

**A SURVEY OF BEHAVIOURAL PERSPECTIVE OF RISK
TAKING IN THE FIRMS LISTED IN NAIROBI SECURITIES
EXCHANGE IN KENYA**

PETER KATHAE MUSYIMI

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DECLARATION

I declare that this proposal is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: Date:

PETER KATHAE MUSYIMI

D63/78997/2015

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

Signature..... Date.....

Dr. LISHENGA', PhD

Lecturer, Department of Finance and Accounting

University of Nairobi

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DEDICATION

This research paper is dedicated to my loving father late Joseph Musyimi Kathae who and still will always be my source of inspiration. May the almighty God rest his soul in eternal peace.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS	iii
DEDICATION	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
ACRONYMS	ix
ABSTRACT	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Traditional Finances	2
1.1.2 Behavioural Finance.....	2
1.1.3 Traditional and Behavioural Finance Linkage	3
1.1.4 Contextual Argument	3
1.2 Research Problem	4
1.3 Research Objectives	5
1.4 Research Questions.....	5
1.5 Value of the Study.....	6
CHAPTER TWO: LITERATURE REVIEW	7
2.1 Introduction	7
2.2 Theoretical Review	7
2.2.1 The Prospect Theory	7
2.2.2 The Agency Theory	7
2.3 Determinants of Traditional and Behavioural Finance.....	8
2.4 Empirical Studies.....	9
2.5 Summary of Literature Review	10
2.6 Conceptual Framework.....	11
CHAPTER THREE: RESEARCH METHODOLOGY	12
3.1 Introduction	12
3.2 Research Design	12
3.3 Population Sampling.....	12
3.4 Data Collection	13
3.5 Analytical model.....	13

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION	15
4.1 Introduction	15
4.1.1 Response Rate	15
4.1.2 Reliability Analysis	16
4.2 Profile of Respondents.....	17
4.2.1 Period listed and operated in Kenyan NSE	17
4.2.2 Number of Employees.....	17
4.2.3 Number of Portfolios.....	18
4.3 Inferential Statistics	19
4.3.1 Correlation Analysis	20
4.3.2 Regression Analysis	21
CHAPTER FIVE:SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	26
5.1 Introduction	26
5.2 Summary of findings	26
5.3 Conclusions	29
5.4 Recommendations	30
5.5 Areas for Further Research	30
REFERENCES	31
APPENDICES	34
APPENDIX I: Questionnaire.....	34

LIST OF TABLES

Table 4.1: Reliability Coefficients	20
Table 4.2: Distribution of period of operation on the Kenyan NSE	21
Table 4.3: Distribution of respondents by number of employees	22
Table 4.4: Number of Portfolios	23
Table 4.5: Correlation Matrix	24
Table 4.6: Regression Model	26
Table 4.7: Coefficients of Regression Equation.....	27

LIST OF FIGURE

Figure 2.1: Conceptual Framework	11
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ACRONYMS

CMA : Capital Market Authority

NSE : Nairobi Stock Exchange

ABSTRACT

This study sought to establish which among traditional financial options and behavioral financial options use in risk taking activities during investing at the listed firms in the Nairobi Securities Exchange. The first objective of the study was determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE. The second objective of the study was Determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange. This research used a descriptive survey whose target population consisted of managers or agents of firms listed in the NSE. This study used 55 respondents making up a 73% response rate. Primary data was collected through semi structured questionnaires. Data was analyzed and presented through descriptive and inferential statistics. Regression analysis was used to test the significance and relationship amongst the variables. It was established that risk taking decisions by managers of listed firms in NSE is affected traditional finance inclination, behavioural finance inclination and mixed method finance inclination. This study tested relationships developed out of the existing literature on the existing relationship between traditional finance inclination, behavioural finance inclination and mixed method finance inclination and risk taking decisions by managers of listed firms in NSE with data collected from managers or agents of firms listed in the NSE. Findings present evidence that there exists a relationship between traditional finance inclination, behavioural finance inclination and mixed method finance inclination and risk taking decisions by managers of listed firms in NSE. It also emerged that the individual effects of these factors on risk taking decisions by managers of listed firms in the NSE were significant. Moreover, it emerged that traditional finance inclination is the most preferred in making risk taking decisions by managers of listed firms in NSE. Given that the study focused listed firms at the Nairobi Securities Exchange irrespective of the market segment, it is recommended that a similar study should be carried out to examine the relationship amongst risk taking variables in specific market segments.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

There has been huge and constant development in the unmistakable quality of common assets and expert speculators over the late years, which critical for approach creators and academicians (Bank for International Settlements, 2003). Today, monetary market members are sorted by expert portfolio directors, thus they do not manage individual funds rather they manage other people's funds such as pension, hedge, insurance and mutual funds (Landes, 2012). Cuoco and Kaniel (2003) show that mutual funds value has been rising tremendously. Its value ascended from \$50 billion in 1977 to \$4.5 trillion in 1997. Facilitate, they clarified that annuity resources have developed from around \$250 billion in 1977 to 4.2 trillion in 1997.

Considering just the United States advertise amid the nineties, resources oversaw by the support stock investments industry experienced exponential development; resources developed from about US\$40 billion in the late eighties to over US\$650 billion in 2003. Shared assets' advantages outperformed those of mutual funds by US\$6.5 trillion (2003). Toward the end of 2004 US value shared assets had add up to net resources of US\$ 4.4 trillion (Sensoy, 2006).

