Effects of the information gap in the stock market: A case of Dar Es salaam Stock Exchange

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Abstract

The study intended to examine the effects of the information gap in the stock market in the Dar es salaam stock exchange. To meet this goal three objectives were involved; the gap between the information offered by DSE and those needed by investors, the effects of the information gap on the trading in securities in DSE, and measures to apply to tackle the information gap in DSE. The study adopted a mixed research design. This method provides different types of information, such as detailed views of participants qualitatively and scores on instruments quantitatively, and when combined, they should yield the same results. The research was carried out in the city of Dar es Salaam as it is the city of big investors in Tanzania, the head office of the Capital markets and Security Authority (CMSA), and the Dar es salaam stock exchange authority (DSE). Eighteen brokers and dealers were interviewed, and a questionnaire was distributed to 169 market dealers, brokers, custodians, nominated advisors, DSE employees, registered trustees, financial analysts, and customers to collect quantitative data. The data collection tools used were a questionnaire for quantitative data and an interview guide for qualitative data. Descriptive statistics, content analysis, and coding approaches were used to analyse and interpret data.

Keywords:

Stock market, information gap, Dar es salaam stock exchange

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Introduction

The Efficient Market Hypothesis (EMH) theory postulates that stock prices will adjust rapidly to absorb all available information from the market (Fama, 1970). Thus, the performance of any available stock is determined by information disseminated to the public as well as insider information (Fama, 1970; Massele et al., 2013). Consequently, information can be an economic or a non-economic event that is not directly related to the capital market but influences investors in making capital market investment decisions (Mitra, 2017; Mujib & Candraningrat, 2021).

Capital markets are facilities and mechanisms through which funds move from idle holders to productive users (Nia, 2020). Furthermore, markets are facilities that channel funds, at market price, to productive activities. Capital markets have two interdependent segments; primary and secondary markets. Likewise, it has an important role in a country’s economy (Mitra, 2017; Mujib & Candraningrat, 2021). The capital market is a choice for companies and other institutions for investment activities. The capital market is a means of bringing investors who have excess funds and those who need funds. The capital market is also known as where participants trade financial securities in the form of stocks or bonds with a maturity of more than one year depending on the available information (Owidi & Mugo-Waweru, 2016).

Players of the capital markets, expect to benefit from financial product operations through either capital gain or dividends (Ilahi et al., 2015). Investors use available information to choose the capital market investment portfolio (Massele et al., 2013). Trending information regarding stocks or bonds influences the performance of the stock market (Mitra, 2017). Therefore, the availability of all product information to investors is important to focus on. For example, based on the emergence of Covid-19 has led to a stagnant
if not decrease in the performance of the capital market hoping that listed companies will not perform well because of the lockdown(Abuzyade et al., 2021; Nia, 2020).

In the East Africa Community, there is the incredible growth in the capital market since the 1990s. The EAC has four operational stock exchanges; the Nairobi Stock Exchange (NSE), Rwanda Stock Exchange (RSE), Dar Es Salaam Stock Exchange (DSE), and Uganda Stock Exchange (USE) in Kenya, Rwanda, Tanzania, and Uganda respectively(Owidi & Mugo-Waweru, 2016). The main markets are regulated markets, which implies that firms wishing to list on this market must fulfill the formal listing requirements (LRs) of the respective stock exchange(DSE, 2016). The larger or more mature firms are listed on this market by allowing them to raise funds to finance their projects(Acedo-Ramírez et al., 2019).

In Tanzania, the capital market is regulated and facilitated by the Dar es Salaam Stock Exchange (DSE) and Capital Market and Security Agency (DSE, 2016). Moreover, DSE provides a market for listed securities, ensuring transparency by disclosing all sensitive information, raising capital, smoothing privatization, and lastly promoting cultural transformation to Tanzanians by disseminating knowledge concerning capital markets (DSE, 2016).

EMH argued that information both past and current, public and private information is very fundamental to stock valuations (Fama, 1970). However, the dissemination of information is lagging behind the investors’ expectations (Tambun et al., 2018). Information regarding listed companies that are published on the DSE website is not complete and if published no standardized format. Moreover, the information provided at moment may be outdated and so it may be misleading. Investors are still very cautious and reckless in deciding on their investments. Researchers are motivated to find out whether the securities information offered by DSE is the same needed by the investors and the effect of the gap. This situation became the motivation because the information is the main factor that can affect the accuracy of analyst predictions (Judkowiak, 2021). This research will examine the effect of the information gap in the Dar es salaam stock market using mixed research methods. The study will also suggest better ways of minimizing the stock market information gap to foster better stock investment.

