
Business, Management and Economics Research
ISSN: 2412-1770
Vol. 1, No. 5, pp: 54-62, 2015
URL: http://arpgweb.com/?ic=journal&journal=8&info=aims

# Stock Market Investment Incentives: A Gift or a Motivator? Evidence from Literature

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**Abstract:** This study brings to an academia table the discussion on whether investment incentives are a motivator or a gift and also explores the moderating effects of Investors' Perceptions on Stock market Performance. By use of key word characters the search initially identified 93 published and unpublished research papers and after a tentative scrutiny, 66 papers were selected in a random sampling manner in order to give the birth to this discussion paper. Exploratory research design was used. The key objective of this article was to investigate on the question as to whether incentives are a gift or a motivator. The study findings reveal than investor perceptions affects stock market performance more than incentives do. The paper concludes that the availability, adequacy, and timeliness of relevant information about marketable securities are important for both pricing efficiency and market confidence. Investment incentives work well in an ideal world to promote investment while investors' perceptions are relevant in the real world. Hence, stock market incentives were concluded as being a gift and not a motivator for investors to make investment decisions at the stock market.

**Keywords:** Perceptions; Incentives; Performance; Gift verses motivator.

## 1. Introduction

Incentives, especially fiscal incentives, have been associated with higher investment in several countries, including Ireland, Mauritius, and Singapore. But while some governments vouch for the effectiveness of incentives, many others have failed to attract expected investments (Ajmi, 2008).

The rationale behind the granting of tax incentives is to exploit investment opportunities, where tax system is seen as an obstacle. They are also used to improve social welfare of the community for example, granting incentives related to health, education or savings for future use. On the other hand they can also be used to discourage certain activities like overproduction of agricultural produce resulting to instability in prices (Klemm and Stefan, 2009). The aim of granting incentives is to promote stock market performance. Company stock traded on the major exchanges can usually be considered liquid (Young, 1988). Often, approximately 1% of the float trades hands daily, indicating a high degree of interest in the stock. On the other hand, company stocks traded on the pink sheets or over the counter are often non-liquid, with very few, even zero, shares traded daily. The liquidity incentives provided on shares traded at the stock market should promote more investment in the stock market and hence its Performance, however, this is not the usual case.

Consumer attitudes are a result of both affective and cognitive perceptions towards a particular object or organization (Andres *et al.*, 2005). Research establishes that consumer attitudes can be influenced through a number of variables which are both internal and external (Assael, 2000). Both affect and cognition are important in attitude formation and they are also linked to the environment (Walther and Trasselli, 2005).

*Many researchers have found out that investor perceptions affect the stock market directly since the participants of the stock markets are humans who are led by emotions and attitudes (Capital Markets Authority, 1996; Chopra et al., 1992; Hirshleifer, 1995). Stock market performance is thus affected to a great extent by the investors' perceptions than other factors since the behavioral factors (perceptions) are the ones which relate directly with the behaviour of investors in the stock market.*

Fiscal policy incentives have been used in many countries. For example, in Kenya, the rate of corporation tax for newly listed companies on the Nairobi stock exchange was reduced from 30% to 25% over a five-year period starting 1st January 2002.

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In a Survey carried out by the IOSCO (2002)'s, it was revealed that incentives strengthen investor confidence in the stock exchange and foster investor participation. In Mauritius, new investors were attracted when incentives were introduced while in Lithuania they led to increased stock trading though the stock exchange; In the Lima Stock exchange of Peru, incentives led to the increase in the amount of trading stock (Chopra *et al*., 1992).

The Capital Markets Authority continues to implement new initiatives to increase investor protection, reduce risks and increase market stability during 2000. These measures include the creation of the Settlement Guarantee Funds (SGF) and the introduction of professional liability insurance for companies in the security industry aimed at promoting stock market performance (Allen and Gale, 2000).

Kabra *et al.* (2010) Studied the fundamental factors influencing investment decisions in India and rated Investment perceptions highly than investment incentives as the fundamental factors affecting stock market performance in India. The study is a reflection of the findings of KRA. (2009) which found out through an estimate that about Kshs 220.8 billion was lost between the years 2003 -2009 towards granting of investment incentives whose results still remains grey. It is in most cases impossible to calculate whether a tax incentive actually "bites" or is needed (Klemm and Stefan, 2009).