Financial theory depends on the exchange off in the midst of hazard and return while behavioral fund expect that financial specialists are overoptimistic regarding making increases and powerless against misfortunes. People emotions to a very large extent influences investment decisions thus behavioural finance examines the psychology of investment decision making.

Traditional theory proposed that investors are not swayed by their emotions and thus are confused by information presented to them. But clearly reality does not match these assumptions. Finance theory presumed that investors well informed, consistent and careful and thus had slight trouble in financial decision making.

1.1.1 Traditional Finances

The traditional finance paradigm looks to comprehend financial markets utilizing models as a part of which specialists are "levelheaded". As indicated by Barberis and Thaler (2003), judiciousness is a vital presumption in budgetary markets as it holds that as specialists get new data in a flash they change their convictions and inclinations in a predictable way picking choices which augment their normal utility. Many studies have challenged traditional finance approach in explaining financial phenomena. The upsurge in value of stock included in an Index and the twin shares case which were valued contrarily are instances of the empirical market irregularities established in the literature (Harris & Gurel, 1986).

1.1.2 Behavioural Finance

Last two decades has seen a tremendous growth in behavioral finance as a result of investors in today's financial markets shifting from the believing and behaving from rationality assumptions. Empirical studies in behavioural finance hold that financial decision making should be based on human behavior. Studies examine human psychology to guide them in understanding financial decision making process and thus develop the behavioral back train. This guide outlines the discoveries of these historic monetary scholars and scientists.

1.1.3 Traditional and Behavioural Finance Linkage

In most hedge fund firms and firms in general, most decisions often made will tend to be either from the traditional or behavioural finance models. Due to the involvement of agents running the firms, human behavior tends to influence decisions no matter how strict a manager is in following traditional finance model. This then naturally leads to the agency theory which has its establishments in customary financial aspects accepting the past "reasonability" paradigm.

1.1.4 Contextual Argument

The positive relationship between risk-taking propensity and risk decision making by individuals translates to organizations through management teams. Risk propensity and risk perception results to risk taking that is, the higher the risk propensity, the lower the anxiety over risk or risk taking. Landes (2012) identified three types of risks, namely social or market risk (i.e the risk which occurs when a market crash or decline crushes the performance of investment even when the quality of the investment remains the same).

Risk-taking also connotes a propensity to make intense strides, for example, wandering into obscure and new market as stated by Lumpkin and Dess, 2001, Wiklund and Shepherd, 2005. Most managers depending on their schooling and inclination may chose to pursue behavioural or traditional approaches to decisions. It is not entirely unfound where managers use a mixed method of approach to decision making in which case both traditional and behavioural inclinations influence managers decisions.

1.2 Research Problem

Psychologists have confirmed that individuals who systematically diverge from their choice predictions they are typically prejudiced. Behavioral prejudices are categorized into two groups which both produces illogical decisions namely; cognitive and emotional.

Cognitive prejudices are heuristics thus stems from faulty reasoning such as anchoring, availability, and representative, they can be corrected by better information and advice. On the other hand emotional prejudices.

Lo et al. (2005) researched a few conceivable connections between mental components and exchanging execution. The study found that subjects whose passionate response to fiscal increases and misfortunes were more serious on both the positive and negative side showed fundamentally more terrible exchanging execution.

It has been established that portfolio managers do not have the necessary guidelines to incorporate the prejudices during asset allocation determination. Tversky and Kahneman (1992) show that agents are risk averse when dealing with gains and risk seeking when losses are involved in choices that is they have asymmetric risk taking behavior.

Rabin (1998) established that a wide range of areas individual are expressively more averse to losses than they are fascinated to same-sized. Schmidt and Zank (2005) in their study explained that loss aversion to be a significant psychological model introduced to budgetary and financial examination in this manner exhibiting the prospect hypothesis establishment. The prospect hypothesis presumes that speculators resources depend on increases and misfortunes ,people are misfortune averters that is they are more disinclined to misfortunes than they are pulled in to additions, people

are hazard looking for in the range of misfortunes and hazard loath in the territory of additions and people evaluate exciting probabilities in a way that exaggerates low probabilities and underrates high probabilities.

All the empirical evidence from several scholars indicate and studies intensive research on risk taking and behavioural finance as well as traditional finance. None of these studies have been covered in the NSE in Kenya. This study, intends to fill that information gap that currently exists and answer the question on whether a managers disposition to one line of finance or the other can regulate the level of risk that a firm takes.

1.3 Research Objectives

The purpose of this study was to establish which among traditional financial options and behavioural financial options were used in risk taking activities by investors at the listed firms in the Nairobi Securities Exchange. Specifically, this study sought to;

- i. Determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE?
- ii. Determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange

1.4 Research Questions

- i. What is the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE?
- ii. Which is the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange?

1.5 Value of the Study

This study will provide new information among listed firms in the Nairobi Securities Exchange on the risk taking initiatives by managers of listed firms based on the behavioural inclination of those managers. In particular the study results will be particularly valuable to the following categories of users;

The study will be important to the management and staff of the listed firms in that it will feedback on behavioural management initiatives of the managers and risk taking options that are available to managers. Findings of this study will also help firms understand the impact of the agency-principal relationship and whether it has any impacts on investment options being used by managers of firms listed at the NSE on the owner's behalf.