To achieve the stated objective, the study questions are:

What is the gap between the information offered by DSE and those needed by the Public?

What are the effects of the information gap on the trading in securities in DSE?

What are the proposed measures to apply to tackle the information gap in DSE?

**Literature Review**

Stock exchange comprises two main components: the primary market and the secondary market. A secondary market is formed for formerly issued securities, namely for those that had been issued for the primary market(Ilahi et al., 2015). A Secondary market is also formed with two main components – stocks and the market itself which gives owners of securities to reimburse them until profit has been gained (dividends or interests), as well as giving a possibility for negotiations or cash conversions depending on propositions and current demand which, in turn, prove a certain value of those security(Massele et al., 2013). It can be considered to be an absolute market, as it can be bound to regulations of propositions and demand which demonstrate the real demand for capital for the state’s economy (Mitra, 2017)

Stock trading is very attractive for those who are interested in a combination of excitement and the possibility of a large quick profit, and is an extraordinary opportunity for profit as the process of trading itself appears to be technically simple(Ilahi et al., 2015; Owidi & Mugo-Waweru, 2016). The transactions in the secondary market pass through three distinct phases, viz., trading, clearing, and settlement(Chong et al., 2017). While the stock exchanges provide the platform for trading, the clearing corporation determines the funds and securities obligations of the trading members and ensures that the trade is settled through the exchange of obligations(Modugu & Dempere, 2020). The clearing banks and the depositors provide the necessary interface between the custodians and clearing members for the settlement of funds and securities obligations of trading members. The clearance and settlement processes are important components of the capital market infrastructure(Talpsepp et al., 2020)

Clearing refers to the calculation of the bilateral net liabilities from the purchases and sales of a security transaction; settlement involves the conclusion of a security transaction, that is the exchange of securities against funds(Knieps,2006). The clearance and settlement process is instrumental in reducing the inherent risks of the underlying market transactions and also the costs arising out of inefficiencies associated with market transactions. According to Giddy et al 1996, four consecutive stages can be identified in the securities trading value chain: (1) Information stage (pre-trade phase), where investors collect information to make investment decisions. (2) Order-routing stage, where securities orders within the banking system are placed on an over-the-counter/OTC market or a stock exchange. (3) Trading stage, where securities are traded and a suitable counterparty has to be found. At this stage, a price is set for a specific volume. Moreover, this infrastructure must operate efficiently and effectively for costs and risks to be minimized(Chong et al., 2017; Owidi & Mugo-Waweru, 2016)

Consequently, to compete there is a necessity to possess infrastructure capabilities for processing complex financial products in the capital markets. All of this collectively put pressure on the market regulator to make the markets more favorable, transparent, and efficient for investors(Acedo-Ramírez et al., 2019). The National Stock Exchange (NSE) has the implicit backing of the Government,
through several financial institutions, which ultimately changed financial market practices (Corgnet et al., 2018). The efficiencies of all processes have increased significantly, and at the same time investor confidence in the safety of the markets has grown significantly.

Stock exchanges essentially provide the marketplace to facilitate the buying and selling of stocks among investors (Acedo-Ramírez et al., 2019; Tambun et al., 2018). Stock exchanges are regulated by government agencies, such as the Securities and Exchange Commission (SEC), that oversee the market to protect investors from financial fraud and to keep the exchange market functioning smoothly (DSE, 2016). Still, the vast majority of stocks are traded on exchanges, and some stocks are traded over-the-counter (OTC), where buyers and sellers of stocks commonly trade through a dealer, or market maker, who specifically deals with the stock (Corgnet et al., 2018).

OTC stocks are stocks that do not meet the minimum price or other requirements for being listed on exchanges (Judkowiak, 2021). OTC stocks are not subject to the same public reporting regulations as stocks listed on exchanges, so it is not as easy for investors to obtain reliable information on the companies issuing such stocks (Ergün et al., 2021). Stocks in the OTC market are typically much more thinly traded than exchange-traded stocks, which means that investors often must deal with large spreads between bids and ask prices for an OTC stock (Slobodianyk & Abuselidze, 2021).

