RESEARCH PROJECT

ASSESSMENT OF FACTORS INFLUENCING INVESTMENT BEHAVIOUR IN SECURITIES MARKETS

A CASE OF NAIROBI STOCK EXCHANGE

BY

AGNES WANJIRU NJERU

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, M.B.A. (FINANCE), INSTITUTE OF BUSINESS.
Declaration:

This research proposal is my original work and has not been presented in any other University for academic or other research thereof.

Signature ___________________________ Date 1/11/04

Agnes Wanjiru Njeru.
D53/7700/02.
Department of Business Administration

This research Proposal has been submitted for examination with my approval as the University Supervisor

Signature ___________________________ Date 1/11/04

Farida Abdul

Signature ___________________________ Date 1/11/04

Mr. Munywoki.

Signature ___________________________ Date 11/11/2004

Chairman
DEDICATION

To the Almighty God for seeing me through this course.

To my dear husband Nyaga John for being very supportive.

To my daughter Lorna Mumbi for co-operating.

My parents Josphat Njeru and Cecily Wambui for encouragement.

My dead grandfather Gatama Kamau though he never lived to see me finish the course, for his support both morally and financially.
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Above all, the Almighty God for being faithful throughout.
# TABLE OF CONTENT

Title ................................................................. i  
Declaration ....................................................... ii  
Dedication ........................................................ iii  
Acknowledgment ............................................... iv  
Table of Content ............................................... v  
List of tables .................................................. vii  
Abstract ........................................................ viii  
List of Abbreviation ......................................... ix  
Definitions of terms ......................................... x  

## CHAPTER ONE

1.0 Introduction ........................................... 1  
1.1 Background of the study ........................... 1  
1.2 Statement Of The Problem ....................... 3  
1.3 Objectives of the study .......................... 4  
1.4 Research questions ................................ 4  
1.5 Significance of the study ....................... 4  
1.6 Scope of the study ................................ 4  

## CHAPTER TWO

2.0 LITERATURE REVIEW .............................. 6  
THEORETICAL FRAME WORK ............................. 6  
2.1 An Overview Of The Emerging Markets Performance .................. 6  
2.2 Kenya's capital markets ........................ 6  
2.3 History of Nairobi stock exchange ............ 8  
2.4 Role of stock exchange in the economy ................. 9  
2.5 Financial market efficiency ................... 10  
2.6 Significance of market efficiency ............. 11  
2.7 The factors influencing investment decision for securities ........ 11  
2.8 The effect of decline in investment levels on country’s growth ........ 17
CHAPTER THREE .................................................................................................................. 20
3.0 Research Methodology ................................................................................................. 20
3.1 Introduction .................................................................................................................... 20
3.2 Target population .......................................................................................................... 20
3.3 Sampling strategy ......................................................................................................... 20
3.4 Data collection method ................................................................................................. 21
3.5 Data analysis techniques .............................................................................................. 21
3.6 Expected output ............................................................................................................ 21

CHAPTER 4 ............................................................................................................................... 22
4.0 Data analysis and interpretation. .................................................................................. 22
4.1 Overview of the data collected and analyzed. .............................................................. 22
4.2 Descriptive statistics. ..................................................................................................... 23
4.3 Results Of Efficiency Test ........................................................................................... 28
4.4 The effect of declining investment to performance of firms in NSE. ......................... 29

CHAPTER 5 ..................................................................................................................................... 31
5.0 Conclusion policy recommendations, limitations and of studies. ............................ 31
5.1 Summary and Conclusions .......................................................................................... 31
5.2 Policy recommendations ............................................................................................... 32
5.3 Limitations of the study. .............................................................................................. 34
5.4 Suggested areas for further research ........................................................................... 34

REFERENCES .......................................................................................................................... 36

APPENDICES ............................................................................................................................ 38
Appendix I: Specimen letter to respondents ................................................................. 38
Appendix II: Research questionnaire ............................................................................... 39
Appendix III: Budget schedule ......................................................................................... 42
Appendix IV: Work Plan & Time Table of Events ......................................................... 43
Appendix V: List of stockbrokers .................................................................................... 44
Appendix VI: Companies Listed on the Nairobi Stock exchange .................................... 45
Appendix VII: Capital Investment Advisers ................................................................. 47
LIST OF TABLES

Table                                                                 | Page  
---                                                                   | ---    
4.1 Questionnaire distributed and returned                           | 22     
4.2 Regulator of Capital market                                      | 23     
4.3 Age of institution                                               | 23     
4.4 Volume of shares invested                                        | 24     
4.5 Most hindering factor at NSE                                     | 24     
4.6 Volume of shares traded if constant                               | 25     
4.7 Brokerage fee                                                    | 25     
4.8 Waiting time for share certificate                               | 26     
4.9 Transaction cost                                                 | 26     
4.10 Trading and the Exchange rate value                             | 27     
4.11 Kenya’s Stock Market Performance Versus other African countries Stock market | 27     
4.12 Effect of Declining Investment on Firms performance             | 29     

vii
ABSTRACT

Due to globalization, stock markets have strived to enhance securities markets performance to increase its investors' confidence and hence widen their pools of investments portfolios. Recent years have seen considerable attention devoted to the analysis of factors influencing investment decisions in different countries. Much of the research was prompted by nearly simultaneous worldwide collapse of equity markets, which apparently provided evidence of strong linkages in factors capital movement, the advent of globalization of financial markets and the increasing importance of cross border equity flows.

The project explains the important role Nairobi Stock Exchange play in providing opportunities for mobilization of savings, improved efficiency in resource allocation and provision of relevant information for investment appraisal. It also generates lower cost equity capital for firms. Investors need to be appraised of the opportunities and pitfalls of stock market investment to enable them make informed decisions.

This paper sets out to assess the factors influencing investment decisions in securities markets, at Nairobi Stock Exchange. With realization of the important of capital markets and the impediments they face, this study sets to identify and assess these factors and to make necessary recommendations for policy framework. The population of the study comprised of all quoted companies in NSE, and all registered stockbrokerage firms and the capital investment advisers. The primary data was collected by use of structured and semi structured questionnaires.
<table>
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<tr>
<th>Acronym</th>
<th>Abbreviation</th>
</tr>
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<tbody>
<tr>
<td>CMA</td>
<td>Capital Market Authority</td>
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<tr>
<td>GDP</td>
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<td>GNP</td>
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<td>IIF</td>
<td>Institute of International Finance</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commission</td>
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<tr>
<td>KCMA</td>
<td>Kenya Capital market Authority.</td>
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<td>NSE</td>
<td>Nairobi Stock Exchange</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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DEFINITIONS OF TERMS

Capital market: A market for borrowing and lending funds for medium to long-term financial scale.

Capitalization: Using the rate of interest rate to convert series of future interest into one sum.

Emerging markets: A stock exchange market characterized by low trading volumes, low turn over with limited quoted companies.

Exchange market: Market for sale and purchase of securities.

Future contract: Agreement to buy or sell a fixed quantity of security for delivery in future at a fixed price.

Hedging: Economic operations undertaken to protect the investors in an open market economy against securities fluctuation.

Investments: The use of money to create more wealth either in form of interest divided or profit.

Option: Right to buy or sell a fixed quantity of security at a particular date at a particular time.

Share: Proportion of interest in the capital invested.

Stockbroker: Agent who buys security in stock exchange market on behalf of client for a commission.

Swap: Bilateral agreement between Central Banks that provide a provision exchange rate fluctuation.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

The role of long term capital in the economic development of a nation cannot be overemphasized. Well-organized capital market is crucial for mobilizing both domestic and international capital. Dailami and Atkini (1990) describes the provision of funds to finance domestic capital formation as a key factor in the prospects for long term economic growth in developing countries.