The study findings will be useful to the government, controllers and the strategy producers as they can utilize the finding as reference for arrangement rules on income upgrade techniques in people in general organizations and to the administration of the organizations recorded at the Nairobi Securities Exchange. They can utilize the discoveries of this study to detail suitable strategy records will viably support profitability. These may identify with controlling those angles that undermine to antagonistically effect on the security of proprietor capital or financial specialist certainty at the bourse.

The study will be useful to academicians and other researchers for intending to carry out further studies and thus can use this study as a point of reference.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter gives the theoretical framework on the revenue enhancement strategies in which the study is grounded. It audits exact writing on the past studies here and gives a basic assessment of the writing distinguishing the crevices to be filled. At long last the operational reasonable structure utilized as a part of this study is laid out, conceptualizing every one of the factors.

2.2 Theoretical Review

This study will be guided by Prospect theory and Agency theory.

2.2.1 The Prospect Theory

The Prospect theory explains four presumptions of people's hazard inclinations; speculators survey financial varieties as indicated by increases and misfortunes; people are misfortune averters that is they are more loath to misfortunes than they are pulled in to additions; people are hazard looking for in the region of misfortunes, and hazard disinclined in the increases zone; and individuals assess thrilling happenings it could be said of exaggerating low probabilities and underrating high probabilities (likelihood weighting capacity). This study clarified conduct invigorated by utility capacity, in the framework of assigned portfolio supervisors considering the initial three ideas.

2.2.2 The Agency Theory

Agency theory on the other hand has its establishments in customary financial matters expecting the past "reasonability" paradigm. Ownership and management separation generates conflict as agents make decision based on personal interests which most of the time do not maximize the principal's well-being (Jensen and Meckling, 1976). This is referred to as moral-hazard and results due to information

asymmetry. Agency relationship exists when the agent acts for the principal in a particular area of decision making problems (Eisenhardt, 1989).

Fernandes et al. (2000) analyzed risk factors in 41 world-wide stock markets and showed that tail risk was a significant risk factor. They explained that tail risk is loss aversion and thus the BAM offers productive outcomes to the professional managers' context. This study will be anchored on the agency theory and aptly so that most fund managers are working at the instruction and direction of stakeholders or the owners of the firm. The study will therefore examine the behavioural disposition of the managers towards risk taking options in the firms' investment portfolio.

2.3 Determinants of Traditional and Behavioural Finance

In a standard resource assignment handle, once the hazard resilience, imperatives, and financial objectives are set, outcomes are determined by a mean-variance (Feldman & Reisman, 2002). Regrettably this process is expected to fail for persons, who are vulnerable to behavioral prejudices. For example, in response to short-term market movements and to the disadvantage of the long-term investment plan, the individual investor may need his asset allocation to be altered.

An analysis of the compensation, only from the financial compensations will be considered, and also the inclusion of career concerns in the questions could highlight the behavioural disposition of the managers.

This study will use the Agency theory and the behavior disposition of the Agent to the expert speculator environment, utilizing the theory of agreements, and concentrated on the circumstance of dynamic or detached venture procedures. Deductively, the study will formulate research questions that when investigated and

analyzed, they will give indications of the behavioral influences of the agent managers towards running the firm and risk taking in an expert financial specialist's unique circumstance as well as towards their responsibility to the owners.

2.4 Empirical Studies

Global and local studies have been done on risk taking. Odean, Weber and Camerer (1998) in their study observed that speculators tend to offer stocks that exchange above buy price (winners) more than those which exchange beneath price tag (losers). They built up that (i) individuals, through redundancy, will take in out of biases; (ii) specialists in a field will make less mistakes; and (iii) with all the more capable motivators, the impacts will vanish. While every one of these elements can constrict predispositions to some degree, there is little proof that they can be completely eliminated.

Baker (2000) inferred that most genuine allurements remunerate individuals on the premise of dangerous and bended execution measures. This is predominant sign that rising riskless and truthful execution measures are expensive movement. We develop the past contention demonstrating that the utilization of hazardous execution measures may be in light of a legitimate concern for organizations to prompt hazard looking for conduct of the operator.

Key element that is applicable in prospect theory is the identification of what portfolio managers sees as losses or gains.

Haigh and List (2005) examined portfolio managers that were employed by the CBOT. Aveni (1989) investigated organizational bankruptcy and found that creditors presume more risk than they would actually take since they tend to avoid recognizing losses.

2.5 Summary of Literature Review

From literature, in the shared assets industry, benchmarks are broadly utilized and are distributed as a part of their prospects. Bench mark returns are assumed to be the portfolio managers' reference point. The loss aversion behavior of the portfolio managers' allures them go to riskier actions so as to avoid his personal losses when they anticipate a negative frame problem even when less risky alternatives are in place which could minimize the misfortune. This depends on acceleration duty (behavioral impact) which infers that due the arched state of the esteem work in the arrangement of misfortunes, hazard looking for conduct triumph on account of past misfortunes.

