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Hamza Ali Mohamed & Dr. Moses Wekesa Wanjala, PhD

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[1] Hamza Ali Mohamed & [2] Dr. Moses Wekesa Wanjala, PhD

[1] MBA Student, Jomo Kenyatta University of Agriculture and Technology, Kenya
[2] Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

The purpose of the study was to investigate investment decisions and financial performance in the context of grain milling firms in Mombasa, Kenya. This study was grounded on Signaling theory, Tobin's Q theory of investment and the accelerator theory of investment. The study utilized cross-sectional research design. The current study targeted all 8 grain millers operating in Mombasa County. The unit of observation was the management staff drawn from finance, operations, accounting and engineering departments. The simple random sampling technique was used to choose the management staff of the target grain milling firms. A sample size of 107 participants was obtained by use of Slovin's formula. Primary data was collected using questionnaire. The study employed a structured questionnaire to collect data from the participants. Quantitative data was analyzed through statistical procedures. Multiple regression analysis was used because it provides estimates of net effects and explanatory power. On regression results, it was revealed that asset structure decisions, expansion decisions, replacement decisions and Research & Development decisions have a positive and significant effect on financial performance. The study established that the milling firms apply rationality while choosing the type of assets to invest on. The results showed that the assets of the firm were managed effectively to improve returns. It was concluded that the asset mix decisions are made by the management and that the company has asset structure combination policy. The study concluded that the milling firms reported increase in new products and line of operation and through expansion, these firms have increased the number of distribution points translating to new markets. The study concludes that the firms use the respective economic service lives of the defender and the challenger when conducting a replacement analysis and that the statistical computations are employed in making decision on which assets to replace. The study recommended that the management of milling firms should select assets structure to adopt using rational methods. This would make it possible to only select assets those which would add value to the firms. The assets of the firm should be managed prudently to improve returns. The expansion decisions of these firms should be geared towards increasing customers. Also when making replacement decisions, the management should favor statistical methods over naïve methods so as to make rational replacement decisions. To achieve feat in innovation, the firms should have autonomous Research & Development function with enough resources and support.

Key Words: *Asset Structure, Replacement Decisions, Expansion Decisions, Research & Development*

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INTRODUCTION

World over, manufacturing sector has acted as a growth escalator in those economies that have succeeded in eventuating high incomes to earn developed country status (Hope, 2018). A competitive manufacturing industry is key for economic prosperity of any country through employment, wealth creation and consequently poverty reduction (World Bank, 2018). Global level of intense globalization, increased competitiveness and the fight for global market share has continued to create new challenges for milling firms (Islami, Mustafa, & Latkovikj, 2020). Miller sector organizations are striving for ways and means of attaining and sustaining a competitive advantage over their competitors through the uniqueness of their investment decisions (Hossain, Kabir, & Mahboub, 2019).

Investment decisions are one of the important functions of a company as a company's goals can be achieved via company investment activities and the determination of the composition of assets (Tan & Luo, 2021). The decision to invest capital in a proposed investment must be evaluated and adjusted to the level of risk and expected return (Liu & Zhang, 2020). A rate of return that is adjusted to a level of risk that can be controlled or managed is expected to increase firm value. Harjito and Martono (2017) state that a company's investment decisions are reflected in the types of assets the company invested in. This is mostly seen on the assets section of the financial statement of the company which shows what makes up current assets as well as the fixed assets. This is important because the composition of current assets and fixed assets forms the structure of the company's wealth (Riyanto, 2017).

The structure of assets owned by a company shows investment decisions made by the company's management. It can be seen on the asset section of the financial position report which shows the composition of current assets and fixed assets (Harjito & Martono, 2017). The effectiveness of the use of the assets of a company is reflected in the company's high sales (Brigham & Houston, 2016). According to Harjito & Martono (2017), if the selection of fixed asset type is right and its use is efficient, it will have a direct impact on the company's profitability. The higher the level of sales achieved by the company the higher the operating profit (Brigham & Houston, 2016). Investment decisions are composed of assets structure, expansion decision, replacement decision, and research and development decisions.