Capital markets foster mobilization of savings and allocate the accumulated capital to productive investments in areas that bring most value to the economy. They provide avenues for investments and diversification that eventually supports a country’s economic growth (Capital Market Authority, Annual Report 2000).

Security markets have an important role to play in financial liberalization they are a mechanism for capital allocation and corporate monitoring, and a means for government to exercise market based rather than direct fiscal monetary policies (Pardy 1992).

Capital markets are markets for trading in long-term securities including shares, bonds and Treasury bills and brings together demanders and suppliers of long-term capital (McMenamin 1999).

Some investors in the stock exchange market buy shares for speculative purposes, hoping to get short-term benefits. They believe in timing the market to buy when prices are low and sell when prices are high. Speculation therefore is a major justification for investment in variable income securities aimed at minimizing the extent of volatility in the market falls which may go unabated. The long term investors whose objective is to receive a return on share appreciation will consequently have to make rational investment decisions to avoid financial loses that can occur as a result of poor economic growth. Therefore making the right portfolio choice that can yield optimal output is certainly a major concern among investors at the Nairobi Stock Exchange.
Liberalization of the economy and removal of the exchange controls Act in 1995, gave a boost to stock market activity. Another positive development was the increase of limit of shares that foreign investors could hold in listed companies, from 20% to 40% aggregate in any company and from 2.5% to 5.0% for individual investors. Brokerage commission was also reduced from 2.5% to 2.0%. however, given these incentives, in the same year total market capitalization declined from Ksh. 137 billion to Ksh. 99 billion as the end of December 1995 (CMA, Annual Report 1996). There has even been further decline in terms of share turnover and foreign investors activity of 22.8% and 14.5% in 1999 and 2000 respectively (CMA, Annual Report 2001).

The expansion of the scope of foreign investments by introduction of incentives for capital markets by the government in 1998 yielded less. This included the setting up of tax free capital funds. Removal of capital gains tax on insurance companies, investments in local stockbrokers and the envisaged licensing of dealing firms to improve market liquidity. Nevertheless, the NSE did not perform well, with the NSE 20 share index falling below 3000 index mark. The number of shares traded and turnover dropped by 20% and 27% in 2000 and 2001 respectively; and the number of transactions increased by 33% (CMA, Annual Report 2001).

How to choose and invest for maximum returns is certainly a major concern among investors at the N.S.E.. Investors need to be appraised of the opportunities and pitfalls of stock market to enable them make informed decisions. Investors tend to base their decision on good marketing of a listed company regardless of the quality and reliability of information and published prospectuses. Some base their decisions on the sheet size and public image of the company. These are often wrong foundations upon which to build on investment decisions (Ibid 2001)

O' Neil (1995) notes that most investors never get past the starting gate because they do not use a good selection criterion. They want too much, too fast, without necessary
preparations and skills. They are looking for an easy way to make a quick buck, without considering the conditions they are subjected to and hence uncertainty of their outcomes.

1.2 Statement Of The Problem

Given the importance of Capital markets, it is crucial that investors understand the market behaviour. How well stock markets plays the role of mobilizing saving, and resource allocation depends on investor’s perception of how the economy is performing. Over the last decade, the government has shown steadfast commitment to developing and enhancing the role of stock market to enhance investment growth and provide long-term finance necessary for economic growth.

However, in spite of government policies, the performance of NSE has remained poor. The NSE is still dominated by low market capitalization, few number of listed companies, declines in volumes and stock traded, reduction in NSE 20 share Index, a low turnover ratio and foreign investment activity. The efficiency of NSE is weak and most investors have a buy and hold attitude.

With the realization of the importance of capital markets to an economy and the subsequent poor performance of the stock markets, there is need that investors understand the behaviour for securities in the market. In the light of these developments, it becomes extremely important to identify and assess the factors that influence investment behaviour for securities in the NSE and to make necessary recommendations for policy framework.
1.3 Objectives of the study

Given the above background on the gaps that arose during the development of NSE in Kenya, the present study is aimed at assessing the factors that influence investment decisions and to make necessary recommendations to rectify the pitfall.

The objectives are as follows:

- To identify the factors influencing investment decisions for securities in NSE.
- To examine the impacts of declining investments trends to the economy.
- To suggest possible policy recommendations that will promote effective development of Kenya’s capital market.

1.4 Research questions.

1. Why don’t investors invest widely in security markets?
2. Why is there no significant improvement in the performance of Nairobi Stock exchange?

1.5 Significance of the study

The findings of the study will be useful to the following:

- Government for the purpose of streamlining economic policies.
- Stockbrokers so as to improve their performance.
- Investors to achieve high rates of returns on their investments.
- Commercial entities to raise adequate capital and achieve high returns.
- Academicians and researchers in forming basis for further study and research in the area of capital market performance.

1.6 Scope of the study.

The study is limited to Nairobi Stock Exchange. It will cover companies quoted on NSE and the stock brokers, the reason being that, they are active players in the stock market and they are in a position to provide the researcher with the necessary data for the study.
This study targets the corporate financial managers, since they are concerned with investment decisions.
CHAPTER TWO

2.0 LITERATURE REVIEW

THEORETICAL FRAME WORK

2.1 An Overview Of The Emerging Markets Performance.

An overview of the emerging markets during 1999 reveals that markets have recorded some marked improvements over the position that prevailed during the 1998. The South East Asia and Latin America market for instance, witnessed tremendous recovery in 1999. According to the institute of International Finance (1999) the net portfolio equity flows to emerging markets estimated at about US $25 billion during 1999 from a low level of US $6.6 billion in 1998. The portfolio equity flows was significantly strong for South East Asia markets, which are estimated to have grown a three fold from US $5 billion in 1998 to US 16 billion 1999 (IMF 2001).

The Korean market grew by 56% by the end of October 1999 while Singapore and Indonesia recovered by 49%. The Malaysia market recorded a growth of 28% and India achieved 50% recovery during the same period. Brazilian markets recorded a major growth of 76% while Argentina market grew by 25% and Mexican market by 39% (World Bank 2001).

The direct equity invested in emerging markets during 1999, is estimated at about US $ 117 billion in 1999 compared to US $120 billion in 1998, with China becoming the largest destination for the equity investment of about US 35 billion out of the total global flows into the emerging markets.

In Africa, South Africa anticipated to attract equity flows of approximately US$5.5 billion during 1999 and 2000 following listing of a number of South African companies in international exchanges (CMA 2002)

2.2 Kenya's capital markets

In the last decade Kenya's capital market has gone through important transformation. It has witnessed tremendous growth from 1990 in terms of annual turnover, capitalization
and index levels. In 1990 the turnover for instance was Kshs 230 Million, rising to a level of Kshs 3.08 billion in 1994, and subsequently an improved turnover of Kshs 6.15 billion 1997. The turnover however declined in 1998 to a level of Kshs 4.56 billion and increased slightly to Kshs 5.1 billion in 1999 (NSE 2001)

The market capitalization level has also grown from a level of Kshs. 100 billion during the period of 1995 to Ksh. 128 billion in 1998. The market level index rose from 915 in 1990 to 4559 in 1994. The index however averaged between 3000 and 3400 between 1995 and 1997 respectively. During 1997 and 1998, the index level declined sharply to below 3000 and closed at about 2300 towards the end of December 1999 (CMA 2002)

The performance of stock markets is a reflection of the performance of the economy and hence the currency level of markets performance since 1990’s is attributed to economic downturn which was adversely affected Corporate earnings, divided payouts ratio and profitability stock turnover. CMA’S annual reports clearly explain the role of government in promoting the developments of capital markets. The following incentives have been made available by the government to promote capital markets performance.

