



## **Mediating Effect of Investment Decisions between Overconfidence Heuristic and Financial-Performance of Small, and Medium Enterprises in Nairobi, Kenya**

**Alex Koech<sup>a\*</sup>, Josphat Cheboi<sup>a</sup> & Naomi Koske<sup>a</sup>**

<sup>a</sup>Finance and Accounting department, Moi University, Kenya

\* Corresponding author's email: [drfernando173@gmail.com](mailto:drfernando173@gmail.com)

### **Abstract**

Investors' thinking and feeling have emotional impact on their behavior when making investment decisions. These impacts are identified as behavioral heuristics. They affect all investors and vary subject to the investor's nature. This, in turn, affects the financial-performance of the SME. Heuristic behavior is an essential part of the decision-making process which profoundly influences the investor's financial performance. Heuristic factors play an undeniable role in influencing persons' decisions, which includes investment decisions. The study seeks to scrutinize the outcome of the Overconfidence heuristic on financial-performance and also analyze the mediational effect of investment decisions on the link concerning the Overconfidence heuristic and financial-performance of the SMEs in the County of Nairobi. The heuristic theory guided this study. Anchoring on Explanatory research design, the study targeted 64,443 SMEs, with sample size being 382 SMEs. This research used a stratified sampling design. Data were collected using structured questionnaires and items were anchored on a five-point Likert scale. Descriptive and inferential statistics were used as analysis tools. The test for hypotheses was done using multiple regression models and Hayes process macro for mediation. The regression results presented that Overconfidence heuristic had positively significantly affect financial-performance ( $\beta = .156, p < .05$ ). Besides, Investment Decision had a positively and significantly mediating effect on the relation between Overconfidence Heuristic and Financial-Performance ( $\beta = .289, p < .05, CI = 0.001, 0.076$ ). This study contributes new knowledge to the theories. There is a need for SME owners/ managers to understand and effectively how to use investment decisions to improve their financial-performance. Furthermore, researchers need to undertake comparative studies covering other geographical locations to make generalizations from this study.

**Keywords:** *Heuristic behavior, Overconfidence, Investment decisions, Financial performance.*

### **Suggested Citation:**

Koech, A., Cheboi, J. & Koske, N. (2020). Mediating Effect of Investment Decisions between Overconfidence Heuristic and Financial-Performance of Small, and Medium Enterprises in Nairobi, Kenya. *Journal of Business Management and Economic Research (JOBMER)*, Vol: 4, Issue: 2, 186-198.