

**THE ROLE OF FINANCIAL INFORMATION IN INVESTMENT
DECISION MAKING: A CASE STUDY OF PSPF**

**THE ROLE OF FINANCIAL INFORMATION IN INVESTMENT
DECISION MAKING: A CASE STUDY OF PSPF**

By

Mrisho Samwel

**A Dissertation Submitted in Partial Fulfilment of the Requirement for Award of
the Degree of Masters of Science in Accounting and Finance (MSc A&F) of
Mzumbe University.**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University a dissertation titled '**Role of Financial Information in Investment Decision Making; A Case Study of PSPF**' in partial fulfillment of the requirements for degree of Master of Science in Accounting and Finance (MSc. A & F) of Mzumbe University.

Major Supervisor

Internal Examiner

External Examiner

Accepted for the Board of School of Business.

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AND
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I, Mrisho Samwel, hereby declare that this dissertation is my own original work and it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature _____

Date _____

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DEDICATION

I dedicate this study to my family for their concern and encouragement during my studies.

LIST OF ABBREVIATIONS

ARR	Accounting Rate of Return
FI	Financial Information
GAAPs	General Accepted Accounting Principles
IAS	International Accounting Standards
IRR	Internal Rate of Return
MSc A & F	Masters of Science in Accounting and Finance
NPV	Net Present Value
NSSF	National Social Security Fund
PB	Payback Period
PI	Profitability Index
PPF	Parastatal Pension Fund
PSPF	Public Service Pension Fund
PV	Present Value
ROI	Return on Investment
SSRA	Social Security Regulatory Authority
TZS	Tanzanian Shilling
YTM	Yield to Maturity

ABSTRACT

The study was designed to assess the role of financial information in investment decision making and PSPF used as a case study. The main objective of this study was to examine the role of financial information in the process of investment decision making. And various sampling techniques used to ensure the right sample is obtained. Whereby purposive, convenience and stratified random sampling technique were employed. Data was collected from these samples by using questionnaires, interviews and secondary data.

The findings of the study obtained and analyzed to enable the researcher to answer the research questions. By answering these questions the researcher was in a good position to get his specific objectives. In totality of these specific objectives, the main objective was obtained too.

Now, the researcher concluded that, the financial information plays a big role in the process of investment decision making. Most of the investment projects can be analyzed by using their financial information. Because the financial information are the only which can show the financial health and picture of an organization. However, there some financial information itself are not enough to show the full picture.

Also the researcher provided some recommendations to PSPF and other organization; like having competent Investment Officers for analyzing the potential investments, revising the organizational investment policies to cope with economic and country policies too and also finally taking into account the other factors other than financial information like government policies, social and environmental impact.

Finally, the researcher suggested some areas for further studies to the future researchers. The future researchers should look on the qualifications of the Investment Officers. Also should look on the impact of the factors other than financial information in investment decision making. Also with the plenty of time and fund the researchers may conduct their study on more than one investing companies like PSPF, PPF and NSSF.

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CHAPTER ONE

INTRODUCTION

1:0. Introduction

Some of the corporate organizations are involving in investment process, these giant organizations like Public Service Pension Fund (PSPF) they do invest in medium and small firms. And these organizations need financial information for them to make investment decision. The effectiveness of the decision to be made it depends much on the quality of the financial information supplied by the targeted organizations.

Both large and small organizations in addition to satisfying the legislating requirement tend to retain existing investors and to attract potential ones through the publication of their financial reports and statements where the capital stock of a corporation is widely held and its affairs are of interest to general public relations. The discussions and illustrations of the study will be centered on the financial information presented to shareholders and also available for potential investors, bond holders and trade creditors as a tool of information for investment decision. Financial information based on result of past activities are analyzed and interpreted as a basis for predicting future rate of returns and assessment of risk.

Financial statement provides important financial information for a wide variety of decision, investors draw information from the statements and reports of the firm in which security they expect to invest. Decision makers who anticipate acquiring total or partial ownership of an enterprise expect to secure returns on their investment such as dividends and increase in the value of their investment (capital gain). Both dividends and increase in the value of shares of company depends on the future profitability of the enterprise. So investors are interested in future profitability of the company. Past income dividend data are used to forecast returns from dividend and increase in share prices.

1:1. Public Service Pension Fund

This part tries to give the over view of the institution to be used as the case study. The researcher provides important information concerning the Organization which is used as a case study.

1:1:1. Background of PSPF

The Public Service Pensions Fund (PSPF) is a social security scheme established by Public Service Retirement Benefits Act No. 2 of 1999. The main purpose is to provide for collection of contributions and payment of terminal benefits to members. The Fund is operated under two different schemes known as PSPF Main Scheme and PSPF Supplementary Scheme of which membership is voluntary.

Coverage

Membership to the Fund is open to any person who has been employed in the formal and informal sector. Previously, the Fund was established to manage a defined benefit scheme in which membership was limited to the Central Government employees and employees of executive agencies established under the act of parliament and confirmed in the pensionable office. However, amendments made in the Act No. 2, 1999 in June 2012 and the Social Security Regulatory Authority (SSRA) established under Act No. 8 of 2008 extended membership of the scheme to include employees of formal and informal sector who are not registered under any other scheme. The aim for amendments is to extend social security services to everyone.

1:1:2. PSPF Vision

Is to be the provider of choice of social security services in the country.

1:1:3.PSPF Mission

Is to provide competitive Social Security Services to our members using dedicated staff and appropriate technology.

1:2. Background of the Problem

In every organization, every fiber of decision is important. However, before creating such valuable decisions, it is also important to the decision makers such as leaders have basis. In terms of performance in an organization and creating new business ventures, it is emphasized that the use of financial information can be a great source of crafting decision. Through the income statement, balance sheet, statement of owner's equity, cash-flows and other financial reports an investor can analyze the figures in the more convenient way, in which the entire organization can be understood. Through the analysis of the financial data an investor can be in a good position to assess the financial health of the organization.

In previous years the investors were not paying much attention on the accounting information when making their investments. In year 2000s the world was shocked by the collapse of big American corporate like Enron, WorldCom and Tyco. These scandals left the accounting profession in a "deep traces" in the history. This situation turned the attention of entire world on accounting firms, accounting practices and audit practices.

In several years the investors were not dealing much with financial information, and they end up making wrong decisions. Most of the investors they were failing to examine the going concern status of the organizations in which they collapse in the near future after the investment done like Enron and WorldCom which were presenting profit in their reports.

After various scandals the world left puzzled with the situation. And most of the researchers were dealing only with preparation of good financial statements. This problem faces the world and at national level too. This situation pushed the researcher to carry out the research for the purpose of identifying the role of financial information when involving in investment decision making.

1:3. Statement of the Problem

It is observed that, the examination of the role of financial information in investment decision making being a critical issue worldwide. And this issue faces both investors and managers of business organizations. They are either not aware of the importance of interdependence relationship that exist between investment decision making process and the financial information. Such problems include;

- i. How analytical tools are set to aid prospective investors in accessing the financial position of the corporate organization.
- ii. Evaluation of performance of an organization targeted for investment in future.
- iii. How to determine the future expected profitability of an organization. Investors lack skills of assessing the future profitability of projects.

The above listed problems are the ones to be dealt with in this research work. The problems analyzed tend to scare away both existing and potential investors. The reason of this study is to adequately look into the above problems and suggest possible solutions to any of them. Nevertheless this research will end up finding possible key factors to solve these problems.

The researcher pointed out important factors to consider when examining the financial information. And creating an awareness of the importance of the financial information in investment decision making process.

1:4. Objectives of the Study

Under this section the researcher expresses what intends to achieve at the end of the study. These objectives are categorized into overall/main objective and specific objectives.

1:4:1. Overall Objective

The main objective of the study was to ascertain the role of financial information in investment decision making.

1:4:2. Specific Objectives

In order to achieve this goal, there are some objectives that needed to be addressed in the study that enabled the progress of investigation.

- i. To examine the degree of importance attached to financial information by investors.
- ii. To identify the role of financial information in the balance between short term and long term investment decisions.
- iii. To evaluate the trend of expected return of the potential investment ventures.

