of return affects the level of profitability with majority of the respondents identified reduction the cost of Capital, increases the value of future cash flows and reduces the recouping period of the project as the main levels of profitability.The effects of the Payback Period affects level of profitability in Eldoret town which include: increases the value of future cash flow and reduces the recouping period of the project thus affects levels of profitability. The effect of Internal Rate of return (IRR) affects level of profitability in selected companies in Eldoret town which include: increases the value of future cash flow and reduces the level of risk of project as the main levels of profitability. The effects of Profitability Index (PI) on profit levels include: reduces the costs of Capital, increases the value of future cash flows and reduces the levels of risk of projects as the main levels of profitability.

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