Investment decisions are strategic in nature and have a contribution to the net change in wealth of the firms in London, England (Meng, Murinde & Wang, 2016). Chisti, Ali and Sangmi (2018) assert that Investment decisions are significant to a firm and if the management of the firm fails to make them wisely, then the result is lower net cash flow returns from Investment decisions for the firm. The Financial Performance of Australian firms may increase or decrease depending on the Investment decisions managers make (Zhang, Nava, & Lisa, 2018).

In the UK, milling industry processes 6.2 million tonnes of wheat to produce almost 5 million tonnes of flour every year. In 2019/20 the proportion of homegrown wheat used by flour millers was 87% equalling the all-time high previously seen in 2011. However, a small harvest in 2020 with a reduction in quality means that the proportion of homegrown wheat is expected to fall to 76% in 2020/21. On investment, UK flour millers have invested heavily in new and renewed facilities during the last 10-years. This has delivered improved efficiency and led to steadily improving labour productivity – around 2.5% per year compared with the average in UK manufacturing of 0.5% and 0.9% in food manufacturing over the same period. The Gross Value Added (GVA) per employee in flour milling is 50% higher than the average in food and drink manufacturing as a whole; and 52% higher than in our sector in 2007.

In both emerging markets and non-emerging markets, studies related to the effect of investment decisions on firm value have become a topic of

much debate over the last few decades. In Africa, the financial ratio data of the consumer goods industry sector for the last seven years shows that the average investment in fixed assets has only reached 32%. The debt to total assets ratio is around 41%, the average net profit margin is 9.5%, 27% ROI and 5.3 PBV. This condition shows that opportunities for growth in this sector are still quite large (Liu & Zhang, 2020).

Kenya, like other Sub-Saharan African (SSA) countries, prioritises development of manufacturing sector as part of national transformation strategies for employment and poverty alleviation. These countries have however faced dwindling performance of manufacturing, with the sector's average contribution to GDP falling from 17% in 1980 to 11% in 2019 (World Bank, 2021). Kenya is a typical of this example as articulated in its long-term development plan, the Kenya Vision 2030.

World Bank group report (2018) asserts that financial performance from investment decisions made in the country are lesser compared to other nations. Investment decisions influence the financial performance of firms (Chebii, Kipchumba & Wasike, 2016). The number of registered millers in Kenya is 103. Estimated total installed corn milling capacity is 1,62-1,77 million tons. Production capacity of the largest 19 mills in the country is equal to 85-90 percent of total corn milling capacity. The milling industry is a thriving sector which brings a combination of high technology and traditional skills in order to develop a variety of products. According to a research study conducted by Momanyi & Naibei (2017), the returns of firms in the manufacturing category in Kenya are dependent on the Investment decisions made by a firm.

Statement of the Problem

Investment in the right assets and efficient use of operating activities results in maximum company performance (Santoso, 2020). In addition, positive company performance receives positive response from investors. Therefore, it can be deduced that proper utilization of the assets of a company has effects on the performance of the company as well as the perception of the investors about the firm value. Investment decisions made by miller firm management should lead to their increased growth, reduced risks and high survival rate. However, of critical concern to both practitioners and academia is that the investment culture for the millers in Kenya is very low (Onchangwa, Ongoncho, Onchonga, & Njeri, 2017).

Grain milling industry plays a significant role in assuring food security in the country. However, despite its important to the economy, grain milling firms in Mombasa have scaled down while other like TSS have permanently closed partly due to liquidity challenges. Hussein (2017) argues that investors' decision in estimating future cash flow is difficult and critical in any investment decisions, because cost of capital invested in the project needs to be increased consecutively and they lack proper implementations. In financial context most enterprise investors have ability to invest but critical imperfection of investment decisions techniques slows their growth (Park, Yang & Yang, 2017). With the above background, it is clear that investment decision in the milling industry is considered as one of the principles of concern for the organization and its stakeholders in general (Njenga & Jagongo, 2019). This is because investment decisions determine organization's financial performance. Low return on investments, inadequate product development, breakdown in operations, increased taxes and levies as well as increased competition from other substitute industries are some of the key challenges that have affected the financial performance of milling companies in Kenya and Mombasa in particular. Despite these challenges, no study has been done on investment decisions and financial performance of milling companies in Kenya.