1:5. Research Questions

Research questions guide the researcher in constructing the questionnaires. Therefore the researcher raised the following research questions which guided him in the construction of his questionnaire which are instruments in the study. The questions are as follows;

- i. To what extent are financial information useful in the investment decision making?
- ii. Are financial information useful in balancing the short term and long term investment?
- iii. Do financial information show the trend of future expected return of potential investment ventures?

1:6. Significance of the Study

This study is worth. The researcher believes that, this study will be of much value to a number of people. It will offer the following significances;

To the Public

The study will help the public in widening knowledge of financial information and the role it plays in investment decision making, it will also make the public to appreciate the importance of sound financial reports in the provision of information necessary for decision making.

To Financial Institutions and other Organizations

The study will point out the financial information weaknesses to be considered when using them for decision making as a base. These Organizations will be aware of what to consider when making an investment decision. Also it will be able to present important information for investors to make analysis.

To Academic Institutions

This research paper will be used by the researcher, as the partial fulfillment of the requirements for the award of the Master degree in Accounting and Finance offered at Mzumbe University. Also other researchers will use the report as literature review in order to improve on their research studies in future.

1:7. Scope and Limitations of the Study

1:7:1. Scope of the Study

This study was focused mainly in Dar es Salaam region, particularly at The Public Service Pension Fund (PSPF) head office. This study was conducted in the period of six months starting from January 2014 to July 2014.

1:7:2. Limitations of the Study

There are some limitations experienced by the researcher in the process of conducting this research, and the following are some of the limitations of this study;

Uncooperative attitudes; The researcher struggled much to get the permission for data collection. There is a lot of bureaucracy in getting the permission for data collection. They took a long time to offer permission for conducting a research at the PSPF.

But the researcher tried much to get the permission by making several follow up in order to meet the dead line set. Now the researcher advices the various organizations to show cooperation with the researchers.

Time constraint; The six months given for the study is not enough for the researcher to come out with the comprehensive findings. Because, even those Institutions chosen as a case study some are not cooperative.

The researcher worked hard so as to meet the dead line put for the submission of the research report.

Financial constraints; financial constraints was also another factor that limited the researcher to go to many branches of PSPF and even other Pension Funds in Tanzania. The researcher lacked finance for transportation, electronic library etc. and as such was limited only to PSPF.

Also under this constraint, the researcher minimized various costs in conducting the research. For instance, instead of passing through branches the researcher concentrated only with the Head Office where all information can be obtained..

The other constraint which was faced by the researcher is that, some of the information given was not appropriate to the study due to human behavior/error or failure to understand some questions in the Questionnaires. But the researcher was aware to sort them and make some corrections in order to ensure reliability of the information collected.

CHAPTER TWO

LITERATURE REVIEW

2:0. Introduction

This chapter is divided into two main parts. The first part deals with the conceptual or theoretical framework with the objective of explaining various theories developed by other scholars and researchers in supporting this study. The second part mainly deals with empirical studies or reviews. Under this part the researcher reviews the findings and conclusion made by former scholars/researchers. The only aim of doing this, is to identify the study gaps that needs to be filled in this study.

2:1:0. Theoretical Literature Review

In this part, the researcher referred to different literatures concerning the study in hand. The researcher discussed an over view on financial information and investment decision making. Under this chapter a reader gets an understanding of various terms used in this report. Also there other related terms discussed under this chapter.

2:1:1. Meaning of Financial Information (FI)

Data such as credit card numbers, credit ratings, account balances, and other monetary facts about a person or organization that are used in billing, credit assessment, loan transactions, and other financial activities. Financial information must be processed in order for business to be conducted, but it must also be carefully handled by businesses in order to ensure security for customers and to avoid the litigation and bad publicity that can stem from negligent or improper use.

The basis of financial planning analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate a firm's earning capacity. It is also required to help in economic decision making, investment and financing decision making. The financial information of an enterprise is contained in the financial reports.

According to Gautam (2005), Financial statement is defined as financial information which is the information relating to financial health of any firm in a capsule form.

Financial statement can also be defined as the process whereby information relating to the organization as a whole is reported to the outside world. They are reports on management and not to management. It deals with most external financial transactions of the organization.

According to Hoskin (1997). Financial statement is a report from the management of the firm to the owners describing the results of the operations of the firm during a particular annual period. The report is sent to all owners, but it is also used by many other parties that have an interest in the firm, for instance, investors, lenders and credit-rating agencies.

2:1:2. Qualitative Characteristics of Financial Information

The qualitative characteristics will provide assistance when choices have to be made between reporting policies - whether by preparers, auditors, those participating in the standard-setting process, regulators or others - and be indicative of the qualities that users can expect of the financial information provided to them.

According to Libby et al. (2007), for financial Information to be useful, should possess some qualitative characteristics as discussed below.

Relevance:

For information that is disclosed in the financial reports to be useful at all, it should be legally relevant. That is, it must be associated with the decisions it is designed to aid and facilitate. What is relevant for one group of financial information users may not be relevant for another group of users, thus, there is no such thing as all-purpose financial report in the context.

The information should be relevant to the decision made by the users of the information. It should make a difference in their decisions. Typically, this means the information must be:

- **Timely.** This means that, the financial information should presented on time. It will enable also users to make decision concerning the information on time too.
- **Have predictive value.** Alsoforfinancial information to be relevant, must be able to predict values in future.
- **Provide useful feedback on past decisions.** The financial information should be providing feedback of what has been decided in the past.

Reliable:

The information should be reliable and dependable. This means that users should have a trust on the financial information supplied with. By having the trust on the information, the users will be comfortable on relying on it when making decisions. And this reliance will be only achieved if the following concepts are observed:

- **Faithful representation-** the information represents what it claims to represent. For example, if the reported value of a common stock holding purports to be the current market value, that value should be approximately what the stock could be sold for by the company holding it.
- **Verifiability** - another person or entity should be able to recreate the reported value using the same information that the reporting entity had.
- **Completeness** - the reported information should not be missing a material fact or consideration that would make the reported information misleading. The information should provide users a sounded picture of the economic activities of the reporting entity. By this, it means that every aspect of the business which can be reported in monetary terms

should be reported as far as possible to give information concerning the result completely.

- The concept of **neutrality** is sometimes incorporated into the concept of reliability. This means the financial information should be fair to all parts of interests.

Comparable and Consistent:

Accounting practices should be uniform both within the corporations and other organizations. Ideal financial reports of one enterprise should be readily comparable with those of another in the same industry. Nevertheless, adoption of different accounting policies like the method of depreciation and stock pricing has made this difficult.

For accounting information to be useful, it must allow for comparisons across time and across competing interests (such as competing companies or industries). For instance an Organization should provide financial data for at least two years (E.g. 2012 and 2013). Also an entity should present their financial information in the way that can be compared with the competing companies in the same industry.

This leads to a need for some consistency, wherever such comparisons are to be expected. For example, comparisons of two companies would be very difficult and potentially misleading if one discounts all its liabilities while the other discounts none of its liabilities.

For trend analysis the company must make sure that it obeys consistency in using their Accounting policies like methods of depreciation and stock valuation methods. If these accounting policies will be used consistently, now it will be useful for users to make a comparison of profitability, performance and financial position of the same company between years.

Understandable:

Preparation of financial report should be in accordance with general accepted accounting principles (GAAPs) so that the parties interested to these information can easily understand them. The financial information are intended to be understood by their users who have reasonable knowledge of business, economic activities and accounting and who are willing to study the information diligently.

Typically there is a belief that, for information to be understandable, information contained in the various financial disclosures and reports must be transparent (i.e., clearly disclosed and readily discernable).

Accuracy:

The financial reports should disclose correct and accurate information about the financial health of the business. They should only factual information; no false information is to be included. False information could lead to wrong decision making. Once the financial information are incorrect, it will be misleading the users and end up making wrong decision too.

