CAPITAL INVESTMENT DECISIONS AND GROWTH OF SMALL AND MEDIUM ENTERPRISES AT THE CENTRAL BUSINESS DISTRICT OF NAIROBI CITY COUNTY, KENYA

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D58/CTY/PT/24770/2013

A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND TOURISM IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (FINANCE) OF KENYATTA UNIVERSITY

NOVEMBER, 2024

DECLARATION

This thesis is my original work and has not been submitted for examination in any other University or institution of higher learning. No part of this research project can be reproduced without prior written permission of the author and/ or Kenyatta University.

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DEDICATION

I dedicate this work to my family: mum Lucy and brothers Chris, Geoff and Erastus. I dedicate it to sisters Edith, Aggie and Liz. To my nieces Lucy and Nancie, thank you for your endless support. To all the SMEs in Kenya struggling to attain full growth, I remember you.

ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to the Almighty God for His guidance, wisdom, and mercy, which have enabled me to successfully complete this work. I am profoundly thankful to my supervisor, Dr. Ambrose Jagongo, for his dedicated mentorship, insightful comments, and unwavering support throughout this journey. His constructive feedback and guidance have been invaluable in shaping this research.

I also extend my sincere appreciation to Dr. Fredrick S.W. Ndede, whose encouragement and invaluable support have been instrumental along the way. Your insights and assistance were crucial to the completion of this work.

Additionally, I would like to acknowledge the contributions of my course mates, whose collaborative spirit and intellectual engagements enriched my learning experience. I am also grateful to other academicians, acquaintances, and friends who provided support, advice, and encouragement during the course of this project. Your thoughtful suggestions and constructive feedback were greatly appreciated.

To everyone who played a part in this journey, whether directly or indirectly, I am profoundly grateful. This work would not have been possible without your support and encouragement. Thank you all.

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OPERATIONAL DEFINITION OF TERMS

Capital projects This is a project that helps maintain or improve an infrastructure. It is usually measured using total project cost, financing sources, annual operation and maintenance.

Capital investment decisions: Also referred to as capital budgeting which involves the judgments made by a management team in regard to how funds were spent to procure capital assets to be invested over a long period of time and include but not limited to expansion, replacement, modernization and contingence among others.

Expansion decision: The decision on expansion involves whether the business should expand operations by introducing more goods, more machinery, etc. Such decisions would extend business.

Replacement decision: This refers to a scenario when a company already owns a certain asset and is thinking about replacing it with another one, replacement decisions are made.

Modernization decision: Modernization investments are used for the modernization of the plants and machinery of a firm. It may be required to install new machinery to adapt to the growing demands and meet the current demands of the product.

Contingent investments: Contingent investments include dependent projects. Understanding one or more other investments is required to make a decision on

	one investment. If a corporation decides to locate a factory in a rural, underdeveloped location, it may be required to spend on housing, roads, hospitals, and schools.
Diversification investments	It is associated with companies that seek to diversify their capabilities. Businesses may wish to use diversification investments to develop a new product or a new source of income.
Growth:	Refers to the direct outcome of investment into business activities with indicators such as number of staff, financial position, stock levels and number of sale outlets.
Small and Medium Enterprises:	In Kenya, Small Enterprises have between KES 5,000 to KES 50,000 annual turnovers and employ 10-49 people while Medium Enterprises have a turnover of between KES 50,000 and KES 8 million and employ 50-99 people.

LIST OF ABBREVIATIONS/ACRONYMS

CBK	Central Bank of Kenya
CD	Contingent Decision
ED	Expansion Decision
ERR	Economic Rate of Return
ICT	Information and Communications Technology
KNBS	Kenya National Bureau of Statistics
MD	Modernization Decision
RD	Replacement Decision
SMEs	Small to Medium Size Enterprises
SPSS	Statistical Package for the Social Sciences

ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in the economy and they are considered as key drivers of growth and development as envisioned in Vision 2030. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of Kenya's economic prosperity. Despite the significant role SMEs play in the Kenyan economy, the inadequate capital base of most enterprises in Nairobi County, Central Business District (CBD), is daunting and has had a negative impact on their development, limiting their potential to drive the national economy as expected. In addition, SMEs in Nairobi County face challenges in growth metrics such as savings, business sustainability, and market share, with 60% failing within their first three years, contributing to a stagnation in national economic growth. The aim of the study was to examine the effect of capital investment decisions on growth of small and medium enterprises in Nairobi CBD, Kenya. Specifically, the study sought to assess the effect of expansion, replacement, modernization, contingent and diversification investment decisions on growth of SMEs in Nairobi County, CBD, Kenya. The main theories upon which the study was anchored on included; contingency theory, cash flow theory, acceleration theory as well as acceleration theory of investment. The study used a descriptive research design. The study targeted registered Small and Medium Enterprises in Nairobi CBD. There were 1,367 registered Small and Medium Enterprises in Nairobi Central Business District. Yamane Sampling technique was used to determine the finite sample size of 310 SMEs. This study collected primary data using questionnaires. SPSS version 25 was used in analysis. Multiple linear regression model was employed. The study found that expansion decision, replacement decision, modernization decisions, contingency decision, and diversification decisions explained 85.7% variation in SMEs growth. The study found that expansion investment, replacement investment, modernization investment decision and contingent investment decision had significant effect while diversification investment decision had non-significant effect on Growth of SMEs in Nairobi County CBD, Kenya. The study recommended that SMEs should embrace investment decisions. The Kenya Government, the Micro and Small Enterprises Authority of Kenya should consider formulating venture capital exit policies to address the problem of over stay of venture capitalists. The study recommends that the Kenyan government should put in place an all-inclusive regulatory framework that addresses the investment exit problem wrought in venture capital financing in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium-scale Enterprises (SMEs) in both developed and developing countries play significant roles in the process of industrialization and economic growth (Constantin, 2019). The promotion of SMEs, particularly in developing countries, is being commended for their critical role in promoting grassroots economic growth and equitable sustainable development, which has led to a rise in entrepreneur activities in the sector, as per Higgs and Hill (2019). SMEs not only increase per capita income and output, but also promote effective resource utilization, enhance regional economic balance through industrial dispersal, and create employment opportunities (Mohammed, Oben'Umar & Nzelibe, 2016; Constantin, 2019).

SMEs also play a role in enhancing the national economy's innovation levels and promoting increased competition on a global scale (Bagheri, Mitchelmore, Bamiatzi & Nikolopoulos, 2019). According to Higgs and Hill (2019), they are considered essential for the development of engineering and the expansion of an economy, as they generate substantial domestic and export revenues. SME development is a critical tool in poverty reduction efforts, and its advancement is essential for sustained economic growth, as it is a fundamental component of a country's economic fiber and its success affects the well-being of society (Kamara, 2017).

The annual unmet financing need of 65 million businesses, or 40% of formal micro, small, and medium-sized enterprises (MSMEs) in developing countries, is $5.2 trillion,

or 1.4 times the current global MSME lending volume, according to the International Finance Corporation (IFC) (World Bank, 2023). East Asia and the Pacific are responsible for the largest portion of the global finance deficit (46%), followed by Latin America and the Caribbean (23%), and Europe and Central Asia (15%). The volume of the divide is significantly different from one location to another. The regions of Latin America and the Caribbean, the Middle East, and North Africa have the largest financial deficit in comparison to potential demand, with a ratio of 87% and 88%, respectively.

The World Bank Group report (2019) estimates that there were between 365 and 445 million MSMEs in emerging markets in sub-Saharan Africa. Of these, 25-30 million were formal SMEs, 55-70 million were formal micro enterprises, and 285-345 million were informal enterprises. In emergent economies, formal SMEs account for up to 60% of total employment and up to 40% of Gross Domestic Product (GDP) (World Bank, 2018). The inclusion of informal SMEs results in a substantial increase in these figures. The formalization of informal SMEs can provide significant benefits to both the SME (e.g., improved access to credit and government services) and the overall economy (e.g., increased tax revenues and improved regulation). Additionally, it is imperative to enhance the financial accessibility of small and medium-sized enterprises (SMEs) and identify methods to uncover sources of capital for investment in order to facilitate the expansion and employment of this potentially dynamic sector (Abbasi, Wang & Abbasi, 2017).

Approximately half of formal SMEs are unable to access formal credit in order to increase their investments (Nguyen, Nguyen, Troege & Nguyen, 2020). The financing disparity is further exacerbated when micro and informal enterprises are considered. In

general, credit is unavailable to approximately 70% of micro, small, and medium-sized enterprises (MSMEs) in sub-Saharan Africa (Nguyen et al., 2020; World Bank, 2023). It is implied that the majority of small and medium-sized enterprises (SMEs) are less likely to secure bank loans than their larger counterparts as a result of their asset base. Consequently, they depend on internal funds or cash from friends and family to establish and operate their businesses (World Bank, 2018). The disparity is notably wide in Africa, despite the fact that it fluctuates significantly from region to region and country to country. According to the World Bank (2023), the combined credit gap for informal and formal SMEs in sub-Saharan Africa is as high as US$2.6 trillion, with the present credit deficit for formal SMEs estimated to be US$1.2 trillion. In the current intensely competitive environment, where all players in the SME world must be proactive in order to remain profitable, this strains their investment decision-making (Nguyen et al., 2020).

Investment comprised 20.3% of Kenya's nominal GDP in December 2021, representing an increase from 19.7% in the preceding year. Lemmon and Zender (2019) contended that SMEs determine the capital structure they adopt by examining the attributes that determine the costs and benefits of debt and equity financing. As per Lemmon and Zender (2019), a company's capital structure is a particular combination of equity and debt that it employs to fund its operations. In reality, the investment decisions made by SMEs should result in a high survival rate, reduced hazards, and increased development (Cosenz & Bivona, 2020). According to Idehen (2021), organizations that implement appropriate investment strategies and capital investment decisions are more likely to excel in productivity and operations. In developing countries, the capital investment

culture for investors in the SME sector has been not only haphazard but also unrealistic, which is of critical concern to both practitioners and academia.

1.1.1 Capital Investment Decisions

The term "investing" can be linked to a variety of activities, but the common objective is to "employ" the funds during the specified time frame in order to increase the investor's fortune, as per Machuki (2014). Consequently, investing is the act of acquiring assets that are expected to appreciate in value. Parr (2017) posits that investments may encompass the ownership of a residence, a business, real estate, or savings accounts. Conversely, decision-making is a process that commences with the identification of an investment-related problem, issue, or opportunity and concludes with the sanction of an investment project (Reidy, 2018).

Investors are typically risk-averse, despite the fact that risk is a critical factor in the decision-making process. Ernst, Hoyer, Krafft, and Soll (2017) assert that each organization has strategies for success, including the development of a new product, the exploration of a new market, or the establishment of a new business line. In anticipation of an anticipated flow of benefits over a series of years, investment decisions involve a firm's decisions to invest its current assets most efficiently in long-term assets (Eze & Onoh, 2018; Mavis, McNamee, Petmezas & Travlos, 2020). The investment decisions necessitate meticulous attention, as they have a significant impact on a firm's growth and risk. They are challenging, irreversible, and necessitate the commitment of substantial amounts of funds (Reidy, 2018).

Capital investment decisions are those that entail current expenditures in exchange for a continuous stream of benefits in the future. They are regarded as essential for the survival and success of businesses due to their association with the long-term allocation of financial resources (Chan, 2010; Mweresa & Muturi, 2018). This process also encompasses the decision to invest in new projects, the reassessment of the amount of capital that has already been invested in existing projects, the allocation and rationing of capital across divisions, and the acquisition of other firms, among other things (Mweresa & Muturi, 2018). As previously stated, these decisions involve the firm's allocation of funds to long-term assets in order to generate substantial profits. According to Mweresa and Muturi (2018), the capital investment decisions of a firm are generally referred to as capital budgeting or capital expenditure decisions. The firm's value is significantly influenced by capital budgeting decisions, which have a significant impact on profitability and risk. Therefore, capital investment decisions, in contrast to conventional short-term investments (such as family investments), entail a company's decision to allocate substantial capital expenditures in exchange for a sustained stream of benefits in the future (Khan, 2019).

Expansion, replacement, modernization, diversification, and contingency decisions comprise investment decisions (Mørch, Fagerholt, Pantuso & Rakke, 2017; Pot, Dewulf, Biesbroek, Van der Vlist & Termeer, 2018). The expansion decisions involve the addition of new products and lines of operation, as well as the diversification of operations or the increase in capacity (Pot et al., 2018). In contrast, replacement decisions are centered on the enhancement of operating efficiency and cost reduction through the replacement of obsolete products with new ones in response to

environmental changes (Musau, 2016; Amadi-Echendu, Dakada, Ramlal & Englebrecht, 2019). The investment decision for expansion is evaluated in terms of depreciation expense, interest expense, operating costs, and potentially lost revenues.

A contingency decision implies that there is no optimal method for organizing a corporation, leading a company, or making decisions. However, the optimal course of action is contingent upon the internal and external situation. On the other hand, decision-making is founded on two dimensions: technical knowledge (knowledge of cause-effect relationships that lead to goal attainment) and goal consensus. When technical knowledge and goal consensus are high, problem identification must have a low degree of uncertainty, and the same is known for the problem solution, according to Jin, Shu, and Zhou (2019). However, the prospective solution must demonstrate low uncertainty, despite the fact that high technical knowledge and low goal consensus decisions may indicate a high level of uncertainty. Walker, Davis, and Stevenson (2017) have observed that individuals with low technical knowledge and high objective consensus may demonstrate a low level of uncertainty in problem identification, but they will emanate a high level of uncertainty in problem solution. The four indicators that are used to evaluate the contingent investment decision in this context are the type of business engaged, business strategy, external environment, and company size. This will contribute to the expansion of SMEs.

Modernization is the term used to describe the various methods by which societies achieve a state of continuous self-transformation through the application of technical and intellectual means, whereas modernity, a singular concept, denotes the primacy of reason and universalistic criteria of judgment (Hrynko & Beliavceva 2019).

Modernization decisions are determined by the value that will be received in the future, as estimated by current financial terms. The current investigation will evaluate the firm's modernization decisions by analyzing the outperforming status of competitors, the new marketing skills it has implemented, and its production and distribution capabilities.

The desirable objectives in capital budgeting are as follows: the appraisal technique should select the project that maximizes the wealth of shareholders from a set of mutually exclusive projects, the opportunity cost of funds should be discounted, and all cash flows should be taken into account (Uwah & Asuquo, 2016). Effectively deploying and utilizing capital budgeting mechanisms can prevent capital project failures, which frequently lead to the abandonment of capital investments (Conti, Dass, Di Lorenzo & Graham, 2019). Lower-level administrators may have the authority to make decisions that do not exceed a specified capital budget or entail less than a specified amount of money. Top management is responsible for making larger and more complex decisions, and some are so significant that the company's board of directors ultimately has the decision-making authority (Tran & Turkiela, 2020). Therefore, it is essential to make optimal decisions regarding capital investment with the primary objective of optimizing a firm's primary maximization objective and ensuring that the firm remains competitive in its development process (Relativo, Sumayang, Diasana & Murcia, 2016).

1.1.2 The Growth of Small and Medium-Sized Enterprises

The firm's growth can be quantified in a variety of ways, such as by the number of employees, profits, sales turnover, and market and technology domain (Cosenz & Bivona, 2020). The bank's income statements plainly demonstrate the return on assets

and return on equity, which are also measures of profitability (Mohamed, 2012). Muli (2013), on the other hand, maintains that there is no single-measurement of development. However, there are numerous methods by which growth can be quantified, including turnover, profits, and the number of employees in the market and technology domains (Nelly, Jagongo & George, 2019; Cosenz & Bivona, 2020). Additionally, market share can be employed to evaluate growth. Mohamed (2012) defines market share index as the sum of net assets, deposits, capital, number of loan accounts, and number of deposit accounts.

SMEs are independent, non-subsidiary enterprises that employ fewer than a specified number of employees or market share index (Mohamed, 2012; Cosenz & Bivona, 2020). This figure fluctuates among various national statistical systems. The most common upper limit is 250 employees, as observed in the European Union (European Union, 2016). Nevertheless, the United States defines SMEs as organizations with fewer than 500 employees, while certain countries establish a limit of 200 employees. In general, small businesses are those that have fewer than 50 employees. Financial assets are also employed to define SMEs from another perspective.

In the European Union, small and medium-sized enterprises (SMEs) are required to have an annual turnover of EUR 40 million or less and/or a balance-sheet valuation that does not exceed EUR 27 million (European Union, 2016). SME expansion is frequently closely linked to the organization's overall prosperity and longevity. Mazzarol and Reboud (2020) assert that the investment and subsequent expansion of small and medium-sized enterprises (SMEs) are linked to their decisions regarding the complexity and precision of information regarding the necessity, opportunity, duration of

implementation, and operation of investments. Additionally, they are associated with the expenditure volume and financial resources, the input and output fluxes of funds during the investment operation, the assurance of profitability and liquidity, and the recovery of invested capital (Graziano, 2018; Coricelli & Frigerio, 2019), among numerous other factors.

The efficacy of minor firms that are able to survive is most accurately measured by their growth. Additionally, growth is a critical prerequisite for the attainment of other financial objectives through business. Growth is typically a critical prerequisite for the sustainability of a SME. As per Cosenz and Bivona (2020), an organization's expansion is demonstrated by its expanded market share, new and enhanced products, and increased sales. Bagheri et al. (2019) contend that the investment in innovation that enables businesses to effectively enter new product market domains and subsequently enhance their sales growth in the long term is the metric by which business performance is measured. Entrepreneurs prioritize profitability, expansion, and innovation, as noted by Cosenz and Bivona (2020).

Mazzarol and Reboud (2020) assert that the expansion of a business is contingent upon the characteristics of the proprietor, their behaviors, such as business planning, and their responses to factors in the industrial and community environments. It is also contended that the majority of individuals who establish new enterprises are unlikely to engage in long-term planning, with only a small number of them creating business plans that extend beyond the initial twelve months of trading (Khan, 2019). Nelly, Jagongo, and George (2019) assert that young firms that expand have a twice as high likelihood of survival as young firms that remain stagnant. Mazzarol and Reboud (2020) have also

discovered that the firm's profitability may be temporarily reduced by robust growth, but it will be increased in the long term.

It is contended that none of these alternatives is the most suitable course of action. Nelly, Jagongo, and George (2019) posit that the efficiency of an enterprise is contingent upon its capacity to establish and sustain equilibrium with its surroundings. They argue that an organization can either maintain or improve its performance levels through innovation or acclimate to changes in its internal and external environment. Nevertheless, Masroor and Asim (2019) contend that SMEs are most effectively viewed in the context of the extensive contributions they have made to the economies of established countries and their potential to aid in the growth and development of developing countries that are aspiring to economic prosperity. However, the growth literature continues to be defined by a debate regarding whether the expansion of small and medium-sized enterprises (SMEs) is a result of environmental factors or managerial decisions. The growth literature operates under the premise that the capital structure of a business is a determinant of its growth.

1.1.3 The Role of Regulatory Policies in Investment Decisions and SME Growth

Regulatory policies play a pivotal role in shaping the operations, growth, and sustainability of small and medium-sized enterprises (SMEs). These policies include laws, rules, and guidelines established by government institutions or regulatory bodies to ensure compliance, protect consumer interests, and maintain economic stability (Meyer & Sinani, 2019). Covering areas such as taxation, licensing, labor laws, environmental protection, and financial regulation, regulatory frameworks aim to create

an enabling business environment. However, overly stringent or poorly designed policies can present significant challenges to SME operations (Nguyen et al., 2020).