Daido and Itoh (2005) clarified the Pygmalion impact through his organization display with reference-subordinate. They demonstrated that if an administrator believes that subordinates will succeed, they will probably succeed. They likewise clarified the Galatea impact which recommended that if people believe that they will succeed, they more prone to succeed. They set up operators with exclusive requirements concerning their execution are convinced to choose a high exertion with low-controlled motivators. They translated their discoveries as proof of diminished hazard avoidance after a misfortune and expanded hazard avoidance after a pick up. Coval and Shumway (2005) discovered solid proof that CBOT portfolio supervisors are exceedingly misfortune unwilling, accepting high evening danger to recuperate from morning misfortunes.

2.6 Conceptual Framework

The developed conceptual framework in relation to study variables is as presented in Figure 2.1. In this study, the dependent variable (Effectiveness of a financial preference model by managers which could either be traditional, behavioural or mix of the two) has an influence/reaction on the independent variable (Propensity to Risk (Level of Risk)) and conceptual framework shows the existence of relationship.

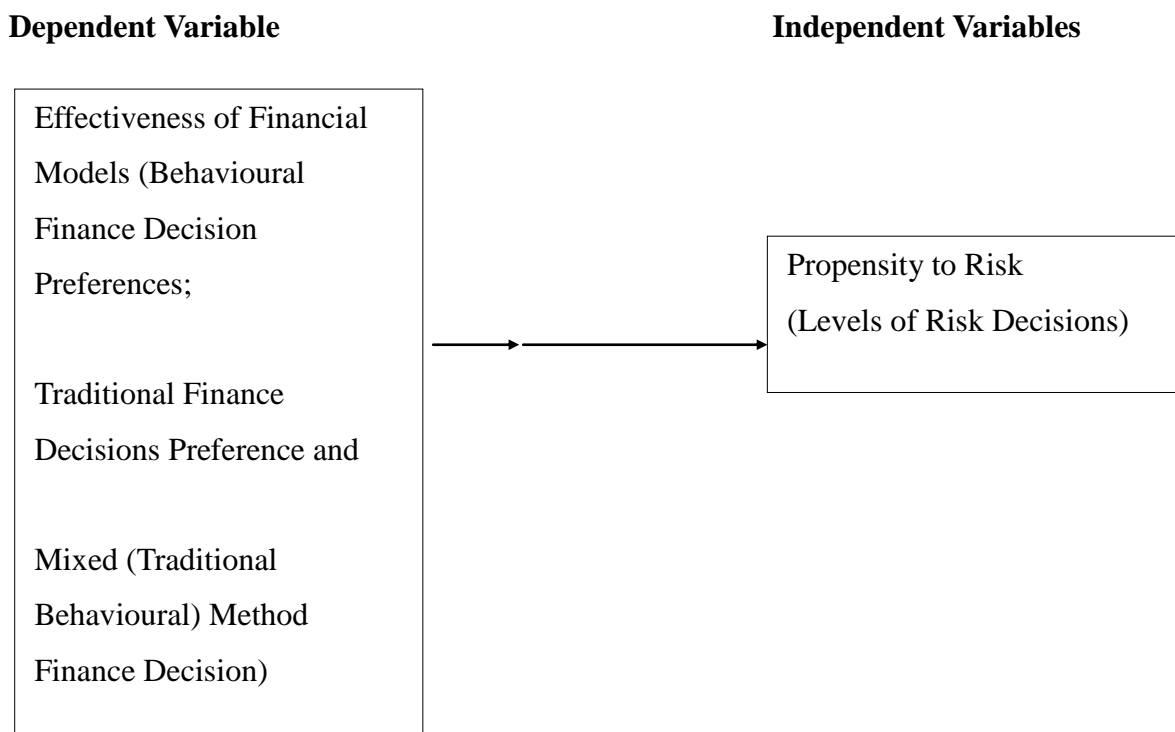


Figure 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research methodology; it discusses the research design, population sampling, data collection and various techniques for data analysis.

3.2 Research Design

This study used descriptive research design where by descriptive statistics discovers and measures cause and effect relationships between variables. The descriptive design will be used to derive proper and concise recommendations to the Capital Market Authority (CMA), the NSE management as well as management of the firms listed and trading at the NSE. According to Saunders, Lewis and Thornhill (2003) descriptive surveys examines physiognomies related with the subject population portraying an exact profile of people, occasions or circumstances. The descriptive design intended to define, estimate, predict and examine associated variables.

3.3 Population Sampling

Murithi (2010) observes that the NSE has forty eight (48) companies recorded on the fundamental speculation advertise section and eight (8) in the option venture showcase portion. Further investment banks and stockbrokers currently operating at the NSE stand at nineteen (19) excluding those that have closed due to poor management and fraud namely, Francis Thuo and Partners, Nyaga Stock Brokers and Discount Securities. As indicated by (Kothari, 2008) the unit of examination is the general level of social wonders that is the protest of perception. He portrays the unit of examination as the substance, which empowers a specialist to look for realities to make speculations. The essential units of examination for this study were administrators or agents of the listed firms trading in the Nairobi Securities Exchange.

3.4 Data Collection

The study used primary data collected by use of face to face interview between the researcher and respondents. The respondents were expected to be management staff from the listed firms at NSE who are knowledgeable on the firms' management as well take decision on the day today running and investment options the firms take. According to (Dorgei and Taguchi 2010) a questionnaire is a data collection instrument that best collects relevant data from a large group of people at a reduced cost and within the time convenience of the respondents. The nature of data to be collected will be qualitative using an interview guide. Both open ended and closed ended questions were used to collect data from the respondents.

