

FACTORS AFFECTING MUTUAL FUNDS INVESTMENT DECISIONS MAKING IN KENYA. A CASE STUDY OF CBA CAPITAL IN KENYA

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ABSTRACT

The study investigated the factors affecting individual investment decisions in Mutual funds in Kenya. Four factors i.e. Affordability, Information, Prospects, and Herding were used as independent variables while Investment decision was the dependent variable. The study aimed in determining the effect of affordability on investment decisions, assess the effect of information on investment decisions in mutual funds, and evaluate the effect of herding on investment decisions in mutual funds. The study was significant in helping fund managers to observe general views of factors affecting mutual funds and also benefit economic policymakers who seek to boost investment in different sectors. The research design that was used is a descriptive research and the target population was the customers and employees of CBA of mutual funds who are approximately 1000. The sample size was 100 respondents. Data were collected by the use of a questionnaire. Data were analyzed descriptively using SPSS version 23.0. The findings of the study revealed that affordability, information, prospects, and herding behavior influences mutual fund investment decision. The findings of the study also revealed that there was a positive significant relationship between the factors under study (affordability, information, prospects, and herding) and the level of mutual fund investment decision. The study suggests recommendations that prices of cross-listed stocks need to be affordable so as to allow investors to trade on them. Information on the industrial performance of mutual funds as well as information on dividends per share needs to be clear and available so that investors can make an informed decision while doing their investments.

Key words: Investment decisions, mutual funds, herding.

INTRODUCTION

The birth of mutual fund industry dates back to a European Dutch merchant Adriana Van Ketwisch in 1774. After the financial crisis from 1772 to 1773 he created the first closed-end fund of 2,000 shares. His motivation was to provide diversification for small investors. During this financial crisis, many British banks were bankrupt because of the overextension of their positions in the British East India Company. This crisis also infected many banks in Amsterdam. By observing this financial crisis, Van Ketwisch realized the potential benefits of diversification. To turn his idea into reality, he initiated to attract some investors and invested the pooled money to banks, plantation loans in Central and South America, and bonds

that were issued by Austrian, Danish, German, Spanish, Swedish, and Russian governments (Budiono, 2009).

Around the globe, the mutual fund industry has seen strong growth in assets in the past two decades. The number of mutual funds worldwide increased from 69,492 in 2010 to 79,669 in 2014 while global assets in mutual funds increased from \$4.0 trillion in 1993 to \$33.4 trillion in September 2014, reflecting increases in each of four broad regions: the United States, Europe, Asia-Pacific, and the rest of the world (ICI, 2015).

The U.S. mutual fund industry remained the largest in the world with \$17.8 trillion in assets at year-end 2014, accounting for half of the \$33.4 trillion in mutual fund assets worldwide. Total net assets increased by nearly \$818 billion from the level at year-end 2013, boosted primarily by growth in equity fund assets. Net new cash flow into all types of mutual funds totaled \$102 billion in 2014 (Wells Fargo, 2014).

China's mutual fund industry is currently small but statistical analysis indicates that it could change over the next several decades. If that occurs, ICI Globe's statistical analysis suggests that China's long-term mutual fund assets could reach \$11.8 trillion China by 2050. This assumes that China has no defined contribution (DC) plan system allowing participants to invest in mutual funds. If, to the contrary, China develops a DC pension plan system that allows contributions to be invested in mutual funds, its mutual fund asset could be even larger by 2050, perhaps \$15 trillion (Keohane, 2011).

In Africa, there were 951 unit trust funds across approximately 42 management companies as at 30 June 2012. The most recent Alexander Forbes survey of retirement fund investment managers shows total assets under management in South Africa of R3.3 trillion as at 30 June 2012, compared to R3.1 trillion as at 30 June 2011, representing growth of under 6%. According to the World Bank global economic prospects June 2013 report, "on aggregate the region's asset managers grew at 4.4% in 2012." The report continues that the region is expected to record 4.9% growth in 2013, 5.2% in 2014 and 5.4% in 2015 (KPMG, 2013).

