

**PORTFOLIO INCOME AS A DETERMINANT OF CORPORATE INVESTMENT DECISIONS
OF FIRMS LISTED ON NAIROBI SECURITIES EXCHANGE IN KENYA**

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ABSTRACT

This study aimed at assessing the effect of level of income on corporate investment decisions of firms listed at the NSE. The study used both primary and secondary data. The study adopted descriptive research design and the target population was 64 firms listed on the Nairobi Securities Exchange (NSE). Data was analyzed using descriptive statistics, correlation analysis and regression analysis using SPSS version 23.0. The study used linear regression models to establish the relationship between the dependent and independent variables. From the findings, the study established that investors were influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions. The study further concludes that the level of portfolio income affects corporate investment decisions of firms listed at the NSE. Investors are influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions. The study recommends that management of firms listed at NSE should put in place sound strategies of generating positive cash flows and this can be done through proper working capital management.

Keywords: Nairobi Stock Exchange, Portfolio Income, Corporate Investment

INTRODUCTION

Corporate Investment decision has remained the topic of interest among financial analysts and scholars for many years. In the huge global war of growth, substantial investment in capital for technology modernization, infrastructure, promotion and development of product is compulsory for a firm (Gutiérrez & Philippon, 2016). Such expansions require heavy investment in both tangible and intangible assets. A firm needs to continuously invest capital in such projects that can reduce cost and increase profitability and ultimately enhance the growth of the firm (Firth, Malatesta, Xin & Xu, 2012). What are the determinants of investment decisions at firm level? This question has been raised since the Modigliani and Miller theorem (1958) who postulated that there has been no relation between the financial structure and financial policy for real investment decisions under certain conditions; and extended this to neoclassical models of investment. According to the *q*-theory of Tobin (1969) and extended into a proposed model by Hayashi (1982), investment demand could be predicted by the

ratio of the market value of a firm's capital stock to its replacement cost under perfect market assumptions (symmetric information, no transaction costs, no default risk, and no taxation); and its market value could also explain further investment opportunities.

Statement of the Problem

Investment decision-making is an important part of strategic decision-making in every enterprise. Successfulness of new projects dramatically contributes to the growth of an enterprise's efficiency for example M-pesa project for Safaricom that has grown its net profit to Kshs. 23.9 billion in 2016 (Kamau & Kagiri, 2015). On the other hand, failed projects can lead not only to a considerable decline in efficiency, but it can even jeopardize its future existence unfortunately some of the investment decision made have been unsuccessful. The quality of investment decision making is affected by a large number of factors, while the most important include: cash flow, business risk, level of income, leverage, financial literacy, technology, corruption, insecurities, regulatory decisions, liquidity, ability to invest (Bonga & Nyoni, 2017).

On income level, a study by Tomola (2013) found that income level affect investors' preference and attitudes towards investment decisions. These results are similar to those of Shaikh and Kalkundrikar (2011), who argued that the factors influencing investors' investment decisions are based on various demographic factors like, level of income, level of market knowledge, educational qualification and the number of dependents on the effect of leverage on investment decision, according to Sharma, Mithas and Kankanhalli (2014) it is generally believed that the value of a firm is maximized when its cost of capital is minimized. The kind of combination of debt and equity that will minimize the firms cost of capital and hence maximizes the firm's profitability and market value is the optimal capital structure which affects investment decision of investors. Afrif and Padachi (2016) in the study on working capital level influence on SME profitability established that there is a negative impact on investments financed by external sources in the SME sector on profitability in the long run. These studies looked at some of the factors affecting decision making for a specific investor thus creating a gap as none addressed the determinants on corporate investment decisions of firms listed at the Nairobi Securities Exchange (NSE). The current study therefore sought to fill the gap by specifically investigating portfolio income as a determinant of corporate investment decisions of firms listed at the Nairobi Securities Exchange; Kenya.

Objectives of the Study

To examine the effect of portfolio income on corporate investment decisions of firms listed at the Nairobi Securities Exchange, Kenya.

1. To determine the effect of portfolio income on corporate investment decisions of firms listed at the Nairobi Securities Exchange, Kenya.

