

Strategic Investment Decisions, Financial Literacy And Financial Performance Of Handicraft Enterprises In Nairobi City County, Kenya

Faith Mwendu Marangu, Prof. Ambrose Jagongo, Dr. Evans Mwasiagi

(Department Of Accounting And Finance, Kenyatta University, Kenya)

(Department Of Accounting And Finance, Kenyatta University, Kenya)

(Department Of Business Administration, Kenyatta University, Kenya)

Abstract:

In Kenya, small and medium-sized enterprises (SMEs) face high failure rates, with approximately 60% collapsing annually and at least 80% failing within five years. The COVID-19 pandemic further exacerbated survival challenges, with over half declaring bankruptcy. Handicraft enterprises in Nairobi City County (NCC) have not been spared, prompting this study to investigate the relationship between strategic investment decisions and financial performance. The study accessed the moderating role of financial literacy. Anchored on Resource Dependence Theory, Heuristic Theory, and Prospect Theory, the study adopted a positivist philosophy and descriptive design. The target population comprised 87 documented artisanal firms in NCC, from which a census was conducted using structured questionnaires. Data analysis employed descriptive statistics alongside correlation and multiple regression analysis through R software. Ethical clearance was secured from NACOSTI and the university. The findings revealed that strategic investment decision ($p = 0.0357$) had a statistically significant effect on financial performance. Furthermore, financial literacy significantly moderated the relationship between investment decisions and financial performance ($p = 0.000$), underscoring the importance of financial knowledge in enterprise growth. The study concludes that enhancing investment practices and promoting financial literacy strengthens handicraft enterprises' performance. It recommends that entrepreneurs adopt structured investment approaches and embrace financial training, while county authorities and financial institutions facilitate training programs and expand access to financing. Future research should explore other moderating factors and extend the scope to additional SME sectors.

Background: Strategic investment decisions are central to the financial performance of handicraft enterprises in Nairobi City County. They involve resource allocation toward training, technology adoption, and business diversification, which strengthen capacity and competitiveness. Evidence from global and local contexts shows that financial literacy, access to credit, and government support significantly influence investment choices, thereby enhancing financial outcomes. Handicraft enterprises face challenges such as limited skills, financial illiteracy, and restricted market access, yet targeted investments improve planning, recordkeeping, and sustainability. By prioritizing strategic investments, handicraft enterprises can overcome structural barriers, enhance profitability, and contribute meaningfully to Kenya's economic growth.

Materials and Methods: A positivism philosophy was adopted as it founded the nature, development, and sources of newly obtained knowledge. The adopted descriptive researches design to explore the causal relationships between strategic investment decisions, financial literacy, and the financial performance of handicraft enterprises in NCC, Kenya. In addition to evaluating hypotheses, a descriptive research design was helpful in characterizing demographic features. The study encompassed a sample size of 87 handicraft enterprises in NCC, Kenya. A census approach was adopted, covering all 87 listed firms as indicated by Kenya Expat (2021). The decision to conduct a census was driven by the manageable number of handicraft enterprises in the area.

Results: Out of 87 questionnaires distributed, 72 were successfully completed, yielding an 82% response rate. This rate, deemed satisfactory by Mugenda and Mugenda (2003), provided robust data for analysis. Descriptive results revealed that enterprises adopting monthly strategic investment decisions achieved the highest returns on assets, while irregular, "when needed" practices yielded the weakest outcomes. The findings revealed that strategic investment decision ($p = 0.0357$) had a statistically significant effect on financial performance. Furthermore, financial literacy significantly moderated the relationship between investment decisions and financial performance ($p = 0.000$), underscoring the importance of financial knowledge in enterprise growth. These findings align with prospect and heuristic theories, emphasizing risk perception and informed decision-making in financial outcomes.

Keywords: Strategic Investment Decisions, Financial Literacy, Financial Performance, Handicraft Enterprises, SMEs.

I. Introduction

Handicraft enterprises play a vital role in socio-economic development by creating employment, preserving cultural heritage, and supporting household incomes across both developed and developing economies. In Kenya, these enterprises are shaped by factors such as government support, socio-cultural influences, and entrepreneurial management skills that determine their growth and sustainability (Osongo, 2017). Despite their significance, many handicraft enterprises face persistent financial performance challenges, often linked to limited financial literacy and weak strategic investment decision-making (Salome & Memba, 2014). Investment in training, knowledge development, and financial capacity building is therefore critical, as it strengthens entrepreneurs' ability to make sound decisions that enhance competitiveness and long-term sustainability (Ratnawati et al., 2023).

Globally, small and medium enterprises (SMEs) are widely recognized as engines of economic growth, contributing significantly to GDP and employment (Lin et al., 2022). However, events such as the COVID-19 pandemic highlighted their vulnerability, with many experiencing severe financial losses. In response, developed economies introduced financial advisory and investment support programs to cushion SMEs against shocks, underscoring the importance of effective strategic decision-making in safeguarding financial performance. Empirical studies further reveal that factors such as diversification, firm size, financial literacy, and resource management strongly influence SME outcomes (Menne et al., 2022; Ahinful, Boakye, & Bempah, 2021). In developing countries, gaps in financial literacy, inadequate investment planning, and limited access to capital continue to hinder performance (Esiebugie, Richard, & Emmanuel, 2018). For instance, in Kenya, many SMEs close within their first five years due to financial mismanagement and poor decision-making structures (Mbuva & Wachira, 2019). This is especially true for handicraft enterprises, which remain underexplored in terms of how financial literacy and strategic investment choices interact to shape financial outcomes (Benedict et al., 2021).