2:1:3.Objectives of Financial Information

The basic objective of financial information is to assist in decision making. The other objectives are;

- i. To provide reliable financial information about economic resources and obligations of a business enterprise. These information can only be obtained in the statement of financial position (Balance sheet).
- ii. To provide reliable information about changes in the net reserves (resource obligation) of the business. Also this information will be obtained in the statement of changes in equity.
- iii. To provide information that assist in estimating the earning potential of an organization. Information for estimating the earning capacity will be found in the statement of comprehensive income.

- iv. To disclose to the extent possible, other information related to the financial statements that are relevant to the users of financial information. These information are always included in the explanatory notes.

2:1:4. Users of Financial Information

The persons who receive accounting information are termed as the users of financial information. The type of information a specific user requires from the financial reports depends upon the kind of decision that person wants to make. This it is said that, financial reports are user oriented.

According to Wild (2011). Accounting is often called the language of business, all organizations set up an accounting information system to communicate data to help people make better decisions. The accounting information system serves many kind of users who can be divided into two groups; internal and external users as discussed below.

Internal users:

These are users of the financial information from within an Organization. This includes management and employees.

- i. **Management Team:**

This is the management of the entity itself. They are concerned with the overall financial worth of the enterprise. Management has the overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firm's financial position is always sound. They need the financial statement for planning, controlling and decision making on the day to day operations and long range (strategic) plan of the organization.

- ii. **Employees:**

Employees are interested in the company's profitability and stability. They are after the ability of the company to pay salaries and provide employee benefits.

They may also be interested in the company's financial position and performance to assess the possibility of company expansion and career opportunities.

The external users

These are persons or agencies outside the organization who are interested with the company's operations. These persons and agencies include;

i. **Prospective Investors:**

Investors who wish to become shareholders of the firm are more concerned about the firm's long- run survival and earnings. They give more confidence in those firms that show steady growth in earnings. As such they concentrate on the analysis of the firm's present and future profitability.

ii. **Trade Creditor:**

Trade creditors like suppliers and other short term lenders are more interested in the firm's ability to meet their short term obligations. They will confirm their analysis on the evaluation of the firm's liquidity position based on the analysis of the firm and determine the terms and conditions of any lending (or supply) to the firm e.g. security, repayment time etc.

iii. **Suppliers:**

Suppliers of long-term debt would be more concerned with the firm's long-term solvency and survival. They analyze the firm's profitability over time, its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds (capital structure relationship). Long-term creditors do analyze the historical financial statement but they place more emphasis on the firm's projected or pro-forma financial statements to make analysis about its future solvency and profitability.

- iv. **Banks and Other Financial Institution:**

They study a company's financial statements to enable them grant loans. They evaluate the ability of the entity to meet its obligations and the entity's capital structure relationship.
- v. **Government:**

Governing bodies of the state, especially the tax authorities, are interested in an entity's financial information for taxation and regulatory purposes. Taxes are computed based on the results of operations and other tax bases. In general, the state would like to know how much the taxpayer is making to determine the tax due thereon.
- vi. **Educational/Research Institution:**

They require the accounting information for teaching and research purpose. These include universities and other education centers.
- vii. **Public:**

Public are interested in many ways especially the economic life and the sustainability of the company in its operations.
- viii. **Stock Exchange:**

Stock exchange may derive several conclusions from the figures of financial statement such as performance, profitability prospects of change in the share value and health of the company.
- ix. **Customers:**

When there is a long-term involvement or contract between the company and its customers, the customers may be interested in the company's ability to continue existence and its stability of operations. This need is also sensitive in cases where the customers depend upon the entity.

For example, a distributor (reseller), the customer in this case, is dependent upon the manufacturing company from which it purchases the items it resells.

x. **Potential Buyers (Acquirers):**

Potential buyers of the firm through acquisition or merger are more concerned about the potential profitability of the firm in the future as such they decide on the reasonable price to pay and the actions to be taken on the purchase of the firm or merger.

2:1:5. Sources of Financial Information

Financial information are the information concerning an organization financially. These information can be obtained in various financial reports prepared in an organization. The following are the financial statement which offers various financial information. There are many types of financial statements. According to IAS 1 a complete set of financial statements comprises:

- a) a statement of financial position as at the end of the period;
- b) a statement of comprehensive income for the period;
- c) a statement of changes in equity for the period;
- d) a statement of cash flows for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in this Standard. An entity shall present with equal prominence all of the financial statements in a complete set of financial statements. As permitted by paragraph 81, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate statement of comprehensive income. When a statement of

comprehensive income is presented it is part of a complete set of financial statements and shall be displayed immediately before the statement of comprehensive income.

Statement of Financial Position

This is a financial statement showing the assets, liabilities and net equity of a company as of a given point in time usually at the end of the financial year. The main objective or purpose of a statement is to present the financial position of a company at the end of the particular financial year. The fact and figures shown must be true and correct.

Statement of Comprehensive Income

It is a financial statement that gives a company operating results for a specific period of time. Also referred to as earnings reports operating statement. Statements normally cover a year of operations. Its objectives include the measurement of capital maintenance and income distribution. Operations divide into two categories of transactions, sales and revenue. A typical manufacturing company sells products to its customers which, net of return results in net sales less all expenses. Net incomes are obtained after taxes are deducted at prevailing rate. Net income is available to be invested in the business and pay dividend.

Statement of changes in equity

It reconciles the statement of comprehensive income with movements in equity for the period. The business undertaking shall present the following information;

- total comprehensive income for the period, showing separately the total amount attributable to owners of the parent and to non-controlling interest;
- for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8;
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
 - Profit or loss;
 - Other comprehensive income; and

- Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

Cash Flow Statement

Cash flow statement is prepared at the end of a fiscal period to show how cash was affected by the business operating, investing and financing activities during the accounting period. Simply stated, cash flow statement means a statement showing changes or movement of cash or cash equivalent during a given period. Briefly it may be stated as showing various sources of cash inflows and various heads of cash outflows. It is prepared from income statement and changes in the working capital (current assets less current liabilities).

Cash inflows are those which increase the cash position and cash outflows are those which decrease the cash position. Cash inflows may also arise due to the operating activities. Similarly, cash outflows may arise due to cash purchasing, payment to creditors, payment to operating expenses and income tax, payments of loan and dividend and interest, repayment of long term loans and redemption of preference shares or debentures (financing activities) and purchase of fixed assets including investments (investment activities). The net result of cash flow statement is to verify the closing cash balance after adjusting all items of cash inflows with opening balance and all items of cash outflow.

These cash inflows and outflows changes the balance of the cash in bank account. The corporate financial position for the current accounting period reports the change in the balance of cash in bank but does not provide the reasons for the change. These details are reported in the cash flow statement.

Notes

Comprising a summary of significant accounting policies and other explanatory information; and

The notes shall;

- Present information about the basis of preparation of the financial statements and the specific accounting policies used.
- Disclosure the information required by IFRSs that is not presented elsewhere in the financial statements.
- Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

2:1:6. Definition and Nature of Investment Decisions.

As postulated by Pandey (2010), investment decisions or analysis has to do with an efficient allocation of capital. It involves decision to commit the firm's funds to the long-term assets. Such decisions are of considerable importance to the firm since they tend to determine its value size by influencing its growths, profitability and risk

The investment decisions of a firm are generally known as the capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipated of an expected flow of benefits over a series of years. According to Canada and White (4) is the series of decisions by individual economic units as to how much and where resources will be obtained and expected for future. Situation where capital expenditure decisions are made or taken, they are based primary with measurement of capital productivity which provides an objective means of measuring the economic worth of individual investment proposals in order to have a realistic basis for choosing among the firm's long run property.

Pandey (2005). The long-term asset is those which affect the firms operation beyond the one year period. The firm's investment decision would generally include expansion, acquisition, modernization and replacements of the long-term assets. Sales of division or business divestment are also analyzed as an investment decision. Activities such as change in the methods of sales distribution or undertaking an advertisement campaign or a research and development programs have long-term implications for the firms expenditures and benefits, and therefore, they may also be evaluated as investment

decisions. It is important to note that investment in long-term assets invariably requires funds to be tied up in the current assets such as inventories and receivables, some of the features of investment decisions are as follows;

- a. The exchange of current funds for future benefits
- b. The funds are invested in long-term assets
- c. The benefits will occur to the firm over a series of years

The two importance aspects of investment decisions are;

- a) The evaluation of the prospective profitability of new investments.
- b) The measurement of a cut-off rate against that the prospective return of new investment could be compared.

