

A Study of Perceptual Factors Influencing Investors buying Behavior in Tanzanian Equity Market

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Abstract

The study attempts to ascertain the factors influencing buying behavior of Investors in DSE, Tanzania. Tanzania adopted a privatization policy in 1992 after recognizing that the state enterprises were becoming unbearable burden and the government was unable to sustain them. Despite the implementation of the government reforms and the establishment of DSE, Incorporated in the mid-1990s, the Dar-es-salaam Stock Exchange is a relatively new establishment compared to those existing in other parts of Africa. However, it has not been able to reach the masses as much as it should. In the United States of America, for example, the general population uses the stock markets as a means of savings and growing their wealth. In Tanzania, the majority of the population has no indication of what a stock market is and how it could help them. The study suggests that trading shares is the principal business activity for stock exchanges. Whether due to lax standards, poor supervision, weakness in the economy, loan problems have historically been the major causes of stock exchange losses and failures. Effective management of the equity market is fundamental to stock markets safety and soundness. Based on the study findings, it means that all listed companies should pay attention to several factors like quality management decisions, building brand, transparency in settlement issues. Specifically, companies should constantly review the interest rates and observe alternative companies marketing strategies to acquire better position in market.

JEL classification numbers: G0, G11, N27.

Keywords: Equity Market, Investors, buying behavior, Economy, Behavioral Finance.

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1 Introduction

Tanzania adopted a privatization policy in 1992 after recognizing that the state enterprises were becoming unbearable burden and the government was unable to sustain them. This also includes the government intentions of encouraging wider share ownership of individual ownership to both public and private companies. Until then, there were no arrangements and place for individuals to buy shares in privatized companies (Kwayu, 2006). So starting in 1996, the Tanzania government incorporated the Dar es Salaam Stock Exchange (DSE) with the aim of facilitating the implementation of the various governments reforms and encourages individual participation in investing in both private and public companies. In April 1998 the DSE started operating with a single company registered to it. Currently there are 17 companies that are trading in DSE and this has provided wider chances for individual citizens to do investments.

Despite the implementation of the government reforms and the establishment of DSE, Incorporated in the mid-1990s, the Dar-es-salaam Stock Exchange is a relatively new establishment compared to those existing in other parts of Africa. However, it has not been able to reach the masses as much as it should. In the United States of America, for example, the general population uses the stock markets as a means of savings and growing their wealth. In Tanzania, the majority of the population has no indication of what a stock market is and how it could help them. This show the efforts to attract individual investment have not been successful as such efforts were made without understanding the investing behaviour of individual investors.

The standard economic theory supposes investors and managers act rationally always to maximize financial giants, for capital market prices reflect fundamentals. However, in reality we make imperfect investment decisions, driven mostly by emotional considerations. Equity market plays a vital role in allocating economic and financial resources and contributing to wealth creation in any country. Many investors wonder, why stock prices fluctuates heavily and frequently.

2 Review of Literature

In the recent years research has grown in the area of capital/equity market. Recent studies have been concentrating on equity market and investor perception.

Mills at al., (1994) found that firm's balance sheet and monetary policy influence the investment decision of the equity market retain investor. The study was done with related inferences of Australian corporate sector. They also tried to establish a link between cash flows; leverage and monetary policy that generally influence the investment. They found that financial factors have much more influence on the investment decisions.

Sen et al., (2003) highlighted that the secondary debt market in India is practically non-existent.

Pal(2004), aims to take a detailed look at the stock market and the behavior of different investors groups. He investigates how the withdrawal of foreign portfolio capital in the post election phase has affected the price and equity holding pattern of different senserx of companies. This has helped the investors to understand the dynamics of the stock market in the post election period.

Kiran D. Rao U. S (2004) identified investor group segments using the demographic and psychographic characteristics of investors using two statistical techniques, namely Multinomial Logistic Regression (MLR) of Factor Analysis.