The SME sector in Kenya contributes about 33% of GDP and provides a foundation for industrial and cultural development (Kenya Economic Survey, 2017). Yet, handicraft enterprises face challenges in competing with global markets (Were, 2016). Given their cultural and economic importance, there is a need to examine how strategic investment decisions supported by financial literacy affect their financial performance. This study therefore seeks to address this gap by focusing on handicraft enterprises in Nairobi City County, providing insights into the role of investment strategies and literacy levels in enhancing their sustainability and competitiveness.

Handicraft enterprises in Nairobi City County contribute significantly to local livelihoods and cultural preservation, yet their financial performance often depends on the quality of strategic investment decisions and the financial literacy of their owners. Strategic investment decisions are fundamental to enterprise growth and competitiveness, as they determine how scarce resources are allocated across production, marketing, and innovation. According to Shivam (2022), investment choices involve committing financial resources in anticipation of future returns, requiring entrepreneurs to weigh risks, asset composition, and long-term objectives. Effective decision-making, therefore, entails a holistic approach that considers asset allocation, financial planning, taxation, liquidity, and growth potential (Katana, 2022; Tshabalala, 2020).

Scholars classify investment decisions into categories such as expansion, diversification, modernization, and replacement (Vaidya, 2022; Banerjee, 2021). For handicraft enterprises, this translates into strategic investments that strengthen market power, budgetary commitments toward long-term assets, and expansion-related initiatives that increase production capacity or introduce new product lines (Karlsson, 2018; Trishna, 2023). These decisions directly shape an enterprise's resilience and long-term financial sustainability.

Complementing strategic investment, financial literacy enhances entrepreneurs' ability to plan, budget, and access financing. McGurran (2021) defines financial literacy as the confident understanding of financial concepts, enabling effective management of savings, debt, and investment. Training initiatives, such as workshops and seminars, build critical skills in budgeting, credit management, and investment planning, thereby equipping entrepreneurs to make informed financial decisions (Fernando, 2020; Houston, 2010). High levels of financial literacy not only improve financial outcomes but also promote economic empowerment and business sustainability (Souza & Mustaro, 2015; Zait & Berteau, 2015). This study evaluates how strategic investment decisions and financial literacy collectively influence the financial performance of handicraft enterprises, with return on assets (ROA) serving as the primary metric. By examining these interconnections, the research provides insights into how handicraft entrepreneurs can better utilize resources, enhance competitiveness, and sustain growth in a dynamic business environment.

Savings form another key dimension, representing unspent income set aside for future use (Sweta, 2023). Savings accounts help cushion against unexpected challenges and promote disciplined financial behavior (Quicken, 2015). Bliss (2023) emphasizes the role of financial training in enhancing these skills, while Chand (2020) links training to improved business performance. Quinine (2017) notes that trained individuals make more rational financial and investment choices. Credit management, defined as granting and monitoring credit responsibly (Docherty, 2022; Amaya, 2021), further reflects financial literacy's role in sustainable business practices. In this study, financial literacy among handicraft entrepreneurs is examined in relation to training. The goal is to measure artisans' capacity to manage finances, access financial services, and achieve stability. Given the vulnerabilities of the sector, financial literacy training is particularly crucial for effective resource management and enterprise sustainability.

Handicraft enterprises carry both cultural and economic importance. Titus et al. (2020) describe handicrafts as a reflection of cultural identity, while Grindstaff (2022) defines them as businesses producing handmade goods such as pottery, textiles, and woodwork. These enterprises emphasize creativity and originality, making them attractive to niche markets that value craftsmanship. Polites (2020) notes that handicraft industries are the second-largest employers in developing countries, underlining their socioeconomic role. Romantsev (2016) observes that handicraft industries thrive in emerging economies due to rising demand for authentic products. Ratten, Braga, and Oliveira (2022) add that cultural heritage revives artisanal entrepreneurship. However, Yadav, Tripathi, and Ashish (2022) stress the need for innovation, adaptation to crises, and adoption of modern technology. Financial literacy training can support these businesses by improving budgeting and cost management, thereby strengthening resilience.

Handicrafts also play a role in addressing unemployment. Perryer (2019) notes their contribution as the second-largest employment source, particularly empowering rural women in Africa. Mwila (2022) highlights their apprenticeship model, which relies on skills transfer for sustainability. Nonetheless, Oyekunle (2015) warns that neglect by governments undermines their potential. In Kenya, handicraft enterprises fall within the informal jua kali sector. Mpuhia (2020) explains that medium-sized enterprises in this sector employ 51–250 people, while smaller ones employ fewer than 100. These businesses use local resources, nurture talent, and serve markets ranging from local to international. Despite their potential, they face challenges of quality variation, inadequate financing, and weak institutional support.

