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Empirical Investigation On Influence Of Spending Behavior On Investment Decisions Among Sme Nairobi County

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Abstract
Investment decisions play a significant role on the economic development of SMEs. This is because profitable investment projects result to financial prosperity of an enterprise. Despite adequate support by the Kenyan government through introduction of single business permits as a solution to business licensing, provision of grant funding and offering business training, SMEs continue to face serious challenges in making rational investment decisions which result to great financial losses. The study therefore sought to investigate influence of spending behavior on
investment decisions among small and medium enterprises in Nairobi City County Kenya. The specific objective of the study was to determine the influence of spending behavior on investment decisions. The study was anchored on the human capital theory and explanatory research design was adopted. The study targeted 1,842 registered SMEs operating within Nairobi City County. A sample size of 329 respondents was selected using the simple random sampling technique. Questionnaires were used to collect primary data. The data collected was analyzed using both descriptive and inferential statistics. The finding indicated that spending behavior had a positive statistical significant influence on investment decisions. The study concluded that spending behavior played a key role on investment behavior. The study recommends that the Kenyan government should collaborates with well-established financial bodies such as World Bank in a bid to offer business training to SMEs. SMEs owners are consequently encouraged to continue taking up financial education courses and to always seek for financial expertise even before making investment decisions. The study also recommends that the Kenya Education curriculum should incorporate financial literacy courses so that students gain financial skills and knowledge at an early age. This will make them operate their firms successfully.

Keywords: *Investment Decision Spending Behavior Small and medium enterprise*

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I. Introduction

Background of the Study

Investment plays a critical role economic growth and development of a county economy and a country's economy. To an individual, investment helps to save for retirement, build wealth and gain high profits. To a business, investment leads to expansion in form of market diversification, decreases financial distress and increases financial growth which enables the firms to attain their financial goals. To a country's economy, investment acts as a source of employment, driver of innovation and assists in fair distribution of income (Katua, 2014). Investment takes place when financial resources are spent to acquire an asset that is expected to generate profits in future.

The investment landscape has undergone various changes and as a result there are many unique challenges that modern investors are faced with. A study conducted by Shiji (2019) on the challenges faced by Indian investors toward online share trading. The study revealed that most investors are faced with the problem of insufficient funds for investments and lack adequate market knowledge. In addition, majority of the investors possess poor investment skills, have huge debts and are affected by a country's political climate and stock market crashes and lose money unknowingly when trading. Gopinath (2021) studied the attitude of individual investors toward commodity trading in Asia and found that most investors were faced with the problems of market vitality, uncertainty in returns, complexity of market products and standardization of contracts when trading in the commodity market.

Birari (2014) examined the spending habits of youth in the city of Aurangabad, India and recommended that when youth engage in rational spending, they are able to have sufficient funds that can enable them to invest more in mutual funds, fixed deposits and gold. Shafi (2011) assessed the relationship between risk perception and employee investment behavior and established that overconfident investors tend to take up more investments. Furthermore, the study also revealed that individuals who invest for longer time horizons and tend to perceive risk as something enjoyable are more likely to take up risky investments that yield high returns.

There are various theories that suggest the relationship between financial behavior and investment decisions. Theory of planned behavior suggests that an individual's behavior is influenced by their intentions which are in turn influenced by psychological factors. The three main psychological factors that lead to behavioral influence are attitude, perceived behavioral control and subjective norms. Formulated by Icek Ajzen (1991), this theory serves as a mirror that reveals an investor's intention to engage in a particular financial behavior. Prospect theory, on the other hand, explains that investors are more focused on an investment's returns than with their cumulative wealth. This theory reveals that investors are loss-sensitive and thus tend to concentrate more on avoiding losses than seeking profits.

A study Nunoo by (2011) established that financial literacy has great benefits to SMEs such as increased savings and effective management of risks through purchase of insurance contracts. The study further reveals that financially literate entrepreneurs are able to utilize available financial services which in turn lead to positive effects such as reduced economic volatility and accelerated financial development of their SMEs.