3.5 Analytical model

The completed questionnaires was analyzed for consistency and then coded. The coded questionnaires were analyzed using computer software and preferably the Statistical Packages for Social Scientist (SPSS). Data collected was analyzed and evaluated to determine its usefulness, credibility, consistency and adequacy. Descriptive statistics were used to summarize and relate variables. The data was classified, tabulated and summarized using descriptive measures (percentages and frequency distribution tables) and inferential statistics.

The regression model will thus be as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon; \text{ whereas:}$$

Y = Propensity to Risk (Levels of Risk)

β_0 = Constant term;

β_i = coefficients of independent variable

X_1 = Traditional Finance inclination;

X_2 = Behavioural Finance inclination;

X_3 = Mixed method Finance Inclination

ϵ = error term

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter concerns itself with data analysis, results, and discussion. The analysis is systematically done in alignment with the set objectives. The data is compressed and displayed in standard deviations, correlation coefficients and regression analysis. Data was collected from respondents in each of listed firms trading in the Nairobi Securities Exchange. Therefore, the gathered information was examined and deciphered in accordance with the destinations of the study which included: to determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE; and to determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange.

4.1.1 Response Rate

The study targeted seventy five (75) firms listed at the Nairobi Securities Exchange. Potential respondents were randomly drawn from the population of all the selected firms.. Out of the 75 surveys dispersed for this exploration, 56 polls were returned. Be that as it may, just 55 polls were useable giving a reaction rate of 73 for each penny which was viewed as attractive for ensuing investigation. As indicated by Mugenda and Mugenda (2003), a reaction rate of half is sufficient for investigation and reporting; a rate of 60% is great and a reaction rate of 70% and over is fabulous. Along these lines, this reaction rate is astounding for investigation and reporting.

4.1.2 Reliability Analysis

Prior to actual data analysis, a reliability analysis was run to ascertain data quality. Reliability was evaluated using the Cronbach's Alpha which measures inside consistency, by building up whether certain things measure a similar develop. Cronbach's Alpha was built up for each goal with a specific end goal to figure out whether every scale (target) would deliver reliable results. The consequences of Cronbach's Alpha test are shown in Table 4.1.

Table 4.1 : Reliability Coefficients

Scale	n	Cronbach's Alpha
Propensity to Risk	55	0.8764
Traditional Finance inclination	55	0.7235
Behavioural Finance inclination	55	0.7388
Mixed method Finance Inclination	55	0.8254

Source: Research data (2013)

As shown in Table 4.1, all the four scales were solid as their unwavering quality qualities surpassed the limit of 0.7. Thus, the researcher proceeded to subsequent analysis and presentation.

4.2 Profile of Respondents

Information with respect to the qualities of the respondents was gathered. This segment presents discoveries identified with this.

4.2.1 Period listed and operated in Kenyan NSE

This study sought information on the length of time that the firms have been listed operated on the Kenyan NSE and the results are presented in Table 4.2.

Table 4.2: Distribution of period of operation on the Kenyan NSE

Period in Operation	Frequency	Percent
Less than 6 years	3	6
Over 6 years	52	96
Total	55	100

Source: Research Data (2016)

Findings in Table 4.2 show that 96 percent of the responding firms have been listed and operated on the Kenyan NSE for over 6 years while 6 percent have been on the NSE for less than six (6) years. This implies that they have been in operation on the Kenyan NSE for a long time to give reliable data and information concerning risk taking in the Kenyan Securities Exchange. This helps validate study findings.

4.2.2 Number of Employees

Analysis of the firm's establishment is shown in Table 4.3.

Table 4.3: Distribution of respondents by number of employees

Number of employees	Frequency	Percent
1-50	6	11
51-100	3	5
101-1,000	13	24
1,001-5,000	30	55
Over 5,000	3	5
Total	55	100

Source: Research Data (2016)

Findings in Table 4.3 indicate that 30 (55%) had employees ranging between 1,001-5,000 with 13 (24%) having employees ranging between 101-1,000. 3 (5%) had a more than Over 5,000 employees while another 6 (11%) had employed between 1-50 to run their affairs and 3 (5%) had employees ranging between 51-100.

4.2.3 Number of Portfolios

This study further sought information on the firms' number of portfolios and Table 4.4

has the findings: -

Table 4.4: Number of Portfolios

Number of portfolios	Frequency	Percent
Only one	14	26
2-5	23	41
More than 5 portfolios	18	33
Total	55	100

Source: Research Data (2016)

Results in Table 4.4 indicate that 41% reported having portfolios between 2 and five while 33% said that they have more than 5 portfolios. 26% confirmed having only one portfolio. This implies existence of various portfolios at the NSE. Thus, with well informed managerial inclinations, the portfolios at the NSE are in a position of effectively operating to profitability notwithstanding the existent risks facing the firms.

4.3 Inferential Statistics

The first objective of the study was determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE. As the study's dependent variable, this was measured by the indicators and levels of risk in terms of competition with other firms, legal and regulatory framework and risk management systems. This section presents findings.

4.3.1 Correlation Analysis

This section shows correlation analysis between variables involved in the study.