(a) Taxation Measures

- Withholding tax on divided income has been reduced from 15% to 7.5% (foreign investors) and 5% (local investors).
- Expenses of companies issuing shares to the public are now tax deductive.
- Registered and approved venture capital funds now enjoy a longer tax holiday of 10yrs etc.

(b) Policy Measures

- Since January 1995, foreign investors now participate in the stock market but with a ceiling of 5% for individual investors and 40% aggregate in any locally controlled company.
In order to encourage the transfer of technology and skills foreign investors are now allowed up to 49% of local firms brokerage and up to 70% of local fund management companies.

2.3 **History of Nairobi stock exchange.**

In Kenya, dealing in shares and stock started in the 1920’s when the country was still a British Colony. There was however no formal market, no rules and no regulations to govern stock broking activities. Trading took place on gentlemen’s agreement in which standard commissions were charged with clients being obligated to honour their contractual commitments of making good delivery and settling relevant costs.

In 1951, an estate agent called Sir Francis Drummund established the first professional stock firm. He then approached the then finance Minister of Kenya, Sir Ernest Vasey and impressed upon him the idea of setting up a stock Exchange in East Africa.

The NSE is categorized by the World Bank as an emerging market. An emerging market is a stock exchange characterized by low trading volumes, low turnover ration, with few listed companies. It was among the first stock exchanges to be established in Africa and was in terms of capitalization after South Africa Zimbabwe, Mauritius, Egypt and Morocco. It was officially constituted in 1954 as Voluntary association of stockbrokers registered under the society Act and was an overseas affiliate of London Stock exchange.

In 1980 Kenyan government realized the need to design and implement policy reforms to foster sustainable economic development with an efficient and stable financial systems. In particular, it is set to enhance the role of private sector in the economy to reduce the number of public enterprises on the exchequer, rationalize the operations of the public enterprises sector to broaden the base of ownership and enhance capital corporation in conjunction with central Bank of Kenya which undertook a study entitled “Development of Money and Capital Market in Kenya” which became a blue part for structural reforms in the financial markets and culminated in the formation of regulatory body.
In 1988, the first privatization through the NSE was the successful sale of the government’s 20% stake in NSE of Kenya Commercial bank. In 1996, there was the largest share issue in the history of NSE, the privatization of Kenya Airways. Over 110,000 shareholders acquired a stake in the airline. The Kenya Airways privatization team was awarded the World Bank Award for excellence in 1996 for being a model success story in the divestiture of a state-owned enterprise.

In 1998, the government expanded the scope of foreign investment by introducing incentives for capital market growth including the setting up of tax-free venture capital funds, removal of capital gains tax on insurance companies investments, allowance of beneficial ownership by brokers of in local stock brokers and the envisaged licensing of dealing firms to improve market liquidity. In 1999, the NSE had 20 members stock brokers.

The transformation of NSE into a modern Stock exchange has seen its activities being reactivated to enhance investor confidence in the market. However, in spite of such transformation and increased investor confidence, the performance indicators mainly index, market turnover and volume have reflected unsteady in growth activities. There has been also lack of substantial increase in the number of listed/quoted companies with some placed under receivership thereafter liquidation.

2.4 Role of stock exchange in the economy.

Stock Exchange is a market that buys or sells securities issued by publicly quoted companies and the government. It helps in providing opportunities for mobilization of savings, improve efficiency in resource allocation and provision of relevant information for investments appraisal. It assists in the transfer of savings to investments in productive enterprises hence facilitating economic growth and development since capital is a scarce and limited resource, its efficient allocation is crucial. If an economy does not have efficient financial markets there is always risk that capital can be channeled to non-productive investment, leading to resource wastage and impairment of economic growth and recovery.
2.5 Financial market efficiency

The importance of market efficiency as argued by McMenamin (1997) is that share price at any point in time is used as a measure of shareholders wealth and value of the firm. It is therefore necessary that the share prices reflect the value of the firm. According to McMenamin (1999), due to insufficient competitive markets the firm's share will remain undervalued for long. Investors will react to quickly take into account any new information which becomes available and either buy or sell shares until they believe that the market is close to its true value.

In real world, financial markets can never be perfectly efficient because of conditions which requires to be complied with, whose its practicability do not anchor in real financial world. These conditions include:

- That there are no taxes, transactions cost or barriers to trading.
- Information is systematical and that every player in the market has equal and free access to the same market information.
- There are many players who are rational and no single participant can dominate or influence market prices.

The above conditions do not exist. There are taxes transaction costs that are incurred and market information is asymmetrical.

Efficient markets are classified into three types, (Ibid 1997)

- Weak form of efficiency suggest that security prices reflect all related market data and no information is gained from analysis past security movements. There is no guide for future prices movements.
- Semi-strong form of efficiency fully reflects all public information, which includes firms, announcements, economic or political pronouncements. Investors can therefore use relevant information that was not accounted for in the market to earn abnormally high profit.
Strong form efficiency suggests that security prices reflects all relevant information (Public and Private) which includes insiders information posed by firms management, hence share prices are congruent with market expectations.

In efficient markets the simple process of arbitrage would immediately eliminate such non-random patterns as soon as they are recognized.

2.6 Significance of market efficiency

1. In an efficient market the price of companies securities is not influenced by ‘creative accounting devices’ which are used to manipulate accounting profits in the annual reports.

2. Efficient markets will have its securities priced correctly. Hence the need for market speculation is irrelevant.

3. The provision of swift judgement on performance of the management and future company prospects are critically significant.

4. The quality of firms investments decision matters more than financial decisions. It is irrelevant what kind of security is issued, equalities, bonds or what their characteristics and maturates are, it is the investments decisions that matters. (Green 1990).

2.7 The factors influencing investment decision for securities.

According to the World Bank (1990) report taxes that can raise aggregate investments tend to raise a country’s net financing need and hence increase capital flows. The report comments that taxes can affect aggregate savings and investments in a country and hence have an impact on the net flow of capital in or out of a country. Secondly, taxes influence the composition of portfolios including the form in which individuals hold their wealth, asset mix held and liabilities incurred by financial intermediaries and the manner in which firms or individuals finance their investments, these decisions have implications
for gross flow of capital. Finally, taxes affect the location of trading activity in particular financing assets and hence gross flow by providing an incentive for trading to take place in a lower taxes jurisdiction. These affects of taxes on capital flow affect investment decisions. (World Bank 1990).

How taxes affect stock markets behaviour in Sweden shows that volatility in Swedish stock market declined during high tax periods. In similar case, the index levels fell actually in response to transaction tax increament. Weekly to daily variance ratios during high tax periods declined suggesting that taxes induce a great negative auto correlation in returns. Investors were withdrawing from investing in stocks and shares, and looking for alternative markets (IMF 2001)

Though taxes affect investments in securities, the effect of such taxes on investment in the NSE has not been significant. This is due to the fact, the relevant tax in the NSE is the withholding tax in dividends which is only 5% for local investors and 7.5% for foreign investors since its reduction from 15% (Analyst, Mary 2000).

Dora (1996), notes that taxes have distortion substitution effects since it changes the relative cost of goods and services and hence discriminate between economic choices. Heavily taxed firms will have decreased demand of their products, because of price increase. This causes investors to shift from one business to another looking for better markets.

Pardy (1992) observed that differential effective tax rates on either capital gains or income from differential financial instruments distorted capital raising and investment decision. The observation revealed that a number of developing countries have tax rates that discriminate in favour of savings and demand deposits as opposed to securities investment. The recommendation made was that, for capital market development, these tax differentials should be eliminated. In Kenya, tax rates are in favour of securities as opposed to demand deposits in commercial banks.

Sanford (1999) in lamenting about high tax increase posits that certain economic consequences often follow. It could have detrimental effect to business confidence and to
investment. Further, it could lead to evasion and avoidance including emigration and transfer of capital abroad by investors.