Research Hypotheses

1. H_{01} : Portfolio income does not affect corporate investment decisions of firms listed at the Nairobi Securities Exchange, Kenya

LITERATURE REVIEW

Empirical Review

Hossain and Nasrin (2012) submitted that all possible factors influencing investors' investment decisions are not constant over time and that they may vary widely from investor to investor for distinct demographic features. According to Tomola (2013) income level affect investors' preference and attitudes towards

investment decisions. This current study therefore employs income level as one of its independent variable. The study will look at the level of net income, Income after dividend and commitment income of firms listed on NSE. First, the existence of liquidity constraints as noted by Chandra (2017) that while doing investment analysis, the study showed that individuals with low levels of income or wealth cannot save or buy equity, can explain part of the observed low stock-ownership rates in the lower half of the income and wealth distribution. In other words, a minimum level of income and net worth is required to be able to invest in the stock market. Yuniningsih, Widodo and Wajdi, (2017) document a strong positive correlation between stock market participation and household financial wealth in many industrialized countries, supporting the entry costs hypothesis. However, there was also evidence that many affluent households do not invest in stocks which suggests that other factors can explain the phenomenon.

Locally the government of Kenya has placed effort to enhance investment for both local and international investors by improving infrastructure, this is noted by Joseph and Ali (2015) while investigating the determinants of investment decision making among Kenya Ferry Services Employees. The study further noted that any investor faces a lot of difficulties while trying to make an investment decision. There are various investment options like banks, Fixed Deposits, Government bonds, stock market, real estate, gold and mutual funds. Another element is when and how much to invest and consequently, several factors such as ability to understand financial matter, income level, like safety, liquidity, risk come into play during the decision-making process. The Kenya Ferry Services Employees faces such difficulties while making a decision on where to invest their hard-earned monies. The study findings concluded that income level to a great extent was agreed by the respondents to have a big influence on employee investment decision making. The other factors that were agreed to having a significant contribution in their decision-making process included sources of investment information used in terms of its reliability, credibility and truthfulness; others is the financial advice and length of investing before earnings were received.

Della Croce (2012) investigated on the trends in large pension fund investment in infrastructure and the results show that generally expected return; the risk-taking capacity; risk level in the desired investment; nature of risk in the global investment markets and investment portfolio desired were the most influential factors that determined investment decisions across all the firms. The least influential results across the pension schemes were consistency in returns, decision-making preferences of the decision makers, benchmarking with other pension funds, social responsibility issues and the nature of the fund owners.

Mehmet, Apan and Ayval (2015) looked at the determination of factors affecting individual investor behaviors: a study on bankers. The study noted that the main aim of individual investing in different avenues is to expand their income portfolios and increase their expenditure options. In investment made, there is a probability of loss making or profit making hence the decision on whether to invest or not solely lies with the investor and the information that s/he gets. The information accuracy is an important factor as it guides investors in making decisions that propel their portfolios. Mehmet, et al., (2015) further note that there are several approaches to investment and the most common one is the traditional investment conception, where investors make investment decisions solely with the aim of earning high yields from their investment instruments. It is also with the belief that by increasing the number of investment instruments, the investors earn higher yields. Wealth maximization was rated as one of the most important factors in the investment decision making process for individual investors. Both social and economic factors featured highly in the behavior of individual investors' decision-making process. These findings are similar to Geetha and Vimala (2014) who investigated on the effects of demographic variables on the investment decisions and from the study's analysis, the results show that the age, education, income and occupation influenced the investment avenue preference. The

underlying factor cutting across all demographic factors was the need to increase earning capacity and income levels.

Loh (2016) investigation on the influence of behavioral factors in investment decisions: study of millennial investors in Kuala Lumpur. The study revealed that traditionally, investing is viewed as a rational activity which is carried out based on one's financial objectives. The major aim of investing is to increase one's financial capabilities and market value. The millennial investors refer to investors between the ages of 21 to 36 years old and the findings showed, this group did investment so as to increase the wealth and have sufficient amounts of funds for their expenditure needs.