The pattern of research conducted in the 2010s found a pattern showing that increases in firm value were caused by investment decisions (Efni 2017; Soumaya 2016; Susanti et al. 2019). Locally, Muli (2017) researched on investment decisions and financial performance of SACCOs in Kitui. A study by

Mweresa (2019) focused on the effects of investment decisions on financial performance of public sugar firms in Western Kenya. However, the studies present contextual gaps as SACCOs and sugar firms differ from milling firms. Muriuki (2016) who analyzed factors influencing investment decisions of microfinance firms in Kenya and found that the level of financial literacy of the fund managers influenced their investment decision making. Ringera, and Muturi (2019) did a study on effect of investment decisions on financial performance of microfinance firms in Kenya. However, from the ongoing discussion, very few studies focused on investment decisions in the context of grain millers' financial performance. In summary, the investment decisions could have significant effect on financial performance thus it is against this background that the current study sought to investigate investment decisions and financial performance in the context of grain milling firms in Mombasa, Kenya.

Research Objectives

The general objective of the study is to investigate the investment decisions and financial performance of milling companies in Mombasa County, Kenya. The specific objectives were;

- To establish the influence of assets structure decisions on financial performance of milling companies in Mombasa County, Kenya.
- To determine the influence of expansion decisions on financial performance of milling companies in Mombasa County, Kenya.
- To ascertain the influence of replacement decisions on financial performance of milling companies in Mombasa County, Kenya.
- To evaluate the influence of research & development decisions on financial performance of milling companies in Mombasa County, Kenya.

Research Hypotheses

- $H0_1$: Assets structure decisions has no significant influence on financial performance of milling companies in Mombasa County, Kenya.
- $H0_2$: Expansion decisions has no significant influence on financial performance of milling companies in Mombasa County, Kenya.
- $H0_3$: Replacement decisions has no significant influence on financial performance of milling companies in Mombasa County, Kenya.
- $H0_4$: Research & development decisions have no significant influence on financial performance of milling companies in Mombasa County, Kenya.

LITERATURE REVIEW

Theoretical Review

Signaling Theory

Signaling theory is a theory that underlies investment decisions (Alghifari et al. 2022). Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. This theory explains that investment spending is a positive signal that results in company growth in the future, which impacts profits (Sun & Chen, 2017) and increases company value.

Based on signaling theory (Spence, 1973), the involvement of two parties known as the signaler and the receiver of the signal plays a very significant role. In the context of this study, a company's management provides a signal in the form of information related to investment decisions that indicate the company has good growth prospects in the long term (Modigliani & Miller, 1958) such that it will be able to increase the firm's value, which has an impact on the prosperity of shareholders. In

summary, signaling theory best supports asset structure decisions variable.

Q-Theory of Investment

This theory was developed by James Tobin and William Brainerd in the year 1968 and it argued that investment in capital plays a direct role in portfolio decision (Eklund, 2016). The letter Q was used to indicate the value of capital normalized or related to its replacement cost. The theory states that, investors will increase on portfolio choice if Q>1 and reduce on investment if Q<1. However, the key challenge in this theory is determining of the marginal Q as only the average Q is known with certainty.

The Accelerator Theory of Investment

This theory is one among the earliest empirical investment models. The accelerator is a simple model that incorporates the kind of feedback from current output to investment that Keynes saw occurring through the effect of current output on investors' predictions. The accelerator theory is an economic postulation whereby investment expenditure increases when either demand or income increases. The accelerator is, in fact, merely a special case of the neoclassical theory of investment where the price variables have been reduced to constants. The theory also suggests that when there is excess demand, companies can either decrease demand by raising prices or increase investment to meet the level of demand.

The accelerator theory stipulates that capital investment outlay is a function of output. The accelerator model commences with an assumption that firms' desired capital-output ratio is roughly constant. Thus, the simplest accelerator model predicts that investment is proportional to the increase in output in the coming period. In conclusion, this theory indicates a direct proportional relationship between investment in R&D and output (Parker, 2017). The theory supports research & development decisions variable.

