

Full Length Research Paper

Financial analysis as a consideration for stock exchange investment decisions in Tanzania

A. S. Norman

Tumaini University, Tanzania or Kampala International University, Tanzania. E-mail: adamsonnorman@yahoo.com.
Tel: +255 756 380000.

Accepted 26 May, 2011

Stock exchange investment in Tanzania is growing fast, and many people of different varieties of income are participating in the purchase of shares commonly known as stock exchange. However, there is seemingly little concern on the use of financial analysis on the part of local individual investors when purchasing the shares. Hence, this paper presents the findings of the study on financial analysis as a consideration for stock exchange investment decision making in Tanzania. The study was conducted for four months from July to October 2006. It adopted a survey study incorporating all six registered brokers in Tanzania located in Dar es Salaam. First, the introduction was given, which provided the essentials and the need for financial statements analysis as far as decisions regarding investment is concerned, after which the literature review was done. This was followed by a presentation of the role of Dares salaam stock exchange. Subsequently, the methodology of the study was given, followed by data analysis and discussion of findings. Finally, conclusions and recommendations were given. The paper concluded that most of investors in Tanzania do not depend on the financial statements analysis of the firms when investing mainly because most of these investors have not acquired knowledge on the importance of financial statements in making decisions regarding the investment. However, big investors such as financial institutions and firms do consider financial statement analysis when investing.

Key words: Financial analysis, stock exchange, investment decisions, Tanzania.

INTRODUCTION

Financial analysis (FA) is essential for making an informed decision. The essentials increase when the FA is used as a determinant for investing, although this is not the only use of financial analysis. It is one of the tools used in evaluating a company's financial position and performance for various reasons, including for investment purposes. Thus, this study intended to examine whether people investing in stock exchange (SE) do consider financial statements analysis. Generally stock market include two main securities namely shares and bonds. Therefore the study confined with the investment in shares.

Financial statements analysis is mainly concerned with the understanding of company accounts and interpretation of the published financial statements to enable legitimate users to make informed economic decisions (Chang and Most, 1977). Since users are assumed to have a reasonable knowledge of business

and economic activities and accounting and a willingness to study the information with reasonable diligence, it is anticipated that they will be deprived of their rights if body corporate do not produce such statements (Bence et al., 1995).

Financial statements are vital for making informed decisions in particular to the developing countries like Tanzania where the investments level is thin, and the general behavior to investing is immature. Normally, the presentation of the FSA is during the end of accounting period depending on the policy of the company. In this view, Abu Baker and Naser (2000), argues that, investors view the annual report as the main source of corporate information in developing countries and companies use it as a medium to disseminate information to external interested parties. The assumption is generally that the annual report reflects the commercial reality of the company concerned, and the expectation is that the

reports will assist users in making informed decisions about the company and future investment options.

In Tanzania certainly, the importance of financial statements reports, and in particular the ratios drawn from these financial statements analysis, might be of greater concern compared to other countries. This is due to the level of the investment as it is no more than 20 years from mid 1990s when the policy on economic integration, in the name of trade liberalization was launched and youthfulness of the investors. In this line, therefore, the level of understanding of investors in Tanzania suggest for a study on the perception of these investors on the need for publishing accounts, and the role of the financial statements analysis. Thus, the study aims at realizing the use of the financial statements analysis when deciding to invest in stock exchange.

Background of the problem

Financial literacy is a key to saving and investing (Norman, 2003). Therefore, economic growth and transformation worldwide can be said to be dependent on the proper utilization of financial analysis information among others. Hence, before we look at the nature of the problem, the survey of stages that the economic growth of Tanzania has gone through is vital for the realization of stock exchange investment.

Economic transformation in Tanzania can be said to have undergone four important stages namely the colonial period, which was characterized with private ownership of major means of production but with thin investment level of both agricultural production and processing industries. The second is post independence but before the Arusha declaration in 1967, which was characterized with improved private sector ownership of major means of production, with agricultural products taking a leading role. The third is the period after Arusha declaration in 1967 to 1990, which was characterized with public ownership of major means of production. This resulted from nationalization of private sector in 1967, hence marking the beginning of what seemed good trend of industrial performance at the initial stages (1967 to 1980s), lasting with falling trend of production during the period of 1980s through 1990s.

The 1990 and beyond can be termed as the forth stage of economic performance as far as investment is concerned. This level of investment or economic performance was characterized with increased investment realized due to the change of economic policy from the centrally controlled economy to the open economy. Hence, most public firms were privatized. In the same vein notes that, the economic trend of most developing countries have sought dangers as many huge public investment were privatized through what was termed at a 'giving' price.

Several reasons can be associated with the decline of

industrial performance in the third period (1980s to 1990s). Such reasons include lack of sense of commitment of the Chief Executive Officers (CEOs) as were appointed to execute duties without being real owners of those firms. The decline of production necessitated the government, which was the custodian of the public firms on behalf of the people to enter into stage four (1990 and beyond) by liberalizing the economic trends through transforming the economy by changing the ownership of major means of production to private sector, while encouraging plural ownership of the firms through investing in sale and purchase of shares, commonly known as stock exchange.

