



FACTORS CONSIDERED FOR INVESTMENT DECISION MAKING IN CAPITAL MARKETS IN TANZANIA



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ABSTRACT

In Tanzania capital markets investment has kept gaining prominence in recent years. Most known businesspersons have invested in the capital markets. However, there are variations in terms of factors considered for investing in the business among different investors. Generally, it is acknowledged that one of the crucial indicators to making an informed decision is the use of financial information. The information includes financial ratios that reflect the performance of the firms. This study provides findings on the factors that are considered for investment in Tanzania. The case study design was opted for the study. Interview, questionnaire, documentation and direct observation were the leading data collection strategies. The findings were analysed through description methods, to present factors other than financial information that are considered for investment. Percentiles and graphs have also been used to present the summaries of the findings. The study has revealed that 88% of capital markets investors do use other factors that are non-financial information based in making decisions to invest.

KEYWORDS: Capital markets; Investments; Financial Information; Decision making.

1. INTRODUCTION

In order to respond to the economic challenges, which faced Tanzania, including the absence of private ownership of firms, unproductive government firms, and need for direct local and foreign investment, the government of Tanzania had to establish the Capital Markets and Securities Authority (CMSA), which is a Government Agency, established to promote and regulate securities business in Tanzania. It was established under Capital Markets and Securities Act, 1994 [Act No. 5 of 1994 as amended by Act No. 4 of 1997].

In addition, in order to facilitate the securities the Capital Markets and Securities Authority under the Capital Markets and Securities (CMS) Act of 1994 the Dar es Salaam Stock Exchange (DSE) was established. The

incorporation of DSE took effect in September 1996 as a company limited by guarantee without a share capital under the Companies Ordinance (Cap. 212) (DSE, 2008). The enactment of DSE came because of government's policy of transforming its economy from public government dominated economy to private sector driven economy.

The exchange became operational in April 1998 with TOL Gas Limited listing as the first company followed by the Tanzania Breweries Limited (TBL) during the same year. The delay was due to the preparations of necessary background and operational preparations that were inevitable. These operational backgrounds include training of brokers and formulation of issuance and trading rules (CMSA, 2007). Hence, a stock exchange is a secondary



capital market where large and small investors can buy and sell securities (shares, bonds etc.). It is an organized market where buyers and sellers of securities meet as dealers/brokers represent them and acquire or dispose securities (DSE, 2007; Norman, 2006). It is a market, which members trade securities of the exchange who may act as both agents (brokers) and as principal (dealers) (Benning, 2007). The rest of the article is organised as follows, review of literature, materials and methods, discussion of findings, and conclusion and recommendations.

2. REVIEW OF LITERATURE

Investing wisely in stocks requires understanding the financial information of the firms selling shares among others (Levinson, 2010; Steiner, 1998; Postrel, 1999). The essence of capital markets is imperative in the efforts of the government to improve the economy and reduce poverty (Amihud and Mandelson, 1987). Stock exchange enables individual to own firms and multiply their incomes through allocation of dividends, growth of share value and reinvesting done by the firm (Gitman et al., 2004; Akhighe and Madura, 1996).

Several studies on the use of financial information have indicated that most people do not need to know or to have necessary information prior to deciding whether they are going to invest or not (Benning, 2006; Mehrling and Fischer, 2006; Backer and Nasser, 2002). However, most studies have been carried in developing countries such as Saudi Arabia, Malaysia and Singapore. In least developed countries such as Tanzania there has not been much in terms of studies regarding the use or not use of financial information in investment decision making in stock exchange business. Norman (2006) deduced that most investors in Tanzania are perceived by brokers not to use financial statements analyses in investment decision-making. He further suggested that for generalizing the findings greater samples need to be employed bringing in, large investors, medium investors and small investors. The importance of the use of financial information in investment decisions making in capital markets is inevitable (Grieder, 1987; Esptein and Freedman, 1994; Esptein and Anderson, 1994). However, other factors are considered for the named investment in developing countries, and specifically Tanzania.

Investing in stocks is an appealing business the world over. Most investors' worldwide cannot live without investing in stocks (Benning, 2007; Lee and Twedie, 1981; 1976). In the same vein, Thomas (2003) indicates that the first 200 richest firms in the world have their firms listed shares with stock exchange or the firms own shares of other firms. The benefits for investing in stocks business

exceeds that of investing in bonds and banknotes (Burnham, 2005; Burghardt et al. 2005). Any successful potential businessperson admits the fact that a capital market is a business that has a multiplication of returns (Kissinger, 1994; Lee, 1982; Meigs and Meigs, 1981). The business includes one of the richest people in the world Bill Gate through his popular company Microsoft Company Limited. Unlike other businesses, where supervision and presence of the owner is important, stock exchange enables the owner to manage the firms through other people-management (Jarrow and Turnbull, 1996). What is needed is generally the purchase of shares, when the process of purchasing shares is complete; you become the owner of the business (Natenberg, 1994; Ibrahim and Kim, 1994).