Conceptual Framework

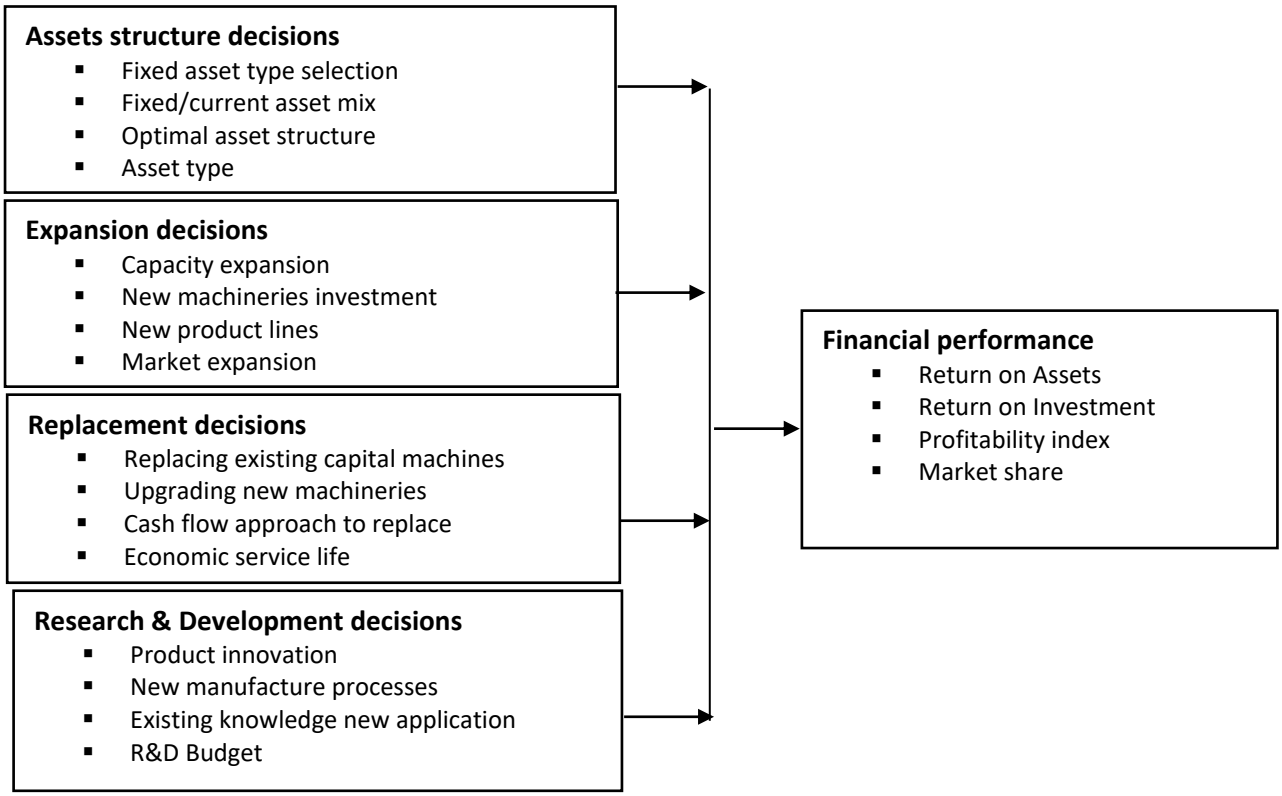

Figure 1: Conceptual framework

Empirical Review

Liu, Hee, Liang, Yang, and Xia (2020) examine economic policy uncertainty on the investment of cultural and renewable energy companies. Their study revealed that variations in economic policy influence cultural energy companies and investment, but not renewable energy companies. Liu et al. (2020) explore the effect of economic policy, financing decisions and firm level investment in China. They utilized the two different contrast of time and the effects of transition using the master plan of difference. Their findings indicate that economic policy uncertainty has a positive influence on the investment of a firm by lowering debt ratios for specific companies.