In order to facilitate the stock investment, the government passed an Act of 1996 to provide room of stock exchange business in Tanzania. Thus, the Dar es Salaam stock exchange (DSE) was established in 1996 as a result of the government policy of transforming the economy, and thus marking the beginning of the people in Tanzania indulging in purchase of shares as a strategy for investing, consequently a need for proper decision making on where to invest and why.

The where and why questions are vital, in particular, when observing the performance of the companies that were the first to list shares with the DSE market and reasons backed people to invest in such companies. The first company to list its shares with the DSE was the Tanzania Oxygen Company Limited (TOL). The observation, however, reveal that those who purchased shares encountered what could be termed as loss, since the TOL share value dropped from Tshs.500 in 1998 to Tshs. 300 in 2005. On the other hand there are companies that have flourished. Such companies include the Tanzania Tea Packers Limited (TATEPA), which experienced the rise of share value from Tshs. 330 as an Initial Price Offer in the year 2000 to Tshs. 440/= in 2005. Thus the resilience of the study was on the high need for investors to effectively make decisions that would increase the prospects hence improve house hold economy. It is from that point of view, the investors should realize factors necessary for proper investing.

To make rational decisions in keeping with the objectives of the firm, the financial manager and generally investors, need to have analytical tools. The more useful tools of financial analysis possessed by an investor the more reliance on those tools for decision-making. The tools include various ratios used for realization of the performance of the industry. These ratios are essentially obtained through analyzing the financial performance of the firm. The tools thus can be summed up as financial analysis or accounts information.

Financial statement analysis therefore, is an information-processing system designed to provide data for decision-makers. The information is basically derived from published financial statements but in the process of analysis, the use is also made for non-accounting data, such as stock prices and aggregate economic indicators

Users of the financial statement information system are decision-makers concerned with evaluating the economic situation of the firm and predicting its future course.

The major group of users are investors, for making portfolio decisions, management, for evaluating the operational and financial efficiency of the firm as a whole and of subunits such as departments lenders, for determining the credit worthiness of loan applicants, labor unions for establishing an economic basis for collective bargaining, regulating agencies like TRA, EWURA for controlling the activities of subordinated units; and researchers in economics and business administration for studying firms behavior in terms of performance.

Given these various uses and motives, it is obvious that no single information system will satisfy all the requirements. Rather, financial statement analysis should be sufficiently general and flexible to accommodate different user needs. Van (2002) indicates that, investors in a company's common stock are concerned principally with present and expected future earnings and the stability of these earnings about a trend, as well as their covariance with the earnings of other companies. As a result, investors might concentrate their analysis on a company's profitability. They would be concerned with its financial conditions in so far as it affects the ability of the company to pay dividends and to avoid bankruptcy. In order to bargain more effectively for outside funds, the management of a firm should be interested in all aspects of financial analysis that outside suppliers of capital use in evaluating the firm.

The research problem attracted the researcher in several ways; including the new-fangled venture of investment, which has attracted many Tanzanians. Secondly is the potentials vested in the entire shares business, which seem to supersede the banking interest rate at far. For example, while those invested in the Tanzania Cigarette Company (TCC) enjoyed the share value increase of about 400% from Tshs. 410/share as initial price offer (IPO) to Tshs.1650/share as closing price offer (CPO) in 2004 (DSE, 2005) and as of March 16th, 2009 stands at 1760. Such money increase, if were deposited at Commercial Banks would not earn an interest of 10%. The normal rate of most banks in Tanzania for saving accounts is between 2 to 4%. Those who invested in the Tanzania Breweries Company Limited earned about 254% in the period of about five years. Therefore, the main purpose is to set out paradox of whether those investing in shares do consider financial analysis/accounts information when investing.

Statement of the problem

In Tanzania, Stock Exchange Investment has been growing fast since its launching in 1998. For example Tanzania Oxygen Limited (TOL) listed its shares with the DSE in 1998 and attracted many people including the

author of this article. Until the conduct of this study the company has not been able to give any dividend to share holders, and its share value has continued falling from Tshs. 500 as initial price offer in 1998 to Tshs. 300 in 2005 which is 40% decrease in value (DSE, 2001; DSE, 2003; DSE, 2005). The current value is TZS 290. On the other hand Twiga Cement listed its shares in 2001 and wanted to raise a capital of 31 billion shillings. With high enthusiasm of the people, the amount of money rose to 94 billion, which is about three times more than the required amount. The behavior of purchase of shares is of great concern on whether those who invest in shares have knowledge of financial analysis when investing. Since failure to understanding the financial analysis, envisage risk of losing the capital invested.