The Governments have implemented no less than 20 fiscal and tax incentive measures to address impediments to market growth. In addition, relevant institutional and market infrastructure reforms have been initiated to enable capital markets play a significant role in economic growth (A Quarterly Newsletter of Capital Markets Authority (Kenya), 2001).

Musyoka (2012) Investigated the perception of users regarding the availability, adequacy and usefulness of information disclosed in the financial reports of companies listed on the Nairobi Securities Exchange (NSE) and concluded that the availability, adequacy, and timeliness of relevant information about marketable securities are important for both pricing efficiency and market confidence. The investors must be fully informed of relevant facts to make sound judgments about the value of securities.

Mokua (2003) Analyzed the investors' perception towards Social, Political, and Economical, Regulatory, Technological, Environmental and Legal (SPERTEL) risks on the value of equity shares in the market and found that SPERTEL risk has an influence over the market price of the equity share.

This paper has been arranged into five sections. The first section focuses on introduction followed by literature survey, then the Methodology, empirical findings and finally the conclusions. In the literature survey we attempted to produce most relevant studies to select the research objectives on stock market incentives namely; tax incentives, liquidity incentives, growth incentives, visibility incentives and the moderating effect of investors' perceptions on stock market Performance. Then the Methodology of the study, empirical findings and conclusions will be explained in a respective manner.

## 2. Literature Review

This section explains the various literatures that have been advanced to explain the relationship of investment incentives, investors' perceptions and the stock market performance.

### 2.1 Relationship between Tax Incentives and Stock Market Performance

It is unlikely that companies will primarily list at the NSE to enjoy tax incentives. OECD Report (2002) Provide a good review of the literature on the effectiveness of tax policy (in general) and tax incentives (in particular) in promoting investment. The researchers find that tax policy affects investment with a 1.0 percent increase in the user cost of capital lowering investment. This analysis is based on microeconomic data from firms.

Though OECD Report (2002) find that tax policy has little effect on investment when macroeconomic data are used, there is evidence that taxes affect the volume and location of FDI. Extensive research indicates that FDI is sensitive to taxation in host countries (Mutua, 2011). Such a wide body of literature exists on the topic that it was the subject of a Meta study by Rutega (1999). The authors' survey of the literature concluded that, on average, a 1 percentage point increase in the tax rate reduced FDI by 3.3 percent.

Mutua (2011) Studied why investors decide to locate in certain countries and found that investments oriented toward domestic markets are less sensitive to changes in tax incentives, while export-oriented investments are more sensitive. Also using Bureau of Economic Analysis (BEA) data, the study concludes that the U.S.-based multinational corporations in countries with a 10 percent higher indirect tax rate had 7.1 percent less assets (Sevil *et al*., 2007).

And though Elliott (1938) found that tax holidays had a small effect on FDI, they concluded that tax holidays and import duty exemptions were unlikely to attract FDI if no nontax factors were favourable. Fabozzi and Modigliani (1995) Supports this conclusion by stating that incentives will generally not make up for serious deficiencies in the investment environment nor generate the desired externalities

Musyoka (2012)'s study to establish the relationship between tax incentives and foreign direct investments. The researcher used data for investment incentives, trade related incentives, import duty exemption and FDI inflows for a ten year period. Mean, mode and median were calculated to measure dispersion while correlation and regression analysis to establish relationship between the dependent and independent variables. The results concluded that tax incentives lead to revenue losses by the government, Contrary to popular belief, research shows that in general tax incentives are not often very effective in attracting foreign direct investment (FDI).

Githaiga (2009) Studied the impact of tax incentives on foreign direct Investments inflows of firms listed at the Nairobi. The study involved collection of a time series data on investments and tax incentives from a sample of 10 firms listed at the NSE between years 2008 – 2011. The data was mainly from secondary sources, most attention being focused on annual reports and audited financial statements of the sampled firms. The results were then analyzed to arrive at a conclusion on whether tax incentives have any impact in attracting FDI inflows in firms operating at the NSE. The results of the study revealed a strong relationship between wear and tear allowances and FDI inflows. Industrial Building Deductions and Investments Deductions had no significant relationship with FDI inflows. Despite strong relationship between Wear and tear allowances and FDI, further analysis on percentage change in FDI inflows across the study period shows that the Impact of tax incentives on FDI inflows is insignificant.