Theoretical and empirical research shows that a lack of financial reporting transparency and disclosure increases information asymmetry between investors by increasing private information search incentives and by raising the amount of private information compared to publicly available information (Lin et al., 2020). Higher levels of information asymmetry cost investors because they lead to a lack of informed valuation, increasing adverse risk and, hence, increasing market illiquidity.

It is often assumed that investors desire earnings forecasts, but not much is known about the factors individual investors use in analyzing the common stock (Abad et al., 2017). The forward-looking information disclosed by companies of a higher reputation has a greater effect on stock return volatility (Veron & Wolff, 2016) Consequently, information asymmetry proxies should reflect, among other things, firms’ accounting quality, and financial reporting by adopting IFRS. Institutional factors, firms’ reporting incentive and country enforcement, media coverage, manipulated listed company information, company’s beta, dividend payment history, stock price movement, annual EPS reports, management structure, earning to equity, and growth ratio (Abad et al., 2017, 2018; Baker & Haslem, 1973; Bravo, 2016; Gilson, 2000; Lin et al., 2020).

Participants in the stock market vary from small individual stock investors to large trader investors and may include banks, insurance companies, pension funds, and hedge funds (Ante et al., 2018). Their buy or sell orders may be executed on their behalf by a stock exchange broker. The main objective of all participants is to earn profit by following some strategies using fundamental and technical analysis tools (Nadeem et al., 2020). One such strategy which is found to give good profit is the long-run contrarian strategy. More successful investors have accumulated a good amount of experience, and this experience seems to be one of the most important factors for helping investors to succeed in the market, even in cases where talent and education do not (van Rooij et al., 2011).

Publicly traded companies are required by exchange regulatory bodies to regularly provide earnings reports (DSE, 2016; Mitra, 2017). These reports, issued quarterly and annually, are carefully watched by market analysts as a good indicator of how well a company’s business is doing. Among the key factors analyzed from earnings reports are the company’s earnings per share (EPS), which reflects the company’s profits as divided among all of its outstanding shares of stock.

Analysts and investors also frequently examine several financial ratios that are intended to indicate the financial stability, profitability, and growth potential of a publicly-traded company through audited financial statements (Frydman & Stillwagon, 2018). Consequently, a few of the key financial ratios that investors and analysts consider include the following Price Earnings (P/E) Ratio, Debt to Equity Ratio, Return on Equity (ROE) Ratio, Profit Margin, Return on assets (ROA), dividend yield, price to book (P/B) ratio, current ratio, and the inventory turnover ratio in determining performance efficiency of the firm (Abad et al., 2017, 2018; Lin et al., 2020).

In unrestricted and extremely competitive markets, demand and supply pressures determine the prices or interest rates (Ilahi et al., 2015). However, in a theoretical sense, markets are said to be efficient, if there is a free flow of information and the market fascinates this information fully and quickly (Fama, 1970). Moreover, the price of stock markets moves randomly either positive or negative as simplified with EMH. The study conducted by Sajid Ali et al., 2018 on stock market efficiency analysis on Islamic and conventional stock markets agreed that Islamic banks are more efficient as they follow good laws and financial disclosure of information. Consequently, under EMH, all investors are expected to have the same information, which is immediately reflected in the stock prices and nobody can gain extra profits (Ozdemir, 2008). All instruments in the market will be correctly priced, as all the available information is perfectly absorbed and any investor entering the market at any time will have the same advantage or returns (Ali et al., 2018).

On the other hand, the emergency of behavioral economics and finance opposes the Efficient Market Hypothesis (EMH) and the application of different statistical tools which gives miscellaneous results (Nadeem et al., 2020). Consequently, the real-world financial markets function under a complex set of dynamic factors which are not captured by the classical finance theories (Sharma & Kumar, 2020). These complex dynamics get created as a result of complicated psychological phenomena that impact investors’ decisions during stock buy-outs or sell-outs such as Investor sentiment, overreaction and underreaction, overconfidence, and herd
behavior (Metawa et al., 2019). Moreover, the influence of such phenomena hinders the investor from making lucid decisions. The subsequent irrationality cannot be random, as most investors are vulnerable to those phenomena in a similar manner, with only varying degrees of dominance that cannot be cancelled out (De Bortoli et al., 2019).

Research & Methodology

Research Design

The researcher adopted a mixed research design (Creswell, 2014) in this study on the effects of the information gap in the stock market in Tanzania. This method is used because qualitative and quantitative data provide different types of information, such as detailed views of participants qualitatively and scores on instruments quantitatively, and when combined, they should yield the same results. Data will be collected using interviews and questionnaires to establish findings to research questions.