According to the Kenya Institute for Public Policy Research and Analysis, SMEs refer to firms whose sales figures and numbers of staff are below a certain limit. A small enterprise employs a workforce of less than 50 employees and registers annual sales of between Kshs. 500,000 and Kshs. 5 million. On the other hand, a medium enterprise has a staff of between 50 and 100 employees and records annual turnover of between Kshs. 5 million and Kshs. 80 million (Kippra, 2014). A small enterprise can be referred to as an organization that records annual sales of between Kshs. 500,000 and Kshs. 5 million and employs between ten to forty-nine employees (Micro and Small Enterprises Act, 2012). A medium enterprise, on the other hand, is an enterprise that employs between fifty to ninety-nine workers and registers an annual turnover of between Kshs. 5 million and Kshs. 100 million (Public Financial Management Bill, 2019). In Kenya, the focus of this study, there are 7.41 million micro, small and medium enterprises (MSMEs) with 98% of such enterprises contributing approximately 40% of the country's GDP and creating job opportunities to nearly 50% of the workforce (KNBS, 2016). Among the top 100 SMEs in Kenya, 79 of them are based in Nairobi City County SMEs greatly contribute to the growth and development of a country's economy through creation of employment, enhancement of innovation due to increased business competition, managerial competencies amongst the private sector, production of essential products and helps facilitate fair distribution of income (Katua, 2014). Despite its significant role played by SMEs in Kenya, SMEs are still unsuccessful owing to the fact that in every 5 SMEs three of them close business within the first three years of operation. Oladoke (2020) asserts that poor investment decisions negatively impact SMEs performance by causing financial loss, default on payments due to high debts, conflicts among business partners and finally insolvency. The study therefore sought to investigate the effect of spending behavior on investment decisions among SMEs in Nairobi City County Kenya.

A study conducted by the Kenya National Bureau of Statistics (2016) revealed that a total number of 7.5 million MSMEs operate in Kenya, of which 1.5 million are licensed whereas 5.85 million are unlicensed. According to the Nairobi County's Ministry of Trade records, there are 102,821 registered SMEs spread across different sectors in Nairobi City County. SME's fuel economic growth through enhancement of innovation, managerial competencies, provision of essential goods and services and poverty eradication (Katua, 2014). SMEs constitute nearly 98 percent of the total businesses in Kenya and offer 30 percent of the employment opportunities annually and also contribute 3 percent of Kenya's GDP (KNBS, 2016). The FinAccess Survey Report 2021 conducted by the Central Bank of Kenya reveals that between the Years 2015 and 2019, SMEs in the informal sector were estimated to create 90 percent of the total new jobs especially in the low-income sector.

The current business operating environment of the SMEs located in Nairobi is characterized by critical success factors namely; access to finance, innovation and government support. In regards to access to finance, Nairobi County has the highest number of commercial banks, mortgage finance institutions and microfinance banks. The Kenyan government has made various strides in a bid to support the growth of the SMEs sector through collaborating with various partners to provide funding and training to SMEs as well as introducing Single Business Permits as a way of solving business licensing problems (County Governments Act, 2012).

Despite their significant contribution to Kenya's economy and a favorable business environment, SMEs based in Nairobi County are faced with numerous investment decision challenges which bring about high mortality rates. Some of the investment decision challenges facing these SMEs include; inadequate collateral required by financial institutions when obtaining loans, insufficient managerial skills needed to make wise investment decisions and mismanagement of SME's resources. A 2017 report by the Kenya Agribusiness and Agro-industry Alliance revealed that most SMEs managers lack adequate managerial training and therefore rely on operational goals rather than strategic goals of the firms. Their main managerial technique used is the trial and error mechanism which in most times results to poor investment decision making.

Financial literacy oftenly affects investment decisions. Garcia (2007) argues suggested that financial literacy is a crucial business management skill that enables SMEs owners to make successful investment decisions. The study therefore sought to investigate the effect of spending behavior on the investment decisions among SMEs owners in Nairobi City County.