In Kenya, the idea of mutual funds did not begin until the enactment of The Capital Markets Authority (CMA) that is empowered under Section 30 of the Capital Markets Act to approve institutions to promote Collective Investment schemes under Capital Markets (Collective Investment Schemes) Regulation, 2001. Total assets under management rose by 21.2 per cent to Ksh38.1 billion in 2014 from Ksh17.6 billion in 2010. This was as a result of a sharp rise in share prices, higher bond valuations and investors putting in more funds into unit trusts. In 2012 the NSE 20 Share Index, which tracks the prices of the 20 most traded shares at the Nairobi Securities Exchange (NSE), rose by 28.95 per cent while the NSE All Share Index

rose by 39.42 per cent Total income for the unit trusts rose to Ksh4.8 billion (\$56.1 million) in 2012 from a loss of Ksh931.1 million (\$10.9 million) in 2011 while profit after tax rose to Ksh4.1 billion (\$48.4 million) from a combined loss after tax of Ksh2.4 billion (\$28.2 million) (East African, 2015).

Investment decisions in mutual funds in Kenya

The investment strategy used determines the risk and reward profile for mutual funds and they vary. Mutual funds provide diversification, divisibility, low transaction costs, access to a broader array of assets and professional management for the individual investor, factors that have propelled their popularity in the past decades, according to Saraoglu and Detlzer (2002). Corporate and private investors evaluate risk and return associated with them in comparison with those associated with other investment assets, before allocating their investment in mutual funds.

Hence, investor will evaluate the inherent risk and return associated with different asset classes while allocating his assets. According to Markowitz (1952), the higher the risk an investor exposes themselves to, the higher a return they will seek to gain. Hence, an investor is likely to evaluate the returns offered by the mutual funds in the past and compare these returns with those of other assets before making an investment decision.

Statement of the Problem

Over the last few years, mutual funds have attracted considerable attention due to their increase in funds holding across the globe and as a result, fund managers' operations have been reviewed (Gitagia, 2012). Foreign investors evaluate the risks that range from economic stability, inflation and other macroeconomic variables against the rate of return available locally relative to the international rates. They evaluate past yields offered by mutual funds with the volatility of such return constituting the inherent risk. Ramasang (2003) observed that robust growth in fund management in emerging markets has resulted in a rapid increase in investment firms offering diversified portfolio funds. However, the investors, while evaluating these factors, do not investigate them conclusively before settling on a fund to invest in.

Mutual funds in Kenya have recorded significant growth in the last two decades and the rapidly growing middle class is gradually gaining interest in them (Kariuki, 2012). The fund management firms play a significant role in boosting national savings and compete for investor funds with other investment assets. Over the last two decades the level of funds invested in mutual funds has changed from year to year as investors seek better returns with relatively low levels of risk (Mutua, 2011). Mutual funds offer different products that yield periodic incomes and capital gains on listed assets. It is also these different products that influence the performance of different funds in the market.

Locally, Muriithi (2005) evaluated the risk return relationship of equity mutual funds and found a positive relationship between the two factors. This concluded that investors in Kenya were highly risk averse and highly prefer low risk assets, demanding higher return if they were to incur more risk. This has an effect on the performance of the mutual funds in that, the low risk securities will be more attractive to the investors as opposed to those with higher risk.

Berk and Green (2004) argued out why past performance should not predict future performance. They argued that a successful manager would capture excess return by charging more per dollar managed, hence increasing expense ratios, or, on the other hand the fund would increase in size and due to resulting diseconomies of scale, such as, greater transaction costs, organizational diseconomies or the need to add poorer performing investments, excess returns will disappear and eliminate predictability.

Does increase in size of a mutual fund or its good performance lead to an increase in expenses? Pollet and Wilson (2008) examine influences that could lead to diseconomies of scale which in turn increase the expenses. They hypothesize that management can put more money into existing stocks, therefore incurring higher transaction costs or they can increase the number of stocks in the portfolio, thus having to select securities with lower expected returns.