In Nairobi City County, handicraft enterprises include producers of clothing, footwear, curios, and woven items. According to Cherotich (2021), these businesses depend heavily on social capital for networking and marketing. The sector has transformed from traditional practice to formal enterprise, with artisans now blending cultural expression with commercial goals. Products are typically made from hides, skins, beads, wood, fabrics, and metals, with skills often acquired through apprenticeship. Strategic investment decisions, financial literacy, and handicraft enterprises are interlinked in shaping financial performance. Investment decisions guide how scarce resources are allocated among opportunities, while financial literacy equips artisans with the knowledge and confidence to make informed choices. For handicraft enterprises in Nairobi City County, these elements influence sustainability, competitiveness, and growth. As cultural enterprises with economic significance, handicrafts can thrive if entrepreneurs adopt sound investment strategies and improve their financial skills. Strengthening financial literacy through training and supporting artisans in making strategic, budgeting, and expansion decisions is therefore critical for improving financial performance and promoting sustainable livelihoods

Study Problem

Small and medium-sized enterprises (SMEs) play a vital role in Kenya's economy, yet their sustainability remains fragile. Research indicates persistently high failure rates, with about 60% of SMEs collapsing within six months of operation and nearly 80% before their fifth anniversary (KNBS, 2015; Nyamao et al., 2012). Key causes include inadequate financing, weak financial literacy, limited access to technology, and restrictive government policies (Capital Markets Authority, 2015). Similarly, the Central Bank of Kenya (2021) reports declining returns on assets among microfinance banks between 2014 and 2020, further constraining SME access to credit. Such financial instability has contributed to modest growth, high exit rates, and frequent closures among enterprises (Njagi, Maina & Kariuki, 2017).

Handicraft enterprises, a unique segment of SMEs, face similar vulnerabilities; yet empirical research on their financial performance remains limited, especially within Nairobi City County. Previous studies, such as Yadav, Tripathi, and Ashish (2022), examined handicraft enterprises in India, but contextual gaps persist in Kenya. Investment decisions are central to enterprise sustainability, as they shape growth, risk management, and financial outcomes (Ariemba, Evusa & Muli, 2016). This study therefore examined the strategic investment decisions and financial literacy influencing the financial performance of handicraft enterprises in Nairobi City County, Kenya

II. Material And Methods

Study Design: Descriptive research design

Study Location: Nairobi City County, Kenya.

Study Duration: 2018 to 2022

Sample size: 87 registered handicraft enterprises.

Sample size calculation: The study carried out a census where all the 87 handicraft enterprises were engaged on the data collection.

This study adopted a positivist research philosophy, which emphasizes objectivity, neutrality, and reliance on observable evidence. Guided by positivism, the research evaluated hypotheses derived from empirical literature through systematic data analysis. The null hypothesis was either accepted or rejected strictly based on statistical outcomes. This philosophical stance was well-suited to the investigation of the relationships between strategic investment decisions, financial literacy, and financial performance of handicraft enterprises in Nairobi City County (NCC), Kenya, as it enabled the study to generate valid, reliable, and generalizable knowledge.

A descriptive research design was employed to examine the causal relationships among the study variables. Beyond hypothesis testing, the design was effective in describing the demographic characteristics of the enterprises under study. This design allowed the researcher to capture detailed insights on how investment decisions and financial literacy influence financial performance, while also identifying patterns within the handicraft sector in NCC.

The target population comprised handicraft enterprises located within NCC. According to Kenya Expat (2021), the county hosts 87 such enterprises, all of which were included in the study. Data was collected directly from the proprietors or principal managers of these enterprises, given their central role in decision-making. Focusing on this group ensured the study captured accurate information on how investment choices and financial literacy shape financial outcomes.

In terms of sampling, a census approach was adopted. All 87 handicraft enterprises were included due to their manageable number, ensuring comprehensive coverage. Conducting a census enhanced the richness of the findings by capturing the entire population, thereby increasing reliability and minimizing sampling error. This approach provided robust insights into the financial practices of handicraft enterprises in Nairobi City County.

Data collection relied on structured questionnaires designed to capture quantitative data systematically. The questionnaire was divided into four sections: demographic characteristics, strategic investment decisions, financial performance, and financial literacy. This structure allowed for holistic data collection while ensuring clarity and ease of response.

Before the main survey, a pilot study was conducted to evaluate the reliability and validity of the research instruments. The pilot test helped refine the questionnaire by identifying potential ambiguities, omissions, and errors. It also established the average time required to complete the survey and confirmed that the questions accurately captured the intended constructs. By doing so, the pilot enhanced the credibility of the instruments and ensured they were aligned with the research objectives.

Validity was ensured through expert review, pre-testing, and respondent feedback. Supervisors, finance lecturers, and research specialists assessed the instrument for content and construct validity, ensuring it adequately captured the study's aims. Their input enhanced the alignment of the questionnaire with the conceptual framework, thereby strengthening the accuracy of measurement.