Statement of the Problem

Investment decision is among the key decisions that an enterprise undertakes in its day-to-day running of the firm. Such decisions are critical to SMEs because they lead to financial growth, business expansion, decreased financial stress, higher returns on investment and ability of the firm to achieve their financial goals. When SMEs make wise investment decisions, they are able to build wealth which enables them to invest in production technology and human capital knowledge consequently leading to market diversification through taking advantage of attractive market opportunities (Lõõf & Heshmati, 2008). Poor investment decisions, on the other hand, negatively impact SMEs' performance through loss of funds, high debts, liquidation, mistrust among business partners and lawsuits (Oladoke, 2020).

The SMEs sector is instrumental in the growth and development of a nation's economy because it leads to employment creation, increased business competition, drives innovation, ensures supply of essential products and services and facilitates fair income distribution (Katua, 2014). A report by the World Bank on SMEs finance in Africa found that SMEs account for nearly 90% of the businesses worldwide and contribute up to 40% of national income (GDP) in developing countries (World Bank, 2019). A study conducted by (Maina, Butoyi&Nkatha, 2010) revealed that SMEs are the main source of most new job opportunities, the basis of poverty reduction and the hub of developing countries' entrepreneurship. In a bid to foster growth of the SMEs sector, the Kenyan government in 2001 introduced the single business permit (SBP) issued under the County Governments Act No. 17 of 2012 laws of Kenya as a response to business licensing problems faced by SMEs in the initial start-up stages where they previously had to acquire multiple licenses before opening shop. In 2019, the Kenyan government in partnership with the World Bank launched the MbeleNaBiz business plan competition that seeks to provide grant funding and/or business plan training among youth-led SMEs. Despite their significant contribution to the economy and the adequate government support, Kenya's SMEs are faced with various constraints that make them remain stunted or leave market even before celebrating their first three years of startup (Fatoki, 2014). In 2018, the Kenya National Bureau of Statistics conducted an economic survey and found that nearly 400,000 micro, small and medium enterprises do not attain their second anniversary and very few reach their fifth anniversary (KNBS, 2018).

One of the major causes of failure for SMEs especially in developing nations is poor investment decisions made by SMEs owners. Christanti&Mahastanti (2011) observed that most investors are unconsciously influenced by behavioral biases which lead them to make irrational financial decisions. Kamunge *et al* (2014) found that most SMEs owners in Kenya are not frequently trained on business management skills and this consequently results to poor investment decisions. A research study by Garcia (2007) revealed that SMEs owners who possess low levels of financial literacy lack appropriate business managerial skills to enable them make successful investment decisions.

Most previous studies conducted have focused on behavioral finance and investment decisions but there exists empirical gaps on the potential effect of the spending behavior on investment decisions. For instance, (Kisaka, 2015) researched on the effect of behavioral finance factors on stock investment decisions in Kenya, (Cherono, 2019) researched on investor behavior biases and stock market reaction in Kenya, (Nakamya, 2020) studied the impact of behavioral finance on investment decisions by investment banks in Kenya whereas (Wangi & Baskara, 2021) researched on the effect of financial behavior on individual investment decision behavior. The failure of the previous studies to research on spending behavior on investment decisions provoked the authors conduct a study on the effect of spending behavior on investment decisions.

The study was guided by the following objective and hypothesis

Objective of the study

To investigate influence of spending behavior on investment decisions on SMEs in Nairobi City County Kenya.

Hypothesis of the study

H_{01}: Spending behavior has no influence on investment decisions among SMEs owners in Nairobi.

II. Literature Review

Theoretical Literature

Concept of Investment Decision

According to Avram *et al* (2009) investment refers to an expenditure incurred now so as to obtain gains in the future. There are two types of investment strategies namely; fixed/ physical investments which comprises of buildings, machinery, plants or any other tangible assets and monetary investments which include stock, bonds and any other financial investments (Virlics, 2013). The decision on whether to invest or not depends on various factors such as cost of the asset, investor's profit expectation and the availability of funds to finance the investment (Harcourt *et al*, 1967). In other words investment is the commitment of resources with the hope of realizing benefits expected to occur in the future (Bierman & Smidt, 2012).

