
**EFFECT OF NET PRESENT VALUE INVESTMENT APPRAISAL PRACTICE ON
FINANCIAL PERFORMANCE OF CEMENT MANUFACTURING FIRMS IN
KENYA**

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ABSTRACT

An investment appraisal techniques process is a multi-faceted activity through which new investment projects are initiated, forecast the benefits and costs, evaluated, authorized and controlled. If this process is well-done, there is no doubt that the value of the company is maximized. Investment projects by nature require a large proportion of capital and play a strategic role in positioning the company in the local and international markets. Therefore, cement manufacturing firm's investment managers have to make sure that all investment projects should follow the sound phases/steps in the investment process. This study was conducted to determine the effect of Net present value on the financial performance of manufacturing firms in Nairobi County. The study employed the descriptive research design in conducting the study. The target population for this research was 7 licensed manufacturing cement firms in the Country, with the respondents being the managerial employees' reasons been the target population been well defined, small and manageable, a census approach was employed in order to cover the entire population of 98 sampled respondent. The study used questionnaires to collect data. The data was tabulated, classified and summarized by descriptive measures such as frequency distribution, percentages, inferential statistics and mean and standard deviations. Tables and figures were used for presentation of analyzed data. The study found that Net present value has positive significant effect on financial performance of manufacturing firms in Nairobi County. The NPV is one of the advance investment appraisal techniques since it has the objective of wealth maximization, and takes into account time value of money and all cash flows of a project life span The study thus recommends cement manufacturing companies should treat financing and dividend decision in investment as irrelevant and rather focus on the result of NPV technique for investment decisions since it has an advance analytical framework which provides a rational basis for collective investment decision making.

Key words: *Net Present Value, Financial Performance*

INTRODUCTION

An investment appraisal technique is the most important function of finance since the results continues for a long time and the firm may lose some of its flexibility. It defines firm's strategic direction because to invest into new products, services or markets it must be preceded by capital expenditure (Brigham & Hauston, 2004). A firm's decision to invest in long term assets has decisive influence on the rate and direction of its growth. A wrong decision can prove disastrous for the continued survival of the firm; unwanted or unprofitable expansion of assets will result in heavy operating costs to the firm. On the other hand, inadequate investment in assets would make it difficult for the firm to compete successfully and maintain its market share (Pandey, 2004).

The managers of the economic units are closely concerned with investment in merchandise and service market on one hand and with the provision of financial resources on the other. Therefore, to fulfill these two tasks, the managers always seek the cheapest financial resources to perform the most efficient investments. Such investments, which provide the opportunity of growth and survival for the organization, play an important role in the success of the organization. Decision making on long-term Investments (investment plans) is therefore an important part of the responsibilities of the managers and this will improve the performance of the company and hence increases the wealth of the shareholders, (Mohammed hussein, Payam & Saied, 2012).

According to Shanmukha, Rao and Suryargana (2010), the role of a finance manager in the capital budgeting basically lies in the process of critically and in-depth analysis and evaluation of various alternative proposals and then to select one out of these. The basic objective of financial management is to maximize the wealth of the shareholders; Therefore, the objectives of capital budgeting is to select those long-term investment projects that are expected to make maximum contribution to the wealth of the shareholders in the long run.

Investment appraisal techniques on projects may be relatively 'operational' in nature or have a more 'strategic' focus. projects are substantial investments that involve high levels of risk, produce hard-to-quantify (or intangible) outcomes, and have a significant long-term impact on corporate performance (Mintzberg et al., 2016). Use of investment tools for financial analysis techniques has been well investigated in UK (Pike and Wolfe) as large UK manufacturing firms reported that the most popular investment appraisal technique was the payback technique (used by 94% of the companies while only 69% used either IRR or NPV). Lefy 's (2018) findings appeared to indicate a decline in the use of the sophisticated methods and suggested that the payback method was the most popular means of assessing risk in advanced manufacturing technology investments a 'strategic' type of investment (71% use) in Ocenia Countries.

