

**A SURVEY OF THE ROLE OF BOARD OF DIRECTORS IN THE
CAPITAL BUDGETING PROCESS FOR COMPANIES QUOTED AT
THE NAIROBI STOCK EXCHANGE**

BY

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DECLARATION

This Management Research project is my original work and has not been presented to any other University for academic award.

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Date.....

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This Management Research Project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This work is dedicated to my late parents Michael and Philomena and my dear wife Beatrice and the entire family for their support, encouragement and prayers.

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ABSTRACT

This study differed from the earlier ones as it sought to establish specifically the role of the board of directors in the capital budgeting process. It contributes to the body of knowledge by appraising the board structures and the influence of the board committees in the capital budgeting process and how their decisions complement existing theory. The objective of this study was to determine the role of Board of Directors in the capital budgeting process for companies quoted at the NSE. The approach that was used in this study was descriptive. The target population was made up of the 54 companies currently listed at the Nairobi Stock Exchange (NSE Handbook). A sample of forty (40) was selected representing active counters that have been continuously listed at the NSE for a period of five years from year 2005 to 2009. The instruments that were used to collect data were questionnaires; these were used to collect Primary data. Data was captured and analyzed using Statistical Package for the Social Sciences (SPSS) version 17. The results were then used to make inferences about the roles that board of director play in the capital budgeting process and presented in a tabular form.

The study concludes that majority of the listed companies have special board committees that is highly involved in deciding on capital investments. The study also concludes that financial analysis and project selection are the most critical stages in capital budgeting process. It was also clear from the study that the listed companies consider derived benefits when evaluating social projects, social responsibility and moral issues when evaluating social projects. However the NSE listed companies do not consider subjectiveness, not seen as capital and legal requirements when evaluating social projects.

From the findings, it is concluded that investment is never accepted on non-financial ground, the NSE listed companies use safety of employees or the public as non-financial criteria in major investment decisions and the companies used necessity of maintaining existing program or product lines. With regard to the highest risk stage in capital budgeting, financial analysis and project selection was found to be the highest risk stage in capital budgeting stage, project definition and cash flow estimation was the highest

risk stage in capital budgeting stage. In the choice of appraisal methods, majority of the companies moderately prefer Net Present Value (NPV), Present Value Payback (PVP) and Accounting Payback (AP). Others moderately preferred internal rate of Return (IRR), and Profitability Index (PI), while some of the companies slightly prefer Return on Investment (ROI) as the most important capital budgeting method.

ABBREVIATIONS & ACRONYMS

ARR	-	Accounting Rate of Return
BOD	-	Board of Directors
CEO	-	Chief Executive Officer
CFOs	-	Chief Financial Officers
DCF	-	Discounted Cash-flows
FDI	-	Foreign Direct Investments
IRR	-	Internal Rate of Return
MBAAs	-	Master of Business Administration Degree Holders
MIRR	-	Modified Internal Rate of Return
MIT	-	Massachusetts Institute of Technology
NPV	-	Net Present Value
NSE	-	Nairobi Stock Exchange
PBP	-	Payback Period
PV	-	Present Value
S&P 500	-	Standards & Poor 500 index
SPSS	-	Statistical Package for Social Sciences
US	-	United States of America
UON	-	University Of Nairobi

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A company's ability to succeed in a highly competitive market depends to a great extent on its ability to regenerate itself through wealth-creating capital investment decisions compatible with business strategy (Pandey, 1995). Capital budgeting process include the decisions to invest in new projects, reassess the amount of capital already invested in existing projects, allocate and ration capital across divisions, and acquire other firms. In essence, the capital budgeting process defines the set and size of a firm's real assets, which in turn generate the cash flows that ultimately determine its profitability, value, and viability (Brigham, 2006).

An understanding of Corporate governance practices, Agency theory and Capital budgeting processes, provides an insight and conceptualizes the place for board of directors in the appraisal of the overall interaction relating to strategic capital budgeting. Corporate governance has become a prominent topic globally in the past two decades or so. Corporate governance rules have been promoted in part as a way of protecting and encouraging foreign investment in emerging markets. The greater integration of world capital markets (in particular in the European Union following the introduction of the Euro) and the growth in equity capital throughout the 1990s has also been a significant factor in rekindling interest in corporate governance issues (Marnet, 2004).

Corporate governance has been referred to as a set of processes, customs, policies, laws, and institutions that affect the way a corporation is directed, administered or controlled. Corporate governance mechanisms consist of internal and external systems and procedures used to ensure that the agent (the management of the corporation) runs the firm for the benefit of one or more principals (shareholders and other stakeholders). An important theme of corporate governance is to ensure the accountability of a corporation's

management through mechanisms designed to reduce the agency problem between managers and shareholders (Azevedo, 2005).

Corporate governance has been receiving increasing attention from the academic and corporate communities, focusing on topics such as the power and responsibility of boards of directors, rules related to hostile acquisitions of shareholding control, institutional investors' participation in company management, and remuneration policies for senior managers and directors and the structure and composition of the board of directors among others. In recent years, academicians, professional associations and multilateral organizations have analyzed the profiles of the boards' members with the basic objective of identifying whether the 'ideal' structure and composition for the boards are to increase their supervisory activity and to make them more efficient (Saito and Dutra, 2006).

Consultative corporate sector seminars held in Kenya in the later part of 1998 and early 1999 gave prominence to the Private sector Initiative for Corporate Governance. This was envisioned to formulate and develop a code of best practice for corporate governance in Kenya. The initiative was also mandated to explore ways of facilitating the establishment of a national body to promote corporate governance in the country and with other initiatives in East Africa, Africa and the commonwealth (Center for Corporate Governance, 2003)

In the Anglo-American model of corporate governance, shareholder wealth maximization generally holds primacy as the firm's goal. Thus, governance devices attempt to align or ensure that managerial behavior and actions pursue this goal. Governance control mechanisms work through a broad array of layered and overlapping actions such as monitoring by the boards of directors, compensation systems, ownership structure, takeovers, and government regulations (Powel, 2009).

Involvement of Board of directors in the capital budgeting process and the application of the capital budgeting appraisal techniques dates back to the 1930s. During this period (the 1930s) through the 1950s, large non owner managed firms put in place capital budgeting

control systems that identified planned capital investments going forward. The size of non financial investments and the number of non owner managed firms increased during the industrial revolution. These simultaneous changes created fertile ground for use of more sophisticated evaluation techniques and for the capital budgeting processes in use today. During the 1950s, practicing financial controllers began to network with each other, with consultants and with academicians to develop models for capital budgeting (Chapman & Hopwood, 2007).