It is important to note that the importance of financial statement analysis or simply financial analysis is independent of share price performance. In fact one may argue the poor share price performance of TOL is a reflection of poor performance that became apparent after financial analysis. Hence financial analysis is one of the tools for decision making but not the only particularly when dealing with stock exchange. Financial analysis by investor is not a shield for companies' shares price to move up or downwards. By nature investment in securities has inherent risk which the investor ought to know. It is also not correct to think that companies whose share price increased from the IPO price to the present state are risk free.

Therefore, knowing the use of financial analysis is quite potential if risk minimization is of concern. The choice of shares has been potential because it is the industry though new, yet it brings many people in owning the companies. Thus when the shares industry as far as investment is concerned is properly done; it will envisage economic improvements to many Tanzanians and thus improve the lively hood of the people.

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. 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 no dividends have been enjoyed by the people who invested. For example the value of shares have dropped from Tshs. 500 as initial price offer in 1998 to Tshs. 300 in the year 2005 which is 40% (DSE,2001, 2003, 2005) and as on March 17, 2009 the price was TZS 290. Considering the risk associated with the investment in stock shares, there is a need for the study to examine financial analysis as a consideration for investment in Tanzania a focus on Stock Exchange. It is not likely that every body investing in securities can do financial analysis. What is important is for investors in securities to

invest with knowledge either through own analysis or through investment adviser.

LITERATURE REVIEW

This study avails a critical literature review on Financial Analysis as a consideration for investment. The review of literatures covers the historical perspective of the importance of financial analysis/accounts information, its development, and the recent studies on the same. It is worth noting that while it is true that the need for financial information or education is vital to investors, it is equally important to all people. The world today is full of budgets deficits and constraints and thus a need for proper financial education which will cultivate informed decision making. Thus the chapter narrates on general terms the need for financial education, and narrows to the importance of financial statements analysis (FSA).

Financial statements analysis is mainly concerned with the understanding of company accounts and interpretations of the published financial statements to enable legitimate users make informed economic decisions. Since users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence, it is anticipated that they will be deprived their rights if body corporate do not produce such statements.

Previous research study on importance of FSA

Financial statements analyses emphasize on developing financial information within the context of formal decisions models. Consequently, financial statements analysis is regarded as data processing system designed to provide information for decision-making. In this regard, researches have been undertaken on the importance of financial statements and the importance of utilizing the same in making decisions for investors. For instance the study of Nasser and Nuseibeh (2003) on the usefulness of annual reports reveal that the user groups surveyed in the study rely mainly on information made directly available by the company and do not consult intermediary sources of corporate information in order to make informed decisions.

This may suggest that there could be same correlations if same study was to be carried in Tanzania, since, just like Saudi Arabia, Tanzania is perceived to have a limited number of listed companies and businesses and financial communities have many social and business links, resulting in relatively easy interaction between the user groups and related companies.

The expediency of information released by companies should be in a simple form and expressive language to be consumed by any client. In this dimension, suggested

that to make annual reports adequate and readable, the information contained in these annual reports should be presented in an understandable manner and grouped and organized appropriately. Moreover, Epstein and Pava (1994) asserted that the language style might have a material effect on the readership, and influence the understandability of information that appears in annual reports. Wolk et al. (1992 in Nasser et al., 2003), however, suggested that even if users of annual reports are assumed to be knowledgeable, the information itself could have different degrees of comprehensibility.

In all sense, the importance of Financial Statements Analysis 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), Anderson (1981), Arnold and Moizer (1984), Moizer and Arnold (1984), 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).

Regarding financial analysis, it shows that the managers by then lacked financial analysis skills and even if they knew not all of them were able to change corporate image. Lack of financial analysis led to the collapse of companies and privatization of those companies so as to employ people who can rescue these companies from falling apart. This action has shown that companies like Tanzania Breweries Limited (TBL), Tanzania Cigarette Corporation (TCC) to mention a few have been privatized. The impact of this is the employment of qualified people who can read and interpret ratios and determine where the company is heading.

THE DAR ES SALAAM STOCK EXCHANGE

The Capital Market and Securities Authority under the capital markets and securities (CMS) Act of 1994 established the Dar es Salaam stock exchange (DSE). The enactment of the DSE came because of government's policy of transforming its economy from public government dominated economy to private sector driven economy. The DSE was incorporated in September 1996 as a company limited by guarantee without a share a capital (DSE, 2001, 2008). It is a non-profit making organization created to facilitate the government implementations of the economic reforms in particular on enabling the private sector raise capital. The exchange became operational in April 1998 with TOL listing as the first company followed by the Tanzania Breweries Limited (TBL) during the same year. The delay

was due to the necessary background operational preparations that were inevitable such as training of brokers and formulation of issuance and trading rules under the stewardship of the government through the capital markets and securities authority (CMSA, 2007).