All the above studies were carried out in isolation, hence it cannot be concluded that a particular factor is solely responsible for how a specific mutual fund performs. This implies that limited research was carried out in examining the factors that affect the performance of mutual funds and to what extent. Some factors may be known while others emerge with changing times. It is due to this background that this study sought to fill this knowledge gap by assessing factors affecting individual investment decisions in mutual funds in Kenya

The study aimed to analyze the factors affecting individual investment decisions in mutual funds in Kenya a case study of CBA capital.

LITERATURE REVIEW

Theoretical Review

Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter. The following theories we used in this research : Efficient Market Hypothesis, Modern Portfolio Theory (MPT) and Capital Asset Pricing Model (CAPM).

Conceptual Framework

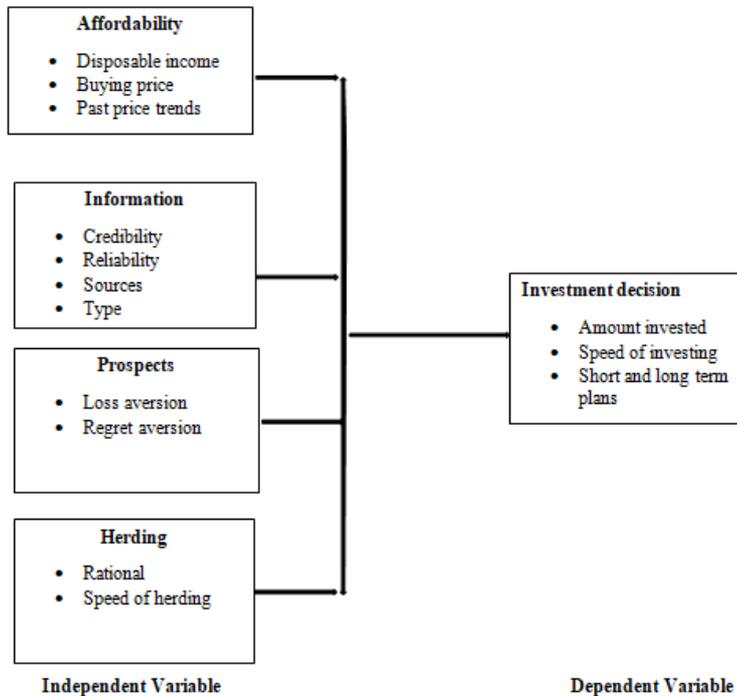


Figure 2.1: Conceptual Framework

RESEARCH METHODOLOGY

RESEARCH DESIGN

The study was conducted using descriptive case study, using causal/explanatory research. An explanatory case study is used to explore causation in order to find underlying principles. Case studies are analysis of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. Keitany (2000) explains correlation as the determination of whether or not and to what extent an association exists between two or more variables. Correlation therefore was used as a means of trying to examine the effect of factors affecting investment decisions in mutual funds in Kenya.

This research targets population included the customers and employees of CBA. There are approximately 1000 customers and employees of mutual funds; they formed the target population.

RESEARCH FINDINGS

Response Rate

The study had a target of 100 respondents but managed to obtain 94 respondents thus representing 94% response rate. A rate that was considered satisfactory in making conclusions for the study. Mugenda and

Mugenda (2013) observed that a 50% response rate is adequate, 60% good and above, while 70% rated very good. This collaborates with Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good.