Exchange rate situation is mentioned as another risk factor. During a meeting of International Organization of Securities Commission (IOSCO) of 1999 annual conference, it was observed that:

“African capital markets are faced with numerous impediments raging from high exchange rate volatility in share prices, inadequate market structures, inefficient trading and settlement systems and insufficient and untimely information flow.”

Economic changes withdrawal of donor funding and declining value of the shilling have caused increase in domestic debt with increasing accumulation of budgets deficits. The increased exchange rate fluctuation has increased investor uncertainty about their returns on investments ( Jeff 1995)

Kibicho (1978), in the study on NSE and the economic fundamentals, found out that exchange rate is a decision variable for foreign investors as well as local investor in a liberalized economy.

The performance of Kenya Shilling in foreign exchange market has been weakening against major world currencies and dramatically volatile. When the IMF three year US$ 2.15 billion program lapsed in July 1995 foreigners withdrew their investments. In just three weeks, US$ .25 million of hot money was fizzled out forcing the government to raise interest rates to keep its commercial paper marketable. The shilling depreciated sharply from January’s 1998 value of Kshs 54 per US$ to Kshs70 per US$ and although the treasury bills jumped from 15% to 27% few investors were still willing to buy stock (Analyst, December 1998)

In 1980, Mexico went through a deep crisis after its Peso depreciated. The country had borrowed too much in the World markets and under pressure of high interest rates could not repay it. Capital flight was eminent and investors pulled out their stock fearing that Mexico would undergo a financial downturn. Indeed the process ended up in a deep
The declining performance in investment levels in the market is due to regulation which bar foreign participation leaving an arguable massive float. In Kenya the foreign ownership restriction of holding only up to 20% was increased to 40% in 1995, but which still is considered low to attract substantial foreign investment (CMA 1999).

Killick (1978), displays an attitude of dissatisfaction to the Ghanaian government. While the attitude towards investment was made clear, Nkurumah’s view on direct investment remained ambiguous. Although wide range of fiscal and other concessions were made to investors, there were strings attached to it, as indicated in Nkuruma’s statement:

“The government accepts the operation in the country of large scale enterprise by foreign interests so longs as they accept the following conditions: First, that foreign private enterprises give the government the first options to buy their shares or part of their equity capital. Secondly, that foreign investments and enterprises jointly owned by the state and foreign private interests be required to re-invest 60% of their net profits in Ghana’s economy” (Friedland and Rosberg 1964).

Leechor (1977) laments that there is extreme repression control of private sector activity. Akuff (1992) adds that foreign investor’s participation in domestic trade was seen as “an act with the interest to sabotage the economy of the state”. These government pronouncements largely affect the entire business operations. The government will need to relax most of its regulations so as to attract foreign investments. The provision of free economic environment accompanied with appropriate incentive would work better.

Koffi (1998) conducted a descriptive study to analyze how income, education and investors ability to use available information affected investors investment decision in Ghana’s stock exchange. It was found that the local investors could be described as low income investors. A sizeable percentage had no formal education and the knowledge of local investors about capital markets was poor. Also their ability to use available information on investment decision was weak.
Serbet (1997) adds in the same vain that most economies of Sub-Saharan Africa operate sub-optimally because local investors have no basic knowledge concerning capital markets operations. Kofi recommended that Ghanaian government need a campaign to sensitize and educate the public on the stock exchange activities to promote investments.

Infrastructure and transparency of transactions affect investment decision. Verssuuyen (1990) indicates that investors access to correct information disclosures is more limited. And for the limited available information is wholesomely manipulated for firms to seek more investors, adds Kingori (1995). Investors have tendencies of inconfidence in such firms due to non-conformation to requirement and fear investing in such firms. The government should protect such investors by ensuring compulsory disclosures of financial data and other relevant information relating to security issue.

Officiating an executive information systems seminar the new chairman of capital markets Authority Denis Afande said that exploitation of existing business opportunities depends on availability of accurate and timely information, its packaging and how fast it can be accessed (CMA, Annual Report 2002)

Advance in technology with advent of globalization of markets and financing systems computerized and internet services have provided for fast and up to date market trends. Investors choose to invest where technology is utilized. Kenya NSE is still developing a variety of websites, which have not really become fully in use (Mohamed, R, E,A. Standard, June 2003)

The banking sector has declined in terms of aggregate growth in assets, which is an indication of banking sector weakness, Jimna Mbaru, Chairman of Dyer and Blair company, comments. Banking industry has declined in terms of equity base and hence a slow aggregate growth. Decrease in banking sectors' performance jeopardizes their ability to finance economic development, which has witnessed declining trend over time. There was a marginal fall of 8.1% in 2001 as compared to 15.7% in 1997. Besides, the 'Giant banks' that are financiers also dominates in the NSE, influencing its operations, in term of financial mix, which may not be favourable to the investor (Analyst, December 2000).
Political factor also does influence investment decisions. Sensitivity to political environment inhibits investors. Since it erodes investors’ confidence and reduces business levels. Depending on political trends and pronouncement, investors can invest or disinvest depending on their perception on risk and returns (Robert 1999).

There is therefore need for firms and governments to adopt prudential macroeconomic policies in all diverse areas to ensure that capital markets grow and the NSE assumes its role of resource mobilization and allocation of capital, for manageable, proactive and reassuring economy that is investor friendly.

2.8 The effect of decline in investment levels on country’s growth.

The growth performance of developing countries over the past two decades has been both unsatisfactory and uneven, often accompanied with sharp declines in investments such declining trends in investments have had great effects on the growth of the economy (Jordan 1991).

Faced with the brutal fall in microeconomic and sectoral performances of their rational economics in early 1980’s Cameroon and Gabon underwent gross undercapitalization, impairing their budgetary systems and creating budget imbalances (Greenway and Milnan 1993). Further, the decay in International monetary Fund (IMF) funds disbursement conditionalities coupled with deteriorating investor confidence continued to have negative impact on government budget (CMA, Annual Report 2001).

Jebuni (1994), asserts that budget deficits is almost certain and this will worsen the country’s economic growth, due to declining fiscal revenue for the government. Kenya government is already experiencing budgetary deficit and now depends on donor funding to facilitate its economic plans (Analyst, May 1999). This has led to balance of payment disequilibrium causing declining production base and hence poor economic performance.

The government should provide a prudent macro-economic framework to encourage investments so as to reduce its budgetary constraints and also reduce reliance on donor funding.
Green and Khan (1990) posits that the negative external debt-service burden payment is due to malfunctioning investments projects with Gross Domestic Product and Gross National Product trends decreasing and averaging at 1.4% and 0.8% in Africa, between 1985 and 1995 respectively.

The poor returns on investment projects in Africa, measured by ratio of the growth of output to the rate of investment have been documented by the World Bank (1989). This disappointing external debt burden is because past investment projects financed by external borrowing have not yielded returns to commensurable with their costs. Further, their economies have stagnated and hence non-performances (World Bank 1998- b). Kenya Is among those global countries asking for debt service forgiveness, servicing its debt with poor economic growth has proved futile. In return, there is poor living levels and government inability to provide necessities.

Government has now lost economic autonomy since they have to conform to foreign conditionalities donor funding packaging, which affect the policy framework of the country., that should be adopted to suit foreign economic protocols jeopardizing economic growth. Economies will need to liberate from foreign submission through creation of sound market systems and through the provision of viable economic market environment to boost investors confidence.

Kaen and Booth (1977) observe that declines in investment patterns in Ethiopia contributed to a massive unemployment since most industries collapsed because investors have been pulling out of the country. Africa economies, in particular, will need to improve on their economies by encouraging investment through prudent macroeconomic policies to reduce poverty levels through creation of employment. A country whose citizens marginal propensity to save is low suffer from economic shocks of greater magnitude.