Future benefits of investment are difficult to measure and cannot be predicted with certainty. Risk in investment arises because of the uncertain returns. Investment proposals should therefore, be evaluated in terms of expected return and risk. Beside the decision to commit funds in new investment proposals, capital budgeting also involves replacement decisions that are decision of recommitting funds when an asset becomes less productive or non-profitable. The correct cut-off rate in investments is the opportunity cost of capital which is the expected rate of return that an investor could earn by investing in financial assets of equivalent risk.

It is significant to emphasize that expenditures and benefits of an investment should be measured in cash. In an investment analysis, it is cash flow which is important, not the accounting profit. It may also be pointed out that investment decisions affect the firm's value. The firm's value will increase if investments are profitable and add to the shareholder's wealth. These increases are reflected in the financial statement of the firm, which invariably are used as tool for investment decisions owing to certain analysis essential in them.

2:1:7. Importance of Investment Decision

Investment decisions require special attention because of the following reasons;

- a) They influence the firm's growth in the long-run.
- b) They affect the risk of the firm.
- c) They involve a commitment of large amount of funds.
- d) They are irreversible or reversible at substantial loss.
- e) They are among the most difficult decisions to make. (Quirin, G.D, 1977).

Growth: the effects of investment decisions extend into the future and have to be endured for a longer period than the consequences of the current operating expenditures. A firm's decision to invest in long- term assets has a crucial influence on the rate and directions of its growth. A wrong decision can prove disastrous for the firm. On the other hand, inadequate investment in assets would make it difficult for the firm to complete successfully and maintain its market share.

Risk: A long-term commitment of funds may also change the risk complexity of the firm. Risk arises in investment due to the inability to anticipate the occurrence of the possible future events with certainty and consequently, cannot make any adoption of an investment increase average gain but causes frequent fluctuations in its earnings, the firm will become more risky. Thus, investment decisions shape the basic character of a firm.

Funding: Investment decision generally involve large amount of funds which make it imperative for the firm to plan investment programs very carefully and make an advance arrangement for procuring financial internally or externally.

Irreversibility: Most investment decision is irreversible. It is difficult to find a market for such capital items once they have been acquired. The firm will incur heavy losses if such assets are scrapped.

Complexity: Investment decisions are among the firms which are mostly difficult to make decisions. There are assessments of future events which are difficult to predict. It is really a complex problem to correctly estimate the future cash flow of an investment. The uncertainty in cash flow is caused by economic, political, social and technological forces.

2:1:8. Types of Investment Decisions.

According to Pandey (2010). Investments are classified in many ways such as;

- i. Expansion of existing business
- ii. Expansion of new business
- iii. Replacement and modernization

Expansion and Diversification

A firm may decide to add more capacity of its existing products line to expand existing operations. Sometimes a firm may expand its activities in a new business. Note, the expansion of a new business requires investment in new activity within the firm.

However, a situation whereby a firm acquires existing firm to expand its business in either case, the firm makes investment in the existing or new products may be called revenue expansion investment.

Replacement and Modernization

The main objective of modernization and replacement is to improve operating efficiency and reduce costs. Cost saving will reflect in the increased profit, but the firm's revenue may remain unchanged. Assets become outdated and obsolete with technological changes. The firm must decide to replace those assets with new assets that operate more economically and therefore is called cost reduction investments. These investments can be classified as follows;

- i. Mutually exclusive investments
- ii. Independent investments
- iii. Contingent investment

- i. **Mutually Exclusive Investment:** This investment serves the same purpose and competes with each other, if one investment is undertaken others will have to be excluded.
- ii. **Independent Investment:** the investment serves different purposes and do not compete with each other. Depending on their profitability and availability of funds, the firm can undertake both investments.
- iii. **Contingent Investment:** These investments are dependent projects; the choice of one investment necessitates undertaking one or more other investments.

2:1:9. Investment Decision Rule

Investment decision rules may be referred to a capital budgeting techniques, or investment criteria. A sound appraisal technique should be used to measure the economic worth of an investment project. The essential property of a sound technique is that it should maximize shareholders' wealth. The following other characteristics should also be possessed by a sound investment evaluation criterion;

- It should consider all cash flows to determine the true profitability of the project.
- It should provide for an objective and unambiguous way of separating good projects from bad projects.
- It should help ranking of projects according to their true profitability.
- It should recognize the fact that bigger cash flows are preferable to smaller ones and early cash flows are preferable to later ones.
- It should help to choose among mutually exclusive projects that project which maximizes the shareholders' wealth.
- It should be a criterion which is applicable to any conceivable investment project, independent of others.

2:1:10. Evaluation Criteria

A number of investment criteria (or capital budgeting techniques) are in use in practice. They may be grouped in the following two categories:

1. Discounted cash flows (DCF) criteria.
 - Net Present Value (NPV).
 - Internal Rate of Return (IRR).
 - Profitability Index (PI).
2. Non-discounted cash flow criteria.
 - Payback period (PB).
 - Discounted payback.
 - Accounting Rate of Return (ARR).

Net Present Value Rule

The net present value (NPV) is the difference between the present value of future cash inflows and the cash outflows. NPV estimates the amount of wealth that the project creates.

$$\begin{aligned} \text{NPV} &= \sum \text{PV of future cash inflows} - \text{Initial cost.} \\ &= \text{Net gain in wealth} \end{aligned}$$

Decision Criteria: Investment projects should be accepted if the NPV of project is positive and should be rejected if the NPV is negative.

Rationale for the NPV Method

NPV is the true measure of an investments' profitability. It provides the most acceptable investment rule for the following reasons:

- **Time value.** It recognizes the time value of money, a TZS received today is worth more than a TZS received tomorrow.

- **A measure of true profitability.** It uses all cash flows occurring over the entire life of the project in calculating its worth. Hence, it is measure of the project's true profitability.
- **Value-additivity.** The discounting process facilitates measuring cash flows in terms of present value; that is, in term of equivalent, current TZS. Therefore, the NPVs of projects can be added.
- **Shareholder value.** The NPV method is always consistent with the objective of the shareholder value maximization. This is the greatest virtue of the method.

Internal Rate of Return

The internal rate of return (IRR) of an investment is analogous to the yield to maturity (YTM) of a bond. It is timing the cash flows by finding the required rate of return which equates NPV with zero. And this method offers the similar merits as the NPV.

$$IRR = NPV = 0$$

Decision Criteria: Accept the project if the IRR is greater than the discount rate used to calculate the Net Present Value of the project, and otherwise reject it.

Profitability Index

The profitability index (PI) is a cost-benefit ratio equal to the present value of an investment's future cash flows divided by its initial cost:

$$PI = \frac{\sum PV \text{ of cash flows}}{\text{Initial cost}}$$

Decision Criteria:

- If PI is greater than one, it indicates that the investment should be accepted. The NPV will be positive.
- If PI is less than one, the project should be rejected. If PI is less than one, the NPV will be negative.

Payback Period

The Payback period for an investment opportunity is the number of years needed to recover initial cash outlay required to make the investment.

$$PB = \frac{\text{Initial investment}}{\text{Annual cash flow}}$$

Decision Criteria: Accept the project if the payback period is less than a pre-specified number of years.

Discounted Payback Period

Discounted payback period is similar to payback period except it uses discounted cash flows to calculate the discounted period. The discount rate is the same as the one used for calculating the NPV.

$$\text{Discounted PB} = \frac{\text{Initial investment}}{\text{PV of annual cash flow}}$$

Decision Criteria: Accept the project if its discounted payback period is less than the pre- specified number of years.

Accounting Rate of Return

The Accounting Rate of Return (ARR), also known as the return on investment (ROI), uses accounting information as revealed by financial statements, to measure the profitability of an investment.

$$ARR = \frac{\text{Average income (after tax)}}{\text{Average investment}}$$

Decision Criteria: This method will accept all those projects whose ARR is higher than the minimum rate established by the management and reject those projects which have ARR less than the minimum rate.

