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

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Abstract:
In Kenya, over 60% of SMEs collapse annually despite government support, with the COVID-19 pandemic worsening the situation as 51.28% went bankrupt, 15.38% refinanced, and 12.82% exited. Handicraft enterprises in Nairobi City County (NCC) face similar challenges but remain under-researched despite their economic potential. Their growth is constrained by limited funding, restrictive policies, inadequate knowledge, and poor adoption of technology. Statistics indicate that three out of every five handicraft businesses fail within six months, and 80% collapse before five years. This study examined the moderating effect of financial literacy on the relationship between investment decisions and financial performance. Grounded in Resource Dependence Theory, Prospect Theory, and Heuristic Theory, the study adopted a positivist philosophy and descriptive design, covering all 87 registered handicraft enterprises in NCC through a census approach. Data were collected using structured questionnaires and analyzed with descriptive and inferential statistics using R-software. Ethical protocols, including NACOSTI approval and voluntary participation, were observed. Results indicated that financial literacy significantly moderated the relationship between investment decisions and financial performance, enhancing the positive impact of strategic allocation, prudent budgeting, and growth-oriented investments. The study recommends adopting informed capital allocation and strengthening financial knowledge to improve enterprise performance.

Background: *SMEs internationally contribute significantly to the economies (Lin et al, 2022). In OECD nations, SMEs make up about 99% of businesses and 70% of all employment. They also provide 50% or more of GDP to high-income nations worldwide. In the range of February 2020 and April 20221, about 70% - 80% of SMEs globally, lost their revenues between 30-50% due to COVID-19. According to the recent 2017 economic analysis, the SMEs sector contributes around 33% of Kenya's GDP. In Kenya, manufacturing SMEs demonstrated stronger growth and expansion compared to service-based SMEs. Specifically, production-oriented businesses experienced a 31% increase in their scale, while service-oriented counterparts grew by 24% (Were, 2016).*

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 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: *The study examined the moderating effect of financial literacy on the relationship between investment decisions and financial performance of handicraft enterprises in Nairobi City County, Kenya. Results on the first step of the Whisman and Mc Cleland (2005) methodology the coefficient of financial literacy -1.3200 and (p-value = 0.65911 > 0.005) depicted that financial literacy was statistically insignificant at 5% level of significance.*

While for the step two, having $R = 0.8421$, $R^2 = 0.8132$, $p < 0.005$ it meant that the moderated model explains 81.3% of variation in ROA making it a strong fit for the study. The extensive framework revealed that financial literacy operates as a moderator, displaying a significant mediating effect on the association between investment selections and monetary results ($p < 0.005$), which is in line with the discoveries of Whisman and Mc Cleland (2005). This offers credence to the alternate suppositions, validating that financial literacy notably mediates the connection between investment decisions and FP. This then dismissed the Ho4 at a 5% significance threshold.

Keywords: *Financial literacy, Investment decisions, Handicraft enterprises, financial performance, Strategic investment decisions, Budgetary investment decisions, Expansion investments decisions*

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I. Introduction

Handicraft enterprises in Kenya are influenced by factors such as government support, economic stability, socio-cultural dynamics, and business management skills, which shape their development (Osongo, 2017). Despite capacity-building initiatives, many artisans face poor financial performance due to inadequate training (Salome & Memba, 2014). Financial literacy enhances decision-making, investment choices, and financial planning, thereby improving performance (Ratnawati et al., 2023). Globally, SMEs contribute significantly to economies, accounting for 99% of businesses and up to 70% of employment in OECD countries, and over 50% of GDP in high-income nations (Lin et al., 2022). However, COVID-19 caused severe revenue losses for 70–80% of SMEs. Developed nations like the USA and UK have bolstered SME resilience through financial support and advisory services. In developing countries, SMEs contribute 45% to employment and 33% to GDP (World Bank, 2016).

