Effect of Selected Investment Decisions on Financial Performance of Listed Manufacturing Companies in Nairobi Securities Exchange

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ABSTRACT

Purpose: The Manufacturing companies in Kenya play a vital role in the advancement of the National gross domestic product. Over the last two decades, the government of Kenya has been keen to improving infrastructure and creating an enabling environment to foster local Manufacturing sector. However, despite the effects being geared to the sector, reports has shown that very little growth has been achieved. Increasing competition, high cost of inputs and inadequate contingency planning and investment decisions have contributed to the declining growth. The main objective of this research study was to find out the effect of investment decisions on financial performance of listed manufacturing firms in Nairobi Securities Exchange. Specifically to aim establish the effect of renewal decision and expansion decision on financial performance of listed manufacturing firms in Nairobi Securities Exchange.

Methodology: The study adopted the resource based theory and modern portfolio theory to give an empirical discussion of the selected variables. The study relied on secondary data available for the findings. The observations used were from the year 2015 to 2019 and the population was comprise of 9 companies listed in NSE under manufacturing and allied. Descriptive and inferential statistics conducted to analyze the data collected. Correlation and regressions analysis conducted as the analytical tools to enable interpretation of the relationship of the study selected variables. After analysis the findings were presented in tables and figures.

Findings: The study established that there was a significant relationship between the investment decisions on the financial performance of the listed manufacturing companies in Kenya. Further, the study showed that expansion decision had a negative impact on return on equity performance. The interpretation was that expansion decision is an increase in firms' costs hence negatively affects financial performance. The R-squared were found to be 0.570094 and Adjusted R-squared 0.533507 respectively for ROE. This show that averagely investment decision taken are relevant in explaining the financial performance for listed manufacturing companies in Kenya.

Unique contribution to theory, practice and policy: The study concludes that, there is the need for enterprises especially those within the stock market to have management policy that

work towards enhancing the Renewal and expansion Decisions and investing substantial resources toward this goal to improve financial performance.

Key words: *Investment decisions, Renewal decision, Expansion decision and Financial Performance*

1.1 Introduction

The contemporary business environment has been greatly affected by dynamic turbulence and competition which are highly influenced by globalization. This dynamism demands that organizations constantly review their internal processes and modernize their approaches to management and keep their focus on enhancing efficiency and effectiveness to win the highly informed and empowered consumers who have easy access to global products and information (Pearce & Robinson, 2011). This called for decision making on an organization investment plan to reroute on viability of the investment strategies that create value addition to the firm. The investment decision of a firm is determined by various factors including; size of the company, top management support and organization culture (Machuki, 2014).

Investment decisions refers to the process of allocating resources for major capital, or investment, expenditures in order to increase revenue collection points. It is a strategy used for the purpose of generating income for an organization, which generally results in acquiring an asset and other resources (Adelino & Robinson, 2017). Investment decisions involves diversification revenue collection sources or a strategy in which an organization sets up or acquires business outside its current products and markets. It involves have more than one source of income generating unit. According to Oyedijo (2012), there has been a major interest on diversification as a subject of research and other scholarly interest in order to enable managers and investors make informed decisions on investment portfolio. While there could be various drivers of diversification as discussed in the next topic, the main objective of diversification for an organization is to gain an extra market share and seek opportunities which may generate synergy. Varghese and Puttman (2011) observed that diversified institutions are characterized by different programs, semi-autonomous units, different sources or forms of funding, varied styles of instructions, presence in different geographical locations and different groups of employees.

An entities investment decisions and polices set for diversification of income generations would include strategies for expansion of business operations, acquisition of new assets such as plant and machineries to aid on generation of more revenue, embracing of innovation and technology to facilitate modernization of the firm and replacement of the long term asset. Disposal of the business by either a sale or leasing is also a form investment decision aimed at generating more fund. Company decisions such as change in marketing strategies, or increase in publicity and promotion have long term impact on financial performance of the firm and therefore, may be factored in as one of the investment decisions to undertake. Investment in the long term assets also requires huge capital to be tied up in the current assets hence investment in long-term and current assets run concurrently. A firm may opt to expand its

activities in order to increase its value and market position. Firms' expansion requires investment in new products, new market and new kind of production activities. Sometimes a company acquires existing firms to expand its business though forms of mergers and acquisition strategy to improve financial performance (Machuki, 2014)

Performance measures is very important as it facilitates provision of information necessary for decision making and for future plan. Firms' performance can be measured using financial and non-financial indicators or metrics that are used to evaluate the growth of the organization.