2:1:11. Role of Financial Information in Investment Decision Making

The aim of financial information is to provide information about an entity to interested parties. The information contained in the reports, however, it can only become meaningful through financial interpretations derived from the analysis of the reported data. This interpretations and decision unveils the essence of financial reports, as the major custodian of financial information necessary for any investment decisions. Investment decisions are not made on a vacuum hence; there are bases on which they will stand.

One major tool for these investment decisions is the ratio analysis. Financial analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity. The primary objectives of determining the best possible estimate about the future conditions and performances. It provides a quick diagnostic look at an entity's financial health and trigger off subsequent financial and operational analysis, the figures that are used in the financial analysis are being dedicated from the financial information which in turn inform our decision maker. Several ratios exists but this research work will look on other major rules that are used in investment decision like NPV, IRR and the major issue to note here is that financial information are the major source of the raw materials for the investment decisions.

- **In the expansion of the existing business**, the financial information can enable the decision maker, by informing on the profitability of the business and its going concern status.
- **In acquisition of a new investment project**, the financial information give the raw information to the investor, for analyzing the future expected profitability of the business.
- **On replacement of the investment project**, also the financial information enables the decision maker to assess the contribution margin of the project. This is done to improve efficiency and reduce cost.

2:2. Empirical Literature Review

This part includes various research/study findings done by past scholars in relation to the study at hand. Most of the researchers revealed the role of financial statements in various decisions making, as shown below.

According to Amedu. (2012), on her study of “role of financial statements on investment decision making” she concluded that the financial statements play a vital role during the investment decision making. The financial statements enable the investors to predict the future performance of the business and their profitability. Therefore, for an investor to make an effective decision it should analyze the financial statements effectively in order to evaluate the company’s performance.

According to Zager and Zager (2006), on their study of “The role of financial information in decision making”, they concluded that, accounting information system prepares the whole range of different information for different users. We can measure and examine the business quality of the entire company on the basis of accounting and financial information. In that context we examine true and fair presentation of financial position, business efficiency and cash flow. Successful business is the business operation that results for quite a long period in corresponding level of security and efficiency of business. Security of business is examined, first of all, on the basis of a balance sheet and efficiency on the basis of the profit and loss account. However, for a more complete picture about business quality we need to consider data from other statements, for example, cash flow statement.

According to Kwok (1999), on her study of “Role of Financial Statement in lending Decisions”. She concluded that, the financial statement are very important in lending decision for financial institution and microfinance. In her findings said that Statement of cash Flows is more important than statement of Financial Position in lending decisions. The review of the literature on loan decisions indicates that bank officers use financial statements in lending processes but fail to make adequate use of cash flow information. This indicates that the kinetic usefulness of cash flow information versus that of other

information in loan decisions has not been investigated. In addition, the literature also shows that lenders differ in the usage and processing of cues, indicating that investigation of loan studies will provide insight to these areas.

According to Scholleova, Fotr, and Svecova. (2010), on their study of “Investment decision Making Criteria in Practice”. They said investment decision making is an important part of strategic decision making in every enterprise. Because new investment projects essentially affect future economic results and the enterprise prosperity. Successfulness of new projects dramatically contributes to the growth of the enterprise’s efficiency. Their findings shown that NPV and IRR are the most criteria applied in decision making.

Successfulness or unsuccessfulness of projects considerably depends on the quality of preparing, evaluating and choosing these projects. The quality of investment decision making is affected by a large number of factors, while the most important of them include choice of the criteria applied in evaluating and choosing investment projects.

2:3. Conceptual Framework

The conceptual frame work of the study is a structure that can be hold or support a theory of research work. It explains the relationship between independent variables and dependent variable of the study.

2:3:1. Dependent Variable

It is the variable which changes depending on the variation of other variables which are independent. Under this study the dependent variable is “effectiveness on investment decision making”. This is affected by other factors.

2:3:2. Independent Variables

These are the factors in which their changes causes other factors to change too. The independent variables in this study are as follows;

Degree of Importance of Financial Information

This is one of the independent variable in this study, whereby the extent of importance of the financial information to the investors it can determines the effectiveness on the investment decision making.

Role of Financial Information in Balancing Between Investments

The role played by the financial information in balancing between short term and long term investment it also affect the decision to be made. It enables the investors to decide and invest in short term and long term investment in right proportions.

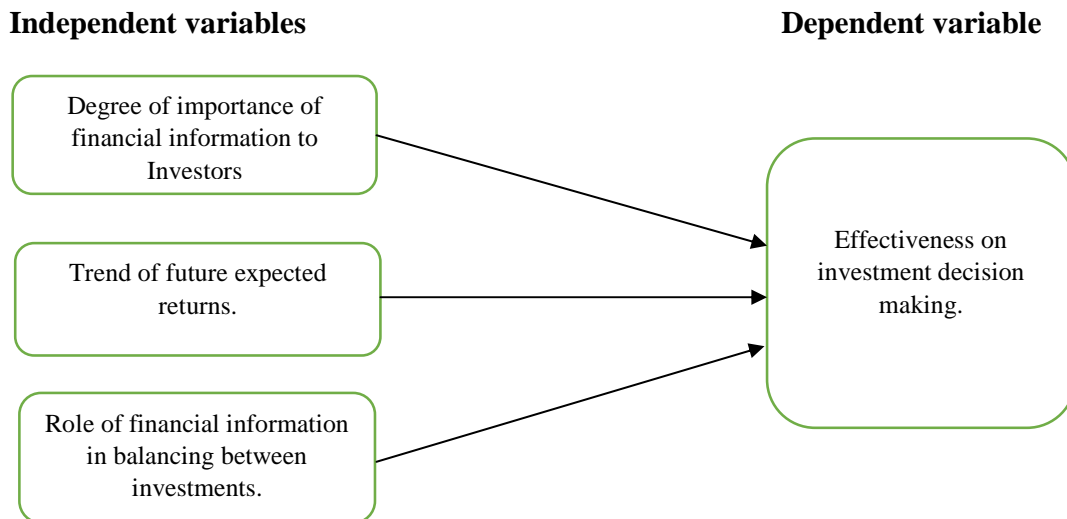
Trend of Future Expected Returns

The trends of future expected returns can influence the investment decision making of a certain project. For a project to be chosen need to have a good trend of expected future returns.

2:3:3. Extraneous Variables

These are independent variables that are not related direct to the purpose of the study, but may affect the dependent variable are termed as extraneous variables. Some of these variables includes; government policies, economic situation, capital constraints etc.

Figure 2:1. Conceptual Framework Model



Source: Researcher: 2013.

The conceptual framework model in Figure 2:1 above shows the relationship between variables, revealing that dependent variable is influenced by independent variables. This model guided the researcher in conducting his study. Shows which information to be collected in order to achieve the targeted specific objectives.

2:3:4. Operationalization of Concepts

Under this part, the researcher shows the operationalization of various variables used in the study. The researcher shows the relationship between these variables as demonstrated in Figure 2:1 above.

The degree of importance to financial information attached by the investors in the process of investment decision making, it has the great impact on the decision to be made. An investor should be supplied with the full financial information in order to assess the project/investment effectively. Therefore, the weight put to the financial information it determines the effectiveness of the decision to be made.

In balancing the investments between long-term and short-term assets, the financial information plays a big role on assessing the maturity of an asset. Financial information enables investors in timing the returns of their investments. That is why, it becomes easy for investors in deciding how much to invest in long-term assets and short term assets.

Also investors need to know the future profitability of an investment as well as its going concern status. With the presence of full financial information an investor can be in a good position to assess the trend of future expected returns. In investment decision making is always guided by the future profitability, and an investment with good trend of future expected returns is selected. All these are possible with the use financial information.

CHAPTER THREE

RESEARCH METHODOLOGY

3:0.Introduction

This chapter discusses the population and sample size, the techniques used for sampling and data collection, the various data collection instruments as well as the procedures used in measuring and analyzing the data. This chapter therefore seeks to describe how the whole research work was conducted.