A white paper on Nigerian Economy (2005), has found that more people make profit from informed investment decisions, also more impetus seeds to given to further investment which stimulates and encourages capital formation in the overall interest and growth of our economy. With the above report, they suggest that money market plays a pivotal role in contributing to wealth creation in the country and it helps in correcting socio-economic imbalances because of its direct impact on key macroeconomic indices that influence standard of living and overall economic well being in the country.

Government of India (2006), published an article named securities market which shows that before investing in the equity market retail investor has use traditional sources for collecting information like family and friends suggestions, which implies that demographic factors certainly affect investment decision. The Indian equity market is facing a great turbulence. This study will help various equity market analysts, advisors and prominent solution providers to predict the behavior of investors while investing in uncertain future. Through this study the investor will easily correlate between the psychological, economical political and social aspects with the demographic factors. The research will highlights the correlation that will help investor to invest in the market with less percentage of standard error and biasness.

T.R. Rajeswari (2007) conducted study on “factor influencing Mutual Fund selection by retail investor. Under it study various factors which affect retail investor in selection of investments.

The existing “Behavioral Finance” studies are very less and only information is available about investor perceptions, preferences, attitudes and Behaviors.

It is clear from the reviewed literature that the relationship between investors buying behavior and its related variables is very well documented. Therefore, this study identifies various factors and causes of investors buying behavior in order to enable stock exchange operators to come up with reasonable solutions and take appropriate actions to resolve the problem of investors.

2.1 Objectives of study

The objective of the study is to determine factors influencing investors buying behavior in Tanzania Equity market.

To identify importance of sociological, psychological and economic factors that affect investor’s decision.

2.2 Research Questions

In what way does the economic, psychological and sociological factors influence on investors behavior?

Does demographic factors of investors related to other factors?

2.3 Methodology

2.3.1 Study area

This research was conducted at Dar ee salaam Stock Exchange, Dar ee salaam, from December 2012 to June 2013. The purpose of this study is to determine the factors influencing of investors and other stockholders about the behavioral finance issues.

Due to rapid expansion of the Equity Market in Tanzania, the area has become a suitable place for conducting research.

2.3.2 Research design

In this study cross-sectional survey design was adopted to know the determinants of factors influencing of investors and other stockholders about the behavioral finance issues. Generally, the design minimizes bias and maximizes the reliability of data to be collected because different data collection methods can be used such as telephone interview, face to face interviews, mailed questionnaires etc. This design yields maximum information and provides an opportunity for considering many aspects of the problem.

2.3.3 Population

According to Diamantopoulos (2004), a population is a group of items that a sample will be drawn from. The target population for the study originated from DSE'S staffs and customers from year 2010 to 2012. The population size was 50, which included 40 customers who had defaulted and 10 DSE staffs. (Research advisors, 2006).

The capital market investors' in DSE have been as the sample population. The sampling technique used is stratified random sampling. Strata covering all the professionals from DSE

2.3.4 Data collection methods

The study used various methods to collect data from different respondents. These were interviews, questionnaires, and documentary evidence. The use of these methods guaranteed better results and understanding rather than using single technique.

DSE officers and investors were given questionnaires to fill in due to their understanding and experience on various factors. Questionnaire was classified into five sections. Section one sought to obtain socio-demographic information, section two was on economic factors influence on investors decision, section three on Psychological Factors affecting Investment Decisions, section four on Political Factors affecting Investment Decisions , and section five on factors Sociological Factors affecting Investment Decision.

3 Results

The results shows that majority of the respondents were between the age of 36-45, and 46-55 that is 60 percent, then followed by respondents aged between 25-35, that is, 24 percent, then followed by respondents aged under 25, that is, 16 percent, and finally followed by respondents who are less than 25 years and over 55 years that is, 0 percent.

The results indicate that majority of the respondents for the study was aged between 46-55 years.

The results shows that majority of the respondents were those who had graduation, that is, 30 percent, followed by those who had masters degree, diploma holders, that is, 20 percent. The fact that majority of the respondents had high level of education helped the researcher to capture a good quality of data.

The results shows that majority of the respondents were males, that is, 70 percent, followed by females that is, 30 percent. Therefore, the results indicate that majority of respondents for the study was males.