Financial performance indicators are considered as good tool to analyse the well-being of a business in term of financial performance (DeKool, 2004). The quantitative aspect of financial performance indicators are noted to be good as they enhances objectiveness, uniformity and rationality in the evaluation of financial performance. There are various indicators used to measure financial performance. However, return on equity (ROE), Return on Asset (ROA) and financial leverage measured as (Equity / Total Assets) are mainly used (Dardac and Barbu, 2005).

The global manufacturing industry has experienced rapid changes over the last two decades. The changes are attributed to adoption of technology innovation, global market competition among other internal and external environmental changes (Adelino & Robinson, 2017). Firms across the world have embarked to review and restructure their investments strategies in order to increase economic growth. In Kenya, manufacturing firms are currently undergoing difficult times posing a great challenge to their profitability. Among the challenges and risk noted is the coat of row material, high tax rates, rising labor costs, expensive and unreliable source of energy among others (Njoroge, 2015). Capital productivity in the Kenyan manufacturing sector has been low as compared to the average regional and global productivity levels. KAM reports have shown that since 2015 several manufacturing firms in Kenya closed their business due to poor performance while others firms relocated their operations to other countries. Some companies have opted to scale down their manufacturing capacity to fit their limits (Gitau & Gathiaga, 2017). This deteriorating performance of the manufacturing sector if not monitored closely will in the long-run create major problems in the Kenyan manufacturing industry, hence the need for the current study. The Kenya Manufacturing and allied sector has nine companies listed at NSE which include: BOC Kenya Ltd, Carbacid Investments Ltd, British American Tobacco Kenya Ltd, East African Breweries Ltd, Flame Tree Group Holdings Ltd, Kenya Orchards Ltd, Mumias Sugar Co. Ltd, Unga Group Ltd and Eveready East Africa Ltd.

1.2 Problem Statement

Manufacturing and allied sector in Kenya has been growing at a slower rate than the economy in the country. Additional price increased slightly by 0.2% in 2017 in relation towards a progress of 2.7% in 2016 (KNBS, 2018). This indicates that the portion of manufacturing in GDP has been sinking with time. The Economic Survey reports for the last five years also continue to confirm that firms in the sector have continued to face growth challenges. According to KAM report (2019) the share of the manufacturing sector to GDP in Kenya has

been on a declining trend from 11.8% in 2011 to 8.4% in 2017. The Growth in the manufacturing sector went down to 3.5% in 2019 compared to 4.4% in the previous year 2018. Among the challenges linked to this declining performance in the manufacturing sector include; high taxation, high cost industrial inputs, high cost of financing (KAM annual report, 2018).

The Government of Kenya intends to reverse this declining share of manufacturing sector through a raft of policy strategies as well as providing the auxiliary services required. The government through the Big 4 Agenda initiative focus on improving the local manufacturing by over 100 % in a spurn of ten year. According to the Big 4 Agenda, the share of the manufacturing sector should rise to 15% of GDP by 2022. Using 2017 as a base year, Kenya has to close a gap of 6.6% by 2022 if the target under the Big 4 Agenda is to be achieved. The government has focused in creating an enabling environment to the manufactures to enable achievement of the set target. On the same the manufacturing industries have geared on making investment decisions to suit the market demand as well. However, for the last one decade since the government initiated the big four agenda, it is not clear how investment decisions have influence the performance of manufacturing firms listed in NSE.   Despite of the noted critical issues threatening the performance of manufacturing companies in Kenya, there is deficiency of research to investigate the issue of investment decision and its impact on financial performance of manufacturing companies in Kenya. The exiting literature has not provided sufficient information to guide on how the various investment decisions will improve financial performance if adopted. Therefore this study will seek bridge the existing gaps and provide a guideline to the above noted problem.