The operation of DSE is vested in the hands of the Council, which is the Board of Directors of the company. The first Board of Directors was elected in July 1997. Further, listing of shares and bonds at the Dar es Salaam stock exchange (DSE) provides companies, the government as well as municipal authorities with a possible source of accessing funds from both the public as well as institutional investors. Listing of these securities facilitates secondary market trading of the bonds and shares and thus provides the necessary liquidity required on the market. As commonly acknowledged a market has a supply side and the demand side.

Hence, both the central government and the local government are considered supply side of the stock exchange, while the public is considered as the demand side. Therefore, the two sides meet when shares are issued for the first time. The first issuance of shares is commonly known as initial public offer (IPO). The general term of supply side does not exclude the various companies other than those owned partly or full by the government and other issuing companies. Before indulging into the procedures for listing shares and responsibilities, it is worthy understanding what is stock exchange.

Stock exchange defined

A stock exchange is a market where large and small investors can buy and sell securities (shares, bonds, etc). It is an organized market where buyers and sellers of securities meet as they are represented by dealers/brokers and acquire or dispose securities. It is a market in which securities members of the exchange who may act as both Agents (brokers) and as principal (dealers) trade.

RESEARCH METHODOLOGY

Study site

The study was conducted in Dar es Salaam. It incorporated all six brokers registered with the Dar es Salaam stock exchange (DSE).

Research design, sampling and data collection methods

The research design used in the study was the survey study design. During the collections of data the survey study was used since all six brokers were incorporated in the study. The survey study was opted to capture all the responses. It was imperative to use the survey study to articulate all necessary information for the

study. Thus, the analyses were drawn from the named brokers. It can therefore, be argued that the findings of this study have been 100% of the sample. The study utilized six brokers registered with the DSE and the stock authorities namely Capital Market and Securities Authority, Unit Trust of Tanzania (UTT) and the DSE. Therefore, the unit of enquiry was Tanzania Securities Limited, Solomon Securities, Rasilimali Limited, Orbit Securities Co. Ltd., Vertex International Securities, and Core Securities Ltd. The researcher is highly convinced that these respondents were able to provide information for the study.

The sample for the study was of two types. The first sample was drawn from all six brokers registered with the DSE, hence six questionnaires were distributed. The second sample was 10 clients of each of the brokers. These are people who had shares or were seeking to buy shares from the brokers. Thus each broker was given 10 questionnaires which were given to the clients making a total of 60 clients and six brokers. Thus the total sample was 66. However the analysis has treated the two samples differently. The study adopted multiple methods of data collection namely observation, documentation, interview, and questionnaire. The data were analyzed qualitatively and quantitatively. The researcher analyzed the results of the findings in meeting its objectives and answering the research questions. Therefore charts and percentiles have been used to present the data in the manner that is desirable for understanding the data. The study composed of primary data and secondary data. Primary data was gathered from questionnaires distributed and interview carried out. Secondary data was collected through library research on scholarly information sources.

The interpretation of data on measuring knowledge level on financial analysis was based on the perception of the brokers as first respondents, and of the investors as second respondents. There has been conformity of the perceptions between the two categories.

Research questions

The study entailed to answer the following questions:

- (a) Do ordinary investors understand the use of financial ratios?
- (b) Which ratios are given priority by investors?
- (c) Do investors consider financial ratios when investing?
- (d) Is the marketing strategy done through the use of potential people in the society such as former leaders of the government one of the reason?
- (e) To what extent the use of such crowned leaders (former government leaders) contribute to peoples attention and thus persuade to purchase shares in various companies?
- (f) Do ordinary investors understand the use of financial ratios?
- (g) Which ratios are given priority by investors?
- (h) Is the marketing strategy done by potential people in the society such as former leaders of the government one of the reason?
- (i) To what extent the use of such crowned leaders (former government leaders) contribute to peoples attention and thus persuade to purchase shares in various companies?

DATA ANALYSIS AND DISCUSSION OF FINDINGS

This part covers data analysis and discussion. The analysis and discussion have responded to the specific objectives and thus questions rendered through the questionnaire. The discussions cover subtopics such as the understanding of the financial analysis of the people investing in stock exchange; whether there is

consideration of financial ratios when investing; ratios that are given priority if any; factors that hinder or promote the use of financial analysis by the investors, and the leading influencing factor(s) for investing in Stock Exchange.

Understanding the use of financial information

The study on financial analysis as a consideration for investment has revealed three categories of perceptions as to the understanding of the financial analysis as a consideration for investment. These are common man who are motivated by the use of potential figures in the society such as the former government leaders, and potential business men. Logical group of people, who are motivated by hearsay on the companies, eye power and show up, such as adverts of commodities sold rather than adverts on financial performance.

Finally, the third group of people who are elites on stock exchange, and potential investors such as stock exchange businessmen-people whose subscription of shares is the main source of income and thus a daily bread, and financial institutions such as PPF and NSSF.

