

The effect of investment decisions on the financial performance of small and medium enterprises: Special reference in Kandy district, Sri Lanka

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Abstract

Small and medium enterprises are the backbone of any economy because they provide solutions for the rising unemployment problems, increase the output of the economy, improvise technology, and stimulate innovations. Investment decisions are regarded as the most important decision among major financial decisions of a firm. The objective followed up in this study is to examine the effect of various types of investment decisions on financial performance of small and medium scale enterprises established in Kandy district, Sri Lanka. The respondents of the study were the owners and managers of 100 SMEs. Sample selected by using the convenient sampling method and primary data were collected from the respondents by distributing structured questionnaires. In this study, the researcher used descriptive statistics, reliability testing, correlation analysis to analyse the data and multiple regression analysis to test the hypotheses. Financial performance was measured by Return on Assets. According to the findings, debt financing investment decision and modification of current business decision have significant effect on the financial performance of small and medium enterprises. Expansion a new business and a current business decision have not significant effect on the financial performance. Respondents knowledge and skills selected as a control variable and it significantly affects on financial performance of small and medium enterprises. Therefore, it can be concluded that investment decisions have partial effect on financial performance of small and medium enterprises in Kandy district. Thus, future researchers are recommended to increase the sample size, expand geographical area and also expand the study for large scale business.

Keywords: *Financial performance, investment decision, small and medium enterprises.*