In an organizational dimension, a company reaps many benefits when it invests in developing its employees. Some of these benefits include: The firm attracts great employees, provides a platform for employees to form greater connections with one another through practicing new skill together, leads to increased employee retention in the long run and creates a resilient workforce that is adaptable to change (Verb, 2021). Similarly, economic investment is very beneficial to a firm. It provides a firm with high investment returns in the long-run, enhances growth of a firm, provides regular income, and helps overcome financial obstacles through wealth accumulation (Trianni*et al*, 2016). High levels of financial literacy and good financial behavior empowers an investor to make smart financial investment decisions.

According to Amalendu Bhunia (2011), ROI ratio is used to decide on the best investment plans by showing the gains a firm is making against the cost employed by the investor. When comparing against different investment options, the investment that yields the highest ROI is the most preferred. Professional experts suggest that projects that yield negative ROI should be rejected (Doe, 2014). ROI is a popular investment measure because of its simplicity, flexibility and ease in calculating an investment's profitability. The ROI ratio is a key performance indicator that is relevant to SMEs when assessing profitability of investment projects, to measure financial success over time and in making informed business decisions.

Concept of spending behaviours

It refers to how high or low an individual's expenditure is when spending money (Mitchell, 2008). Different people have different spending habits including; spending without a plan, paying for convenience, spending without keeping track, impulse buying and emotional spending. In most cases, spending habits are influenced by various factors such as: personality, media and culture, gender and age group (Gitaria, 2018).

Theoretical Literature Review

The study was anchored on Human capital theory and Prospect theory.

Human Capital Theory

This theory was authored by three economists; Gary Becker, Jacob Mincer and Theodore Schultz in 1962. These three advocates proposed that education and training are the key sources of economic development. This theory states that workers have a set of skills and abilities which can be improved through education and training. A.W. Lewis (1954) formed the word "human capital" and defined it as the economic value of an employee which is made up of factors such as level of education, skills, knowledge and experience (Sean, 2021). According to this theory, when an individual invests in education it results to better performance at a personal level, high productivity and profitability at the organizational level and positive returns at the community level (Nafukho *et al,* 2004). This theory suggests that when individuals invest in education and training, they become more efficient and productive which results to better job opportunities and higher earnings (Almendarez, 2011).

In relation to this study, human capital theory illustrates the role of financial literacy in investment decision- making among business owners. An individual with a higher level of financial education receives higher financial rewards (Gillies, 2015). This theory demonstrates how human capital serves as an economic resource that can greatly improve the chances of survival of small businesses (Bruederl *et al*, 1992). When business owners invest in education and training, they acquire new skills and knowledge which enables them to make informed decisions (Unger *et al*, 2011).

Prospect Theory

This theory is popularly referred to as the "loss- aversion theory" and was first formulated by psychologists Daniel Kahneman and Amos Tversky in 1979. They proposed that investors perceive gains and losses differently. This theory states that investors are more likely to choose an investment with potential gains rather than an investment with potential losses. Investors are usually more biased towards gains because losses bring about a huge emotional impact than its equivalent gain. Most real-world decisions must be made without full awareness of what will happen in the future. This theory assumes that various illusions affect an individual's decision-making process namely; regret aversion, mental accounting and loss aversion (Ogunlusi, 2021). The regret aversion illusion is based on the belief that in most cases, investors always wish to avoid regret when making investment decisions (Singh, 2012). The mental accounting illusion states that individuals at times separate funds that should have been combined. An individual will put aside a special fund for vacation purposes while at the same time have a huge loan yet the individual can divert funds allocated for vacation and use it to repay debt thus decreasing his loan interest payments. Loss aversion illusion posits that investors tend to be more loss sensitive compared to the joy experienced by the same investors when they gain (Phung, 2010). The pain of losing 100 dollars is estimated to be twice as great as the joy of winning 100 dollars (Benartzi, 2012).

In relation to this study, prospect theory explains how individuals make investment decisions even when the consequences of their choices are uncertain. This theory demonstrates that investors are more concerned with the returns on an investment (whether a gain or a loss) than with their overall wealth. It also reveals that investors are more biased toward avoiding losses than seeking gains (Wiley, 2010). It illustrates how investors are more sensitive to the pain caused by losses compared to the joy associated with gains.