3. MATERIALS AND METHODS

The study was a case study design, and utilised interview, questionnaire, documentation, and direct observation as the leading data collection strategies. Of course, the dominant data collection strategy was the interview. Recording of responses has been made and names of those willingly accepted revealing their status and names have been indicated. The study was non-parametric; hence, description methods took a leading role in the study.

4. RESULTS AND DISCUSSION

a) Adverts:-

It was leant that most people invest in shares due the adverts that are made through television, newspapers and radio. It was further noted that people believe that what is being advertised is fact that none can deny. An advert was ranked the first driver to investing in stocks.

One MP had this to say:

I saw an advert on TV which indicated that DAHACO was selling shares to the public and consulted one of my friend who is also an MP he just said 'let us go and buy, people are making a lot out of this business' (Kevela, MP Njombe in Tanzania).

As revealed above one can be in a position to say that adverts are crucial in persuading people to invest. When asked whether they new the performance of the firms through realizing financial information of the firms. Respondents denied to have known the financial information.

One investor in stocks had this to say:

Look, who has that time to check or even ask for financial information? We just buy and go. It is a good gamble. I have shares in five firms; none of them has made me get loss. Actually, my wealthy is heavily attributed to investing in stock (Monica, Iringa).

b) Speculation:-

It was noted in the study that some investor particularly small investors do purchase shares due to hearsay. Hearsay in this regard, means knowing that there is sale of shares without the presenter doing a purposeful clarification on the subject, hence is differentiated from persuasion made through peers, friends and or other people. Persuasion is an object of substance where, one person intends to sale an idea or ideas for instilling such idea or ideas and makes the told understand and hence accept the deal for his own fortune. On subjecting respondents on interview regarding hearsay, one respondent had this to say:

We completed the investors' forum of CRDB Iringa, and Kaundame said some shares of NMB are being sold. I joined him and we went to the postal office, which was one of the firms chosen for selling shares of the NMB. We bought and enjoyed our day (Mfinange, a businessperson in Iringa).

Persuasion from peers/friends/ and other people was observed as another way which persuades people to invest in shares. As indicated above, persuasion is an object of substance where, one person intends to sale an idea or ideas for instilling such idea or ideas and makes the told understand and hence accept the deal for his own fortune. Respondents indicated that some of them invested in shares because were made to know about the business opportunity through friends/peers and other people who told them that the business is good. When the interviews were carried to realize the extent of what was considered persuasion and whether the 'persuasion' could be linked with the use of financial information. The interview revealed that persuasion was made without the disclosure of financial information of the firm. Rather friends and peers told friends on reliability of the business as compared to other business ventures. For example, Rosemary had this to say:

I started purchasing shares when TBL listed shares with the DSE. I knew about the business when my fellow lecturer told me that TBL was a good place to invest the money. The second time I invested in TATEPA, because the same fellow said it was important to invest in TATEPA. When NMB listed shares I guess was the first to purchase shares since I had already enjoyed shares from TBL and TATEPA (Joseph, a businessman Mufindi in 2009).

Another person was of the opinion that investment in stocks does not require knowledge of financial information. Abdi Kadil had this to say regarding the financial information versus persuasion.

I purchased shares for the first time in 1998, when TOL floated its shares. I bought shares of a million Tanzania shillings. This ended up not well. I purchased shares because the President of United Republic of Tanzania, Benjamin Mkapa officiated the launching of the business. I took for granted that it was a good business since the president did officiate (Salim a businesspersons in Iringa, Tanzania).

The study further noted that some were persuaded by joint factors, particularly peer persuasion and hearsay. At times, the two factors were imposed together. It is worthy noting that when reasons were tabled on why one should buy shares without articulating financial information, the entire dialogue was considered persuasion. However, when no reason was given on why purchase shares other than formal adverts, it was considered hearsay. The crucial thing in the two factors is that both meant that investors did not use financial information.

C) Management of the firm:-

Survey and interview made indicated that the management of the firm or the company concerned play a crucial role in enabling people invests in firms. It was noted that there were very few people who dared to know the financial information rather were moved by other factors such as type of leadership- that is who is the Chief Executive Officer (CEO), who is the chairman of the board, in other words the reputation of the leadership of the firm may make the stocks saleable irrespective of the performance and the vice versa. For example, a Microsoft company, a firm led by Bill Gate, would perhaps capture many investors than it could do a well performing firm but led by unknown Director/CEO.

