

# **CAPITAL INVESTMENT DECISIONS AND GROWTH OF REGISTERED SMALL AND MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY, KENYA**

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## **ABSTRACT**

Small and Medium Enterprises are the heart of the economy of Kenya, with an estimated population of 7.4 million enterprises, where only 21% are registered while the rest operate informally. They constitute 98% of all businesses, employ approximately 14.9 million Kenyans, and contribute approximately 40% of the Gross Domestic Product of the country. However, nearly 46% of Small and Medium Enterprises fail within the first year of operation, mainly due to lack of working capital, and the sector faces a financing gap. Structural barriers such as inaccessible affordable credit, long cash-to-cash cycles that tie up 75% of working capital, heavy taxation and licensing requirements, and weak infrastructure further hinder their growth. Additionally, Small and Medium Enterprises face challenges in market access, with lack of markets affecting about 18% of firms, alongside high local and international competition and shortage of skilled labour. Therefore, this study investigated the effect of capital investment decisions on the growth of registered Small and Medium Enterprises in the Central Business District of Nairobi City County, focusing on expansion, replacement, modernization, contingency, and diversification investment decisions. The study was underpinned by Modern Portfolio Theory, Wealth Maximization Theory, Prospect Theory, and Greiner's Growth Model. A descriptive research design was adopted, and simple random sampling was used to obtain a sample of 396 Small and Medium Enterprises from a target population of 33,701 Small and Medium Enterprises

using the Slovin's formula. Primary data were collected using semi-structured questionnaires and structured interview guides. Data were analyzed using both descriptive statistics and inferential statistics. Diagnostic tests such as multicollinearity, normality, and heteroskedasticity were conducted to ensure the suitability of the data. Ethical considerations were observed throughout the study. The research findings indicated that capital investment decisions significantly influenced Small and Medium Enterprises growth in Nairobi Central Business District. Expansion investment decisions showed a strong positive and significant relationship with Small and Medium Enterprises growth, while replacement investment decisions also had a significant positive effect. Modernization investment decisions had the strongest influence on Small and Medium Enterprises growth, making it the most critical determinant of performance. Contingency investment decisions also showed a significant positive relationship, while diversification investment decisions had a positive but statistically insignificant effect. Overall, capital investment decisions jointly had a substantial proportion of variation in Small and Medium Enterprises growth, confirming their importance in business performance. The research concluded that capital investment decisions serve a critical role in enhancing the growth and sustainability of Small and Medium Enterprises in Nairobi Central Business District. Modernization was identified as the most influential factor, followed by

expansion, replacement, and contingency investment decisions, while diversification had a weak and insignificant effect in the short term. It was further concluded that effective investment decision-making is essential for improving efficiency, competitiveness, and long-term Small and Medium Enterprises survival. The study recommended that Small and Medium Enterprises prioritize modernization by adopting digital technologies and innovation,

and also strengthen expansion strategies to improve market reach and performance and also regularly upgrade or replace out-dated equipment to enhance efficiency and productivity.

**Key words:** Capital Investment Decisions, Contingency Decision, Diversification Decision, Expansion Decision, Modernization Decision, Replacement Decision, Growth.

## INTRODUCTION

The role of Small and Medium Enterprises (SMEs) as critical drivers of economic growth and development in the world is universally recognized. SMEs constitute approximately 90% of economic establishments and more than half the employed population on the global front. Their role in innovation, job creation and economic sustainability is well documented, with the World Bank (2022) estimating that up to 40% of the Gross Domestic Product (GDP) of developing nations is comprised by SMEs. The effectiveness of these companies is closely associated with their capacity to make strategic capital investment decision that determine their growth, innovation and competition in the key international markets. The backbone of United States economy, the 99.9% of all the enterprises are SMEs which employ nearly half of the total private workforce (U.S. Small Business Administration, 2023). The decisions made by the capital investors are very critical in growth of these companies as they often determine the ability to increase operation, adopt new technology and enter new markets. Recent studies indicate that effective distribution of capital investment has a direct link to improved profitability and sustainability in the long run in small and medium-sized businesses (Morrison, 2022). China's SMEs have been significant in the booming economic development of the country, which has approximately 60% of the national GDP and 80% of the urban jobs (China Association of Small and Medium Enterprises, 2023). The Chinese government has placed its focus on capital investment in technology and innovation as among the methods of SMEs growth, which have led to significant gains in productivity and competitiveness (Wang and Liu, 2022). However, financing remains a significant challenge to most of these businesses, particularly in the underdeveloped regions.

In Nigeria, over 48% of GDP and 96 % of all businesses are constituted by SMEs, which makes them very significant in economic development (National Bureau of Statistics, 2022). Lack of access to funds and a poor choice of capital investments have hampered development opportunities of these businesses. There is evidence that in most cases, inadequate distribution of capital investment will lead to slowed growth, loss of competitiveness and increased failure rates in these organizations (Ogunleye and Aluko, 2022). In Sudan, the SME segment is an important part of this country economy and particularly due to the existing economic hardships and efforts to recuperate. The play majorly in providing employment particularly in the rural areas (African Development Bank, 2023). However, political instability and limited supply of capital tend to limit the growth of these businesses hence influencing their ability to make good decisions regarding capital investments (Hassan & Khalil, 2022). SMEs comprise the largest part of the Tanzanian economy with over 35% of the GDP and a workforce of over 60% (Tanzania National Bureau of Statistics, 2022). The initiative by the government to support the growth of these enterprises by making them more accessible to lending and establishing favorable investment legislation has played to their advantage. Nevertheless, there are still challenges in decision-making regarding capital investment, especially technologies adoption and development (Nyoni and Mgaya, 2023). For the Republic of Uganda, the SME sector is of utmost economic importance because it constitutes approximately 20% of GDP, and employs over 1.5 million people (Uganda Bureau of Statistics, 2022). The future development of SMEs, regarding capital spending, is closely linked with their decisions in investment in the capital cost, particularly in the agricultural sector, manufacturing and services. However, the lack of long-term financing and investment in infrastructure has been the significant barriers to development (Mugabi and Kasozi, 2023).

The KNBS (2023) further say that SMEs are a key factor in the Kenyan economy, comprising 24.5% of the national GDP and employing nearly 86 % of the working population. It is important to note that the growth of these businesses particularly those formally wired within the Nairobi City County Central Business District is greatly influenced by their decisions concerning capital investment. The investments in growth, replacement, modernization, contingency and diversity are some of the key decisions that should be made in order to enhance competitiveness and sustainability of the Kenyan economy that is a known contributor of employment, innovation and general economic growth (Mwangi & Kinyua, 2023). Nevertheless, several SMEs in Kenya have challenges in obtaining financial resources, therefore constraining their capacity to make strategic investments and attain long-term and stable growth.

### **Capital Investment Decision**

SMEs sector makes up most firms in both Nigeria and the United Kingdom. For example, in the UK, SMEs account for over 95% of all enterprises, labor force (more than 65%) and 30% of country's GDP (Bighelli et al., 2023; Fernández-Serrano & Romero, 2022). According to NBS data, SMEs account for approximately 96% of all businesses in Nigeria, employing 84% of the workforce and contributing up to 48% of the nation's GDP (NBS, 2024; Olaoye et al.,

2023). Burden of taxes on SMEs stands as the second-highest contributor to the U.S. economy slowdown (Dyrenge et al., 2022; Moskalev & Timilsina, 2021).