Reliability was assessed using Cronbach's Alpha, which measures internal consistency. The results indicated satisfactory reliability across all study variables, with coefficients exceeding the 0.7 threshold recommended by Sekaran (2015). Specifically, strategic investment decision ($\alpha=0.754$), budgeting investment decision ($\alpha=0.723$), expansion investment decision ($\alpha=0.846$), financial literacy ($\alpha=0.741$), and financial performance ($\alpha=0.816$) all demonstrated strong reliability. The cumulative coefficient of 0.776 confirmed the overall reliability of the instruments, the study's methodology anchored on positivism, descriptive design, a census approach, and robust validity and reliability measures provided a solid foundation for exploring how strategic investment decisions and financial literacy influence the financial performance of handicraft enterprises in Nairobi City County

Table 1 Reliability Tests Results

Variable	Cronbach's Alpha	Number of items
Strategic investment Decisions	.754	3
Budgeting investment Decisions	.723	3
Expansion investment Decisions	.846	2
Financial literacy	.741	2
Financial performance	.816	2
Overall reliability co-efficient	.776	12

Source: Reliability study data (2024)

Data collection for the study on strategic investment decisions, financial literacy, and financial performance of handicraft enterprises in Nairobi City County followed rigorous procedures. Authorization was first obtained from Kenyatta University and a research permit secured from NACOSTI. Questionnaires, accompanied by a transmittal letter, were distributed electronically and through physical visits, with trained research assistants supporting data collection under the researcher's supervision. Strong rapport was built with respondents, supported by timely reminders via phone and email, ensuring high response rates and reliable engagement.

Completed questionnaires were reviewed, cleansed, and coded to facilitate analysis. Descriptive statistics, including frequencies, percentages, mean, median, and mode, summarized responses, while inferential techniques such as correlation and multiple regression assessed relationships among strategic investment decisions, financial literacy, and financial performance. R-software was used for all analyses, with tables employed to enhance data presentation.

Diagnostic tests were undertaken to ensure robustness of findings. Variance inflation factors and tolerance levels tested for multicollinearity, the Kolmogorov-Smirnov test assessed normality, and the Breusch-Pagan test examined heteroscedasticity. These tests confirmed compliance with classical linear regression model assumptions, minimizing risks of bias or inefficiency. The structured methodology ensured accurate, valid, and dependable results, offering practical insights into the role of financial literacy in strengthening handicraft enterprises' financial performance

III. Result

Response Rate

Table 2. Response Rate

Questionnaires distributed	Successfully completed	Not completed
87 (100%)	72(82%)	15 (18%)

Source: Research data (2024)

The study targeted 87 handicraft enterprises in Nairobi City County, yielding 72 valid responses (82%). Guided by Mugenda and Mugenda (2003), this satisfactory rate provides reliable data for examining strategic investment decisions, financial literacy, and financial performance, ensuring valid inferences and meaningful conclusions for the research objectives.

Descriptive Statistics

The study examined the relationship between strategic investment decisions, financial literacy, and financial performance of handicraft enterprises in Nairobi City County (NCC), Kenya. Strategic investment decisions (SID) were assessed across three categories: monthly, annually, and when needed. Findings revealed that enterprises adopting SID-monthly achieved the highest mean return on assets (ROA = 15.514, SD = 5.287), indicating that frequent, structured investments enhanced financial performance despite some variability. Annual investment decisions (mean = 10.543, SD = 0.364) provided stable, predictable growth due to consistency, while enterprises relying on investment "when needed" recorded the lowest mean ROA (8.039, SD = 4.398), reflecting irregularity and uncertainty. Overall, structured and regular investment strategies were associated with stronger and more stable financial outcomes. These findings aligned with prospect theory, which highlights how perceptions of risk influence investment behavior.

Financial literacy was assessed through training as the main indicator. Enterprises with financial training reported higher mean ROA (13.399, SD = 5.158), demonstrating that enhanced financial knowledge improves decision-making, budgeting, and investment strategies. Conversely, enterprises without training recorded lower mean ROA (9.819, SD = 5.337), reflecting weaker financial management. The overall findings suggested that financial training contributes to better-informed decisions, stronger financial discipline, and improved profitability. This supported heuristic theory, which emphasizes the role of behavioral biases in

shaping financial decisions. Studies confirm that higher financial literacy reduces errors, strengthens investment judgment, and ultimately enhances financial performance.

Financial performance, operationalized using ROA, recorded an overall mean of 10.913 with moderate variability ($SD = 5.883$). This indicated that, on average, enterprises generated about 10.9 units of profit for every 100 units of assets. The performance range (4.7–19.8) reflected differences in management practices, financial literacy, investment choices, and market access. Enterprises performing above average demonstrated stronger financial strategies, while weaker performers faced challenges in efficiency and resource utilization. Resource Dependence Theory (RDT) supported these findings, emphasizing the importance of financial and informational resources in shaping organizational performance, the study established that structured strategic investment decisions, frequent budgeting practices, expansion strategies, and financial literacy training significantly enhance financial performance among handicraft enterprises in NCC. Regular investment and budgeting practices foster stability, expansion unlocks market potential, and financial literacy strengthens decision-making capacity. The integration of these practices positions handicraft enterprises for higher and sustainable profitability, underscoring their importance in policy and entrepreneurial development initiatives.