1.3 General Objective

The main objective of this study was to establish the effects of investment on financial performance of listed manufacturing companies in NSE.

1.3.1 Specific Objectives

1. To find out the effect of renewal decision on financial performance of listed manufacturing companies in NSE.

2. To examine the effect expansion decision on financial performance of listed manufacturing companies in NSE.

1.4 Research Hypotheses

1. $H0_1$. Renewal decision has no significant effect on financial performance of listed manufacturing companies in NSE.

2. $H0_2$. Expansion decision has no significant effect on financial performance of listed manufacturing companies in NSE.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

The study adopted the resource based theory and modern portfolio theory to give an empirical discussion of the selected variables.

2.1.1 Resource Based View theory (RBV)

The Resource based view theory was developed by Pfeffer and Salancik (1978).The RBV theory is an economic tool used to explain the strategic resources available to a firm for development. The basic opinion of the RBV is that the theory guide that the competitive performance of a firm lies primarily on valuable resources that are at the firm's disposal. The future growth of the firm depend on the available resource allocated during budgeting. To transform a short-run financial performance into a sustainable long run solution, it requires that these resources be diverse in nature and not perfectly movable. Effectively, this transforms into valuable organization resources that are neither perfectly limitable nor substitutable at ease (Hoopes, et al 2003). If these conditions hold, the firm's bundle of resources could assist the firm sustaining above average returns. The resource-based view suggested that a firm's unique resources and capabilities provide the basis for investment a strategy (Hoopes, at al 2003). The investment strategy chosen should allow the firm to best exploits its core competencies relative to opportunities in the external environment.

Resources of the right quality and quantity are important for investment activities which in turn stimulate financial performance (Aosa, 1992, Machuki and Aosa, 2011). Achieving a sustainable financial performance allows the firm to earn above-average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource-based view contends that the answer to this question lies in the possession of certain key resources, that is, resources that have characteristics such as value, barriers to duplication and relevance. Effective financial performance can be achieved if the firm effectively deploys these resources in its investment activities. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to investment activities to maximize return. The model assumes that each organization is a collection of unique resources and capabilities (Ireland et.al (2011).

2.1.2 Modern Portfolio Theory

Modern Portfolio Theory (MPT) was developed by 1952 by Harry Markowitz. The theory provides how investors can analyse risk relative to their expected return. MPT explains that a firm that focus portfolio maximization, will expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return. The MPT theory encourages diversification of assets investment to overcome market risk and losses as well as risks that are tied to a specific firm when undertaking a specific portfolio investment (Ambrose & Vincent, 2014).

The MPT theory is a sophisticated investment decision approach that provided knowledge to investor on portfolio Management. Essential to the portfolio theory are its quantification of the relationship between risk and return and the assumption that investors must be compensated for assuming risk. Portfolio theory advances from traditional security analysis by not emphasising on analyzing the characteristics of individual investments to determining the statistical relationships of the overall portfolio (Amalendu et al, 2011).

The MPT mathematically formulates the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. The possibility of this can be seen intuitively because different types of assets often change in value in opposite ways. But diversification lowers risk even if assets' returns are not negatively correlated-indeed, even if they are positively correlated. The MPT theory is relevant to this study as it support diversification of investments which may be equated to the expansion decision study variable.