Santonsa (2020) examined the moderating effect of firm size on the relationship between Investment characteristics and financial performance of firms listed at the Indonesian stock exchange. Investment characteristics was proxied using liquidity, audit committees, leverage, profitability and efficiency. Secondary data was used in panel data analysis. It was observed that all the proxies of Investment characteristics used indicated a positive relationship with market value and efficiency of the firms listed at the Indonesian stock exchange with the exception of liquidity and audit committees which indicated a negative relationship with financial performance.

Abughniem, Mohamad, Allam and Suliaman (2020) evaluated the impact of expansion decisions on the financial performance of industrial firms listed at the Amman stock Exchange, Jordan from the year 2001 to the year 2015. Panel data was analyzed through multiple regression analysis. However, this research study narrowed down on the industrial sector only. This research study also focused on profitability only as a measure of Financial Performance. The current study evaluated the effect of Expansion decisions on the market value, efficiency and profitability of non-financial firms listed at the Exchange securities of Nairobi, Kenya. Financial Performance was operationalized using Return on assets (profitability), market share price to book share price ratio (market value) and fixed asset turnover ratio (efficiency).

Muchele and Kombo (2019) evaluated the effect of Expansion decisions on profitability of 71 firms in the manufacturing sector in Kenya for the years 2015 to 2018. Primary data was obtained by use of questionnaires and data analyzed through multiple regression analysis and correlation by use of SPSS. The study obtained a positive significant relationship between Expansion decisions and financial performance of the firms in the industrial category.

Ali and Altinkaya (2018) analyzed the relationship between Replacement decisions and profitability of firms in the manufacturing sector in Uganda for the years 2006 to 2015. Primary data was obtained by use of questionnaires and data analyzed through cross sectional multiple regression analysis and correlation by use of SPSS. The study established that Replacement decisions had a significant effect on the profitability of the firms in the manufacturing category. The study also obtained a negative relationship between Replacement decisions and profitability of the firms in the manufacturing category.

METHODOLOGY

This study adopted cross-sectional research design. Target population is an entire collection of all units of analysis which the researcher wishes to consider for a specific study (Creswell, 2016). In Mombasa County there are a total of 8 grain millers which made up a total of 146 respondents. The simple random sampling technique was used to choose the management staff of the target grain milling firms. The sample size was 107 respondents. Primary data was collected using questionnaire. The study employed a structured questionnaire to collect data from the participants. The researcher obtained permission from JKUAT to conduct research. The statistical package for social sciences, SPSS version 28 was used as data analysis tool.

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics Results

Asset Structure Decisions

The first objective of the study was to establish the extent to which asset structure decisions affect financial performance. Respondents were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results were displayed in Table 1:

Table 1: Asset Structure Decisions

	Mean	Std deviation
The company chooses rationally the type of assets to invest on	5.01	1.113
The assets of the firm are managed effectively to improve returns	4.92	.955
The asset mix decisions are made by the management	4.10	.295
The company has asset structure combination policy	3.49	.374
The firm invests in financial assets	2.14	.460
Assets structure has significant effect on financial performance	4.89	.922

The results in Table 1: have shown that respondents agreed that the company chooses rationally the type of assets to invest on and that the assets of the firm are managed effectively to improve returns as indicated by a mean of 5.01 and mean of 4.92 respectively. Respondents also agreed that the asset mix decisions are made by the management (mean=4.10) and respondents were indifferent to the statement that the company has asset structure combination policy (mean=3.49). Respondents disagreed to the statement that the firm invests in financial assets (2.14). Respondents agreed that assets structure has significant effect on financial performance (4.89).

