



**Effect of Anchoring Heuristic on Financial Performance of Small and Medium Enterprises in Nairobi, Kenya: The mediating role of Investment Decisions**

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**Abstract**

The psychological or behavioral heuristics affects investors' way of deciding on investment and therefore affecting the financial performance of the firm. This effect varies subject to the investor's nature which in turn affects the financial performance of the firm. Using cross-sectional data from 382 respondents of Small and Medium Enterprises within Nairobi County, the study evaluates direct effect of Anchoring Heuristic on financial performance of the SMEs in Nairobi County. Additionally, the study scrutinizes the mediational role of Investment decisions on the relationship between anchoring heuristic and financial performance of the said SMEs. The study is grounded in Heuristic theory together with Modern portfolio theory. The study used Explanatory research design and arranged the samples into strata. Data was collected using self-administered, structured questionnaires and items were grounded on a five-point Likert scale with data analysis being done using descriptive and inferential statistics. The hypotheses of the study were tested using multiple regression models and Hayes process macro. The results showed that Anchoring Heuristics significantly predicts SME's financial performance ( $\beta = .129, p < .05$ ) and this relationship is partially mediated by Investment decisions ( $\beta = .239, p < .001, CI = 0.029, 0.112$ ). Theoretically, the study supported the incorporation of the key heuristic factor (anchoring), and investment decisions, where the outcome of the results indicated the significant relationship in achieving financial performance of SMEs. Finally, there is need to undertake similar studies covering other geographical locations to make generalization of this study.

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

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