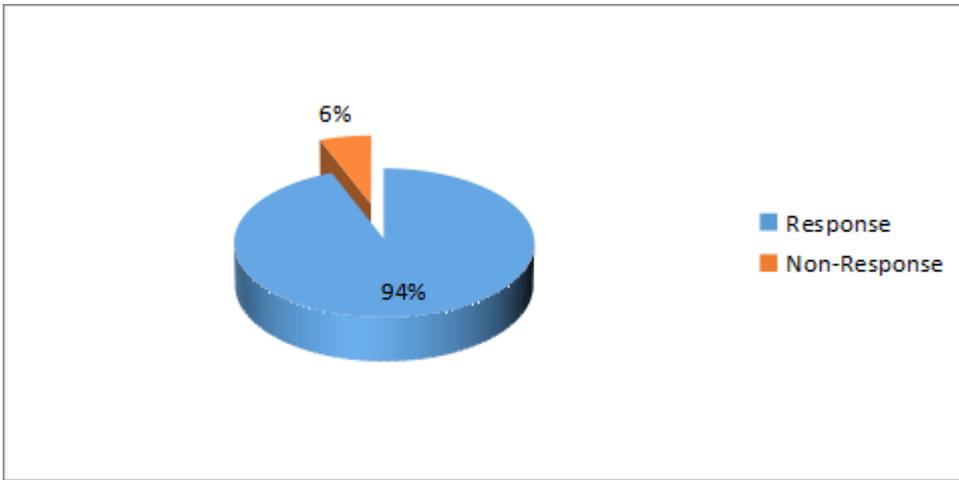


Figure 4.1: Response Rate

**Source: Research Study 2020
Results of the Pilot Study**

In this study to ensure the reliability of the instrument Cronbach’s Alpha was used. Cronbach Alpha value is widely used to verify the reliability of the construct. Therefore, Cronbach Alpha was used to test the reliability of the proposed constructs. The findings indicated that affordability had a coefficient of 0.756; Information had a coefficient of 0.783; Prospects had a coefficient of 0.821, Herding had a coefficient of 0.861 while investment decision had a coefficient of 0.897. All constructs depicted that the value of Cronbach’s Alpha are above the suggested value of 0.5 thus the study was reliable (Nunnally & Bernstein, 2009; Nunnally, 2004). On the basis of reliability test it was supposed that the scales used in this study is reliable to capture the constructs as shown in the Table 4.1.

Table 4.1: Reliability Analysis

Financial Sustainability Factors	Cronbach’s Alpha	Comments
Affordability	.756	Accepted
Information	.783	Accepted
Prospects	.821	Accepted
Herding	.861	Accepted
Investment decision	.897	Accepted

Descriptive Findings as per the Objectives

Affordability

The study findings revealed that majority of the respondents agreed that Prevailing market price per share influence investment decision to a great extent (4.2174). They also agreed that availability of disposable income influence investment decision (4.1739). The research findings pointed out that the prices of cross listed stock influence investment decision to a moderate extent (3.7138). The findings are as presented in Table 4.2.

Table 4.2: Affordability

Statement	Mean	Std. Deviation
Prevailing market price per share	4.2174	.59974
Availability of disposable income	4.1739	.65033
General trend in stock price	3.7286	.93764
Prices of cross listed stocks	3.7138	.94058
General dividend pay out	3.8261	.98406

Information

The study findings revealed that majority of the respondents agreed that information on firms performance influence investment decision to a great extent (4.6957). They further agreed that information of dividend per share influence investment decision (4.2174). It was evident from the research findings that information on industrial performance influence investment decision to a moderate extent (3.7391). The findings are as presented in Table 4.3.

Table 4.3: Information

Statement	Mean	Std. Deviation
Information on firms performance	4.6957	.47047
Information on dividend per share	3.7794	.64917
Information on industrial performance	3.7391	.81002
Information on dividend per share	4.2174	.59974

Prospects

The study findings revealed that majority of the respondents agreed that opinion from relatives influence investment decision to a great extent (4.6957). They also agreed that opinion from investment groups influence investment decision (4.6087). It was evident from the research findings that some of the respondents were of the opinion that opinion from other stakeholders influence investment decisions to a moderate extent (3.4729). The findings are as presented in Table 4.4.

Table 4.4: Prospects

Statement	Mean	SD
Opinion from stock brokers	3.8261	.98406
Opinion from other stakeholders	3.4729	.63337
Opinion from relatives	4.6957	.47047
Opinion from investment groups	4.6087	.49965
Opinion from business news	4.3724	.49931

Regression Model

The multiple linear regression analysis models the relationship between the dependent variable which was investment decision and the independent variables which was affordability, information, prospects and herding. Table 4.5 shows the results of regression coefficients which reveal that a positive effect was reported for all the financial sustainability aspects under study.