3:1. Research Design

According to Kothari (2004). It is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedures.

A case study design was employed in this research and PSPF used as a case study. The case study method is a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit a person, a family, an institution, a cultural group or even the entire community. It is a method of study in depth rather than breadth.

The researcher selected a case study design in his study because; a case study is a complete study in itself, as it studies the social unit in detail and in its totality. It helps in getting a deeper knowledge of a wide problem with limited resources.

Reasons for Using Case Study Design

The researcher decided to use a case study design instead of other design like survey due to the following importance;

Under this method the researcher can take one single social unit or more of such units for his study purpose; he may even take a situation to study the same comprehensively. A researcher was able to study an institution (PSPF) comprehensively.

Here the selected unit is studied intensively, which means that it is studied in minute details. Generally, the study extends over a long period of time to ascertain the natural history of the unit so as to obtain enough information for drawing correct conclusions.

In the context of this method we make complete study of the social unit covering all aspects. Through this method we try to understand the complex of factors that are operative within an organization (PSPF) as an integrated totality.

Case study method results in fruitful hypotheses along with the data which may be helpful in testing them, and thus it enables the generalized knowledge to get richer and richer.

3:2. Area of Study

This research was conducted at PSPF head office. This institution involves in securing social funds for public servants and other sectors. This institution selected by the researcher because it is involving in investing activities. PSPF is making investments in different sectors. That is why; the researcher believed that PSPF was the suitable organization for this study.

3:3. Sample Size and Sampling Technique

The researchers have a sample size of 50 staffs. The sample size is depended on the number of staffs, and who are aware of the study presented. The sample included only the staffs from PSPF. This involved various departments which are being involved in investment decision making, but the researcher mainly concentrated in the department of Planning and investment.

It is important to note that it is not possible to study the entire population as a result of time constraint, limited resources available and for the effectiveness on handling the study. Therefore, only a portion of the population is studied. The opinions and views sampled (A part of population which the study is focused) from the staffs of the organization. To ensure the determination of accurate sample size, the statistical formula derived by Taro Yamane (1964) was employed.

The formula states thus:

$$n = \frac{N}{1 + N(e)^2}$$

Where

n = sample size

N = population of the study which is 60

e = margin of error and in this case, $e = 5\%$ (chosen by the researcher)

1 = constant

Therefore;

$$n = \frac{60}{1 + 60(0.05)^2}$$

$$n = \frac{60}{1 + 60(0.0025)}$$

$$n = \frac{60}{1 + 0.15}$$

$$n = \frac{60}{1.15}$$

$$n = 52$$

Therefore the sample size to be used in the study is 50 persons.

Sampling Technique Used

The researcher used various methods of sampling. This was done to ensure the sample selected is a real representative of the population.

Purposive sampling technique, this method is already dictated by the nature of the study which aimed at getting information from specific respondents. Information concerning financial information and investment issues cannot be obtained randomly.

Convenience sampling technique was also used by the researcher for convenience purposes, just in case the selected staffs are not available at the time of the interview. Stratified random sampling is used to divide the staff and managers and then the researcher was conveniently selected the rest of the staffs available in each department.

3:4. Methods of Data Collection

Primary data was collected through the use of questionnaires, in-depth interviews and observations. The researcher also used secondary data as another source through publications and reports and the use of the internet.

3:4:1. Primary Data

Primary data are those which are collected afresh and for the first time and thus are original in character. The researcher used both methods in order to ensure that the weakness of each method is cleared by each one. There some factors to consider when choosing a method of data collection, which are nature and scope of enquiry, time factor, precision required and availability of fund. In consideration of these factors the researcher decided to use the following instruments to collect the data from its origin.

i. Questionnaires

Use of questionnaire for data collection is the most widely used method in social science. The researcher used the questionnaires as the main data collection method. This instrument is administered to respondents to solicit for information from within the organization.

Reasons for Using Questionnaires

Collection of data by using questionnaires it offers various merits to the researcher as well as to the respondents.

There is low cost even when the universe is large and is widely spread geographically. It is free from the bias of the interviewer; answers are in respondents' own words. Respondents have adequate time to give well thought out answers. Respondents, who

are not easily approachable, can also be reached conveniently. Large samples can be made use of and thus the results can be made more dependable and reliable.

Although there some challenges for this method like low rate of return of the dully filled in questionnaires, but the researcher managed to overcome them to a reasonable level.

ii. Interviews

Interviews are the structured face-to-face verbal communication between a researcher and the respondent during the verbal exchange. The researcher used a questionnaire (interview guide) prepared for the purpose to collect the necessary data. The researcher used this method to obtain more information and some clarifications of information obtained in questionnaires.

Reasons for Using this Method

These are some of the chief merits of using interviews as the method of collecting data.

- More information and that too in greater depth can be obtained.
- Interviewer by his own skill can overcome the resistance, if any, of the respondents; the interview method can be made to yield an almost perfect sample of the general population.
- The interviewer can collect supplementary information about the respondent's personal characteristics and environment which is often of great value in interpreting results
- Observation method can as well be applied to recording verbal answers to various questions.

iii. Observation

This method is useful when the researcher is in a position to observe some factors. Some of data was obtained from non-participatory observation. The researcher now was able to see some investments made by PSPF allocated in Dar es Salaam. But this method was not much used by the researcher depending on the nature of the study at hand.

3:4:2. Secondary Data

Kothari (2004), states that , secondary sources refers to the sources of data which have already been collected and analyzed by someone else and which have already been passed through the statistical process. This information will be used to cross-check and complement information obtained from primary sources. The secondary sources included books, public records statistics, and different journals. With secondary data the duty of the researcher is that of compilation.

In this study the researcher used secondary data to see what other scholars and researchers said about the study at hand. The researcher used various books, journals, reports and other research papers.

3:5. Validity of Instruments Used

The validity of the instruments used in this research work it was highly controlled by the researcher. There was clear information and instructions on how to complete/fill the questionnaires to the respondents, and the researcher was personally administering and collect them to ensure high rate of turn. Also the questions in the questionnaires was clear to ensure right information obtained on it.

3:6. Reliability of the Instrument Used

The truthfulness of the instrument which was used in collecting data cannot be defined. This is because analysis relied on previous researchers. Reliability of instrument can be based on the statistical roll employed as used for data analysis. Questionnaires was tested by an accountant who made it reliable and assist the researcher in achieving the aims and objective of the research questions and which are also tested.

3:5. Data Analysis and Presentation

The research finding is presented in frequency and percentage tables generated from various sources of data collection. And these findings presented in accordance to specific objectives. Position of respondents for the research questions is presented and also the summary for the research question is also given. Thereafter responses is

summarized into the sheet and eventually summed up to conclude the result in tables and figures which is used to illustrate the findings.

The data collected analyzed by various statistical measures, which some calculations to get results. Also these data analyzed particularly in each objective and from each method of data collection.

CHAPTER FOUR

DATA PRESENTATION

4:0. Introduction

This chapter presents the findings of the study. It gives answers to the study questions which were raised from the specific objectives. This study paid attention on identifying the role of financial information in investment decision making at PSPF. The researcher developed specific objectives for the purpose of achieving the overall objective.

The data presented in this chapter is obtained from various sources, by using different method of data collection too. This information obtained related to answering the specific objectives of the study.

4:1. Degree of Importance Attached to FI by Investors

Under this objective, the researcher wanted to know to which extent of importance is paid to financial information by the investors. Now the researcher developed various questions to measure the degree of importance for financial information by the investors during investment decision making process.

The findings obtained by the researcher concerning the above objective are presented on the Table 4:1, which provided data from both methods of data collection used.

Table 4:1. Degree of Importance Attached to FI by Investors

Method of Data Collection.	Number of respondents	Responses	
		It is important	It is not important
Questionnaire	34	34	0
	Percentage	100%	0%
Interviews	12	8	4
	Percentage	67%	33%
Overall/Total	46	42	4

Source: Research findings 2014.