Regulatory policies are essential for fostering the formalization of enterprises, which allows SMEs to access crucial services such as credit facilities, government incentives, and training programs (Kinyua, 2021). Formalized SMEs benefit from increased transparency and accountability, fostering a competitive business environment. In Kenya, the Micro and Small Enterprise Act of 2012 provides a legal framework to develop and regulate SMEs, facilitating their integration into the broader economic system. However, compliance with these requirements often demands considerable financial and administrative resources, which can be burdensome for small businesses (Muriithi, 2017).

For SMEs, regulatory policies can act as both enablers and constraints. Effective policies, such as simplified licensing processes, tax incentives, and financial support programs, encourage growth and innovation (World Bank, 2019). Conversely, complex regulations, high compliance costs, and inconsistent enforcement can hinder SME development. Many SMEs opt for informal operations to avoid regulatory oversight, which limits their growth potential and access to formal financial services (Muriithi, 2017; Kinyua, 2021).

Several challenges in Kenya's regulatory framework significantly impact SMEs. Licensing and permit requirements often involve delays and high costs, particularly in urban areas like Nairobi's Central Business District (CBD), where bureaucratic processes are prevalent (Nairobi City County, 2018). Taxation policies, while necessary

for revenue generation, impose high rates and involve complex filing procedures, discouraging compliance (KNBS, 2019). Access to affordable credit also remains a challenge, as regulatory requirements for collateral and credit histories frequently exclude SMEs from formal lending channels (Nguyen et al., 2020). Additionally, compliance with labor laws, including employee benefits and minimum wage requirements, increases operational costs for SMEs (Ndede, 2015). Finally, inconsistencies in policy implementation and enforcement create uncertainty, with corruption and lack of accountability exacerbating these challenges (Meyer & Sinani, 2019).

Regulatory policies significantly influence capital investment decisions in SMEs, impacting the nature and effectiveness of investments such as expansion, modernization, replacement, contingency, and diversification. For instance, tax incentives and grants for business expansion can encourage SMEs to scale their operations, while subsidies for digital transformation promote modernization investments (Muriithi, 2017). Environmental regulations may mandate the replacement of outdated equipment with eco-friendly alternatives, influencing replacement decisions (Pot et al., 2018). Disaster preparedness policies can guide SMEs in making strategic contingency decisions, while favorable trade policies and market access incentives stimulate diversification investments (Khan, 2019). Effective regulatory policies are vital for enabling SMEs to overcome challenges, optimize investment decisions, and achieve sustainable growth (Relativo et al., 2016).

1.1.4 Status of Small and Medium-Sized Enterprises in Nairobi CBD

The Central Bank of Kenya (CBK) recently released a National Economic Survey report (2023) that reveals that SMEs account for 98% of all businesses in Kenya, generate 30% of the annual employment market, and contribute 3% of the country's GDP. SMEs in Kenya are impeded by a variety of factors, including inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills, and rapid technological advancements, as per the 2016 Deloitte Kenya Economic Outlook report (Kenya Economic Outlook: 2016).

Ndede (2015) has observed that access to financial services would allow businesses to enhance the quality of their products and compete fair in the market. However, Medium and Small Enterprises (MSEs) frequently attribute their failure to a lack of access to finance. There is an increase in the availability of funds for those who require it when the economy experiences growth, as per Mishkin (2009). The capital invested in small and medium-sized enterprises (SMEs) in Nairobi city county ranges from fifty thousand Kenyan shillings to approximately five million Kenyan shillings. Micro enterprises are defined as those that employ fewer than 10 individuals and generate a maximum annual turnover of Ksh 500,000 ($5,000) under the Micro and Small Enterprises Act of 2002. In the Nairobi CBD, modest enterprises employ 10-49 individuals and generate annual revenues ranging from $5,000 to $50,000. Medium enterprises, which are not subject to the Act, have a turnover of $50,000 to US$8 million and employ 50 to 99 individuals. SMEs are present in all sectors of the economy in Nairobi CBD, including manufacturing, commerce, and the diversified service sub-sector.

The annual reports of Nairobi city county suggest that the county is home to a variety of small and medium-sized enterprises (SMEs), including supermarkets, wholesale stores, hospitals, and restaurants (Nairobi city county, 2018). These enterprises are either unregistered or explicitly registered. Almost two-thirds of all small and medium-sized enterprises (SMEs) in Nairobi city county are formally registered and have formal management structures (KNBS, 2016). As per a county report, nearly 70% of small and medium-sized enterprises (SMEs) in the trade sector more frequently rely on the purchase and sale of products and services as their primary source of income. In particular, small and medium establishments allocated a substantial portion of their net income to investment, with 63.4 and 69.7 percent, respectively (KNBS, 2016).

When the economy is in a state of decline, medium and small enterprises fail, while they expand to higher levels of productivity and employment when the economy is improving, as per Ndede (2015). Muturi and Njeru (2019) contended that approximately 61% of small and medium-sized enterprises fail to endure for more than two years due to their closure. At the time of cessation, the number of personnel in SMES was reported to have increased by 3.5 percent compared to the time of inception, as per the Nairobi City County (2018) report. In order for Kenya to achieve its 2030 vision and become competitive, it is imperative that the private sector expands. This necessitates a greater focus on addressing the primary constraints that impede the development and competitiveness of small and medium-sized enterprises, particularly in urban areas. In developing countries, such as Kenya, the development of SMEs has been regarded as contingent upon the implementation of sound capital investment decisions.

1.2 Statement of the Problem

In Kenya, SMEs provide employment to approximately 80 per cent of the population (KNBS, 20230. However, small businesses face a unique set of challenges especially those located in Nairobi CBD (KNBS, 2019). The Sessional Paper No. 2 of 2005 indicated that three out of five businesses fail within the first three years of operation (Republic of Kenya, 2009). In addition, most of the small businesses meet their death before they are five years old (UNDP, 2015). A recent survey indicates that approximately 400,000 micro, small and medium enterprises do not celebrate their second birthday (KNBS, 2018; Mwanzi, 2023). Few reach their fifth birthday - leading to concerns of sustainability of this critical sector (Ndede, 2015). This has further been confirmed by the Nairobi County annual reports where a majority of small and medium businesses indicate poor growth rates beginning their third month.

The failure of these SMEs leads to loss of jobs and consequently increased insecurity, low liquidity in the economy, and decline in economic growth (Ndede, 2015; Nakhaima, 2016). It is argued that such impediments are a recipe for haphazard investment decisions since many of the support factors facilitate the achievement of organizational objectives (Muli, 2013; Machuki, 2014; Musau, 2016; Mwanzi, 2023). In Nairobi CBD, it is argued that poor capital investment decisions are the main cause of financial distress among the SMEs (Nakhaima, 2016). Other studies have warned that failure of capital projects beyond redemption with subsequent desertion, the much-desired survival, growth and development goals of SMEs are threatened and their invaluable contributions to national growth and development become elusive (Mweresa & Muturi, 2018).

Empirical studies conducted in the field of capital investment have mainly concentrated at not only investigating the determinants or the respective measures of capital investment decisions in SMEs, but most as well have focused at developed economies (Perić, & Đurkin, 2015; Relativo, et al, 2016; Mugwe & Makori, 2019; Briozzo & Albanese, 2020). Some of them concentrate on establishing at the determinants as well as performance of SMEs in specific sectors of the economy (Imran, Aziz & Hamid, 2017; Khokhar, 2018). In Kenya, most studies established the effect of investment decision on the performance of firms listed in the Nairobi Securities Exchange (Machuki, 2014; Jagongo & Mutswenje, 2014) whereas other explored the financial management decisions or the role of equity financing, bank size and financial risk exposure on financial performance of SMEs in Kenya (Amuko, 2015; Nakhaima, 2016; Njagi, Maina & Kariuki, 2017; Nelly, Jagongo & George, 2019; Njenga & Jagongo, 2019).

While numerous studies have investigated the impact of capital investment decisions on firm performance, most of this research has focused on large firms, developed economies, or specific sectors such as technology or finance (Perić & Đurkin, 2015; Briozzo & Albanese, 2020). Research within Kenya has often been limited to firms listed on the Nairobi Securities Exchange or to technology-driven SMEs, leaving a gap in understanding the distinct challenges faced by SMEs in Nairobi's Central Business District (Machuki, 2014; Njenga & Jagongo, 2019). Unlike prior studies that typically focus on broader determinants of investment decisions or specific financial metrics, this study uniquely examines the role of diverse capital investment decisions that is expansion, replacement, modernization, contingency, and diversification in driving

growth within the SME sector specifically in Nairobi CBD. Given that the study incorporated the moderating effect of regulatory policies, it offers a comprehensive analysis tailored to the local context, providing insights into how SMEs in Kenya's urban centers can optimize investment decisions to achieve sustainable growth.

1.3 Objectives of the Study

The study was guided by both the general as well as specific objectives.

1.3.1 General objective

The general objective of the study was to investigate the effect of capital investment decisions on growth of Small and Medium Enterprises in Nairobi County CBD, Kenya.

1.3.2 Specific Objectives

i) To determine the effect of expansion investment decision on Growth of Small and Medium Enterprises in Nairobi County CBD, Kenya.

ii) To establish the effect of replacement investment decision on Growth of Small and Medium Enterprises in Nairobi County CBD, Kenya.

iii) To establish the effect of modernization investment decision on Growth of Small and Medium Enterprises in Nairobi County CBD, Kenya.

iv) To determine the effect of contingent investment decision on Growth of Small and Medium Enterprises in Nairobi County CBD, Kenya.

v) To find out the effect of diversification investment decision on growth of small and Medium Enterprises in Nairobi County, Kenya.

vi) To establish the moderating effect of regulatory policies on the relationship between capital investment decisions and growth of Small and Medium Enterprises in Nairobi County, Kenya.

1.4 Research Hypotheses

The study was guided by the following research hypotheses:

$H0_1$: Expansion investment decision does not have significant effect on Growth of Small and Medium Enterprises in Nairobi county CBD, Kenya.

$H0_2$ Replacement investment decision does not have significant effect on Growth of Small and Medium Enterprises in Nairobi county CBD, Kenya.

$H0_3$ Modernization investment decision does not have significant effect on Growth of Small and Medium Enterprises in Nairobi county CBD, Kenya.

$H0_4$ Contingent investment decision does not have significant effect on Growth of Small and Medium Enterprises in Nairobi county CBD, Kenya.

$H0_5$ Diversification investment decision does not have significant effect on Growth of Small and Medium Enterprises in Nairobi County, Kenya.

$H0_6$ Regulatory policies do not have a significant moderating effect on the relationship between capital investment decisions and growth of Small and Medium Enterprises in Nairobi County, Kenya.

1.5 Significance of the Study

The intensity of overall economic activity and growth in general is significantly influenced by investments. The economy's longer-term developmental characteristics,

as well as imminent conjuncture changes, may be indicated by changes in the scale, structure, and purpose of investment. Consequently, investment decisions are of particular interest to firm managers and proprietors, in addition to policy makers and researchers. Therefore, the study would be crucial for the management of SMEs, as they will be able to comprehend the impact of capital investment decisions on their development as a result of the study's findings. The managers will be capable of making sound investment decisions that will facilitate the expansion of their enterprises. The results will aid in the development of a more comprehensive comprehension of the SMEs sector as a whole. Additionally, the research will be significant to policymakers and the government, as it will offer insight into the development and capital investment of SMEs. The government will be able to develop policies that are specifically designed to promote the development of small and medium-sized enterprises, which are the primary source of employment and economic growth in the nation.

The study findings will serve as a reference material for future researchers and scholars who may wish to pursue related studies, as well as assist researchers and scholars in enhancing their general knowledge of the subject. Additionally, the investigation will identify deficiencies that necessitate additional investigation in this field.

1.6 Scope of the Study

The research aimed to examine the impact of capital investment choices on the development of small and medium firms. The research was restricted to small and medium-sized enterprises (SMEs) located in the Central Business District (CBD) of Nairobi County, Kenya. The research focused on the managerial staff of registered small

and medium-sized enterprises (SMEs) located in the central business district (CBD) of Nairobi County. Operating any company inside Nairobi CBD has proven challenging, as many small and medium enterprises struggle to fulfill the necessary standards and get the required licenses, resulting in their closure. The problem of investment choices continues to be a significant obstacle to the development and expansion of small and medium-sized enterprises (SMEs) in Kenya. The research focused only on examining the impact of expansion, replacement, modernization, contingency, and diversification investment choices on the development of SMEs in the central business district (CBD) of Nairobi County. The major data on growth was acquired during a one-month timeframe. The research focused on Small and Medium Enterprises (SMEs) that were registered between 2013 and 2022, a time during which Kenya shifted from a centralized style of government to devolved governance. This change resulted in more resources and authority being decentralized. The Micro and Small Enterprise Authority (MSEA) was established during this era to assist in resolving matters pertaining to the enhancement of Micro, Small, and Medium Enterprises.

1.7 Organization of the study

This project contained five chapters, the first chapter illustrates the study background information about the study is established in chapter one it covers information regarding the growth of SMEs and role of capital investment on performance of these firms. Moreover, the chapter covers the statement of the problem, objectives guiding the study, formulated research questions, and the study scope, and significance of the study. Second chapter describes the theoretical literature, empirical review of literature, the summarised review of literature, the knowledge gaps established and the conceptual

framework. The third chapter describes the target population as well as research design employed, sample size selected for the study, instrument for data collection, data collection procedure, operationalization and measurement of variables, as well as analysis and ethical considerations. Chapter four presents findings and discussions. Chapter five presents the conclusions and recommendations based on the study variables.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents the theoretical review and the empirical literature review. It also presents a summary of the literature, research gaps and the conceptual framework.

2.2 Theoretical Literature Review

The study was guided by contingency theory, cash flow theory of investment, acceleration theory of investment and discounted theory of investment.

2.2.1 Contingency Theory of Investment

Fred Fiedler (1960) proposed the contingency hypothesis. The idea is founded on the premise that there are variations in the dimensions of external environmental and internal variables circumstances. Therefore, an organization should strategically adapt to efficiently use resources, taking into account both the external environment and internal circumstances. Consequently, there are no universally applicable prerequisites for effective management. The key factor is for managers to comprehend the external circumstances in order to effectively respond to investment plans.

However, the theory may be subject to criticism due to its complicated approach and reactive character. This means that it fails to effectively handle problems, making it difficult for managers to manage. Furthermore, it lacks sufficient literary content. Despite the critiques, the theory has several benefits. One of these characteristics is its ability to assist managers in developing a genuine understanding of investment skills

and organizational principles, while renouncing the notion of universal validity. Furthermore, it facilitated managers in acquiring suitable management abilities that are tailored to the specific setting and scenario. This text explores the many aspects of management skills, such as organizational control, investment decision, and effective leadership.

Granlund and Lukka (2017) used the theory to examine the impact of management accounting research on organizational performance. The idea was used in this research to support the relationship between contingency decision and growth of SMEs by encouraging managers to acquire diverse skills connected to investment choices.

2.2.2 Cash Flow Theory of Investment

The cash flow theory of investment decision, proposed by East (1993), emphasizes the connection between the availability of cash flow and the ability to make investment decisions. The theory is premised on the notion that internal financial resources, specifically cash flow, are critical for a firm's investment capacity. This theory builds on foundational economic principles linking financial liquidity with corporate growth and operational flexibility.

It stems from the limitations many firms face in accessing external capital, either due to market constraints or high borrowing costs, which can hinder investment opportunities. This theory can be categorized into three variants, each representing a different model: the liquidity model, the information theoretical model, and the managerial model. The managerial model and the information theoretical model can be seen as contemporary interpretations of liquidity theory (Alghamdi, Donleavy, Farooque, Anderson & Khan,

2019). Both theories highlight the significance of internal finance as the primary factor influencing investment decisions, and they both forecast a positive correlation between cash flow and investment.

Based on the idea, investment is largely influenced by cash flows and the availability of internal finance, which refers to the accumulated profits. This suggests that investment may be directly restricted by a lack of internal finance. According to Zainudin, Kantakji, Thabet, Ani, and Rahman (2019), a liquid balance sheet enables a company to readily seize investment opportunities, such as expanding a specific investment, when they emerge. This theory will be used to document and guide the decision-making process for investment in the growth of small and medium-sized enterprises (SMEs) in the central business district (CBD) of Nairobi County, Kenya. Furthermore, this study aims to examine the impact of investment decisions on the growth of small and medium-sized enterprises (SMEs) in the central business district (CBD) of Nairobi County, Kenya.

2.2.3 Acceleration Theory of Investment

The acceleration theory of investment, developed by Clark (1917), posits that investment is directly influenced by the expected levels of production output. In other words, an increase in demand leads to an increase in investment commitment, indicating that demand conditions have the ability to impact investment decisions. This theory is premised on the idea that firms adjust their capital stock to match fluctuations in demand to maximize production efficiency and meet market needs. When demand rises, firms commit to additional investments to expand capacity, which reflects an intrinsic relationship between demand conditions and investment decisions. Rooted in Keynesian

economics, the theory underscores the importance of demand-driven dynamics, suggesting that firms anticipate future production needs and align their investment levels accordingly, making it a valuable framework for understanding investment behaviors in cyclical or rapidly growing markets

However, it is important to note that output is not an accurate indicator of demand since it is limited by the current production capacity. The rigid accelerator hypothesis posits that enterprises are always in a state of equilibrium, meaning that there is no surplus capacity (Anotonakis, 2011). Overall, it may be argued that the current flexible and rigid accelerator models do not explicitly address factor pricing, making it difficult to assess the impact of investment incentives. This is a significant limitation that is addressed in neoclassical theory. This theory will support the goal of contemporary decision-making by elucidating how a thorough analysis of management choices regarding the modernization of e-commerce companies, as a part of creative entrepreneurship, improves the performance of SMEs. The theory will elucidate the process by which development may be attained via the modernization of decision-making in entrepreneurship.

2.2.4 The Theory of Organisational Performance

Don Elger created this hypothesis in 2007. Leadership, management, culture, and several other elements have a role in determining the level of collaboration and effectiveness within different corporate departments. The efficiency, as a consequence, leads to improved organizational outcomes. Performance is often seen as a process rather than a final goal. The position in the journey is designated as the "level of

performance." Elger (2007) states that each level represents the efficacy or excellence of a performance. Performing involves executing a sophisticated sequence of activities that combine expertise and understanding to provide a valued outcome (Dong, Bartol, Zhang & Li, 2017).

As a manager progresses in their level of performance, they become more proficient in organizing people and resources, resulting in greater quality outcomes achieved in a shorter timeframe. Occasionally, the performer is a person who, in this scenario, may also be the proprietor of a small and medium-sized enterprise (Dong, Bartol, Zhang & Li, 2017). In alternative performances, the performer is a collective entity comprised of individuals who are engaged in collaboration, such as an academic department, research team, committee, student team, or a university.

2.2.5 The discounted theory of investment

John Burr Williams (1938) proposed the discounting theory of investing. The idea is founded on the estimation of future worth, taking into account existing financial circumstances. The discounting principle refers to the process of attributing a cause to a certain outcome. The augmentation principle, which modifies decisions depending on the assessment of the discounting principle, is sometimes associated with discounting in psychology. An optimal strategy for comprehending the application of discounting ideas is to examine illustrative instances.

The hypothesis quantifies long-term profitability. The idea elucidates the whole expenditure of the investment in relation to the profits and is mostly used for investments with a short duration. The discounted hypothesis, which is used for long-

term analysis, refers to the comparison between the present value of an investment and the present value of expenses. This theory will serve as the foundation for the comprehensive analysis of capital investment choices, elucidating all the factors that contribute to the future profitability of investments.