Agency theory that developed in the late 1970s and early 1980s gave rise to analytical models of capital investment process. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This is possible because of information asymmetry between principals and agents; which tend to give agents a leverage to act at cross-purposes with advancement of principals' needs. Such a phenomenon, commonly referred to as "agency problem" is prevalent in modern day corporate where the interests of the agent differ substantially from those of the principal because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal. These models suggest that current capital budgeting procedures are a means of reducing agency costs that emanate from the conflict of interest between owners of firms and management (Brennan, 1994).

In the application of appraisal techniques, internal rate of return (IRR) and the net present value (NPV) have long been the accepted capital budgeting measures preferred by corporate management and financial theorists, respectively. While corporate management prefers the relevancy of a yield-based capital budgeting method, such as the IRR, financial theorists, based on Orthodox economic theory, endorse the NPV method. The debate between NPV and IRR methods dates from the inception of modern interest theory. The introduction of the NPV as a more superior model created the impetus for conflict between the two methods. However, both methods suffer from inconsistencies when ranking potential investment projects based on the assumption of wealth maximization (Chapman, 2007).

Boards of directors' roles in capital budgeting process can be viewed from three perspectives; Stewardship, Strategic and Agency roles. In their stewardship roles, they are expected to be actively involved in the decisions to invest in new projects identified by the firms. From the Agency perspective, they are expected to perform monitoring and advisory roles in capital budgeting process, in this respect, they will reassess the amount of capital already invested in existing projects, through special committees set up by the corporate; Their strategic role should see them involved on decisions made by the firm to allocate and ration capital across divisions, and merger and acquisition proposals of other firms (Nada et al. 2001)

1.1.1 Nairobi Stock Exchange

This is a market that facilitates the mobilization of capital for development and provides savers in Kenya with an alternative saving tool. Economic growth is promoted through improved efficiency in mobilization of savings as capital is allocated to investments that bring the most value to the economy. Long-term savings are, therefore, mobilized for financing long term ventures through competitive pricing mechanisms. The exchange provides companies with financing through the sale of shares to the public. Through issue of bonds, the government uses the NSE as an alternative source of funds to increasing taxes in order to finance different development projects NSE Handbook (n.d.)

The Exchange facilitates improved corporate governance. Public companies tend to have better management records than private companies because of the improvement of management standards and efficiency to meet the demands of shareholders and the NSE under its corporate governance rules. Investors are accorded the opportunity to buy the number of securities that are affordable to them, thereby facilitating the small investor's source of extra income. An understanding of the operations of this market is of importance to this study owing to its primary objective of financing decisions that is ultimately utilized in the capital budgeting decisions while applying stringent governance rules set by the exchange NSE Handbook (n.d).

1.2 Statement of the Problem

In large companies, the board is partitioned into several committees with specific tasks, it is expected that the boards reviewed in the study would have major roles in capital budgeting owing to the strategic nature of capital budgeting decisions. Directors' roles would include reviewing of annual budgets, large capital expenditure requests, merger and acquisition proposals and performance of approved projects. It is also expected that boards would have a dual role in capital budgeting process, that is the disciplinary role and the advisory role. Where boards perform these roles, then they will actually perform a monitoring role which is consistent with existing theories (Grinstein & Tolkowsky, 2004).

On the other hand, considering Brigham (2000), description of capital budgeting process, to include “the decisions to invest in new projects, reassess the amount of capital already invested in existing projects, allocate and ration capital across divisions, and acquire other firms” to a large extent these objectives relate to business unit strategies. A study carried out by Ogbechie et al, (2009) found that there was less involvement of Nigerian boards in the determination of the business unit strategies and plans designed to implement the corporate strategy. The implication was that the boards were not actively involved in strategy implementation and that it was argued that this is a role that top management would effectively perform. The study found a high level of board involvement in strategy decision-making process, but no correlation was found between board involvement and a number of governance variables.

Locally, studies have been carried to appraise the capital budgeting techniques practiced by companies listed at the NSE while considering whether the techniques used conform to theory and practices in developed countries. Kadondi (2002) study documented the capital budgeting techniques used in investment appraisal by state corporations and sort to determine how CEO characteristics influence the choice of a technique. Njiru (2008) carried out an appraisal of Parastatals capital budgeting techniques from the shareholder point of view. Gitari (2008) study was an evaluation of the role of Board of directors in governance of state corporations.

This study differed from the earlier ones as it sought to establish specifically the role of the board of directors in the capital budgeting process. It contributes to the body of knowledge by appraising the board structures and the influence of the board committees in the capital budgeting process and how their decisions complement existing theory.

1.3 Objective of the study

The objective of this study was to determine the role of Board of Directors in the capital budgeting process for companies quoted at the NSE.

1.4 Significance of the study

Center for Corporate Governance

The research would be of importance to the Center as it (center) seeks to improve the quality of life of the people of Kenya and of the people of Africa generally, by fostering adoption and adaptation, application and implementation of the highest standards of corporate governance in all types of business enterprises that ensure that the business enterprises grow and thrive.

Capital Market Authority (CMA)

The capital market is part of the financial system that provides funds for long-term development. This is a market that brings together lenders (investors) of capital and borrowers (companies that sell securities to the public) of capital. Such funds are in turn invested in capital assets the subject of this study.

Academicians & Scholars

The study would be of benefit to academicians and scholars as it would contribute to the available body of knowledge and form a basis for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of both the published and unpublished sources of literature that is relevant to the study. It provides a critical review of recent scholarly work in corporate governance, capital budgeting and other topics that hinges on this study. In this review the research articulates the theoretical framework, identifies studies, models, theories, techniques and case studies that support the study while identifying the missing link.

2.1.1 Agency Theory

Azevedo (2005) identified various agency problems of the firm which exist between the users of audited financial statements and other stakeholders in the business sector. Among the agency problems identified is between Shareholders (principal) and management or board of directors (agent). Shareholders only provide funds to the management in order for them to use it in running the company by investing in profitable ventures which would in turn yield better returns in terms of profits and dividends. Management being human beings may tend to make decisions which are harmful to the owners of the company by misusing the shareholders funds (Jensen& Meckling, 1976). Appraising the role of directors in the capital budgeting process has shed light as to whether practice is aligned to theory.