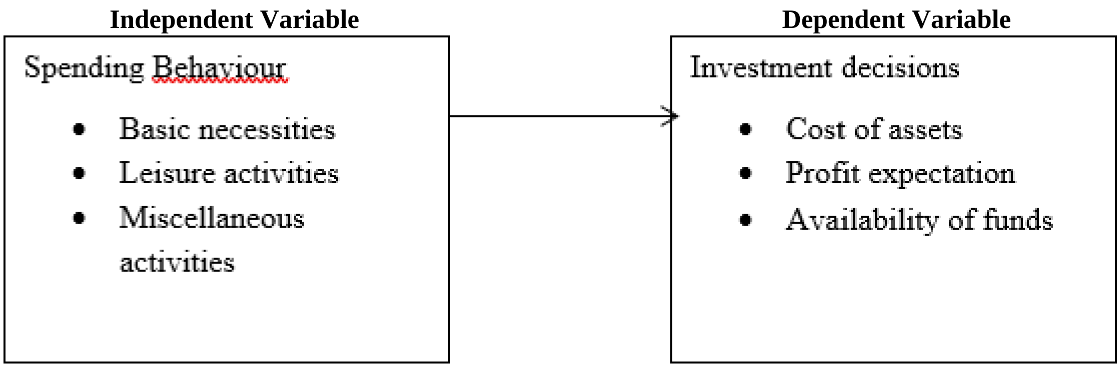
Empirical Literature Review

Influence of Spending behavior on Investment Decisions

Spending behavior can be defined as usage of either cash, credit or debit card in exchange for goods and services (Lipscomb, 2019). It refers to how an individual uses money. Studies have been conducted on the significance of spending behavior on making investment decisions. Perculeza *et al* (2016) assessed the spending behavior of the teaching personnel in an Asian University. This study sought to find out the spending behavior of the teaching personnel in Lyceum of the Philippines University. The study used descriptive statistics to analyze primary data. The data was collected through administration of questionnaires. The study targeted one hundred and sixty-one teaching personnel selected from different colleges. The data was analyzed using various statistical tools namely; ranking, frequency distribution, weighted mean and F- Test. The study revealed that in most cases, spending behavior is mainly associated with basic necessities, leisure activities and other miscellaneous spending activities of the employees. In terms of basic necessities, food was found to be the highest ranked, followed by education then followed by clothing and lastly housing. Leisure activities were associated with traveling, entertainment such as movies and family outings/ picnics. Miscellaneous spending activities involved gadgets, jewelry, charity, taxes and loans. Results of the findings also showed that the major problems encountered on spending practices by the study participants were overspending, misallocation of financial resources and inflation. Furthermore, inadequate income, use of credit cards as a mode of payment, indebtedness and many dependents were also highlighted to be challenges that respondents faced when spending. The study recommended that having a good budget in place would be of great help in regards to effectively allocating money for spending.

Conceptual Framework

The authors developed the following conceptual frame work to guide the study.



Source: Authors, 2024

III. Methodology

Research Design

The study adopted explanatory research design because it allowed the identification of casual link between the study variables (Saldana 2011). The choice of this research design was informed by the quantitative nature of the study.

Target Population

The study was conducted among SMEs operating in Nairobi City County Kenya. Nairobi was preferred because it is the country's capital city and most populous of the counties in Kenya. In addition, Nairobi is the main commercial center and the largest industrial center in Kenya because of its well-developed infrastructure, and is a home to major businesses in Kenya.

According to Nairobi County licensing department there were 1842 licensed SMEs operating within Nairobi City County as of 2021. The respondents of the study were the respective SMEs owners. The target population is shown in the table 3.1

Table 3.1: Distribution of the Target population

Sector Type	Target Population
Manufacturing	921
Information Technology	368
Tours & Travel	276
Hospitality	148
Consulting	92
General Shops	37
Total	**1,842**

Source: *Nairobi City County, Licensing Department, 2021*

Sampling Procedure and Sample Size

The study employed simple random sampling to select respective SME owners from each of the six sectors that had been identified. The six sectors were manufacturing, information technology, tours and travel, hospitality, consulting and general shops. The study focused on the six sectors because they had the most active and highest competition of SMEs.