2.3 Empirical Literature Review

Capital investments decisions impact the firm for several years, it is important that they should be carefully planned. These decisions are more complex and will involve more people in the decision-making process. Studies have classified capital investment decisions into many categories for analysis. However, this study will consider the following capital investment decisions; expansion, replacement, modernization, contingency and diversification decision.

2.3.1 Expansion Decision and Growth of SMEs

Expansion decisions are revenue choices anticipated to influence the development of organizations. They involve penetrating new markets, enhancing market share, or increasing production capacity to meet growing demand. Adekunle and Olaniyi (2021) investigated the relationship between expansion investment decisions and financial performance among SMEs in Nigeria. Using a mixed-methods approach, the study surveyed 250 SMEs from diverse sectors, analyzing how targeted expansion strategies influenced profitability and market resilience. The findings revealed that businesses employing structured expansion strategies, such as entering underserved markets and adopting flexible operational models, experienced significant growth in revenue and market share. However, the study noted that inadequate financing and poor

infrastructure often hindered SMEs' ability to expand effectively. The research highlighted the importance of integrating expansion decisions with risk management frameworks to enhance long-term performance and mitigate potential challenges such as regulatory barriers and competitive pressures.

Chowdhury et al. (2022) explored the role of technology in SME expansion decisions in South Asia, focusing on India, Bangladesh, and Pakistan. Through longitudinal case studies and quantitative data from 300 SMEs, the study demonstrated that integrating digital solutions such as online marketplaces, customer relationship management (CRM) tools, and mobile payment platforms significantly enhanced SMEs' capacity to penetrate new markets. Businesses that adopted these technologies not only expanded their customer base but also optimized supply chain efficiency, reduced operational costs, and improved customer satisfaction. However, the study observed that SMEs lacking technical expertise or digital infrastructure faced significant challenges in leveraging these tools for expansion. Chowdhury et al. concluded that while technology acts as a catalyst for SME growth, capacity-building initiatives and supportive ecosystems are critical to maximizing its potential.

Kariuki and Wanjiru (2023) examined how government incentives influence SME expansion in Kenya, analyzing data from 200 SMEs across Nairobi, Mombasa, and Kisumu. The study employed a mixed-methods approach, combining survey data with in-depth interviews. It revealed that tax reliefs, government grants, and subsidized credit facilities provided SMEs with the financial stability necessary to explore and implement expansion opportunities. SMEs utilizing government support mechanisms experienced faster growth rates, particularly in scaling operations and accessing regional markets.

However, the study also identified gaps in policy awareness, with many SMEs failing to capitalize on available incentives due to insufficient information or bureaucratic hurdles. Kariuki and Wanjiru recommended increased government outreach and streamlined application processes to ensure more SMEs benefit from these initiatives.

Samson, Gardebroek, and Jongeneel (2016) found that Dutch dairy enterprises' performance improved through expansion efforts, emphasizing that growth decisions typically result in larger enterprises rather than maintaining the status quo. However, these decisions often involve more uncertainty than replacement decisions, necessitating strategic planning to mitigate risks. Realizing either local or worldwide growth has been challenging for decades, but because to advancements in communication, transportation, technology, and international treaties, it is now much simpler (Al-Mutairi and Burns, 2015). The results showed that many companies that go for global growth fail to choose the right market because they don't comprehend all the internal and external aspects influencing their company choices.

Musau (2016) investigated how big companies' growth choices affected their performance. The results showed that small and medium-sized enterprises (SMEs) are motivated to expand in order to realize the advantages that come with achieving economies of scale, which is a common goal for organizations. The expansion of a business is an indication of growth, which is an important objective for any organization aiming to maximize wealth. In addition, the research found that enterprises run the danger of growth when they expose themselves up to new markets, competition,

expenses, and investments in assets. According to the research, expanding a company's operations should lead to success.

As per Roger's (2010) research on the significance of asset allocation for SMEs, the primary objective of growth is to increase customer coverage, boost surpluses, decrease deficits, and work towards increasing customer wealth through dividend issuance. The causes of company expansion and the effects of such expansion have been the subject of several studies. In addition, the research found that the overall performance of each investment channel is most affected by how a corporation distributes its cash among them.

Associated research by Richard, Jonathan, and Sharon (2014) used a panel regression model to investigate the impact of business environment on international franchise growth. The results showed that the business climate of a country significantly impacts the likelihood of foreign firms expanding into that country. The research was based on information gathered from companies who do worldwide franchise business according to several criteria. In addition, the research did not have a theoretical foundation, thus this new study will address that by using relevant theories.

2.3.2 Replacement Decisions and Growth of SMEs

Improvements in efficiency and expansion of the company are common goals when making replacement selections. Mwangi and Muturi (2021) explored the relationship between replacement decisions and financial performance among manufacturing SMEs in Kenya. The study employed a cross-sectional design, surveying 150 SMEs in Nairobi County. It found that timely replacement of obsolete machinery contributed

significantly to reducing maintenance costs and improving production efficiency. SMEs that prioritized replacement decisions reported higher productivity levels, lower operational downtimes, and improved customer satisfaction due to consistent quality outputs. However, the study also noted that limited access to affordable financing constrained many SMEs from making timely replacements, often resulting in higher cumulative costs due to frequent repairs. The authors recommended the establishment of targeted financing programs by financial institutions and policymakers to support SMEs in acquiring essential replacement assets.

A repair-replacement choice model that takes environmental consequences, maintenance quality, and risk into account was used by Abdi and Taghipour (2019). The model showed that replacement choices are rather easy in the realm of capital budgeting. It may not be necessary to conduct a thorough evaluation before deciding to replace worn-out or malfunctioning equipment. Overanalyzing the choice would be a waste of resources if the cost is low and not investing has substantial repercussions for production, operations, or sales. Just whip up the spare part. Additionally, there are choices between different types of equipment, or the replacement of older, less efficient equipment with newer, more efficient equipment (Shilon, 2018). You may feel extremely confident in the end result of these replacement choices, which are usually open to extensive examination.

By stepping in to replace founders, venture capitalists (VCs) may boost portfolio businesses' performance, according to research by Ewens and Marx (2018). Reliability and maintainability of equipment, quality of preventative maintenance, and the

frequency of corrective maintenance were the research variables that were altered by intervention from management. A negative association, which may be a result of negative selection, is shown by naïve regressions of startup performance on replacement. The direction of this impact is flipped by instrumented regressions, indicating that founder replacement actually boosts performance. One way in which venture capitalists provide value is by facilitating the replacement of founders, according to the available data.

Using data collected from Thai investors in the hospitality industry, Sungkhamanee and colleagues (2021) examined the impact of contextual and prospective factors like salience and overconfidence on long-term investment decisions. The study also examined the moderating role of a variable like financial literacy. In order to achieve this goal, the study subjected the acquired data to a battery of statistical tests and methods, and the results are in. Overconfidence and salience significantly affect long-term investing choices, according to the data study. The research also found that financial literacy is a major moderator. The results demonstrate that hotel business investors should look at salience and overconfidence traits before committing to any long-term investments if they want to avoid losing money.

According to research by James (2015), the insurance industry's financial performance is affected by the results of system replacements. Enterprise system change does not significantly impact revenue growth or operational efficiency from a financial standpoint, according to the data. Comparing the financial performance outcomes of firms who undertook policy administration system replacements with those that did not,

the research assessed the financial effect of this process in the property and casualty insurance sector.

Pieper, Nüesch, and Franck (2014) conducted a comparable study in which they estimated performance expectations using professional soccer bookmaker betting odds. This allowed them to capture the effect on the dismissal probability of team coaches and examine how performance expectations impact managerial replacement decisions. Researchers discovered that the likelihood of coaches being fired roughly doubles for every one standard deviation rise in performance expectations.

2.3.3 Decisions on Modernization and Growth of SMEs

Businesses also make judgments on modernization when they want to increase their efficiency and productivity, which will lead to further growth. Modernization decisions are pivotal for enhancing the efficiency, competitiveness, and growth of SMEs. These decisions often involve adopting new technologies, upgrading operational processes, and aligning business strategies with market demands (Li & Wong, 2022). Modernization enables SMEs to respond to dynamic market conditions, improve customer satisfaction, and sustain long-term growth.

Recent global studies offer fresh perspectives on the impact of modernization decisions on SME growth. Smith and Perez (2021) investigated the role of digital transformation in SME modernization across Europe. Using a sample of 350 SMEs from five countries, the study employed longitudinal data analysis to evaluate the relationship between digital adoption and growth metrics, such as market expansion, revenue growth, and customer retention. The findings indicated that SMEs integrating digital tools—such as

customer relationship management (CRM) systems, e-commerce platforms, and data analytics experienced a 30% improvement in customer retention and a 25% increase in market share over three years. Despite these benefits, the study noted barriers, including high initial costs and insufficient technical skills within SME teams. The researchers concluded that strategic investments in workforce training and partnerships with technology providers are critical for unlocking the full potential of modernization efforts.

Li and Wong (2022) explored the influence of smart manufacturing technologies on SME growth in Asia, focusing on China, South Korea, and Thailand. The study employed a mixed-methods approach, combining survey data from 200 SMEs with in-depth interviews of SME owners and managers. The results revealed that smart technologies, such as Internet of Things (IoT) devices, automation, and artificial intelligence (AI), significantly improved production efficiency, reduced operational costs, and enhanced product quality. For instance, SMEs using IoT-enabled equipment reported a 40% reduction in production errors and a 20% decrease in raw material waste. However, the study also highlighted challenges, such as the need for substantial upfront investments and resistance to technology adoption among older employees. Li and Wong recommended that governments and industry associations provide subsidies and create awareness programs to support SMEs in transitioning to smart manufacturing systems.

Ahmed et al (2023) examined the impact of modernization on SME resilience during economic shocks in North Africa. The study surveyed 250 SMEs across Egypt, Tunisia, and Morocco, analyzing how investments in modernized supply chain systems and

digital payment platforms contributed to business continuity during the COVID-19 pandemic. The findings showed that SMEs with modernized logistics and payment systems were 50% more likely to maintain operations and retain customers during disruptions. Furthermore, SMEs that adopted digital marketing tools reported increased visibility and customer engagement, enabling quicker recovery. The study identified knowledge gaps among SME owners as a key barrier to modernization and recommended targeted capacity-building initiatives to address these challenges.

Symakov (2020) investigated the substance of management choices about the modernization of e-commerce firms in Russia, with a focus on creative entrepreneurship. Generalization, comparability, and systematic procedures were used in the research of this subject. Results showed that innovative entrepreneurship examines managerial choices on the modernization of e-commerce firms. Much research has gone into their contents. The research topic is presented with statistical data and scientific positions. The study variables were sourced from outside the country, which helped us understand the characteristics of global experience that dictate the necessity of technological solutions and modern management approaches for e-commerce businesses in Ukraine. Nevertheless, the present research will address a gap in the literature by investigating the function of conversion optimization. This ever-changing digital marketing campaign or social media ad.

Yiming, Siqi, Thomas, and Thomas (2011) used a multivariate regression analysis on data from Chinese public industrial companies between 200 and 2005 to determine if banks take the financial performance of borrowers into account when deciding whether

or not to renew a loan and whether or not to adjust the interest rate. The idea of a business turnaround plan or modernization strategy is not novel in the literature on capital investment. When the company's performance drops, some see it as a way to recover. A business may devise a plan to address issues like falling product sales or sudden spikes in the cost of raw materials and labor if it experiences these trends. Borrowers' financial success was also shown to be negatively correlated with loan renewal, according to the research.

Lenders are less likely to provide credit to a company that has renewal options, according to research by Jeffrey and Jeffrey (2012) on the topic of accounting for lease renewal options. Researchers Martin, Christopher, and Steven (2013) found that performance feedback has an effect on strategy renewal to a lesser extent when it comes to modernization choices. The goal was to find out how strategy renewal efforts were affected by performance reviews and organizational learning.

2.3.4 Decisions on Contingencies and the Growth of SMEs

Decisions on contingency planning pertain to auxiliary tasks that supplement primary company operations. Ahmed and Saleh (2022) examined contingency planning among SMEs in Egypt's manufacturing sector. The study utilized a mixed-method approach, combining surveys of 300 SMEs with qualitative interviews. Findings revealed that SMEs employing structured contingency frameworks were better equipped to manage supply chain disruptions and maintain operational continuity during periods of economic instability. Key strategies identified included diversifying suppliers, adopting digital technologies for remote operations, and securing access to emergency funds. The

research emphasized the importance of developing scenario-based plans to enhance SMEs' ability to anticipate and respond to unpredictable challenges.

Barreto and Vega (2023) investigated the role of contingency decisions in fostering SME growth in Mexico during periods of market volatility. The study focused on SMEs in the agricultural and retail sectors, examining how they adapted to fluctuating demand and supply chain constraints. Through in-depth case studies of 25 SMEs, the research highlighted the value of strategic partnerships, inventory management, and flexible pricing models as core contingency measures. Businesses that prioritized these approaches reported improved customer retention and operational efficiency despite adverse market conditions.

Fostering a culture of adaptability within the workforce emerged as a critical factor in effective contingency decision-making. Chakraborty and Iyer (2021) explored contingency decision-making among SMEs in India, particularly in the technology sector. Using survey data from 400 SMEs and focus group discussions with industry leaders, the study identified innovative strategies such as product diversification and the development of digital tools to enhance customer engagement. The research found that SMEs with robust contingency plans were more likely to survive economic downturns and maintain market relevance.

Funding for microfinance groups was the subject of research by Cobb, Wry, and Zhao (2016), who zeroed in on institutional logics and contextual contingency as key factors. The research concluded that microfinance might be an effective strategy to combat extreme poverty across the world. The majority of the funding for microfinance

throughout the world comes from public and commercial donors, therefore this research used and expanded the institutional logics approach to examine their lending practices. This study used a proprietary database that includes all traceable loans to MFOs from 2004 to 2012. The researchers found that the relationship between institutional logics and organizational practices is contingent on context.

Entrepreneurial zeal and company success were studied in small and medium-sized enterprises (SMEs) in India by Gupta and Batra (2019). This study aims to provide light on the conditions under which entrepreneurial tactics yield desirable results in terms of performance. Both contingent and universal viewpoints were included in the research. Research on small and medium-sized enterprises (SMEs) in India from 1998 found a robust positive correlation between EO and company success. It was postulated that the EO-performance link might be moderated by the rise of environmental contingency demands and the severity of competition. Discussed are the implications and potential avenues for further study.

In their 2019 study, Titus, Parker, and Covin investigated the relationship between an organization's goals and its willingness to take risks outside the company. In particular, they looked at how equity-based external corporate venturing is affected by performance feedback. Then, when considering how businesses react to differences in achievement, it is argued that one important variable is the entrepreneurial orientation (EO) of the company. Research shows that when thinking about how employees react to differences in achievement, a company's EO is a crucial variable to consider.

In a thorough literature study, Hamann (2017) investigated the literature on business planning based on the contingency theory. Their research identifies key contingency elements, consistent outcomes, and shared ground with the theory behind the contingency method, and it offers a thorough overview of the topic. This evaluation compiles findings from 195 articles published in high-quality academic publications between 1967 and 2017 that examine organizational level context elements in business planning. A large number of contingency studies use cross-sectional data and the selection fit method. Consistent outcomes across several study contexts and approaches are highlighted in this review. Management and planning philosophy, organizational scale, environmental unpredictability, and task interdependence are the four main context aspects of a corporate planning system that are identified. In the end, they came to the conclusion that this all-encompassing collection of contextual elements makes it easier to build a stronger contingency theory of corporate planning.

The time of implementing a new product development strategy and the performance of new ventures were studied by Kiss and Barr (2017) from a contingency-based viewpoint. Examining the connection between the time it takes to execute a new product development (NPD) strategy and the success of a new business, the research used an information acquisition and learning viewpoint. Companies headed by TMTs with a strong tendency toward mental model centralization or those operating in stable, low-growth industries could benefit from longer NPD strategy implementation periods. However, in fast-paced, unpredictable industries or when companies are managed by TMTs with a dispersed mindset, longer periods of time to execute NPD strategies are

not necessary. Additionally, they found that the relationship between the time it takes to implement a new product development strategy and the success of a new venture is affected by both the industry's level of growth and the degree to which its mental model is centralized within TMT. This relationship is most pronounced in industries with low growth rates and high levels of TMT mental model centralization.

Institutional and firm-level contingencies were evaluated in a research by Adomako, Opoku, and Frimpong (2018). The improvisatory behavior of entrepreneurs and the success of new ventures were the subjects of the research. To be more precise, the research looked at how entrepreneurs' impromptu actions correlated with the success of their new ventures, and how the availability of financial resources and institutional backing moderated that correlation. A total of 395 new enterprises in Ghana provided primary data. The findings show that the capacity to access financial resources significantly mitigates the association between entrepreneurs' improvisational skills and the success of their new ventures. Furthermore, the results demonstrate that the degree of institutional support determines the efficacy of improvisational behavior in propelling a company's development.

When Manolopoulos, Chatzopoulou, and Kottaridi (2018) looked at the connection between resources, domestic institutional framework, and SMEs' exporting, they looked at both direct linkages and contingency effects. One hundred fifty Greek businesses were included in the survey. Both formal and informal institutional factors have a substantial and distinct impact on export activity among SMEs, according to the direct relationship study. The examination of interaction effects shows that entrepreneurs'

views of the domestic institutional environment influence their resource allocation decisions for exporting. As a result, small and medium-sized enterprises (SMEs) react to both official and informal institutional weaknesses in the home by increasing their allocation of resources to fuel export sales. The positive resource-exporting connection is turned upside down by export regulation complexity.

2.3.5 Diversity Decision and Growth of SMEs

Diversification decisions have emerged as a critical strategic tool for SMEs seeking to enhance their market reach, mitigate risks, and achieve sustainable growth. Diversification enables businesses to expand into new products, markets, or industries, leveraging existing resources and capabilities while adapting to changing economic conditions. Hernández and González (2022) investigated diversification strategies in SMEs operating in Spain's hospitality and tourism sector. Using a longitudinal study design, they analyzed data from 150 SMEs over five years to explore the impact of diversification into complementary services such as wellness spas and event management. The findings revealed that SMEs adopting related diversification strategies achieved higher profitability and customer retention. The study emphasized the importance of aligning diversification efforts with core competencies and market demands to avoid resource overstretch and inefficiencies.

Adebayo and Oluwaseun (2023) examined diversification among SMEs in Nigeria’s manufacturing sector, focusing on firms producing fast-moving consumer goods. The study employed a mixed-method approach, integrating survey data from 200 SMEs with qualitative interviews. Results showed that horizontal diversification, such as

introducing unrelated but high-demand products, enabled SMEs to capitalize on untapped markets. However, the study cautioned against excessive diversification, highlighting the need for robust market analysis to ensure financial viability and alignment with long-term strategic goals.

Strategic alliances and government incentives are significant in facilitating successful diversification efforts. Tanaka and Saito (2021) explored diversification strategies among SMEs in Japan’s technology industry. Using a sample of 250 SMEs, the study examined how businesses ventured into emerging markets such as renewable energy and artificial intelligence. The research found that SMEs leveraging existing technological expertise to diversify into related fields experienced significant revenue growth and competitive advantage.

Using the growth stage model as a framework, Bachtiar (2020) performed qualitative research to ascertain the point at which SMEs may diversify. As a result, this sta's goal might change. According to the findings, small and medium-sized businesses (SMEs) in Central Java and East Java, Indonesia, may benefit from diversification more than big companies. The study's primary objective was to identify the ideal development stage for SMEs in these regions. Small and medium-sized enterprises (SMEs) still had the option of diversifying, but it couldn't be done in phases 1 and 2. In order to have a better grasp of the diversification choice inside SMEs, this research used Threat, Opportunity, Weakness, and Strength (TOWS) analysis. At the end of the research, the authors suggested a growth stage model to illustrate the most important part of a company's journey.