In this study, the researcher examines the capital investment decisions of Nairobi SMEs. It examines the extent to which the firms recognize opportunities, evaluate projects, give them the green light, implement them, monitor their progress or post the results later. Investment decisions and business characteristics such as sector type or duration of operations in the market are also related to the analysis. Also, external factors that determine decision-making are considered in various perspectives. Expansion decisions are the attempt of SMEs to expand by having new branches, diversifying their products or by having an increase of capacity. Recent studies of the Kenyan SMEs by Ngugi and Kimani (2023) demonstrate that growth is closely associated with revenue and job generation, however, only when the firms can access cheap financing and management skills. On the same note, OECD (2025) documents that SMEs all over the world are embarking on incremental expansion plans because of the high cost of borrowing funds, preferring the digital medium over the heavy fixed investments. This is why expansion is significant as it can diversify the sources of revenue and enhance competitiveness as Gichuru (2025) suggests, but the rate of growth varies depending on the availability of resources, as well as the general economic environment.

The replacement decision entails the modernization of old assets or technologies to keep pace and remain competitive. Amadi-Echendu et al. (2021) point out that replacing the maintenance in time saves money and enhances the productivity, whereas delay usually destroys the profitability. Kariuki and Wanjohi (2022) also discovered that manufacturing and hospitality SMEs in Nairobi that substituted outdated equipment cited greater customer satisfaction and consistency in their operations. The importance of replacement is that it maintains productivity and compliance; the effects of replacement on growth are witnessed through low operating costs and higher quality of services. Modernization choices represent the change to new technologies and practices that SMEs should make to change the way operations are carried out. Hrynko and Beliaeva (2019) present modernization to be a process of self-renewal, whereas more recent studies provided by FSD Kenya (2024) indicate that more SMEs in Nairobi start using mobile-based technologies and E-commerce platforms to reach more people in the market. Modernization is significant since it promotes efficiency, customer satisfaction, and scalability. The effect on its growth is obvious: digitizing operations leads to performance superiority of firms compared to rivals, and helps to maintain profitability, yet disparities in adoption by cost and skills difference restrain the benefits of this approach (Uwah & Asuquo, 2016).

Contingency decisions entail risk reduction initiatives by SMEs like emergency funds, insurance, or supply chain alternative. Jin, Shu and Zhou (2019) point out that the efficiency of decision-making relies on the level of technical knowledge and consensus of the goals whereas Walker, Davis and Stevenson (2017) indicate that the level of uncertainties differs depending on these two dimensions. More recent evidence from Njagi & Muriu (2025) indicates that Nairobi SMEs with

contingency plans were more resilient during disruptions, sustaining operations and protecting revenue. Contingency planning is important because it safeguards continuity, and its impact on growth lies in enabling firms to recover faster and maintain customer trust during crises.

### **Growth of Registered Small and Medium Enterprises**

SMEs have over the past six decades been known to serve a significant role in enhancing economic growth, development, and stability of various economies especially in industrialised countries (Yitzhaki, 2023). SMEs are the majority of firms globally, offer significant inputs to the creation of jobs, the increase of the supply of products and services to improve the standard of living and the GDP of most countries (OECD, 2022). Over the past decades, increasing role of the SME sector in the leading economies of the world has made it clear that these companies are not small versions of larger ones contrary to the previous assumption (Hassan, 2023). In some countries like Nigeria and the United Kingdom, SMEs form the larger part of business and they are very vital in the economy. In the United Kingdom, the majority of businesses (95 % of total) are made up of SMEs, over 65% of the total labor force, and more than 30 % of the GDP in the country (Day, 2024; Dewhurst and Burns, 2024). Nigeria has an SME population of approximately 97%, which employ half of the working population and supply as much as half of the industrial output in the nation (Ariyo, 2024). Although these businesses are very common, it is an essential issue to evaluate their growth in relation to the GDP, employment and industrial production.

SMEs dynamism is directly linked with the general economic growth, but taxation has become a serious impediment to their growth. The lack of coordination in administering taxes will undermine the capacity to produce and will put off investment (Ihua, 2024). Taxation is the second among the limitations hindering SME development in the United States (Thuronyi, 2019). Shome (2024) in collaboration with the Centre of International Private Enterprise in Washington disclosed the financial burden on the SMEs in South America due to various levies and that high taxes limit the profitability, growth and sustainability of the business (Terkper, 2024). Taxation issues are also very high in Africa. Terkper (2024) and the Manufacturers Association of Nigeria (MAN) found that, with the poor business climate, about 1,000 SMEs are shut down every year. Taxation procedures in the Ivory Coast have been a burning issue since the late 1980s and, in 2024, it consists of approximately 154 different levies creating obstacles to foreign investment and development of SMEs (Foluso, 2024). The above illustrations bring out the issue of taxation as one of the structural issues which has a direct negative effect on the sustainability and potential growth of SME. Taxation is only one of the outer impediments to growth, but an even greater problem is how to define and measure growth of SMEs. The growth must not be minimized to the number of registration but on a multidimensional measure like an increase in revenue, market share, creation of jobs, ability to innovate, profitability, efficiency of operations and scalability.

Nonetheless, although SME growth is an issue of intense policy debate in both developed and developing countries, there is little analytical research to quantify this phenomenon. Lack of

comprehensive information prevents the assessment of the real impact of SMEs on sustainable development (Medina, 2019). United Nations Industrial Development Organization (UNIDO) has highlighted that there is a lot of labour absorbed by SMEs and offers individuals with minimal skills opportunities. However, to determine their success, it is necessary to check the employment rates, the distribution of incomes, the changes of the agricultural sector to industrial and service economies (Patricoff and Sunderland, 2022). Measurement frameworks, therefore, have to be able to include economic indicators and development contributions. This study will measure this growth in terms of Increased Savings, Profitability, Sales Turnover, Business Sustainability and Market share

### **Small and Medium Enterprises in Nairobi City County, Central Business District, Kenya**

It is also worth mentioning that the further economic growth and poverty decrease in Kenya depend on the development and flourishing of the SME sector (Muriithi, 2021). Kenyan SMEs are those companies with a workforce of 11 to 99 staff and yearly turnover of KES 5million and KES 800 million (Nyoike, 2019). The registered SMEs, in particular, are quite stringent in the formal economy, as they are required to comply with a number of legal and regulatory requirements, such as business registration, taxation and labor laws. Over the past 10 years, the Kenyan government has rolled out several policies and projects to expand and develop small and medium sized enterprises sector. These comprise creation of the Micro and Small Enterprises Authority (MSEA), creation of tax incentives, creation of programs of financial support, e.g., Youth Enterprise Development Fund and Women Enterprise Fund (Kimanthi, 2020).

Although this has been done, the registration of the SMEs in Kenya has suffered a lot in form of inadequate access to finance, poor infrastructure, bureaucracy and unstable macroeconomic environment. Such obstacles may undermine the capacity of SMEs to invest in the capital assets, increase their operations and improve their competitiveness. The study is expected to explore the main impetuses and obstacles to the development of registered SMEs in Kenya and this knowledge will be useful in creating and executing policies and initiatives geared towards ensuring sustainable growth of the Kenyan economy through this important sector.

### **Statement of the Problem**

SMEs are the heart of the economy of Kenya with an estimated population of 7.4 million enterprises and only 21% of them are registered and the rest are informally operating. Taken together, they constitute 98% of all businesses, and employ approximately 14.9 million Kenyans (90% of the labour force) and contribute approximately 40% of the GDP of the country. Nonetheless, their developmental trend based on Nyoike (2019) is weak since nearly 46% of SMEs fail in their operations' first three years, chiefly because of absence of working capital, and the industry has a disastrous finance gap of KES 1.9 trillion (FSD, 2024). Structural barriers such as inaccessible cheap credit (11% of SMEs are completely financially constrained), the length of cash-to-cash cycles that tie up 75% of working capital, onerous taxation and licensing strategies,

and inefficient infrastructure such as unreliable electricity, insecure security and lack of an efficient transport system are further barriers to expansion. Besides this, SMEs also face issues of accessing the markets, with the absence of markets being the largest problem (which affects 18% of the registered firms), as well as excessive local and foreign rivalry and lack of skilled labour.