Expansion Decisions

The second objective of the study sought to establish the effect of expansion decisions on financial performance. The results are as presented in Table 2

Table 2: Expansion Decisions

	Mean	Std. Deviation
The firm has increased new products and line of operation in the last five years	4.19	.671
Due to expansion, the firm has increased the number of distribution points hence new markets	4.74	.548
The firm's number of customers has increased due to the expansion decision	4.86	.897
There has been addition of capacity or diversification of operations	4.75	.274
The firm has opened subsidiaries in its name	2.01	.119
Expansion decisions have significant effect on performance	4.99	1.005

The results in Table 2: have shown that respondents agreed that the firm has increased new products and line of operation in the last five years and that due to expansion, the firm has increased the number of distribution points hence new markets as indicated by a mean of 4.19 and mean of 4.74

respectively. Respondents agreed that the firm's number of customers has increased due to the expansion decision (mean=4.86). Respondents were in agreement to the statement that There has been addition of capacity or diversification of operations (mean=4.75). Respondents disagreed to the assertion that the firm has opened subsidiaries in its name (2.01). However, they agreed that expansion decisions have significant effect on performance (4.99)

Replacement Decisions

The third objective of the study sought to establish the effect of replacement decisions on financial performance. Data was collected through the Likert-scale measuring the level of agreement of the respondents with respect to the given aspects of replacement decisions. The results are as presented in Table 3:

Table 3: Replacement Decisions

	Mean	Std. Deviation
The company treat the proceeds (amount of money received) from sale of the old machine as down payment toward purchasing the new machine.	3.18	.791
The firm treat the proceeds (amount of money received) from sale of the old machine as the investment required to keep the old machine.	3.03	.229
The firm should use the respective economic service lives of the defender and the challenger when conducting a replacement analysis	4.80	.540
The statistical computations are employed in making decision on which assets to replace	4.56	.613
The firm has replacement policy in place	4.80	.449
Replacement of assets is done periodically by the firm	4.91	.260

The results in Table 3: have shown that respondents were indifferent to the statement that he company treat the proceeds (amount of money received) from sale of the old machine as down payment toward purchasing the new machine and that the firm treat the proceeds (amount of money received) from sale of the old machine as the investment required to keep the old machine. as indicated by a mean of 3.18 and mean of 3.03 respectively. Respondents also agreed that the firm should use the respective economic service lives of the defender and the challenger when conducting a replacement analysis (mean=4.80) and that the statistical computations are employed in making decision on which assets to replace (mean=4.56). It was revealed that respondents agreed that the firm has replacement policy in place (4.80) and that the replacement of assets is done periodically by the firm (4.91).

Research & Development Decisions

The fourth objective of the study sought to establish the effect of R&D decisions on financial performance. Data was collected through the Likert-scale measuring the level of agreement of the respondents with respect to the given aspects of R&D decisions. The results are as presented in Table 4

Table 4: R&D Decisions

	Mean	Std. Deviation
Firm-specific resources are directed towards research	3.86	.769
The accumulated internal capability of innovation exceed its cost	4.90	.308
R&D has led to innovations in the institution	4.80	.619
Market had grown as a result of R&D	4.97	.456
The firm has independent R&D function	4.01	1.010
The R&D function is well resourced	4.56	.967

The results in Table 4: have revealed that respondents agreed that Firm-specific resources are directed towards research and that the accumulated internal capability of innovation exceed its cost as indicated by a mean of 3.86 and mean of 4.90 respectively. Respondents also agreed that R&D has led to innovations in the institution (mean=4.80) and that Market had grown as a result of R&D (mean=4.97). Respondents agreed that the firm has independent R&D function (4.01) and that R&D function is well resourced (4.56)

Multiple Regression Analysis

The primary objective of the following regression analysis is to determine the relationship between investment decisions and financial performance. Data was regressed to determine the extent of the effect between explanatory variables and financial performance (target variable) as shown in the following sections.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.748[a]	.559	.521	1.005912

a. Predictors: (Constant), Asset structure decisions, Expansion decisions, Replacement decisions, R&D decisions

The regression results in Table 5: showed a moderate regression between investment decisions and financial performance. In the model summary, the coefficient of determination (R^2) is 0.559 indicating that predictors explain 55.9% change in financial performance.

Table 6: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	115.458	4	28.865	27.916	.000[b]
	Residual	91.014	88	1.034		
	Total	206.472	92			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Asset structure decisions, Expansion decisions, Replacement decisions, R&D decisions

An F-test was used to test the statistical significance of the regression equation. The regression was statistically significant (F=27.916, p <.005).