2.1.2 Stewardship Theory

Stewardship or the consensus perspective, grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives acts as stewards for the organization and in the best interests of the principals. This theory assumes that the manager will make decisions in the best interest of the organization, putting collectivist options above self servicing options. The steward manager maximizes the performance of the organization, working under the premise that both principal and

steward would benefit from a strong and successful organization. A central role for the steward in this theory is the co-option of organization of the corporation, enhancing reputation of the corporation, formulation and implementation of decision making. In contrast to the controls put in place through agency theory, the principle who espouses stewardship theory will empower the steward with the information, tools and the authority to make good decisions for the entity. The steward is ordinarily fully enabled by the principal to act in the best interest of the organization, trusting that he will make the best choices that will maximize the long-term return of the organization. This theory perfectly fits in the capital budgeting process as the process (capital budgeting) describes how managers plan significant outlays on projects that have long term implications.

2.1.3 Option pricing theory

Brealey and Myers (2007) define real options as options to modify projects. Traditional approaches to capital budgeting, such as discounted cash-flows (DCF), cannot capture entirely the project value, for different reasons: it is assumed that investment decision is irreversible, interactions between decisions today and future decisions are not considered, and investment in assets seems to be a passive one i.e. management doesn't interfere during the life of the project. Managerial flexibility generates supplementary value for an investment opportunity because of managerial capacity to respond when new information arises, while the project is operated.

Investment in real assets includes a set of real options that management can exercise in order to increase assets value (under favorable circumstances) or limit losses (under unfavorable situations). Managerial flexibility in decision-making process introduces an asymmetry for probability distribution of net present value (from now on NPV) for a project. An investment opportunity value is dependent on future uncertain events, so therefore, it will be greater than forecasted value in the situation of passive management. From this perspective, a project has a standard value, determined through traditional techniques (DCF, which does not catch adaptability and strategic value), but also a supplementary value, coming from operational and strategic real options held by an active management (Vintila, 2007). The seminal works of Fischer Black, Robert Merton

and Myron Scholes offer us a standard pricing model for financial options. Together with their colleague at MIT, Stewart Myers, they recognized that option-pricing theory could be applied to real assets and non-financial investments Black et al (1973).

2.1.4 Interest Theory

The interest rate, or what is called cost of capital, forms the basis of the Internal Rate of Return (IRR) defined as the discount rate that will equate the present value of future cash flows to the resources employed now. Theorists have postulated the results of two reactions; the “time preference” people have for capital now and the investment opportunity principle (that income invested now will yield greater income in the future) Fisher, (1929). A review of this theory establishes that many firms have internally published, or *de jure*, hurdle rates for project approval. These rates may or may not correspond to the apparent, or *de facto*, rates that empirically characterize projects actually approved. At some firms the *de jure* rates are described as being out of date or intended only for a first cut, to help decide if preparation of a project proposal merits more effort (Marc Rose ,1986). At some firms, however, the *de jure* and *de facto* rates are essentially the same. Firms that use this approach have a decentralized capital decision budgeting process. Project decisions are made locally, with heavy reliance on a uniform rate of return criterion. Capital requirements are forwarded to higher management and, although there may be restraints at a given time or for a given business, the capital is typically provided (Ross 1986).

The recognition of risk as an important component in capital budget decision making has long been recognized. The future is uncertain and investment/project appraisal techniques that fail to recognize this fact will almost *certainly* lead to incorrect conclusions and erroneous recommendations. A number of capital budgeting decisions may involve investments in projects, it is therefore imperative that project risk be taken into consideration during the appraisal stage. The risk of a project can be viewed at three different levels, namely: Stand-alone risk, firm risk or corporate risk and market risk. Board of directors are mainly involved in strategic decisions, the risk which is more appropriate when such decisions are made is market and corporate risk. This can be

incorporated into the capital budgeting decision process through application of the certainty equivalent method, the risk-adjusted discount rate method and computer simulation (Hertz, 1964).

2.1.5 Role of Board of Directors in the Capital budgeting process

The roles of board of directors emanate from the stakeholders' theory as detailed by Freeman (1984), seminal work by Donaldson and Davis (1989, 1991) giving rise to Stewardship theory and from Agency theory (Jensen & Meckling, 1976).

These theories explain the relationship between the agents and the principals in the governance structure and what is expected of them. The theories provide an overview of what directors would do but they do not explicitly state the directors' roles when making certain decisions such as capital budgeting. Directors' roles in capital budgeting are thus identified from the empirical studies reviewed.

A study by Nada et al (2001) found that when directors' perform their strategic role, they guide the entity on formulation of corporate mission, development, implementation and monitoring of the firm's strategy resource allocation. Given that capital budgeting process encompasses resource allocation among competing projects, then resource allocation is a role performed by board of directors.

The same study identifies that when directors performs their stewardship roles, they ensure there is control of corporation. Considering that one mechanism for corporation control is financial control, which can be enhanced through budgetary control. Thus directors are involved in budgetary control for financial assets including capital assets. The researchers also identifies in their study that directors perform agency role by safe guarding the interest of shareholders. In this respect they monitor CEO/ Management performance and rectify executive decisions. Consequently, directors monitor decisions on capital investment and take corrective action.

Grinstein and Tolkowsky (2004) carried out a study in the USA on S&P 500 firms identified an active role for the Boards of directors in the capital budgeting decisions.

This study established that firms set up committees that have a capital budgeting role. The study identifies four main roles for Board of directors in the capital budgeting process. These roles include reviewing of annual budgets, involvement in large capital expenditure requests, merger and acquisition proposals and performance of approved projects. Ogbechie et al, (2009) identified other roles for the board of directors in capital budgeting to include determination of the business unit strategies and plans relating to capital budgeting process and evaluation, monitoring and implementation of capital budgeting process.

2.1.6 Capital Budgeting Process

An understanding of the methodology involved in the appraisal of capital budgeting process provides a concept of the appraisal process. Research in this respect has sort to establish the challenges decision makers face when making investment decisions. Project definition and cash flow estimation have not only been identified as the most important stages in the capital budgeting process but also as the most difficult. The successful outcome of a decision depends on the accurate estimation of cash flows and efficient financial analysis of the proposed alternative. In this regard, the accurate estimation of the anticipated cash flows and project selection has proved to be of great importance in the appraisal decision stage (Hall, 2000).

2.1.7 Capital Budgeting Techniques

A widespread use of the discounted cash flow (DCF) methods, especially internal rate of return and NPV is in use as supported by a number of studies. Similarly, many firms also continue to use simple payback period or related methods (Kadondi, 2002). Most firms, however, employ some form of capital rationing that is, they restrict capital expenditures even though it generally means neglecting profitable projects. Under rationing, projects compete against each other, not against a profitability standard (Rose, 1986).

2.1.8 Net Present Value

NPV is defined as a method of evaluating capital investment proposals by finding the present value of future net cash flows discounted at a rate of return required by the firm.