In a survey of capital budgeting practices in Cyprus, Lazaridis (2004), observed that for the country's business organizations to seize the opportunities provided by its location, being located between western and Eastern world and compete effectively, the investment policies needed to be readjusted to match those of developed world. Investment was therefore

identified as a key element in promoting growth to enable the country's corporations to compete internationally. The capital budgets therefore become a critical element for the success of the business in enhancing competitiveness hence sustain ability. The high levels of technology and process systems as Sodhu (2016) stated required by the manufacturing industries in Gujarati in India typically involve large capital investments. The initial purchases of machinery necessary for production, as well as the eventual replacements or upgrades of that machinery means that manufacturing businesses have to engage in continuous investments.

In Tanzania, decision among MEs to invest in a given project is of great concern and therefore, calls for SMEs owners' training on advantages and disadvantages of various investment evaluation techniques such as the discounted and non-discounted Cash Flow methods (Isaga, 2012). KAM survey (2019) established that Investment Appraisal Techniques are tools which can assist owners or decision makers of ME's to evaluate and select investment projects/business. These techniques are grouped into two; discounted cash flow methods and non-discounted cash flow methods.

According to Kilonzo (2011) SME's Investment Appraisal Techniques carried out in such as Accounting Rate of Return, payback period, Internal Rate of Return and Net Present Value are important measurements used by businesses in making decisions as they focus on actual operations and eliminates one- time expenses and noncash charges hence giving a clear picture of what the MEs are doing. The Investment Appraisal Techniques used by most MEs operating in Nairobi includes the non-discounted cash flows such as payback period, Accounting Rate of Return, Discounted Cash flow methods such as Net Present Value and Internal Rate of Return (Guda, 2013).

Investment appraisal techniques also known as Cabin the field of finance; it defines investment as the act of incurring an immediate cost in the expectation of future rewards. This includes firms that construct plants and install equipment, merchants who buy and stock goods for sale, and persons who spend time on vocational education are all investors in this sense (Avinash & Robert, 2004). Popescu (2011) argues that defining investment and delimiting the field of investment can be made in various ways. For example, the term "investment" means, strictly speaking, the use of financial resources that are meant to allow the entry into the company's patrimony of fixed inputs (buildings, constructions, machinery, plants, equipment, tools, etc.) either by acquisition or by their effective creation, yet in terms of accounting and legal areas, expenses are considered investment only when they result in a purchase of durable goods, as tangible, financial or intangible assets (Xiaotong and John, 2002).

Investment's technique practices can be evaluated with traditional payback period (PB) or more sophisticated discounted cash flow (DCF) methods: net present value (NPV), internal rate of return (IRR), profitability index (PI) (e.g., Haka et al., 2005; Chen and Clark, 2004; Lefley, 2014; Pike, 2016; Graham and Harvey, 2011; Ryan and Ryan, 2012; Sandahl and Sjogren, 2001; Berkovitch and Israel, 2014; Marino and Matusaka, 2015). In addition, there are more scientific sophisticated investment evaluation methods that's technology road

mapping, strategic cost management and value chain analysis (e.g. Shapiro, 2015; Alkaraan & Northcott, 2016; Hopper et al., 2017; Tuomaala & Virtanen, 2019).

These methods do apply cost analysis concepts as well as taking into account the strategic aspects and the context for the investment opportunity (Shank, 2016). Value chain analysis is advanced as a useful tool to help businesses identify their strategically important value-creating activities and develop appropriate competitive strategies (Shank and Govindarajan, 2012; Hoque, 2001).

In investment Techniques are those tools which can assist owners or decision makers of any organization to evaluate and select investment projects/business (Mwarari and Ngugi, 2013). These techniques are grouped into two; discounted cash flow methods and non-discounted cash flow methods. According to Kilonzo (2011) Investment Appraisal Techniques such as Accounting Rate of Return, payback period, Internal Rate of Return and Net Present Value are important measurements used by businesses in making decisions as they focus on actual operations and eliminates one-time expenses and noncash charges hence giving a clear picture of what the SMEs are doing.

There are 7 active cement manufacturers in Kenya with a total installed grinding capacity of 9,924,400.00 MT per annum. Analysis of data from Kenya National Bureau of Statistics (2020) shows that cement production dropped marginally by 1.0 % from 6,069.9 thousand tonnes in 2018 to 5,967.2 thousand tonnes in 2019. Similarly, cement consumption and stocks dropped by 2.5% to stand at 5,933.3 thousand tonnes in 2019. Further, analysis shows that export of cement, which has been declining since 2016, decreased further from 144.3 thousand tonnes in 2018 to 60.2 thousand tonnes in 2019. On the other hand, cement imports increased by 14.6% from 23.0 thousand tonnes in 2018 to 26.4 thousand tonnes in 2019. There are two probable reasons that make cement less tradable commodity across borders (KAM Cement report Outlook 2020).