The study utilized the Taro Yamane (1973) sample size formula to arrive at a sample size of 329. This sample size was considered an ideal representative of the target population of 1,842 SMEs. Griffin (2013) acknowledges that a sample of between 300 and 500 is deemed good for explanatory research designs. The following formular was used.

$$n = \frac{N}{1 + N(e)^2}$$

Whereby: n = Sample size

N = Total population size (1842)

e = Error of sampling (0.05)

The sample size was determined as follows:

$$n = \frac{1842}{1 + 1842(0.05)^2} = 329 \text{ SME owners}$$

Table 3.2 Sample Size of the respondents

Sector Type	Target Population	Sample Size $\frac{K}{T} X S$	Percentage
Manufacturing	921	165	50.2%
Information Technology	368	66	20%
Tours & Travel	276	49	14.9%
Hospitality	148	26	7.9%
Consulting	92	16	4.9%
General Shops	37	7	2.1%
TOTAL	**1,842**	**329**	**100%**

Source: *Researcher, 2022*

Key **K =** Total Number of SMEs per sector

T = Total Number of licensed SMEs in Nairobi

S = Total Sample Size arrived at by Taro Yamane (1973) Formular

Data Collection Instruments

The study used semi structured questionnaires for data collection which considered ideal for conducting survey which covered a large sample size (Gibson 2014)

A total of 329 questionnaires were administered using drop and pick method of which 307 questionnaires were returned dully completed. Therefore the response rate was 93.3%.

Reliability and Validity of Data Collection Instruments

The authors used Cronbach Apha Coefficient with a threshold of 0.7 as recommended by George and Mallery (2003). In addition the authors ensured the research instruments possessed content, face and construct validity content validity of research instruments was ensured by exposing the research concepts to professional experts where as construct validity was ensured by grounding the study variables on relevant theories. Further face validity was ensured by conducting pilot study.

IV. Study Findings

Introduction

The study used both descriptive and inferential statistics to analyze the data.

Descriptive Statistics on Spending Behaviour

The respondents were asked to rate the extent to which they agreed on the statements regarding spending behavior. The results are shown in table below

Table 4.1: Descriptive statistics for Spending Behavior

Statement	Mean	Std. Deviation	Skewness	Kurtosis
I keep records of my business operations	3.57	0.91	-0.82	0.80
I pay my bills and other financial commitments on time to avoid penalties	3.45	0.87	-0.45	0.48
I usually negotiate for favorable terms and conditions with my suppliers	3.59	0.85	-0.66	0.51
I stick to and follow the spending plan I have created on how to use my business income	3.48	0.92	-0.30	0.04
I prefer to spend than to save	3.6	0.95	-0.49	-0.14
I often compare prices and/or look for discounts before making a purchase	3.61	1.04	-0.61	0.06
Average Score	**3.55**	**0.92**	**-0.56**	**0.29**

***Source**: Authors*

The data analysis shown in Table 4.8 below revealed the following: The respondents under study agreed to keeping records of their business operations (mean = 3.57, SD = 0.91). This shows the importance of record keeping to SMEs proprietors as they are able to assess their expenditure and cut on cost where necessary. The findings further revealed that the study participants often negotiate for favorable terms with their suppliers (mean = 3.59, SD = 0.85) and look out for discounts before making purchases (mean = 3.61, SD = 1.04). This would mean that when SMEs go for negotiations and price discounts, they are able to get high quality products at fair prices and with favorable payment terms. This helps to save on cost. Furthermore, the study findings showed that the SMEs owners follow a spending plan when using their business income (mean = 3.48, SD = 0.92). This is important because it illustrates that a spending budget serves as an effective management tool for most firms especially when allocating financial resources.