The results shows that 16 percent of the respondents are unemployed, and 84 percent of the respondents are currently in paid employment/business or any other occupation. Therefore, the results indicate that majority of the respondents for the study was in employment.

Among the Economic Factors, i.e surplus income, income changes in the economy and capital adequacy of company, sensitivity of market share and efficiency ratios. The results show that 30 percent of investors give more importance to capital adequacy of the company.

Among the psychological factors Market sentiment, urge to acquire wealth, acquiring capital profits, protection in bad time, individual perceptions. The results show that 39 percent of investors give more importance to market sentiment in Tanzanian equity market.

Among the political factors political stability, stable government standard tax and interest rates, government policies, etc. The results show that 48 percent of investors give more importance to Government policies towards the development of Tanzanian equity market.

Among the Other factors like price of the share, brand name of the company, financial stability of the company, quality of management decisions, settlement procedures, payment facility etc. The results show that 48 percent of investors give more importance to Brand name of the company in Tanzanian equity market.

Above results shows that, demographic factors are highly dependent on all the other factors such as psychological, economical and political. From the figure -1 it is clear that capital adequacy can affect the investor before investing in Equity market because it is highly dependent on company's financial growth along with economy. This means investors are very much cautious about their future and companies market risk strategies. According to Figure 2, market sentiment affect investor before investing in equity market because it shows high dependency on effective utilization and professional management of funds. By Figure 3 it is easy to predict that tax and interest rates are highly dependency within all psychological, sociological, economical and political factors. Also, different graphs shows that preferences given to each of the sub-factors among all psychological, sociological, economical and political factors. The results show that 30 percent of investors give more importance to capital adequacy of the company.

4 Advantages

This study has made an attempt to understand the psychological, sociological and economic factors which affect decision of equity investor. This study will help investors and Broking firms to analyze customer needs and sell right products to them.

This study will benefit in the following ways:

- i) Research scholars: The study is expected to contribute to the existing literature by providing evidence on the causes of investor's behavioral issues.
- ii) Government: The study is also expected to have important practical implications for equity market and regulators in Tanzania's capital market.
- iii) Management: Investors with similar problems in the country and elsewhere in the world can take heed of the advice recommended in this study. The study findings will be also useful to the stock market dealers and this will enable management to improve their services.
- iv) Finally, the study will enable the public to learn about the services provided by DSE such as advancement of funds to them in order to transform lives of their families.

5 Tables and Figures

5.1 Socio-Demographic Background

The respondents had to provide socio-demographic information. With regard to the age of the respondents table 1 summarizes and presents the results.

Table 1: Age of Respondents

Age	Frequency	Percentage
Under 25	8	16
25-35	12	24
36-45	15	30
46-55	15	30
Total	50	100.0

Source: Research Data, 2013

5.2 Education of Respondents

The following table that is numbered 2 summarizes and presents information with regard to educational background of respondents.

Table 2: Education of Respondents

Education	Frequency	Percent
Form IV	5	10
Form VI	7	14
Diploma	10	20
Graduation	15	30
Master degree	13	26
Total	50	100.0

Source: Research Data, 2013

5.3 Gender of Respondents

Table 3 summarizes and presents information with regards to gender of respondents.

Table 3: Gender of Respondents

Gender	Frequency	Percent
Male	35	70
Female	15	30
Total	50	100.0

Source: Research Data, 2013

5.4 Currently in Employment

Table 4 summarizes and presents information with regard to the employment status of the respondents.