In Kenya, recent years have seen the business confronted with gigantic difficulties this been; environment security, dependable utilization of all fuel and crude. Materials improving worker wellbeing and security, fossil fuel byproducts nearby effects and un-fit exchange taxes increases expenses of sources of info like energy and difficulties in interior business measures like coordinate practical improvement as a bunch of standards into the executives' frameworks associations with colleagues and common society Wangui and Obara (2020).

According to McLaney (2009) and Nobes and Parker (2008) a way of understanding financial performance of a firm is to gather insight on business performance, it is useful to calculate ratios to measure performance trend of a firm over period and industrial comparison against other firms. Mudida and Ngene (2010); Pandey (2010) and Laher (2008) supported benchmarking as a useful tool in ratio analysis to identifying the financial strengths and weaknesses of a firm can be accomplished through trend analysis of firm ratios over a period of time or industrial analysis by comparing results to nearest competitor within the industry.

Financial performance indicators in the form of ratios include profitability, liquidity, utilization financial structure and investment shareholder ratio (Philip, 2004). Measure of profitability is by gross profit margin; the amount of money made after direct costs of sales

have been taken into account, operating margin; lies between the gross and net measures of profitability and net profit margin; takes all costs into account. Liquidity ratios indicate the ability to meet short-term obligations, efficiency ratios indicate how well the business assets are in use and financial leverage/gearing ratios indicate the sustainability to the exposure of long-term debt (Leah, 2008).

Statement of the Problem

Kenya, like many other developing countries, has not managed to develop a robust manufacturing sector and growth has been primarily driven by the agriculture and services sectors respectively. The country has thus experienced a premature deindustrialization as evinced by the decline in GDP contribution by the manufacturing sector which was at a paltry 8.4% in 2017 and 9.2% in 2016. The manufacturing sector's share of GDP has remained stagnant with only limited increases in the last three decades, contributing an average of 10% from 1964-73 and rising marginally to 13.6% from 1990-2007 and averaging below 10% in recent years. A way of assessing, this critical decision is the use of various investment appraisal techniques which will ensure that a decision making will not only be reliable but accurate. However, companies substantially ignore various techniques open to them to appraise various investment opportunities and as a result, commit their limited resources to wrong investment opportunity that is capital in nature (Kenya Association of Manufactures industrial report 2019). The most prevalent assessment methods are the Internal Rate of Return (IRR), Payback (PB) and Net Present Value (NPV), alongside the use of sophisticated models; for example, simulation and real option (de Andrés et al., 2014).

Poor investment decision has been blamed for high rate of failure and closure. It might be possible that if the financial managers do not know how to make investment decisions and the link thereof between the Investment Appraisal Techniques and investment decisions, even if they are given sufficient capital, businesses may continue having problems (Guda, 2013). Kenya National Bureau of Statistics (Republic of Kenya, 2015) indicates that there is high rate of failure and stagnation among many Manufacturing firms as most of them close in their first three years of operation KAM (2019). Besides, poor investment decisions there has been a challenge among Manufacturing firms in Nairobi County as many of them are faced with the threat of failure; three out five fail yearlies within the first few months of start (KAM industry survey report, 2019).

Local studies, Girald (2011) and Evans (2012), the adoption of Investment Appraisal Technique is the initial requirement that should be considered prior to starting an investment exercise. Studies by Katabi and Dimoso (2016), revealed that most SMEs use investment evaluation techniques such as payback period, accounting rate of return, Internal Rate of Return and Net Present Value or combination of methods when making investment decisions for enhanced financial performance. However, John (2007) and Kipesha (2009), noted that that most SMEs do not use investment evaluation techniques when making investment decisions for enhanced financial performance.

This sector strongly contributes to economic growth and is in line with the effort of realization of Kenya's Vision 2030 strategy economic development and among the four

pillars of the current government administration on industrial growth. It is clear that previous literatures on the study topic have not provided more literature on Investment Appraisal Techniques and financial performance in the cement industry. In view of this, the study sought to examine Investment Appraisal Techniques and financial performance of cement manufacturing firms in Kenya.