2.2 Conceptual framework

The independent variable for this study are renewal decisions and expansion decisions whereas the dependent variable will be financial performance as represented in figure 2.1 below.
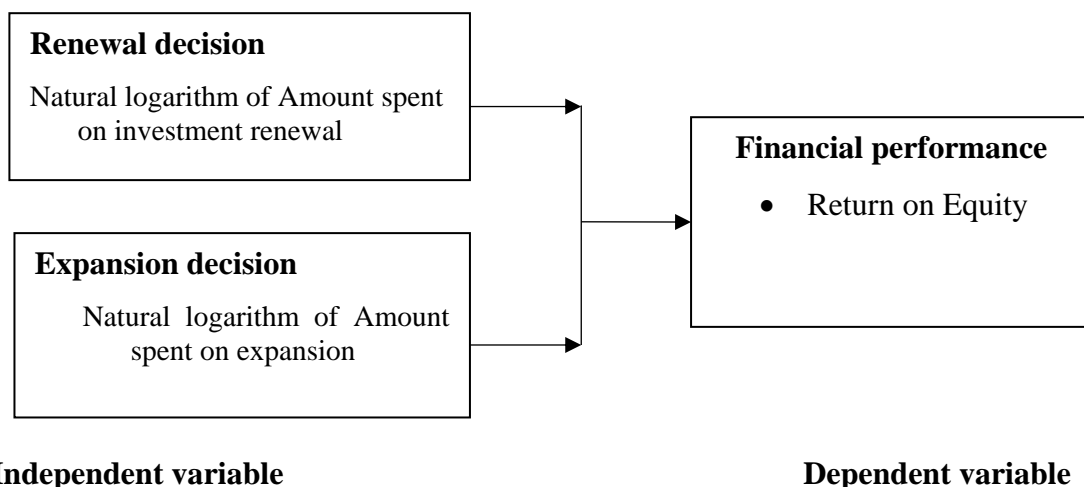

> **Renewal decision**
> Natural logarithm of Amount spent on investment renewal

> **Expansion decision**
> Natural logarithm of Amount spent on expansion

> **Financial performance**
> - Return on Equity

       Independent variable   **Dependent variable**

Figure 1. Conceptual framework

2.2.1 Renewal decision and financial performance

Renewal decisions may also be referred to modernization decisions. Renewal decision entails decisions aimed towards re-energizing an organizational capability, both on asset operations, employee performance, and goal attainment. Given the turbulent in the business environment, businesses have to change their operations so as to retain market share and keep to date with their competitors. Renewal decisions are targeted to retaining the firms' portfolios, but enhancing delivery through efficiency and effectiveness of operation (Organization for Economic Cooperation and Development, OECD, 2008)

Yiming, Siqi, Thomas, and Thomas (2011) conducted a study to establish whether banks adjust their loan interest rates to customers and consider loan renewal decisions in reference to borrower's financial performance. The research study conducted a multivariate regression analysis on Chinese public industrial companies between the years 2000 to 2005, and found a negative relation between loan renewal and the financial performance of borrowers. However, the study recommend that renewal decision may not be appropriate for all investments, but to specific which are favoured by the business environment.

2.2.2 Expansion decision and financial performance

The expansion decisions refers to acquisition of new products as an additional line of operation or may simply mean diversification of business operations through new ventures of a similar investment (James & John, 2010). James and John (2010) noted that firms seek expansion strategy for purposes of diversification of portfolios as well as taking advantage of the available potential market. Essential advantages of diversification may include; market opportunities for greater growth, economies of scale, and larger geographic scope, sharing core competencies as well as sourcing. Buhner (1987) stressed that an organization decision to expand enhances opportunities for competitive advantage and market growth. Expansion strategies are suitable when the stage of the industry life-cycle is at maturity stage, and when there is intensive competition in a local market. Firms can gain market competitive advantage by exploiting market inadequacies in less occupied and less competitive markets.

The expansion strategy of a firm may lead to a firm enjoying economies of scale as well as wide market coverage (Bartlett & Ghoshal, 1989). A firm with strong plan for expansion strategy at its local market can take advantage and apply its core competencies and strength in the various market segments for business expansion (Bartlett & Ghoshal, 1989). Porter (1990) suggested that the expansion strategy that generates profitability in local markets motivate the company to adopt the same strategic competences and experience in global markets where they can generate more revenues enhance profitability.

2.3 Empirical Literature

Jeffrey and Jeffrey (2012) conducted a research study on Accounting for Lease Renewal Options. The study examined the informational effects of unit of accounts options and found that adoption of renewal options in lending has a negative effect on financial performance. René, Ursula, and Mariëlle (2010) conducted a research to investigate the performance effects of the Level and extend of the top Management Team Changes. The study found out that the level of change in terms of top managers versus the other employees do not influence subsequent firm performance. It is pointed out by Martin *et al.* (2013) study; A Behavioral Theory of Strategic Renewal: The influence of Performance Feedback and Organizational Learning on Strategic Renewal Activities is that renewal decisions to some greater extent support for the relationship bewteen performance feedback and strategic renewal.