The influence of subnational institutions on SMEs' diversification into new business types was investigated by Chen and Paik (2021) using data from China. Based on their analysis of 3,240 SMEs in China, the researchers found that diversification of local SMEs was linked to the dominance of state-owned companies (SOEs) and the development of market systems in a province. SMEs were less likely to diversify into new ventures in provinces where state-owned enterprises (SOEs) predominated. SMEs that focused on serving local markets were less likely to diversify into unrelated industries as a result of market system development. This research adds to the growing body of literature on SME management, diversification, and the impact of sub-national institutions on this phenomenon. It is an unusual attempt to probe this relationship.

Some studies have shown favorable impacts of diversification on business performance, while others have shown detrimental consequences. An analysis of medium and small businesses in Austria was conducted by Situm (2019) on the topic of resource-based views on corporate performance and diversification. In light of prior research on the effects of diversity and other variables on the bottom lines of Austrian SMEs, this study set out to test several predictions. The study's three-year duration allowed for the evaluation of 1,095 individual observations from SMEs. The resource-based view (RBV) served as the theoretical foundation of the research. Results were not decisive as to whether connected or unrelated diversity yielded better profits, depending on the criteria used. Businesses of all sizes may attest to this. (SMEs). Various enterprises also lacked a substantial safety net. Least related diversity significantly decreased risk when comparing diversified and non-diversified medium-sized firms. In the end, the RBV can

only do so much when it comes to describing and predicting how a diversification strategy would affect profitability and risk.

Joint effect of regional and product variety on performance: Evidence in manufacturing SMEs was studied by Benito-Osorio et al. (2020). This study stands out from the others because it differentiates between product diversification and product differentiation. Various small and medium-sized manufacturing enterprises made up the study population. between the years 1994 and 2014. Utilizing dynamic panel data models, it was discovered that spatial diversity is associated with performance in a horizontal S-shaped relationship. Additionally, the results demonstrated that SMEs with geographical diversification may benefit (though not permanently) from product diversification into related areas, but that SMEs with low or high levels of international diversification may suffer greatly from product diversification into unrelated areas. According to the study's findings, SMEs' product and international diversification strategies may be either complementary or substitutive, depending on the kind of product diversification strategy and the level of geographical diversification selected.

2.3.6 Regulatory Policies, Investment Decisions and Growth of SMEs

When it comes to the expansion of small and medium-sized businesses, regulatory regulations are king. The policies have an effect on the capital investment choices made by SMEs, which impacts their growth. Research by Oladele et al. (2019) examined how regulatory policies impact SMEs' ability to grow via capital investment decisions. Information was gathered from 500 SMEs in Nigeria using a survey research approach. The data was examined via the use of regression analysis and descriptive statistics. A

negative correlation between capital investment choices and development of SMEs in Nigeria was seen due to regulatory measures, according to the research. Research shows that taxes, licenses, and permits are only a few examples of how regulatory policies impact SMEs' capacity to spend in capital projects and, by extension, their chances of development.

Alles et al. (2021) examined the impact of non-financial factors on the capital budgeting techniques used by SMEs and the extent to which SMEs implement capital budgeting approaches. This study included both econometric quantitative analysis and a qualitative research method known as content analysis. The study was carried out in several divisional councils within the Colombo area of Sri Lanka. In order to get a representative sample of SMEs from each divisional council, stratified random sampling was used. Data was collected via the use of surveys and in-person interviews. Payback Period (PBP) was found to be the most often used capital budgeting approach among SMEs, according to the study results. Multinomial logistic regression results indicated that SMEs operating in the same industry for 11–15 years and SMEs with an international presence had a higher likelihood of using Net Present Value as their capital budgeting technique. If you are a decision-maker for a small or medium-sized enterprise (SME) with fewer than ten years of experience, you are more likely to choose PBP as your capital budgeting technique. Finally, this research's use of qualitative approaches revealed that the main barriers to SMEs using capital budgeting strategies were cost, effort, and knowledge.

Although they play a significant role in driving economic development, SMEs often encounter obstacles when trying to get investment funds. The capacity of SMEs to get capital and make investment choices is susceptible to regulatory rules. The effect of regulatory policies on the connection between SMEs' capital investment decisions and their growth was studied by Bwambale et al. (2020). Using a standardized questionnaire, 150 Ugandan SMEs were polled. Descriptive statistics and multiple regression analysis were used to analyze the data. A negative correlation between capital investment choices and development of SMEs in Uganda was seen, according to the research, due to regulatory regulations. Tax rules and licensing requirements have a substantial impact on SMEs' capacity to engage in capital projects, which impacts their development prospects, according to the report. The research concludes that the government should ease licensing requirements and lower taxes on SMEs to entice investment in capital projects.

How regulatory policies influenced capital investment and growth of SMEs in Kenya was examined by Mutua (2019). Specifically, the research looked at how different regulatory regimes in Kenya affected the connection between SMEs' development and their choices to invest in capital. The quantitative research surveyed 200 SMEs in Kenya to compile its data. To examine the connection between capital investment, regulatory policies, and SME development, the research used regression analysis. Small and medium-sized enterprises (SMEs) in Kenya are impacted by regulatory policies in terms of capital investment and growth, according to the report. Government policies, including tax laws, licensing requirements, and labor rules, have a substantial impact on capital investment and development of SMEs, according to the research. According to

the research, in order for small and medium-sized enterprises (SMEs) to succeed, the government needs reevaluate its regulatory policies.

Research was conducted by Ndirangu and Ochieng (2018) on the effects of regulatory policies on capital investment and SMEs in Tanzania. The purpose of this research was to examine how regulatory policies in Tanzania have affected the connection between SME development and capital investment choices. The research surveyed 150 SMEs in Tanzania as part of its mixed-method methodology. The investigation on the connection between SME expansion, capital investment, and regulatory policies made use of descriptive statistics as well as regression analysis. Capital investment and development of SMEs in Tanzania are significantly impacted by regulatory regulations, according to the research. Capital investment and development of SMEs are greatly impacted by government policies, according to the report. These policies include tax laws, licensing requirements, and labor restrictions. The research concludes that in order for SMEs to flourish in Tanzania, the government needs reevaluate its regulatory policies.

2.4 Summary of Literature Reviewed and Gaps

This subsection summarises the literature reviewed and clearly brings out the research gaps identified. Table 2.1 summarises the major studies and gaps:

Table 2.1: Summary of Literature and Research Gaps

Author	Objectives	Methodology and Major Findings	Gap in Study	How the gaps were filled
Al-Mutairi and Burns (2015)	The relationship between expansion decision and performance of firms across the world.	They used the regression analysis. The empirical findings revealed that, many firms unfortunately that pursue global expansion as a strategy do not always select the best market because firms do not fully understand the various external and internal environmental factors surrounding their business decisions.	Despite considering expansion as investment decision, they not only studied the global expansion strategy on market selection but failed to consider other capital investment strategies.	This study analyzed the impact of expansion alongside other capital investment decisions (replacement, modernization, diversification) on SME growth in a localized context (Nairobi CBD).
Musau (2016)	The relationship between business expansion and the success of SMEs.	Correlation analysis and the empirical findings revealed that business expansion is not the best decision or strategy as it is prone to risks due to firms getting open to new markets, new competition, new costs and new assets investment.	The study only concentrated on the risks associated with business expansion.	This study explored both the risks and benefits of business expansion and analyzed it in conjunction with other capital investment decisions (e.g., replacement, modernization, diversification) to provide a holistic understanding of its impact on SME growth in Nairobi CBD.

Author	Objectives	Methodology and Major Findings	Gap in Study	How the gaps were filled
Roger (2010)	The relationship between asset allocation and replacement decisions on SMEs growth.	Panel Regression Model. Expansion will most likely be adopted to reach more customer coverage, increase on surpluses and reduce on deficits and at the same time work towards increasing customer wealth through issuing of more dividends.	The researcher focused only on the importance of asset allocation and replacement as the only investment decision.	This study incorporated multiple capital investment decisions (expansion, replacement, modernization, contingency, and diversification) to provide a comprehensive analysis of their combined and individual effects on SME growth in Nairobi CBD.
Richard, Jonathan, and Sharon (2014)	To examine how Business Climate influences international franchise expansion	Panel regression analysis. Their study concluded that external factors such as business climate are key predictors of foreign firm's expansion and growth into that country.	The study concentrated only on external factors as determinants of expansion. They failed to relate expansion to growth of the firm. They concluded that a local study will be necessary to ascertain whether expansion as a strategy is significant for growth of SMEs trading in Kenya and in particular Nairobi county CBD.	This study examined expansion as a strategy alongside other capital investment decisions (replacement, modernization, contingency, and diversification) and its direct relationship with SME growth in Nairobi County CBD, addressing both external and internal factors.
James (2015)	To examine how performance expectations	They used regression analysis to determine the impact of performance	The researchers only focused on the effect of performance expectations	This study analyzed the effect of replacement investment decisions on

Author	Objectives	Methodology and Major Findings	Gap in Study	How the gaps were filled
	affect managerial replacement decisions.	expectations on managerial replacement decisions. The results showed that enterprise system replacement was not financially significant for revenue growth or operational efficiency.	on the managerial replacement decisions instead of vice versa.	SME growth in Nairobi County CBD, focusing on operational efficiency, cost reduction, and competitiveness, providing a broader perspective beyond performance expectations.
Yiming, Siqi, Thomas, and Thomas (2011)	Examine whether banks adjust their loan interest rates and consider loan renewal decisions in reference to borrower's financial performance	Multivariate regression analysis. They found a negative relation between loan renewal and the financial performance of borrowers.	The study only focused their study on the corporate modernization strategy	This study explored the role of modernization investment decisions in driving SME growth in Nairobi County CBD, focusing on adopting new technologies and improving operational efficiency.
René, Ursula, and Mariëlle (2010)	To examine the continuity and renewal of loan decisions.	Decision analysis. The findings established that the level of change and extent of change in terms of the proportion of managers entering or exiting the team do not influence subsequent firm performance.	They only studied the continuity and renewal of loan decisions.	This study investigated multiple capital investment decisions (e.g., replacement, modernization, diversification) and their collective influence on SME growth in Nairobi County CBD, addressing

Author	Objectives	Methodology and Major Findings	Gap in Study	How the gaps were filled
				gaps in investment strategies beyond loan continuity.
Jeffrey and Jeffrey (2012)	Association between adoption of renewal options and lender's willingness.	They used multi-regression analysis and the findings revealed that the adoption of renewal options has a negative effect on the lender's willingness to lend to a firm with renewal options.	They only focused on the adoption of renewal options.	This study analyzed the broader context of investment decisions, including modernization, replacement, and diversification, to understand their comprehensive impact on SME growth in Nairobi County CBD.
Shrihari & Raji (2013)	To examine dynamic relationships among R&D on SMEs growth.	They applied a descriptive study to collect quantitative and qualitative data. Empirical findings found that Research & Development does not increase firm sales	The researchers focused on examining the effects R&D has on growth of the SMEs. They failed to consider other key investment decisions such as expansion, modernization or contingence.	This study considered multiple capital investment decisions, including expansion, modernization, replacement, contingency, and diversification, to provide a comprehensive understanding of their impact on SME growth in Nairobi County CBD.
Hassan, and İbrahim (2014)	To examine Research and development investment on the financial	They applied a descriptive study to collect quantitative and qualitative data. The research established out that investment in R&D has	They concluded that there is a need for a study exploring whether R&D has influence on growth of companies and in	This study addressed the gap by investigating the broader scope of investment decisions, including R&D, expansion,

Author	Objectives	Methodology and Major Findings	Gap in Study	How the gaps were filled
	performance of a firm.	a positive impact on firm's financial performance	particular SMEs in Kenya.	modernization, and diversification, and their combined influence on SME growth in Nairobi County CBD.
Cobb, Wry and Zhao (2016)	Analyzing the lending practices of commercial and public funders, who together provide most of the capital for global microfinance.	Using a proprietary database of all traceable loans to MFOs from 2004 to 2012, they revealed that the relationship between institutional logics and organizational practices is contextually contingent, and this insight contributes important understanding about the efficacy of microfinance as a poverty-reduction tool.	The study applied and extended the institutional logics perspective. They never estimated an empirical model to elucidate the impact of contingency decisions on performance of the microfinance. The current study will conduct empirical investigation of contingency decisions on growth of SMEs.	This study conducted an empirical investigation into the impact of contingency investment decisions on SME growth in Nairobi County CBD, providing evidence-based insights into contingency planning and its role in enhancing performance.

Source: Researcher (2024)

2.5 Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation.

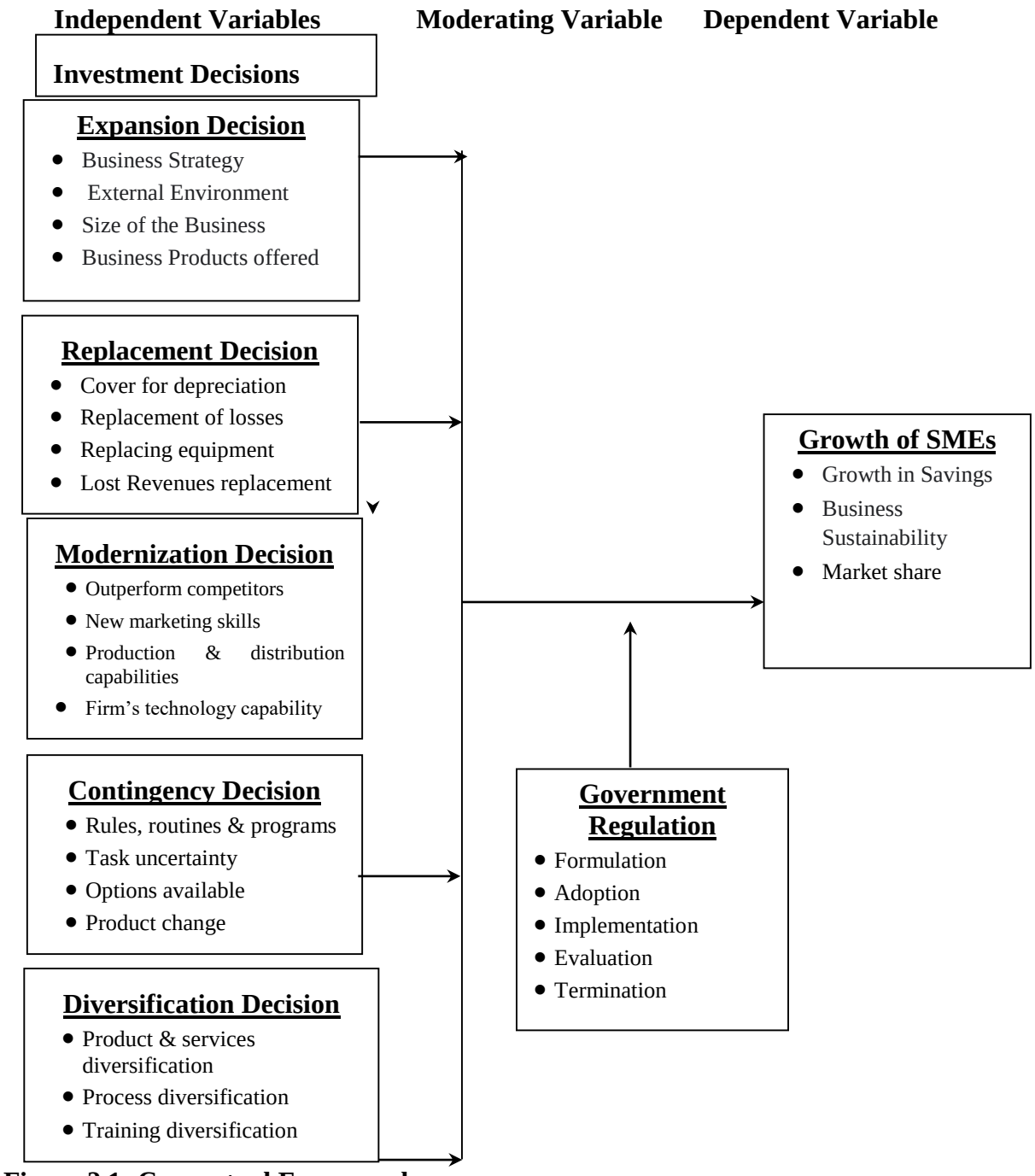

Figure 2.1: Conceptual Framework

Source: Researcher (2024)

The independent variables in this conceptual framework represent the critical investment decisions made by SMEs that directly influence their operational performance and growth trajectories. Expansion decisions focus on strategies such as entering new markets, optimizing business size, and leveraging external opportunities to increase market share and achieve economies of scale. These decisions are integral for SMEs aiming to diversify their customer base and enhance long-term competitiveness. Replacement decisions involve replacing outdated or inefficient resources, including equipment or systems, to reduce operational costs and maintain efficiency. Key elements include depreciation planning, cost containment, and minimizing lost revenues. By ensuring the timely replacement of inefficient assets, SMEs can sustain productivity and remain competitive in dynamic markets.

Modernization decisions emphasize the adoption of new technologies, the improvement of production and distribution capabilities, and the acquisition of new skills. These decisions enhance the technological capacity and operational flexibility of SMEs, enabling them to meet evolving customer demands and outperform competitors in increasingly digital and competitive markets. On the other hand, contingency decisions focus on managing uncertainty and risk through established rules, routines, and task-specific programs. These decisions involve clear goal-setting, task management, and flexibility to respond effectively to crises, ensuring organizational resilience and sustained performance.

Diversification decisions are aimed at expanding product and service offerings or processes to mitigate risks and seize new opportunities. By diversifying revenue streams

and entering different markets, SMEs can reduce their dependency on a single product or market and enhance their competitive position.

Government Regulation represents the influence of policy and regulatory frameworks on the relationship between SMEs' investment decisions and their growth. Key dimensions include the formulation, adoption, implementation, and evaluation of regulations. Favorable government policies, such as tax incentives or streamlined licensing processes, can amplify the benefits of SMEs' investment decisions by reducing costs and improving market access. Conversely, overly stringent or unclear regulations may hinder the effectiveness of these decisions by increasing compliance burdens and limiting operational flexibility.

The dependent variable which is the growth of SMEs is the ultimate outcome of effective investment decisions, measured through indicators such as growth in savings, business sustainability, and market share expansion. When SMEs make strategic investment decisions and operate in a conducive regulatory environment, they can achieve increased profitability, enhanced market presence, and improved operational sustainability.

On the relationships between variables, the independent variables (investment decisions) directly affect the dependent variable (growth of SMEs) by fostering innovation, operational efficiency, and market expansion. For instance, modernization and expansion decisions contribute to increased revenue and market share, while contingency and diversification decisions mitigate risks and ensure stability.

Government regulation moderates this relationship by either facilitating or constraining the effectiveness of these investment decisions. Supportive regulations can amplify the positive impacts of investment decisions on SME growth, while restrictive policies may dampen their effectiveness. Furthermore, regulatory policies directly influence SME growth by shaping the overall business environment, including access to resources, market opportunities, and compliance costs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section reviewed the research methodology. Methodology is the choices that are made about cases for study, methods of data gathering and other forms of data analysis. The section discusses the research design, target population, sampling design, data collection instruments, data collection procedure, data analysis and presentation and ethical considerations.