The handicraft sector, as seen in India, benefits from local resources and craftsmanship but suffers from illiteracy, inadequate financing, and limited technology (Jadhav, 2014). Similar challenges exist elsewhere, with studies linking financial performance to business diversification, human resource quality (Menne et al., 2022), firm age, size (Ahinful et al., 2021), and financial literacy (Esiebugie et al., 2018). In Kenya, high poverty levels and limited financial access hinder SME growth, with many closing within five years (Mbuva & Wachira, 2019). Key factors affecting financial performance include tax rates, financial understanding, and borrowing capacity (Benedict et al., 2021). SMEs contribute about 33% to Kenya's GDP, with manufacturing-oriented SMEs showing stronger growth than service-based enterprises (Were, 2016). Strengthening financial literacy is essential to improving access to capital and sustaining financial performance in Kenya's handicraft sector.

Financial performance is widely recognized as a key indicator of an enterprise's health, reflecting its efficiency and effectiveness in achieving set objectives. It is generally assessed in three dimensions financial, operational, and market performance. Financial performance specifically refers to an organization's ability to mobilize and allocate resources efficiently, often measured using indicators such as liquidity, capital adequacy, leverage, solvency, efficiency, and profitability. These are typically evaluated through analyses of financial statements, including cash flows, balance sheets, and profit-and-loss accounts over a given period.

Measures such as Return on Assets (ROA) and Return on Equity (ROE) are common benchmarks, with ROA indicating how effectively a company uses its assets to generate profits, and ROE showing how well equity capital is utilized to foster growth and revenue. Other metrics include liquidity ratios, which reflect an entity's capacity to meet short-term obligations; leverage, which indicates the use of borrowed funds to amplify returns; and Return on Capital Employed (ROCE), which gauges profitability relative to invested capital. Additionally, indicators like Return on Sales (ROS), Net Operating Income (NOI), gross profit margin, and earnings per share are frequently used to assess financial performance.

Liquidity, defined as the ease of converting assets into cash without significant loss in value, is critical for operational stability. Leverage, on the other hand, can enhance investment returns but also introduces financial risk if not managed prudently. ROCE and NOI offer deeper insights into capital efficiency and real estate investment profitability, respectively, while ROS measures how much profit is generated per unit of sales revenue. Net income, representing residual earnings after expenses, allowances, and taxes, remains a fundamental gauge of financial stability.

Financial Performance Measures (FPMs) remain the most emphasized indicators for evaluating productivity and efficiency in enterprises. Maintaining up-to-date FPMs ensures sustainability and helps attract investors, managers, and creditors by providing transparency in decision-making. Factors such as liquidity, ownership structure, firm age, and size influence financial outcomes. In the context of handicraft enterprises in Nairobi City County, this study adopts ROA as the primary metric to evaluate financial results. ROA's significance lies in its ability to reflect how effectively enterprises leverage their assets to generate profits, thereby providing a comprehensive view of their financial health and capacity for sustainable growth.

Investment decisions involve allocating financial resources at present in anticipation of future gains, focusing on achieving the highest possible return (Shivam, 2022). The evaluation of a firm's overall assets, asset composition, and business risk complexity significantly influence such decisions (Prajapati, 2022). Investors must consider asset allocation, investment objectives, risk levels, financial planning, timeframes, budgets, and tax implications before committing funds (Katana, 2022). Senior management or stakeholders typically decide on these allocations, directing funds into long-term assets (capital budgeting) or short-term assets (working capital) depending on business goals (Bhujel, 2020; Ackermann & Loy, 2022; Jagongo, 2012). Capital budgeting focuses on investments in assets that yield returns over extended periods, while working capital investments involve managing highly liquid current assets. These decisions aim to achieve long-term objectives, with risk–reward evaluations guided by objective data (Milano, 2019). Safety, income, and growth remain core investment goals (Hayes, 2022). Factors such as budgetary constraints, taxation, inflation, ROI, risk, time, liquidity, and investment planning also shape investment choices (Tshabalala, 2020; Amuko, 2015). Investment decisions can be strategic, budgetary, or expansion-oriented (Vaidya, 2023; Banerjee, 2021). Strategic decisions strengthen market power by selecting projects that enhance competitive advantage, considering organizational culture, strategies, financial factors, governance frameworks, and internal environments (Karlsson, 2018; Alkaraan, 2020). Budgetary decisions involve capital expenditure planning for long-term assets such as land, buildings, and machinery (Trishna, 2023). Expansion decisions aim to boost production or establish new ventures (Banerjee, 2021; Shivam, 2022).