Study area and participants

The research was carried out in the city of Dar es Salaam. Dar es Salaam is the city of big investors in Tanzania and the head office of the Capital markets and Security Authority (CMSA), and the Dar es salaam stock exchange authority (DSE). Eighteen brokers and dealers were interviewed, and a questionnaire was distributed to 169 participants to collect quantitative data. CMSA and DSE informants were chosen based on friendship, ease of access, and willingness to participate because they are both located in the city center. Consequently, the shareholders were selected based on participation in the capital market and were purposefully identified by dealers and brokers based on their willingness to participate in the study. The sample is considered satisfactory as the study employs a mixed approach to explore the effects of the information gap in stock markets.

Data Collection Method

The data collection tools used were a questionnaire for quantitative data and an interview guide for qualitative data. The data were collected using the same variables namely the gap between the information offered by DSE and those needed by investors, the effects of the information gap on the trading in securities in DSE, and the proposed measures to apply to tackle the information gap in DSE as shown in table 1 below.

The qualitative data were gathered through semi-structured interviews in which the questions focused on the impact of information gaps in the stock exchange and effective measures to fill the gaps. The interviews were conducted in the form of natural dialogues based on the identified themes. The researchers developed interview guide before meeting the respondents. The respondents were not willing to be recorded however the interviewer had to take detailed notice during the interview session. The interview lasted 20 to 30 minutes and was accompanied by extensive discussion notes for each planned theme. Kiswahili was used during interviews because it is the language spoken by the majority of respondents, and it also allowed the researcher to obtain detailed information.
about the research objectives. After the interview the translation from Kiswahili to English was made before group the responses into different themes. Following that, the data were translated into English for reporting purposes.

Table 1: Relationship of research questions, type of data, collection methods, and expected results

<table>
<thead>
<tr>
<th>Research Questions (RQs)</th>
<th>Type of Data</th>
<th>Data Methods</th>
<th>Collection Respondents</th>
<th>Expected results</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ1</td>
<td>Qualitative data</td>
<td>Documentary review</td>
<td>DSE Documents</td>
<td>Information shared by DSE to investors/public</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interview</td>
<td>Public/Investors</td>
<td>Information required by the Investors/Public</td>
</tr>
<tr>
<td></td>
<td>Quantitative</td>
<td>Questionnaire</td>
<td>DSE and Investors</td>
<td>Information for rational decision-making and Investors' Expected information</td>
</tr>
<tr>
<td>RQ2</td>
<td>Qualitative Data</td>
<td>Interview</td>
<td>DSE/ CMSA/ Brokers officers</td>
<td>Effects of information gap on the side of DSE, Regulatory authority, and Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Questionnaire</td>
<td>Public and Investors</td>
<td>Effect of information gap on the side of investors</td>
</tr>
<tr>
<td>RQ3</td>
<td>Qualitative</td>
<td>Interview</td>
<td>DSE/ CMSA/ Brokers officers</td>
<td>proposed measures to tackle the information gap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Open-ended Questionnaire</td>
<td>Public/Investors</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors

Analysis of data

Qualitative and quantitative data analysis was done using a side-by-side approach. The identified themes from quantitative were discussed separately and then compared. The Analysis of data was done using SPSS software

Findings and Discussions

Demographic information

The study's participants included 25 interviewees who were brokers, dealers, investors, government employees, private employees, business advisors, and professional bodies. The questionnaire was given to all 169 participants, who completed it and returned it. Table 2 shows the demographic characteristics of study participants based on gender, age, and occupation level.

Table 2: Demographic Information

<table>
<thead>
<tr>
<th>Categories of respondents</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>123</td>
<td>72.8</td>
<td>72.8</td>
</tr>
<tr>
<td>Female</td>
<td>46</td>
<td>27.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>169</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student</td>
<td>4</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Government employees</td>
<td>1</td>
<td>0.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Private employee</td>
<td>12</td>
<td>7.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Businessman</td>
<td>51</td>
<td>30.2</td>
<td>40.2</td>
</tr>
<tr>
<td>Professional</td>
<td>101</td>
<td>59.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>169</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-36 years</td>
<td>83</td>
<td>49.1</td>
<td>49.1</td>
</tr>
<tr>
<td>37-60 years</td>
<td>86</td>
<td>50.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data
The profile showed that 72.8 percent of the stock market were male and 27.2 percent were female. The majority of the participants were professional investors 59.8 percent and businessmen 30.2 percent. The majority of investors are of all ages from 18 years and above showing significant participation for every age group.