It is worth noting that SMEs in the Nairobi City County encounter different challenges as in other regions, including a more competitive market environment, consumer needs and demands, and a high cost of doing business. These peculiarities also complicate their field of operations and, therefore, it is important to investigate this particular place. Contextual gap, methodological gap and conceptual gap are some of the gaps that have required this research. Contextually, a large part of the available evidence is international, Japan (Elmasry and Khairy, 2020), India (Khan et al., 2022), Nigeria (Igwe et al., 2020). Or when the study is on Kenya it goes for industries beyond the CBD of Nairobi, including Kariokor Market (Riiny, 2017) or banking and agricultural companies. These settings are vastly different to the competitive and dynamic setting of the CBD in Nairobi where SMEs experience special challenges and opportunities.

Conceptually, the works by Riiny (2017), Mumangeni (2019) and Elmasry and Khairy (2020) on socio economic factors in Kariokor, diversification in construction SMEs, and the Japanese SMEs did not show a direct correlation between capital investment choices and the development of SMEs. On the same note, Igwe et al. (2020) targeted farmers in Nigeria. This created a research gap relating particular investment decisions to the development of SMEs in the CBD in Nairobi. Further, research designs were methodologically different and restricted the generalization. The mixed methods were applied by Khan et al. (2022) in India, literature reviews by Elmasry and Khairy (2020), and Kenyan studies on corporate bonds and agricultural companies concentrated on listed companies. Mumangeni (2019) has utilized qualitative analysis. These methods minimized reproducibility. Thus, this study helped to bridge existing gaps in the research, as it focused on the subtle aspects between capital investment choices and SME development in Nairobi CBD using a descriptive research design, which ultimately helped to understand how these businesses could overcome their hurdles and improve their sustainability.

### **Objectives of the Study**

The general objective is to investigate capital investment decisions effects on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya. The specific objectives include:

- (i) To determine expansion investment decision effect on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya.
- (ii) To establish replacement investment decision effect on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya.
- (iii) To establish modernization investment decision effect on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya.

- (iv) To determine contingent investment decision effects on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya.
- (v) To investigate diversification investment decision effects on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya.

### **Research Questions**

- (i) What extent does expansion investment decision affect Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya?
- (ii) How do replacement investment decisions affect Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya?
- (iii) Do modernization investment decisions affect Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya?
- (iv) How do contingent investment decisions affect Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya?
- (v) What are diversification investment decisions' effects on Small Medium Enterprises growth in Central Business District Nairobi City County, Kenya?

### **Scope of the Study**

The time period of the study, 2019–2024, was carefully selected to cover a full five years of business cycles needed to analyse the trajectory of growth of registered SMEs in Central Business District Nairobi City County, Kenya. This period included key stages of company development such as conception, growth, maturity, and potential reinvestments, which facilitated a holistic evaluation of the effects of strategic capital investment decisions on the long-term success of SMEs. It was also the timeframe when major economic events and policy actions were undertaken in Kenya, particularly the so-called Big Four Agenda, which focused on manufacturing, universal healthcare, affordable housing, and the improvement of agriculture. These initiatives aimed to boost economic growth and create a conducive climate for SMEs.

The COVID-19 crisis during this period provided an exceptional opportunity to examine how SMEs managed crises, adjusted to shifts, and made capital investment decisions under unprecedented obstacles. This five-year duration enabled the study to offer valuable insights into the resiliency and adaptability of SMEs within Central Business District Nairobi City County, Kenya and their ability to thrive in a volatile economic environment.

## **LITERATURE REVIEW**

### **Theoretical Review**

The study was based on Modern Portfolio theory, Wealth Maximization theory, Prospect theory and Greiner's Growth Model to support the relationships of the variables.

### **Modern Portfolio Theory**

This theory was postulated by Harry Markowitz in 1952 and expanded in 1959 as a model of optimal investment portfolios. It presupposes that investors become rational, market is efficient, asset price is based on the available information, returns are normally distributed, and correlations among assets do not change over time (Markowitz, 1952; Fama and French, 2015). The theory places emphasis on diversification in order to minimize the total portfolio risk where the emphasis is made on the risk-return profile of a portfolio of assets as opposed to individual assets (Amin and Harry, 2003). It is the opposite of conventional stock-picking because it focuses more on risk management, especially at a portfolio level (Shefrin and Statman, 2000; Patricia and Oluwatobi, 2005), and postulates that investors are the ones who decide the acceptable level of risk, as well as balancing assets with high risk and high expected returns with assets that are stable and have lower expected returns (Thaler and Shefrin, 1981).

In this research, MPT will be best applied to the replacement and diversification aspect of capital investment decisions because the model will give SMEs a structure of redistributing resources and diversifying risk in numerous projects in a bid to attain sustainable growth. Diversification in investment within technology, market growth and human resource can help SMEs to reduce risks of failure in individual investments, thus attaining a sustainable growth (Chakrabarti, 2020; Otieno et al., 2022). The application itself aligns with the theme of the study about capital investment choices and its connection with the SME profitability, sustainability and market growth because of efficient risk management. Critiques of the MPT note that it is based on past data and efficiency which cannot be effective in market fluctuations. It aims at doing quantitative analysis only but does not consider the qualitative variables like industry force and investor behavior and does not consider the systemic risks or black swans that can interfere with the performance of a portfolio (Amin and Harry, 2003). In spite of these shortcomings, with the help of MPT, the SMEs can overcome the complicated investment environment, attain balanced and sustainable development and become more competitive in the fast-changing market.

### **Wealth Maximisation theory**

Posner (1983) developed this Theory that argues that the foremost intent of an organization is to maximize the wealth of equity shareholders of the company. It is the assumption that the value of any firm is calculated by the present value of its future cashflows that are expected to occur and the maximization of the shareholder wealth results in optimal decision making in the firm. Supporters like Windsor and Boatright (2010) value the long term gains of maximizing wealth as opposed to short term profits maximization, whereas Jones and Felps (2013) accentuate its contribution to the sustainable business development based on strategic investments in capital that accrue to the shareholders in a long term. The theory material highlights the point that maximization of wealth is better than profit maximization since it aims at long term value generation, and therefore the managerial decision might be in line with shareholder interests. It

also extends its attention to stakeholder factors as it is acknowledged that sustainable development must be based on the considerations of the needs of owners, employees, the customers and the community.

The theory is most applicable in the case concerning expansion and modernization decision-making in the case of Nairobi CBD SMEs. Expansion is expansion capacity or expansion into new markets, modernization is the introduction of new technologies and modernization processes. The two decisions are consistent with the wealth maximization goal since they increase competitiveness and profitability (Mwangi et al., 2021; Karanja, 2020). Further, in the interdependent business environment of Nairobi, SMEs which focus on maximizing wealth do not just generate value to the shareholders but also positive spillovers to the employees, customers and the larger society (Njenga & Kamau, 2023). Opponents, however, claim that wealth maximization can give undue focus to equity holders and leave out preference holders and debt holders, and that directors can be themselves in conflict of interest in representing shareholder wealth. Moreover, Jones and Felps (2013) observe that the utilitarian principles of maximization of shareholder wealth are still unexplored.