Financial literacy refers to the confident understanding of concepts such as debt, investing, and saving, forming the foundation of one's financial relationship (McGurran, 2021). It enables individuals to allocate income toward saving, debt repayment, and emergencies while enhancing financial security. Strategies to improve literacy include accessing free resources, financial education programs, credit counselling, and foundational finance training. Financial literacy encompasses knowledge of money management, credit, and debt handling (Zucchi, 2022), as well as budgeting, risk management, investing, retirement planning, and insurance (Souza & Mustaro, 2015; Vaidyas, 2022). It promotes informed decision-making and financial empowerment through continuous learning (Fernando, 2020). Key components include financial knowledge, skills, communication, behaviour, and confidence (Zait & Bertea, 2015).

Debt management, as part of financial literacy, involves planning to control and eliminate debt, consolidating payments, and aligning borrowing with available resources (Calonia, 2022; Morell, 2017; Strohm, Lake & Aldrich, 2023). Accumulated capital is the surplus remaining after all expenses are settled (Kagan, 2022). Savings represent unspent income reserved for future needs or emergencies (Sweta, 2023; Quicken, 2015), providing a safety net against risks such as natural disasters, legal liabilities, and financial uncertainties. Financial training improves knowledge and skills for better financial decision-making (Chand, 2020; Quinine, 2017), while credit management ensures reasonable credit terms and effective collections (Docherty, 2022; Amaya, 2021). In this study, financial literacy is defined as the knowledge, skills, and abilities needed to manage money and financial resources effectively to achieve stability. It will be assessed through training interventions targeted at handicraft enterprises in Nairobi City County, examining how artisans manage finances, access facilities, and work toward long-term financial stability. By linking financial literacy with investment decision-making, the research will explore their combined influence on the financial performance of these enterprises.

Handicraft enterprises in Nairobi City County play a crucial role in preserving cultural heritage while contributing to economic growth. These businesses, centered on the creation and sale of handmade items such as pottery, woodwork, sewing, and woven products, showcase the creativity and manual skills of artisans, offering unique, often personalized goods valued for their craftsmanship. As one of the largest employment sectors in developing countries, the handicraft industry provides livelihoods to hundreds of thousands, particularly empowering women in rural areas by fostering financial independence. The sector thrives on ingenuity, specialized skills, and the growing demand for authentic, high-quality products, with production often shaped by cultural and historical influences. In Kenya, SMEs in the handicraft sector, especially within the informal jua kali economy, utilize local resources, nurture talent, and serve markets at local, regional, and international levels. However, challenges persist, including government neglect, limited innovation, and operational disruptions caused by economic crises. Financial literacy is essential for small business owners, aiding in budgeting, resource utilization, and resilience against financial shocks. Modern technologies and strong networking through social capital further enhance operational efficiency. In Nairobi City County, handicraft SMEs producing goods like clothing, shoes, curios, and gifts have evolved from traditional cultural practices into competitive enterprises. These businesses often rely on apprenticeship-based skill transfer, using raw materials such as hides, fabrics, wood, stone, and beads. As both an economic driver and a custodian of cultural identity, the sector holds significant potential for growth through innovation, financial management, and supportive policies.