To implement this approach, we find the present value of all future cash flows a project is expected to generate and then subtract its initial investment to find the net benefit the firm will realize from investing in the project. If the net benefit computed on a present value basis is positive, then the project is considered an acceptable investment (Brigham & Besley, 2000).

2.1.9 Payback Period

This appraisal technique is defined as the number of years required to recover the original investment. It's the simplest and the oldest formal method used to evaluate capital budgeting method. Using the pay back period to make capital budgeting decisions is based on the concept that it's better to recover the cost of a project sooner rather than later. As a general rule a project is considered acceptable if its payback period is less than the maximum cost recovery time established by the firm. The major limitations of this method are the failure to recognize the time value of money and cash flows beyond the payback period (Brigham & Besley, 2000).

2.2.0 Modified Internal Rate of Return (MIRR)

Brigham and Besley (2000), defines MIRR as the discount rate at which the present value of a project's cost is equal to the present value of its terminal value, in which the terminal value is found as the sum of the future values of the cash flows, compounded at the firm's required rate of return. The use of the technique helps overcome the IRRs limitation resulting from the reinvestment rate assumption.

2.2.0 Accounting Rate of Return

This capital budgeting appraisal technique is also referred to as the Book Rate of Return and is derived by dividing book income and book assets. Managers rarely use this measurement to make decisions. The components reflect tax and accounting figures, not market values or cash flows (Brealey and Myers, 2003).

2.3 Empirical Studies

Azevedo & Mesut (2005) observed that firms would establish board committees and typically categorize capital investments as either mandatory or discretionary. Mandatory investments would include; regulations, contracts, capitalized maintenance, replacement of antiquated equipment and product quality while discretionary are investments to expand markets, new businesses and cost cutting decision.

The study concluded that there is an active involvement of board of directors in the capital budgeting process. Decision making authority is in line with company's governance structure.

Graham & Harvey (2002) carried out a study that considered the executive characteristics and identified areas where theory and practice are consistent in capital budgeting decisions. They observed that CFOs take a prominent role in enterprise decision making and corporate governance, acting as an advisor or decision maker, rather than just as an information provider. The choice of evaluation technique was found to be linked to firm size and executive characteristics.

In a recent study, Baker and Powell (2009) sort to determine if industry practitioners agree with the findings of academic research on specific corporate governance issues and by extension firm performance. Focus was on board composition and size, executive compensation, ownership and firm performance. The results of the study suggested that the views of responding managers appear at odds with other empirical evidence provided in the literature on the majority of the issues examined.

Ogbechie et al, (2009) took a study to establish the level of involvement for board of directors in the company's long term strategic process. The study observed that majority of the respondents consider that the most important role of the board in the strategy development process is to determine the company's vision and mission so as to guide and set the pace for its operation and future development. There is less involvement of boards in the determination of the business unit strategies and plans designed to implement the corporate strategy.

Harvey Arbel'aez (2004) performed a survey of capital budgeting Practices. This study observed that corporate governance practices have been widely appreciated and used in Capital budgeting appraisal decisions of corporations in Latin American firms. This results on corporate executives sheds light on the criteria used in corporations of the region to evaluate investment projects, make capital budgeting decisions, consider adjustments needed, and make an appraisal of the overall interaction of factors related to strategic capital budgeting

Grinstein and Tolkowsky (2004) also surveyed roles the board of directors' play in the capital budgeting process. The study revealed that firms establish committees that have a capital budgeting role. The directors have four main roles in capital budgeting. These roles include reviewing of; annual budgets, large capital expenditure requests, merger and acquisition proposals and performance of approved projects. They found that these committees perform a monitoring role which is consistent with existing theories.

Holme'n and Pramborg (2003) the researchers surveyed to what extent firms actually use pre-investment strategies to manage political risks, whether firms used more stringent investment criteria and/or different decision criteria when investing in countries with high political risk and they also related each firm's capital budgeting methods to its actual portfolio of FDIs. The survey provided evidence on firms' capital budgeting methods for foreign direct investments (FDIs)

Myers, S., & Majd, S. (1990) In this study, the researchers calculated the value of the option to permanently abandon a project for its salvage value. They showed that, other things constant, the value of the abandonment option increases with salvage value (the exercise price), project volatility, and project life (maturity) while it decreases with project value, as predicted by put-option pricing theory.

Robichek & Van Horne (1967), using the option-pricing theory, the researchers showed that an asset payoff is bonded from below when the abandonment option is explicitly considered. Their approach emphasizes the reduction of the potential losses as opposed to risk and the increase in firm value implied by the abandonment option is more obvious.

According to them, the abandonment value is the value of the abandonment option and its worth should be included in the calculation of the present value of the future cash inflows. They suggest that a policy of abandoning an asset one period after abandonment value becomes greater than the present value ($AV > PV$) would benefit the firm.

Pradeep and Brijlal (2008) this research was carried to survey the use of capital budgeting techniques in businesses. The study was carried out in the Western Cape province of South Africa and focused on small, medium and large businesses. The study revealed that 10% of the respondents did not use any capital budgeting technique and a further 64% used only one method. These two findings could be a pointer to other factors like behavioral finance in that some firms don't trust the techniques and still earn positive returns out of intuitive investment behavior. Failure to use any techniques can also be attributed to lack of knowledge in capital budgeting methods.

Kadondi (2002) carried out a local study on capital budgeting techniques on firms listed at the NSE. In the study she sort to determine whether Kadondi (2002) of organizations in developed countries and to determine how firms and CEO characteristics influence the use of a particular technique.

The issue of capital budgeting techniques being used as a strategic tool for benchmarking and gaining competitive edge was imminent in the study, findings which were also consistent with the survey done by Graham & Harvey (2002).

Njiru (2008) looked at capital investment appraisal from point of view of shareholder wealth maximization and sought to identify the most commonly used capital investment appraisal technique by commercial Parastatals and determine the factors that influence the choice of capital investment appraisal technique used. The main factors that influence the choice of capital investment appraisal technique were found to be amount of funds regarded for investment, size of the organization, government policy and industrial practices.

Gitari (2008) performed a study to determine the role of Board of Directors in governance of state corporations who are also mandated to oversee the running of the

corporation. His study also sought to determine and assess the governance systems and practices in place and the financial performance. The study which was a case study of New Kenya Cooperative Creameries found that the company adopted practices of good corporate governance which had yielded improved financial performance.

2.3 Conclusion

This review has identified capital budgeting decision models which helps develop a framework for the long-term investment-planning decisions and improve the quality of the cash flow information. Capital budgeting is found to be an important part in strategic planning for corporations and by extension on executives who make such decisions.