Diagnostic Tests

To ensure robust and reliable findings on the relationship between strategic investment decisions, financial literacy, and the financial performance of handicraft enterprises in Nairobi City County (NCC), diagnostic tests were conducted. These included multicollinearity, normality, and heteroscedasticity assessments. The tests ensured that the data satisfied key regression assumptions, thereby validating the statistical inferences drawn.

Multicollinearity

Correlation and Variance Inflation Factor (VIF) tests were applied to assess multicollinearity among the predictors. A VIF exceeding 10 suggests severe multicollinearity. The results in Table 3 show that all variables recorded VIF values significantly below the critical threshold, confirming the absence of multicollinearity and ensuring that each variable's effect could be independently measured.

Table 3: Test for Multicollinearity

Variable	GVIF	DF	1/VIF
Strategic investment decisions	1.366130	3	0.114286
Budgeting investment decisions	1.570388	3	0.184502
Expansion investment decisions	1.579123	3	0.813008
Financial literacy	1.247704	1	0.746269
Mean VIF	1.44083625		

Source: Research data (2024)

Normality

Normality was tested using the Kolmogorov-Smirnov (K-S) test, suitable for the dataset of 72 responses. A p-value above 0.05 confirms normal distribution. As shown in Table 4, the test yielded a p-value of 0.7176, confirming residuals were normally distributed, thereby validating regression assumptions.

Table 4. Kolmogorov-Smirnov (K-S) Test

Data: residuals_model
D = 0.079868, p-value = 0.7176
Alternative hypothesis: two-sided
Source: Research data (2024)

Heteroscedasticity

The Breusch-Pagan-Godfrey test assessed variance consistency. Results in Table 5 show a p-value of 0.4586, greater than 0.05, confirming no heteroscedasticity. This indicates stable error variance, ensuring reliable regression estimates.

Table 5 Breusch-Pagan Test for Heteroscedasticity

Standardized Breusch-Pagan Test
Data: model
Variables: Strategic Investments Decisions, Capital Budgeting Investment Decisions, Expansion Investment Decisions, Financial Literacy and Financial Performance
BP = 8.7715
df = 9

P-value = 0.4586

Source: Research data (2024)

Regression Analysis**Table 6 Summary of the regression Analysis**

	Beta	Std.error	T	P. Value
Constant	9.6626	1.7482	5.527	0.000
SID-monthly	3.1188	1.4188	2.198	0.031446
SID-when needed	-2.7741	1.3380	-2.073	0.042047

Min: -7.0417; 1Q: -1.2101; Median: -0.6849; 3Q:1.5854; Max:8.1803
 Residual standard error: 3.444, df : 66, multiple R-squared: 0.6815,
 Adjusted R2 :0.6574; F-statistics: 28.25 on 5 and 66 df, P-value: 0.00

Source: Survey data (2024)

This study examined the effect of strategic investment decisions on the financial performance of handicraft enterprises in Nairobi City County, with financial literacy considered as a moderating factor. Regression analysis at a 5% significance level was employed to test the hypotheses, focusing on strategic, budgeting, and expansion investment decisions. The multiple linear regression model revealed that financial performance, measured by return on assets (ROA), is significantly influenced by investment decision practices.

The results indicated that monthly strategic investment decisions had a significant positive effect ($\beta = 3.1188$, $p < 0.05$), increasing ROA, while “when needed” decisions had a significant negative effect ($\beta = -2.7741$, $p < 0.05$), highlighting the importance of consistency in strategic planning. The overall regression model was statistically significant ($F = 28.25$, $p < 0.001$) with an R^2 of 0.6574, meaning that 65.74% of the variation in financial performance was explained by the independent variables. These findings underscore the value of structured, consistent investment decision-making, with monthly budgeting emerging as the strongest driver of financial performance, followed by expansion and strategic planning.

The study examined the moderating role of financial literacy in the relationship between strategic investment decisions and the financial performance of handicraft enterprises in Nairobi City County. The null hypothesis posited that financial literacy does not significantly influence this relationship. Moderation was tested using the two-step procedure proposed by Whisman and McClelland (2005).

Financial Literacy as an Explanatory Variable

The first stage assessed financial literacy alongside other independent variables as explanatory factors.

Table 7: Testing Financial Literacy as an Explanatory Variable

	Estimate	Std.error	t.value	Pr{> t }
Constant	9.5580	1.5485	6.173	0.00000
SID-monthly	2.8676	1.3148	2.181	0.03312
SID- when needed	-1.2038	1.2447	-0.967	0.33733
Financial Literacy-yes	-1.3200	2.9774	-0.443	0.65911

Source: Survey Data (2024)

Results indicated that financial literacy was statistically insignificant ($B = -1.3200$, $p = 0.65911 > 0.005$), suggesting it does not act as a direct predictor of performance but may function as a moderator.

Moderating Effects of Financial Literacy

The second stage incorporated interaction terms to test financial literacy as a moderator.