Study Problem

Despite government efforts to promote SMEs in Kenya, their survival rate remains low, with studies showing that up to 60% fail within six months and 80% before their fifth year of operation, mainly due to inadequate financing, poor information access, weak technology adoption, and unfavorable policies. Microfinance bank ROA trends between 2014 and 2020 also indicate declining performance, directly affecting SMEs' financial stability. Handicraft enterprises, though significant, face similar challenges, with limited research on their financial performance in Nairobi City County. Since investment decisions critically influence business growth, profitability, and survival, this study examined the relationship between financial literacy, investment decisions, and 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: November 2014 to November 2015.

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.

The study adopted a positivist research philosophy, which emphasizes the objective evaluation of empirical evidence to generate new knowledge. Hypotheses were tested using scientifically obtained data, ensuring neutrality, with acceptance or rejection of the null hypothesis based solely on results. A descriptive research design was applied to investigate the causal relationships between investment decisions, financial literacy, and the financial performance of handicraft enterprises in Nairobi City County (NCC), Kenya. This design also facilitated demographic profiling of the target population.

The target population comprised all 87 handicraft enterprises in NCC, as listed by Kenya Expat (2021), with the study focusing on their owners or principal managers. Given the small and manageable population size, a census approach was employed, enabling comprehensive coverage of all enterprises. This method was chosen to ensure high response rates and detailed insights into the sector's characteristics.

Data collection relied on structured questionnaires divided into four sections: demographic details, investment decisions, financial performance, and financial literacy. This format allowed efficient collection of primary data from a large number of respondents. To enhance the instrument's quality, a pilot test was conducted before the main survey. The pilot study helped identify and correct ambiguities, estimate survey completion time, and ensure that the tools could accurately distinguish between different types of handicraft enterprises.

Validity was addressed in multiple ways. Content validity was strengthened through expert and supervisor review, ensuring alignment with the study objectives and conceptual framework. Construct validity was assessed by examining participant responses during pre-testing to confirm consistent interpretation of questions. This process helped identify and correct potential issues such as omissions or unclear wording. Lecturers with finance and research expertise also contributed, further refining the questionnaire to ensure it effectively measured the intended constructs.

Reliability was evaluated using Cronbach's Alpha, which measures internal consistency. According to Sekaran (2015), coefficients between 0.7 and 0.8 indicate satisfactory reliability, while values above 0.8 are considered high. The study's reliability results exceeded these thresholds across all variables: strategic investment decision (α=0.954), budgeting investment decision (α=0.923), expansion investment decision (α=0.896), financial literacy (α=0.946), and financial performance (α=0.886). The cumulative reliability for all 21 items was α=0.856, confirming strong internal consistency and the suitability of the instrument for data collection.

Procedure methodology

Data collection began with the researcher obtaining authorization from Kenyatta University's graduate school, followed by a research permit from NACOSTI. Permission from the relevant handicraft enterprises was also secured. Survey questionnaires, accompanied by a transmittal letter, were sent to participants via email. Two trained research assistants, under the researcher's direct supervision, helped administer the surveys, maintain close rapport with participants, and send reminders via telephone or email to encourage timely responses. Completed questionnaires were collected electronically.

The data collection process emphasized accuracy and completeness, with questionnaires arranged, cleaned, and edited before coding. Responses were assigned numerical codes and categorized for analysis in R-software. Both descriptive and inferential statistics were applied. Descriptive measures such as percentages, frequencies, means, medians, and modes summarized the data, while correlation analysis and multiple regression assessed the relationships among variables, particularly the moderating role of financial literacy on investment decisions and financial performance. The moderating effect was tested using the Whisman and McClellend (2005) two-step procedure, where financial literacy was first examined as a predictor.

Diagnostic tests ensured compliance with classical linear regression model assumptions (CLRM). Multicollinearity was assessed using variance inflation factors (VIF), with corrective nonlinear transformations where necessary. Normality was tested using the Kolmogorov–Smirnov test, while heteroscedasticity was checked through the Breusch–Pagan test.

Ethical considerations guided the study. Participation was voluntary and free from coercion, with data used solely for the stated research purpose. Confidentiality was maintained, and findings were shared with NACOSTI, stakeholders, and through reputable publications to support further research. This rigorous approach ensured reliable, valid, and ethically sound results on the influence of financial literacy on investment decisions and financial performance in the handicraft sector.