### **Prospect Theory**

Daniel Kahneman and Amos Tversky (1979) put forward a behavioral version of the classical economics of decision making in the face of uncertainty, which was Prospect Theory. It says that investors do not necessarily act rationally and they are subject to psychological issues including loss aversion, regret aversion and framing effects (Kahneman and Tversky, 1979). It influences how people choose to take risks: they will be risk seeking when they may suffer losses but risk averse when they expect to gain (Barberis and Thaler, 2003). It is a more realistic framework of financial decision making in volatile markets (Forgel & Berry, 2022). The Prospect Theory content has brought into light the behavioral biases like mental accounting whereby investors divide their portfolios into various accounts as a way of assessing transactions in a more efficient manner (Ritter, 2003). These tendencies are proved by empirical research: investors do not want to regret their decisions and close their profitable stocks early and keep their losing stocks (Waweru, Munyoki and Uliana, 2010; Filbeck, Hatfield and Horvath, 2005). It has also been evidenced that investors are lessened to safer assets such as sovereign bonds so that to reduce stress due to potential losses (Barberis and Thaler, 2003; Lehenkari and Perttunen, 2004).

The theory is best applicable to contingency decisions to Nairobi SMEs. The environments that SMEs constantly face are highly uncertain and volatile, and the decision-makers can be affected by the cognitive biases (fear of losses or regret) (Mwangi and Munyoki, 2023). Such behaviors are reflected in contingency planning by setting aside reserves or buffers where entrepreneurs place contingency plans to mitigate the effects of the shock to reduce perceived losses. The theory is improved by the addition of behavioral factors to the analysis, allowing one to gain a better idea

of how SMEs perceive risk and form a decision to invest capital in uncertain circumstances. This brings about a more informed sustainable growth (Waweru et al., 2010; Ritter, 2003).

### **Greiner's Growth Model**

Larry Greiner (1972; revised 1998) proposed Greiner Growth Model which describes the way in which organizations develop in a series of phases, each being marked by a phase of evolution that is succeeded by a crisis. The model holds growth is unavoidable, cyclical and sequential; every stage culminates in a crisis which must be resolved by adjusting the style of management; that the changes in management styles have to happen in each stage; that transitions are driven mainly by internal forces; and that there are limits to growth until the crisis is solved. These assumptions contextualize the model focus on evolution and revolution of firms as they grow. The model contents name five original stages of development that are creativity, direction, delegation, coordination and collaboration, and all the stages are terminated with a crisis, which may be leadership, autonomy, or control (Greiner, 1972). Subsequent changes incorporated additional stages to align with current organizational dynamics. The model points out that growth entails firms changing their structure, strategies and leadership styles in an attempt to rise above the crisis. To illustrate, the development of a leadership crisis may occur at an early stage due to creativity, whereas the development of a crisis of autonomy may occur at an early stage due to delegation.

When applied to this study, the theory is applicable in the growth variable. As SMEs are expanding, they face the issues that require new investment approach, either entering new markets, updating their operations, or diversifying their resources to overcome crisis and continue to grow. The model stresses that capital investment decisions are not solely financial decisions but strategic responses to organizational pressures and this makes it especially applicable to Nairobi environment which is competitive and fast changing. The ideas are supported by empirical research. Kiriri (2013) confirmed this with life cycle stage determinants of SMEs in Kenya, indicating that the firms go through definite stages that are characterized by managerial issues such as those experienced by Greiner in the crises. As an example, the SMEs in Nairobi have been known to experience difficulties in leadership in the early stages of growth and subsequently need structural adjustments to overcome the crises of control. In his study, Muhos (2015) investigated the life cycles of SME growth and identified the configurations viewpoints, which reflect that of Greiner, and showed that SMEs are characterized by a sequence of predictable phases during which crises lead to strategic change. These results validate that strategic responses to growth bottlenecks are expansion and modernization decisions that agree with Greiner regarding cyclical evolution. Opponents believe that the model can simplify the concept of growth by indicating that all companies go through the same sequence of the stages and that external influence like market shocks or new regulations can interfere with the pattern. However, the Greiner Growth Model is also one of the useful tools to examine the SME growth as it combines the structural and the strategic aspects of the development process and has local and international empirical evidence to back its arguments.

## **Empirical Reviews**

An empirical review of literature encompasses the evaluation of previous studies that are similar to the one being proposed about acquiring the knowledge of their conceptualization, methodologies, contextualization, findings, and conclusions. This allows reproaches to determine the gaps to be filled with this study (Kothari, 2012). This study offers a comprehensive analysis of the effect of capital investment decisions and growth of registered small and medium enterprises in Nairobi City County, Kenya

### **Expansion Investment Decision and Growth of Small and Medium Enterprises**

Muthuswamy and Kafweta, (2022) examined expansion investment decisions effects on SMEs growth in Zambia's manufacturing sector. In their research, they found that SMEs which invested in the extension of their production premises, new offices or bought complementary firms realized greater growth rate in terms of sales, employment and market share than their counterparts. The researchers explain these findings by the fact that the SMEs are in a position to increase their operational effectiveness, expand their markets and diversify their revenues by expanding.

Adjei-Boateng (2022) conducted study based on the questionnaire survey conducted among 66 small companies of different industries in Norfolk, Virginia. The findings showed that two out of every three respondents failed to make cash flow forecasts. Fewer than 10% of those who were questioned as to the methods they used in determining the cash holdings said that they used quantitative methods. In addition, 71% of them had not had any short-term cash surpluses and only 23% of them reported long-term surpluses. Approximately 30 percent of companies spent surplus money in income generating securities or account.

Freixanet and Renart (2020). tested a sample of Japanese SMEs and noted that the contribution of expansion investments was different in terms of the existing resource base and managerial abilities of the firms. They discovered that SMEs that had robust financial endowments, technological skills, and leadership were more inclined on exploiting expansion resources to spearhead growth, whereas resource-limited SMEs occasionally failed to enjoy the whole advantages of their expansion plans.

### **Replacement investment decision and Growth of Small and Medium Enterprises**

Khan et al. (2022) examined how investment decisions influence Indian SMEs growth. The study relied on financial statements from selected firms, using ROA and ROE as profitability indicators. Patterns of financing were short-term and long-term debts and equity. A fixed effects regression model was used to analyze panel data. Results showed that short-term debt also had a great influence on viability, but the long-term debt was not significant.

Mwangi, (2021) researched on SME growth determinants and the role of investment in modern technology and equipment is important. The study indicates that Kenyan SMEs that invest in substituting equipment record high returns in terms of operational efficiency and positioning. Nevertheless, it is also noted in the study that availability of finance is also a significant challenge since most SMEs are unable to get the funds needed to invest in this kind of business. Kinyua proposes that better financial services and government incentives will be necessary in helping to facilitate SME development by way of replacement investments.

Fakhreldin et al, (2020) determined the connection between technology investment and performance of SMEs in Egypt. They discovered that the Egyptian SMEs can profit immensely through a transition of old equipment with new and efficient equipments. This increases productivity and competitive edge in the market. Nevertheless, the authors also point to the fact that the economic instability and the regulatory difficulties in Egypt may hinder such investments, which implies that there is a necessity to have more effective systems of financial support.

### **Modernization investment decision and Growth of Small and Medium Enterprises**

Nkosi et al., (2024) studied the influence of recent decision-making on modernization investments on SMEs development in the retail sector in South Africa. They discovered in their research that the SMEs that invested in the modern point-of-sale systems, inventory management systems and customer relationship management (CRM) systems might be in a position to guarantee that they increased their efficiency in operations, customer service as well as eventual sales and profitability.