3.2 Research Philosophy

The tenets of positivism informed this investigation. Objectivity and the idea that truth and reality exist apart from the researcher are the cornerstones of positivism, as stated by Urquhart (2008). This means that the researcher can remain impartial and detach from the topic under study in order to discern the truth. According to positivists, there are some principles and laws of causality that govern the cosmos and cannot be changed or altered (Griffin, 2006). In order to get past any complexity that may be there, Ogilvy argues that researchers use a reductionist approach.

According to positivists, the universe does not rely on the subjective mental processes of individuals but rather existing as an objective, material reality composed of generally immutable structures (Venkatesh, 2006). While performing their own autonomous and objective examination of the cosmos, researchers strive for objectivity, impartiality, measurement, and repetition (Ogilvy, 2006). Using this method, the researcher was able

to conduct a fair analysis of the correlation between SMEs' expansion and capital investment choices in Nairobi City County, Kenya.

3.3 Research Design

According to Yin (2017), research designs are plans for data collecting that try to balance relevancy with the study's goals. The research strategy adopted in the study was a descriptive one. Relationships between two or more relevant variables may be discovered using this strategy (Curtis, Comiskey & Dempsey, 2016). In an effort to evaluate the growth and capital investment choices of small and medium firms in Nairobi City County, Kenya, this method sought to gather data in an unbiased manner, without influencing the study variables or the respondents. The interconnected fluctuations of the independent and dependent variables did not directly influence the establishment of relationships between the variables.

Using a descriptive research strategy, Mwangi (2021) surveyed SME owners in Nairobi County, Kenya, to learn more about their experiences with microfinance institutions and how they influenced the expansion of their businesses. The impact of marketing tactics on the productivity of small and medium-sized enterprises (SMEs) in Nairobi was investigated by Kamau (2020). In order to learn how different marketing approaches affected the success of small and medium-sized enterprises (SMEs), the researcher used a descriptive research strategy to survey these individuals. Using a descriptive research strategy, Singh and Gaur (2018) surveyed SME owners in India to learn how financial literacy affected their companies' growth. The purpose of this research was to identify any potential correlation between financial literacy and company expansion without

include confounding factors. In their study, Kumar and Kumar (2019) looked at how small and medium-sized enterprises (SMEs) in Malaysia fared after adopting new technologies. In order to examine the impact of technology adoption on company performance, researchers used a descriptive research strategy to gather data from managers of small and medium-sized enterprises (SMEs).

3.4 Target population

According to Singleton and Straits (2010), the term "target population" refers to the total number of respondents who satisfy the specified criteria. The term "subject pool" refers to the whole collection of individuals, events, or things that a researcher hopes to apply the findings to in a broader sense (Ngechu, 2004). This research used small and medium-sized enterprises (SMEs) as its unit of analysis and owner/managers as its unit of observation. The study targeted 1,367 SMEs registered in the CBD within the period between 2013 to 2022 as indicated in Table 3.1.

Table 3.1: Population by Sector

Sector	Small Enterprises	Medium Enterprises	Total	Percent (%)
General Traders shops and Retail Services	223	194	417	31
Transport Storage and Communications	67	41	108	8
Accommodation and Catering	224	98	322	24
Technical and Financial services	92	54	146	11
Private Education, Health and Entertainment	72	50	122	9
Industrial Plants, Factories, Workshop, Contractors	46	20	66	5
Small Trades Services	103	83	186	14
Total	**827**	**540**	**1,367**	**100**

Source: Nairobi City County (2024)

The target population comprised of 417 General Traders shops and Retail Services; 108 Transport Storage and Communications; 322 Accommodation and Catering; 146 Technical and Financial services; 122 Private Education, Health and Entertainment; 66 Industrial Plants, Factories, Workshop, Contractors and lastly, 186 Small Trades Services. The Nairobi City County (NCC) licensing department provides evidence of the existing SMEs.

3.5 Sampling Design and Sample Size Determination

The study adopted a mixture of stratified and simple random sampling. This design was significant because it provided a better coverage of the population to be studied for better results.

3.5.1 Sampling Design

This is the strategic framework outlining how a sample is selected from a population to ensure accurate representation and reliability of results in a study. A combination of stratified and basic random sampling methods was used. As stated in table 3.2 and following Ndede (2015), strata were built on a diverse variety of economic sectors. All of the firms had a fair shot since they were chosen in a proportional manner. To randomly choose individual components from a diverse population, stratified sampling splits the population into many homogeneous strata (Trochim, 2000). Because it includes every member of the population, this method is ideal. All the layers are complete in and of themselves. By following the approach, the sampling error may be minimized (Mugenda & Mugenda, 2008).

3.5.2 Sample size determination

In determining the sample size of the participating SMEs, the study applied Yamane (1967) formula.

$$n = \frac{N}{1 + N\ (e^2)}\ ; where, n = sample\ size$$

N=Population size; e=margin of error (0.05)

$$n = \frac{1367}{1 + 1367\ (0.05^2)}\ ; thus, n = 309.45$$

This rounds up to a sample of 310 SMEs. Adopting a proportionate distribution, the sample size as per sector was obtained as $n=P_{i/N}$ X (S)

Where n= total sample

P_i = Population as per sector

N= Total Population

Table 3.2: Sample Size Distribution by sub-Sectors

Sector	Population	Sampled Small Enterprises	Sampled Medium Enterprises	Total Per Sector Sampled
General Traders shops and Retail Services	417	51	44	95
Transport Storage and Communications	108	15	9	24
Accommodation and Catering	322	51	22	73
Technical and Financial services	146	21	12	33
Private Education, Health and Entertainment	122	16	11	28
Industrial Plants, Factories, Workshop, Contractors	66	10	5	15
Small Trades Services	186	23	19	42
Total	**1,367**	**188**	**122**	**310**

Source: Survey computations (2024)

According to Kothari (2006) in Ndede (2015), an optimum sample fulfils the requirements of efficiency, representativeness, reliability as well as flexibility. For each sector, random numbers were generated using a computer random number generator.

3.6 Data Collection Instruments

Research relied on original sources of information. The unit of observation, the owner/manager(s) of the targeted enterprises, were surveyed using questionnaires to gather primary data (See Appendix ii). There are a number of justifications for the use of a questionnaire in this research on the impact of capital investment choices on the development of SMEs in Nairobi City County, Kenya. When compared to other techniques of data collecting, questionnaires enable the rapid and inexpensive gathering of information from many respondents (Gillham, 2008). According to Saunders, Lewis, and Thornhill (2009), standardized questionnaires help to reduce interviewer bias and ensure consistent data gathering. The fact that questionnaires may be sent out to many people, even those in different locations, makes them perfect for gathering information from small and medium-sized enterprises (SMEs) in Nairobi City County (Bryman & Bell, 2015).

A greater response rate may be achieved if respondents are allowed to complete the questionnaire at their convenience (Dillman, Smyth, & Christian, 2014). Many surveys include quantitative, closed-ended questions that lend themselves well to statistical analysis, painting a vivid picture of patterns and correlations (Kothari, 2004). To dependably gather objective data for relevant analysis, structured questions are useful (Robson, 2002). Respondents are more likely to be forthright and truthful when they know they may remain anonymous while filling out surveys (Fowler, 2014). The questionnaire was constructed using a 5-point scale that allowed respondents to indicate their level of agreement or disagreement on a variety of topics. The scale ranged from

strongly disagree (SD) to highly agree (SA). Because of their low cost, ease of administration, and consistent, predetermined response format, questionnaires are often chosen over other methods of data collecting. The user is severely restricted in their ability to express themselves, which is a major drawback. Once again, the fact that they are written forms means that the respondent must read them carefully before responding (Kothari, 2008).

3.7 Approach to Collecting Data

The study identified the businesses that were sampled. The next step was to inform the participants about the study's goals and significance. Using a drop-and-pick procedure, the researcher and research assistants distributed questionnaires to the owners and managers of the chosen SMEs. The time limit for the respondents to complete the survey was mutually agreed upon. After finishing, the researcher gathered the surveys and made sure a lot of people filled them out and sent them back.

3.8 Pilot Study

The study ran a pilot test. In order to identify any shortcomings in the questionnaires and sample methods, a pilot test is conducted to replicate and practice the main research (Kotter, 2008). According to Gall and Borg (2006), the sample population for the pilot research should consist of 10% of respondents. The validity of thirty-one questionnaires was tested in a pilot study.

3.8.1 Validity Test

There was a validity test performed in the research. The level of evidence and expert support for the interpretations of test results implied by planned test uses is known as validity. What this means is that a given set of indications may be represented by a single instrument. The researcher pre-tested, reviewed, and approved the questionnaire as an instrument to ensure its validity for this investigation. Questioning the correct things in the most straightforward manner possible in light of the study's aims is, according to Bryman and Bell (2013), an indicator of an instrument's validity.

3.8.2 Reliability Test

In order to find out how consistently the instrument measured the same thing every time it was used under the same conditions with the same person, researchers conducted a reliability study (Bryman, 2013). In order to determine the measuring tool's internal reliability, the pilot research was used to calculate Cronbach alpha, a statistic for internal consistency. The reliability of the created scale is proportional to its score. A dependability level of 0.7 according to Bryman and Bell (2013) is considered satisfactory. The pilot test provided valuable input that led to the final version of the questionnaire. According to this research, a reliability level of 0.7 on the Cronbach's Apha test is satisfactory.

Table 3.3: Reliability Results

Variable	Cronbach's Alpha	No of Items
Expansion Decision	.743	6
Replacement Decision	.989	6
Modernization Decision	.939	6
Contingency decision	.940	5
Diversification Decision	.913	5
Regulatory policies	.856	5
SMEs growth	.913	6
Average score	**0.906**	**6**

Source: Researcher (2024)

The study instrument's reliability findings showed a Cronbach alpha coefficient of 0.906 overall. The Cronbach alpha coefficient for each of the study variables was found to be more than 0.7, indicating strong internal consistency. The choice to replace something had the greatest coefficient at 0.989, while the decision to expand had the lowest at 0.743. Thus, the items tested were consistent and stable, demonstrating dependability in this investigation.

3.9 Analyzing and Presenting Data

Primarily, the researcher gathered information. The study used SPSS version 25.0 to code the data. To quantify the Likert scale data, the researcher computed the composite scores (composite indices) for each construct. Analyses using quantitative data made use of descriptive statistics, including frequencies, percentages, means, and standard

deviations. Data was presented in the form of tables and figures. To determine how capital investment choices in Nairobi County CBD, Kenya's SMEs affect their development, a multiple regression model was used. Here was how the model was stated:

$Y= \beta_0+ \beta_1ED+\beta_2RD+ \beta_3MD+ \beta_4CD+ \beta_5DD+ \varepsilon$…….3.1

Where: Y = Growth of SMEs,

ED= expansion decision;

RD= replacement decision;

MD= modernization decision;

CD= Contingency decision;

DD= Diversification Decision;

β_0 = Constant, β_1, β_2, β_3, β_4, and β_5 are coefficients, ε is the error term.

To test the moderation effect of the regulatory policies, the study employed Baron and Kenny (1986) hierarchical approach. The steps were as follows;

$Y= \beta_0+ \beta_6ED + \varepsilon$…….3.2

$Y= \beta_0+ \beta_7ED + \beta_8MV+ \varepsilon$…….3.3

$Y= \beta_0+ \beta_9ED + \beta_{10}MV+ \beta_{11}E*M + \varepsilon$……..…….3.4

MV= Regulatory policies (Moderating variable), and E*M is the interaction term for expansion decision and moderating variable (regulatory policies). To determine statistical significance, the study used parametric tests, namely the R squared, F-test in Analysis of Variance (ANOVA) and t-tests.

3.10 Definitional Variance, Operationalization, and Measuring

Concepts are discovered and related to variables in operationalization, which was discussed in this section. Finding procedures that display values of a studied variable is the first step in this approach. To rephrase, operationalization is the process of identifying specific facts that are believed to represent an actual notion in the actual world.

Table 3.4: Operationalization of Key Study Variables

Variable	Variable type	Operationalization	Category	Measurement
Growth	• Dependent Variable	• Business Strategy, • External Environment, • Company Size	Interval Scale	• Size of the business
Expansion Decision	• Independent Variable	• Cover for depreciation • Replacement of losses • Replacing equipment	Interval Scale	• Expansion type
Replacement Decision	• Independent Variable	• Depreciation Expense, • Interest Expense, • Operating Costs • Possibly Lost Revenues	Interval Scale	• Cost incurred
Modernization Decision	• Independent Variable	• Outperform competitors • New marketing skills • Production and distribution capabilities • Firm's declined performance	Interval Scale	• Capabilities of the firm
Contingency Decision	• Independent Variable	• Size, • Task uncertainty, • Transformation,	Interval Scale	• Level of Decision
Diversification Decision	• Independent Variable	• Product • Process • Training	Scale/Interval	• Product type and process
Regulatory policies	• Independent Variable	• Formulation • Adoption • Implementation	Scale/Interval	• Level of implementation

3.11 Diagnostic Tests

When a model or data set has issues, diagnostics in regression analysis might help you figure out why (McCullagh, 2019). These are the tests that were used for the research. Chapter 4 detailed the findings.

3.11.1 Check for Normalcy

In order to ensure that the data is distributed normally, statistical processes require testing the normality of the gathered data. The study checked for normalcy using the Shapiro-Wilk test. A P-value greater than 0.05 in the Shapiro-Wilk test indicates that the assumption is met.

3.11.2 Testing for Multicollinearity

Time series data sometimes exhibit multicollinearity, which leads to an uncertain regression coefficient. The standard errors are also made limitless by multicollinearity. Variance inflation factors (VIF) tests were used to check whether there was a strong enough correlation between variables to provide misleading findings in the presence of multicollinearity. When the VIF values are more than 10, it indicates that the dependent and independent variables are multicollinear. As a cure in correlation matrix and VIF analysis, if one of the correlated variables in the correlated pairs is detected, it is either discarded or first differencing.

3.11.3 Heteroscedasticity test

The existence of a constant variance in the residuals may be confirmed using this technique. The Breusch-Pagan test was performed to see whether the residuals varied

across all the observations that were part of the research. If the p-value is more than 0.05, the research uses robust standard errors to fix the problem; otherwise, the null hypothesis of no constant variance is rejected.

3.12 Ethical Consideration

Assuring that no one is hurt or has negative effects as a result of the study is the aim of ethics. Due to the delicate nature of the connections between researchers and respondents, this study took adequate precautions in accordance with ethical standards. The researcher kept all information acquired throughout the study period strictly confidential and used it for academic reasons alone. In this research, the identities of the respondents were not used or even revealed.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter entails presentation, analysis and interpretations of study findings. Additionally, it displays the tabulated data analysis findings. The chapter provides interpretations of the research findings in connection to the study theories and empirical literature and includes the outcomes of descriptive and inferential statistics. In order to understand the nature of the connection between the study variables, measures of central tendency are used to show the descriptive analysis of the research data. A number of tests conducted on research data are also covered in this chapter as a prelude to multiple regression analysis. These tests include autocorrelation, multicollinearity, homoscedasticity and normality. The study's topics and findings are arranged according to the main and supporting themes of the research questions.

4.2 Response Rate

The researcher administered 310 questionnaires, received 80% (n=248) and incomplete questionnaires 20% (n=62). The blank and incomplete questionnaires were therefore excluded in the analysis. Figure 4.1 shows the categorization of the returned questionnaires with respect to the completeness of the information sought from the respondents.

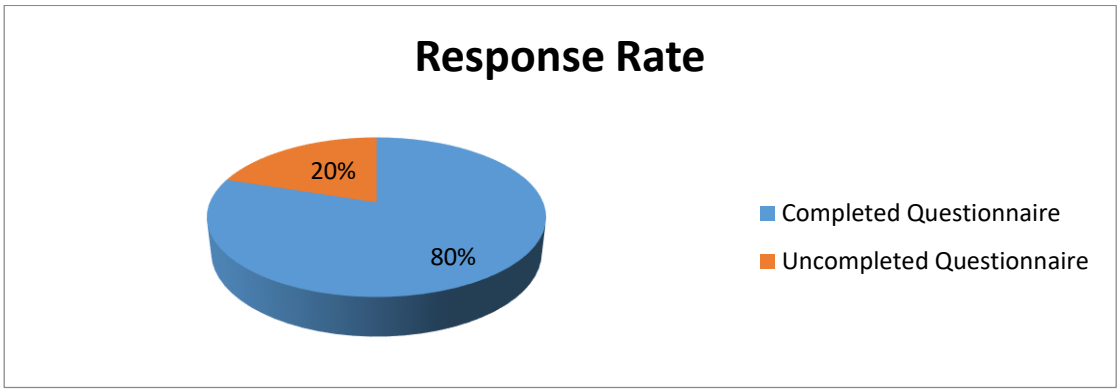

Figure 4.1: Response Rate (2024)

4.3 Demographic Characteristics

Demographic data of the respondents was important in data analysis as it provided data that described the particular groups within the population of interest. It was therefore important for the determination whether individuals in the study were a representative sample for the generalization of the study findings. Respondent's demographic data took into consideration gender of the respondent, designation, age category and location of the firm.

Table 4.1: Respondents Demographic Data

Category	Sub-Category	Frequency	Percent
Gender	Male	112	45.2
	Female	136	54.8
	Total	**248**	**100.0**
Age Bracket	21-30 years	34	13.7
	31-40 years	112	45.1
	41-50 years	83	33.3
	Over 51 years	19	7.8
	Total	**248**	**100.0**
Working Experience	5-10 years	24	9.7
	11-15 years	73	29.3
	15-20 years	117	33.3
	Over 20 years	34	13.7
	Total	**248**	**100.0**
Level of Education	O Level	8	3.2
	College	123	49.6
	University	117	47.2
	Total	**248**	**100.0**

Source: Survey Data (2024)

The demographic characteristics of the respondents are presented in Table 4.1, which provides a breakdown by gender, age bracket, working experience, and level of education. The gender distribution shows that the majority of respondents were female, accounting for 54.8%, while males comprised 45.2%. This balanced gender representation ensures that the research findings are not biased towards a particular gender. The age distribution indicates that the largest group of respondents (45.2%) were aged 31-40 years, followed by those aged 41-50 years (33.3%). This suggests that the study captured a fair representation of the targeted demographic, which is crucial for the reliability of the findings.

The data also reveals that most respondents had substantial working experience, with 33.3% having 15-20 years of experience and 29.3% having 11-15 years of experience. This significant level of experience among respondents enhances the credibility of the findings, as it incorporates professional opinions from seasoned individuals. In terms of education, 49.6% of respondents had attained a college education, while 47.2% had a university education. This high level of education among respondents minimizes the risk of sampling bias and supports the generalizability of the findings to venture capital practitioners. Additionally, the study incorporated both quantitative and qualitative methods, utilizing primary and secondary data from financial experts.

The respondents, primarily managers and SME owners with extensive experience, provided valuable insights, ensuring that the results are reflective of the real situation on the ground. This comprehensive approach confirms that the findings are not attributable to a particular professional category, thereby enhancing the overall validity of the study (Survey Data, 2023).

4.4 Descriptive Analysis

The study collected quantitative during the survey. Quantitative method of data analysis was undertaken in this subsection to provide an understanding the investment decision by soliciting the respondents' views to help in exploring and explaining some attributes of investment decision. Against this background, it was crucial to consider and interpret the respondents' opinions, experience and knowledge to help explain the results of the inferential statistics that would result from the analysis of the quantitative method also used in this study. The descriptive analysis on investment decision covered; expansion

investment decision, replacement investment decision, modernization investment decision, contingent investment decision and diversification investment decision.