Objective of the Study

The objective of this study was to determine the effect of Net present value on the financial performance of manufacturing firms in Nairobi County.

Research Hypotheses

H₀: Net present value has no significant effect on financial performance of manufacturing firms in Nairobi County.

Theoretical Review

Modigliani and Miller's theory on investment (1958)

Modigliani and Miller (1958) argue that managers should ignore financing and dividend decisions as irrelevant and focus on positive net present value (NPV) investment opportunities that would maximize the value of the firm. Thus, the analytical framework for determining a project's NPV as derived from discounted cash flows analysis (DCF) came to provide a rational basis for collective decision-making.

The classical theory by Modigliani and Miller (1958) identifies sophisticated evaluation methods as a tool for maximizing the profitability of the firms. Hastie (1998) on the contrary regarded the financial theory that recommends the utilization of sophisticated techniques such as net present value to improve 40 decisions making and maximize the value of the firm as unwarranted. Hastie objected to these assumptions (a statement that is assumed to be true and from which a conclusion can be drawn) because there are many more "apparently acceptable" projects than a firm can approve either because of limited raw materials or because of limited management or technical talent which is common amongst firms. Hastie noted that the use of incorrect assumptions has been a more significant source of bad investment decisions than the use of simple measurement techniques.

Investment decision making could be improved significantly if the emphasis were placed on asking the appropriate strategic questions (important) and providing better assumptions rather than on increasing the sophistication of measurement techniques. Adler (2006) argued that discounted cash flow (DCF) should be removed from financial theory as it is increasingly irrelevant to contemporary business practice and can be dangerous in evaluating proposed projects. He further illustrated that DCF can be used accurately from the position of hindsight, but it is little help in predicting the future course of business. He argued that a "gut feeling" can be put to better use than strict mathematical models of potential profits in deciding to pursue a new venture. He concluded that DCF is meaningless and as such should not be applied in evaluating capital budgeting decisions or rather should be replaced with less restrictive and more optimistic methods.

The internal rate of return (IRR) method assumes re-investment of the funds at the IRR. Finally, the net present value (NPV) method requires an appropriate discount rate to value expected cash flows. The NPV method may underestimate the value of the investment project and may cause the management to pass up valuable investment opportunities, therefore, in general, they do not provide owner/managers with the flexibility they need when making strategic investment decisions.

Conceptual Framework

The conceptual framework illustrates the interaction between independent variables and the dependent variable in the study (Mugenda and Mugenda, 2003).

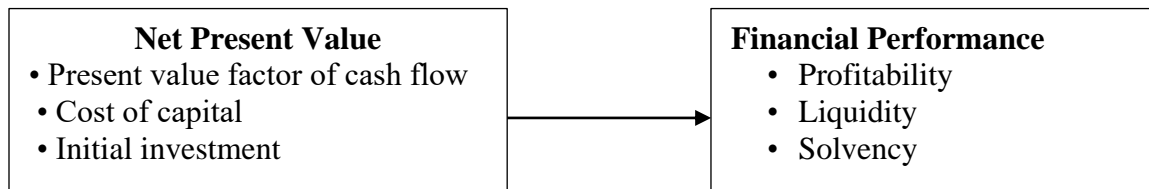


Figure 1: Conceptual Framework

Empirical Review

Brealey and Myers (2010) refer to investment and financing decisions and their interactions as the corporate financial principles addressed by financial managers to help them in providing accurate answers to the two fundamental pre-occupations of the investments the firm should make and how it should pay for the investments. They qualify that this is the secret of success in financial management. In principle, a firm's decision to invest in a new project should be made according to whether the project increases the wealth of the firm's shareholders. The way capital budgeting is taught and practiced presents a paradox. Typically, students in corporate finance are taught that a project will increase the shareholder value if it's NPV is positive. For investors with well diversified portfolios, only the project's systematic risk affects its value: its idiosyncratic risk should not be considered. Capital market imperfections such as costly external financing and bankruptcy costs are mostly ignored in teaching capital budgeting (Graham & Harvey, 2001).