The Table 4:1 above shows that, 42 responses for the questions which were trying to examine the degree of importance put on financial information by the investors during investment decision making process. Under this objective observation was not applicable, because there was nothing for the researcher to observe.

4:2. Role of FI in Balancing between Short and Long term Investment Decisions

For this objective, the researcher was interested to identify the role played by the financial information in balancing between short term and long term investments. The researcher asked various questions in order to obtain more information about this.

The data obtained from all methods of data collection is also presented in the Table 4:2 below, showing from each method.

Table 4:2. Balancing between Short and Long term Investment Decisions

Method of Data Collection.	Number of respondents	Responses	
		Plays a big role	Do not play any role
Questionnaire	30	20	10
Interviews	15	12	3
Total	45	32	13
Overall percentage		71%	29%

Source: Research findings 2014.

On Table 4:2 above presented the data concerning, if the financial information plays any role in balancing between short term and long term investment decisions. The findings shown that 71% said that, financial information have a big role in balancing between these investment decisions. And about 13 respondents said that, financial information do not play any role when you are in need to balance between short term and long term investment decisions. In which they comprised 29% of all respondents.

4:3. Evaluation of the Trend of Future Expected Returns by Using FI

The researcher also interested in evaluating the possibility of calculating the trend of future expected returns of potential investment ventures, by using the financial information of the respective investment.

The point here is, can financial information enable to make estimations of future expected returns? The trend of expected return has an influence in making investment decision. The researcher obtained more information concerning this challenging aspect. Table 4:3 below illustrated all data obtained from both method of data collection.

Table 4:3. Evaluation of the Trend of Future Expected Returns by Using FI

Method of Data Collection.	Number of respondents	Responses	
		It is possible and reliable	Returns are not reliable
Questionnaire	35	26	9
Interviews	15	10	5
Total	50	36	14
Overall percentage		72%	28%

Source: Research findings 2014.

The data obtained still shown that, a great number of respondents said that it is possible to calculate the future expected returns by using the financial information provided. It about 72% of the respondents argued that. But the rest which is 28% of the total respondents, said that returns can be calculated but they are not reliable for decision making.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5:0. Introduction

In this chapter the researcher discussed the findings obtained in all sources of data. Under this chapter the researcher was able to assess whether the specific objectives achieved or not. This discussion is done in relation to the specific objectives. At the end of this chapter the researcher was able to make conclusion and provide some recommendations.

5:1. Importance of Financial Information Raised by Investors

Always investors use financial information as base in investment decision making. But in this study, the researcher examined whether they put high degree of importance on financial information in decision making.

According to the findings shown that, about 42 respondents said that there is high degree of importance attached by the investors when they are making investment decision making. It is almost 91% argued that investors pay much attention on financial information. But is only 9% of the respondents said that, investors do not attach any degree of importance to the financial information. They argued that, investors consider much other factors like investment policies etc.

Investment Decision Rules Used at PSPF

There various rules used to analyze the project for investment. The Fund mostly uses NPV because of its strengths as discussed in chapter two. However the Fund uses also the other rules of investment decision like IRR, cost-benefit analysis and break even analysis. These rules used depending on the nature and type of the investment/project. For instance investment in buildings like the construction of the College of Education at the University of Dodoma, the break even analysis was suitable.

These rules used for decision making it are evidence that financial information considered much by the investors. All these investment decision rule uses financial information in their calculations.

Table 5:1. Investment Decision Rules Used at PSPF

Decision Rules	Percentage of applicability (Usage).
NPV	50%
IRR and Payback period	20%
Cost benefit analysis, break even analysis and others	30%
Total	100%

Source: Researcher’s findings 2014.

Other Factors Considered During Investment Decision Making

Apart from financial information there are other factors considered when selecting an investment. These factors it depends on the organization’s (PSPF) investment policies and government policies.

At PSPF they look on;

- Social and political viability.
- Economic viability.
- Environmental impact analysis viability.
- Safety (legal issues).
- Diversification and prudence.

These above are some of the factors which should be taken into account when selecting an investment. An investment might be productive but the factors mentioned above should prevail too.

5:2. Role of Financial Information in Balancing Investment Decisions

An organization supposed to balance between short term and long term investment decision. An organization should invest in both short term and long term investments. This will enable when its liabilities or obligations matures. Economic policies suggest that, short term obligations to be covered by short term investments and long term obligations to be paid from long term investment too.

The researcher now wanted to know on how financial information play part in balancing between these investments. The findings shown that it is 71% of the respondents said financial information plays a big role. The investor uses this information in timing the income of their investments. At PSPF they managed to balance their investments between short term and long term ones. PSPF portfolio mix as at 30th June 2013 was as shown in Table 5:2 below.

Table 5:2.PSPF Portfolio Mix

Items	% of total limit of Investment	%of Actual Investment 2012/2013
Government securities	40 – 60	13.00
Fixed Deposits	5 – 20	5.12
Loans and special Government project	0 – 50	46.35
Equities	5 – 22	16.05
Real Estate	0 – 20	18.74
Corporate Bonds	3 -7.5	0.74
Grand Total		100.00

Source: PSPF report 2013.

Major consideration in investment decision is certainty in recovery and matches with safety principle of investments. To adhere to the principle of liquidity, part of investments should be in short term asset which includes fixed deposits and treasury bills. Investments of this nature focus on strengthening the Fund's ability to meet its day to day obligations like payment of benefits and administrative costs. Long term obligations are matched with long term assets where the Fund invests in real estate, long term commercial loans and securities.

5:3. Evaluating the Trend of Future Expected Returns Using FI

A trend of future expected returns of the potential investment is very influential in investment decision making. Investors use financial information in evaluating a trend of expected returns.

The findings shown that 72% of the respondents said that, it is possible to calculate the future expected returns of the potential investments. And the expected returns can be relied on making investment decisions. Presence of a good trend of future expected returns, an investor will be motivated to select such investment. Although there are few respondents which is about 28% of the respondents said that, the expected returns calculated using past information are not reliable for decision making.

Effectiveness of the Investments Made at PSPF

PSPF uses the financial information in calculating future expected returns, and which rely on them when making decisions. The trend of investments at the Fund is increasing from year to year. To prove that, investments are productive or profitable and there is an increment of the investment income from **TZS 79,166,638,000** in year 2012 to **TZS 167,039,376,000** in year 2013. This also it is evidence that, the PSPF investment policies are workable. These policies enable the Fund to earn more from its investments.

PSPF plays its role in economic development by providing capital to listed and unlisted companies through equity participation. As at 30th June 2013 the Fund had shares in 14 Companies. The principle of economic and social utility is considered after fulfillment of safety, liquidity and return,