Pearson's Product moment correlation, which is a non-parametric measure of the strength and direction of association that exists between two variables, was used.

Table 4.5 presents the Pearson's Correlation Coefficients.

Table 4.5: Correlation Matrix

		Propensity to Risk	Traditional Finance inclination	Behavioural Finance inclination	Mixed method Finance Inclination
Propensity to Risk	Pearson Correlation	1			
	Sig. (2-tailed)	.			
	N	55			
Traditional Finance inclination	Pearson Correlation	.721(**)	1		
	Sig. (2-tailed)	.043	.		
	N	55	55		
Behavioural Finance inclination	Pearson Correlation	.656(**)	.491(**)	1	
	Sig. (2-tailed)	.017	.009	.	
	N	55	55	55	
Mixed method Finance Inclination	Pearson Correlation	.352(**)	.339	.412(*)	1
	Sig. (2-tailed)	.017	.083	.033	.
	N	55	55	55	55

** Correlation is significant at the 0.01 level (2-tailed).

Pearson's correlations analysis was conducted at 95% confidence interval and 5% precision. The Pearson's Product moment correlation results described in Table 4.5 shows that traditional finance inclination showed strong and significant positive relationship with risk taking decisions by the manager of listed firms in NSE (propensity to risk), showing a coefficient of $r = 0.721$, $P < .01$. The results in Table 4.5 show that strong and significant positive relationships are observed between behavioral finance inclination and risk taking decisions by the manager of listed firms in NSE (propensity to risk), ($r = 0.656$, $P < .01$) while the mixed method finance inclination showed moderate but significant positive relationship with risk taking decisions by the manager of listed firms in NSE (propensity to risk), showing a coefficient of $r = 0.352$, $P < .01$.

The traditional finance inclination therefore has the highest effect on risk taking decisions by managers of listed firms in NSE, followed by behavioural finance inclination. The mixed method finance inclination has the lowest effect on risk taking decisions by managers of listed firms in NSE.

4.3.2 Regression Analysis

The second objective of the study was Determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange. A multivariate regression model was applied to determine the relative importance of each of the Finance Decision models with respect to risk taking decisions by managers of listed firms in NSE. Table 4.6 presents the regression model summary.

Table 4.6: Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.888 ^a	.788	.876	.368	0.00

a. Predictors: (Constant), Traditional Finance inclination, Behavioural Finance inclination and Mixed method Finance Inclination

b. Independent Variable: Propensity to Risk (Levels of Risk)

Source: Research Data (2016)

Analysis in Table 4.6 shows that the three models accounted for 78.8% of variance in the risk taking decisions by managers of listed firms in NSE ($R^2 = 0.788$). This means that the three finance management inclinations examined in this study can explain 78.8% of changes in the dependent variable (risk taking decisions by managers of listed firms in NSE). With an $R^2 = 0.788$ and Cronbach's Alpha exceeding 0.7, The P -value of 0.000 (less than 0.05) implies that the model of risk taking decisions by managers of listed firms in NSE is significant at the 5 percent significance. This suggests that the risk taking decisions by managers of listed firms in NSE may be missing some important variables that respondents agree affect the level of risk taking decisions by managers of listed firms in NSE.

The following linear equation regression model was used to predict the influence of independent variables on the dependent variable in the form of (I):-

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$; whereas:

$Y =$ Propensity to Risk (Levels of Risk)

$\beta_0 =$ Constant term;

β_i = coefficients of independent variable i

X_1 = Traditional Finance inclination;

X_2 = Behavioural Finance inclination;

X_3 = Mixed method Finance Inclination

ϵ = error term

Table 4.7 summarizes these coefficients.

Table 4.7: Coefficients of Regression Equation

Model	Un-standardized Coefficients		Standardized	T	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	4.805	1.963		2.448	0.016
Traditional Finance inclination	0.673	.470	0.140	1.430	0.0001
Behavioural Finance inclination	0.614	.416	0.141	1.474	0.0009
Mixed method Finance Inclination	0.014	.097	0.014	0.141	0.0142

Source: Research Data (2016)

Substituting the beta coefficients from table 4.7 generates the predictor equation

$$Y = 4.805 + 0.673X_1 + 0.614X_2 + 0.014X_3 + \epsilon$$

From the regression model in Table 4.7, both decision-making inclinations have strong, positive and significant effect on risk taking decisions by managers of listed firms in NSE. Holding all independent variables constant at zero, the dependent variable would have a score of 4.805.

4.3.2.1 Traditional Finance inclination

Using SPSS software, the effects of traditional finance inclination on risk taking decisions by managers of listed firms in NSE was assessed. The fitted regression model of the variables is presented as follows: $Y = 4.805 + 0.0673x_1 + \epsilon$

Results show that with every independent variable at zero, a unit increase in traditional finance inclination led to will lead to a 0.673 increase risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95% level of confidence, traditional finance inclination had a significance value of 0. 0001 implying that accessibility to traditional finance inclination significantly affects risk taking decisions by managers of listed firms in NSE.

4.3.2.2 Behavioural Finance inclination

The extent to which behavioural finance inclination influence risk taking decisions by managers of listed firms in NSE was assessed and the fitted regression model of the variables is presented as follows; $Y = 4.805 + 0.614x_2 + \epsilon$

Results show that with every independent variable at zero, a change in behavioural finance inclination led to a 0.614 increase in risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95% level of confidence, Behavioural Finance inclination had a significance value of 0. 0009. This implies that Behavioural Finance inclination significantly affects risk taking decisions by managers of listed firms in NSE.