In Tanzania for example, there are some popular known business people such as Reginald Mengi who manages the IPP group with many other ventures under it. It is assumed that if Mengi would list shares under the DSE some people will be driven to invest because of what they perceive about Mengi. This could be the reasons for NICO to accumulate huge amount of money resulting from selling what seemed to be an idea. But since managing directors such as Reginald Mengi, Dr. Salim Ahmed Salim former OAU Secretary General and prime of minister of Tanzania, Justice Joseph Sinde Warioba former Vice president of Tanzania were among the packed directors of the NICO culminated many people to invest in the NICO.

d) Popularity of the firm:-

Popularity of the firm was also mentioned to be another factor that can persuade investors to buy stocks. It was observed that some people have own ranking of the firms that perform well in a particular place or country. One respondent from the NSSF had this to say:

If Microsoft Computers –the firm owned by Bill Gate would list shares in Tanzania, at the DSE, certainly people would not ask whether it performs well or not, neither would they question about the financial information, they will just rush into purchasing shares. However, with huge firms such as this (NSSF, PPF, LAPF, PSPF and certainly NICO) many questions will be asked at the management level before deciding to invest. The questions would include why has the company decided to invest in Tanzania where the economy is thin and perhaps immature. What is the performance of the company for the last five years? What are likely opportunities of the firms in the short run and long run?—Response of Mr. Muni, the Zonal manager of the National Social Security Fund (NSSF) of Iringa region

d) Nature of the firm:-

Some firms are naturally perceived hot even when thorough analysis of the firm has not been done. It was found that some people have tendency of taking for granted on known firms pending the nature of the firm. For example, some firms such as those involved in building, financial institutions and electric oriented firms were perceived very important. Hence, if such firms could list shares the anticipation is many people will be moved to invest without consideration for financial information. One respondent joined the popular perception when made the following comment:

Sincerely, we all know building is a continuous process, hence when a firm such as TWIGA Cement or Tanga Cement lists shares, some of us would just go and buy without asking financial information or the entire performance of the firm. We just assume it is doing well. I guess this is the tendency of many of investors (Comments from Ntulo, Iringa entrepreneur).

d) Gambling:-

It was noted that another factor that persuade people to invest in stocks was gambling. Some people indicated that the business of stocks is gambling in nature. The price is not known when it grows up and when it goes

down. Hence investing in stocks needs a person to willingly accept the fact that loss and profit is equal. People were of the opinion that they had been always waiting to see somewhere to invest. Hence, when any chance appears for purchasing stocks they just purchase. The researcher found that this was not falling under any of the named persuasions that have already been covered. Since under gambling, the investor waits for an opportunity to purchase stocks- the assumption is that things used to work well. However, at the same time loosing the amount invested seemed not a big deal.

One investor had this to comment:

I graduated in 1997 my Advanced Diploma in Certified Accountancy at IDM Mzumbe. On my arrival at Dar, I found DSE was on the way to start registering first firms. In addition, in 1998 two firms were registered which were the TOL and Tanzania Breweries LTD. I bought shares of TOL; of course, they worked not well. Nevertheless, before realizing the extent of gain on TOL, much money was invested in TBL, which made my amount double in two months time. I kept doing it on DAHACO, NMB, CRDB and even Kenya Airways. I want to assure you that I just set aside my profession and indulged on purchasing on initial price offer and selling on first week to three months on secondary market. To me a stock is a business of the day (Dr. Kamugisha, a businessperson).

5.CONCLUSION AND RECOMMENDATIONS

The world over it is believed that financial information is paramount in the investment decision process. However, in Tanzania it has been learnt that factors that persuade investors to purchase shares are non-financial in nature. The factors include adverts, type of the firm, type of the management of the firm, nature of the firm, popularity of the firm, and speculation. This provides an additional concern on whether, investments would be feasible or not. It has been further noted that about 82.8 % of the total capital markets investors do not take into consideration the use of financial information.

5.1 Recommendations:-

- (i) The findings of this study have demonstrated that only 18.2% of the stock investors do use financial information. The policy implication on this situation calls for the ministry of education to ensure that financial education is taught at elementary stage of primary and secondary school, since

financial education is imperative in all endeavours of finance.

- (ii) The findings of this study have revealed that barriers towards the use of financial information are lack of brokers in places other than Dar es Salaam. The policy implication in this situation is for the Capital Markets and Securities Authority (CMSA) and the Dar es Salaam Stock Exchange (DSE) to create rules and regulations that makes it mandatory for registered brokers to have branches in areas other than Dar es Salaam. Or the CMSA and /or DSE should create a structure in six zones of Tanzania for educating and providing advisory role on securities investment.

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