The findings reveal that brokers perceive that most ordinary people investors do not know the use of financial analysis/accounts information when investing. Findings reveal that most of the ordinary (investors who subscribe shares below 5 million) have no knowledge of financial information of the firms. Most of them are driven by the adverts indicating the sale of shares, potential people, in particular government leaders and businesspersons. The financial analysis knowledge of small investors as opined by brokers is gauged as 25%. Therefore, only 25% of individuals seem to be acquainted with the knowledge of investing especially the use of financial analysis information before or when investing. However, the brokers who offer the respective knowledge on proper investing bridge the gap of this category of investors.

The findings reveal further that while people are not aware of the use of accounts information/financial analysis information such as ratios yet those who purchase shares through the brokers, are advised on the financial status and at times even the anticipated payback period of the amount invested. The brokers are people with knowledge on how to trade shares, and they frequently assess the potentials of the companies listed to perform a proper role on serving people on stock exchange. The findings reveal individuals perceive that the persuasion of the brokers account about 75% of people investing. It is therefore right to say that without brokerage service, the stock exchange business cannot thrive.

On the other hand, the brokers perceive that big investors such as financial institutions and potential investors whose stock exchange is the business of the day have adequate knowledge of financial analysis and

thus they do use such information as a consideration for investing. These include institutions such as PPF, NSSF and LAPF. In the same category there are individuals and private firms who are elite in the business who enjoy the investing practice in shares with knowledge on financial analysis. It can thus be generalized that the big investors who invests in hundreds million and above have knowledge on financial analysis. Their knowledge is gauged at 75% and above.

Influence of potential leaders

The findings further reveal that in the past (late 1990s) the influence of potential leaders such as the government leaders, and businessmen was the key to enabling the purchase of shares. It has been indicated clearly that most of those people who purchased shares from the Tanzania Oxygen Company LTD (TOL) could be said to have been motivated by potential people such as the then President of Tanzania, His Excellency Benjamin Mkapa who officiated the sale of listed shares of TOL. Nevertheless, as time goes by the trend is being reduced. The performance of TOL seems too had been a lesson to majority investors and thus need for acquisition of financial information in particular through brokers and Stock Exchange authorities. For obvious reasons, currently the company is fairing well. The data on TOL do not reflect the current position but the position during the study and the years referred to.

Preferred ratios

The study further indicates that ratios, which are given priority when investing in various firms in particular stock exchange business, include profitability ratios, investment ratio, dividend yield ratio and earnings per share. 50 of the interviewee, which is about 83.3% of respondents, indicated that dividend ratio/earnings per share were favorable ratios when investing. Nine of the interviewee, which is about 15% of the respondents, indicated nothing as were not knowledgeable of ratios. One respondent, about 1.7% indicated liquidity ratio and profitability ratio.

There seem a little bit of confusion to the respondents, which the researcher noted when analyzing the data. The confusion is in that all the nine respondents indicated that they considered financial analysis when investing in shares. However, when asked whether they knew any ratio they all indicated that they did not know. The responses seem to envisage another important question, which is what did they mean when answered they used financial analysis when investing if they new no any ratio. When the seven out nine were interviewed, they indicated that the financial analysis to them appeared to mean the general performance of the organization as they perceive or hear from other people. This however, suggests for more education to brokers' employees

Table 1. Brokers responses on the financial analysis as a consideration for investment in stock exchange.

Name of the broker/stock exchange authorities, expert	Perception of the brokers on the use of financial analysis when investing (estimates in %)	Perception of the brokers on Individuals' consideration of financial analysis when investing (estimates in %)	Perception of individuals on the influence of brokers (estimates in %)
Orbit	75	25	75-100
Core securities	75	25	75-100
Vertex	75	25	75-100
Tanzania securities	75	25	75-100
Rasilimali securities	75	25	75-100
Umoja fund	75	25	75-100
Solomon securities	75	25	75-100
Capital market security authority	75	25	75-100
Averages	75	25	87.5

Source: Research findings on financial analysis as consideration for investment in Tanzania, responses of brokers, Dar es Salaam, 2006. The data reveals that brokers are perceived to contribute about 87.5% on decisions made by investors regarding investment, while 75% are pegged to the brokers and 25% to individuals.

sufficing the need for the investment knowledge on the types of ratios and their importance in decision-making.

Reasons persuading people to invest in stock exchange

Several reasons/factors have been mentioned as considerations for investing. The reasons range from those relating to provision of liquidity as a semi bank facility, to those of mechanism for earning profits.

Of the 60 respondents, 56 people, which are about 94%, indicated that they invest in shares for earning profit. Further, many other factors have been disclosed in relation to the earning of profits. These include increase capital from share gain essentially when shares increase value.

Investing in shares provides a room for saving money while earning profits. Unlike banks where those who invest gain very little amount of money

normally between 2 to 5% for savings accounts, in shares people have had an experience of earning up to 150% per year. For example those who invested in the Umoja Trust Fund before July 2005, have earned a profit of over 50% in August 2006. Therefore, the transformation of economy with particularly shares can make one earn as much as possible.