Table 5:3. Percentage of Shareholding in Listed Equity Portfolio

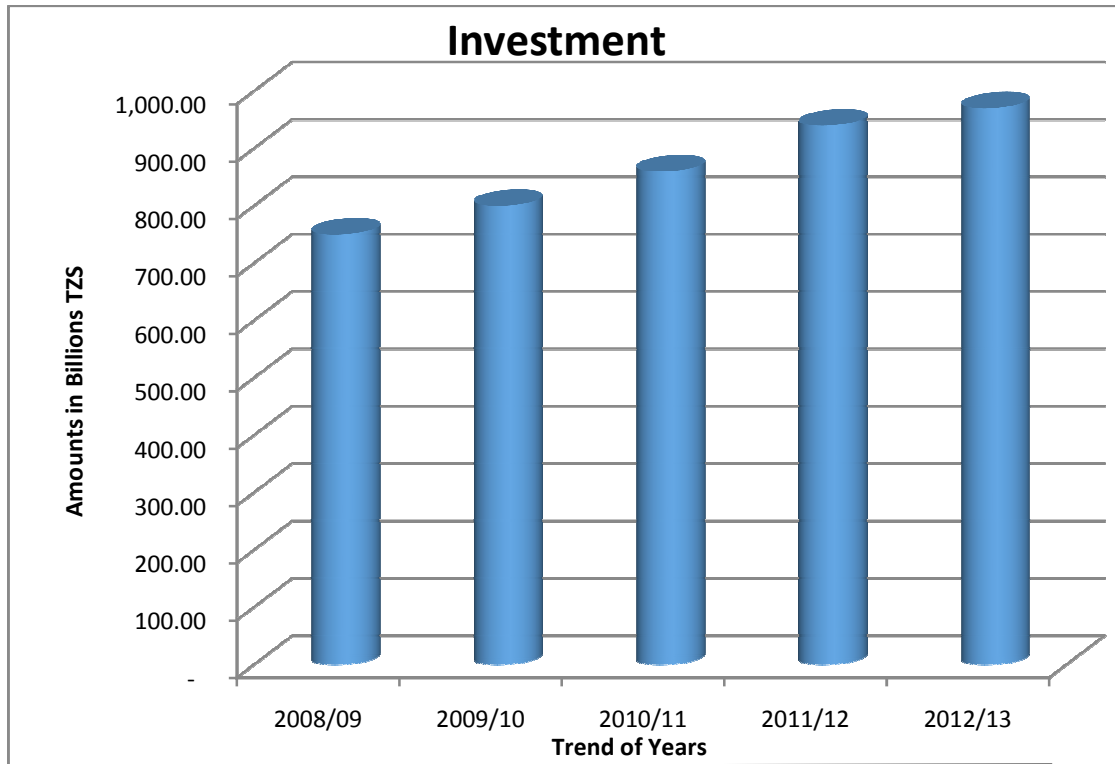
S/No.	Name of Company.	% of shareholding
1	Swiss port Tanzania Limited	2
2	NMB bank Ltd	3
3	Tanzania Cigarette Company	6
4	Tanga Cement Company	6
5	Tanzania Portland Cement (Twiga Cement)	6
6	Tanzania Breweries Ltd	10
7	CRDB bank Plc	67
Grand Total		100

Source: PSPF report 2013.

Growth of the Fund's investments

The Fund investments have been growing every year; from the financial year 2008/09 to 2012/13 overall growth rate was **57.80%**. Management has the responsibility of ensuring sustainable growth of the fund. The key attributes towards the growth of the Fund's asset is mainly by increase in contributions collections and investment income (through prudent investments). It is expected that the Fund's size will increase more when the Government starts to pay pre-July 1999 liability effectively. The trend of investments is shown in Figure 5:3 below.

Figure 5:1. Five Years Investments Trend



Source: PSPF report2013.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6:0. Introduction

In this chapter the researcher summarized the information obtained and makes a final conclusion with suitable recommendations. And this is a final chapter in this report which will give the users of this report a position of the researcher concerning the study. The discussion of findings conducted in the previous chapter enabled the researcher to provide a summary, conclusion and recommendations concerning the study at hand.

6:1. Summary

The process of investment decision making it is still a critical issue to many investors. For an organization to come up with a productive investment there many factors and calculation to be taken into account.

In this study the researcher concentrated much on assessing how the financial information enables the investors to choose the most economical projects. The findings shown that, the financial information is very crucial in making investment decision for the purpose of analyzing the financial health of the potential company (investment). However, there other factors to be considered too, which are other than financial information. For instance internal factors are the investment policies developed in a respective organization. Also there are external factors to be considered too, which includes issues like social and political viability, economic viability and other environmental issues.

At PSPF as a case study in this research, the findings shown that they do make all these consideration mentioned above. And they do well also with their investment which is growing from year to year. Their success is brought by good investment policies and consideration of various external factors, with the presence of competent Investment Officers.

The evidence shown in the previous chapters, the PSPF investments is increasing from time to time. The income from these investments is also increasing from year to year.

The only caution to other investors is to use well prepared financial information when they are evaluating their potential investments. Apart of that, also they should have investment policies which go with economic condition. Also they should consider the external factors in relation to investment in evaluation.

6:2. Conclusion

Financial information plays a vital role in investment decision making. Because this information shows the profitability, financial position and cash flows movement of a potential investment. Once an investors needs to invest in an organization with a clear financial information it becomes easier to him/her to make some evaluation and projections. But the financial information should be well prepared in order to give a true picture of an organization, and finally ending up with a right decision. In other words the financial information should not be misleading its users.

Not only that but also the investors must consider other factors apart of this financial information. An organization must have up to date investment policies which are workable in relation to the country policies. There is also some external factors to look on it. These factors includes like; social and political viability, economic condition and environmental factors etc. Now for the investors to come up with an effective investment the mentioned issues must be taken into account.

According to the findings obtained at PSPF shown that, financial information play a big role during the investment decision making process. The information presented give a full financial picture to the investors. Therefore, by having the financial information investment decision can be made effectively.

6:3. Recommendations

The findings obtained and the discussion in the previous chapter, the researcher developed some recommendations. These are some few factors to be considered in order to improve effectiveness of investment decision making process.

For PSPF and other investors should be very conscious in dealing with the financial information. Those who analyzing this information must be the competent ones. In the analysis of this information, the going concern status is very important. An investment may be profitable and having a good financial position but the going concern status is in danger. That is why there are many investments looks to be profitable and financially strong but collapse within few years. There many scandals happened, in which the companies presented sound financial information but immediately they collapsed, a good example is Enron and WorldCom scandals.

Also the investing companies (PSPF) should be revising their investment policies to cope with economic condition and country policies. For instance PSPF made an investment on educational sector by building the College of Education which is also a government policy to support this sector. For the investors to be in a better position should be introducing policies which also considering other factors.

The external factors should be also considered when making an investment decision making. These factors are economic situation, environmental issues, laws and regulations concerning the particular type of investment. For instance investing in equity shares there are rules and regulations need to be adhered. Therefore, for a specific type of an investment an investor must be aware of the rules and regulations and other factors surrounding the respective potential investment.

The above recommendations if will be taken into account it will enable to improve the process of investment decision making. It will increase the effectiveness to investment officers.

6:4. Areas of Further Study

This study was intended only to examine the role of financial information in investment decision making. This was due to various limitations like time constraint, fund constraint and other factors. Now for the coming researchers in this field should go further in the following areas:-

- i. They should examine the role of other factors in investment decision making other than financial information. These factors they may have a great impact in the process of investment decision making. Because there are projects which have no financial information on it, but only the other factors are to be analyzed for decision making.
- ii. Even in the investigation of the role of financial information, the researchers should also examine the qualifications of the Investment officers in relation to investment decision making. Because the financial information requires some knowledge to study and analyze them.
- iii. In case of the plenty of time these researchers may conduct their study in at least two Organizations like PSPF, PPF, NSSF etc. this will enable to up with the comprehensive findings and conclusion.

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APPENDIX I

RESEARCH QUESTIONNAIRE.

Dear Respondent,

The researcher is a student at Mzumbe University pursuing a Master of Science in Accounting and Finance .This questionnaire is designed for academic purposes and for partially fulfillment of the Award of Master Degree of Mzumbe University. It's only through your response that the work can be completed well. Therefore any information disseminated will be handled with maximum confidentiality.

Please kindly spare some few minutes to answer the following questions, they mostly involve ticking a response in the space provided and filling in.

Title.....

1. Does financial information play any role in investment decision making?

Yes [] No []

How/why?.....
.....
.....

2. Does the financial reports reveal the competence of management of the company? Yes [] No []

How/why?.....
.....
.....

3. Is it appropriate to rely on the ability of past financial information in forecasting future performance? Yes [] No []

Why?.....
.....
.....

4. Is there any relationship between financial information and investment decision making? Yes [] No []

How/why?.....
.....
.....

5. Does the financial information of companies predict the future financial stand of companies? Yes [] No []

How/why?.....
.....
.....

6. Which investment decision rule is used in your organization? E.g. NPV.

.....

Why?.....
.....
.....

7. Does the cash flow serve as an important tool on investment decision making? Yes [] No []

How/why?.....
.....
.....

8. Does financial information help users to know the state of affairs of the companies? Yes [] No [].

How/why?.....
.....
.....

9. Apart of financial information, which other factors are considered in investment decision making?

- a)
- b)
- c)

Thank you for your assistance.

Contact: mrisho.samwel@yahoo.com