Banking sector will be impaired to considerable depths. The increased liquidity in the financial system arising from uncertainties in banking sectors has made it difficult to access loans. Some banking sectors have collapsed and subsequently liquidated, statistics shows that loans and advances have dropped from Kshs 230.4 billion in 2000 to Kshs
211.3 billion in 2001; a drop of 8%, since banks are becoming risk averse on account of non-performing debt portfolio. Increasing investments in governments securities by banking sector has exacerbated a downturn to the economy making productive sectors to suffer, which further denies the economy a chance to grow (CMA, Annual Report 2000).

Poor infrastructural framework has largely affected and eroded investor's confidence. The state of roads, railways and telecommunication network is poor, a case that has actually provided a negative indicator to investor participation in the country. Such state of infrastructure has increased the scourge of insecurity that has virtually discouraged investor’s participation in Kenya, as global destination for investment.

It is then crucial that for investments to grow, government must put in place mechanism that are proactive and investor friendly. Declining investment is a country’s weakness, and to avoid such diversity of effect, proper investments facilities and macro-economic policies be availed. Government bureaucratic mechanism should be liberated to accommodate a free and adoptive security market to facilitate economic growth.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter elaborates on the way the research is going to be carried out. It consists of the following parts:

- Population study
- Sample and sampling design,
- The data collection method & data analysis,
- Expected output and references

3.2 Target population
The licensed stockbrokers and companies listed and quoted in NSE and are actively trading formed the population of the Study, together with the capital investment advisors. The licensed stockbrokers were sourced from KCMA because it is the licensed body. Since stockbrokers are market professional the researchers believe that they have sufficient information on how best to trade from their clients profitability and are therefore in a better position of postulating about the investment decision. Although listed companies do not participate directly in the activities of the NSE, the researcher believes they are aware of the market trends of investments.

3.3 Sampling strategy
According to KMCA records, the total number of licensed stockbrokers is 18. This number was considered small by the researcher. The same record shows that the companies quoted in NSE are 55 and the number of capital investment Adviser is 26. The researcher aims at the main players in NSE. The main players are those who formed part of the NSE 20 share indexes. The researcher therefore took 25 companies to form the sample of the listed companies. All the 25 companies were contacted and questionnaires were distributed to them. In addition, out of 26 capital investment advisers, a sample of at least 22 of them were selected using random sampling since its not biased. The data were analyzed on the questionnaires received.
3.4 Data collection method.
Both primary and secondary data were used to collect the data. The secondary data was used to come up with problems to be tested. The data was obtained from NSE library, the stock Brokers Brochures, the CMA and the Internet. The primary data was used to determine major consequences and capture other problems that may have been excluded in the secondary data or which could be unique to the NSE.

A semi structural questionnaire was used to collect primary data. Both open ended and closed ended questionnaires were used. The open ended questions aimed at collecting qualitative data and more so encourage interviews or respondents to provide much information as possible. The closed-ended questions was used to collect specific information as to the existing problems of NSE.

THE RESPONDENTS.
The target respondents in the listed companies were the financial managers and dealers respectively because the corporate financial managers are concerned with investments decision of the company while dealers represent stock broking firms at the NSE. In cases where they were absent any person(s) who acted on their behalf became the respondent(s).

3.5 Data analysis techniques.
Being an exploratory study, the data collected was analyzed by use of descriptive statistics. Therefore, frequency tables, cumulative tables, and percentages were utilized. Descriptive statistics have been extensively used in exploratory studies and have been found to yield acceptable results. Shollei (1999), used it to determine the nature of the factors influencing collaborative arrangements in Kenya’s major industry.

3.6 Expected output
The results of the study helped the researcher to determine the extent to which the discussed factors affect the decisions of investors in security markets. The expected output is that the investors don't understand the factors influencing investment decisions in security market.
CHAPTER 4

4.0 DATA ANALYSIS AND INTERPRETATION.

This chapter presents the analysis of the data collected and also the findings of the study. The analysis of data is subdivided into 2 parts. Section one provides the overviews of the data collected and analyzed and section two provides the descriptive statistics. Descriptive statistics show frequencies, cumulative frequencies, percentages and mean of some variables.

4.1 Overview of the data collected and analyzed.

Out of 65 questionnaires distributed (18 to stockbrokers, 25 to listed companies and 22 to capital market advisors) 21 were returned by stockbrokers, 16 by companies and 18 by capital investments advisors representing 88.8%, 84% and 81.8 response rates respectively as shown in the table 4.1 below.

<table>
<thead>
<tr>
<th>Types of respondents</th>
<th>Questionnaire Distributed</th>
<th>Questionnaires returned</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockbrokers</td>
<td>18</td>
<td>16</td>
<td>88.8%</td>
</tr>
<tr>
<td>Quoted companies</td>
<td>25</td>
<td>21</td>
<td>84.0%</td>
</tr>
<tr>
<td>Capital investment</td>
<td>22</td>
<td>18</td>
<td>81.8%</td>
</tr>
<tr>
<td>Advisers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>65</strong></td>
<td><strong>55</strong></td>
<td><strong>84.6%</strong></td>
</tr>
</tbody>
</table>

This means that a total of 55 respondents or 84.6% of the visited respondents in overall completed and returned their questionnaire, while 10 failed to return theirs, despite several visits to their premises by the researcher. Two stockbrokers, four listed companies and four capital investment advisers therefore failed to return their questionnaires. The original sample of 65 respondents could not therefore be achieved.
4.2 Descriptive statistics.

Data was collected on all variables that were investigated. All the investors trade on NSE using a number of brokerage firms. When asked who regulates the capital market participation, the following table reflects their response.

Table 4.2 Regulator of Capital Markets

<table>
<thead>
<tr>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
<th>CUMULATIVE PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMA</td>
<td>40</td>
<td>72.7</td>
</tr>
<tr>
<td>CMA &amp; Government</td>
<td>15</td>
<td>27.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td>100.0</td>
</tr>
</tbody>
</table>

These findings indicate that the capital Markets Authority controls the participation of Capital markets as indicated by 72.7% response rate. Only 27.3% cited both the CMA and the Government as being controller of capital participation.

The investor when asked to state when they began operating the following table 4.3 shows the distribution of respondents according to age.

Table 4.3 Age of institution (number of years of operation.

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of investors</th>
<th>Percentage</th>
<th>Cumulative frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>19</td>
<td>34.5</td>
<td>34.5</td>
</tr>
<tr>
<td>16-30</td>
<td>30</td>
<td>54.5</td>
<td>89</td>
</tr>
<tr>
<td>Over 31</td>
<td>6</td>
<td>11.0</td>
<td>100</td>
</tr>
</tbody>
</table>

The results in table 4.3 showed that 54.5% of the firms ages of between 16-30 years. This indicates that the age of the firm is directly correlated to firms performance. This
means that the more the years of an institutional investor, the more likely it will have funds to invest in NSE.

Table 4.4 Volume of shares invested

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
<td>96</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Missing</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100</td>
</tr>
</tbody>
</table>

The findings in table 4.4 indicates that 48 respondents representing 96% invests in Company shares while only 2 respondents representing 4%, fail to invest in company’s shares. Most investors perceive investing in company’s shares as profitable.

The investors were asked to state the most hindering factor to their performance at the NSE and table 4.5 shows distribution of respondents based on variables provided.