Table 8: Moderating Effect of Financial Literacy

	Estimate	Std. Error	t. value	Pr{> t }
SID-monthly: FL (yes)	1.8994	2.1928	0.866	0.39003
SID-when needed: FL (yes)	-1.4025	2.1869	-0.641	0.52376

R: 0.8421, R2 :0.8132,
 P-value : 0.0000

$R = 0.8421$, $R^2 = 0.8132$, $p < 0.005$; Source: Survey Data (2024)

The interaction results revealed that financial literacy significantly moderated the relationship between strategic investment decisions and financial performance among handicraft enterprises. Specifically, budgeting investment decisions made “when needed” were negatively related to return on assets (-3.4227), but with the moderating effect of financial literacy, this relationship became strongly positive ($B = 7.0278$, $p = 0.00534 < 0.005$). This demonstrates the critical role of financial literacy in transforming adaptive investment choices into

sustainable financial outcomes. However, the study found no significant moderating effects for expansion-related investment decisions, suggesting that the strategic value of financial literacy is context-specific.

The model achieved strong explanatory power ($R^2 = 0.8132$), indicating that the inclusion of financial literacy interactions explained 81.3% of the variation in financial performance. These findings align with Barno, Cheboi, and Muganda (2021), who observed that financial literacy amplifies the effect of cognitive anchoring on investment decisions among SMEs, and with Ali, Singh, and Ansari (2022), who established its role in mitigating behavioral biases in investment choices. Overall, the results highlight that while financial literacy may not directly determine financial performance, it is strategically vital in moderating investment decisions, particularly budgeting practices, thereby enhancing the long-term financial sustainability of handicraft enterprises in Nairobi City County.

IV. Discussion

This study examined the link between strategic investment decisions (SID), financial literacy, and financial performance (FP) of handicraft enterprises in Nairobi City County, Kenya. A descriptive research design was adopted, with data collected through surveys and analyzed using descriptive and inferential statistics.

Findings revealed that strategic investment decisions significantly influence financial performance. Specifically, enterprises that engaged in periodic SID reported positive performance outcomes ($p=0.0314$), while those relying on ad-hoc decisions experienced negative outcomes ($p=0.0420$). This implies that structured investment practices enhance financial performance, whereas irregular decisions may hinder growth.

Finally, financial literacy (FL) demonstrated a significant moderating effect on the relationship between investment decisions and FP. While FL was not a direct predictor of financial outcomes ($p=0.6591$), the overall model showed it strengthened the link between investment choices and performance ($R^2 = 0.8132$; $p=0.000$). Thus, financial literacy enhances decision-making effectiveness, ensuring sustainable financial performance among handicraft enterprises

V. Conclusion

This study examined the influence of strategic investment decisions (SID) on the financial performance of handicraft enterprises in Nairobi City County, Kenya, while assessing the moderating role of financial literacy. The findings revealed that SID had a significant positive effect on financial performance, particularly when made regularly, whereas ad hoc decisions negatively influenced outcomes. Thus, the null hypothesis that strategic investment decisions have no effect on performance was rejected, confirming their critical role in driving business success.

Importantly, financial literacy emerged as a vital moderating factor, strengthening the positive relationship between investment decisions and financial performance. Enterprises with higher financial literacy leveraged investment choices more effectively, achieving superior outcomes compared to those with limited knowledge, strategic investments are decisive drivers of financial performance, and financial literacy amplifies their impact. Handicraft enterprises that make intentional, informed, and consistent investment decisions are better positioned to achieve sustainable financial growth

References

- [1]. Ahinful, G. S., Boakye, J. D., & Osei Bempah, N. D. (2021). Determinants Of Smes' Financial Performance: Evidence From An Emerging Economy. *Journal Of Small Business & Entrepreneurship*, 1-24.
- [2]. Ahmed, S. M., Shah, R. U., (2020). Comprehensive Testing Highlights Racial, Ethnic, And Age Disparities In The COVID-19 Outbreak: Epidemiological And Clinical Characteristic Of Cases In Utah. *Medrxiv*, 2020-05.
- [3]. Ali, M., Singh, Y., & Ansari, M. S. (2022). How Financial Literacy Moderate The Association Between Behaviour Biases And Investment Decision? *Asian Journal Of Accounting Research*, 7(1), 17-30.
- [4]. Alkaraan, F. (2020). Strategic Investment Decisions: Organizational Culture And Financial Considerations. *Journal Of Business Research*, 112, 456-467. <https://doi.org/10.1016/j.jbusres.2019.11.041>
- [5]. Almagtome, H. A. And Abbas. Z. F. (2020). Value Relevance Of Financial Performance Measures: An Empirical Study. *International Journal Of Psychological Rehabilitation*. (24), 07. ISSN 1475-71926777
- [6]. Amaya (2021). Five-Stage Model For Firms' Expansion Decisions. The Wolfson School Of Mechanical And Manufacturing Engineering. Loughborough University, Leicestershire LE11 3TU
- [7]. Amuko, D. A. (2015). Smess' Investment Decisions: An Assessment On Technology Investments By Smes In Nairobi, Kenya (Doctoral Dissertation, United States International University-Africa).
- [8]. Andreas, Elias, Loannis, And Pavlos (2020). Potential Sources Of Financing For Small And Medium Enterprises (Smes) And Role Of Government In Supporting Smes. *Journal Of Small Business And Entrepreneurship Development*, 5(2), 39-47.
- [9]. Ariemba, J. M., Evusa, Z., & Muli, A. M. (2016). Effect Of Investment Decision On Financial Performance Of Savings And Credit Cooperatives: The Case Of Kitui Central Sub-County, Kenya. *Journal Of Economics And Sustainable Development*, 2(5), 32-68.
- [10]. Asokan, K. (2022). Liquidity And Asset Valuation: An Analytical Approach. *Journal Of Financial Studies*, 12(4), 33-49.
- [11]. Assenga. M. P., Aly. D. And Hussainey. K (2018). The Impact Of Board Characteristics On The Financial Performance Of Tanzanian Firms. *Corporate Governance* 18(6). Pp1089-1106. DOI: <https://doi.org/10.1108/CG-09-2016-0174>
- [12]. Baffour, B., & Valente, P. (2012). An Evaluation Of Census Quality. *Statistical Journal Of The IAOS*, 28(3-4), 121-135.
- [13]. Banerjee, P. (2021). Types Of Investments – Expansion, Diversification, Modernization, Replacement. Retrieved From:

- <https://www.tutorialspoint.com/types-of-investments-expansion-diversification-modernization-replacement#:~:Text=Modernization%20Investments,Modernization%20investments%20are&Text=A%20company%20often%20invests%20in,To%20diversify%20the%20product%20range.>
- [14]. Bărbuță-Mișu, N., Madaleno, M., & Ilie, V. (2019). Analysis Of Risk Factors Affecting Firms' Financial Performance Support For Managerial Decision-Making. *Sustainability*, 11(18), 4838.
 - [15]. Barno, L. J., Cheboi, J., & Muganda, C. (2021). Moderating Effect Of Financial Literacy On Relationship Between Anchoring And Investment Decision Among Smes In Nairobi County. *East African Journal Of Business And Economics*, 3(1), 65-81. DOI: <https://doi.org/10.37284/Eajbe.3.1.305>
 - [16]. Batchimeg, B. (2017). Financial Performance Determinants Of Organizations: The Case Of Mongolian Companies. *Journal Of Competitiveness*, 9(3), 22-33. DOI: 10.7441/Joc.2017.03.02
 - [17]. Boyte-White, C. (2022). How To Calculate Return On Assets (ROA) With Examples. Retrieved From: <https://www.investopedia.com/ask/answers/031215/what-formula-calculating-return-assets-roa.asp>
 - [18]. Brace, N., Kemp, R. And Snelgar, R. (2018) *SPSS For Psychologists*. Red Globe Macmillan International, London.
 - [19]. Calonia, J. (2022). What Is Debt Management? Retrieved From <https://www.bankrate.com/personalfinance/debt/whatisdebtmanagement#:~:Text=Published%20September%202023,Calonia%20on%20linkedin>
 - [20]. Capital Market Authority, (2015). Small And Medium Business And Investment Decision. *Indian Journal Of Science And Technology*, 8(24), 1.
 - [21]. Caputo, A., Marzi, G., Maley, J., & Silic, M. (2019). Ten Years Of Conflict Management Research 2007-2017: An Update On Themes, Concepts And Relationships. *International Journal Of Conflict Management*, 30(1), 87-110.
 - [22]. Cardoza, G., Fornes, G., Farber, V., Gonzalez Duarte, R., & Ruiz-Gutierrez, J. (2016). Barriers And Public Policies Affecting The International Expansion Of Latin American Smes. In *Academy Of Management Proceedings* (Vol. 2015, No. 1, P. 14103).
 - [23]. Central Bank Of Kenya. (2021). CBK Reports And Annual Financial Statements 2014, 2015, 2016, 2017, 2018, 2019 And 2020. Retrieved From: <https://www.centralbank.go.ke/reports/cbk-reports-and-financial-statements/>
 - [24]. Chand, S. (2020). Training: Meaning, Definition And Types Of Training. <https://www.yourarticlelibrary.com/human-resource-development/training-meaning-definition-and-types-of-training/32374>
 - [25]. Cherotich, (2021). Performance Measurement And Adoption Of Balanced Scorecards: A Survey Of Municipal Governments In The USA And Canada. *International Journal Of Public Sector Management*, 17(3), 204-221.
 - [26]. Cooper And Schindler (2011), *Enterprise Credit And Adjustment During Financial Crises: The Role Of Firm Size*. *Journal Of Money, Credit And Banking*, 51(6), 1547-1580.
 - [27]. Creswell, J.W. And Plano Clark, V.L. (2011) *Designing And Conducting Mixed Methods Research*. (2nd Ed.). Sage Publications, Los Angeles.
 - [28]. Docherty, D. (2022). What Is Credit Management And Why Is It Important For Risk Mitigation? Retrieved From <https://www.oneadvanced.com/news-and-opinion/what-is-credit-management-and-why-is-it-important-for-risk-mitigation/>
 - [29]. Gichuru, G. W., Jagongo, A. O., Ndede, F. W. S., (2024). The Impact Of Capital Investment Decisions On The Growth Of Small And Medium Enterprises: A Case Study Of Nairobi City County's Central Business District, Kenya. *Development Finance Journal*, 8(1), 104-133.
 - [30]. Grindstaff, S. (2022). What Is The Handicraft Industry? Retrieved From <https://www.homequestionsanswered.com/what-is-the-handicraft-industry.htm>
 - [31]. Harahap, R. F., & Makaryanawati, M. (2023). Compliance In Sustainability Reporting: Progression Or Regression?. *International Journal Of Multicultural And Multireligious Understanding*, 10(4), 598-612.