The study has further revealed creation of employment opportunities, and generation of capital to most of the firms as one of the importance for investing in shares. To date in Tanzania there are six brokers with about 10 employees per broker (Table 1). Other authorities have also been established such as the Unit Trust Fund and capital market and securities authority (CMSA 2007) with employees about 25 each. The indicated number of employment opportunities is those, which are formally employed. However, there many employees who gain value of such employments through trickledown such as those who purchase shares in small scale

and use such profit to establish Small and Medium Entrepreneurships. In so doing, many people are engaged in business. The business has also improved other business ventures such as SACCOS. Thus, the total gain in terms of employment creation is huge.

SUMMARY OF DISCUSSION AND ANALYSIS OF FINDINGS

The study has revealed that different investors perceive the consideration of financial analysis differently. There are mainly two categories of people who perceive differently and thus their level of consideration varies accordingly on the importance of Financial Analysis when or before investing.

The data indicates that about 70% of the respondents do not invest with a consideration of financial analysis. The response concurs with the perception of the brokers who felt that 75% of the

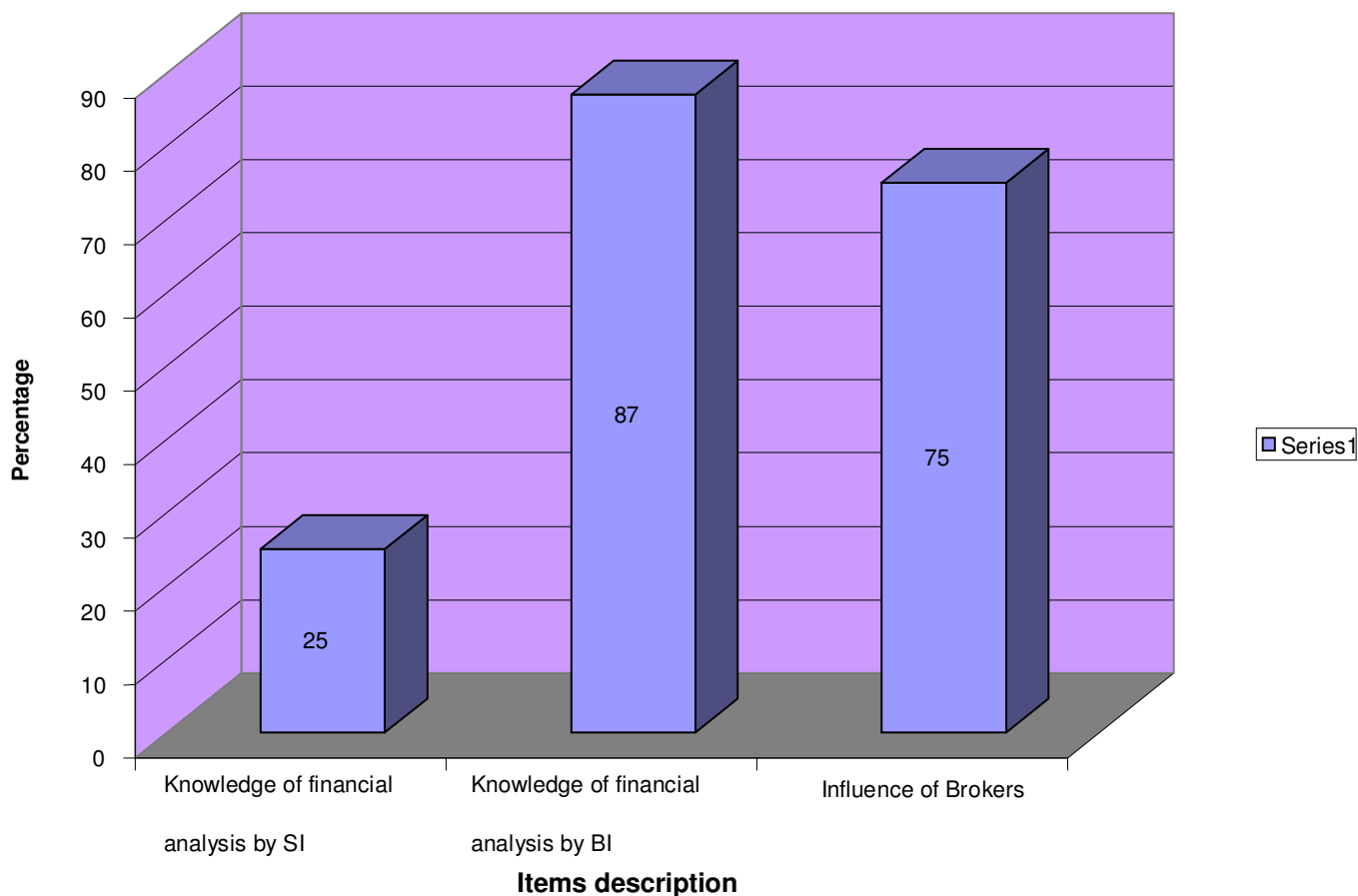


Figure 1. Level of knowledge of small investors (SI), big investors (BI) and the Influence of brokers. The figure indicates that the level of knowledge of small investors is 25%, big investors, 87% and persuasion rendered by brokers stand at 75%. Source: Research findings on financial analysis as consideration for investment, Dar es Salaam, 2006.