Ssekajugo and Nsubuga (2021) discuss variables which influence manufacturing SMEs in terms of making decisions regarding capital investments. The researchers made a conclusion that the readiness of SMEs to invest in the modernization of their production facilities and equipment were dependent on availability of finance, government policies and the availability of technical expertise. The paper has suggested that policy makers and business support agencies ought to address such constraints so as to enable SMEs to inject the capital necessary to expand and have the capacity to get improved results.

Mamed'yarov, (2021) explored modernization investments effects on SMEs development of United States' high-tech sector. The researchers obtained that SMEs that invested in technological improvement i.e. automation and digital infrastructure had more revenue growth, market share and better operational efficiency than their less-modernized counterparts. The author has noted the significance of strategic decisions on capital investments in increasing the competitiveness and sustainability of the SMEs in a highly dynamic business environment.

### **Contingent investment decision and Growth of Small and Medium Enterprises**

Njoku et al., (2022) examined the impact of contingent investment decision on Nigerian small businesses that are based on small farms. It was established that companies which responded to

changes in prices or the changes in demand by changing storage or processing experienced an increase in growth and were able to remain competitive. These companies worked out more effectively in the long-term since they were able to react quickly. Availability of market information, workable expertise and capital played a crucial role in influencing them to understand the need to either modify activities or not.

Ssekajugo and Nsubuga (2021) examined the factors that influence the nature of decisions SMEs in tourism industry of Uganda make when there is a shift in conditions. They found out that market knowledge, the availability of finances or expertise of managers can enable such businesses to become flexible within a shorter time in case customer behavior changes, regulations are changed, or trends in the industry remodel. They further noted that support groups, collaboration between domestic companies and governmental institutions can make SMEs better-organized to change their investment decisions appropriately. Pu et al. (2021) considered tech-sector SMEs adjusting to the uncertainty of the market by using flexible spending strategies. Rather than being set, companies that had revised their investments as times changed had a greater access to new opportunities. The quick response in these companies led to the company not only to improvement in sales and profit but also to a wider customer coverage with more flexibility under pressure.

Shehata and Montash (2020) examined contingent investment decisions impacts concerning small Egyptian tech companies' growth. It was determined that the businesses were able to quickly respond to changes in their spending such as updating online systems or increasing services that they dealt with. These firms were more innovative and flexible hence better sales, more market share and increased profits.

### **Diversification Investment Decision and Growth of Small and Medium Enterprises**

Kaoutar et al. (2023) focused on the growth of SMEs in the manufacturing industry of Morocco and the effects of diversification of investments. What emerged was that companies that diversified to new products, shifted to the associated markets and entered the international arena. They demonstrated greater increase in income, employment and access to customers. Accordingly, sustainable growth is increased where the policies of the government favor, there is the availability of funds. Moreover, strategic changes are also propelled with the help of leadership skills.

Igwe et al. (2020) conducted their study in Nigeria and determined the impact of diversifying investments in terms of increasing SME growth in the field of agribusiness. The authors defined that the companies distributed capital in different sections of the agriculture chain. This can be realized through cultivating crops, converting them into goods and selling them. Companies that have done so, have been more likely to manage risk. They also utilized better the available resources as well as discover new sources of growth. In addition, availability of good market information, quality expertise and reasonable investment, were highly essential as they assisted small companies to make wiser, well timed steps when diversifying their investment portfolio.

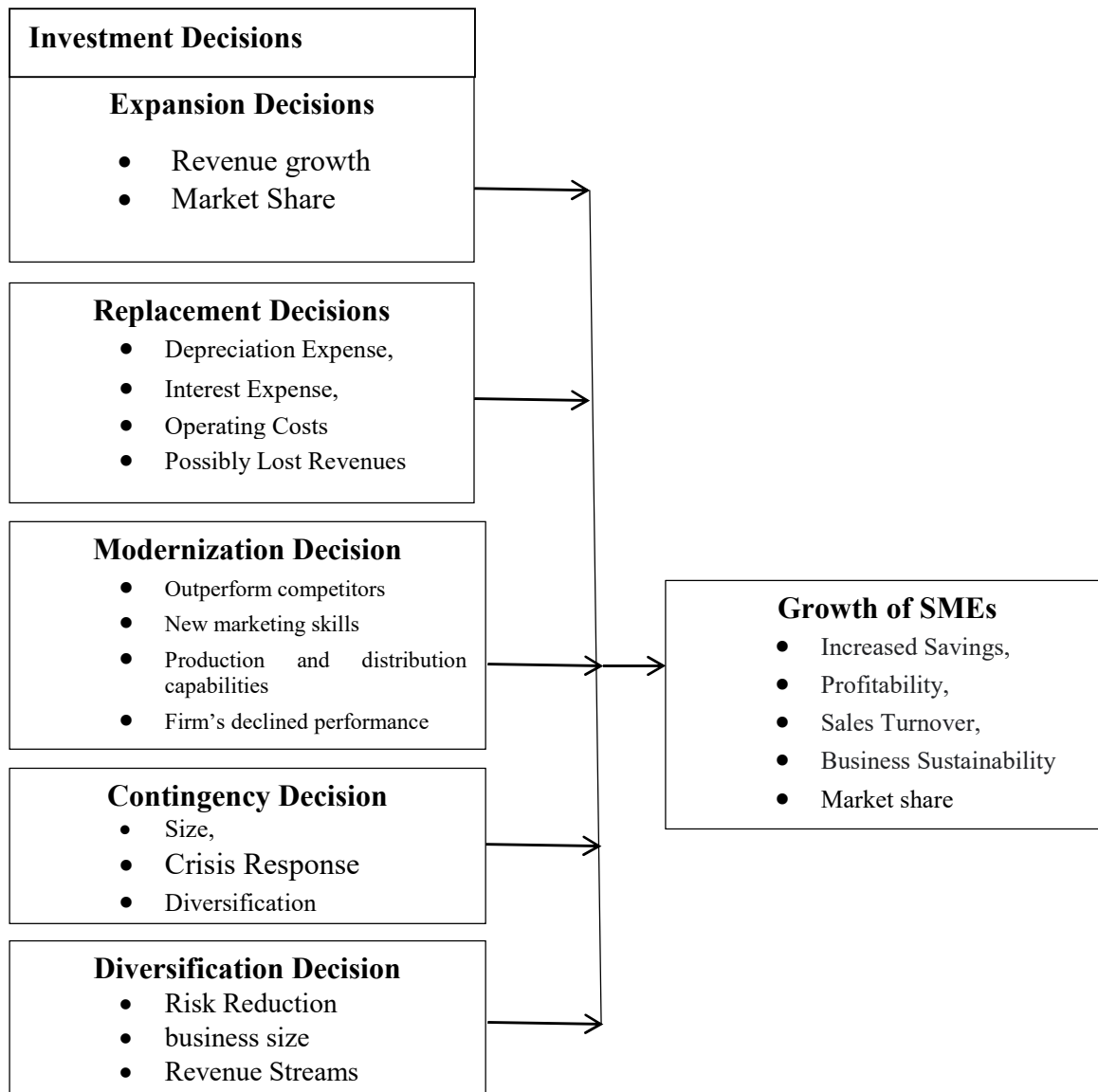
Naradda et al. (2020) discussed the way small manufacturers adapted to changing markets by making diverse investments. Companies which diversified capital in a variety of products, consumers or markets were in a better position to handle risk better and also could tap new opportunities. They continue to affirm that such companies achieved greater increases in income, profit margins and were able to access within target areas. As such, it was determined that strategic foresight with data informed understanding was highly important in influencing such decisions.

**Conceptual Framework**

The theoretical framework explains the relationship between the independent and dependent variables of the study.