Table 4.5 Most hindering factor at the NSE

<table>
<thead>
<tr>
<th>Factor</th>
<th>Frequency</th>
<th>%Age</th>
<th>Cumulative Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>3</td>
<td>5.5</td>
<td>3</td>
</tr>
<tr>
<td>Exchange rate fluctuation</td>
<td>15</td>
<td>27.3</td>
<td>18</td>
</tr>
<tr>
<td>Inadequate market structure</td>
<td>10</td>
<td>18.2</td>
<td>28</td>
</tr>
<tr>
<td>Poor infrastructure</td>
<td>3</td>
<td>5.4</td>
<td>31</td>
</tr>
<tr>
<td>Transaction cost</td>
<td>17</td>
<td>30.9</td>
<td>48</td>
</tr>
<tr>
<td>Education</td>
<td>6</td>
<td>12.7</td>
<td>55</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>55</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

30.9% investors cited transaction cost as being the most hindering factor, affecting their performance at the NSE, the least being taxation and infrastructure with only 5.4% each.
With economic disturbances, shares traded have not been constant, as majority of respondents reported, citing fairly high transaction cost. Table 4.6 shows the trend of shares traded.

Table 4.6 Volume of Shares Traded, if constant

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>No</td>
<td>4.8</td>
<td>90.6</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

The results showed that volume of shares traded in the NSE kept fluctuating from time to time as indicated by 90.6%. Only 9.4% of the respondents recorded having constant number of shares traded. However 2 respondents did not report anything regarding their volumes trend over time.

The percentage of brokerage fee ranged between 1.7% and 5% depending on the volume of shares traded or purchased. Table 4.7 shows the distribution of brokerage fee.

TABLE 4.7: Brokerage Fee.

<table>
<thead>
<tr>
<th>Brokerage fee (%)</th>
<th>Frequency</th>
<th>% Age</th>
<th>Cumulative Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.70</td>
<td>5</td>
<td>17.2</td>
<td>5</td>
</tr>
<tr>
<td>2.00</td>
<td>9</td>
<td>31.0</td>
<td>14</td>
</tr>
<tr>
<td>2.50</td>
<td>13</td>
<td>44.8</td>
<td>27</td>
</tr>
<tr>
<td>5.00</td>
<td>2</td>
<td>6.9</td>
<td>29</td>
</tr>
<tr>
<td>TOTAL</td>
<td>29</td>
<td>100.0</td>
<td>55</td>
</tr>
<tr>
<td>Missing</td>
<td>26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In the Table 4.7, the majority of investors paid a brokerage fee of 2.5% of the volume of shares. When asked if transaction cost was high, majority of the investors assessed that they were high especially when they traded in small volume of shares.

The average waiting time was found to be 2 days. This means that investors have to wait on average of two days before getting their share certificates. They incur interest loss during this period since brokers do not pay investors for the unused funds. The maximum waiting time was found to be 3 days while the minimum was 1 day. Table 4.8 shows the distribution of respondents share certificates waiting time.

### TABLE 4.8: Waiting Time For Share Certificate

<table>
<thead>
<tr>
<th>Waiting time(Days)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>40</td>
<td>72.8</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>18.1</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The companies’ performance depends to an extent on transaction cost. The findings indicate that transaction cost is fairly high as considered by most investors (52.7%). 47.3% attributed transaction cost as being low. Table 4.6 represents the findings of the study.

### TABLE 4.9: Transaction Cost.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>29</td>
<td>52.7</td>
<td>52.7</td>
</tr>
<tr>
<td>No</td>
<td>26</td>
<td>47.3</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>55</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

From Table 4.10, 92.3% of the investors considered exchange rates value of a particular time dependant on either to buy or sell shares. The fluctuation in the currency has made investors to speculate about the market conditions and hence trade when the exchange
rate value is favourable. 7.7% indicated the exchange rate value of a particular time being insignificant to their trade in securities.

**TABLE 4.10: Trading And The Exchange Rate Value.**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
<td>92.3</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>7.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>52</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>55</td>
<td></td>
</tr>
</tbody>
</table>

The World Bank classified Kenya as an emerging market alongside other African countries. Due to economic differences, portfolio pools and other varied macro-economic differences, the stock market operations and performance have differed greatly. The respondents were asked to provide their opinion on Kenya’s stock market, performance in relation to other African countries stock market. The following Table 4.11 provides the information collected.

**TABLE 4.11: Kenya’s Stock Market Performance Versus Other African Countries Stock Markets.**

<table>
<thead>
<tr>
<th>Stock Markets</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considerable fair</td>
<td>9</td>
<td>22.5</td>
<td>9</td>
</tr>
<tr>
<td>There is room for growth</td>
<td>7</td>
<td>17.5</td>
<td>16</td>
</tr>
<tr>
<td>Lagging behind</td>
<td>15</td>
<td>37.5</td>
<td>31</td>
</tr>
<tr>
<td>Average</td>
<td>9</td>
<td>22.5</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100.0</strong></td>
<td><strong>55</strong></td>
</tr>
<tr>
<td>Missing</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
From the finding, it's evident that Kenya is lagging behind in relation to other African Stock markets. Majority of the respondents (37.5%) indicated that NSE lags behind in terms of investment in comparison to other African Stock markets. Other respondents perceived it average, considerably fair and their being room for growth with 9%, 9% and 15% response rate respectively. 15 respondents had no information to provide. Though Kenya's capital market lags behind. It should be noted that it is ahead of other African countries after South Africa, Egypt, Morocco, Zimbabwe, Cairo and Mauritius in terms of capitalization.

4.3 Results Of Efficiency Test
Efficiency markets improve and enhance trading delivery, registration, settlement and depository system of the market. It enhances market liquidity, thus increasing the turnover of securities in the market. In addition, it improves the transparency of transactions in the market therefore minimizing instances of fraud as well as reducing systematic risk, lowering transaction and operational costs making the market attractive to both investors and issuers. The NSE share index prices were plotted on a line graph in order to find if the prices series is stationary. The findings show the movement of NSE share index.

Figure 4.1: Weekly NSE share index prices October 2000 – December 2003.
From figure 4.1 it was observed that the NSE share index is stationary. The movement of prices does not follow a random work. The price pattern is systematic and tends to exhibit regular periodic movements. In an efficient market the simple process of arbitrage would immediately eliminate such a non-random pattern as soon as it recognized leaving the residual random price movement. This therefore implies that the market is illiquid and inefficient.

4.4 The effect of declining investment to performance of firms in NSE.

The performance of the NSE has witnessed a tremendous downfall in terms of market capitalization, share turnover and capitalization to GDP. The growth performance of Kenya’s stock market over the past two decades has been both unsatisfactory and uneven, often accompanied with sharp decline in investment. Investment in stock markets often comes with both opportunities for returns as well as risks, due to securities prices fluctuations overtime, hence investors have suffered portfolio loss associated to marginal declines in investment output. Table 4.12 presents the findings collected.

**TABLE 4.12: Effect Of Declining Investment On Firms Performance.**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining income</td>
<td>30</td>
<td>54.5</td>
<td>30</td>
</tr>
<tr>
<td>Increased insider trading</td>
<td>6</td>
<td>10.9</td>
<td>36</td>
</tr>
<tr>
<td>Reduced number of listed companies</td>
<td>4</td>
<td>7.3</td>
<td>40</td>
</tr>
<tr>
<td>Poor banking services</td>
<td>12</td>
<td>21.8</td>
<td>52</td>
</tr>
<tr>
<td>Poverty increases</td>
<td>3</td>
<td>5.5</td>
<td>55</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>55</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Kenya’s economy has witnessed a downward trend in real Gross Domestic Product (GDP) growth from 1995 through 2002. Firms’ performance in NSE has declined
alarmingly, hence decreasing country’s output, which in turn has affected the economic performance. The majority of the respondents (54%) indicated that their declining investments in terms of portfolio pools and diversification. Kenya has not escaped unscathed, as foreign portfolio investors in the market also join the trend of “Flight to Safety” thereby contributing to declining share prices and the trend may not get reversed and go unabated as investor confidence in emerging markets remains undermined.