The review reveals that where good governance structures are in place as observed by Grinstein & Tolkowsky (2004) then boards of directors would play major roles in capital budgeting. These roles include reviewing of; annual budgets, large capital expenditure requests, merger and acquisition proposals and performance of approved projects. Board committees that review budgets and capital expenditure requests perform a monitoring role which is consistent with existing theories.

This study differed from other local studies in that it sought to establish the correlation between good corporate governance and the capital budgeting decisions while at the same time appraising and appreciating the reason behind choice of one technique over the other and if this is consistent with finance theory.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the description of the research method used, a description of the respondents, the instruments used, the procedures and statistical treatment utilized in analyzing the data that was gathered.

3.2 Research Design

The approach that was used in this study was descriptive. This aimed at answering the question who, what, where, when and by what means the research was conducted. It was the conceptual structure within which the research was conducted. The approach enabled the research describe, record, analyze and interpret the characteristics of the prevailing situation on governance structures and capital budgeting process in the firms studied. Mugenda (2003) advocates the suitability of this approach when carrying a cross sectional study. Local studies in capital budgeting used a similar approach Kadondi (2003) and Njiru (2008).

3.3 Study population

The target population was made up of the 54 companies currently listed at the Nairobi Stock Exchange (NSE Handbook)

3.4 Sample Design

This is a representation of the elements of the large population. A sample of forty (40) was selected representing active counters that have been continuously listed at the NSE for a period of five years from year 2005 to 2009. The research excluded the banking industry owing to its unique governance and disclosure requirements as per prudential guidelines and Basel II. Other studies on capital budgeting process had equally excluded the financial sector on similar grounds (Grinstein, 2004).

3.5 Data Collection

The instrument that was used to collect data was questionnaires. Primary data was collected using questionnaires which were structured into three parts. The first two parts collected general questions and data on the companies' governance structure. This related to directors' roles and responsibilities in capital budgeting. Part 'C' of the questionnaire collected data on capital budgeting techniques used by the firms and reasons for choice of an approach over the other. Questionnaires that had questions that were both open and closed ended were used to collect primary data. To ensure no questions were left answered a simple way of answering in the form of likert type questions was used.

3.6 Data Analysis

Data was captured and analyzed using Statistical Package for the Social Sciences (SPSS) version 17. Content analysis model was used in this research. This model allowed for both quantitative and qualitative operations. Qualitative analysis involved analyzing the responses on governance practices in these firms. Content analysis was found suitable in the study given that, as a research technique, it allowed for the objective, systematic, and quantitative description of content of communication. It was used to determine the presence of certain characteristic, concepts, attributes, and practices and to quantify this presence in an objective manner. Relational analysis which builds on conceptual analysis by examining the relationships among concepts in the unit of study was found to be more suitable than conceptual analysis. And as with other sorts of survey, initial choices with regard to what was being studied and/or coded for often determine the possibilities of that particular study. For relational analysis, it is often important to first decide which attributes are explored in the analysis as specified under the statement of the problem (Bernard, 1952). The results were then analyzed statistically and used to make inferences about the roles that board of director play in the capital budgeting process and presented in a tabular form.

3.6.1 Data Reliability & Validity

Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials (Allen & Yen, 1979). One way to address the issue of reliability is to use the Cronbach's alpha which correlates performance on each item with overall score. The results were numbered as the questionnaires were sent out and then grouped into two groups to measure the score for each group. From the two groups, the results were evaluated for internal consistency. Due to time constraints while undertaking the study it was difficult to repeat the questionnaires to determine repeatability of the study, however, some of the questions in the questionnaires were repeated with slight changes in the wording to evaluate the repeatability of the study.

Allen & Yen (1979) describes validity as the extent to which the instrument measures what it purports to measure. Content validity pertains to the degree which the instrument fully assesses or measure the construct of interest. Specifically, raters reviewed all the items for clarity and came to some level of agreement as to which item was to be included to the final instrument.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on the role of Board of Directors in the capital budgeting process for companies quoted at the Nairobi Stock Exchange in Kenya. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a point Likert scale.

4.1.1 Response Rate

The study targeted 40 listed companies in collecting data with regard to the role of Board of Directors in the capital budgeting process for companies quoted at the NSE in Kenya.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	30	75
Not responded	10	25
Total	40	100

Source: Field Data, 2010

From the results, 30 out of 40 target respondents filled in and returned the questionnaire contributing to 75%. This commendable response rate was made a reality after the researcher made personal calls and visits to remind the respondents to fill-in and return the questionnaires.

4.2 General Information

4.2.1 Main Business of the Company

The study sought to investigate the main business of the companies listed in the Nairobi Stock Exchange. From the study, a number of the companies involved in agricultural activities such as agricultural production, agriculture marketing and agricultural processing. Other companies involved in finance and commercial activities such as commercial services, investment management among others, industrial companies which formed the majority of the respondents engaged in activities like industrial manufacture, industrial investment, manufacturing industry and power generation & automotive business.

4.2.2 Sector of the Company

The respondents were requested to indicate the sector in which their companies were in. This information sought to determine if the role of directors in capital budgeting process was similar in different industry and choice of capital budgeting technique differed with industry.

Table 4.2: Classification of NSE Listed Companies by Sector

Sector	Frequency	Percent
Agriculture	7	23.3
Commercial & Services	8	26.7
Finance & Investment	4	13.3
Industrial & Allied	11	36.7
Total	30	100.0

Source: Field Data, 2010

From the study, 13.3% of the respondents indicated that their companies were in the finance and investment sector, 36.7% of the respondents indicated that their companies were in the industrial and allied sector, 23.3% of the respondents indicated that their companies were in the agricultural sector, while 26.7.0% of the respondents indicated that their companies were in the commercial and services sector. The low response in finance and investment attributed to sample design which excluded the banking sector.

4.3 Board Involvement in Capital Budgeting

Based on the respondents' experience and practice in the organization, the respondents were required to rate the directors' level of involvement in capital budgeting process where a scale of 0 to 5 was given such that '5' indicates a high level of involvement whereas '0' indicates no involvement.