**Independent Variables**

**Dependent Variable**



*Figure 1: Conceptual Framework*  
*Source: Researcher (2026)*

## **RESEARCH METHODOLOGY**

### **Research Design**

The review used a descriptive design to analyze capital investment choices and SME growth. It aimed to outline key factors while exploring how they related by gathering data and using frequency counts (Cooper & Schindler, 2011). This method worked well in describing investment patterns alongside business expansion. It provided clear insights into how financial decisions influenced development across small firms.

### **Empirical Model**

A Multiple model was employed to approximate the impact on a dependent variable (Uyanik and Guler, 2013) due to several independent variables. It allowed the researcher to make predictions of the outcome variable using two or more predictors. Nevertheless, the technique required several assumptions to be fulfilled for the results to be valid. According to Ernst and Albers (2017) and Osborne and Waters (2002), the major assumptions that needed to be considered and tested in empirical research included the presence of heteroscedasticity, multicollinearity, linearity, and normality. The multiple regression model employed was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Whereby;  $Y$  = growth of the firm,  $X_1$ =Expansion Decisions,  $X_2$ = Replacement Decisions,  $X_3$ = Contingent Decisions,  $X_4$ = Modernization Decisions,  $X_5$ = Diversification Decisions and  $\varepsilon$ = Error

### **Target Population**

The target population of any research was the wider group of factors that had similar features and to which the study was supposed to be applied (Dudovskiy, 2016). Practically, this population tended to comprise individuals, firms, or items that had at least one characteristic defining feature that is the focus of the inquiry (Asiamah, Mensah et al., 2017; Saunders et al., 2012;). In other words, the entire unit of data that were sampled and on which conclusions were made were the study population (Zikmund et al., 2013).The research's intended audience was SMEs in the CBD of Nairobi County. The accessible population was narrowed to SMEs operating in the designated industrial zones, which hosted nearly 89% of all SMEs in the county (Abaho et al., 2017). The sources of inquiry within these firms were the director, owner-manager, or finance officer, since these individuals were responsible for investment and financial decision-making.The study included all registered SMEs in the industrial zones between 2019 and 2024. Enterprises employing fewer than five or more than one hundred workers were excluded, as they fell outside the SME definition. Nairobi's CBD was organized into eight subsector clusters, classified by Nairobi City County using business codes. These subsectors included retail, transport, accommodation, catering, entertainment, health and wellness, technology, and real estate. According to the Nairobi Department of Business Licensing (2020), the CBD hosted 33,701 SMEs by December 2024 across these sectors.

## RESEARCH RESULTS AND DISCUSSIONS

### Descriptive Statistics

The survey involved a quantitative data collection in the study. In this subsection, quantitative approach of data analysis was adopted to get an insight into the capital investment decision making by seeking the opinions of the respondents to help in the investigation and explanation of the qualities that guide the growth of the SMEs.

### Expansion Investment Decision and Growth of SMEs

Table 1: Expansion Investment Decision

Statement	Mean	Std. Dev
The firm invests in expansion strategies	4.12	0.81
Expansion increases revenue growth	4.25	0.74
The firm takes advantage of business opportunities	4.05	0.78
Expansion increases market coverage	4.18	0.70
The firm offers unique products/services	4.30	0.69
Economies of scale are achieved	3.82	0.76
<b>Cumulative Score</b>	<b>4.12</b>	<b>0.75</b>

Source: Field Data (2026)

Table 1: shows that there was a strong positive influence of expansion investment decision on SMEs growth. The overall mean of 4.12 indicated that the respondents mostly believed that expansion was actively carried out and it made a great contribution to business performance. This implied that expansion was a significant business growth strategy identified by most of SMEs in Nairobi City County. The standard deviation was relatively low at 0.75 which meant that there was not much variation in responses of the respondents. This implied that most of the SMEs had common perceptions in relation to the significance of expansion decisions on investment. In general, the findings showed that expansion was highly regarded as a driver of SME growth.

### Replacement Investment Decision and Growth of SMEs

Table 2: Replacement Investment Decision

Statement	Mean	Std. Dev
The firm replaces outdate assets	3.89	0.92
Replacement improves efficiency	4.01	0.88
The firm invests in better equipment	4.15	0.81
Replacement reduces operational risks	3.78	0.94
Underperforming investments are replaced	3.72	0.91
Replacement reduces revenue losses	3.95	0.87
<b>Aggregate Score</b>	<b>3.92</b>	<b>0.89</b>

Source: Field Data (2026)

Tables 2: reveals that the aggregate mean of 3.92 and variation of 0.89 indicates a moderate level of agreement that replacement investment decisions influenced SME growth in Nairobi CBD. This

suggested that while SMEs recognized the importance of replacing outdated assets, implementation was not fully optimal. It was further implied that replacement decisions contributed to improved efficiency, reduced risks, and better financial performance. However, inconsistencies in adoption limited the overall impact on SME growth. Therefore, replacement investment decisions played a supportive but not fully maximized role in enhancing SME performance.

### **Modernization Investment Decision and Growth of SMEs**

Table 3: *Modernization Investment Decision*

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Adoption of technology is practiced	4.30	0.69
Technology improves productivity	4.41	0.63
The firm invests in digital systems	4.25	0.71
Modernization enhances service delivery	4.33	0.68
Innovation improves competitiveness	4.37	0.65
<b>Aggregate Score</b>	<b>4.33</b>	<b>0.67</b>

*Source: Field Data (2026)*

Findings of the study in Table 3 indicates that the mean score of 4.33 and variation of 0.67 suggested that there was a high degree of agreement that the decisions to invest in modernization had a positive impact on SME growth in Nairobi CBD. This implied that the adoption of technology was among the most important drivers of business performance amongst SMEs. It was also suggested that modernization enhanced productivity, service delivery and competitiveness. The results further indicated that SMEs depended more on digital systems to improve efficiency. Thus, investment decisions in modernization were central and had a very significant influence on the development of SMEs.

### **Contingency Investment Decision and Growth of SMEs**

Table 4: *Contingency Investment Decision*

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm has risk management strategies	3.76	0.95
Contingency plans enhance stability	3.94	0.89
Emergency funds are maintained	3.85	0.92
Risk mitigation reduces disruptions	3.90	0.88
<b>Aggregate Score</b>	<b>3.86</b>	<b>0.91</b>

*Source: Field Data (2026)*

Findings in Table 4 shows that respondents moderately believed that firms possessed risk management strategies and the mean respondent was 3.86 with a variation of 0.91. This implied that some of the SMEs in the Nairobi CBD had formalized risk management processes, whereas others were more informal. The relatively high standard deviation reflected variations among firms in terms of preparedness and adoption of risk strategies. It was further observed that businesses with formalized risk management procedures were better able to anticipate challenges and

maintain operational continuity. This implied that contingency planning was recognized as important, although implementation was inconsistent across firms. The findings indicated that SMEs that actively adopted risk management strategies were likely to experience greater stability and growth.

### **Diversification Investment Decision and Growth of SMEs**

*Table 5: Diversification Investment Decision*

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm invests in new markets	3.68	1.02
Diversification improves profitability	3.74	0.98
New products/services are introduced	3.80	0.94
Diversification reduces risks	3.62	1.01
<b>Cumulative Score</b>	<b>3.71</b>	<b>0.99</b>

*Source: Field Data (2026)*

Table 5 reveals that the aggregate mean of 3.71 and variation of 0.99 indicated a moderate level of agreement that diversification investment decisions influenced SME growth in Nairobi CBD. This suggested that diversification strategies were present but not fully developed among SMEs. It was further implied that diversification contributed to improved profitability, innovation, and risk management. However, inconsistent adoption limited its full impact on business expansion and sustainability. Therefore, diversification investment decisions played a moderate role in supporting SME growth. Finally, the findings suggested that enhancing diversification practices could significantly improve SME performance. Increased investment in new markets, products, and services would allow firms to spread risk and create additional revenue streams. This implied that SMEs that fully embraced diversification strategies had a greater propensity to attain long-term stability and competitiveness. Policy support and capacity building could further encourage SMEs to adopt more structured diversification approaches. Overall, diversification investment decisions were important but still emerging drivers of SME growth in Nairobi CBD..