Olaleye, Riro and Membba (2016) studied the effect of reduced company income tax incentives on foreign direct investment in listed Nigerian manufacturing companies. Company income tax rates have been successfully used in Nigeria than reduced tax avoidance or tax evasion. The reduced company income tax measures that countries have used to attract technology-intensive investment include reduction in effective tax rate, tax holidays, tax free dividends, tax exemption from minimum tax levy, flat rate and loss carry forward relief. The government reduced the company income tax rate from 45% to 40% (from 1987 – 1991), then between 1992 -1995, the rate was 35%, it was finally reduced to 30% from 1996 to date, to stimulate investment. Company income tax is described as tax payable on the profit of any company at a rate of 30% in every year of assessment. The objective of this paper was to examine the effect of Company Income Tax incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies.

Tomola (2013) found that income level affect investors' preference and attitudes towards investment decisions. These results are similar to those of Shaikh and Kalkundrikar (2011), who argued that the factors influencing investors' investment decisions are based on various demographic factors like, level of income, level of market knowledge, educational qualification and the number of dependents. The income level of an individual plays a great role in shaping the type of investment to venture. The investor with higher income level is likely to invest more compared to those investors with low income level because of their small proportion of their income (Nwibo & Alimba, 2013).

Karimi (2011) examined the relationship between investment portfolio choice and profitability of investment companies listed in the Nairobi Securities Exchange. The research design employed in this study was descriptive research design in form of a survey. The population of interest in this study comprised of the four companies listed as Investment Companies at the Nairobi Securities Exchange. The study employed a stratified random sampling to select 49 senior and middle level managers who are in-charge of the different lines of investments engaged by their organization from each firm's finance and investments division. The study had a sample of 49 respondents. Questionnaire was designed to establish the relationship between investment portfolio choice and profitability of investment companies listed in the Nairobi Securities Exchange. The researcher used structured questionnaires as the main data collection instrument. The study found that investment is not just about picking stocks, but about choosing the right combination of stocks among which to distribute one's nest egg, investment managers strategy is to invest in various assets which can generate optimal returns while keeping risks at its minimal.

With the use of Sharpe's index, Kinyeki (2013) measures and tests the performance of unit trust firms as compared to that of the stock market. The findings were that unit trusts portfolio underperformed the stock market. Therefore, this clearly demonstrates that stock market had superior risk adjusted returns as compared to the unit trusts portfolio.

Julio and Yook (2016) undertook a study on the earnings management and corporate investment decisions. The study used discretionary accruals to measure inter-temporal transfers of earnings which exhibits concave relationship with the investment sensitivity to investment opportunities as measured by Tobin’s Q. The study reveals that earning management and corporate investment decision is highly concentrated among high Q firms with well governed structures suggesting that better governed firms manage accruals strategically. The concave relationship suggests that the marginal impact of earnings management on investment efficiency decreases with the amount of earnings management. The study conclusion supports the view that a moderate amount of earnings management helps improve corporate investment decisions while an excessive amount undoes the benefit of earnings management.

RESEARCH DESIGN AND METHODOLOGY

The study adopted a descriptive design. Descriptive design was used because it focuses on complex analysis to bring out the correlation of variables; as one variable affects changes in another. The target population for this study was 64 firms listed at the NSE between 2010 and year 2014. The sampling frame of the survey of the firms listed was the management staff. The study adopted Kothari (2004) to establish the sample size. This resulted into a sample size of 284 respondents. The study used both primary and secondary data. Questionnaires were used to collect primary data while data collection sheets helped in collection of secondary data. To check the validity and reliability of the questionnaires in gathering the data required for purpose of the study, pilot study was carried out. A pilot study was conducted using 10 respondents. Descriptive statistics such as, mean and frequencies were used to perform data analysis. The mean scores were used to rate the factors in order of their importance. SPSS was used to produce frequencies, descriptive and inferential statistics which were used to derive conclusions and generalizations regarding the population. The analysis of variance (ANOVA) was checked to reveal the overall model significance. Before conducting regression analysis, the researcher conducted Multicollinearity, Normality Test, Heteroscedasticity and Autocorrelation.

