

THE USE OF FINANCIAL INFORMATION IN STOCK
EXCHANGE INVESTMENT DECISION MAKING IN CAPITAL
MARKETS IN TANZANIA: A CASE OF ZANZIBAR

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Abstract:

Investing in stock exchange requires the proper understanding of some key information about the stock exchange market and the way it operates. The key performance indicators including firms' financial information are important pieces of information required to be availed to the would-be customers/investors. The main research objective was to identify the usefulness of the financial information by the prospective investors when they are making decisions to purchase securities from the companies listed in the stock exchange market in Tanzania. The case study design was employed in the study, which covered 50 respondents in Zanzibar. It applied the non-parametric methods in order to capture data from respondents in Zanzibar. The findings revealed that it is important to every, would be investor to be supplied with financial information before joining in the stock exchange market. Secondly, small investors do not take into account the use of financial information when deciding to invest. Thirdly, large investors are more sensitive to the use of financial information than medium and small investors are.

Keywords: Stock exchange, capital markets, financial information, investors

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1. INTRODUCTION:

Investing in stock exchange requires the proper understanding of some key information about the stock exchange market and the way it operates. The key performance indicators including firms' financial information are important pieces of information required to be availed to the would-be customers/investors. The main research objective was to identify the usefulness of the financial information by the prospective investors when they are making decisions to purchase securities from the companies listed in the stock exchange market in Tanzania. Financial information is one of the important indicators in understanding the viability of any investment, including stock exchange investment.

The indicator is important because it tells the general performance of the firms regarding the past, or current and/or the future performance of the enterprise or firm. For instance, an indicator can show the ability of the firm to pay debts, whether the firm is making profits or loss, and the prospective gain or loss of the firm in subsequent years, among others. However, the concern of the researcher is on whether people who purchase shares in Tanzania do take into account the use of financial information of the firms prior to their decision to invest. The world over, the use of financial information is a key to investing wisely (Peter et al., 1996; Akintoye, 2008). However, investors seem to invest through what could be termed gambling, as they do not seem to use financial information (Neiderhoffer, 1997). Backer and Nasser (2003) observed that in Saudi Arabia even people who were considered elites could not use financial information when deciding to invest in stock exchange.

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). Hence, this study intends to provide answers on few propositions: 1) Do investors in stock exchange consider financial information prior to investing. 2) If so, what kind of financial information is given priority? 3) And if not, what factors are used instead. Finally 4) what factors do promote or hinder the use of financial information. The rest of the paper is organized as follows: The review of the literature, methods and data, results, discussion and the conclusion.

2. LITERATURE REVIEW:

In all sense, the importance of financial information is inevitable to investors and most findings have indicated the imperativeness of these reports. Nasser and Nuseibeh (2003) provide a number of studies, which have investigated the usefulness of corporate information to the users and found the annual report to be important and primary source of information. These include (Mautz, 1968; Briggs, 1975; Lee and Tweedie, 1975a,b, 1976, 1981; Epstein, 1975; Chang and Most, 1977; Chenhall and Juchau, 1977; Wilton and Tabb, 1978; Winfield, 1978; Anderson, 1981; Arnold and Moizer, 1984; Moizer and Arnold, 1984; Chang and Most, 1985; Day, 1986; Gniewosz, 1990; Epstein and Pava, 1993; Streuly, 1994; Bence et al., 1995; Anderson and Epstein, 1995; Abu-Nassar and Rutherford, 1996; Bartlett and Chandler, 1997).

Emphasizing on the importance of financial information to management, Ketler (2002) suggests that leaders of organizations should be equipped with basic knowledge of management and financial information interpretation among others. Pandey (2002), adds that users of financial analysis defines financial analysis as the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between items of the balance sheet and the profit and loss accounts. Financial analysis can be undertaken by management of the firm or by parties outside the firm, viz owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst (Fosters, 2006; Orgler, 1975).

- Trade creditors are interested in the firm ability to meet their claims over a very short period. Their analysis therefore, confine to the evaluation of the firm liquidity position.
- Suppliers of long-term debt, on the other hand, are concerned with the firm's long-term solvency and survival. They analyze the firm profitability overtime, it ability to generate cash to be able to pay interest and repay principal and the relationships between various sources of funds (Capital Structure Relationship). Long-term creditors do analyze the historical financial statements, but they place more emphasis on the firms projected, or pro-forma, financial statements to make analysis about its future solvency and profitability (Stalk and Hout, 1990).
- Investors, who have invested their money in the firm's shares, are most concerned about the firm's earnings. They restore more confidence in those firms that show stable growth in

earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firms financial structure to the extent it influences the firms earning ability and risk.

- Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that resources of the firm are used most effectively and efficiently and the firm's financial condition is sound (Panday, 2005; Foster, 2006).