Listed companies operate within the general economic environment of the country and Kenya has not been performing – 80% of the respondents cited pressure from declining investment pushing evidence of already collapsed firms, which have been liquidated over the last five years, the share prices of most of the listed companies have continued to decline listed firms have suffered economic melt down with far reaching economic consequences which in turn have jotted the investors confidence, especially among the foreign investors, leading to capital flight from the country

On account of non-performing debt portfolios which most firms fail to repay due to poor performance, has placed banking sector in jeopardy. The increasing non-performing loans have made the banking industry to operate at declining levels due to massive reduction in capital base. Consequently, the increasing investment in government securities by banking sector has exacerbated sectors suffer, which further denies the economy chance to grow.
CHAPTER 5

5.0 CONCLUSION POLICY RECOMMENDATIONS, LIMITATIONS AND OF STUDIES.

5.1 Summary and Conclusions.

The centerpiece of market efficiency is fundamental to market growth. A market is termed efficient if it can speedily and correctly incorporates information into prices. Market efficiency therefore depends on the ability of investors to devote time and resources to gather and disseminate information. Markets that are more efficient attract more investors, which translate to increased liquidity. Weak market efficiency discourages potential investment at the NSE.

The objectives of this study were to identify and assess the factors influencing investment decision in securities markets and establish the effect of declining investment trend to the economy. In order to achieve these objectives, the factors influencing investment decision were first listed from literature and then investigated with a view of determining the extend of their effects and consequently establish the effect of their declines to the growth of the economy, as perceived by the main players at the NSE. The findings of the study revealed that the Kenyans capital markets are sensitive to all factors or determinants investigated. These determinants are considered important to the performance of the NSE. However some of the determinants are more influential than others.

The most significant variable was the transaction cost. The main cost that the investors have to pay for the transaction is the brokerage commission. The investors also incurred a latent cost, which is the interest forgone when payment is made to the broker while the investor waits before the stock is actually purchased. The study further found out that it takes an average of two months for the investors to receive their share certificate after buying the shares. This implies that the investor suffer interest loss on their unused funds because brokers do not pay for interest on clients unused funds. Brokers satisfactory perform the delivery and settlement transactions and in order to greatly improve the
settlement of transactions, there is need for a speedy settlement system. This will not only reduce settlement time but also reduce settlement cost. A Central Depository System (CDS) will facilitate immobilization and dematerialization of securities.

The study observed that there was lack of knowledge among the populace. The findings that investors buy shares for holding and not for trading explains the inactive secondary market. The investors preferred to buy shares for long term investment because the information provided by quoted companies is not adequate for them to make any meaningful investment decision. The NSE should organize short target based courses on continuing basis throughout the year to educate market participants concerning securities.

Taxation equally was crucial factor influencing investment decisions. This is because taxation affects investor’s profitability. When tax is high profit will decline and consequences pulling out investors from the market where tax rate are relatively lower.

It also clears from the finding that lack of government credibility on policies and professional ethics were hindrances to investments in the stock market. If investments in securities market are to be the ‘engine of growth’ in the economy, then these lapses among others need to be given serious attention.

Capital market is the best means of mobilizing scarce economic resources and is the best way in which companies can raise cheap capital for business expansion. Given these reasons, it is necessary that the market be made effective and efficient. There should be no unnecessary interference in the market. The CMA should therefore produce an enabling environment to give way to a meaningful economic recovery and growth and other positive multiple effect will be achieved.

5.2 Policy recommendations.

The findings that NSE is not efficient, in the weak form indicated that there is no fair play in the market. The market is illiquid by world standards even though there have been stead improvements in the recent years. Since capital markets foster mobilization of savings into productive investment by providing outlet for accumulated capital, the
Government should promote savings through rationalization of both corporate and personal tax rates. Taxes should be seen to be reasonable and not punitive.

The CMA has to firmly deal with insider trading. Although relevant authorities reasonably monitor the market, there still remains a potential insider trading problems, which may deter foreign participation. More generally, the authorities need to ensure that rules and regulations governing the stock markets, as well as transparency of their administration, evolve in line with international standards.

There is a strong need for a regional economic integration and formation of trade partnerships, to encourage cross-border listing with other exchanges. This will tremendously increase market liquidity since economic indicators such as market capitalization, turnover ration and capitalization to GDP ratio will improve.

The NSE should mount an intensive educational and promotional campaign. A program of continuous education for all market players intermediaries, the issuer and the regulator is extremely important for successful development of the NSE. Financial education should be strengthened from the grass root level in schools and institutions of higher learning to facilitate investment decisions.

CMA should institute and implement enforcement measure including financial penalties as part of necessary measures to create a robust, efficient and orderly market to maintain investors confidence. Further, there is need to build a legal and regulatory framework that is enabling, facilitative and which conform to the best international standards and practices.

Timely information flow is very crucial, as it will enable investors, companies and stockbrokers to make informed decision. Such information should be accurate. For these reason the government should ensure, that the capital market is well informed regarding its operations and policies especially those which will significantly affect markets decision such as privatization of state owned enterprises, the modality and due dates. Material information withheld may lead to acute misallocation of capital.
Finally, the NSE needs to automate all its operations. With the advent of globalization of markets there is need to distribute market information through electronic means, as it will envisage the development of strategic relationship with recognized global information vendors enhancing timely and systematical information flow.

5.3 Limitations of the study.
While reading the findings of these studies, some limitations have to be taken into account. Firstly, time and other resources were not adequate and hence comprehensive research could not be arrived at. Secondly, it was not possible to gather all the required data because they were not within researcher’s reach. Therefore vital material information is likely to have been omitted or missed, affecting findings of the study.

Thirdly, high percentage of companies contacted know little about what affect their performances in the capital market as they have delegated their tasks to stockholder and therefore their response may not wholly represent the position of the factors influencing investment decisions.

Fourthly, were bureaucratic procedures set out by companies, which have to be followed before questionnaires are filled. Some of these procedures were too long and therefore 100% response rate could not be attained.

Lastly, some of the stockbrokers contracted were suspicious of the motive of the study and therefore were not keen in providing all-inclusive information necessary for this study. Generally, they were unwillingly and uncooperative.

5.4 Suggested areas for further research
This study covered only one aspect of NSE. The factors influencing investment decisions. A study on whether NSE leads to development of a country’s growth could form an area for further research.
Over the past five decades of its existence, NSE has been dominated by few listed companies with privatization of previously state owned enterprises and with the liberalization of the economy the number of listed companies have instead declined. This could form an area for further research.

The business sector depends mainly on short term financing such as overdrafts to finance long-term capital. A study on why long term capital is not fully utilized as a source of finance could form an area for further study.

Investors buy shares for holding rather than trading. Speculation is a major activity in varied income securities. The reasons for such developments are unknown. This could form an area for further research.
REFERENCES


Dilip K. Das (1995). International Finance: Contemporary issues, New York, Oxford University,


Appendix 1: SPECIMEN LETTER TO RESPONDENTS.

Dear respondents,

I am an MBA student in the Department of Finance, Institute of Business, Kenyatta University. I am carrying out a research on the factors influencing investment decisions for securities in the capital market. The purpose of this questionnaire is therefore to gather these determinants from the players at the Nairobi Stock Exchange. Since you are an active player at the stock exchange, you are in a position of providing the researcher with the necessary data for the study. You have been selected as one of the respondents in this study. The information supplied will be treated confidentially and will be used strictly for academic purposes only.

Your cooperation will be highly appreciated.

Thank you in advance.

Yours researcher,

Agnes Wanjiru Njeru.
Appendix II: Research questionnaire

The objective of the study is to identify and assess the factors that influence investment decisions and impacts of declining investment trends to the economy. The questionnaire is designed to gather information from the players of NSE.

Identification.
Name of the Firm (Optional) .................................................................
Name of brokerage firm .................................................................