## 2.2. Relationship between Liquidity Incentives and Stock Market Performance

There is simply no point in having a price, if there is no liquidity in a market. Cassou (1997) Cited the benefits of reduced risk, higher trading limits, greater credibility in terms of price discovery, and generally better quality capital markets. Friedman (1992) Highlighted that liquidity enables financial institutions such as banks to offer depth of product, and Ian listed the benefits of visibility, greater investment choices, certainty, and confidence in the processes of the market. Stockholders of public listed companies can sell their shares in the open market. This provides investors or company owners with exit strategy and portfolio diversity.

Short-selling is poorly regarded in some African markets, and is restricted, which in turn limits liquidity. But if managed and conducted effectively, it can indeed promote market liquidity. Friedman (1992) Advocates for the development of the securities lending market which allows for the ability to short in a structured fashion. The buy-and-hold investors should be encouraged to lend their stocks. Securities lending does not destroy value in that listed company. It in fact increases its liquidity, as well as generates income for the security lender. Additionally, you cannot have derivative and index markets if securities lending does not exist – they go together (Friedman, 1992).

Empirically, the initial level of stock market liquidity is a robust predictor of economic growth and capital accumulation (Friedman, 1992; La Porta *et al.*, 1998). An extensive microstructure literature on the role of liquidity in price formation process of individual securities is present (Amihud and Mendelson, 1998). Liquidity co-moves with commonality in liquidity with each security traded in the same market (Elliott, 1938; Jordan, 1991).

Mutua (2011) Carried out a study to determine the liquidity of listed shares using panel data and with a census of CSX shares, the researcher found out that by their nature, listed shares are a very liquid product. They can be bought and sold quickly on an exchange platform rather than having to go through the grueling process of having to look for a transferee, and also through the use of a broker at a relatively low cost to other products, all the work is done for you. Trading on an exchange also allows you to sell part of your share parcels rather than having to redeem the whole lot.

Ahn and Cheng (1999) Conclude that Low liquidity is portrayed with a significantly high negative relationship between the spread and market depth. Pagano *et al.* (1996) Observe that greater transparency in the trading process enhances market liquidity by reducing the opportunities for taking advantage of less informed or non-professional participants. Cornell and Sirri (1992) Find market liquidity increasing with information asymmetry as insiders are able to obtain superior execution for their trades relative to the contemporaneous liquidity traders thereby concluding that the presence of informed traders to the market does not necessarily reduce market liquidity.

Leuz and Verrecchia (2000) Investigated the capital market outcomes of increased corporate disclosure activities, the researchers sought to test whether stock liquidity affects acquirer returns through its hypothesized effect on institutional monitoring. They retrieved from Securities Data Company (SDC) on all completed and withdrawn takeover deals between U.S. based firms that involve a public acquirer. Their sample period was from January 1998 to December 2008. The researchers excluded acquisitions for less than 50% of the equity, with a deal value lower than $50 million, or equivalent to less than 1% of the bidder's assets. The research also excludes that leverage buyouts, privatizations, spinoffs, recapitalizations, self-tenders, exchange offers, and repurchases. Their main sample comprised of 4,191 acquisitions for which they analyzed announcement returns. They found out that firms with lower stock liquidity have higher acquirer gains for takeovers of unlisted targets, but not for takeovers of listed targets. The relation between liquidity and bidder gains was stronger when the threat of disciplinary trading by institutions was weaker and acquirers had potentially higher agency costs. Acquirers of unlisted targets with lower stock liquidity were more likely to withdraw deals that are poorly received by the market, experience higher involuntary CEO turnover following value-destroying acquisitions, and pay lower premiums. The researchers' results support the hypothesis that stock liquidity weakens the incentives of institutions to monitor management decisions.

## 2.3. Relationship between Growth Incentives and Stock Market Performance

In connection with takeovers, it may be desirable that the shares of the continuing company are listed on a stock exchange. The continuing company may thus use liquid listed shares as payment, in full or in part, to the shareholders in the ceasing company. Those shareholders will be able to make a more informed assessment of the offer if the values are fixed through a trustworthy marketplace (Riley and Luksetich, 1980).