Table 7: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.289	.984		.294	.000
Asset structure decisions	.518	.225	.443	2.302	.014
Expansion decisions	.463	.191	.365	2.424	.029
Replacement decisions	.184	.086	.223	2.139	.002
R&D decisions	.554	.242	.419	2.289	.000

Dependent Variable: Financial performance

From Table 7: the model would appear as follows:

$$Y = 0.289 + 0.518X_1 + 0.463X_2 + 0.184X_3 + 0.554X_4$$

The regression model indicates that financial performance would increase by 0.289, given that all the other factors are held constant at zero. Further in the regression model it shows that a unit increase in asset structure decisions would lead to an increase in financial performance by 0.518. A unit increase in expansion decisions would lead to a positive increase in financial performance by 0.463 and a unit increase in replacement decisions would lead to an increase in financial performance by 0.184. Further, regression results showed that a unit increase in R&D decisions would lead to an increase in financial performance by 0.554. In summary, the R&D decisions had the highest beta coefficient indicating that it had strong effect on financial performance of milling firms.

The predictors had significance levels of 0.05 and below implying that all the predictors had significant effect in explaining the variation in financial performance.

Discussion of Key Findings and Hypotheses Testing

The study used p-values to test hypotheses and achieve the objectives of the study. The first objective of the study was to establish the effect of asset structure decisions and financial performance. The independent variable was found to have a positive and significant effect on financial performance of (β= .518, $p < 0.05$). This implies that a unit increase in asset structure decisions would lead to an increase in financial performance by 0.518 when all other variables are held constant. Findings led to rejection of the null hypothesis that there is no significant effect of asset structure decisions on financial performance.

The second objective sought to investigate the effect of expansion decisions and financial performance. Expansion decisions was found to have a positive and significant effect on financial performance of (β= .462, $p < 0.05$). This implies that a unit increase in expansion decisions would lead to an increase in financial performance by 0.462 when other variables are held constant. Findings led to rejection of the null hypothesis that expansion decisions have no significant effect on financial performance.

Third objective sought to investigate the effect of replacement decisions and financial performance. Regression results revealed that replacement had significant positive effect on financial performance of (β= .184, $p < 0.05$). This implies that an increase in replacement by one unit increases financial performance by .184 units when all other variables are kept constant. Findings led to rejection of the null hypothesis that replacement decisions have no significant effect on financial performance.

Fourth objective was to determine the effect of research & development decisions on financial performance. R&D decisions had a positive and significant effect on financial performance of (β= 0.554, $p<0.05$). This implies that an increase in R&D

decisions by one unit leads to an increase in financial performance by 0.554 units when all other variables are held constant. Findings led to rejection of the null hypothesis that R&D decisions has no significant effect on financial performance.

SUMMARY

Asset structure and financial performance formed the first objective of the study. The findings revealed that respondents agreed that the company chooses rationally the type of assets to invest on and that the assets of the firm are managed effectively to improve returns. Results revealed that respondents also agreed that the asset mix decisions are made by the management and respondents were indifferent to the statement that the company has asset structure combination policy. Respondents disagreed to the statement that the firm invests in financial assets. However, respondents agreed that assets structure has significant effect on financial performance.

The second objective of the study was to investigate the effect of expansion decisions on financial performance. The findings indicated that respondents agreed that the firm has increased new products and line of operation in the last five years and that due to expansion, the firm has increased the number of distribution points hence new markets. Respondents agreed that the firm's number of customers has increased due to the expansion decision. Respondents were in agreement to the statement that there has been addition of capacity or diversification of operations. Respondents disagreed to the assertion that the firm has opened subsidiaries in its name. However, they agreed that expansion decisions have significant effect on performance.

The third objective of the study was to investigate the effect of replacement decisions on financial performance. Findings found out that respondents were indifferent to the statement that the company treat the proceeds (amount of money received) from sale of the old machine as down payment toward purchasing the new machine and that the firm treat the proceeds (amount of money received) from sale of the old machine as the investment required to keep the old machine. Respondents also agreed that the firm should use the respective economic service lives of the defender and the challenger when conducting a replacement analysis and that the statistical computations are employed in making decision on which assets to replace. It was revealed that respondents agreed that the firm has replacement policy in place and that the replacement of assets is done periodically by the firm.