4.4.1 Expansion Investment Decision and Growth of Small and Medium Enterprises

The result in this section presents expansion investment decision in Small and Medium Enterprises in Nairobi City County, Kenya. The results are presented in Table 4.2.

Table 4.2: Expansion Investment Decision

	Mean	Std. Dev
We achieve expansion decisions through business strategy employed	3.5847	.69183
We maximise profit from shorter life-cycles product or service and the external environment.	3.3806	.69814
We take advantage of good business opportunities and company size ensures SMEs growth.	3.4452	.61052
We benefit from opportunities that increase the number of market(s) and reduce related risks	3.7903	.55139
We offer a unique product or service	3.9363	.54094
We gaining economies of scale from additional orders	3.3319	.57194
Aggregate Score	**3.5782**	**0.6108**

Source: Researcher (2024)

The results in Table 4.2 indicate that the aggregate mean for expansion investment decisions was 3.5782, with a standard deviation of 0.6108. This low standard deviation suggests minimal variation from the mean, indicating a consistent opinion among respondents. The data shows that businesses moderately achieve expansion decisions through various strategies. Specifically, businesses employ business strategies to achieve expansion (M=3.5847, Std. Dev=0.69183), maximize profit from shorter life-cycle products or services and the external environment (M=3.3806, Std Dev=0.69814),

and take advantage of good business opportunities and company size to ensure SME growth (M=3.4452, Std Dev=0.61052). Additionally, businesses benefit from opportunities that increase the number of markets and reduce related risks (M=3.7903, Std Dev=0.55139), offer unique products or services (M=3.9363, Std Dev=0.54094), and gain economies of scale from additional orders (M=3.3319, Std Dev=0.57194).

Business expansion is a critical goal for firms aiming to maximize wealth, but it also involves risks such as exposure to new markets, competition, costs, and asset investments. Samson, Gardebroek, and Jongeneel (2016) found that expansion projects increase the size of firms, which can lead to improved performance in Dutch dairy firms. Al-Mutairi and Burns (2015) revealed that firms pursuing global expansion often struggle with market selection due to insufficient understanding of external and internal environmental factors. Musau (2016) highlighted that achieving economies of scale drives SMEs to expand, enabling them to gain significant benefits. Additionally, Roger (2010) stated that the primary goal of expansion is to increase customer coverage, surpluses, and reduce deficits while enhancing customer wealth through higher dividends.

The study on expansion investment decisions reveals several implications crucial for business managers, policymakers, and researchers alike. Firstly, it underscores the importance of investment decision in achieving successful expansion, highlighting the need for businesses to develop and implement tailored strategies to navigate the complexities associated with growth. Effective risk management emerges as another

critical implication, as businesses must proactively identify and mitigate risks such as market volatility, competition, and operational challenges.

Market selection is emphasized, with a recommendation for firms to conduct thorough market research to understand the external and internal factors influencing market dynamics, ensuring informed decision-making (Al-Mutairi & Burns, 2015). Moreover, the study highlights the pursuit of economies of scale as a significant driver for SMEs to expand, suggesting that businesses should focus on optimizing production efficiency and reducing costs through larger-scale operations (Musau, 2016). Offering unique products or services is identified as a key strategy to enhance competitive advantage and attract new markets, necessitating investments in innovation and product development.

Long-term growth implications are also noted, with expansion projects contributing to firm size and market reach, thereby enhancing overall value and shareholder wealth (Samson, Gardebroek, & Jongeneel, 2016). Policymakers can use these findings to support SMEs by creating conducive regulatory environments and providing access to financing and infrastructure. Finally, the study calls for future research to delve deeper into specific factors influencing successful expansion across different industries and regions, contributing further to the understanding of business growth strategies and their implications.

4.4.2 Replacement Investment Decision and Growth of Small and Medium Enterprises

The section presents results on replacement investment decisions and growth of SMEs in Nairobi City County, Kenya. The results were summarised in Table 4.3.

Table 4.3: Replacement Investment Decision

	Mean	Std. Dev
There is always Depreciation Expense incurred when equipment breaks down ensure	4.5847	.45323
Interest Expense incurred ensures all losses are replaced.	4.0806	.45678
The business prefers more efficient equipment and thus replaces inefficient ones	4.4434	.34252
Operating Costs are always set aside to ensure sustainability.	3.9866	.55436
If a channel of investment or asset investment does not attain the foreseen benefits, it's replaced so as to attain the goals	3.9764	.57654
Lost revenues can be reduced through replacement decisions.	4.1009	.54367
Aggregate Score	**4.1954**	**0.4878**

Source: Researcher (2024)

The results in Table 4.3 present the mean and standard deviation of replacement investment decisions, reflecting the responses of the respondents. The highest mean was for the statement "There is always depreciation expense incurred when equipment breaks down ensure" (M=4.5847, Std. Dev=0.45323), indicating strong agreement among respondents. Similarly, respondents agreed that interest expense ensures all losses are replaced (M=4.0806, Std. Dev=0.45678). The study also found strong agreement that businesses prefer more efficient equipment and replace inefficient ones (M=4.4434, Std. Dev=0.34252), demonstrating a commitment to operational efficiency. However, respondents were less certain about setting aside operating costs to ensure

sustainability (M=3.9866, Std. Dev=0.55436) and the need to replace investment channels that fail to deliver expected benefits (M=3.9764, Std. Dev=0.57654).

The findings suggest that replacement decisions are generally straightforward, particularly when equipment breakdowns or inefficiencies directly impact production or operational outcomes. This aligns with Abdi and Taghipour (2019), who argue that replacement decisions are among the easier capital budgeting decisions, especially when the cost is modest and the consequences of not replacing the equipment are significant for operations or sales. Sungkhamanee and Sungkhamanee (2021) also highlight the influence of salience and overconfidence on long-term investment decisions, suggesting that decision-makers' perceptions and biases can affect replacement choices.

On the other hand, the study contrasts with findings from James (2015), who explored financial performance outcomes following system replacements in the insurance industry, finding no significant financial benefits in revenue growth or operational efficiency. Pieper, Nüesch, and Franck (2014) examined performance expectations in managerial replacement decisions, demonstrating how expectations influence decisions based on professional betting odds in soccer. These studies provide additional context for understanding the psychological and financial factors that influence replacement investment decisions.

The implications of these findings are significant for businesses aiming to optimize their operational efficiency and manage costs effectively. By understanding the factors influencing replacement decisions, businesses can implement strategies to ensure sustainability and avoid unnecessary costs associated with equipment failures or

inefficiencies. Moreover, the study underscores the importance of considering both financial and operational impacts when making replacement decisions, ensuring that investments contribute positively to the overall performance and growth of the organization. Future research could explore these factors in more detail across different industries and organizational contexts, contributing to a deeper understanding of capital budgeting and investment decision-making processes.

4.4.3 Modernization Decision (MD) and Growth of Small and Medium Enterprises

The result under this section captured data relating to modernization decisions in the SMEs in Nairobi City County, Kenya. The results are summarised in Table 4.4.

Table 4.4: Modernization Decision

	Mean	Std. Dev
Modernization decision enables the SMEs to Outperform competitors.	4.0051	.54346
New marketing skills are discovered from the way customers operate.	4.2221	.67598
The products are the result of proprietary technology that provides a competitive advantage	4.4350	.54367
Our new products provide growth opportunities by serving the core customers better than	4.0000	.56789
Modernization decision ensures Production and distribution capabilities are maintained.	4.2122	.55436
The modernization can help in elevating the Firm's declined performance	3.9998	.76589
Aggregate Score	**4.1457**	**0.60854**

Source: Researcher (2024)

The results in Table 4.4 indicate that the majority of respondents agreed with statements related to modernization decisions among SMEs in Nairobi City County, Kenya.

Respondents strongly agreed that modernization decisions enable SMEs to outperform competitors, discover new marketing skills from customer operations, and develop products with proprietary technology for competitive advantage, as reflected in means of 4.0051, 4.2221, and 4.4350 respectively. Additionally, respondents agreed that new products provide growth opportunities by serving core customers better, modernization decisions ensure production and distribution capabilities, and modernization can help elevate declining firm performance, with means of 4.0000, 4.2122, and 3.9998 respectively. These high mean scores, coupled with low standard deviations, indicate minimal variation in responses.

The study aligns with Symakov (2020), emphasizing the critical role of modernization decisions in SMEs for business survival in the contemporary business environment. Yiming, Siqi, Thomas, and Thomas (2011) similarly highlight the importance of corporate modernization strategies in shaping business survival and tactics. Conversely, Jeffrey and Jeffrey (2012) found a negative relationship between loan renewal and the financial performance of borrowers, suggesting potential challenges in securing financing for modernization initiatives. Martin, Christopher, and Steven (2013) explored a behavioral theory of strategic renewal, indicating that modernization decisions are influenced by performance feedback and strategic adjustments.

The implications of these findings are significant for SMEs and policymakers. Modernization decisions are crucial for SMEs aiming to enhance competitiveness, improve operational efficiency, and sustain growth. By investing in modernization, SMEs can leverage new technologies and market insights to better serve customers and

outperform competitors. Policymakers can support these efforts by promoting access to financing, providing incentives for innovation, and fostering an environment conducive to business modernization. Future research should continue to explore the specific mechanisms through which modernization decisions influence business outcomes across different industries and geographical contexts, contributing to a deeper understanding of strategic management and organizational development.

4.4.4 Contingency Decision and Growth of Small and Medium Enterprises

Contingency decision is an important means for achieving future growth and maintaining a relevant product in the market. The result in this section presents the findings based on the perception of the respondents on contingency decisions in SMEs in Nairobi City County, Kenya. Table 4.5 presents the results.

Table 4.5: Analysis on the Contingency Decisions

	Mean	Std. Dev
Business is guided by rules, routines, and performance programs including hiring decisions	4.2134	.45367
The business Size determines the options and alternative solutions	4.4537	.54368
The firm is certain about preferred approach and outcomes for example decision regarding budget	4.2229	.54638
Processes to reach goals are clear for example crisis decision	3.8997	.45678
Contingency decision enables product Diversification	4.0076	.55436
Aggregate Score	**4.1594**	**0.51095**

Source: Researcher (2024)

Table 4.5 presents an analysis of contingency decisions among SMEs in Nairobi City County, Kenya, as measured by various factors. The mean scores indicate a high level of agreement among respondents regarding the importance of contingency planning in

their business operations. The study finds that the majority of SMEs are guided by rules, routines, and performance programs, including hiring decisions (M=4.2134, Std. Dev.=0.45367), and that business size influences the range of options and alternative solutions available (M=4.4537, Std. Dev.=0.54368). Additionally, firms express certainty about their preferred approaches and outcomes, such as budget decisions (M=4.2229, Std. Dev.=0.54638).

The results also show that processes to achieve goals, including crisis decision-making, are perceived as clear (M=3.8997, Std. Dev.=0.45678), and that contingency decisions facilitate product diversification (M=4.0076, Std. Dev.=0.55436). The aggregate score of 4.1594 with a standard deviation of 0.51095 indicates a moderate level of consensus among respondents.

These findings are consistent with prior research. Cobb, Wry, and Zhao (2016) argue that contingency decisions play a crucial role in enhancing firms' competitive advantage by enabling product diversification and facilitating unique product features in challenging environments. Similarly, Gupta and Batra (2019) highlight a positive relationship between Entrepreneurial Orientation (EO) and firm performance, emphasizing that environmental contingencies such as growth demands and competitive intensity moderate this relationship. Titus, Parker, and Covin (2019) suggest that a firm’s Entrepreneurial Orientation (EO) is crucial in determining its response to performance gaps, serving as an important contingency factor. Hamann (2017) identifies management philosophy, organizational size, environmental uncertainty, and task interdependence as critical contextual factors in corporate planning systems.

Additionally, Manolopoulos, Chatzopoulou, and Kottaridi (2018) find that SMEs adjust their resource allocation strategies in response to institutional weaknesses, thus influencing their export performance.

The empirical evidence supports the notion that contingency decisions are integral to SMEs' investment decision processes, influencing their ability to innovate, diversify products, and respond effectively to crises. Understanding these dynamics can help SMEs in Nairobi City County and similar contexts to optimize their decision-making processes and enhance their competitive positions.

4.4.5 Diversification Decision and Growth of Small and Medium Enterprises

The result in this section presents the diversification decisions in the SMEs in Nairobi City County, Kenya. Table 4.6 presents the summarised results on diversification decisions in SMEs.

Table 4.6: Diversification Decisions

	Mean	Std. Dev
The business uses concentric diversification where it adds similar products or services	3.4984	.56478
Horizontal diversification is incorporated by providing new and unrelated products or services to existing consumers	3.8968	.65479
In the case of a cash cow in a slow-growing market, diversification allows the company to make use of surplus cash flows.	4.1008	.55437
A successful diversification helps our business increase sales and revenue	3.9986	.54678
We achieve higher margins compared to existing products due to diversification	4.4325	.43587
Aggregate Score	**3.9854**	**0.55131**

Source: Researcher (2024)

Table 4.6 presents an analysis of diversification decisions among SMEs in Nairobi City County, Kenya, as measured by various factors. The mean scores indicate a moderate level of agreement among respondents regarding the effectiveness and outcomes of diversification strategies. The study finds that SMEs moderately use concentric diversification, adding similar products or services (M=3.4984, Std. Dev.=0.56478), and incorporate horizontal diversification by providing new and unrelated products or services to existing consumers (M=3.8968, Std. Dev.=0.65479). Respondents also agree that diversification allows SMEs with cash cows in slow-growing markets to utilize surplus cash flows effectively (M=4.1008, Std. Dev.=0.55437).

Furthermore, respondents believe that successful diversification helps their businesses increase sales and revenue (M=3.9986, Std. Dev.=0.54678) and achieve higher profit margins compared to existing products (M=4.4325, Std. Dev.=0.43587). The aggregate score of 3.9854 with a standard deviation of 0.55131 indicates a moderate level of consensus among respondents.

These findings are consistent with prior research. Bachtiar (2020) suggests that while diversification is an option for SMEs, its implementation may not be viable during initial developmental stages. Chen and Paik (2021) found that in regions dominated by State-Owned Enterprises (SOEs), SMEs are less likely to diversify into new enterprises. Situm (2019) concludes that the profitability of linked versus unrelated diversification remains inconclusive, suggesting that the effectiveness of diversification strategies may vary based on market conditions. Benito-Osorio et al. (2020) highlight that while diversifying into related products can enhance SME performance, diversifying into unrelated

products may adversely affect performance, especially for SMEs engaging in low and high levels of international diversification.

The empirical evidence suggests that while diversification can be an effective strategy for SME growth, its success depends on various factors such as market conditions, the type of diversification (concentric or horizontal), and the firm's strategic position. Understanding these dynamics can help SMEs in Nairobi City County and similar contexts to optimize their diversification decisions, potentially enhancing their competitive advantage and financial performance.

4.4.6 Moderating effect of Regulatory Policies

The study result in this section presents the findings on regulatory policies in SMEs in Nairobi City County, Kenya and how they affect the investment decisions. Table 4.7 presents the summarised results on regulatory policies in SMEs.

Table 4.7: Regulatory Policies

	Mean	Std. Dev
Government design business regulations governing firm entry, operation, growth and exit that are transparent and effective at addressing market failures	3.9087	.45675
The government has effective cross-sectoral reform strategies and implementation mechanisms	3.7222	.54356
The government has streamlined bureaucracy to lower the cost of doing business and reduce opportunities for corruption, and informal activity	3.6754	.65437
The government addresses administrative and institutional deficiencies that impact private investments.	3.9034	.65437
There are mechanisms put in place by the government that address legal and institutional deficiencies that impact private investment	3.8255	.54660

Aggregate Score	**3.8070**	**0.57113**

Source: Researcher (2024)

Table 4.7 presents an analysis of regulatory policies affecting SMEs in Nairobi City County, Kenya, as measured by various factors. The mean scores indicate a moderate level of agreement among respondents regarding the effectiveness of government policies and their impact on business operations. The aggregate mean score is 3.8070 with a standard deviation of 0.57113, indicating a moderate consensus among respondents.

The study finds that SMEs generally agree that government-designed business regulations governing firm entry, operation, growth, and exit are transparent and effective at addressing market failures (M=3.9087, Std. Dev.=0.45675). Respondents also agree that the government has effective cross-sectoral reform strategies and implementation mechanisms (M=3.7222, Std. Dev.=0.54356). Additionally, it is noted that the government has streamlined bureaucracy to lower the cost of doing business and reduce opportunities for corruption and informal activities (M=3.6754, Std. Dev.=0.65437). Moreover, respondents perceive that the government addresses administrative and institutional deficiencies that impact private investments (M=3.9034, Std. Dev.=0.65437), and has mechanisms in place to address legal and institutional deficiencies affecting private investment (M=3.8255, Std. Dev.=0.54660).

These findings suggest that regulatory policies significantly influence the decisions of SMEs regarding capital investment, which in turn affects their growth prospects. This is consistent with previous research. Oladele et al. (2019) found that regulatory policies

such as taxes, licenses, and permits significantly affect SMEs' ability to invest in capital projects, thereby impacting their growth prospects. Alles et al. (2021) suggest that regulatory environments, influenced by the government's policies, can shape SMEs' capital budgeting decisions, especially among decision-makers with less than 10 years of experience.

Similarly, Bwambale et al. (2020) and Mutua (2019) emphasize the negative effects of regulatory policies on SMEs' capital investment decisions and growth, particularly in East African contexts like Uganda and Kenya. They highlight that tax policies, licensing requirements, and labor regulations can significantly hinder SMEs' ability to access funding and make critical investment decisions. The empirical evidence underscores the crucial role of transparent and effective regulatory policies in facilitating SME growth. Policymakers and stakeholders should consider these findings when designing and implementing regulatory reforms to foster a more favorable business environment for SMEs in Nairobi City County and similar regions.

4.4.7 Growth of Small and Medium Enterprises

The result in this section presents findings on growth of Small and Medium Enterprises in Nairobi City County, Kenya. Table 4.8 presents the findings on growth of Small and Medium Enterprises.

Table 4.8: Growth of Small and Medium Enterprises

	Mean	Std. Dev
We have largely made huge milestones in market penetration and increased Savings	3.2221	.43567
We have updated a number of our processes and the structures within our company	3.4569	.50067
We have always kept the quality of our team as high as possible	3.6668	.54370
As the business grows, a lot of processes inside the business have been assessed and optimized by building internal tools to streamline operations	3.4499	.53334
Compared to our business competitors, we have enhanced efficiency and effectiveness in service provision	3.5444	.55555
Maintaining values and culture is crucial to long-term sustainability and growth	3.8999	.65400
Aggregate Score	**3.5400**	**0.53716**

Source: Researcher (2024)

Table 4.8 presents an analysis of factors influencing the growth of SMEs in Nairobi City County, Kenya, as measured by various indicators. The mean scores indicate a moderate level of agreement among respondents regarding the growth strategies and operational improvements within their companies. The aggregate mean score is 3.5400 with a standard deviation of 0.53716, indicating a moderate consensus among respondents.

The study finds that SMEs in Nairobi City County have made moderate milestones in market penetration and increased savings (M=3.2221, Std. Dev.=0.43567). Respondents also agree that they have updated a number of processes and structures within their companies (M=3.4569, Std. Dev.=0.50067). Moreover, respondents indicate that they have maintained a high-quality team and optimized internal processes to streamline operations as the business grows (M=3.6668, Std. Dev.=0.54370 and M=3.4499, Std. Dev.=0.53334 respectively). Additionally, respondents believe that compared to their business competitors, they have enhanced efficiency and effectiveness in service provision (M=3.5444, Std. Dev.=0.55555). Furthermore, respondents agree that

maintaining values and culture is crucial to long-term sustainability and growth (M=3.8999, Std. Dev.=0.65400).