individual investors do not use financial statements analysis when investing. It is worth noting here that the procedures and rules for registering the firms with the DSE may connote an automatic screening of the firms listing. Since DSE would not register the firm with weak financial position in relation to the shares business. Hence, it can be assumed that although do not invest with consideration of financial analysis, yet they seem to. However, the percentage varies amongst people and time. For example, it was noted that if the study was to be conducted some five years ago that is 2000 and below, certainly most people were influenced by the potential figures/people in the society such as government leaders and businesspersons. With time, it is assumed that the DSE and brokers have played a potential role in enabling the use of financial analysis information in investing.

Further, about 26.7% of the respondents had the opinion that potential figures (Figure 1) in the society, such as government leaders and business executives influence small investors to purchase shares. This category however, as said earlier, would have captured a different opinion had such study been conducted late 1990s. The reason is that knowledge regarding

investment in Stock Exchange continues to flourish. Hence, as time goes by most people are taking necessary steps to ensuring that decision making on investment is crucially dealt.

The most influencing factor is the hearsay factor and /or advert without disclosing financial position, which attained 50.3%. It is important to note that people who make decisions through the hearsay factor are essentially doing so without the consideration of financial analysis information. Equally, people who are influenced by potential figures (26.7%) are doing so without the consideration of financial analysis information. Therefore, for capturing responses in relation to whether people consider or do not consider the financial information, the categories of people can be narrowed to two main groups. That is those who consider Financial Analysis and those who do not consider. It is from that standpoint of view, the paper has narrowed the categories of people into two rather than three observed in the responses.

The categories of people are big or potential investors such as financial institutions like PPF, NSSF, and individuals who work with the brokers firms irrespective of the amount invested. This group includes people and

institutions who are elites on stock exchange, and potential investors such as stock exchange businessmen-people whose subscription of shares is the main source of income and thus a daily bread. The research reveals that the understanding of Financial Analysis as perceived by the brokers for this group is 75 to 100%, hence averaging at 87.5%. However, a broader research needs to be conducted to seek responses of the firms.

The research proposed can seek to answer questions themselves rather than the perception of the brokers, which at times may result into deception. It could also involve a much bigger sample that could allow generalization.

CONCLUSION AND RECOMENDATIONS

It can be concluded that, Financial Analyses/Accounts Information are vital in providing the investors information that enables them to make informed decisions on investment. In the same line, most individual investors in Tanzania do not invest in Stock Exchange with consideration for Financial Analysis information of the firms. However, big investors such as financial institutions do invest with consideration of financial analysis information.

The use of the Financial Analysis information is termed to be associated with two main reasons. The first, is the role played by the registered brokers of educating people seeking to invest, hence enabling them acquire Financial Analysis information. The second is the performance of early listed companies such as the TOL Gas Limited, which for the first five year consecutively has failed to pay dividends to share holders, and has failed to increase value of shares at the DSE. The two reasons altogether have created a sense of alertness to investors. Thus concerted efforts should be made to ensure enlightenment of the majority people instead of getting such knowledge when they visit the brokers, who all of them are situated in Dar es Salaam hence limiting the majority population of Tanzania to attaining investment knowledge. No doubt, what has been revealed in this study cements on the importance of financial analysis as observed by many researchers. Financial Analysis is inevitable to all investors and not all people in general, even in areas, which seem need financial information education.

Nevertheless, the procedures in listing shares imply that a bad company is not likely to sell their shares in the market. No broker and bank would like to be involved in selling the shares of the company whose financial analysis indicate that is poorly performing or which its future profitability is questionable. So the fact that banks and brokers agree to be involved in the issuing of shares of a particular company implies that that company is relatively good.

Thus, though most individuals do purchase shares through hearsay and or adverts, the procedures for listing

suggest that non-performing company cannot be listed with the DSE. However, good procedures executed by DSE on listing firms, do not give a loophole for the investors to ignore financial information of the firms they want to invest. There is need for further research to incorporate a big sample from more than one region and through the observance of triangulation methods to come up with more generic conclusions and recommendations such as to what extent do investors in stock exchange increase capital? What factors do hinder acquisition of financial information? What factors do promote the use of financial information? What modality is in place to ensure transfer of information from firms listed to the willing investors? In addition, what are other factors other than financial information are crucial in making informed investment decision in stock exchange?