**Comparison between the information offered by the DSE market and those needed by investors**

The interview conducted by the researcher with the CMSA and DSE officers revealed that the stock exchange market in Tanzania is in the development phase and has insufficient knowledge of how the stock market operates especially when determining yield return. Most investors rely on their unprofessional assumptions to invest in stocks. Consequently, investors are also depending on their moral beliefs and invest in stocks without assessing the performance of the shares they used to invest in. The statement in the five-point Likert scale (1 = Strong agree, 2= Agree, 3 = Neutral, 4, Disagree,) questionnaire was analysed to quantify participants’ knowledge about stock market products and making a sound decision as shown in Table 3 below.

**Table 3: The information offered by DSE**

<table>
<thead>
<tr>
<th>Information item</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price index</td>
<td>169</td>
<td>1</td>
<td>3</td>
<td>2.05</td>
</tr>
<tr>
<td>Audited financial report</td>
<td>167</td>
<td>1</td>
<td>4</td>
<td>1.79</td>
</tr>
<tr>
<td>Investors protection</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>2.50</td>
</tr>
<tr>
<td>Brokers and dealers report</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>2.58</td>
</tr>
<tr>
<td>Risk detection</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>2.16</td>
</tr>
<tr>
<td>Digital infrastructure</td>
<td>169</td>
<td>1</td>
<td>3</td>
<td>2.00</td>
</tr>
<tr>
<td>Financial security</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>1.29</td>
</tr>
<tr>
<td>Corporate announcements on dividends, share bonuses, and annual earnings.</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>1.21</td>
</tr>
<tr>
<td>Changes in economic indicators such as inflation, GDP rate, and FDI</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>1.88</td>
</tr>
<tr>
<td>Social and political information</td>
<td>169</td>
<td>1</td>
<td>4</td>
<td>2.94</td>
</tr>
</tbody>
</table>

**Source:** Field Data

According to the results provided in the table above, stock on DSE facilitates price (mean 2.58) and digital infrastructures (mean 2.50) for facilitating sell and buy decisions. Moreover, corporate announcements (mean 1.21) changes in economic indicators (mean 1.88), and financial security (mean 1.29) in enabling investors to make decisions were inadequate in the stock exchange. This indicates that participants in the capital market especially the stock exchange lack trust by believing that the market is unsecured. Furthermore, audited financial reports (mean 1.79) indicating were not published on time or not at all. It was revealed that reporting formats were not the same for all listed companies. Consequently, brokers’ and dealers’ reports, and social and political information are adequately disseminated by DSE to provide the roadmap for potential investors. As a result, it was disclosed during the interview that DSE offers a market for secondary participants to meet for the exchange. Moreover, dealers and brokers facilitate the meeting of stock sellers and purchasers and are not allowed to make decisions on behalf of their investors. Consequently, they provide to consumers with the necessary information, such as investor prospectuses, latest financial statements, and governance resolutions relating to stock they wish to trade. When shares or issued bonds are posted on the Dar es Salaam stock exchange, numerous people can participate by buying and selling them. However, just a few firms in Tanzania have gone public and listed their shares on the DSE. As a result, the shares of 29 publicly traded firms are performing below average. By 30 May 2022, 31.03 percent of the shares had been purchased, which included 64 deal shares and 8 bond transactions. It was also revealed that 69.62 percent of sellers and purchasers are foreigners, indicating that local investors are not cognizant enough to participate in the stock market (Council of Dar es Salaam Stock Exchange, 2022). Similarly, there are just 16 registered broker-dealer firms in the stock market, both of which are based in Dar es Salaam’s city center lagging behind other cities and regions from participating, and thus it is regarded as insufficient to develop the stock market.