Mooi and Mustapha (2001) undertook a study to find out whether the degree of sophistication of capital budgeting practice affects the firm performance, in terms of profitability. The study used a sample of 42 firms listed at Kuala Lumpur Stock Exchange in Malaysia. The study used Return on Assets (ROA) and Earnings per Share (EPS) to measure performance of the firms, and used regression analysis to determine the association between capital budgeting sophistication and firm performance. The capital budgeting techniques which were surveyed were NPV, IRR, ARR and Payback. From the analysis, 19% of the responding firms used superior capital budgeting methods whose score was 0% to 60%, 42.9% of the firms had a score of 61% to 80% of usage of superior capital budgeting methods, and 38.1% had a score of 81% to 100% of the usage of capital budgeting methods.

The t- tests results of the study showed that the degree of capital budgeting sophistication did not significantly affect firm performance, measured by ROA and EPS. Theoretically, the use of superior capital budgeting process should increase the effectiveness of the firms' investments decision making. Thus their study failed to confirm with the theory.

Gilbert (2005) carried out a study to determine the application of capital budgeting methods and their association with firm performance among South African manufacturing firms. A sample of 318 firms was surveyed, but only 118 firms representing 37% responded. The survey tested the application and impact of payback method, accounting rate of return, net present value and the internal rate of return. The return on assets was also used as a measure of firm performance. The results of the study indicated that, 15% of the firms employed the payback method, 8% used purely the discounting methods while the rest employed a mixture of both non-discounting and discounting methods. It was also concluded that though many of the managers were aware of the benefits of using the discounting methods, their responses involved the use of shortcuts, and approximations. The study concluded that, while discounted cash flow methods can, and do, play an important role in capital investment decision making, the costs and sometimes impossibility of completing them, properly means that their use is always going to be limited. Thus, the conclusion of the study was that capital budgeting techniques had no significant impact on the financial performance of the manufacturing firms.

Yao et al, (2006) conducted a study to compare the use of capital budgeting techniques and their impact on performance in Netherlands and China. They compared 250 Dutch and 300 Chinese firms. Out of all the firms, 87 firms responded, 42 from Dutch and 45 from Chinese companies, resulting in a response rate of 17% for the Dutch and 15% for the Chinese sample. The results indicated that 49% CFOs in Chinese firms use the NPV method as opposed to 9 % who use the traditional investment decision methods. In Dutch, the study found that 89% of the firms use NPV investment decision method while traditional investment decision methods took the rest of the respondents. Their study used return on assets to measure performance which was used in a regression model as a dependent variable and measured against the various investment decision techniques. The results indicated that in both countries, sophisticated capital budgeting techniques mostly NPV and IRR had a positive relationship with return on assets (ROA) while the traditional methods showed an insignificant relationship.

In Kenya, Olum's (2006) study sought to view capital budgeting from the stand point of shareholders' wealth maximization and examined the extent to which capital budgeting techniques were being practically applied by corporations in Kenya. He argues that the current Capital Investment appraisal techniques are applied from only two points of view; namely that of a private entrepreneur and that of the whole society, considering commercial profitability and public profitability respectively.

Khakasa (2009) attempts to provide empirical evidence on the state of practice in Kenyan banking institutions in evaluating IT investments ex ante. The results of the survey showed that the most popular investment appraisal techniques used in such evaluation in Kenyan banks were cost-benefit analysis, risk analysis, competition, payback period and return on

investment, while the least popular are the internal Rate of Return, computer-based techniques and the Net Present Value. Of the 41 banks sampled, a total of 25 responses were obtained. This was a response rate of 60.97%. 100% of the responding institutions indicated that they used at least one of the economic techniques to appraise potential IT projects. Most institutions used more than one financial technique to appraise their investments. The most popular economic technique is the Cost Benefit Analysis (CBA) method (92%), while Internal Rate of Return (IRR) ranked the lowest (0%). Besides CBA, payback period and Return on Investment were both used by 60% of the responding institutions. Only 8% of the banking institutions used at least one of the discounting techniques. Net Present Value was found to be used by 8% of the banks, while IRR is used by none of the responding banks. Overall, the study concluded that banks had limited use of discounting techniques and this raised questions as to the extent of the use of cash flows to appraise potential projects.