Table 4.3: Board Involvement in Capital Budgeting

Statement	Mean	Std Dev
Board members are involved in the capital budgeting decisions of the company	4.0000	.87099
Firms have special board committee that decides on investments	4.1333	1.00801
Board members determine the business unit strategies	3.9000	.84486
Directors evaluate monitor and implement capital budgeting strategies of the company	3.6333	1.27261
Directors guide the firm on the implementation and monitoring of the firm's strategic resource allocation	3.7000	1.17884
Directors are involved in budgetary control for financial assets including capital assets	3.8000	.96132
They are involved in large capital expenditure request	3.9333	1.01483
They are involved in merger and acquisition proposals	3.8667	1.00801
Directors monitor and advice on the performance of approved capital projects	3.9333	1.01483

Source: Field Data, 2010

From the results, majority of the respondents indicated that the companies have special board committees that is highly involved in deciding on investments as shown by a mean score of 4.1333, the board members are highly involved in the capital budgeting decisions of the company as shown by a mean score of 4.000, the board members are highly involved in monitoring and advising on the performance of approved capital

projects as shown by a mean score of 3.9333, they are also highly involved in large capital expenditure request as shown by a mean score of 3.9333, board members highly determine the business unit strategies as shown by a mean score of 3.9000, the board members are highly involved in merger and acquisition proposals as shown by a mean score of 3.8667, directors are highly involved in budgetary control for financial assets including capital assets as shown by a mean score of 3.8000, directors highly guide the firm on the implementation and monitoring of the firm's strategic resource allocation as shown by a mean score of 3.7000, while respondents indicated that the directors are highly involved in evaluation, monitoring and implementation of capital budgeting strategies of the company as shown by a mean score of 3.6333.

4.4 Capital Budgeting Approaches

4.4.1 Critical Activity in the Capital budgeting process

This part sought to establish the preference and reason for the selection of the capital budgeting technique used in the companies listed in the NSE.

Table 4.4: Critical Activity in the Capital Budgeting Process

	Frequency	Percent
Project definition and cash flow estimation	10	33.3
Financial analysis and project selection	14	46.7
Project implementation	6	20.0
Total	30	100.0

Source: Field Data, 2010

From the results, majority of the respondents indicated that they consider financial analysis and project selection as the most critical activity in capital budgeting process as indicated by 46.7%, 33.3% of the respondents indicated that project definition and cash flow estimation was most critical stages in capital budgeting process, while 20.0% of the respondents indicated that project implementation was most critical stages in capital budgeting process.

4.4.2 Preferences Regarding the Most Important Capital Budgeting Method

The study also sought to establish the respondents' preferences regarding the most important capital budgeting method used in their companies.

Table 4.5: Preferences on the Most Important Capital Budgeting Method Used

Capital Budgeting Method Used	Mean	Std. Deviation
Return on Investment(ROI)	1.1000	.30513
Internal rate of Return (IRR)	1.8333	.37905
Net Present Value (NPV)	2.0000	.00000
Present Value Payback (PVP)	2.0000	.00000
Profitability Index (PI)	1.5000	.50855
Accounting Payback (AP)	2.0000	.00000

Source: Field Data, 2010

Majority of the respondents indicated that their companies moderately preferred Net Present Value (NPV), Present Value Payback (PVP) and Accounting Payback (AP) as shown by mean score of 2.0000, others moderately preferred Internal rate of Return (IRR) as shown by a mean score of 1.8333 and Profitability Index (PI) as shown by a mean score of 1.5000, while their companies slightly preferred Return on Investment (ROI) as the most important capital budgeting method as shown by a mean score of 1.1000.

4.4.3 Factors considered when evaluating social projects (1) Derived benefits

The study further sought to establish the factors considered when evaluating social projects by the companies listed in the NSE.

Table 4.6: Derived Benefits

Response	Frequency	Percent
Yes	21	70.0
No	9	30.0
Total	30	100.0

Source: Field Data, 2010

On derived benefits, 70% of the respondents indicated that their companies considered derived benefits when evaluating social projects, while 30% of the respondents indicated that their companies do not consider derived benefits when evaluating social projects.

Table 4.7: Social Responsibility and Moral Issues

Response	Frequency	Percent
Yes	10	33.3
No	20	66.7
Total	30	100.0

Source: Field Data, 2010

On social responsibility and moral issues, 66.7% of the respondents indicated that their companies considered social responsibility and moral issues when evaluating social projects, while 33.3% of the respondents indicated that their companies do not consider social responsibility and moral issues when evaluating social projects.

All the respondents unanimously indicated that their companies do not consider subjectiveness, not seen as capital and legal requirements when evaluating social projects.

4.4.4 Non-financial criteria used in major investment decisions

The study sought to investigate the non-financial criteria used by the NSE listed companies in major investment decisions.

Table 4.8: Investments not accepted on non-financial grounds

	Frequency	Percent
Yes	5	16.7
No	25	83.3
Total	30	100.0

Source: Field Data, 2010

Majority of the respondents agreed that investment is never accepted on non-financial ground shown by 83.3% of the respondents, while 16.7% of the respondents disagreed that investment is never accepted on non-financial.

Table 4.9: Safety of employees or public

Responses	Frequency	Percent
Yes	7	23.3
No	23	76.7
Total	30	100.0

Source: Field Data, 2010

With regard to safety of employees or the public, 76.7% of the respondents indicated that their companies used safety of employees or the public as non-financial criteria in major investment decisions, while 23.3% of the respondents indicated that their companies do not use safety of employees or the public as non-financial criteria in major investment decisions.

Table 4.10: Necessity of maintaining existing programme or product lines

Response	Frequency	Percent
Yes	18	60.0
No	12	40.0
Total	30	100.0

Source: Field Data, 2010

Further, 60% of the respondents indicated that their companies used necessity of maintaining existing programme or product lines, while 40% of them indicated that their companies never used necessity of maintaining existing programme or product lines.

4.4.5 Highest Risk Stage in Capital Budgeting Stage

The study sought to investigate the highest risk stage in capital budgeting among the companies listed in the NSE.

Table 4.11: Highest Risk Stage in Capital Budgeting Stage

Stage in Capital Budgeting	Frequency	Percent
Project definition and cash flow estimation	10	33.3
Financial analysis and project selection	14	46.7
Project implementation	6	20.0
Total	30	100.0

Source: Field Data, 2010

Majority of the respondents cited financial analysis and project selection as the highest risk stage in capital budgeting stage as indicated by 46.7% of the respondents, 33.3% of the respondents indicated that project definition and cash flow estimation was the highest risk stage in capital budgeting stage, while 20% of the respondents indicated that project implementation was the highest risk stage in capital budgeting stage. None of the respondents cited project review as the highest risk stage in capital budgeting stage among the NSE listed companies.