**Table 4: The information needed by Investors**

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors protection</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>2.12</td>
</tr>
<tr>
<td>ESG reports</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>3.15</td>
</tr>
<tr>
<td>Investment prospectus</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>2.97</td>
</tr>
<tr>
<td>DSE information’s</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>2.20</td>
</tr>
<tr>
<td>Relevancy and accessibility of information</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>1.96</td>
</tr>
<tr>
<td>Availability of financial statements to make decisions</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>2.41</td>
</tr>
<tr>
<td>Financial analyst reports</td>
<td>169</td>
<td>1</td>
<td>5</td>
<td>1.75</td>
</tr>
</tbody>
</table>

**Source:** Field Data

The table above has shown that information offered by DSE is not solid enough to enable public investors to make the rational investment (mean 2.20), further, it was revealed that investors tend to acquire additional information from financial advisors to
complete transactions. Consequently, some of the information provided by DSE was not able to enable investors in making decisions (mean1.96). Further, financial analysts’ reports are very few and somehow not understood by the investors.

Practical effects of the differences in the information between DSE and investors

The financial illiteracy of investors was perceived by many investors. They tend to use their assumptions and beliefs to make an investment decision without doing a financial analysis. There is a trend situation for investors trusting that those companies with shares trading at a high price will also pay a high future dividend which is not true.

During the interviews, fund managers agreed that the financial information disseminated by stock companies is less informative. In this study, it is when a company engages in complex corporate transactions. This agrees with the study conducted by (Tambun et al., 2018) which revealed that investors use accounting information together with market information to make an investment decision. This contradicts with ideal situation of disclosing business information to the business rivals. This agrees with the studies regarding the analysts and information gaps by Gilson, (2000) revealing that some financial analysts are reporting an unusual earnings measure that emphasizes financial concessions the same to stock companies.

Investors’ protection is regarded as the key performance indicator for every financial and capital market globally. During an interview with market participants, markets do lack strong policies to protect market participants.

“…. The authorized markets tend to provide advice and let the customer decide and when risk arises it is yours…” (respondent, 2022).

Moreover, investors have developed the market fear of not meeting their objectives of earning dividends, interest, and capital gain from their investment. Market participants typically invest in the market's direction to make a profit (Nia, 2020). The government through its authority lacks consistency in promoting investors’ protection and this is paralyzing the stock market and hence weak.

Investor perception of the stock market has influenced DSE performance because local investors believed that trading for stocks was only for the wealthy and institutional investors such as pension funds, banks, and insurance companies. Ordinary citizens defined property as land and other tangible goods. Moreover, ordinary investors are less aware of stocks, bonds, or intangible assets. In this situation, the development of the stock market and profit generated by DSE is very low compared to other capital markets.

The market has failed to create a trust to potential investors. The study revealed that investors are not risk takers rather they prefer immediate high yield.

“…. some of the existing companies have failed to pay a dividend or not performing at all. Also, those poor performing companies were not held accountable for their failure….“ (respondent, 2022).

The effect of inadequate information misleads investors from making rational decisions during the purchase or sale of stock market products. The market’s price of shares and bonds reacts rapidly to the publicly available information disclosed and investors use that information to make decisions. The results are opposed by Terovitis, (2022) who found that information disclosure might hurt financing opportunities for socially valuable projects and harm the investment efficiency of the investors.

Relatively, non-disclosure of information tends to paralyze the market and leave the participants to determine the return on their own risk. We found that most investors rely on the opinion of friends, family, or peer groups to invest in stock markets (mean of 3.15) due to lack of information. The study agrees with Nadeem et al., (2020) who revealed that investors do not follow the rational investment models assumed in the theory of efficient markets and that there are significant disparities in impact of information gap on the Security’s value and prices. The price of securities in the stock market depends on the supply and demand of the products being traded. Consequently, the information available enable enables fund managers to hedge against future risk by creating a diverse portfolio.

During the open-ended interview, it was revealed that the incentives provided by the regulatory authorities to an investor is not attractive to investors who want to list their shares. Moreover, tax incentive for the companies who wants to list, IPO expenditure will be deducted while whole tax being 25% and that of unlisted being 30%. The incentive of 5% is not adequate to motivate unlisted companies to list. Consequently, the incentive needs to be improved to reflect the market environment.

In addition to this, the search findings showed that the investors protection is very low compare with the systemic risks available. Consequently, the fidelity fund account which is used to compensate investors who suffer financial loss arising from fraud or miss appropriation of funds or negligence by licensed dealing members is limited to Tshs 100,000 which do not reflect current market situations(Council of Dar es salaam Stock Exchange, 2022).