III. Result

Response Rate

The study surveyed 87 handicraft enterprise heads in Nairobi City County, distributing questionnaires with research aides' assistance, achieving 72 responses and 15 non-responses.

Table 1. Response Rate

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

Source: Research data (2024)

Firm Characteristics

The study revealed that partnerships account for the largest share of ownership among handicraft enterprises in Nairobi City County at 48%, indicating a strong preference for collaborative business structures that enable resource sharing, combined expertise, and shared risk. Government and non-profit ownership were minimal at 0% and 5%, respectively, reflecting limited sector involvement and potential gaps for policy and social impact initiatives. In terms of years of operation, 45% of enterprises had been in business for 1–5 years, showing a dynamic and growing industry with frequent new entries, while only 7% had operated for over 21 years, suggesting sustainability and succession challenges for long-standing firms. Product-wise, textiles dominated at 46%, underscoring strong market demand, cultural relevance, and local skills, whereas woodwork (10%) and pottery (13%) were less common, likely due to market trends or material availability. Workforce data showed that 36% of enterprises employed 6–10 workers, indicating operational balance and cost efficiency, while only 8% had 20 or more employees, suggesting scalability and resource constraints among larger enterprises.

Table 2. Firm Characteristics

Category	Sub-Category	Frequency	Percentage (%)
Ownership	Sole proprietorship	16	23
	Partnership	35	48
	Non-profit	4	5
	Government	0	0
	Limited Company	17	24
	Total	**72**	**100**
Years of Operation	1-5 Years	32	45
	6-10 Years	16	22
	11-15 Years	11	15
	16-20 Years	8	11
	21 Years +	5	7
	Total	**72**	**100**
Products produced	Textiles	33	46
	Pottery	9	13
	Woodwork	8	10
	Jewellery	22	31
	Total	**72**	**100**
Employees	less than 5	18	25
	6-10	26	36
	10-15	13	18
	15-20	9	13
	20 and above	6	8
	Total	**72**	**100**

Source: Research data (2024)

Strategic Investment Decisions

The study assessed strategic investment decisions (SID) among handicraft enterprises in Nairobi City County, Kenya, focusing on their frequency monthly, annually, and when needed over the 2018–2022 period, and their link to financial performance measured by Return on Assets (ROA). Results showed that SID-monthly recorded the highest mean ROA (15.514, Std. Dev = 5.287), indicating that frequent investments are associated with higher financial performance, though with considerable variation among enterprises. SID-annually had a moderate mean ROA (10.543, Std. Dev = 0.364), reflecting consistency and stable, predictable growth. SID-when needed registered the lowest mean ROA (8.039, Std. Dev = 4.398), revealing less frequent and irregular investment patterns that led to fluctuating performance. The overall mean ROA across all categories was 11.365 (Std. Dev = 3.349), suggesting moderate investment frequency. The findings imply that structured and regular investment decisions particularly monthly or annually position enterprises for stronger and more stable ROA, while irregular investment approaches heighten financial performance uncertainty. These results align with Prospect Theory by Tversky and Kahneman (1979), which explains decision-making under risk and uncertainty. Applied to organizational contexts, the theory highlights how risk aversion or risk-seeking behaviours influence capital investment choices, ultimately shaping financial performance. Studies by Khezri et al. (2022), Erdogan (2020), Lockert (2021), and Lake (2022) support its relevance in understanding investment decisions in relation to perceived risk and return.