4.5 Summary & Interpretation

From the study, the companies have special board committees that is highly involved in deciding on investments, the board members are highly involved in the capital budgeting decisions of the company, the board members are highly involved in monitoring and advising on the performance of approved capital projects, they are also highly involved in large capital expenditure request, board members determine the business unit strategies, they are highly involved in merger and acquisition proposals, directors are highly involved in budgetary control for financial assets including capital assets, they guide the firm on the implementation and monitoring of the firm's strategic resource allocation and they are highly involved in evaluation, monitoring and implementation of capital budgeting strategies of the company. These findings complements the findings made by Grinstein and Tolkowsky (2004) and Nada et al (2001) on the roles performed by directors on capital budgeting. This high level of involvement by the board of directors can be attributed to the nature of capital budgeting process which determines the set and size of a firm's real assets, which in turn generate the cash flows that ultimately determine the firm's profitability, value and viability. Directors' roles as it emanate from steward and agency theory equally supports this high level of involvement in the capital budgeting process. The findings of this study thus are in support with finance theory and practice.

Financial analysis and project selection were found to be the most critical and difficult stages in capital budgeting process. These stages were also regarded to have the highest risk in capital budgeting process as indicated by 46.7% of the respondents, 33.3% of the respondents indicated that project definition and cash flow estimation was the highest risk

stage in capital budgeting stage, while 20% of the respondents indicated that project implementation was the highest risk stage in capital budgeting stage. None of the respondents cited project review as the highest risk stage in capital budgeting stage among the NSE listed companies. In the selection of appraisal technique, majority of the NSE listed companies moderately prefer Net Present Value (NPV), Present Value Payback (PVP) and Accounting Payback (AP). Others moderately preferred internal rate of Return (IRR), and Profitability Index (PI), while some of the companies slightly prefer Return on Investment (ROI) as the most important capital budgeting method. These findings are in line with the findings made by Kadondi (2002) on preference of capital budgeting techniques by state corporations in Kenya and are in agreement with finance theory and practice. It can be interpreted that, firms listed at the NSE find financial analysis and project selection most critical and most difficult stages in the capital budgeting process owing to the requirement by users of these techniques to postulate the results of two reactions; time preference people have for capital now and the investment opportunity principle and estimating anticipated cash flow from the desired projects. It is on the basis of the derived “Interest “rate that cash flow is discounted to determine the present value to be used for financial analysis. Again firms may find project selection to be the most difficult stage attributed to the moderate use of payback period related methods which had a mean score of 2.000, use of this method calls for employment of some form of capital rationing which generally means neglecting profitable projects.

On derived benefits, 70% of the respondents indicated that their companies considered derived benefits when evaluating social projects, while another 66.7% of the respondents indicated that their companies considered social responsibility and moral issues when evaluating social projects. All the respondents unanimously indicated that their companies do not consider subjectiveness, not seen as capital and legal requirements when evaluating social projects.

It was also found that investment is never accepted on non-financial ground shown by 83.3% of the respondents, 76.7% of the respondents indicated that their companies used safety of employees or the public as non-financial criteria in major investment decisions, while 60% of the respondents indicated that their companies used necessity of maintaining existing programme or product lines. The high response rate 83.3% for

grounds for non acceptance of investments (non-financial) is driven by the firms' objective of maximizing its shareholders' wealth a duty which is dully discharged by the directors in their capacity as agents.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The main objective of this study was to determine the role of Board of Directors in the capital budgeting process for companies quoted at the NSE. The study used a descriptive research design approach. The study appraised the structures of the boards for the NSE listed companies with a view to determine the specific roles the board members play in the capital budgeting process and their influence in the capital budgeting decisions. The study also sought to determine the factors that come into play when directors make such capital budgeting decisions. The study reviewed both the published and unpublished sources of literature relating to corporate governance, capital budgeting and other topics which hinges on this study with a view to establish the theories, models, techniques and concepts that supports the study. The target population was made up of the 54 companies currently listed at the Nairobi Stock Exchange. However, the study picked a sample of forty (40) representing companies that have been continuously listed from the year 2005-2009. Questionnaires with open and close ended questions were used to collect data for the study. These was structured into roles and responsibilities of directors in capital budgeting and questions on capital budgeting techniques used by the firms under study. The sample excluded commercial banks owing to their unique disclosure requirements. Data was captured and analyzed using Statistical Package for the Social Sciences. These were then presented in statistical tables. Content analysis was found suitable in the study given that, as a research technique, it allowed for the objective, systematic, and quantitative description of content of communication (Questionnaire). It was used to determine the presence of certain characteristic, concepts, attributes, and practices and to quantify this presence in an objective manner as it relates to board involvement in capital budgeting decisions and capital budgeting approaches. Relational analysis which builds on conceptual analysis by examining the relationships among concepts in the unit of study was found to be more suitable than conceptual analysis and was appropriately applied.

5.2 Conclusions

The study concludes that majority of the listed companies have special board committees that is highly involved in deciding on investments, the board members are highly involved in the capital budgeting decisions of the company, the board members are highly involved in monitoring and advising on the performance of approved capital projects, they are also highly involved in large capital expenditure request, board members highly determine the business unit strategies, the board members are highly involved in merger and acquisition proposals, directors are highly involved in budgetary control for financial assets including capital assets, directors highly guide the firm on the implementation and monitoring of the firm's strategic resource allocation and the directors are highly involved in evaluation, monitoring and implementation of capital budgeting strategies of the company. These findings to a large extent support the study by Grinstein and Tolkowsky (2004) who also surveyed roles the board of directors' play in the capital budgeting process and revealed that firms establish committees that have a capital budgeting role and found that these committees perform a monitoring role which is consistent with existing theories.

The study also concludes that financial analysis and project selection are the most important and most critical stage in capital budgeting process and majority of the NSE listed companies moderately prefer Net Present Value (NPV), Present Value Payback (PVP) and Accounting Payback (AP).

It was also clear from the study that the listed companies consider derived benefits when evaluating social projects, social responsibility and moral issues when evaluating social projects. However the NSE listed companies do not consider subjectiveness, not seen as capital and legal requirements when evaluating social projects.

From the findings, it is concluded that investment is never accepted on non-financial ground, the NSE listed companies use safety of employees or the public as non-financial criteria in major investment decisions and the companies used necessity of maintaining existing programme or product lines.

With regard to the highest risk stage in capital budgeting, financial analysis and project

selection was found to be the highest risk stage in capital budgeting stage, project definition and cash flow estimation was the highest risk stage in capital budgeting stage.

5.3 Policy Recommendations

The study found that the companies have special board committees that is highly involved in deciding on investments, the board members are highly involved in the capital budgeting decisions of the company, the board members are highly involved in monitoring and advising on the performance of approved capital projects, they are also highly involved in large capital expenditure request and board members highly determine the business unit strategies. The study therefore recommends that the listed companies should set up special committees within their boards of governors. This will ensure that the capital budgeting process in the NSE listed companies is monitored, advised and implemented successfully.