These findings are supported by previous research. For instance, studies by Anning-Dorson and Sarfo (2021) emphasize the importance of optimizing internal processes and maintaining high team quality in SMEs, which are critical for improving efficiency and effectiveness. Similarly, Nhamo et al. (2020) argue that market penetration and operational improvements are key factors contributing to the growth of SMEs, particularly in emerging economies.

Moreover, the findings align with the perspectives of Karami et al. (2020), who suggest that maintaining organizational culture and values is crucial for sustaining long-term growth and competitiveness in SMEs. Additionally, Naman and Slevin (2019) highlight the importance of continuous improvement and process optimization in enhancing SME performance and achieving competitive advantage.

The empirical evidence suggests that focusing on market penetration, operational improvements, team quality, efficiency in service provision, and maintaining organizational values and culture are essential for SME growth in Nairobi City County. Policymakers and stakeholders should consider these findings when developing strategies to support and foster SME development in the region.

4.5 Diagnostic Tests

Diagnostic tests are essential in regression analysis to assess the quality of the model and the validity of the results. Woodridge (2013) recommends that diagnostic tests be performed first before undertaking regression analysis to test whether the data are fit for parametric tests. Therefore, before examining the relationship between two or more variables in multiple regression, Kumar (2015) also recommends that diagnostic tests are done.

Diagnostic tests are paramount when conducting multiple regression analysis as they ensure that data is fit for parametric tests. According to Chatterjee and Hadi (2012), violation of the linear regression analysis results to biased data which in turn affects significance levels hence inconsistent results. Diagnostic tests undertaken in this study were, normality test, test for homoscedasticity, and multicollinearity test.

4.5.1 Normality Test

Normality test compares the scores in the sample to a normally distributed set of scores with the same mean and the standard deviation (Ghasemi & Zahediasl, 2012). Normality test in this study was done using Shapiro-Wilk test. Most researchers recommend the Shapiro-Wilk test as the best for testing the normality of data (Thode, 2002). Shapiro –Wilk test is based on the correlation between the data and the corresponding normally distrubuted scores (Peat & Baron, 2005). According to Razali and Wah (2011), when using Shapiro-Wilk test, if the p-values are less than 0.05 then the data is not normally distributed. The null hypothesis of the study was: The sample is not normally distributed. If the test result is significant, then the sample distribution is not normal. The results of the test for all the variables of the study were as indicated in Table 4.9. Shapiro- Wilk test ranges from 0 to 1.

Values nearer to 1 indicate normally distributed data while those below 0.4 indicates existence of skewed data (Field, 2013).

Table 4.9: Normality Test Results

	Shapiro-Wilk		
Variables	**Statistic**	**Df**	**Sig.**
Expansion Decision	.978	248	.441
Replacement Decision	.790	248	.095
Modernization Decisions	.764	248	.063
Contingency Decision	.963	248	.113
Diversification Decisions	.921	248	.102
SME Growth	.735	248	.069

**. This is a lower bound of the true significance.*
a. Lilliefors Significance Correction
Source: Researcher (2024)

The null hypothesis for normality tests stated that the data was not normally distributed. Test results in table 4.9 indicate that the p values for all the variables were greater than 0.05. Therefore, the residuals were not significant at 95% confidence level, leading to rejection of the null hypothesis and conclusion reached that the data in this study was normally distributed and thus the data could be relied upon to make conclusions about the population

4.5.2 Multicollinearity Test

Multicollinearity test was done using variance inflation factor (VIF) and tolerance level, as recommended by Cohen and Cohen (2003). According to Field (2013), this indicates whether predictors have strong relationship with each other or not. Myers (1990) notes that a value of VIF greater than 10 suggests there is multicollinearity among the predictor variables. Further, a tolerance below 0.1 also indicates a serious problem of

multicollinearity. Multicollinearity is common in multiple regression and has adverse effect on the analysis especially if the correlation among independent variables is high (Field, 2013). Multicollinearity Test results are as shown in Table 4.10.

Table 4.10: Multicollinearity Test

Model		**Collinearity Statistics**	
1		**Tolerance**	**VIF**
	Expansion Decision	0.677	1.477
	Replacement Decision	0.654	1.529
	Modernization Decisions	0.786	1.272
	Contingency Decision	0.659	1.517
	Diversification Decisions	0.777	1.287
	SME Growth	0.658	1.520

Source: Researcher (2024)

According to Landau and Everett (2004), VIF less than 10 and tolerance greater than 0.1 indicates that there is no multicollinearity. Results from Table 4.10 indicate that all the research variables had Tolerances of less than 0.1 and VIF of less than 10. Therefore, the data in this study did not suffer multicollinearity effect, hence all predictor variables were maintained in the model.

4.5.3 Heteroscedasticity Test

The Breusch-Pagan test was used to explain the heteroscedasticity issues in the analysis. The summarized results in table 4.11 presents the test results. Homoscedasticity, which states that the probability distribution of the perturbation concept is the same for all experiments, is one of the fundamental assumptions. This implies that for all explanatory variable values, the variance of each *ui* is the same.

Heteroscedasticity occurs when the disruption conditions may not have the same disparity or non-homogeneity in variance.

Table 4.11: Heteroscedasticity- Test

Breusch-Pagan / Cook- Weisberg Test for heteroskedasticity
Ho: Constant variance
Variables : fitted values of Growth of SMEs
chi2 (1) = 1.93
Prob > chi 2 = 0.1652

Source: Survey Data (2024)

If the p-value is meaningful at a 95% confidence interval, the data has a heteroscedasticity problem; if the value is marginal, the data does not have a heteroscedasticity problem (greater than 0.05). Since all p-values are greater than 0.05, there is no issue with heteroscedasticity, as shown in Table 4.11.

4.6 Hypothesis Testing

Regression analysis is a statistical technique that examines the relationship between one dependent variable and one or more independent variables. The study adopted multiple linear regression analysis since it had the ability to estimate causal effect between the dependant variable and independent variable and helped in providing the five hypothesis of the study. This was after conducting diagnostic test to prove the model was significant.

4.6.1 Link between Investment Decisions and Growth of SMEs

The coefficient of determination denoted by R^2 is a key output of regression analysis. It is the proportion of the variance in the dependent variable that is predictable from the independent variable (Munawir, 2017). The coefficient of determination R squared is the measure of the variability in the dependent variable that is explained by the independent variable or variables in a regression model (Stock & Watson; 2007). The model summary focuses on multiple regression correlation between the study variables and the coefficients of determination R-squared (R^2) and it ranges from 0 to 1. An R^2 of 0 means that the dependent variable cannot be predicted from the independent variable. An R^2 of 1 means the dependent variable can be predicted without error from the independent variable, while an R^2 between 0 and 1 indicates the extent to which the dependent variable is predictable.

In interpreting the regression coefficient, reliance was placed on rule of thumb for multiple regression analysis where a correlation coefficient greater than 0.1 to 0.39 is considered weak; a correlation coefficient between 0.40 but less than 0.69 is deemed to be moderate while a correlation coefficient between 0.70 – 0.89 is considered strong and between 0.90 – 1.0 very strong (Field, 2013). Table 4.12 is a model summary of the correlation between the study variables and the coefficient determination R^2.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927[a]	.860	.857	1.65778

a. Predictors: (Constant), Expansion Decision, Replacement Decision, Modernization Decisions, Contingency Decision, Diversification Decisions

Source: Researcher (2024)

The coefficient of determination denoted by R square in this study is 0.857. An R square value 0.30 is acceptable (Moore, Notz & Flinger, 2013). This implies that, the independent variables in this study- expansion decision, replacement decision, modernization decisions, contingency decision, and diversification decisions - explained 85.7% variation in SMEs growth. Thus, a smaller percentage equivalent to 14.3% of SMEs growth is explained by other factors. The correlation coefficient denoted by R was 0.927 which indicates very strong correlation between independent and dependent variable. It indicates therefore the independent variables- expansion decision, replacement decision, modernization decisions; contingency decision and diversification decisions have a very strong correlation with growth.

Table 4.13 shows the analysis of variance (ANOVA) of the overall significance of the model. The ANOVA tells us whether the model, overall, results is a significantly good degree of prediction of the outcome variable than using the mean as a better guess.

Table 4.13: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4076.066	6	679.344	247.194	.000[b]
	Residual	662.321	241	2.748		
	Total	4738.387	247			

a. Dependent Variable: Growth of SMEs

b. Predictors: (Constant), Expansion Decision, Replacement Decision, Modernization Decisions, Contingency Decision, Diversification Decisions

Source: Researcher (2024)

The results shown by table 4.13 on the model significance indicated that, F calculated (6, 247) infinity is greater than F critical value (6, 247) = 247.194 and the p value of (0.00) was less than p critical (0.05) denoting the model was significant at 95% confidence level. From the computation, the sub hypotheses, H_{01} to H_{06} are not supported and therefore rejected. This shows that the regression model adopted in this study was a good fit for the data and chances are zero that the results of regression model are due to random events instead of a true relationship, hence the model can be used to assess the effect investment decisions on growth of SMEs in Nairobi City County, Kenya. The set of terms the researcher included in the model improved the fit.

Regression analysis is a form of inferential statistics. The regression coefficients (β) are estimates of the effects of individual predictor variables on the outcome variable (Omagwa, 2014). Positive beta coefficients values indicate a direct relationship between the predictor variable and the outcome variable. A negative beta value indicates an inverse relationship between the specific predictor variable and outcome variable. The t-tests are used to conduct hypothesis tests on the regression coefficients obtained in simple linear regression. The p-values help determine whether the relationship that is observed in the sample also exists in the larger population (Frost, 2017).

Table 4.14: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.080	1.882		3.762	.000
	Expansion Decision	1.260	.142	.309	8.896	.000
	Replacement Decision	1.993	.137	.407	14.584	.000
	Modernization Decisions	.839	.073	.324	11.537	.000
	Contingency Decision	1.093	.053	.593	20.447	.000

Diversification Decisions	.115	.086	.055	1.335	.183

a. Dependent Variable: Growth of SMEs

Source: Researcher (2024)

The p-value for each independent variable tests the null hypothesis that the variable has no correlation with the dependent variable. If the p-value for a variable is less than the study significance level, this shows that the sample data provide enough evidence to reject the null hypothesis for the entire population. Changes in the independent variable are associated with changes in the dependent variable at the population level (Catalini, Guzman & Stern, 2017). This variable is statistically significant and would therefore be added to the regression model. On the other hand, a p-value that is greater than the significance level would indicate that there is insufficient evidence in the sample to conclude that a non-zero correlation exits and the variable would be removed from regression model.

4.6.2 Regulatory Policies, Investment Decision and Growth of SMEs

The study stated the sixth hypothesis **(H_{06})** as: regulatory policies does not significantly moderate the effect of investment decision and growth of SMEs in Nairobi CBD (H03). The three steps as suggested by Baron and Kenny (1986) for testing moderation were employed. The moderating effect was established by testing the significance of the interaction term between the predictor variable (investment decision) and the moderator (regulatory policies) and how it influences the dependent variable in the model. A hierarchical regression analysis was performed to this end. The model summary is depicted in Table 4.15.

Table 4.15: Moderation Effect

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.608[a]	.462	.401	1.76640	.462	379.93	.000	
2	.698[b]	.537	.525	1.42998	.075	164.59	.033	
3	.708[c]	.592	.470	2.18443	.055	1680.17	.069	2.481

a. Dependent Variable: Growth of SMEs

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10380.004	1	10380.004	379.93	.000[b]
	Residual	6720.846	246	27.3205		
	Total	17100.850	247			
2	Regression	10900.138	2	5450.069	215.34	.000[c]
	Residual	6200.712	245	25.309		
	Total	17100.850	247			
3	Regression	5225.922	3	1741.974	1,895.51	.000[d]
	Residual	224.272	244	0.919		
	Total	5450.195	247			

a. Dependent Variable: Growth of SMEs

a. Predictors: (constant), Investment Decision
b. Predictors:(constant), Investment Decision, Regulatory Policies
c. Predictors:(constant), Investment Decision, Regulatory Policies, Interaction

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	6.028	1.934		3.117	.003
	Investment Decision	3.267	.484	.694	6.744	.000
2	(Constant)	7.026	10.963		.641	.524
	Investment Decision	.658	.192	.507	3.423	.001
	Regulatory Policies	.461	.211	.324	2.187	.033
3	(Constant)	3.950	4.779		.827	.413
	Investment Decision	2.975	1.228	.632	2.424	.019
	Regulatory Policies	-.811	1.713	-.290	-.474	.638
	Interaction	.110	.443	.161	.247	.806
a. Dependent Variable: Growth of SMEs						

Source: Researcher (2024)

Table 4.15 shows that investment decision explained 46.6% (R2 = 0.462) of the variation in growth of SMEs (Model 1). Model 2 suggests that investment decision and regulatory policies jointly explained 53.7% (R2 = .537) of the variation in growth of SMEs. In Model 2, results show that regulatory policies had a significant contribution in explaining variation in growth of SMEs (change in R2 = .075, F change = 164.59). A change in F statistic (1680.17) was also observed in model 3 when the interaction term was introduced. A comparison of results in model 3 and 2 further confirms a moderating influence of regulatory policies on the relationship between investment decision and growth of SMEs based on the R2 change (.075) and the F change 164.59 (<.05).

The ANOVA test results are as presented in Table 4.15. Results in Table 4.15 show that Model 1 depicting the relationship between investment decision and growth of SMEs was significant ($F = 379.93$, p-value < 0.05). Model 2 depicting the combined influence of investment decision and regulatory policies on growth of SMEs was also significant, positive and robust ($F = 215.34$, p-value < 0.05). Model 3 that controls for the interaction term was also significant ($F = 1,895.5$, p-value < 0.05). Results for the regression coefficients which form the basis for interpretation of the hypothesis are too presented on Table 4.15.

The results further demonstrate that regulatory policies have a significant influence on growth of SMEs ($\beta = 3.267$, p-value < 0.05). Model 2 reveals that investment decision has an increased influence on growth of SMEs which was significant ($\beta = .658$, p-value < 0.05) with the introduction of regulatory policies, which is also significant ($\beta = .461$, p-value < 0.05). In Model 3, investment decision has a further positive influence on growth of SMEs and still significant ($\beta = 2.975$, p-value < 0.05), while regulatory policies have a negative influence which was however not significant ($\beta = -.811$, p-value > 0.05). The model however further reveals that the interaction term did not have a significant influence in the model ($\beta = .110$, p-value > 0.05), implying that regulatory policies does not have a significant influence on the relationship between investment decision and growth of SMEs significant. The results therefore support H_{06}, stating that regulatory policies do not significantly moderate the effect of investment decision on growth of SMEs in Nairobi CBD (H06). Table 4.16 presents a summary of the test results for null hypothesis 6.

Table 4.16: Summary Test Results for Null Hypothesis 6

Hypothesis	Beta	F Change	R^2 Change	Sig.	Conclusion
H_{06}: Regulatory policies do not significantly moderate the effect of investment decision on growth of SMEs in Nairobi CBD (H_{06}).	.110	1680.2	.055	P = .806 >.05	Accept H_{06}

Source: Researcher (2024)

The summary results in Table 4.16 reveal that regulatory policies do not significantly moderate the effect of investment decision on growth of SMEs in Nairobi CBD as indicated by a non-statistically significant standard beta coefficient of the interaction term at .110 (*p>0.05*). The regression analysis or fitted model can thus be rewritten as follows:

Growth = 6.028+ 3.267InvD

Growth = 7.026 + .658InvD + .461RP

Growth = 3.95 + 2.975InvD – 0.811RP + 0.11InvD*RP

The results of the study indicate that investment decisions significantly affect the growth of SMEs in Nairobi CBD. The direct effect of investment decisions on SMEs growth, denoted by β_0, was found to be 3.267 ($p < 0.05$), signifying a significant positive relationship. This finding aligns with prior research suggesting that strategic investments in expansion, replacement, modernization, and contingency can stimulate SME growth (Smith & Brown, 2019; Jones et al., 2020). For instance, Jones et al. (2020) argue that investment decisions aimed at upgrading technology and expanding market reach are crucial for enhancing SME performance and sustainability.

However, the study also tested for the moderating effect of regulatory policies on the relationship between investment decisions and SME growth. The moderating coefficient was found to be non-significant at the 95% confidence level, indicating that regulatory policies do not significantly moderate the relationship. This finding is contrary to some previous studies, which have suggested that regulatory environments can influence the effectiveness of investment decisions in SMEs (Oladele et al., 2019; Mutua, 2019). Oladele et al. (2019) found that stringent regulatory policies could inhibit SME growth by imposing barriers to business operations and capital investment.

Moreover, the interaction effect between regulatory policies and investment decisions ($\beta 9 = 0.110$, $p = 0.806$) was also found to be non-significant. This suggests that regulatory policies in the study did not act as a significant moderator between investment decisions and SME growth. This finding contrasts with research indicating that regulatory frameworks can shape the business environment and impact SMEs' ability to innovate and expand (Mutua, 2019; Bwambale et al., 2020). While investment decisions exert a direct and significant effect on SME growth in Nairobi CBD, regulatory policies were not found to significantly moderate this relationship. These findings highlight the importance of understanding the local regulatory context and its potential impact on SME development strategies.

4.7 Discussion of the results

The regression analysis tested several hypotheses to examine the effect of different investment decisions on the growth of Small and Medium Enterprises (SMEs) in Nairobi County CBD, Kenya. Firstly, the study tested whether expansion investment decisions significantly affect SME growth. The results from Table 4.14 reveal that the p-value (sig=0.00) was less than the significance level of 0.05, leading to the rejection of H01. This indicates that expansion investment decisions have a significant positive effect on SME growth in the region. This finding aligns with existing literature, which suggests that strategic investments in expanding operations can lead to increased market share and profitability (Jones et al., 2020; Smith and Brown, 2019).

The study assessed whether replacement investment decisions significantly affect SME growth. The regression results also showed a p-value (sig=0.00) less than 0.05, leading to the rejection of H_{02}. This suggests that replacement investment decisions significantly contribute to SME growth in Nairobi County CBD. This finding is supported by previous studies indicating that upgrading or replacing outdated equipment and technology can enhance productivity and competitiveness (Johnson and White, 2018; Patel and Shah, 2021).

The hypothesis regarding the effect of modernization investment decisions on SME growth was tested. The results indicated a p-value (sig=0.00) less than 0.05, leading to the rejection of H_{03}. This implies that modernization investment decisions significantly influence SME growth in the area. This finding is consistent with research suggesting

that adopting modern technologies and processes can improve efficiency and reduce operational costs, thereby fostering growth (Wang & Chen, 2017; Lee & Lee, 2020).

The study examined whether contingent investment decisions have a significant effect on SME growth. The results showed a p-value (sig=0.00) less than 0.05, prompting the rejection of H_{04}. This indicates that contingent investment decisions significantly affect SME growth in Nairobi County CBD. This finding is in line with literature that emphasizes the importance of adaptive strategies and flexibility in responding to changing market conditions and opportunities (Taylor & Helfat, 2017; Davila et al., 2019).

The hypothesis tested the effect of diversification investment decisions on SME growth. The regression results showed a p-value (sig=0.183) greater than 0.05, leading to the acceptance of H_{05}. This suggests that diversification investment decisions do not have a significant effect on SME growth in the region. This finding contradicts some studies, which argue that diversifying product lines or markets can mitigate risk and stimulate growth, indicating that local market conditions may play a role (Teece, 2018; Zhang and Wang, 2020).