Kadondi (2002) surveyed capital budgeting techniques used by companies listed at NSE, the objectives being to document the capital budgeting techniques used in investment appraisal by corporations in Kenya, to determine whether the techniques used conform to theory and practices of organizations in developed countries and to determine how firms and CEO characteristics influence the use of a particular technique. She intended to conduct the study on 54 companies listed at the NSE but the analysis included only 43 companies whose annual reports and accounts were available. Of these only 28 companies responded of which 50% were small companies and 50% large companies. The study found 31% of the companies used PBP, 27% used NPV while 23% used IRR. 71% of the respondents considered capital budgeting process a strategy for achieving competitive edge advantage. She also found that small companies use IRR and PBP methods while large companies with high net profit margins use NPV, IRR and PBP methods.

METHODOLOGY

This investigation embraced a cross sectional study research plan. A cross segment overview permits the analyst to gather a wide scope of data without meddling the climate and empowers a scientist to get a lot of information from a sizeable populace in an exceptionally viable, simple and in a prudent way utilizing polls. In addition, the study employed both qualitative and quantitative analysis methods. The target population for this study was 7 cement manufacturing firms in Nairobi as recorded in Kenya Association of Manufacturers (2020). The unit of observation was faculty's senior managers. From each position 2 managers in totaling to 14 managers across on each position making it to 98 managers as the population of this study. Due to the small size of population, census was used where study population constituted the sample size. Therefore the study carried out a census of all 7 cement manufacturing firm in Nairobi County. The study used purposive sampling to select the two 2 faculty's managers forming a sample of 98 managers. The study used questionnaires to obtain qualitative data for analysis which was further validated from analysis results from secondary data quantitative analysis. Quantitative data was analysed using descriptive statistics including frequency, percentages and means, summary graphs, pie charts and frequency distribution tables were employed to portray the sets of categories formed from the data. This study also conducted regression analysis to establish the nature

and the magnitude of the relationship between the dependent and the independent variables and to test the hypothesized relationships.

RESEARCH FINDINGS

The selected sample size for this study was 98 faculty's senior managers from seven cement manufacturing firms in Nairobi County. The researcher was able to collect back 78 questionnaires having been dully filled. The response rate was 79.6%. According to Mugenda and Mugenda (2013), a response rate of 50% and above is adequate for analysis and reporting, a response rate of 60% and above is good while that of 70% and above is excellent. Based on this assertion, our response rate was considered excellent and therefore, the 78 questionnaires were used for further analysis and reporting.

Descriptive Statistics

Net Present Value

The fourth objective of the study was to determine the effect of Net present value on the financial performance of manufacturing firms in Nairobi County. Respondents therefore gave the level to which they agreed with the statements about Net present value. Table 1 presents summary of the findings obtained.

Table 1: Descriptive Statistics on Net Present Value

Statement	Mean	Std. Dev.
The business estimate the cash inflows and outflows	3.860	0.077
The business consider the discount rates	3.857	0.050
The business consider the wear and tear	3.826	0.062
The business consider the time value for money	3.790	0.085
The business consider summing up all the present values to get the present value of cash stream	3.738	0.042
Aggregate score	3.814	0.059

The respondents agreed on average with the statements on net present value a shown by an aggregate mean of 3.814 and a small standard deviation of 0.059 which suggests that the responses had small deviations from the mean values. The findings specifically shows that the respondents agreed that the business estimate the cash inflows and outflows (M= 3.860, SD= 0.077); the business consider the discount rates (M= 3.857, SD= 0.050); the business consider the wear and tear (M= 3.826, SD= 0.062); that the business consider the time value for money (M= 3.790, SD= 0.085); and that the business consider summing up all the present values to get the present value of cash stream (M= 3.738, SD= 0.042).

Respondents also explained that they always consider the Net present value when making investment decision. They explained that net present value is one of the most important discounted cash flow techniques. As revealed by Kadondi (2002), the NPV is one of the

advance investment appraisal techniques since it has the objective of wealth maximization, and takes into account time value of money and all cash flows of a project life span. It also aligns with Modigliani and Miller (1958) who argued that firms should treat financing and dividend decision in investment as irrelevant and rather focus on the result of NPV technique for investment decisions since it has an advance analytical framework which provides a rational basis for collective investment decision making.