Therefore, it can generally be argued that capital markets translate the policies of Tanzania government of alleviating poverty and finally improving the people's livelihood into reality. It is the capital markets, which adds values on number of employments which results from rejuvenation that emanate from increased working capital of the firms (Aharony et al., 1980; Ang.James et al., 1991). The firms listed in stock exchange market, pay taxes (Roth, 1996), hence improving the accumulated fund of the government, which ultimately is allocated to roads improvements, health services, schools and so forth. In addition, Shares is one of the quick business and the most liquid business (Proshare, 2005), and has broad trickledown impact from paying school fees, building houses, schools, industries and meeting daily needs(Akerbach, 1979a; Brickley, 1983). Thus, the benefits resulting from stock exchange are huge, which include improving the economy of both the firms and the countries in which the business is conducted (Bhattachanya, 1979; 1980; Cristien, 1990).

The situation thus calls for finding out whether people who invest in securities do take into account the financial information of the firms they invest through studying such trend in broader spectrum of different parts of Tanzania. With ever-increasing number of people, investing in securities failure to observe the indicators can lead to massive losses of the money of investors (Anderson, 1981; Barton, 1982). Currently, stock exchange is one of the leading single business entities with the majority of investors in terms of numbers.

Therefore knowing the use of financial information is potential if risk minimization is of concern. On the contrary, if the investment done through purchase of shares would be improper, there are possibilities of many people getting into investment with suffrage (Asquith et al., 1983; Ang.James, et al., 1991). This can be substantiated through the Tanzania Oxygen Company Limited, which was the first company to list shares with the Dar es Salaam Stock Exchange, and attracted many people, thus the company raised her capital to 9.4 billion shillings (DSE,

2005:18). However, the value of shares kept diminishing, and to date (year 2009) the people invested have enjoyed no dividends. For example the value of shares have dropped from TShs. 500 as initial price offer in 1998 to TShs. 290 in the year 2009 which is about 40% decrease (DSE, 2009; DSE, 2001; DSE, 2003; DSE, 2005). Considering the risk associated with the investment in stock shares, there is a need for the study whether investors in stock exchange consider financial information of the firms when deciding to invest.

3. METHODS:

The case study design was employed in the study, which covered Zanzibar. It applied the non-parametric methods in order to capture data from respondents in Zanzibar. A purposeful sample of 50 investors was identified. Analysis of data was done using SPSS, where description analysis was used and the percentiles have been indicated on the extent of the use of financial information. Another important feature to note is the sample of Zanzibar where the researcher utilized the meeting of Members of Parliament from Zanzibar who met on 10/10/2009, in the same venue (town) the investors' forum of Zanzibar was meeting in Mjini Magharibi town. Hence, 44 of the respondents of Zanzibar were Members of Parliament who have invested in shares.

4. RESULTS AND DISCUSSION:

The consideration for financial information when investing in stocks in Zanzibar was dealt similar to other case studies except in that most responses in Zanzibar were members of parliament. The responses were divided into three categories: as small investors, which include all investors who invested any amount below 10 million. The second category was investors who have done so between 10 million but below 50 million. The third category involved investors who have invested from 50 million and above. The reason for categorization was to ensure that all categories of investors are represented. Anticipating responses who invested more than 50 million was difficulty hence questionnaires were distributed to firms.

In Zanzibar, total sample on small investors was 40. Investors that consider financial information were 4, which is equal to 5% of the small investors. It was observed further that

77.7% of medium investors do consider financial information. The response defeats all other cases in the category of medium investors. Large investors in Zanzibar indicated that they consider financial information when investing. The response was 100% of those who were under the study in Zanzibar. The responses of both cases have indicated that there is a relationship between amount invested and the use of financial information. In Zanzibar, for example even medium investors were sensitive to the use of financial information.

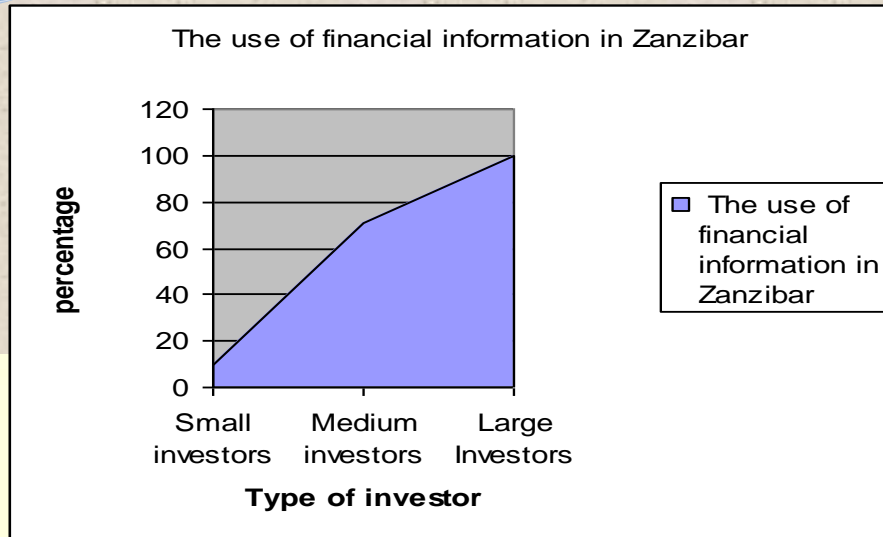
The trend can be related to financial ability of the people of Zanzibar. The perception of the pertinence of the amount ranging between 10 million and bellow 50 million shillings varies accordingly, as such economic power differs between one region and another. In Zanzibar the amount, ranging between 10 million and below, 50 million can be said is huge. Since the economic power of most people of Zanzibar is low, hence the amount of 10 million can be equated with about 5 million in the mainland. Therefore, if risk averse increases as the amount invested increases then it is of no wonder why in Zanzibar the investors who were under the category of medium investors were sensitive to risk compared to the same category in Iringa (Norman, 2011).