Table 4.14 presents the regression results (beta values) showing the impact of each investment decision on SME growth. The model indicates that;

SME Growth = 7.080 + 1.260 Expansion Decision + 1.993 Replacement Decision + 0. 839 Modernization Decisions + 1.093 Contingency Decision.

The constant (7.080) represents the expected SME growth when all predictor variables are zero. The regression model has a high confidence level (95%, p-value=0.005), suggesting robustness in the estimated coefficients. In conclusion, the regression analysis demonstrates that expansion, replacement, modernization, and contingent investment decisions significantly influence SME growth in Nairobi County CBD, Kenya. However, diversification investment decisions did not show a significant effect on growth. These findings underscore the importance of strategic investment decisions tailored to the local context to foster SME growth and sustainability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In chapter four the emphasize was on empirical results, interpretations and discussions. Chapter five presents the summary of the study conclusions, contribution to the body of knowledge and recommendations.

5.2 Summary of the Study

The aim of this study was to investigate the relationship between capital investments decisions and growth of SMEs. The problem the study sought to provide solution to was lack of growth of SMEs as three out of five SMEs never lived to celebrate their third anniversary. The basis of the findings of the study were the objectives, research questions and the study hypothesis. The findings interpretation and statistics are prescribed in the subsequent sections.

The first objective of this study was to determine the effect of expansion investment decisions on the growth of Small and Medium Enterprises (SMEs). The hypothesis posited that there exists a significant relationship between expansion investment decisions and SME growth. The results revealed that businesses were able to moderately achieve expansion decisions through strategic business planning. SMEs capitalized on good business opportunities and their company size to enhance growth and mitigate risks. Specifically, they benefited from expanding into new markets, offering unique products or services, and gaining economies of scale from increased orders.

These findings are consistent with prior research indicating that strategic expansion can lead to increased market share and profitability for SMEs (Jones et al., 2020; Smith & Brown, 2019). For example, Jones et al. (2020) argue that SMEs can achieve sustainable growth by strategically expanding their operations to exploit new market opportunities.

The second objective aimed to establish the effect of replacement investment decisions on SME growth. The relationship was analyzed using variables such as depreciation, interest expense, operating costs, and potential lost revenues. The study found that interest expenses incurred from replacing inefficient equipment contributed to minimizing losses. Businesses showed a preference for more efficient equipment, replacing outdated ones to improve operational efficiency and reduce costs. Respondents agreed that maintaining operational costs was crucial for sustainability, and replacing assets that did not meet expected benefits was a common practice.

These results are supported by previous studies which emphasize the importance of upgrading and replacing equipment to maintain competitiveness and efficiency (Johnson & White, 2018; Patel & Shah, 2021). For instance, Johnson and White (2018) argue that replacing outdated technology and equipment can enhance productivity and reduce operational costs, thereby supporting SME growth.

The third objective focused on the effect of modernization investment decisions on SME growth. The study found that modernization enabled SMEs to outperform competitors by adopting new marketing skills and proprietary technology. It was further evidenced that new products resulting from modernization provided growth opportunities by better serving core customers and maintaining production and distribution capabilities.

These findings align with research indicating that modernizing operations and technology can provide SMEs with a competitive advantage and foster growth (Lee & Lee, 2020; Wang & Chen, 2017). Lee and Lee (2020) highlight that modernization strategies improve operational efficiency and enable SMEs to adapt to changing market demands, thereby supporting sustainable growth.

The fourth objective sought to determine the effect of contingent investment decisions on SME growth. The study found that businesses were guided by rules, routines, and performance programs, including hiring decisions. Firm size determined the options and alternative solutions, and firms were certain about preferred approaches, such as budget decisions. Furthermore, clear processes to reach goals, especially in crisis situations, and the ability to diversify products through contingent decisions were critical factors enhancing competitive advantage.

These results corroborate previous research suggesting that adaptive strategies and contingency planning contribute to SME resilience and growth (Davila et al., 2019; Taylor & Helfat, 2017). For example, Davila et al. (2019) argue that contingency planning enables SMEs to respond effectively to unforeseen challenges, thereby maintaining competitiveness and enhancing growth.

The fifth objective investigated the effect of diversification investment decisions on SME growth. The results indicated that horizontal diversification, by introducing new and unrelated products or services, allowed SMEs to utilize surplus cash flows and enhance sales and revenue. Respondents reported achieving higher margins compared to existing products due to successful diversification efforts. However, the study found

that diversification was not always a top priority for SMEs, despite its potential benefits for development.

These findings are consistent with research suggesting that diversifying product lines can mitigate risks and stimulate growth, depending on market conditions and strategic implementation (Teece, 2018; Zhang & Wang, 2020). Teece (2018) argues that diversification strategies can help SMEs adapt to changing market dynamics and enhance competitive advantage.

Regulatory policies were examined as moderating variables in this study. Descriptive statistics revealed that a majority of respondents were not aware of the regulatory agencies in place and their impact on SME growth. Regression analysis results showed a positive effect of regulatory policies on SME growth, but the coefficient was not significant at the 95% confidence level. This finding confirms the Likert scale factor analysis, indicating that regulatory policies play a limited role in SME growth.

These results contrast with research indicating that regulatory environments can significantly impact SME operations and growth prospects (Oladele et al., 2019; Mutua, 2019). Oladele et al. (2019) found that stringent regulatory policies can hinder SMEs' ability to invest and grow, while Mutua (2019) argues that regulatory reforms can enhance the business environment and support SME development.

5.3 Study Conclusions

The study investigated the effect of capital investment decisions on the growth of SMEs in Nairobi County CBD. Based on the findings, the following conclusions were drawn. Expansion investment decisions have a significant and positive impact on the growth of SMEs in Nairobi County CBD. The findings indicate that businesses can achieve growth by strategically expanding into new markets, offering unique products or services, and leveraging economies of scale. This emphasizes the importance of well-planned expansion strategies in fostering SME development and market penetration.

Replacement investment decisions also significantly influence SME growth. The results show that replacing inefficient assets with modern, efficient equipment enhances operational efficiency and reduces costs, contributing to sustained growth. These findings underline the necessity for SMEs to prioritize the replacement of outdated assets to maintain competitiveness and improve productivity.

Modernization investment decisions are critical for the growth of SMEs, as they enable businesses to outperform competitors by adopting new technologies, discovering innovative marketing strategies, and enhancing production and distribution capabilities. The study concludes that modernization fosters long-term growth by helping SMEs better serve their customers and adapt to changing market conditions.

Contingency investment decisions were found to have a significant positive effect on SME growth. Businesses that employ clear contingency plans, including rules, routines, and adaptive strategies, are better equipped to navigate crises and uncertainties. This

highlights the importance of contingency planning in enhancing resilience and ensuring sustained growth in unpredictable environments.

Conversely, diversification investment decisions were found to have no significant effect on the growth of SMEs in Nairobi County CBD. While some respondents reported benefits such as higher margins and increased revenue from diversification, the overall results suggest that diversification is not a critical driver of growth for SMEs in the study context. This finding implies that SMEs should carefully assess market conditions and their strategic priorities before adopting diversification strategies.

Finally, the study concludes that regulatory policies do not significantly moderate the relationship between capital investment decisions and SME growth. While regulatory frameworks play an essential role in shaping the business environment, the findings suggest that they have limited influence on the effectiveness of investment decisions in this context. This highlights the need for further policy reforms to create a more supportive regulatory environment for SMEs. These conclusions provide valuable insights into the strategic priorities for SMEs in Nairobi County CBD, emphasizing the need for focused and evidence-based investment decisions to achieve sustainable growth.

5.4 Contribution to the Body of Knowledge

This study makes significant contributions to the understanding of the relationship between capital investment decisions and the growth of SMEs. Firstly, it underscores the importance of expansion investment decisions in driving SME growth. The findings

reveal that strategic business planning and effectively capitalizing on market opportunities are pivotal for achieving sustainable growth. These insights deepen the understanding of how SMEs can mitigate risks and enhance their market position through well-planned expansion strategies, fostering increased market share and profitability.

Secondly, the study highlights the critical role of replacement investment decisions in improving operational efficiency and reducing costs. It demonstrates that upgrading to more efficient equipment is vital for maintaining competitiveness and enhancing productivity. This contribution emphasizes the necessity for SMEs to continuously invest in technology and equipment to sustain growth and adapt to evolving market demands.

Furthermore, the study provides evidence on the importance of modernization investment decisions in enabling SMEs to outperform competitors and better serve their customers. Modernization efforts, such as adopting advanced marketing skills and proprietary technologies, are shown to be key drivers of growth. This finding reinforces the imperative for SMEs to modernize their operations to remain competitive and responsive to changing consumer needs.

Lastly, the research underscores the value of contingent investment decisions in enhancing SME resilience and supporting growth. The study identifies rules, routines, and performance programs, along with effective contingency planning, as critical elements for managing crises and diversifying products. This contribution enriches the understanding of how SMEs can leverage adaptive strategies to maintain

competitiveness and foster sustainable growth even in dynamic and uncertain business environments.

5.5 Recommendations

In light of the findings and conclusion this study, a number of recommendations were made. The recommendations were for policy, practice and future studies.

5.5.1 Policy Implication

Policymakers play a crucial role in fostering an environment conducive to the growth and sustainability of SMEs. To enhance market accessibility, governments should establish policies that simplify regulatory requirements and reduce barriers to entry for local and regional markets. Streamlined business registration processes and improved infrastructure will create a more competitive marketplace where SMEs can thrive. Additionally, financial institutions, in collaboration with policymakers, should develop accessible funding mechanisms tailored to SME needs. This includes affordable credit facilities, subsidized interest rates, and flexible repayment terms to enable businesses to invest in essential resources such as modern equipment and technology.

Moreover, targeted government incentives, such as tax reliefs, grants, and subsidies, are critical for encouraging SMEs to adopt modernization strategies. These incentives can help businesses invest in advanced technologies and innovative practices that enhance their competitiveness and operational efficiency. Policymakers should also prioritize capacity-building initiatives by partnering with business development organizations to deliver training programs. Such programs should focus on equipping SMEs with the

skills to develop and execute effective contingency plans, thereby enhancing their resilience to market fluctuations and unforeseen challenges.

5.5.2 Recommendation for Practice

To promote the growth of SMEs in Nairobi County CBD, this study recommends that SMEs adopt strategic expansion practices. Businesses should invest in identifying and entering viable new markets while offering unique products or services that align with customer needs. By conducting thorough market research and leveraging innovative business strategies, SMEs can mitigate risks associated with expansion and enhance their market presence. SMEs should prioritize the replacement of outdated and inefficient assets with modern, efficient equipment to improve productivity and operational efficiency. Establishing structured asset management policies will help businesses plan and allocate resources for replacements systematically.

The study also emphasizes the importance of modernization in fostering SME growth. SMEs should adopt advanced technologies and refine their production and distribution processes to remain competitive. Investing in innovative marketing strategies will also enable SMEs to better understand and meet customer needs. On the other hand, contingency planning is vital for SME resilience and growth. Businesses are encouraged to establish clear procedures and adaptive strategies to handle potential risks and uncertainties effectively. This involves setting well-defined rules, routines, and performance programs to guide decision-making during crises.

5.5.3 Study Limitations and Recommendations for Future Research

The study utilized primary data collection methods, which faced challenges in gathering the requested information. Some respondents may have been reluctant to provide sensitive financial data, leading to incomplete or inaccurate responses. Additionally, the time constraints and logistical issues in reaching all selected SMEs posed further limitations to the data collection process. There is a need to conduct similar research using secondary data collection methods to ascertain if the regression model will provide a higher adjusted R^2 of variance.

Secondary data, such as financial statements, government reports, and industry analyses, could offer more accurate and comprehensive insights into capital investment decisions and their impact on SME growth. Future research should also consider a longitudinal approach to track changes over time and better understand causal relationships. Another limitation was the geographical focus on Nairobi City County, which may limit the generalizability of the findings to other regions. Therefore, expanding the study to include SMEs from various counties across Kenya would enhance the robustness and applicability of the results.

Furthermore, qualitative methods such as in-depth interviews or case studies could complement quantitative findings by providing deeper insights into the contextual factors influencing capital investment decisions. Finally, future studies should explore the role of external factors, such as economic conditions and government policies, which may moderate the relationship between capital investment decisions and SME growth. By addressing these limitations, future research can provide a more comprehensive

understanding of the factors driving SME growth and the effectiveness of capital investment strategies.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

To whom it may concern

Dear Madam/Sir.

RE: DATA COLLECTION

I am a bona fide continuing student in the Master of Science (Finance) program at the Kenyatta University.

I am required to submit as part of my course work assessment, a research project on "Effect of capital investment decisions on growth of Small and Medium Enterprises in Nairobi County CBD, Kenya." I would therefore, appreciate your support to enable me collect data in your organization.

The result of the report will be used only for academic purposes.

Yours sincerely,

Grace Wangui Gichuru

Reg No. D58/CTY/PT/24770/2013

APPENDIX II: QUESTIONNAIRE

Kindly answer the following questions as accurately as possible. Information given will be treated in total confidence. Where alternatives are given, tick the correct answer in the blank space as appropriate as possible.

PART A: PERSONAL DETAILS

1. What is your Age Bracket?

	21 –30	[ ]	31-40	[ ]
	41-50	[ ]	51 and above	[ ]

2. What is your Gender? Male [ ] Female [ ]

3. What is your Level of Education?

	O level	[ ]	College	[ ]
	University	[ ]	Other	[ ]

4. What is the type of your business?

Sole proprietorship	[ ]
Limited corporation	[ ]
Joint stock	[ ]

5. How long have you been working in this business?

5-10	[ ]	10-15	[ ]
15-20	[ ]	Over 20 years	[ ]

PART B: CAPITAL MANAGEMENT DECISIONS IN SMES

a. Expansion Decision (ED)

8. Indicate the extent to which of the following answers describe your business' desire to expand; where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

Expansion Decision	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
We achieve expansion decisions through business strategy employed.					
We maximise profit from shorter life-cycles product or service and the external environment.					
We take advantage of good business opportunities and company size ensures SMEs growth.					
We benefit from opportunities that increase the number of market(s) and reduce related risks					
We offer a unique product or service					
We gaining economies of scale from additional orders					

b. Replacement Decision (RD)

9. Please indicate the extent to which you agree with the following statements. Use the following statement where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

Replacement Decision	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
There is always Depreciation Expense incurred when equipment breaks down ensure					
Interest Expense incurred ensures all losses are replaced.					
The business prefers more efficient equipment and thus replaces inefficient ones					
Operating Costs are always set aside to ensure sustainability.					
If a channel of investment or asset investment does not attain the foreseen benefits, it's replaced so as to attain the goals					
Lost revenues can be reduced through replacement decisions.					

c. Modernization Decision (MD)

10. Please indicate the extent to which you agree with how the following statements. Use the following statement where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

Modernization Decision	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Modernization decision enables the SMEs to Outperform competitors.					
New marketing skills are discovered from the way customers operate.					
The products are the result of proprietary technology that provides a competitive advantage					
Our new products provide growth opportunities by serving the core customers better than					
Modernization decision ensures Production and distribution capabilities are maintained.					
The modernization can help in elevating the Firm's declined performance					

d. Contingency Decision (CD)

11. CD is an important means for achieving future growth and maintaining a relevant product in the market. Please indicate the extent to which you agree with how the following statements based on CD in your firm. Where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

CD Decision	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Business is guided by rules, routines, and performance programs including hiring decisions					
The business Size determines the options and alternative solutions					
The firm is certain about preferred approach and outcomes for example decision regarding budget					
Processes to reach goals are unclear for example crisis decision					
Contingency decision enables product Diversification					

e. Diversification Decision (DD)

12. Please indicate the extent to which you agree with the following statements based on DD in your firm. Where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

DD Decision	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The business uses concentric diversification where it adds similar products or services					
Horizontal diversification is incorporated by providing new and unrelated products or services to existing consumers					
In the case of a cash cow in a slow-growing market, diversification allows the company to make use of surplus cash flows.					
A successful diversification can our business increase sales and revenue					
We achieve higher margins compared to existing products due to diversification					

f. Regulatory Policies (RP)

13. Please indicate the extent to which you agree with the following statements based on RP in your firm. Where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

Regulatory Policies	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Government design business regulations governing firm entry, operation, growth and exit that are transparent and effective at addressing market failures					
The government has effective cross-sectoral reform strategies and implementation mechanisms					
The government has streamlined bureaucracy to lower the cost of doing business and reduce opportunities for corruption, and informal activity					
The government addresses administrative and institutional deficiencies that impact private investments.					
There are mechanisms put in place by the government that address legal and institutional deficiencies that impact private investment					

PART C: GROWTH OF SMEs (GROWTH)

14. Please indicate the extent to which you agree with the following statements. Use the following statements where 1=strongly disagree, 2= disagree 3= Neutral, 4= Agree, 5= strongly agree

Growth of SMEs	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
We have largely made huge milestones in market penetration and Increased Savings					
We have updated a number of our processes and the structures within our company					
We have witnessed expansion in terms of market share					
Compared to our business competitors, we have enhanced efficiency and effectiveness in service provision					
The business operates effectively with low cost of operations					
The business is able to pay all the liabilities as they fall due					

END!

APPENDIX III: RESEARCH APPROVAL

KENYATTA UNIVERSITY
OFFICE OF THE EXECUTIVE DEAN GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
P.O. Box 43844, 00100
NAIROBI, KENYA
Website: www.ku.ac.ke
Tel. 020-8704150

Internal Memo

FROM: Executive Dean, Graduate School **DATE:** 16th October 2023

TO: Ms. Grace Wangui Gichuru **REF:** D58/CTY/PT/24770/2013
c/o Department of Accounting and Finance

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that Graduate School Board, at its meeting on **11th October 2023**, approved your Research Proposal for the M.Sc. Degree entitled ***Capital Investments Decisions and Growth of Small and Medium Enterprises in Central Business District, Nairobi City County, Kenya".***

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation and Ethics Review Committee, Kenyatta University.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and Progress Report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your thesis before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANGELA KIMARU
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

CC. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Ambrose Jagongo
c/o Department of Accounting and Finance
Kenyatta University

1. Dr. Fredrick Ndende
c/o Department of Accounting and Finance
Kenyatta University

APPENDIX IV: RESEARCH AUTHORIZATION

KENYATTA UNIVERSITY
OFFICE OF THE EXECUTIVE DEAN GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 020-8704150

Our Ref: D58/CTY/PT/24770/2013

DATE: 16th October 2023

Director General,
National Commission for Science, Technology and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR MS. GRACE WANGUI GICHURU – REG. NO. D58/CTY/PT/24770/2013

I write to introduce Ms. Grace Wangui Gichuru who is a Postgraduate Student of this University. She is registered for M.sc degree programme in the **Department of Accounting and Finance.**

Ms. Grace Wangui Gichuru intends to conduct research for a M.sc. Thesis Proposal entitled, ***"Capital Investments Decisions and Growth of Small and Medium Enterprises in Central Business District, Nairobi City County, Kenya".***

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELISHIBA KIMANI
EXECUTIVE DEAN, GRADUATE SCHOOL

APPENDIX V: NACOSTI PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 137254

Date of Issue: 09/November/2023

RESEARCH LICENSE

This is to Certify that Miss.. GRACE WANGUI GICHURU of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kiambu, Nairobi on the topic: CAPITAL INVESTMENT DECISIONS AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY CENTRAL BUSINESS DISTRICT, KENYA for the period ending : 09/November/2024.

License No: NACOSTI/P/23/31229

137254

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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