



Effect of Prospect Bias on Investment Decision Making among Small and Medium Enterprise in Nairobi County

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Abstract

Investment decisions made by Small and Micro enterprises are crucial for economic development. It involves high capital outlay that provides economic benefit to the SMEs. Despite the risky decisions made by both Small and Micro Enterprises, this sector remains the largest employer and a source of revenue to the Kenyan government. Investment decision is an important part of strategic decision-making in every enterprise because new investment projects essentially affect future economic results and the enterprise's prosperity. This study thus sought to determine the effect of prospect bias on investment decisions among small and micro enterprises in Nairobi County. The specific objectives of the study were to: determine the effect of overconfidence, anchoring, prospecting and herding on investment decision making as well as to investigate the moderating effect of financial literacy on the relationship between overconfidence, anchoring, prospecting, herding and investment decisions among Small and Micro Enterprises. The study was premised prospects theory. Positivism paradigm was deployed. The study adopts explanatory research design. The target population were 102,821 firm owners. A sample of 383 respondents was selected using stratified random sampling technique. The findings from regression model showed results revealed that prospect factors had a positive and significant influence on investment decision ($\beta = 0.288$, $p < 0.05$). Therefore, entrepreneurs should consider carefully before making investment decisions though they should not care too much about the prior loss for their later investment decisions.

Keywords: Prospect Bias, Investment Decisions, Small And Micro Enterprises

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