Martin *et al.* (2013) conducted a study titled; A Behavioral Theory of Strategic Renewal: the study pointed the effect of performance feedback and organizational learning on the renewal

decisions of an organization. The study findings revealed that such decisions moderately support for the impact of performance feedback on strategic renewal. In a study conducted by Yiming, Siqi, Thomas, and Thomas (2011) on whether banks adjust their loan interest rates and consider loan renewal decisions in reference to borrower's financial performance by conducting a multivariate regression analysis on Chinese public industrial companies between years 200-2005, they found a negative relation between loan renewal and the financial performance of borrowers.

Dunning (1989) argued that geographic expansion of firms provides economies of scale advantage throughout the value chain process. This has been supported by Campbell and Verbeke (1994) that firms could take advantages of economies of scale in marketing activities to increase their profits.

3.0 RESEARCH METHODOLOGY

This study adopted quantitative and causal research design since the data used had been previously collected and tabulated by other sources. The target population for the study comprised all the nine (9) companies listed under manufacturing and allied in NSE in Kenya. The study adopted a census technique method with the targeted population of the nine manufacturing companies. The census of the 9 companies is considered because the population is small and therefore significant to the study. Secondary data Collected entailed the amount of funds which had been spent on various investment for a period of 5 years 2015-2019. The required data was collected by evaluation of documents, the NSE handbooks, and yearly reports of the companies. Diagnostics test were carried out to examine any violation of regression assumptions. The tests included Linearity, normality, stationarity, multicollinearity and Granger Causality Test. The linearity test was obtained through the scatterplot testing of F-statistics in ANOVA.

The data analytical techniques that was applied for this study are quantitative techniques in nature. These include correlation and multiple regression analysis. The data collected was coded and analysed with the aid of statistical package for social science (SPSS) software. The researcher further employed panel regression model. Panel Regression was able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable. Data and findings was presented in tables and figures.

Therefore, the researcher used panel regression equations to analyze the data.

$Y = \beta_{it} + \beta_1 X_{it} + \beta_2 X_{it} + \varepsilon$

Where:

Y = Financial performance; β_0 = Intercept term, β_i = coefficients of the independent variables, X_{1it} = Renewal decision, X_{2it} = Expansion decision and ε = error term

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4.0 FINDINGS AND RESULTS DISCUSSION

4.1 Descriptive statistics

Table 1. Descriptive statistics

Statistic	ROE	Renewal decisions	Expansion decisions
Mean	0.199681	12.90871	13.69436
Median	0.123482	13.58050	13.30892
Std. Dev.	0.334757	3.834855	2.990099
Skewness	-0.409709	-0.253158	0.509300
Kurtosis	4.002804	1.687112	2.493845
Jarque-Bera	3.633633	4.290064	2.803098
Probability	0.162542	0.117064	0.246215
Observations	54	54	54

Table 1 presents the results on the characteristics of individual variables. From the results; Return on assets, return on equity for renewal and expansion decision are not normally distributed since the central tendency statistics show significant variations. ROE had a skewness of - 0.409709 had a kurtosis of 4.002804 and Jarque-Bera 3.633633 with an associated p-value of 0.162542 the interpretation here is that this variable is also fairy normally distributed but slightly negatively skewed. Expansion decisions variable has a Jarque-Bera of 2.803098 and a p-value 0.162542 of the skewness was 0.509300 and the kurtosis was 2.493845 these show significant variations from central tendency, The renewal decisions variable had a Jarque-Bera value of 4.290064 with an associated p-value of 0.117064 the kurtosis was 1.687112 and a skewness of -0.253158 the interpretation was that this variable deviated from the central tendency thresholds. The researcher used the appropriate tools such as using the lag structure in the estimation methods to overcome this slight short fall. Normally some panel data variables are not normally distributed but achieve stability when lags are introduced in the estimation process.