Descriptive statistics for Investment Decisions

The respondents were asked to rate their level of agreements regarding the statements on investment decisions. The results are shown below

Table 4.3: Descriptive statistics for Investment Decisions

Statement	Mean	Std. Deviation	Skewness	Kurtosis
I always examine the return when choosing an investment	3.14	1.05	-0.29	-0.19
I always consider the liquidity when making an investment decision	3.57	0.89	-0.61	0.21
I always consider the tax implications of an investment so as to earn a high net after-tax return	3.51	0.97	-0.43	0.14
I always consider the rate of inflation before investing	3.64	0.93	-0.69	0.47
I always consider the initial cost before making an investment decision	3.72	0.96	-0.52	0.03
I often invest in projects that have stable incomes	3.64	1.03	-0.59	0.05
I put into consideration the investment period before making a decision	3.77	0.99	-0.71	0.26
I have diversified my assets	3.62	1.09	-0.52	-0.46
I always conduct market research before investing to assess the riskiness of an investment	3.06	1.01	-0.74	0.46
I consult professionals for guidance and advice before making an investment decision	3.58	1.06	-0.57	-0.03
Average Score	**3.53**	**1.00**	**-0.57**	**0.10**

Source: Research Data (2022)

Based on the results illustrated in Table 4.11 below, the study participants agreed that they have diversified their assets (mean = 3.62, SD = 1.09). This would imply that diversification enables SMEs owners spread their risks by investing in different asset classes. However, the SMEs proprietors under study were undecided on whether they assess the returns when choosing an investment (mean = 3.14, SD = 1.05).This trigger concerns as to whether failure by SMEs owners to assess the return on investment (ROI) is what leads to poor investment decisions which consequently leads to financial struggles and business closure. Study findings further revealed that the respondents always consider the liquidity of an investment (mean = 3.57, SD = 0.89). Liquidity refers to how easily an asset or investment can be converted into cash. This would mean that when an investment is highly liquid, then an SME is able to be cash-rich which consequently enables them to spend or take up other more profitable opportunities that come their way. In addition, the SMEs proprietors agreed that they always consider the inflation rate before investing (mean = 3.64, SD = 0.93). Inflation is commonly defined as the sudden rise in commodity prices. This would imply that inflation negatively impacts investment through increasing prices for investment avenues which is costly to the SMEs owners. Furthermore, it was established that SMEs proprietors always consider the initial cost before investing (mean = 3.72, SD = 0.96). This would mean that initial cost is a crucial factor to consider when investing because profitability of a project is able to be calculated by subtracting the initial cost from the estimated project income.

Inferential Statistics

Correlation Analysis

The study used correlation analysis to find the strength of relation between spending behavior and investment decisions. The results showed that spending behavior correlated positively and significantly with investment decisions (r = .514**, p<0.05). This indicated that there was a positive significant statistical relationship between spending behavior and investment decisions.

Regression Analysis

The study used multiple linear regression where the independent variable and dependent variable were regressed the results are shown below.

Table 4.4 Results of Regression Analysis

<table>
<tr><th colspan="5">Model Summary</th></tr>
<tr><td>Model</td><td>R</td><td>R^2</td><td>Adjusted R^2</td><td>Standard Error of the Estimate</td></tr>
<tr><td>1</td><td>0.231</td><td>0.181</td><td>0.178</td><td>105.75</td></tr>
<tr><th colspan="5">Anova</th></tr>
<tr><td>Model</td><td colspan="2">Df</td><td>F</td><td>Sig</td></tr>
<tr><td>1</td><td colspan="2">4
303
307</td><td>15.288</td><td>0.00</td></tr>
<tr><td colspan="5">Regression Coefficients</td></tr>
<tr><td></td><td>Unstandardized coefficients
β</td><td>Standardized coefficients
Beta</td><td>Standard Error</td><td>Sig</td></tr>
<tr><td>Constant</td><td>5.67</td><td></td><td></td><td>0.00</td></tr>
<tr><td>Spending Behavior</td><td>0.219</td><td>0.231</td><td>0.055</td><td>0.001</td></tr>
<tr><td colspan="5">Independent variable: Constant, Spending Behavior
Dependent variable: Investment Decisions</td></tr>
</table>

Source: Authors 2024

From the table above it can be seen that spending behavior contributed to 17.8% of investment decisions among SMEs firms in Nairobi City County. While 82.2% was due to other factors (e.g savings behaviors, borrowing behaviors, investment behaviours among others).

The table above shows F (4,303) statistics is 15.288 with a p-value of 0.000. This shows that the model used was statistically significant and could be used for further data analysis.

The table above shows regression coefficient of spending behavior is 0.219 with a p-value of 0.001. This indicates that spending behavior has a positive statistical significant influence on investment decisions.