### **Growth of SMEs**

*Table 6: Growth of SMEs*

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The firm has experienced revenue growth over time	4.10	0.79
The SME has expanded its market share	4.05	0.83
The customer base has increased steadily	4.18	0.76
Profitability has improved over the years	4.02	0.81
The business is more sustainable now than before	4.22	0.74
<b>Cumulative Score</b>	<b>4.11</b>	<b>0.79</b>

*Source: Field Data (2026)*

Table 6 indicates that the The study further showed that businesses were more sustainable now than before, as demonstrated by a mean of 4.22 and a variation of 0.74. This suggested that SMEs had improved their ability to survive and grow in competitive environments. It was observed that

firms that adopted strategic investment decisions were more resilient to market shocks. This implied that sustainability was strongly linked to effective capital investment planning. However, SMEs with limited investment capacity remained vulnerable to business risks. Therefore, sustainability was enhanced by sound investment decisions. Finally, the cumulative mean score of 4.11 and variation of 0.79 suggested that SMEs in Nairobi CBD experienced overall positive growth. This suggested that capital investment decisions significantly influenced SME performance. It was observed that firms that embraced expansion, modernization, replacement, and diversification strategies achieved better growth outcomes. This implied that investment decisions were central to business success and long-term sustainability. Therefore, SME growth was positively and strongly associated with capital investment decision-making.

### **Correlation Analysis**

The connection between capital investment decisions and the growth of SME was investigated by performing a correlation analysis. The strength and direction of the linear connection between the research’s variables were measured using this analysis. The Pearson correlation coefficient ( $r$ ) takes values between +1 and -1 with a score nearer to +1 representing a strong positive relationship, a score nearer to -1 representing a strong negative relationship and a score nearer to 0 a nonlinear relationship. The results of the correlation analysis are presented in Table 4.12.

*Table 7: Correlation Analysis*

<b>Variable</b>	<b>Correlation (r)</b>	<b>Significance</b>
Expansion	0.712	0.000
Replacement	0.645	0.000
Modernization	0.768	0.000
Contingency	0.601	0.000
Diversification	0.482	0.034

*Source: Field Data (2026)*

Findings in Table 7: suggests that all the independent variables had positive and statistically significant relationships with SME growth. The expansion investment decisions were strongly positively related to the SME growth ( $r = 0.712$ ,  $p < 0.05$ ), which means that higher expansion activities are related to a higher level of SME growth. The replacement investment decisions were also positively correlated with the growth of SMEs ( $r = 0.645$ ,  $p < 0.05$ ), implying that the decision to replace assets in time has a favorable impact on the business success. The best positive correlation was found between modernization investment decisions and SME growth ( $r=0.768$ ,  $p<0.05$ ), which suggests that the existence of investments in modern technologies and systems is associated with an increase in the growth rates of the companies. The contingency investment decisions also indicated a strong favorable correlation with SME growth ( $r = 0.601$ ,  $p < 0.05$ ) meaning that readiness to uncertainties boosts SME performance. There was an intermediate positive correlation between diversification investment decisions and SME growth ( $r = 0.482$ ,  $p = 0.034$ ), which suggests that diversification has an impact on growth but its influence is rather weak when compared with the other variables.

### **Regression Analysis**

To ascertain the impact of capital investment decision on SME growth, regression was used. The degree to which the independent variables collectively account for changes in the dependent variable was determined using this analysis. The coefficient of determination (R<sup>2</sup>) is a proxy of the percentage variation in the dependent variable described by the independent variables in the model.

### **Model Summary**

*Table 8 Model Summary*

<b>R</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>
0.842	0.709	0.701

*Source: Field Data (2026)*

In Table 8, the results indicate that the correlation coefficient (R) of the model was 0.842, which was significant, and therefore the model has strong positive relationship with SME growth and capital investment decisions. The coefficient of determination (R<sup>2</sup>) of 0.709 means that 70.9 percent of the change in SME growth is attributed to capital investment decisions. The adjusted R<sup>2</sup> of 0.701 means that when the number of predictors that were used in the model is adjusted, 70.1% of the variation in the growth of the SMEs is still attributed to the independent variables.

### **ANOVA**

An Analysis of Variance was conducted to determine the significance of the overall regression model in elucidating the association between capital investment decisions and SME growth. The ANOVA test assesses whether the combined independent variables significantly predict the dependent variable. Table 9 displays the outcomes of the ANOVA test.

*Table 9 ANOVA*

<b>F</b>	<b>Sig</b>
148.63	0.000

*Source: Field Data (2026)*

The results in Table 9 suggests that the regression model is statistically significant (F = 148.63, p < 0.05). This implies that independent variables (capital investment decisions) jointly have a significant effect on SME growth. Since the p-value was < 0.05, the null hypothesis that the model is not significant is rejected. Therefore, the model is considered a good fit for explaining variations in SME growth.

### **Regression Coefficients**

Regression coefficients were utilized in ascertaining the individual contribution of each capital investment decision variable on SME growth while holding other variables constant. The standardized beta coefficients indicate the direction and strength of the relationship between the independent variables and the dependent variable. The results are presented in Table 10.

**Table 10: Regression Coefficients**

<b>Variable</b>	<b>Beta</b>	<b>Sig</b>
Expansion	0.281	0.000
Replacement	0.173	0.012
Modernization	0.356	0.000
Contingency	0.142	0.018
Diversification	0.091	0.067

*Source: Field Data (2026)*

Table 10 demonstrates that the expansion investment decision was found to positively and statistically significant in SME growth ( $\beta = 0.281, p < 0.05$ ). This means that expansion activities will increase the growth of SMEs by one unit, other things being equal. Business scale-up is thus a key factor due to expansion, which enhances market penetration, production capacity and operating capacity. The positive and significant impact on SME growth was also through replacement investment decisions ( $0.173, p = 0.012$ ). This implies that the prompt replacement of old machinery, equipment and other assets will lead to efficiency and productivity, which will subsequently boost the performance of SMEs. The strongest positive and statistically significant effect on the growth of SMEs was registered on modernization investment decisions ( $\beta = 0.356, p < 0.05$ ). This implies that the use of modern technologies, better systems, and processes that are driven by innovation is a key factor that contributes to competitiveness and fast growth of SMEs. Contingency investment decisions indicated also a favorable and substantial impact on SME growth ( $\beta = 0.142, p = 0.018$ ). This means that companies that invest in unexpected risks and uncertainties are in a better stand to remain stable and continue growing in a negative environment. Diversification investment decisions however had significant but statistically insignificant influence on SME growth ( $\beta = 0.091, p = 0.067$ ). This implies that diversification has a positive impact but not high enough to have a significant effect on development of the SMEs at the 5% significance level in this research. It could indicate that the diversification strategies are not optimally selected or they take more time horizons to bring about quantifiable growth impacts. The results show that capital investment decisions play a great role in determining SME growth, and the most effective one is modernization, then expansion, replacement, and contingency investments.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

A number of conclusions were made based on the findings of the study on the impact of capital investment decisions on the growth of registered Small and Medium Enterprises (SMEs) in the Nairobi CBD in Kenya. To begin with, the research arrived at a conclusion that the expansion investment decisions led to a significant and positive impact on SME growth. This was corroborated by the correlation ( $r=0.712, p=0.000$ ) and regression ( $0.281, p=0.000$ ) analyses which indicated a close statistical relationship. The descriptive results ( $M = 4.12$ ) revealed that the majority of SMEs were actively involved in expansion-related efforts like the expansion of the

market coverage, discovery of new business prospects and provision of enhanced products and services. These growth initiatives helped companies to tap into a larger market and expand their revenue base. Consequently, SMEs that focused on growth attained greater degrees of business performance. Thus, expansion investment decisions were found to be a significant factor in the growth of SMEs in Nairobi CBD.