Table 4: Currently in Employment

Employment	Frequency	Percent
Currently in Employment/Business	42	84
Unemployed	08	16
Total	50	100

Source: Research Data, 2013

5.5 Economic Factors Influencing Investment Decisions

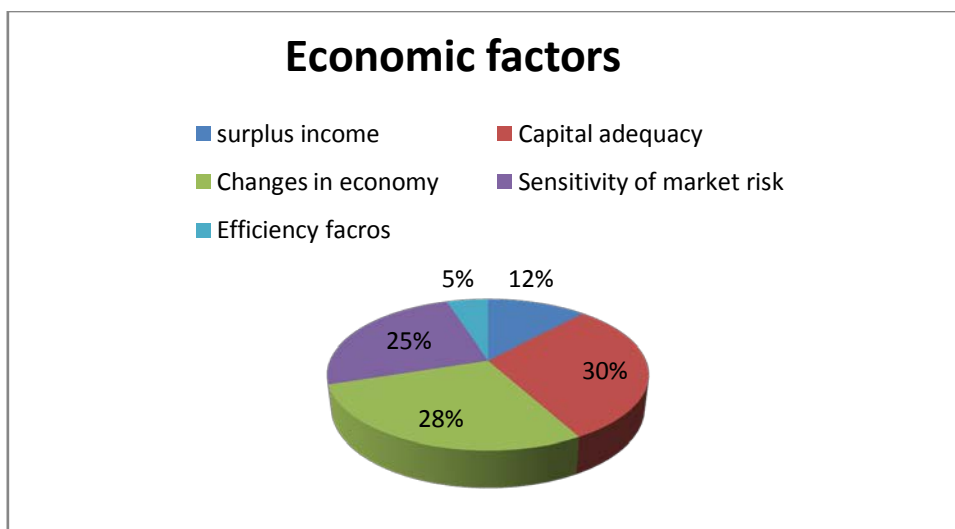


Figure 1: Economic Factors Influencing Investment Decisions

Source: Research Data, 2013

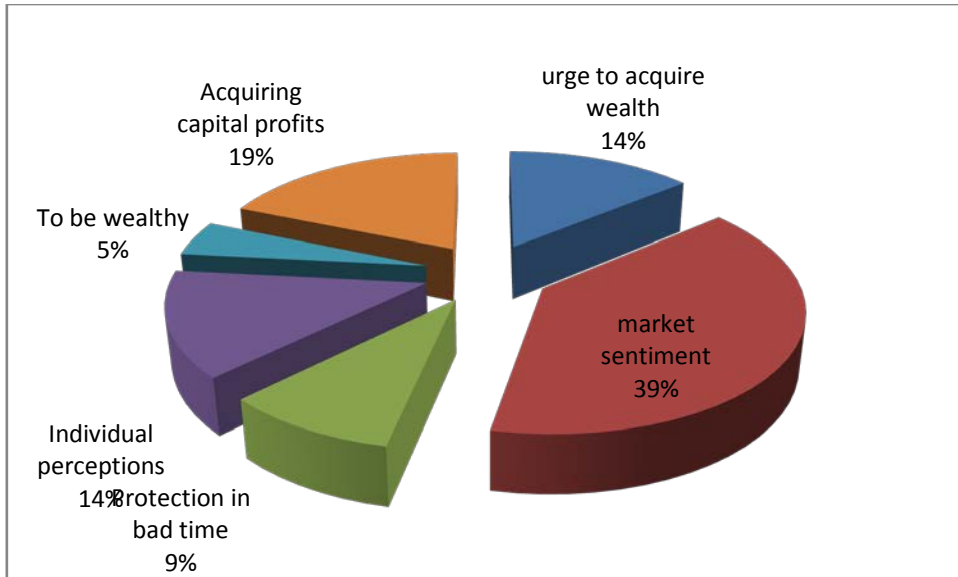


Figure 2: Psychological Factors affecting Investment Decisions

Source: Research Data, 2013

5.6 Political Factors affecting Investment Decisions (Figure 3)

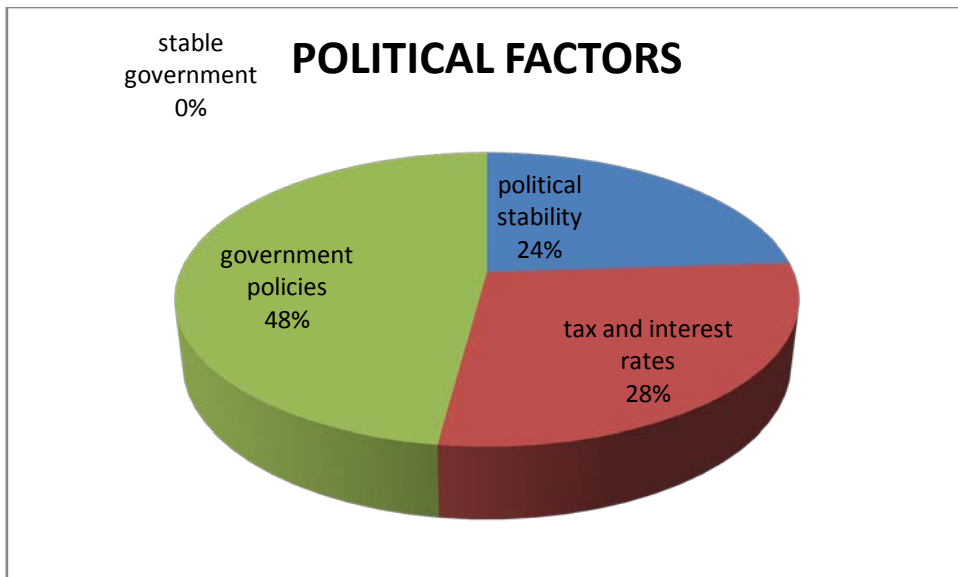


Figure 3: Political Factors affecting Investment Decisions

Source: Research Data, 2013

5.7 Other Factors affecting Investment Decisions

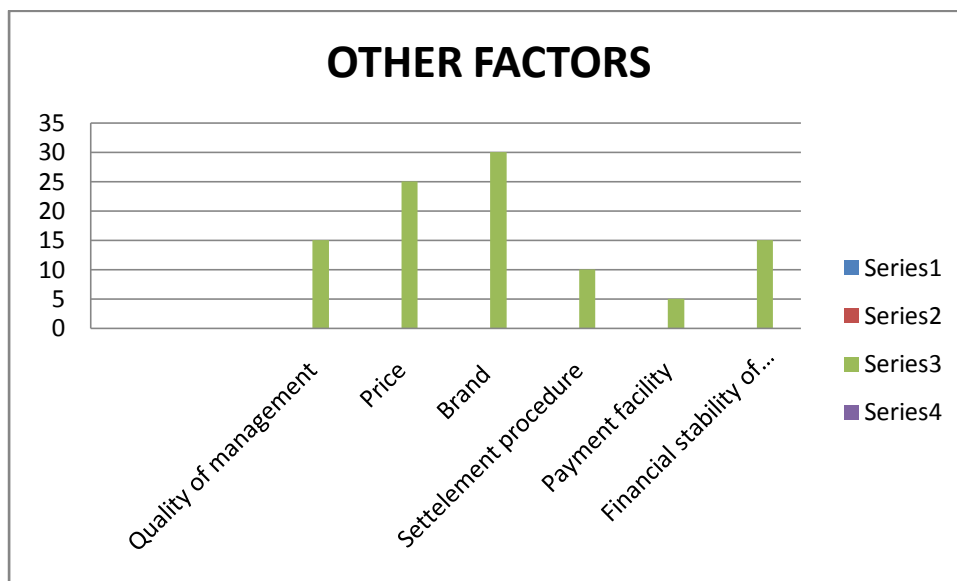


Figure 4: Other factors affecting investment decisions

Source: Research Data, 2013

6 Conclusion

This study attempted to find out the buying behavior of investors in equity market. The literature support the view that macro-factors such as: economic condition and GDP impact, Government policies significantly on the equity market. This means that strong performance of economy results into behavioral finance issues. However, results show that concentration of trading activities is negatively associated with insider trading activities.

Based on the study findings, it means that all listed companies should pay attention to several factors like quality management decisions, building brand, transparency in settlement issues. Specifically, companies should constantly review the interest rates and observe alternative companies marketing strategies to acquire better position in market. Investors should also take into consideration economic condition and GDP when taking investment decisions. Investors are investing in a very systematic manner for a future need.

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