The results in the table above were summarized with the following equation model.

Y=0.0738 + 0.219

Where Y = Investment Decisions

X = Spending Behaviour

Testing the hypothesis

The objective of the study was to investigate the influence of spending behavior on investment decisions among SMEs firms among Nairobi City County.

The hypothesis of the study was spending behavior has no influence on investment decisions.

The results revealed that spending behaviour had statistical significant influence on investment decisions. Hence the hypothesis that spending behaviour has no influence on investment decisions was rejected. These study findings are in line with those of Apat (2019) who asserted that spending behavior of corporations has a positive and significant effect on their investment decisions. In addition, these findings collaborate with those of Rubalcava *et al* (2004) who found that spending behavior has a positive significant effect on investment decisions. Moreover, Perculeza *et al* (2016) established that good spending behavior such as having a budget in place enables an individual to effectively plan money for spending and is thus able to have money for investing. However the study findings are in conflict with those of Coibon *et al* (2021) who asserted that spending behavior has a negative effect on investment decisions especially during periods of macroeconomic uncertainty.

V. Conclusion And Recommendations

The objective of the study was to investigate the influence of spending behaviour on investment decisions of SMEs firms in Nairobi City County. The study established that spending behaviour has a positive significant influence on investment decisions. This implies that spending habits that an individual adopts influence the kind of investments they take up. Good spending behavior enables an investor to minimize on unnecessary expenses and is able to have sufficient funds especially for projects that require huge amounts of money. On the other hand, bad spending habits such as impulse buying and spending on unnecessary items reduces money that could have otherwise been used for investment.

Recommendations of the study

First, the government should provide financial education and training to SME owners so as to equips them with skills and knowledge that can help them make wise investment choices. This will consequently improve the chances of survival of small firms. Second, the government should create awareness to business owners to understand the biases that influence their investment decision-making and therefore be able to take appropriate action. Third, the business owners should avoid the fear of loss they got from previous investment experiences and should instead seek financial advice and undertake financial courses that can help them make prudent investment choices. Fourth the SMEs owners should strive to choose projects that have potential of high return on investment when making investment choices.

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1. Indicate your gender: Male ( ) Female ( )
2. Indicate your age bracket

20- 30 years ( ) 31- 40 years ( )
41- 50 years ( ) above 50 years ( )

3. How long has this firm been in operation?

Less than 2 years ( ) 2- 5 years ( )

6-10 years ( ) more than 10 years ( )

4. Kindly indicate your highest level of education

Primary education ( ) Secondary education ( ) Certificate/ Diploma ( )
Bachelor's Degree ( ) Post-graduate education ( )

Section B: Investment Decisions

Please tick (√) the extent of agreement to each of the statements provided below:
***Key: SA** -Strongly Agree, **A**-Agree, **N**-Neutral, **D**-Disagree, **SD**- Strongly Disagree*

Code	Item	SD	D	N	A	SA
INV1	I always examine the return when choosing an investment					
INV2	I always consider the liquidity when making an investment decision					
INV3	I always consider the tax implications of an investment so as to earn a high net after-tax return					
INV4	I always consider the rate of inflation before investing					
INV5	I always consider the initial cost before making an investment decision					
INV6	I often invest in projects that have stable incomes					
INV7	I put into consideration the investment period before making a decision					
INV8	I have diversified my assets					
INV9	I always conduct market research before investing to assess the riskiness of an investment					
INV10	I consult professionals for guidance and advice before making an investment decision					

Section E: Spending Behavior

Please tick (√) the extent of agreement to each of the statements provided below:
***Key: SA** -Strongly Agree, **A**-Agree, **N**-Neutral, **D**-Disagree, **SD**- Strongly Disagree*

Code	Item	SD	D	N	A	SA
SPB1	I keep records of my business operations					
SPB2	I pay my bills and other financial commitments on time to avoid penalties					
SPB3	I usually negotiate for favorable terms and conditions with my suppliers					
SPB4	I stick to and follow the spending plan I have created on how to use my business income					
SPB5	I prefer to spend than to save					
SPB6	I often compare prices and/or look for discounts before making a purchase					