Table 3. Descriptive Statistics on Strategic Investment Decisions

Strategic Investment Decisions	n	%	Mean	Std.D
Times SID are carried out				
Monthly	72	38	15.514	5.287
Annually	72	15	10.543	0.364
When need	72	47	8.039	4.398
Aggregate for Strategic investment decisions		**11.365**	**3.349**	

Source: Research data (2024)

Capital Budgeting Investment Decisions

The study examined the influence of capital budgeting investment decisions on the financial performance of handicraft enterprises in Nairobi City County. Capital budgeting was measured by the frequency of creating and reviewing business budget plans. Results showed that monthly reviews had the highest mean (17.299) and moderate variability, indicating consistent practices that enhanced financial control and stability in return on assets (ROA). Annual reviews recorded a mean of 10.379 with high variability, reflecting inconsistency that led to fluctuating ROA. "When-needed" reviews had the lowest mean (8.729) and substantial variability, suggesting infrequent and unpredictable financial planning, resulting in unstable ROA. The overall mean (12.136) indicated moderate review frequency, but variability showed differences between structured and irregular practices. Enterprises with structured monthly or annual budgeting achieved more predictable and potentially higher ROA, while irregular reviews increased financial instability. Guided by prospect theory, artisans often favored cautious investments yielding consistent returns while minimizing potential losses**.**

Table 4. Descriptive Statistics on Budgeting Investment Decisions

Reviewing the business budget plan	n	%	Mean	Std. dev.
Monthly	72	11	17.299	3.229
Annually	72	89	10.379	5.995
When needed	72	89	8.729	4.949
Aggregate scores for reviewing the business budget plan			**12.136**	**4.724**

Source: Survey data (2024)

Expansion Investment Decisions

The study examined the relationship between expansion investment decisions and the financial performance of handicraft enterprises in Nairobi City County, Kenya. Expansion decisions, measured using binary indicators (Yes/No), revealed a clear trend: firms that expanded between 2018 and 2022 achieved a higher mean ROA (15.798) with minimal variability (SD = 0.448), indicating consistent and structured growth strategies that enhanced market presence and revenue streams. In contrast, non-expanding firms recorded a lower mean ROA (10.215) with similarly low variability (SD = 0.432), reflecting uniformity in avoiding expansion and experiencing slower financial growth. The overall mean of 13.0065 and low standard deviation (0.440) indicated that expansion decisions were relatively uniform across enterprises. Findings suggest that active investment in expansion is linked to stronger financial performance, supporting the view that developing new products, increasing market share, and broadening customer reach contribute to improved sales, profitability, and long-term business growth.

Table 5. Descriptive Statistics on Expansion Investment Decisions

Expansion Investment Decisions	**n**	**%**	**Mean**	**Std. dev.**
Creation of branches/outlets				
Yes	72	11	15.798	0.448
No	72	89	10.215	0.432
Aggregate scores of expansion investment decisions				**13.0065**
0.440				

Source: Research data (2024)

Financial Literacy

The study examined the role of financial literacy, measured through financial training, in influencing the relationship between investment decisions and financial performance of handicraft enterprises in Nairobi City County. Results showed that enterprises with financial training recorded a higher mean score (13.399) compared to those without training (9.819), indicating stronger financial literacy among trained firms. The standard deviations revealed variations, with some trained businesses excelling while others lagged. Financial training was associated with improved Return on Assets (ROA) through better-informed investment decisions and reduced mismanagement of funds. Conversely, enterprises without training experienced weaker financial performance over 2018–2022. The overall mean score (11.609) reflected a moderate financial literacy level across the sector, with notable disparities. The study concluded that financial training enhances financial literacy, leading to better investment strategies and higher ROA, aligning with heuristic theory and prior research that link financial literacy to improved decision-making and performance.

Table 6. Descriptive Statistics on Financial Literacy

Financial Literacy	**n**	**%**	**Mean**	**Std. dev.**
Financial training experience				
Yes	72	31	13.399	5.158
No	72	69	9.819	5.337
Aggregate scores of Financial Literacy			**11.609**	**5.2475**

Source: Research data (2024)

Financial Performance

In this study, financial performance of handicraft enterprises in Nairobi City County was measured using Return on Assets (ROA) over 2018–2022. The mean ROA was 10.913% (SD = 5.883), indicating moderate variability, with returns ranging from 4.7% to 19.8%. Enterprises exceeding the average ROA applied stronger financial management practices, while lower performers faced operational challenges. Factors influencing performance included financial literacy, investment decisions, market access, and production efficiency. Consistent with Resource Dependence Theory, prior studies highlight that access to information and resources enhances social capital, which in turn drives profitability, particularly in resource-reliant sectors like handicrafts.