Financial analyses (FA) are vital for making informed decisions in particular to developing countries like Tanzania where the investments level is thin, and the general behavior to investing is immature. The reality is that financial information education is a key to decision making in most daily endeavors. From planning what to eat, when, and how, one need to be acquainted with financial education. However, the need is even higher when same people need to invest in Stock Exchange a business, which attracts about many people in Tanzania. Therefore, it is recommended that financial education be provided in all levels of schools to create a sense of awareness in terms of spending and serving in all areas of business including stock exchange.

REFERENCES

- Abu Baker N, Naser K (2000). Empirical evidence on corporate social disclosure (CSD) practices in Jordan. *Intl. J. Commerce Manage.*, 10 (3/4): 18-34.
- Abu-nassar M, Rutherford BA (1996). External users of financial reports in less developed countries: the case of Jordan. *Br. Account. Rev.*, 28: 73-87.
- Anderson R, Epstein M (1995). The usefulness of annual reports. *Australian Accountant* April, pp. 25-28.
- Anderson R (1981). The usefulness of accounting and other information disclosed in corporate annual reports to institutional investors in Australia. *Acct. Bus. Res. Autumn*, pp. 259-265.
- Arnold J, Moizer P (1984). A survey of the methods used by UK investment analysts to appraise investment in ordinary shares. *Accounting and Business Research Summer*, 195-207. K. Naser R Nuseibeh / *Br. Account. Rev.*, 35(2003): 129-153.
- Bartlett SA, Chandler RA (1997). The corporate report and the private shareholder: Lee and Tweedie twenty years on. *Br. Account. Rev.*, 29: 245-261.
- Bence D, Hapeshi K, Hussey R (1995). Examining investment information sources for sophisticated investors using cluster analysis. *Acct. Bus. Res.*, 26(1): 19-26.
- CMSA (2007). The Capital Markets and Security Authority BI. CMSA, Dar es Salaam.
- Day JFS (1986). The use of annual reports by UK investment analysts. *Account. Bus. Res. Autumn*, pp. 295-307.
- DSE (2001). Quarterly Update. DSE, Dar es Salaam.
- DSE (2003). Blue Print. Dar es Salaam Stock Exchange. Dar es Salaam.
- DSE (2005). Quarterly Update. DSE, Dar es Salaam.
- DSE (2008). DSE Handbook. DSE, Dar es Salaam.

- DSE (2008). DSE J. 10TH Anniversary. DSE, Dar es Salaam.
- Epstein MJ, Freedman M (1994). Social disclosure and individual investor'. *Acct. Audit. Accountability J.*, 7(4): 94-109.
- Epstein MJ, Pava ML (1993). *The Shareholder's Use of Annual corporate Reports*. Jai Press Inc, London.
- Epstein MJ, Pava ML (1994). Profile of an annual report. *Financial Executive* Jan/Feb, pp. 41-43.
- Epstein MJ, Anderson RY (1994). The usefulness of annual reports to corporate shareholders in the United States and Australia.
- Epstein MJ (1975). *The Usefulness of Annual Reports to Corporate Shareholders*, Bureau of Business and Economic Research, California State University, Los Angeles.
- Gniewosz G (1990). The share investment decision process and information use: An exploratory case study. *Acct. Bus. Res.*, 20(79): 223-230.
- Lee TA, Tweedie DP (1975a). Accounting investigation of private shareholder usage. *Account. Bus. Res.* Autumn, pp. 280-291.
- Lee TA, Tweedie DP (1975b). Accounting investigation of private shareholder understanding. *Account. Bus. Res.* Winter, pp. 3-17.
- Lee TA, Tweedie DP (1976). The private shareholder: his sources of financial information and his understanding of reporting practices. *Account. Bus. Res.* Autumn, pp. 304-314.
- Lee TA, Tweedie DP (1981). *The Institutional Investors and Financial Information*. The Institute of chartered Accountants in England and Wales.
- Mautz RK (1968). *Financial Reporting by Diversified Companies*. Financial Executive Research Foundations, New York.
- Naser K, Nuseibeh R (2003). Quality of financial reporting: Evidence from the listed Saudi non-financial companies. *Int. J. Acct.*, forthcoming.
- Naser K, Nuseibeh R, Al-Hussaini A (2003). Users' Perception of various aspects of kuwaiti corporate reporting. *Manage. Audit. J.* press.
- Neimark MK (1992). *The Hidden Dimensions of Annual Reports*. Markus Wiener Publishing Inc, New York.
- Norman AS (2003). The role of financial literacy in boosting saving and investment in the Commonwealth Currents, 11(2) Marlborough, Commonwealth, London.
- The Capital Markets and Securities Act (1994) (Cap. 79) (as amended) Unpublished Paper, British Accounting Association, National Conference at King Alfred's College, Winchester, March 23-25, pp. 1-24.
- Van H (2002). *Financial Management Policy*, 12th Ed. Pearson Ed. Inc., New Delhi, India.