4.2 Normality Test

Table 2 Shapiro-Wilk W Test for Normal

Variable	observations	W	V	Z	Prob>z
ROE	54	0.70448	14.335	5.692	0.00000
Expansion decision	54	0.93856	2.981	2.334	0.00979
Renewal Decision	54	0.90557	4.581	3.253	0.00057

Table 2 presents the Shapiro-Wilk W Test for Normality. The results indicate that the null hypothesis that the variables are normally distributed is rejected since it P-value is less than 0.05. The Shapiro-Wilk statistic had a significance value which is equally below the critical level of 0.05. This is a more formal test than the visual observation of the descriptive results for both raw and transformed data. The interpretation here is that in further modeling process this problem was handled by the application of dynamic techniques during regression such as random efficient generalized least square.

4.3 Stationarity test

Stationarity test refers to a process where the measures of central tendency such as mean, variance and also autocorrelation do not change with time. Stationarity test will be obtained from the run sequence plot. From the findings all the variables are stationary at level.

Table 3 Stationarity Test

Null Hypothesis: Unit root (individual unit root process)		
Series: ROE		
Method	Statistic	Prob.**
PP - Fisher Chi-square	31.5192	0.0250

Table 3 presents the results on the stationarity of the study variables using the unity root procedure. The results show that at level all the study variables' are stationary. The PP - Fisher Chi-square for ROE was 31.5192 and the p- value was 0.0250 which is < 0.05. Thus imply that the null hypothesis of a unit root presence was rejected. This will be important for regression analysis to avoid spurious regression when variables of different integrated order are combined arbitrarily.

4.4 Granger causality Test

The Granger causality test is a statistical hypothesis test for determining whether one time series is useful in forecasting another. Bressler and Seth (2011) posit that Granger causality

test essentially consists of estimating a bivariate linear model, determining the optimal lag length, and testing the significance of the lags of the exogenous variable(s).

Table 4 Granger causality Test

Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	P-value
Renewal decision does not granger cause ROE	54	0.94884	0.3989
ROE does not granger cause renewal decision		0.00587	0.9941
Expansion decision does not granger cause ROE	54	0.08186	0.9216
ROE does not granger cause expansion decision		0.57800	0.5674

Table 4 presents the results on the granger causality results. The results obtained above it indicate that Granger causality p-value derived is 0.3989 for renewal decision. Since the p-value is lower than 0.5, the null hypothesis was rejected and concluded that renewal decision causes ROE. However the conclusion for expansion decision was that fail to reject null hypothesis since the p-value derived was 0.9216 which is greater than 0.5.

4.5 Cointegration Test

Table 5 below presents the results on the Kao Residual Cointegration test characteristics of the study variables.

Table 5 Kao Residual Cointegration Test

Series: ROE expansion decision, renewal decision, Null Hypothesis: No Cointegration		
	t-Statistic	Prob.
ROE- ADF	-2.916808	0.0018

The on table 5 results show that ROE as the dependent variables there exist at least a single linear association with the other independent variables since the ADF has a critical value of -2.916808 band a p-value of 0.0018. These results thus show that the models will be reliable.

4.8.1 Residual Normality Test

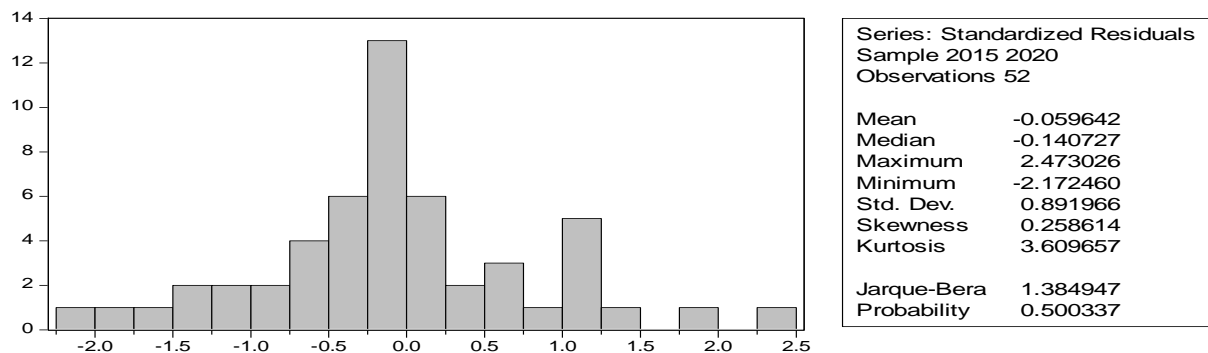| Series: Standardized Residuals | |
Sample 2015 2020	
Observations 52	
Mean	-0.059642
Median	-0.140727
Maximum	2.473026
Minimum	-2.172460
Std. Dev.	0.891966
Skewness	0.258614
Kurtosis	3.609657
Jarque-Bera	1.384947
Probability	0.500337