Study revealed that the responsible authorities should improve market platform by using financial technology including the use of mobile application. The existing applications are very old and some are not up to date some are not responding or available. Therefore, using digital application will improve market outreach through selling and buying of the stock market products. This also was observed by Gomera & Oreku, (2020) application of mobile technology increases customer participation in business In a modern stock market, participants are allowed to purchase and sale their share through the platform without meeting for exchange. Arrangement for settlement is also done online by custodians which is arranged by the two counterparties.
Study revealed that, DSE market lacks diverged products to attract more investors. Moreover, DSE market trade only bonds and stocks. Financial securities like derivatives, swaps, asset backed securities and stock options are not available recently to DSE market. In a global market investor interacts with the world through business transactions, therefore the need of such securities is inevitable.

The strategies to tackle the challenge of information in stock market

Promotion of economic integration is crucial as it bring investors together globally. DSE market is only located in Dar es salaam city leaving other areas of the country. Moreover, DSE need to open branches in different regions to attract more investors and being able to sale the diverse products. The online integration with economic zone such as SADEC, ECOWAS, EAC members just to mention few should be encouraged to invest in DSE market. Moreover, tax revenue bracket will increase as there will be more sales volume of financial securities.

The use of digital application will improve market outreach through selling and buying of the stock market products. This also was observed by Gomera & Oreku, (2020) application of mobile technology increases customer participation in business. Electronic platform should be able to meet sellers and buyers to affect exchange online

In a global market investor interacts with the world through business transactions, therefore the need of such securities is inevitable. The authorities should improve the coverage in order to provide assurance of investors through having branch offices. Public investors are scattered; therefore, they should be accessed through delivery of services to their premises.

Harmonization of policies to increase more participants in the market was revealed during the interview. Consequently, for the company to first list its shares it should have more than one thousand shareholder which is very difficult for the firm as many companies few shareholders and failed to register for listing. Moreover, unfavorable policies affect the intuitions of market participants believing that the market is not going to perform. Efficient and sympathetic investment policies will attract more customer and hence leading to efficient market.

Government should establish virtuous mechanism to enforce the investment policies in order to protect participants of stock market. Consequently, companies at a certain level of achievement must register for listing and should not be voluntary. The pre-exemption right for existing share holder must be implemented to DSE market to remove the founders from losing control of the firm as many founders have the fear of losing ownership and that is also the reason to why many firms do not participate.

Strengthening of public information disclosure to those listed companies is of mandatory. It was found that, listed companies are required to publish their audited financial statements in DSE website but not mandatory. This will at most misappropriate customers when making buy and sell decision. The dissemination of financial information to the public is of great importance as it provides a roadmap for potential investors for making rational investment decisions.

Practical implications

This research will assist financial professionals, economic institutions, and policymakers in developing better stock market strategies and making financial decisions. The study has shown the significance to improve performance of stock markets by dissemination of financial knowledge relating to stock markets, improving investors’ protection, developing proper financial platforms, introduction of diverged products, enforceable laws by the government authorities, and mandatory financial disclosure. This study can benefit government and stock market participants and professionals who need to know the effect of information gap in stock markets and how to deal with it. More emphasis should be placed on factors that remove barriers to stock market development. It can assist in better understanding stock market participation and the factors that influence an individual's decision to purchase and sell financial securities in the stock market.

Conclusion and Future Research

This research aimed to understand the effects of the information gap in the stock market by looking the gap between the information between those offered by DSE and those needed by investors, the effect of those information on the trading securities and to propose measures to minimise the gap to improve stock market performance. The study revealed that lack of adequate knowledge, policy barriers, non-financial disclosure, poor infrastructures, unprofessional investment, poor risk appetite, few market participants are main causes of information gap in DSE markets. Consequently, to improve performance of stock markets include dissemination of financial knowledge relating to stock markets, improving investors’ protection, developing proper financial platforms, introduction of diverged products, enforceable laws by the government authorities, and mandatory financial disclosure.

The stock market has to adopt for environment and social governance (ESG) the area which is supported by big investors and multinational organisation which then remove the effect of information gap. It is revealed that, investing to companies which invest in green activities is worth to protect the world and development of stock market.

Although this study adds to existing knowledge, it does have some limitations. First the sample size was limited to 169 active investors as the investors were not actively participating in the capital market and some were not responsive fearing that it was for tax issues. As a result, in future studies, the sample size can be increased to gain a more in-depth understanding of these information gaps. Secondly, the study focused only on the effect of information gap in DSE market only further research include assessment of...
information gap using semi structural equation model (SEM). Other suggestion includes finding the effect of gender participation in performance of stock market.

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