The fourth objective of the study was to find out the effect of R&D decisions on financial performance. Findings revealed that respondents agreed that firm-specific resources are directed towards research and that the accumulated internal capability of innovation exceed its cost. Respondents also agreed that R&D has led to innovations in the institution and that Market had grown as a result of R&D. Respondents agreed that the firm has independent R&D function and that R&D function is well resourced.

CONCLUSIONS

The study concluded that the milling firms apply rationality while choosing the type of assets to invest on. The results showed that the assets of the firm are managed effectively to improve returns. It is concluded that the asset mix decisions are made by the management and that the company has asset structure combination policy. However, it is concluded that the milling firms do not invest in financial assets. On regression results, it is concluded that asset structure has a positive and significant effect on financial performance.

The study concluded that the milling firms have reported increase in new products and line of operation and through expansion, these firms have increased the number of distribution points translating to new markets. The study concludes that the firm's number of customers has increased due to the expansion decision and that there has been addition of capacity or diversification of operations. However, the milling firms have not opened subsidiaries in their name in the last five

years. It is concluded that expansion decisions have a positive and significant effect on financial performance.

The study concluded that the milling firms treat the proceeds from sale of the old machine as down payment toward purchasing the new machine and that the firm treat the proceeds from sale of the old machine as the investment required to keep the old machine. The study concludes that the firms use the respective economic service lives of the defender and the challenger when conducting a replacement analysis and that the statistical computations are employed in making decision on which assets to replace. The firms possess replacement policy and replacement of assets is done periodically by the milling firms. On regression results, it is concluded that replacement decisions have a positive and significant effect on financial performance.

The study concluded that firm-specific resources are directed towards research and that the accumulated internal capability of innovation exceed its cost. It is concluded that Research & Development has led to innovations in the milling firms and market has grown as a result of Research & Development. The study further concludes that the firms have independent Research & Development function which is well resourced in terms of capacity and finances. On regression results, it is concluded that Research & Development decisions has a positive and significant effect on financial performance.

Recommendations

The study recommends that the management of milling firms should select assets structure to adopt using rational methods. This would make it possible to only select assets those which would add value to the firms. The assets of the firm should be managed prudently to improve returns. Also the management should be responsible for making the asset mix decisions. In addition, the companies should have asset structure combination policy to guide in mixing assets to optimize performance.

The study recommends that the milling firms should focus on in new products exploration to enhance overall value of the firm. In the short-term, the firms should expand the distribution points so as to make their products reach wider market at low cost. The expansion decisions of these firms should be geared towards increasing customers. The firms should consider expanding production capacity so as to enjoy economies of scale production. The milling firm's management should open subsidiaries in their brand to boost brand recognition.

The study recommends that the milling firms should treat the proceeds from sale of the old machine as down payment toward purchasing the new machine. This would make it possible to upgrade existing machines and boost production through efficiency. The study recommends that the firms should utilize the respective economic service lives of the defender and the challenger when conducting a replacement analysis. Also when making replacement decisions, the management should favor statistical methods over naïve methods so as to make rational replacement decisions. In addition, the firms should develop robust replacement policy and they should replace assets on a periodic basis.

The study recommends that the management of firm-specific resources should be committed towards research and development. This would ensure that the accumulated internal capability of innovation exceeds its cost. The study recommends that Research & Development should be geared towards innovating new solutions to the firms hence market growth. To achieve feat in innovation, the firms should have autonomous Research & Development function with enough resources and support.

Suggestions for Further Studies

The current study was limited on investigating the investment decisions and financial performance in the context of milling firms in Mombasa County. However, the investment decisions constructs utilized only explained 55.9% change in financial performance. This implies that there are other constructs of investment decisions which affect financial performance. Therefore, another study be

carried out to identify other investment decisions constructs and how they influence performance of not only grain milling firms but also other firms in other sectors.

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