4.3.2.3 Mixed Method Finance Inclination

Using SPSS software, relationship between mixed method finance inclination and risk taking decisions by managers of listed firms in NSE was evaluated. The fitted regression model of the variables is presented as follows; $Y = 4.805 + 0.014x_3 + \epsilon$

Results show that with every independent variable at zero, a unit increase in mixed method finance inclination led to a 0.014 increase in risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95% level of confidence, mixed method finance inclination had a significance value of 0.0142. This implies that mixed method finance inclination significantly affects risk taking decisions by managers of listed firms in NSE.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This part displays the findings of the study in connection to the exploration targets.

This part introduces a synopsis of the discoveries, conclusions and recommendations for strategy suggestions attracted connection to the study targets notwithstanding recommendations for further study.

5.2 Summary of findings

This chapter shows an outline of the study discoveries in connection to study goals.

As examined in chapter one, the purpose of this study was to establish which among traditional financial options and behavioural financial options are used in risk taking activities during investing at the listed firms in the Nairobi Securities Exchange. This study analyzed items that influence risk taking decisions by managers of listed firms in NSE on three models namely; traditional finance inclination, behavioural finance inclination and mixed method finance inclination.

The study set to achieve two objectives. The first objective was to determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange. The second objective was to determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE.

This research used a descriptive survey whose target population consisted of all managers or agents of the listed firms trading in the Nairobi Securities Exchange. Out of the 75 polls appropriated for this examination, 56 surveys were returned. In any

case, just 55 questionnaires were useable giving a reaction rate of 73 for every penny. The study utilized essential information, which was assembled from respondents utilizing a semi organized survey, which was broke down utilizing engaging and inferential measurements. The quality of the resultant connections, between the factors, whether positive or negative, was tried utilizing both parametric and non-parametric measurable techniques, for example, different direct relapse examination. To guarantee legitimacy of the exploration poll utilized as a part of gathering information, the analyst guaranteed that the survey was checked for legitimacy and evaluated for importance of the inquiries and substance to the study. The interior dependability was tried utilizing the Cronbach's Alpha coefficient.

The first objective of the study was determine the relationship between financial management inclination (Behavioural or Traditional) or influence on risk taking decisions by the manager of listed firms in NSE. As the study's dependent variable, this was measured by the indicators and levels of risk in terms of competition with other firms, legal and regulatory framework and risk management systems. It was established that that traditional finance inclination showed strong and significant positive relationship with risk taking decisions by the manager of listed firms in NSE (propensity to risk), showing a coefficient of $r = 0.721$, $P < .01$.

The results in Table 4.12 show that strong and significant positive relationships are observed between behavioural finance inclination and risk taking decisions by the manager of listed firms in NSE (propensity to risk), ($r = 0.656$, $P < .01$) while the mixed method finance inclination showed moderate but significant positive relationship with risk taking decisions by the manager of listed firms in NSE

(propensity to risk), showing a coefficient of $r = 0.352$, $P < .01$. The traditional finance inclination therefore has the highest effect on risk taking decisions by managers of listed firms in NSE, followed by behavioural finance inclination. The mixed method finance inclination has the lowest effect on risk taking decisions by managers of listed firms in NSE.

The second objective of the study was Determine the financial model (traditional and behavioural) most preferred by managers of listed firms at the Nairobi Securities Exchange. The findings indicate that taking all other independent variables at zero, a unit increase in traditional finance inclination led to will lead to a 0.673 increase risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95% level of confidence, traditional finance inclination had a significance value of 0.0001 implying that accessibility to traditional finance inclination significantly affects risk taking decisions by managers of listed firms in NSE. In relation to behavioural finance inclination, findings showed that taking all other independent variables at zero, a change in behavioural finance inclination led to a 0.614 increase in risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95% level of confidence, behavioural finance inclination had a significance value of 0.0009.

This implied that Behavioural Finance inclination significantly affects risk taking decisions by managers of listed firms in NSE. For the mixed model of decision making, findings showed that taking all other independent variables at zero, a unit increase in mixed method finance inclination led to a 0.014 increase in risk taking decisions by managers of listed firms in NSE. At 5% level of significance and 95%

level of confidence, mixed method finance inclination had a significance value of 0.0142. This implies that mixed method finance inclination significantly affects risk taking decisions by managers of listed firms in NSE.

A multivariate regression model was applied to determine the relative importance of each of the Finance Decision models with respect to risk taking decisions by managers of listed firms in NSE. It was established that 78.8 percent of the variation in risk taking decisions by managers of listed firms in NSE is explained by traditional finance inclination, behavioural finance inclination and mixed method finance inclination leaving 21.2 percent unexplained. This indicates that traditional finance inclination, behavioural finance inclination and mixed method finance inclination significantly contribute to risk taking decisions by managers of listed firms in NSE.

5.3 Conclusions

Overall, results indicate that risk taking decisions by managers of listed firms in NSE is affected by traditional finance inclination, behavioural finance inclination and mixed method finance inclination. This study tested relationships developed out of the existing literature on the existing relationship between traditional finance inclination, behavioural finance inclination and mixed method finance inclination and risk taking decisions by managers of listed firms in the NSE with data collected from managers or agents of firms listed in the NSE.