Figure 2 Residuals with return on equity as the dependent variable

Figure 2 presents the results on the normality of the residuals with return on equity as the dependent variable. The results show the skewness to be 0.258614. The kurtosis was found to be 3.609657 this show that the residuals are normally distributed. The Jarque-Bera P-value of 0.500337. The interpretation is that the ROE model is well identified. The conclusion is that when return on equity is the dependent variable there exist a linear model between investment decisions and return on equity.

4.6 Hereroskedastity Test

Table 6 Hereroskedastity Test

Hereroskedastity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey ROE			
F-statistic	0.000246	Prob. F	0.9875
Obs*R-squared	0.000256	Prob. Chi-Square(1)	0.9872
Scaled explained SS	0.000297	Prob. Chi-Square(1)	0.9862

Table 6 presents the Hereroskedastity Test that was used to test the stability of the variance for the two model. The results show that all the test statistics namely; F-statistic, Obs*R-squared and Scaled explained SS are insignificant since the p - values are more than 0.05. This implies that the model is optimally identified. This show that the variance of the two model is stable and constant. This is a good sign of model stability.

4.7 Autocorrelation test

Table 7 Autocorrelation test

Breusch-Godfrey Serial Correlation LM langrage Test :			
ROE			
F-statistic	1.630945	Prob. F	0.1475
Obs*R-squared	13.03564	Prob. Chi-Square	0.1106

Table 7 presents the results on the Breusch-Godfrey Serial Correlation LM langrage Test. The probability of F-statistics was found to be 0.1475 while that of Chi-Square was found to be 0.1106. Since these p-values are more than 0.05 the null of serial correlation presence was rejected in favor of no serial correlation. This indicate that the models were adequately identified.

4.8 Hausman test

Table 8 Hausman test

Hausman test; Null hypothesis Random effect is biased and fixed effect is preferred			
Test random effects ROE			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Random effect Statistics	4.534859	4	0.3384

Table 8 presents the results on the Hausman test the results show that the random effect was not biased and was preferred to the fixed effect. Thus the null hypothesis that Random effect is biased and fixed effect is preferred was rejected and random effect was adopted. This was evidenced from the fact that the p-values of the Chi-squarer statistics ROE 4.534859 is insignificant 0.3384.

4.9 Correlation analysis

Table 9 Correlation analysis

Probability	ROE	Expansion decision	Renewal decision
ROE	1.0000		
p-value	-----		
Expansion decision	0.50327	1.000000	
p-value	0.0063	-----	
Renewal decision	0.58982	0.286273	1.000000
p-value	0.0043	0.0003	-----

From table 9 it can be observed that the correlation between the independent variables and the dependent variables was high and positive at Expansion decision   0.50327 p-value 0.0063, Renewal decision 0.58982 p-value 0.0043. The implication was that the high correlation between Expansion decision and Renewal decision and performance indicators was high for correlation analysis. The correlation between independent variables was found to be low. The interpretation was that the level of multicollinearity between the independent variable was low which meant that the influence of each variable in the regression would be easy to identify.