Table 7. Descriptive Statistics on Financial Performance

Financial Performance	**n**	**Mean**	**Std. dev.**
ROA (2018 - 2022)	72	10.913	5.883
Aggregate scores of Financial Performance		**10.913**	**5.883**

Source: Research data (2024)

Diagnostic Tests

Multicollinearity

The study assessed multicollinearity among strategic, capital budgeting, and expansion investment decisions, alongside financial literacy, using correlation and VIF tests. All VIF values fell within the acceptable range (0.1–10), indicating no severe multicollinearity, thus allowing reliable estimation of each variable's effect on investment decisions and financial performance of handicraft enterprises.

Table 8. Test for multicollinearity

Variable	GVIF	DF	1/VIF
Strategic investment decisions	1.366130	3	0.114286
Capital 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

The Kolmogorov-Smirnov test, conducted on 72 responses, yielded a p-value of 0.7176, exceeding 0.05, indicating normally distributed data at a 95% confidence level. This confirmed the appropriateness of the data for further analysis on financial literacy, investment decisions, and financial performance of handicraft enterprises in Nairobi City County.

Table 9. 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 showed a p-value of 0.4586, indicating no heteroscedasticity in the data on financial literacy, investment decisions, and financial performance of handicraft enterprises in Nairobi City County. This confirmed homoscedasticity, validating the dataset's suitability for coefficient significance analysis and ensuring reliable regression results.

Table 10. 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

Regression analysis examined how investment decisions affect financial performance of handicraft enterprises in Nairobi, with financial literacy as a moderator. Strategic investments, capital budgeting and expansion choices influenced firm outcomes at the 5% significance level. Results from the model were used to test hypotheses, then interpreted against theory and prior studies. The discussion highlighted key empirical findings, explained their implications for handicraft firms' investment practices, and linked conclusions to the study's objectives on improving financial decision-making through enhanced financial literacy.

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
CBID-Monthly	6.5464	1.5785	4.147	0.000
CBID-when needed	-0.7397	1.4117	-.524	0.602070
EID-yes	4.9381	1.2477	3.958	0.000188
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)

Test for Moderating Effects

The study tested whether financial literacy moderates the relationship between investment decisions and financial performance of craft businesses in Nairobi City County. The null hypothesis suggested no significant moderating effect. The test followed Whisman and McClleland's (2005) two-step moderation procedure. In the first step, financial literacy and other independent variables were analyzed as explanatory variables, and in the second, financial literacy's interaction effect was included if it was statistically insignificant in step one.

Findings showed that for strategic and budgeting investment decisions, return on assets (ROA) increased significantly without the influence of financial literacy, with a unit rise in ROA by 9.5580 ($p = 0.0000$). Regression analysis revealed significant results for SID-monthly ($B = 2.8676$, $p = 0.03312$), BID-monthly ($B = 6.1586$, $p = 0.00000$), BID-when needed ($B = -3.4227$, $p = 0.00883$), and EID-yes ($B = 5.1373$, $p = 0.00000$). However, financial literacy had a coefficient of -1.3200 with $p = 0.65911$, showing insignificance at 5%. This indicated that financial literacy did not directly influence performance but acted as a moderator, warranting inclusion of its interaction effects in the regression model.