Findings present evidence that there exists a relationship between traditional finance inclination, behavioural finance inclination and mixed method finance inclination and risk taking decisions by managers of listed firms in NSE. It also emerged that the individual effects of these factors on risk taking decisions by managers of listed firms

in NSE were significant. Moreover, it emerged that traditional finance inclination is the most preferred in making risk taking decisions by managers of listed firms in NSE.

5.4 Recommendations

It's is recommended that traditional finance inclination will be the govern and not special case, and doing as such, financial analysts will be nearer to the intricacy of social reality, and their hypotheses will clarify much better what is happening in firms listed in Nairobi securities exchange as the managers will use it in making risk taking decisions.

5.5 Areas for Further Research

Given that the study focused listed firms at the Nairobi Securities Exchange irrespective of the market segment, it is recommended that a similar study is done to investigate the relationship between these variables in the respective market segments.

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APPENDICES

APPENDIX I: Questionnaire

Serial No.....

This questionnaire is meant to collect information on the traditional and behavioural finance and their influence on the risk propensity by managers of listed firms at the Nairobi Securities Exchange. Kindly answer the questions by writing a brief statement or ticking in the boxes provided as will be applicable. The information you give will be treated strictly confidential and for academic purposes only and at no time will your name be mentioned in this study.

Section A: Background Information

1. For how long has the firm been listed and operated in Kenyan NSE?

- 1) Less than a year
- 1) 1-3 years
- 1) 4-6 years
- 1) Over 6 years

2. How many Employees does your firm have?

- 1) 1-50
- 1) 51-100
- 1) 101-1,000
- 1) 1,001-5,000
- 1) Over 5, 000

3. How many portfolios does your firm run in Kenya?

- 1) Only one
- 2) 2-5
- 3) More than 5 portfolios

4. Are you an agent contract manager or owner manager of the firm?

- 1) Yes
- 2) No

Section B: Indicators and Level of Risks the listed firms Face at the NSE

To what extent would you agree/disagree with the following levels or indicators of risk facing firms listed at the NSE? (Rank by Ticking appropriately as follows; (1= Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree).

	Risk	1	2	3	4	5
5.	Competition with other firms					
a)	We face stiff competition from other listed firms					
b)	Competition has made product pricing a challenge					
c)	The company has business portfolios that are tailored to the local market					
d)	Investor or clients needs and preferences keep changing					
e)	Need for firm niche and product specialization					
6.	Legal and Regulatory Framework					
a)	CMA is skewed towards well established firms at the NSE					
b)	Minimum capital base by CMA on firms listed at NSE may hinder operations of firms					
c)	Public and investor interests by CMA constrains firms at the NSE					
d)	Requirement for performance declaration by firms presents added costs					
e)	Legislations by the government and CMA regulations hinder listing at the NSE					
7.	Risk Management Systems					
a)	The Firm(s) lacks clear risk identification and assessment structures					

b)	There are no formalized risk management procedures					
c)	Cross-listing of firms in neighbouring countries bourses is a serious challenge					
d)	Local Insurance are reluctant to under-write listed firms					
e)	Premiums charged by insurance are way too high to comprehensible cover investors and clients					
8.	Managerial Inclination and behavior towards Risk					
a)	The firm has both technical capacity and management expertise to handle its portfolios					
b)	Managers vision and intuition influences investment options for the firm					
c)	There is a conflict between managers and firm owners expectations on forecast and performance of the firms					
d)	Management boards of firms listed at NSE set unrealistic targets for firm managers and in some instances micro manage the executives					
e)	Managers contract influence the choice of investment and propensity to risk					

9. How do you rate the overall relationship between firm owners and contract Managers of listed firm?

1) Very Good

1) Good

1) Average

1) Poor

1) Very Poor

10. How would you rate the effectiveness between traditional and behavioural finance to the performance of listed firms at the Nairobi Securities Exchange? (Rate as follows; 5=Very effective, 4=Effective, 3= Ineffective, 2=very ineffective, 1= Am not able to rate/not applicable)

		1	2	3	4	5
a	Listed firms with standardized portfolios are more successful than those without clear portfolios					
b	Managers with free hand thinking tend to achieve higher performance than their counterparts who strictly follow the contract targets					
c	Managers who influence staff on firm targets tend to perform better than managers who micro-manage their juniors					
d	Listed firms who pursue diversification strategies of their businesses tend to outshine those who pursue singular business strategies					
e	Firms with clear procedures of carrying out business tend to outperform those that are run at the behest of the manager					
f	Agent contracting is more beneficial to firms than those run by the owners of the firms					

11. What challenges do listed firms at the NSE face while pursuing businesses across the Kenyan borders?

12. How would you rate the existing contractual relationship with the investors/Clients of the listed firms?

- 1) Very Good
- 2) Good
- 3) Fair
- 4) Poor
- 5) Very poor

13. What do you think the Government (CMA) should do to improve the performance of listed firms at the NSE in Kenya?

14. What recommendations would you make to help mitigate the expectation conflict between owners of firms and agent managers of listed firms at the NSE?

THANK YOU FOR YOUR RESPONSES

Peter Musyimi