4.10 Investment Decisions and Return on Equity Regression

Table 10 Model summary

Model summary			
	ROE		
R-squared	0.570094	Durbin-Watson stat	2.086726
Adjusted R-squared	0.533507	F-statistic	15.58158
		Prob(F-statistic)	0.000000

Table 10 presents the results on the models strength and explanation power. The model show that the explanation poweroof ROE is 57 percent. That is holding all other factors constant,

expansion and renewal decision influence return on equity by 57 percent. This shows that investment decisions have a consequence on the performance of the listed manufacturing firms.

Table 11 Investment Decisions Versus ROE Regression

Random effect model; Method: (Cross-section weights), Sample: 2015 2020, Cross-sections included: 9, Total panel (unbalanced) observations: 54, Linear estimation after one-step weighting matrix, Cross-section standard errors & covariance (no d.f. correction)

Dependent Variable: ROE;

Variable	Coefficient	Std. Error	t-Statistic	p-value
Renewal decision	0.024227	0.011296	2.144795	0.0372
Expansion decision	-0.041681	0.006796	-6.132848	0.0000
C	0.293589	0.191180	1.535672	0.1313

4.10.1 Renewal Decision

From table 11, the regression coefficient of renewal decision was found to be 0.024227. This value shows that holding other variables in the regression model constant, an increase in renewal decision attributes by one unit causes the performance in the company to increase 0.024227 units respectively. The positive effect shows that there is an increasing association between renewal Decision and financial performance of listed manufacturing companies ROE. The coefficient were found to be positive and also statistically significant with a t-statistic value of 2.144795 and p-value of 0.0372. Yiming, Siqi, Thomas, and Thomas (2011) conducted a similar study to establish whether banks adjust their loan interest rates to customers and consider loan renewal decisions in reference to borrower's financial performance and found it to be relevant.

4.10.2 Expansion Decision

From table 11, the regression coefficient of expansion decision was found to be -0.041681. This value shows that holding other variables in the regression model constant, an increase in expansion decision by one unit causes the financial performance of listed manufacturing companies ROE to decrease by - 0.041681. The negative effect shows that there is an anti-agonistic association between financial performance of listed manufacturing companies on ROE. The coefficient was found to be negative and also statistically significant with a t-statistic value of -6.132848. The p-value were found to be 0.0000. The explanation is that in the short-run expansion decision may have a negative effect on financial performance and positive in the market performance of the firm. However over time, the long-run effect is positive when total revenues are over above the total cost. Buhner (1987) also support the findings by noting that

that an organization decision to expand enhances opportunities for competitive advantage and market growth.

5.0 SUMMARY AND CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The first objective was to determine the relationship between Renewal Decision and financial performance of listed manufacturing companies. The regression coefficient for the association between Renewal Decision and financial performance of listed manufacturing companies was found to be significant ($p<0.05$) and positive. **Therefore the study rejects first null hypothesis; $H0_1$. Renewal decision has no significant effect on financial performance of listed manufacturing companies in NSE.**

The second objective was to determine the relationship between Expansion Decision and financial performance of listed manufacturing companies. The regression coefficient for the association between Expansion Decision and financial performance in, Kenya was found to be significant ($p<0.05$) and negative. **Based on these findings, the study rejects the second null hypothesis; $H0_2$. Expansion decision has no significant effect on financial performance of listed manufacturing companies in NSE.**

5.2 Conclusions

The study concludes that, there is the need for enterprises especially those within the stock market to have management policy that work towards enhancing the Renewal and expansion Decisions and investing substantial resources toward this goal to improve financial performance. The regression results also support the findings that there is the positive relationship between Renewal Decision and financial performance of listed manufacturing companies in, Kenya. However, there was a negative relationship on expansion decision against return on equity. However, literature has provided that the negative effect is for a short-run considering that the firm is investing a lot to expand. However, in the long-run the relationship may be positive. Based on the findings the study concluded that manufacturing firms should focus on the two investment decisions to maximize profits.

5.3 Recommendations

The results of this study revealed that using investment decisions; Renewal Decision and Expansion Decision have profound effect on financial performance of listed manufacturing companies on ROE in Kenya. This study therefore recommends that all the listed companies in Kenya should put some effort on introducing Renewal Decision and Expansion Decision to enhance financial performance. The companies should employ management personnel that can handle the investment decisions for their companies.

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