 - [32]. Hargrave, M. (2022). Return On Assets (ROA): Formula And 'Good' ROA Defined Retrieved From <https://www.investopedia.com/terms/r/returnonassets.asp#:~:Text=Return%20on%20assets%20is%20a,Income%20by%20its%20total%20assets.>
 - [33]. Hartill, R. (2021). What Is Financial Performance? Retrieved From <https://www.thebalancemoney.com/financial-performance-5193413>
 - [34]. Hauser, A., Eggers, F., & Guldenberg, S. (2020). Strategic Decision-Making In Smes: Effectuation, Causation, And The Absence Of Strategy. *Small Business Economics*, 54, 775-790.
 - [35]. Hayes, A. (2022). (1) Understanding Liquidity Ratios: Types And Their Importance. <https://www.investopedia.com/terms/l/liquidityratios.asp#:~:Text=Common%20liquidity%20ratios%20include%20the,Ability%20to%20pay%20ongoing%20debts.>
 - [36]. Hayes, A. (2022). (2). Defining Your Basic Investing Objectives: What To Factor In. Retrieved From <https://www.investopedia.com/managing-wealth/basic-investment-objectives/>
 - [37]. Hayes, A. (2022). (3). Return On Capital Employed (ROCE): Ratio, Interpretation, And Example. Retrieved From [https://www.investopedia.com/terms/r/roce.asp#:~:Text=Understanding%20Return%20on%20Capital%20Employed%20\(ROCE\)&Text=Ultimately%2C%20the%20calculation%20of%20ROCE,Stronger%20profitability%20across%20company%20comparisons.](https://www.investopedia.com/terms/r/roce.asp#:~:Text=Understanding%20Return%20on%20Capital%20Employed%20(ROCE)&Text=Ultimately%2C%20the%20calculation%20of%20ROCE,Stronger%20profitability%20across%20company%20comparisons.)
 - [38]. Hayes, A. (2022). (4). Return On Sales: What ROS Is And The Formula To Calculate It. [https://www.investopedia.com/terms/r/ros.asp#:~:Text=Return%20on%20sales%20\(ROS\)%20is%20a%20measure%20of%20how%20efficiently,Operating%20profit%20by%20net%20sales.](https://www.investopedia.com/terms/r/ros.asp#:~:Text=Return%20on%20sales%20(ROS)%20is%20a%20measure%20of%20how%20efficiently,Operating%20profit%20by%20net%20sales.)
 - [39]. Hayes, A. (2022). (5). Understanding Liquidity And How To Measure It. Retrieved From <https://www.investopedia.com/terms/l/liquidity.asp>
 - [40]. Houston, (2010). Illusions Of Inclusion: Assessment Of The World Development Report 2010 On The Changing Nature Of Work. *Development And Change*, 51(2), 667-682. <https://www.wyldeinternational.com/post/tid-bits-from-the-2022-sme-access-to-finance-report>
 - [41]. Hussain, M. (2022). Understanding Liquidity And Its Importance In Financial Markets. *Financial Insights Journal*, 15(3), 45-58.
 - [42]. Ichsan, R., Suparmin, S., Yusuf, M., Ismal, R., & Sitompul, S. (2021). Determinant Of Sharia Bank's Financial Performance During The Covid-19 Pandemic. *Budapest International Research And Critics Institute-Journal (BIRCI-Journal)*, 298-309. DOI: <http://www.bircu-journal.com/index.php/Birci>
 - [43]. Ignace, M. & Harelimana, J. B. (2018). Major Challenges Affecting Financial Performance Of Microfinance Institutions In Rwanda. *Management And Organizational Studies* (5), 4. DOI: <https://doi.org/10.5430/Mos.V5n4p41>
 - [44]. Iram, S., Dolson, E., Chiel, J., Pelesko, J., Krishnan, N., Güngör, Ö., ... & Hinczewski, M. (2021). Controlling The Speed And Trajectory Of Evolution With Counterdiabatic Driving. *Nature Physics*, 17(1), 135-142.

- [45]. Iram. (2023). Synthesis And Investigation Of Light Assisted Catalytic OER/HER Behavior Of G-C3N4/Al2S3 Nanocomposite. Catalysis Letters, 1-13.
- [46]. Isidro, H., & Sobral, M. (2015). The Effects Of Women On Corporate Boards On Firm Value, Financial Performance, And Ethical And Social Compliance. Journal Of Business Ethics, 132(1), 1-19.
- [47]. Jadhav, S. (2014). Handicraft Industry In India: The Cultural Heritage And Economic Impact. Journal Of Business And Economic Studies, 29(3), 45-56.