RESEARCH FINDINGS AND DISCUSSIONS

The study targeted 384 management staff from the 64 listed firms at the NSE. However, out the 384 questionnaires that were distributed out to these respondents, 288 of them were dully filled and returned to the researcher. This translated to a response rate of 75%. The response rate concurred with the stipulation of Babbie (2004) who asserted that return rates of above 50% are acceptable to analyse and publish, 60% is good and 70% is very good and above 80% is excellent.

Descriptive Findings

The current study therefore examined how portfolio income affected corporate investment decisions among firms listed on NSE. To achieve this objective, the researcher structured questionnaires on a Five-point Likert of 1-5. Respondents were then requested to rate the extent of their agreement on indicators of portfolio income and how they affected corporate investment decisions.

Table 1.1 Portfolio Income

Statement	Mean	Std. Dev
Increase in portfolio income level raises investor interest in financial instruments	3.48	1.039
Investors consider their past investment experiences while taking investment decisions	3.89	1.036

Statement	Mean	Std. Dev
Investors are influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions	3.93	.929
Investors' income levels affect the maturity date of the investments they make	3.80	.986
Economic stability is a key element affecting investment decisions for investors	3.81	1.086
Average Mean and standard deviation	3.78	1.01

Table 1.1 documents the effect of income levels on corporate investment decisions. From the findings, the increase in portfolio income level raised investor interest in financial instruments, with a mean of 3.48 with standard deviation of 1.039. Since portfolio income originates from divestures of investments, it then follows that as such incomes increases, investors will increase their investment in different securities. Fama and French (1993) in their three-factor model noted that since investors prefer higher expected returns and lower risk, portfolios which are efficient should dominate those that are inefficient.

Investors considered their past investment experiences while taking investment decisions, with a mean of 3.89 and standard deviation of 1.036. This means that past formed the basis of investment among most of the studied firms. In other words, most of the studied companies were risk averse. As indicated by Sharpe (1964), Lintner (1965) and Mossin (1966) because investors are risk averse, it seems intuitively sensible that high risk stocks should have high expected returns. Awais, Laber, Rasheed and Khursheed (2016) noted that looking at past experiences and histories would give managers a better chance to make sound investment decisions

Investors were influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions; the mean was 3.93 with standard deviation of 0.929. Neamtiu, Shroff, White and Williams (2014) established that by correcting misperceptions about the risks of investments, a financial adviser can have a positive influence on investment decisions.

As to whether the investors' income levels affected the maturity date of the investments they make, the mean was 3.80 with standard deviation of 0.986. This is especially true with investment in bonds that take relatively longer time horizons for example 5 or even 10 years. This is done because as earlier indicated; the studied firms had risk averse behavior. A regret theory is suggested by Shefrin and Statman (1985). This regret theory may apparently explain the fact that investors defer selling stocks that have gone down in value and accelerate selling stocks that have gone up in value. Haliassos and Michaelides (2003) noted that due to the fact that individuals with low levels of income or wealth cannot save or buy equity, can explain part of the observed low stock-ownership rates in the lower half of the income and wealth distribution. In other words, a minimum level of income and net worth is required to be able to invest in the stock market.

The economic stability was a key element affecting investment decisions for investors; the mean was 3.81 with standard deviation of 1.086. The economic environment could either be recession or boom and this determines the level of investment made by the company. During recession, business activities are generally low and therefore low levels of business activities. On the other hand, during boom, business activities are relatively high and therefore greater investment decisions. Economic stability affects the amount of income available for investors to affect. According to Tomola (2013) income level affect investors' preference and attitudes towards investment decisions. Shaikh and Kalkundrikar (2011) similarly indicates that factors influencing investors' investment decisions are based on various demographic factors like, level of income, level of market knowledge, educational qualification and the number of dependents. Nwibo and Alimba (2013) argues on this further that the income level of an individual plays a great role in shaping the type of investment to venture.