Table 7.4: Use of financial information in Zanzibar

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	13	26.0	26.0	26.0
	No	37	74.0	74.0	100.0
	Total	50	100.0	100.0	

Source: Analysis of field data 1999/2010

Figure 7.3



Source: Analysis of field data 1999/2010

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Some responses were as follows:

I never invest in shares without asking the financial advisors. I just cannot do without consulting the financial advisors. The financial information is the key to investing. Without financial information, it is awkward to invest¹.

Another respondent in Zanzibar had this to say regarding the use of financial information prior to investing:

I have invested in two firms, TOL and TCC. The TOL shares gave me loss, since then, I have become slow in responding to other firms. However, the TCC shares are doing well. I have tripled my capital, and do earn many dividends annually. I do not invest using financial information rather adverts are sufficient to me².

Another respondent from Zanzibar had this to say:

¹ Response of a businessperson in Zanzibar in the name of Raza, who owns some businesses including a Hotel, on 20 February 2010.

² Response of Mohamed, a businessperson and Member of Parliament of the United Republic of Tanzania who hails in Zanzibar, on 20 February 2010.

The use of financial information is imperative in making investment decisions. I do study the financial information before deciding to invest. I have invested in nine firms so far. In addition, I have been enjoying profits in the business. I got loss in one firm, since then the use of financial information has been crucial prior to investing³.

The findings in Zanzibar indicated that there are other factors that persuade people to invest in stocks other than financial information. Table 5.10 presents the summary of factors influencing the purchase of shares in Zanzibar.

Table 5.10: Factors influencing purchase of securities in Zanzibar

S/NO	Factors influencing purchase of stocks	Frequency	Percentage
1.	Adverts	50	100
2.	Speculation/Hearsay	37	74
3.	Nature of the product of the firm	35	70
4.	Financial information	12	24
5.	Management of the firms	1	2

Source: Field Data 2009/2010, which indicate that most investors do invest through the influence of adverts, speculation, and nature or type of the products of the firm.

The responses of Zanzibar were divided into the following: Those attained standard seven and below (4), those attained form four education level (21), those attained form six (10), Diploma (10) Bachelors degree and (2), master degree (3).

The findings in Zanzibar revealed more similar results with other cases that had earlier took place in Iringa and Mtwara (Norman, 2011). In Zanzibar, the number of investors with bachelors' degree and those with master degree were 36, but the total numbers of investors that consider financial information were 12, which indicated that there is no relationship between the use of financial information and the level of education of the respondents. Certainly, it can be argued that the level of education and the use of financial information is a puzzle. Since it would be thought that the higher the level of education should indicate more use of financial of

³ The response of Hamad Rashid, member of parliament of the United Republic of Tanzania, on 20th February, 2010.

financial information. The findings however reveal that the use of financial information is independent of the level of education.

5. CONCLUSION:

The value of financial information remains to be crucial, since it gives the investors to understand the anticipated profits and gains of the firms. Financial information also provides understanding on the prospective growth of the firm, hence investors of stocks could predict future investments plan for those who need growth of the value of shares at market. Financial information gives information regarding the ability of the firm to cover its liabilities, and thus enables investors to realize the true trend of the firms. Financial information further provides information on earning per share, hence enabling investors to understand the amount of growth their shares are likely to earn. Hence, financial information is critical for any investor. The total use of financial information in Zanzibar stands at 24%. However, the use of financial information by strata or segmentation of SI, MI, and LI stands at 10%, 71.42% and 100% respectively.

It is thus recommended that the vitality for the use of financial information be on daily basis; from planning what to eat, to dress, to drink, establishing business entities and so forth we need financial information. Hence, need for incorporating the subject on financial information in formal education system to allow the present and future generation be finance conscious. The society that does not plan for its own daily life will keep on crying for budget deficit.

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