1. Who regulates your participation in capital market? (Tick where appropriate)
   - Capital Market Authority (CMA) [ ]
   - Government [ ]
   - Both CMA and government [ ]
   - Others (specify) ...........................................................................

2. When did you begin operating?
   .................................................................................................
   (a) Have you invested in any company’s shares? ..............................
   (b) If yes how long have been investing in shares? ......................... Years.
   (c) If No, give your reasons.
   .................................................................................................
   .................................................................................................

3. Which is the most hindering factor that affects your performance at NSE
   - Taxation [ ]
   - Exchange rate fluctuation [ ]
   - Inadequate market structure [ ]
   - Poor infrastructure [ ]
   - Transaction cost [ ]
   - Education [ ]
Others (specify)

4. (a) Was the volume of the shares you traded in the last three years constant? ............
(b) If you answer in (a) is yes, what are the likely reasons?

(c) If your answer is no, please state your reasons.

(d) How has such investment decline affected your performance at NSE?

5. Transaction cost.

(a) Brokerage fee.

<table>
<thead>
<tr>
<th>Company’s Shares</th>
<th>Quantity of Shares</th>
<th>Price of Shares</th>
<th>Brokerage fee %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) How many days did it take you to receive your share certificate after buying the shares of the company ......................... days.

(c) Do you think the transaction costs are high?

.................................................................
6. Comment on the profitability of shares in the past three years.

   - Very profitable [ ]
   - Profitable [ ]
   - Unprofitable [ ]
   - Very unprofitable [ ]

7. Is your decision either to buy or sell dependent on exchange rate value of a particular time?

8. What do you think about the number of investors operating in NSE?

   - Increasing [ ]
   - Decreasing [ ]

   (a) If decreasing, please give reasons?

9. Do you think Kenya is attracting enough foreign investors?

10. Comment the NSE ability to deliver services it ought to, as stock exchange in comparison with other stock exchanges in developing countries.

What do you think NSE should do to attract more investors?
Appendix III: Budget schedule

The budget schedule:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Printing 30 pages @ Kshs 20</td>
<td>600</td>
</tr>
<tr>
<td>(b) Reproduction 8 copies @ Kshs 100</td>
<td>800</td>
</tr>
<tr>
<td>(c) Travelling expense</td>
<td>6000</td>
</tr>
<tr>
<td>(d) Questionnaires development</td>
<td>1500</td>
</tr>
<tr>
<td>(e) Subsistence</td>
<td>5000</td>
</tr>
<tr>
<td>(f) Miscellaneous expense</td>
<td>6000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>19,900/=</strong></td>
</tr>
</tbody>
</table>

PRODUCTION OF THE FINAL DOCUMENT

<table>
<thead>
<tr>
<th>ITEM</th>
<th>AMOUNT</th>
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<tr>
<td>Data collection</td>
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<tr>
<td>Books &amp; reading materials</td>
<td>20,000</td>
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<tr>
<td>Data analysis and computer run time</td>
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<tr>
<td>Research assistants</td>
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<tr>
<td>Printing 70 copies @ Ksh.30</td>
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<tr>
<td>Reproduction 6 copies @ Ksh. 140</td>
<td>840</td>
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<tr>
<td>Binding 5 copies @ Ksh. 1000</td>
<td>5,000</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>9,000</td>
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<tr>
<td><strong>SUB TOTAL</strong></td>
<td><strong>71,940</strong></td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>91,840/=</strong></td>
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Appendix IV: Work Plan & Time Table of Events

(a) Work Plan

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DURATION (Weeks)</th>
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<tbody>
<tr>
<td>1. Pilot study</td>
<td>1</td>
</tr>
<tr>
<td>2. Adjustments</td>
<td>1</td>
</tr>
<tr>
<td>3. Data collection</td>
<td>4</td>
</tr>
<tr>
<td>4. Data coding</td>
<td>4</td>
</tr>
<tr>
<td>5. Data analysis</td>
<td>3</td>
</tr>
<tr>
<td>6. Report writing</td>
<td>3</td>
</tr>
<tr>
<td>7. Compilation</td>
<td>3</td>
</tr>
</tbody>
</table>

(b) Time Table of Events

<table>
<thead>
<tr>
<th></th>
<th>JULY</th>
<th>AUGUST</th>
<th>SEPTEMBER</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1. Pilot study</td>
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<td>2. Adjustments</td>
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<tr>
<td>3. Data collection</td>
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<tr>
<td>4. Data coding</td>
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<tr>
<td>5. Data analysis</td>
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</tr>
<tr>
<td>6. Report writing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Report compilation</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix V: List of stockbrokers

List of stockbrokers

1. Ashbhu Securities
2. Crossfields Securities limited
3. Discount Securities ltd
4. Dyer and Blair ltd
5. Equity Stockbrokers ltd
6. Faida Securities ltd
7. Francis Drummond and Company ltd
8. Francis Thuo and Company
9. Hak Securities ltd
10. Kenya Wide Securities ltd
11. Kestrel Capital (EA) ltd
12. Ngenye Kariuki and Company
13. Nyaga Stockbrokers ltd
14. Reliable Securities ltd
15. Shah Munge and Partners ltd
16. Solid Investment Securities
17. Standard Stocks ltd
18. Suntra ltd
19. United Motors (suspend)
20. Mixed B.A. Ltd
21. National Wealths Group ltd
22. Peerless Securities ltd
23. TPS (suspended)
24. Standard newspapers ltd
25. Express (K) ltd
26. Uchumi Super Markets ltd
27. City trust ltd
28. Pan African Insurance ltd
Appendix VI: Companies Listed on the Nairobi Stock exchange

Companies Listed on the Nairobi Stock exchange.

1. Brook bond ltd.
2. Eaagads ltd.
4. National bank of Kenya
5. Shell and BP (K)
6. BOC Kenya
7. Industrials and allied sector
8. Standard chartered bank
9. Kakazi ltd
11. Limuru tea ltd.
12. Assisi tea and coffee ltd.
13. Rea vipingo ltd.
15. Car and General ltd.
16. CMC holdings.
17. Hutrching premier ltd.
19. Lomho motors (suspended ) ltd.
22. Pearl dry cleaner ltd.
23. TPS (serena) ltd.
25. Express (k) ltd.
26. Uchumi Super Markets ltd
27. City trust ltd.
29. HFCK ltd.
31. CFK Bank ltd.
32. Chancery Investment ltd.
33. Diamond Trust Bank ltd.
34. ICDC Investment ltd.
36. Dunlop (K) ltd.
37. E.A. Breweries ltd.
38. E.A. Cables ltd.
41. E.A. Firestone ltd.
43. Kenya Orchards ltd.
44. Kenya Power and lighting Company ltd.
45. Kenya Oil ltd.
46. Total (K)
47. Unga Group ltd.
49. Crown Berger (K) LTD.
50. Carbacia Investment (K) LTD.
51. British America Tobacco (K).
52. Bamburi Cement
53. BIO Gas.
54. Athi River Mining.
55. NIC Bank.
Appendix VII: Capital Investment Advisers

Capital investment advisers

1. ABN AMRO investment ltd.
2. AIG Global investment co.
3. Barclaytrust investment services ltd.
4. Bridges capital ltd.
5. CBA Capital ltd.
6. CFC Financials services ltd.
7. Citibank, A.
8. Cititrust ltd.
12. Creative finance and provident ltd.
15. ICEA Investment Services ltd.
16. First Africa capital ltd.
17. Genesis Kenya investment ltd.
18. Kenya capital partners ltd.
19. Loita asset management ltd.
20. Old mutual asset managers (K) ltd.
21. Stanbic investment management ltd
22. Natbank trustee and investment ltd.
23. Professional investment ltd.
24. Tradition securities ltd.