Financial Performance

The study sought to determine financial performance of manufacturing firms in Nairobi County. Respondents gave the extent to which they agreed or disagreed with statements on financial performance and the findings were as presented in Table 2.

Table 2: Descriptive Statistics on Financial Performance

Statement	Mean	Std. Dev.
The business is able to generate positive market expectations (market) because of the Investment Appraisal Techniques' consideration	3.841	0.046
The business is able to meet long term obligations and generate future revenues (solvency) because of the Investment Appraisal Techniques' consideration	3.789	0.087
The business is able to meet short term obligation (liquidity) because of the Investment Appraisal Techniques' consideration	3.744	0.038
The business is able to provide financial reward sufficient to attract and retain financing (profitability) because of the Investment Appraisal Techniques' consideration	3.736	0.082
Aggregate score	3.778	0.063

From the findings in Table 2, the aggregate mean was 3.778 which suggest that the respondents agreed on average with the statements on financial performance of their organization. Also, the responses had small deviations from the mean as indicated by a small standard deviation of 0.063. The findings specifically show that the respondents agreed that the business is able to generate positive market expectations (market) because of the Investment Appraisal Techniques' consideration (M= 3.841, SD= 0.046); the business is able to meet long term obligations and generate future revenues (solvency) because of the Investment Appraisal Techniques' consideration (M= 3.789, SD= 0.087); the business is able to meet short term obligation (liquidity) because of the Investment Appraisal Techniques' consideration (M= 3.744, SD= 0.038); and that the business is able to provide financial reward sufficient to attract and retain financing (profitability) because of the Investment Appraisal Techniques' consideration (M= 3.736, SD= 0.082).

Regression Analysis

Model Summary

Table 3: Overall Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876 ^a	.767	.762	.08495

a. Predictors: (Constant), net present value

From the findings, the value of adjusted R square was 0.762 which suggests that 76.2% variation in financial performance of manufacturing firms in Nairobi County can be explained by changes in net present value. The remaining 23.8% suggests that there are other factors that can be attributed to variation in financial performance of manufacturing firms in Nairobi County that were not discussed in this study. Correlation coefficient (R) shows the relationship strength between the study variables. From the findings the variables were strongly and positively related as indicated $r = 0.876$.

Analysis of Variance

Table 4: Overall Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.109	1	0.109	15.585	.000 ^b
1 Residual	0.525	75	0.007		
Total	0.634	76			

a. Dependent Variable: financial performance

b. Predictors: (Constant), net present value

The model was significant since the p-value (0.000) was less than 0.05 thus the model is statistically significant in establishing the effects of net present value on financial performance of manufacturing firms Nairobi County, Kenya. Further, the F-calculated (15.585) was greater than the F-critical (3.97) suggesting that net present value can be used to predict financial performance of manufacturing firms Nairobi County, Kenya.

Table 5: Beta Coefficients of Stud Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.534	.154		9.961	.000

Net present value	.574	.064	.479	12.188	.000
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a. Dependent Variable: Financial Performance

From the results of the Table 5 above, the regression equation model was fitted as follows:

$$Y = 1.534 + 0.574 X + \varepsilon$$

The model equation above reveals that holding the net present value to a constant zero, financial performance of manufacturing firms Nairobi County, Kenya will be at a constant value of 1.534. The findings show that Net present value has a statistically significant effect on financial performance of manufacturing firms Nairobi County, Kenya as shown by a regression coefficient of 0.574 (p-value=0.000). The influence was positive. Since the p-value was less than the selected level of significance (0.05), we reject the null hypothesis H_0 : Net present value has no significant effect on financial performance of manufacturing firms in Nairobi County. The study concludes that Net present value has positive significant effect on financial performance of manufacturing firms in Nairobi County.

Conclusions

The study found that Net present value has a statistically significant effect on financial performance of manufacturing firms Nairobi County, Kenya. The influence was also found to be positive. Since the p-value was less than the selected level of significance (0.05), we reject the null hypothesis. Therefore, the study concludes that Net present value has positive significant effect on financial performance of manufacturing firms in Nairobi County.

Recommendations

Firms should treat financing and dividend decision in investment as irrelevant and rather focus on the result of NPV technique for investment decisions since it has an advance analytical framework which provides a rational basis for collective investment decision making.

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