Table 4.5: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.903	.510		1.184	.011
Affordability	.035	.028	.018	1.021	.031
Information	.016	.021	.013	1.115	.015
Prospects	.020	.390	.020	1.181	.042
Herding	.353	.175	.319	1.016	.029

Summary of Findings

The research findings revealed that the factors under study had a positive effect on mutual funds investment decision:

Affordability

The findings of the study revealed that affordability influences mutual fund investment decision. The study findings revealed that majority of the respondents agreed that Prevailing market price per share influence investment decision to a great extent (4.2174). They also agreed that availability of disposable income influence investment decision (4.1739). The research findings pointed out that the prices of cross listed stock influence investment decision to a moderate extent (3.7138). Results of the inferential statistics such as unstandardized regression coefficients show a positive influence on investment decision. This further indicates that affordability had a significant effect on investment decision as indicated by the low p values. Regression model shows that there is positive relationship between affordability and investment decision.

Information

The findings of the study revealed that access to information influences mutual fund investment decision. Performance influence investment decision to a great extent (4.6957). They further agreed that information of dividend per share influence investment decision (4.2174). It was evident from the research findings that information on industrial performance influence investment decision to a moderate extent (3.7391). Results of the inferential statistics such as unstandardized regression coefficients show a positive role on investment decision as revealed by the low p values. Regression model shows that there is positive relationship between access to information and investment decision level.

Prospects

The findings of the study revealed that prospects positively influence mutual fund investment decision. The study findings revealed that majority of the respondents agreed that opinion from relatives influence investment decision to a great extent (4.6957). They also agreed that opinion from investment groups influence investment decision (4.6087). It was evident from the research findings that some of the respondents were of the opinion that opinion from other stakeholders influence investment decisions to a moderate extent (3.4729). Results of the inferential statistics such as unstandardized regression coefficients show a positive role on investment decision as indicated by the low p values. Regression model shows that there is positive relationship between prospects and level of investment decision.

Herding

The findings of the study revealed that herding behaviour has a role in influencing investment decision. The study findings revealed that majority of the respondents agreed that: other investors' decisions on buying and selling stocks have impact on investment decisions to a great extent (4.9734). They also agreed that herding behavior encourages investment to a greater extent (4.2592). It was evident from the research findings that herding behavior discourages investment decision to a moderate extent (3.5071). Results of the inferential statistics such as unstandardized regression coefficients show a positive role on mutual fund investment decisions as revealed by the low p values. Regression model shows positive relationship between herding behavior and mutual fund investment decision.

Investment Decision

The study findings revealed that majority of the respondents agreed that affordability influences investment decision to a great extent (4.6552). They also agreed that access to information influences investment decision to a great extent (4.2174). On the contrary, it was clear from the research findings that majority of the respondents were of the opinion that herding behaviour influences investment decision to a moderate extent (3.7794). The findings revealed that there is positive relationship between aspects under study (affordability, information, prospects and herding) and level of mutual fund investment decision.

Conclusion

The findings of the study revealed that there was a positive significant relationship between the factors under study ((affordability, information, prospects and herding) and the level of mutual fund investment decision. The findings also indicate that the factors under study influenced investment decision making positively. Same conclusions can be made about the study when considering the research findings and answers to the research questions.

Recommendations

The study suggests recommendations that prices of cross listed stock need to be affordable so as to allow investors trade on them. There is need to have consistent trend in stock process so as to encourage investors. Information on industrial performance of mutual funds as well as information on dividend per share need to be clear and available so that investor can making informed decision while doing their investments. Failure to avail this important information may result to investor's apathy in buying some stock. Herding behaviour do not discourage investments but rather it encourages mutual fund investment. It is good to make rational decision when making investment so that you can get value of your investment by

getting good returns. Other investors' decisions on buying and selling stocks have impact on investment decisions.

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