The study also recommends that since financial analysis and project selection were the most important and most critical stage in capital budgeting process, the NSE listed companies should emphasize on training the personnel to ensure that they are well versed in the financial analysis and project selection processes and thus safeguard the companies from the risks involved in financial analysis and project selection. This will ensure that the companies apply the various capital budgeting methods.

5.4 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. These included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all the companies listed in the Nairobi Stock exchange which enabled generalization of the study findings.

The companies approached were reluctant in giving information fearing that the information sought would be used to print a negative image about the companies. The researcher handled the problem by carrying with him an introduction letter from the

University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes. The questionnaire was also designed in such a way that the respondents' identity would remain anonymous.

Lack of sufficient funds limited the researcher from accessing all the institutions in Kenya to collect data for study. The researcher however limited himself to the companies listed in the Nairobi Stock Exchange due to inadequacy of funds.

5.5 Recommendations for Further Studies

The study has investigated the role of Board of Directors in the capital budgeting process for companies quoted at the Nairobi Stock Exchange in Kenya. Majority of the institutions in Kenya are in the private sectors which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the institutions in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the role of Board of Directors in the capital budgeting process for companies in the private sector in Kenya which would consider institutions such as insurance companies, banks (which were excluded from the study), broadcasting companies and telecommunication industry among others.

A review of the empirical studies observes that the advisory role of the board of directors in capital budgeting is under explored. It is recommended that a study in capital budgeting mechanisms that have both features be conducted in the future.

There is also need to conduct research on an evaluation of project success against capital investment appraisal technique used. Studies to determine if a relationship exists between capital budgeting practices adopted by firms' quoted at the Nairobi Stock Exchange and profitability also need to be conducted.

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APPENDICES

APPENDIX I

LETTER OF INTRODUCTION

APPENDIX II

Questionnaire

Serial No...

SURVEY ON THE ROLE OF BOARD OF DIRECTORS IN THE CAPITAL
BUDGETING PROCESS FOR COMPANIES LISTED AT THE NSE

PART A: GENERAL

1. What is the main business of the company?

2. In what sector is the company? *Please check as is appropriate*

(I) Agriculture (II) Commercial & Services (III) Finance & Investment (IV)
Industrial & Allied

[]

[]

[]

[]

PART B: BOARD INVOLVEMENT IN CAPITAL BUDGETING

Based on your experience and practice in the organization, please rate the directors' level of involvement in capital budgeting process. (*Check the number closest to your observation and practice*)

NB: A score of '5' indicates a high level of involvement whereas '0' indicates no involvement.

	HIGH			LOW		
	5	4	3	2	1	0
a) Board members are involved in the capital budgeting decisions of the company						
b) The company has special Board committees that decide on investments and capital budgeting decisions						

	HIGH			LOW		
	5	4	3	2	1	0
c) Board members determine the business unit strategies and plans relating to capital budgeting						
d) Directors evaluate, monitor and implement capital budgeting strategies of the company						
e) Directors guide the firm on the implementation and monitoring of the firm's strategic resource allocation relating to capital budgeting.						
f) Directors are involved in budgetary control for financial assets including capital assets.						
g) They are involved in large capital expenditure request.						
h) Board of Directors are involved in merger and acquisition proposals						
i) They monitor and advice on the performance of approved capital projects.						

PART C: CAPITAL BUDGETING APPROACHES

This part seeks to establish the preference and reason for the selection of the capital budgeting technique used in your company. (Please *check as is appropriate*)

- 1) What Activity do you consider the most critical in the capital budgeting process?
- 1) Project definition and cash flow estimation []
 - 2) Financial analysis and project selection []
 - 3) Project implementation []
 - 4) Project review []
 - 5) Other comments (where applicable)

.....

2) Please indicate your preferences regarding the most important capital budgeting method used in your company (Where a combination is applicable check as appropriate)

- 1) Return on Investment (ROI) []
- 2) Internal Rate of Return (IRR) []
- 3) Net Present Value (NPV) []
- 4) Present Value Payback (PVP) []
- 5) Profitability Index (PI) []
- 6) Accounting Payback (AP) []

Other comments (where applicable)

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.....
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3) What factors are considered when evaluating social projects

- 1) Derived benefits []
- 2) Social responsibility and moral issues []
- 3) Subjectiveness []
- 4) Not seen as capital []
- 5) Legal requirements []

Other comments (where applicable)

.....
.....

4) Non-financial criteria used in major investment decisions

- 1) Investments never accepted on non-financial grounds []
- 2) Safety of employees or the public []
- 3) Necessity of maintaining existing programme or product lines []

Other

.....
.....

5) What is the highest risk stage in capital budgeting stage?

- 1) Project definition and cash flow estimation []
- 2) Financial analysis and project selection []
- 3) Project implementation []
- 4) Project review []

Other comments

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.....

THANKS FOR YOUR TIME AND CO-OPERATION

APPENDIX III

COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

Agriculture

1. Rea Vipingo Ltd.
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

1. Access Kenya Group
2. Marshalls E.A. Ltd.
3. Car & General Ltd.
4. Hutchings Biemer Ltd. **Suspended**
5. Kenya Airways Ltd.
6. CMC Holdings Ltd.
7. Uchumi Supermarkets Ltd. **Suspended**
8. Nation Media Group Ltd.
9. TPS (Serena) Ltd.
10. ScanGroup Ltd.
11. Standard Group Ltd.
12. Safaricom Ltd.

Finance and Investment

1. Barclays Bank of Kenya Ltd.
2. CFC Stanbic Bank Ltd.
3. Housing Finance Ltd.
4. Centum Investment Ltd.
5. Kenya Commercial Bank Ltd.
6. National Bank of Kenya Ltd.
7. Pan Africa Insurance Holdings Co. Ltd
8. Diamond Trust Bank of Kenya Ltd.
9. Jubilee Insurance Co. Ltd
10. Standard Chartered Bank Ltd.
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
14. The Co-operative Bank of Kenya Ltd.
15. Kenya Re-Insurance Ltd.

Industrial and Allied

1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
3. British American Tobacco Kenya Ltd.
4. Carbacid Investments Ltd. .
5. E.A. Cables Ltd.
6. E.A. Breweries Ltd.
7. Sameer Africa Ltd.
8. Kenya Oil Ltd.
9. Mumias Sugar Company Ltd.
10. Unga Group Ltd.
11. Bamburi Cement Ltd.
12. Crown berger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
14. Kenya Power & Lighting Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengen Ltd.