African stock exchanges are seeing a growing demand for new issues. Opportunities to list are increasing with 23 domestic and 2 regional stock exchanges operating on the Continent (Lakonishok *et al.*, 1994). Empirical

evidence suggests that over the last three years, valuations achieved by many private equity exits in Africa via a stock listing yielded a higher return than could have achieved in a private transaction. While private equity firms in the US and in the UK are increasing using IPOs to exit transactions, African Private firms are still dragging their feet, hence lagging behind their feet, hence lagging behind their developed market peers when it comes to using IPOs to exit investments (Lakonishok *et al*., 1994).

Capital intensive companies, particularly high tech companies, always need to raise high volumes of capital in their early stages. After the 1990s and early-2000s hi-tech listed companies' boom and bust in the world's major stock exchanges, it has been much more demanding for the high-tech entrepreneur to take his/her company public, unless either the company already has products in the market and is generating sales and earnings, or the company has completed advanced promising clinical trials, earned potentially profitable patents or conducted market research which demonstrated very positive outcomes. This is quite different from the situation of the 1990s to early-2000s period, when a number of companies (particularly Internet boom and biotechnology companies) went public in the most prominent stock exchanges around the world, in the total absence of sales, earnings and any well-documented promising outcome. Every year a number of companies, including unknown highly speculative and financially unpredictable hi-tech startups, are listed for the first time in all the major stock exchanges – there are even specialized entry markets for these kind of companies or stock indexes tracking their performance (Cornell and Sirri, 1992).

Realization of a company's commercial potential requires a capital base, which often exceeds the company's existing capabilities. Listing creates greater access to unlimited capital resources. As the company develops, it can raise further capital through the issue of new shares (Cassou, 1997).

Sundaram (2011) Conducted a research to understand the market of mutual funds in India and examined the factors that not only influenced its growth but also affected the different stakeholders in the market. It was observed that mutual funds were forced to face a large number of factors that certainly turned out to be barriers in their growth process.

### 2.4. Relationship between Visibility Incentives and Stock Market Performance

Cassou (1997) Carried a study to investigate on whether listed companies attain visibility incentives verses the unlisted companies. The researcher found that a listed company is more visible than an unlisted one. The researcher further argued that, the media constantly follows the developments of listed companies. Efficient electronic information distribution channels can be used for press releases. Daily price information in printed media serves as constant reminder of developments among listed companies.

The issue of the 'safety of our investments' is the main barrier (Friedman, 1992); whether its Zimbabwe or Zambia, institutions will invest, but they need to know there is stability. The regulatory framework can, therefore, be seen as a big barrier – investors may see good opportunities but may not even invest in the first place if they have concerns about legal and structural obstacles that will "prevent them getting their money out."

Cassou (1997) Posits that a public listed company always receives more publicity and media attention than a private enterprise, the perception of a company amongst its vendors, employees, bankers and customers can significantly alter the destiny of a company.

Lakonishok *et al.* (1994) Asserts that, going public enhances your company's visibility. Greater public awareness gained through media coverage, publicly filed documents and coverage of your stock by sector investment analysts can provide your company with greater profile and credibility. Ultimately, this will result in a more diversified group of investors following your company, which may increase demand for your company's shares and thus increase your company's value.

In a global economic order, building a strategic alliance with complementing strength can greatly enhance the competitiveness of a company. Being a listed company can help enhance strategic strength of the company thereby contributing to continuous business expansion and the strengthening of it operations. A listed company will be viewed to be more competitive than a none-listed one. It will generally have a board of directors that transcend all the strategic sectors and geographical zoning (Sundaram, 2011).

Since CMA and NSE scrutinize listed companies before approving listing status they generally present a positive public image Kukreja (2012). To a certain extent, listed companies are also perceived as being financially healthy as well as carrying out transparent information disclosure. This image may play an important role in boosting the firm's credibility, increasing its bargaining power, and indirectly building awareness and popularity with regard to its products and services.

Many institutional and individual investors prefer investing in public companies since they have a built-in "exit strategy," that is, they can sell their shares in the public market if they choose to do so. Many private companies that were about to be bought out by other bigger entities went public to be purchased at a much higher price (Khanna, 2009).