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
BID-monthly	6.1586	1.3834	4.452	0.00000
BID- when needed	-3.4227	1.2643	-2.707	0.00883
EID- Yes	5.1373	1.0199	5.037	0.00000
Financial Literacy-yes	-1.3200	2.9774	-0.443	0.65911

Source: Survey Data (2024)

Moderating effect of Financial Literacy

In the second stage of the model, SID-monthly with financial literacy increased ROA by 1.8994 ($p = 0.39003 > 0.005$), while SID-when needed with financial literacy reduced ROA by -1.4025 ($p = 0.12836 > 0.005$). Compared to results without financial literacy, the beta coefficients shifted from 2.8676 and -1.2038 respectively, showing that both decisions remained statistically insignificant and financial literacy had no moderating effect. With financial literacy as a moderator, BID-monthly raised ROA by 0.5897 ($p = 0.82479 > 0.005$), while BID-when needed significantly increased ROA by 7.0278 ($p = 0.00534 < 0.005$), reversing its prior negative effect (-3.4227) into a strong positive. For expansion investment decisions, financial literacy adjusted EID-yes to 3.7578 ($p = 0.20459 > 0.005$) from 5.1373, indicating no moderating effect. The moderated model ($R = 0.8421$, $R^2 = 0.8132$, $p < 0.005$) explained 81.3% of ROA variation, confirming financial literacy as a significant moderator. These results aligned with Whisman and McCleland (2005), Barno et al. (2021), and Ali et al. (2022), who emphasized financial literacy's mediating role in strengthening investment decisions and financial performance.

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
BID-Monthly: FL(yes)	0.5897	2.6521	0.222	0.82479
BID-when needed: FL(yes)	7.0278	2.4311	2.891	0.00534
EID- Yes: FL(yes)	3.7578	2.9300	1.283	0.20459
R : 0.8421, R2 :0.8132, P-value : 0.0000				

Source: Survey Data (2024)

Hypothesis Testing

The study tested hypotheses using correlation analysis results in Table below

Summary of Hypothesis Tests

	Hypotheses	Results	Decision
H04	Financial understanding does not notably influence the connection between investment choices and the economic outcomes of handicraft businesses within Nairobi City County, Kenya.	$p = 0.0223 < 0.05$	Rejected **H04**

Source: Survey data (2024)

IV. Summary

This study examined the relationship between investment decisions and financial performance of handicraft enterprises in Nairobi City County (NCC), Kenya, while assessing the moderating role of financial literacy. Guided by relevant theories and prior studies, a descriptive research design was adopted, and survey data was analyzed using descriptive and inferential statistics.

Financial literacy significantly moderated the relationship between investment decisions and financial performance (p=0.0000), suggesting that higher financial knowledge among decision-makers strengthens the positive effects of investment strategies on business success. Overall, the findings highlight that consistent and well-informed investment decisions, supported by strong financial literacy, are key drivers of improved financial performance in handicraft enterprises within NCC, Kenya.

V. Conclusion

The study concluded that financial literacy played a vital moderating role on the relationship between investment decisions and financial performance of handicraft enterprisses in Nairobi City County, Kenya. The study found that financial literacy significantly strengthened the positive effect of investment decisions on financial performance. While investment decisions independently influence performance, their impact is amplified when combined with strong financial literacy. Therefore, handicraft enterprises in Nairobi City County need both prudent investment decision-making and a solid foundation in financial knowledge to operate efficiently, improve profitability, and ensure long-term growth and sustainability.

Financial literacy programs should be prioritized and promoted among stakeholders involved in investment decisions within handicraft enterprises. The NCC government should facilitate financial training programs, workshops and mentorship programs to improve financial literacy and understanding among handicraft entrepreneurs. This will empower them to make informed investment decisions of financial activities. The financial institutions like banks, Sacco's and microfinance institutions should integrate programs to offer financial literacy to the SMEs to support their plans.

The research encourages future scholars and academicians within finance, notably entrepreneurship and general finance, to utilize these results to enhance rigor in evaluating investment choices by determining the intervening influence between the predictor and outcome variables.

The SMEs are encouraged to participate in financial literacy programs to polish on financial management with practices like record keeping, credit and debt management and business budgeting. This will keep them on the loop of identifying the business gaps and in a position to lay business strategies. The capacity building in financial literacy could enhance the payoff on investment strategies especially on budgeting.

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