The research found that replacement investment decision was a key determinant of SME growth in the study region. This was evidenced by the positive correlation ( $r = 0.645$ ,  $p = 0.000$ ) and significant regression coefficient ( $\beta = 0.173$ ,  $p = 0.012$ ). Descriptive results ( $M = 3.92$ ) indicated that SMEs invested moderately to replace old machinery and equipment and operational tools. These replacement activities enhanced efficiency and minimised operational breakdowns that influenced productivity. They also assisted companies in reducing losses in terms of old assets and new technologies. Thus, the replacement investment decisions were important in increasing productivity and ensuring sustainable growth of SMEs.

Decisions related to modernization investment were found to have the greatest and the most influential impact on the development of SMEs, compared to all the variables under consideration. This was supported by the highest correlation value ( $r = 0.768$ ,  $p = 0.000$ ) and the highest regression coefficient ( $\beta = 0.356$ ,  $p = 0.000$ ). The descriptive results ( $M = 4.33$ ) revealed that there are a great number of SMEs adopting technology, digital systems, and new business practices. These modernization initiatives made the delivery of services more efficient and competitive in the market. They also helped the SMEs to adjust to the fluctuating business environment and market demands swiftly. Thus, the modernization was recognized as a decisive factor of growth of SMEs in Nairobi CBD.

It was suggested that contingency investment decisions had a substantial favorable impact on SME growth. This was supported by the correlation results ( $r = 0.601$ ,  $p = 0.000$ ) and regression results ( $\beta = 0.142$ ,  $p = 0.018$ ). The mean score of risk management measures ( $M = 3.86$ ) indicated that SMEs moderately adopted risk management strategies like having emergency funds and creating contingency plans. The practices assisted businesses to be ready to take on unexpected events and made them less susceptible to operational disabilities. They also improved stability and continuity of the business operations in the uncertain conditions. As such, contingency planning helped in the resilience and development of SMEs.

The research came up with a conclusion that diversification investment decisions positively, but statistically, insignificantly influenced the growth of SMEs in Nairobi CBD. This was shown by the correlation value ( $r = 0.482$ ,  $p = 0.034$ ) and regression coefficient ( $\beta = 0.091$ ,  $p = 0.067$ ). The descriptive findings ( $M = 3.71$ ) revealed that the participation of SMEs in the diversification activities like the entry of new market and introduction of new products were rather low. This could have been the reason why diversification did not significantly affect the SME growth in this

research. It also implied that diversification strategies were not well-developed or that they took a longer period to produce quantifiable results. As such, diversification continued to play a poor role in the development of the SMEs in the present situation.

The researcher concluded that the joint effect of capital investment in the Nairobi CBD was strong and significant on the growth of SMEs. The results of the regression model ( $R^2 = 0.709$ ,  $F = 148.63$ ,  $p = 0.000$ ) supported this assumption, showing that the independent variables accounted a significant part of the variation in SME growth. The results validated that investment choices were critical in determining performance and sustainability of SMEs. SMEs that implemented suitable investment strategies were in a better position to enjoy long-term growth. The interaction of the variables revealed that decisions on capital investments were key to business success. Thus, better investment planning was required to enhance the results of SME growth.

### **Recommendations**

According to the study findings, a number of recommendations are provided to enhance development of SMEs in Nairobi City County, Kenya. These suggestions are constant with the impact of capital investment choices on the performance of SMEs. They work towards improving efficiency, competitiveness, and sustainability among SMEs. The research highlights that investment planning is a very important tool in enhancing business performance. The recommendations below thus inform policy makers and practitioners on how to enhance the growth of SMEs. To begin with, the SME owners and managers are advised to focus on expansion strategies, including market penetration, product diversification, and scaling of operations. The strategies will help boost the growth of the business and expand into the market. With the adoption of the expansion strategies, SMEs can gain more customers and enhance their revenue base. Growth also helps companies to enhance their competitiveness within the market. As such, SMEs are being stimulated to invest in growth-oriented projects in order to succeed in the long-term.

Second, the companies are advised to periodically upgrade old assets and equipment to enhance efficiency and productivity. The research results indicate that replacement investment decisions positively affect the growth of SMEs. The old tools and machines are likely to decrease productivity and raise operational expenses. Firms enhance service delivery and minimize operational breakdowns by adopting modern equipment. Hence, the idea of ongoing replacement of assets is deemed a necessity to improve the performance level of the operations. Third, SMEs are suggested to invest more in modernization, such as digital technologies, automation systems, and innovative business models. Among all the variables under study, modernization is supposed to exert the most significant impact on the growth of SMEs. Modern technologies can assist firms to enhance efficiency and competitiveness in an ever-changing business environment. It also enables SMEs to react to any changing customer needs and market trends. Thus, modernization is mentioned as one of the factors of sustainable business development.

Fourth, SMEs are advised to intensify the contingency planning and risk management. This involves keeping emergency funds and working out response plans and also planning ahead to unplanned upheavals. The results show that contingent investment choices have a positive impact on SME growth. Risk management assists businesses to minimize the effects of uncertainties like economic shocks and disruption of supply chain. As such, SMEs are advised to take proactive actions to guarantee the continuity and resilience of the business.

It is advisable that SMEs pursue well organised diversification practices backed by the appropriate market research studies and strategic planning. Although the impact of diversification is not likely to be as strong as that of other variables, it is significant in the long-term sustainability. Correct planning can help companies to see good prospects and have no reliance on one market or product. Moreover, policy makers and SME support agencies are also advised to offer training, financial support, and digital adoption programmes. Such interventions enhance the decision of capital investment and enhance the overall performance of SMEs in the long run.

### **Suggestions for Further Research**

The research recommends that other factors affecting the growth of SMEs, which include credit, taxes and regulatory environment should be investigated in the future. The current study did not cover these factors comprehensively but they are likely to play a huge role in affecting SME performance. Researching on them would give a more detailed insight into the determinants of SME growth. The interaction between capital investment choice and financial constraints and government policies could be also a subject of future research. This would assist in coming up with more comprehensive strategies of supporting SMEs. Hence, the broadening of the research area would help to deepen the current knowledge on SME development.

Second, comparative studies across various counties in Kenya should be carried out in future research in order to increase generalization of results. The research conducted was restricted to SMEs in Nairobi City County. Consequently, the findings may not be generalizable in other settings. Counties can differ in their economic status, level of infrastructure and business environment. Comparative analysis would be useful in establishing regional variations in the growth patterns of the SMEs. This would also help policymakers to design place-specific interventions. Hence, larger geographical analyses are suggested to enhance external validity.

Third, the long-term impacts of diversification strategies on the performance of SMEs need to be studied in the future. The existing results showed that diversification produced a positive, but statistically insignificant impact on the growth of SMEs. Nonetheless, the results of diversification can take a longer time period to be achieved. Longitudinal studies would assist in establishing whether diversification is more effective as time goes by. It would also help explain whether SMEs are effectively implementing diversification strategies or they are challenged in implementing the

strategies. So, further investigations in this field would give more information on sustainable business development strategies.

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