The author further notes that the investor with higher income level is likely to invest more compared to those investors with low income level because of their small proportion of their income

The average mean on the statement was 3.78, showing the respondents agreed that portfolio income affected corporate investment decisions among firms listed on NSE. In line with this finding, Yuniningsih, et al. (2017) document a strong positive correlation between stock market participation and household financial wealth in many industrialized countries, supporting the entry costs hypothesis. Similarly, Geetha and Vimala (2014) who investigated on the effects of demographic variables on the investment decisions and from the study’s analysis, the result show that the age, education, income and occupation influenced the investment avenue preference. The author further notes that the underlying factor cutting across all demographic factors was the need to increase earning capacity and income levels.

Corporate Investment Decisions

Below are statements on investment decision of the firm that respondents were requested to indicate the extent of their agreement on each using a Likert scale of 1-5 where 1 is strongly disagree 2 disagree 3 neutral 4 agree and 5 strongly agree.

Table 1.2: Corporate Investment Decisions

Statement	Mean	Std. Dev
There has been an increase in EPS in the company for the last 5 years	3.72	.885
There has been an increase in ROE in the company for the last 5 years	3.79	.953
There has been an increase in ROA in the company for the last 5 years	3.89	.729
There has been an increase in profits in the company for the last 5 years	3.94	.924
There has been an increase in return in investments in the company for the last 5 years	4.19	1.020
Average	3.90	0.902

The findings of investment decisions are indicated in Table 1.2. From the findings, there has been an increase in EPS in the company for the last 5 years, with a mean of 3.72 and standard deviation of 0.885. There has been an increase in ROE in the company for the last 5 years; the mean was 3.79 with standard deviation of 0.953. On whether there has been an increase in ROA in the company for the last 5 years, with a mean of 3.89 and standard deviation of 0.729. There has been an increase in profits in the company for the last 5 years; with a mean of 3.94 and standard deviation of 0.924. There has been an increase in return in investments in the company for the last 5 years, with a mean of 4.19 and standard deviation of 1.020.

The implies that return on investments was strongly agreed by the respondents as the factor they most considered when making corporate investment decisions, the concurs with the findings by Kevin and Tom (2015) who revealed that firms make decisions by evaluating investment opportunities through calculating expected rates of return and the payback period. The Australian firms require expected returns on capital expenditure to exceed the rate of return that are often well above the cost of capital and do not change very often. In addition, many firms require the investment outlay to be recouped within a few years, requiring even greater implied rates of return. As a consequence, the capital expenditure decisions of many Australian firms are not directly sensitive to changes in interest rates.

The mean of the investment decisions for the company was 3.90 and the standard deviation was 0.902. The respondents agreed that investment decisions affected their corporate investment decisions of the firms listed in the NSE. This finding is similar to the study by Merikas, et al., (2011) which stated that individual investors

base their stock purchase decisions on economic criteria combined with other diverse variables such as return on assets or investments and overall prevailing stock exchange trends.

Regression Results and Hypothesis Testing

The hypothesis of the study was to investigate whether portfolio income significantly affected corporate investment decisions. A null hypothesis was adopted that is; H_{01} : Portfolio income does not affect corporate investment decisions of firms listed at the NSE. Simple linear regression analysis was used.

Table 1.3: Hypothesis on Portfolio Income

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.381	.914		1.511	.000
Cash flow	.009	.048	.012	.196	.045
$R=.629^a$	$R^2=.396$	Adj. $R^2=.394$	$F_{Calculated}=187.513$	$P=0.000$	

From the findings in Table 1.3, portfolio income had p value $p=0.045 < 0.05$, indicating that it had significant effect on investment decisions among firms listed at NSE. The study hence rejects the null hypothesis and concludes that portfolio income affects corporate investment decisions of firms listed at the NSE. As noted by Nwibo and Alimba (2013), the income level of an individual plays a great role in shaping the type of investment to venture. The investor with higher income level is likely to invest more compared to those investors with low income level because of their small proportion of their income.

The coefficient of determination R square was 0.396 an indication that 39.6% change in corporate investment decisions among firms listed on NSE is explained by portfolio income. According to Shaikh and Kalkundrikar (2011), the factors influencing investors’ investment decisions are based on various demographic factors like, level of income, level of market knowledge, educational qualification and the number of dependents on the effect of leverage on investment decision.

Portfolio income affect corporate investment decisions of firms listed at the NSE. Furthermore, investors were influenced by experts’ (consumer or investment representatives) and other investors’ decisions while taking investment decisions. According to Tomola (2013) income level affect investors’ preference and attitudes towards investment decisions. Therefore, the income levels that affect investment decisions included the level of net income, Income after dividend and commitment income of firms listed on NSE.

Correlation Results

The researcher conducted Pearson correlation analysis to determine the direction, strength and nature of relationship between the variables of the study. Pearson’s Product Moment Correlation (r) is a measure of the linear dependence (correlation) between two variables and can give a positive or negative value of their relationship (Puth, Neuhäuser & Ruxtonm, 2014).

Table 1.4: Correlation Analysis

Indicators		Investment Decisions	Portfolio Income
Investment Decisions	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	288	
Portfolio Income	Pearson Correlation	.688	1
	Sig. (2-tailed)	.000	
	N	288	288

With regard to portfolio income in Table 1.4, the value of Pearson correlation coefficient was 0.688 with p value $p=0.000<0.05$. Therefore, there is a strong significant positive correlation between portfolio income and corporate investment decisions among listed firms.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The purpose of the study was to evaluate the effect of portfolio income on corporate investment decisions of firms listed at the NSE. A summary of the back-ground information on respondents showed that most of the respondents, 52% were male as compared to females. Majority of these respondents 62.9% were less than 55 years of age. Majority of the respondents 87.9% had attained degrees and below as their highest level of education. Moreover, most of these respondents 72.6% had over 5 years of experience in their respective positions and organizations.

From the findings, the study established that investors were influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions. According to Neamtiu et al., (2014) a financial adviser might note that the provision of some information about an investment is likely to reduce a client's perception of risk. The study found out that the investors considered their past investment experiences while taking investment decisions. The study revealed that the economic stability was a key element affecting investment decisions for investors. Regression analysis revealed that portfolio income was also significant in affecting corporate investment decisions.

Conclusions

The study further concludes that the level of portfolio income affects corporate investment decisions of firms listed at the NSE. Investors are influenced by experts' (consumer or investment representatives) and other investors' decisions while taking investment decisions. Investors consider their past investment experiences while taking investment decisions. These investors also try to diversify their investment portfolios in an effort to earn more and avoid losses that may be incurred in one sector of the economy. The study also concludes that having an efficient portfolio is where you can maximize the expected returns for a given investment variance or minimum variance for a given expected return, therefore investing in different avenues leads to expansion of income portfolios and expenditure options. Portfolio income is also affected by economic stability of the market and industry.

Recommendations

The study recommends that management of firms listed at NSE should put in place sound strategies of generating positive cash flows and this can be done through proper working capital management. The listed firms that have no debt policies should ensure that the management put in place operational debt management policies. This is because cash flow and debts are the two major considerations by corporates while making investment decisions. The study further recommends that the management of firms listed on NSE should strengthen their objective of shareholder wealth maximization to ensure investors gain from their resources invested in the company. Maximization of shareholder's wealth which increases their portfolio incomes can be enhanced through reduction of conflict of interest in the management team.

Areas for Further Research

The study looked at the listed firms at the Nairobi Securities Exchange (NSE), what are the considerations that people have on investing in non-listed firms, family business ventures and sole proprietorship type of

enterprises. This study is on corporates and their decision-making process on investment options, this study recommends future researchers to look at the factors that affect individual investors during the decision-making process. This is because NSE is open to individuals to also investment in different companies.

This study was also broad by looking at all the 64 listed firms at the NSE; future studies can cover listed firms but in a specific sector like financials or agriculture. Such that the findings are specific to a single sector of the economy and have in-depth information for future investors in that sector.

This study examined the 64 listed companies in Kenya and the four main variables that affected their investment decision making process. The study was conducted on the listed firms in Kenya, the study findings can be verified by future researchers conducting other studies while looking at securities exchanges in other countries like Uganda or/and Rwanda. Similarly, a comparative study can look at Nairobi Securities Exchange (NSE) and another country's security exchange on the factors affecting the corporate investment decisions.

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