A growing body of literature investigates the capital market outcomes of increased corporate disclosure activities (Khanna, 2009; Leuz and Verrecchia, 2000). In essence, the literature suggests that improved disclosure reduces information asymmetries among investors and increases market liquidity by leveling the playing field among investors (Capital Markets Authority, 1995). However, increased corporate disclosure is associated with significant costs that firms have to bear. For example, stricter reporting rules require significant preparation and dissemination of accounting reports. Also, voluntary provided information to capital markets can reveal proprietary information to competitors.

Thus, firms will have incentives to improve their disclosures only if benefits exceed the costs of increased disclosures. The costs of increased disclosure can be particularly burdensome for smaller, more thinly traded firms. For example, many costs associated with stricter mandatory reporting requirements are fixed and smaller firms cannot use economies of scale easily to reduce them. As a result, the majority of smaller firms opt to move to less regulated markets rather than to comply with more stringent required disclosures (Shleifer and Summers, 1990; United Nations UNCTAD, 1998).

Financial visibility is defined by Jordan (1991) as a measure for asymmetric information: it is the ability of a firm to attract an adequate level of investor interest and recognition (analyst coverage). As a consequence, a negative relationship is assumed between the degree of financial visibility and the decision to go private. Another way to assess investor interest is to examine the liquidity of the stock and the related trading costs. As demonstrated by many studies and models (Amihud and Mendelson, 1998; Levine and Zervos, 1998; Riley and Luksetich, 1980), the liquidity of share trading is a primary benefit of going public. As a consequence, if the stocks' liquidity benefit deteriorates, the firm will be more likely to go private.

Finally, the ability to share risk with public investors is also a primary benefit derived from being a public firm. Grenadier and Wang (2005) showed that when a controlling shareholder has superior information about the return distribution of a firm's assets, public status is appealing because it allows the risk to be shared more efficiently with the public investors (investors eliminate idiosyncratic risk by maintaining well-diversified portfolios). Conversely, a firm can go private when the idiosyncratic risk is low and public status no longer provides a risk-sharing advantage.

## 2.5. Relationship between Investors' Perceptions and Stock Market Performance

Collier (1993) Explored the perceptions and behaviors of the small investors towards the mutual funds and also suggested some measures to increase the quantum of investors and investments as well. The research revealed that that the personal profiles of investors such as age, educational qualification, profession, annual family income and quantum of monthly savings have direct influence over the investors in making mutual fund investment decisions.

Riley and Luksetich (1980) Conducted a study on investment behaviour of individual investor in stock market, specifically their attitude and perception with respect to the stock market, the respondents were classified into different categories on the basis of income, profession, education status, sex and age. Primary data was collected from a sample around 50 investors of Ambala District. The results from the study revealed that there are unique factors which affect the investment behaviour of individual investors such as their awareness level, duration of investment etc.

Kabra *et al.* (2010) Studied the factors affecting investment behaviour and concluded that investors' age and gender are the main factors which decide the risk taking capacity of investors (Singh, 1997).

## 2.6. Relationship between Incentives, Investors' Perceptions and Stock Market Performance

According to Simiyu (1992), Investors use both fundamental as well as technical analysis while investing in Indian stock market. The respondents in the study strongly agreed that various company fundamentals significantly influenced stock prices in India. The most worthy investment strategies in Indian stock market are buying stocks for which some good news is expected, buying stocks which are expected to announce bonus issue, momentum strategy, and size strategy and following investment behavior of Foreign Indian Investors (FIIs). The widely used investment strategies in Indian equity market are size based strategies, momentum strategies, following FIIs investment behavior, buying stocks on the basis of 30 days moving average and buying stocks on the basis of the relative strength index. It was also noticed that there is a substantial change in investment strategies used by active investors in Indian stock market over the past five years.

Victor (1976)'s study to identify the awareness and perception of the investors' towards hedge funds as an investment avenue with special reference to Gujarat state found that the awareness level regarding hedge funds was very less in the area covered for study. The investors were not aware of the advantage that they could get by investing in hedge funds nor were they aware of the basic functioning of hedge funds. Investors in Gujarat preferred to invest in government securities and fixed deposits of nationalize banks where they had a complete safety of their funds, though they got less returns (Victor, 1976).

Sundaram (2011) Examined the impact of behavioral dimensions of investors in Capital markets and found that investor decisions are influenced by psychological factors as well as behavioral dimensions and this psychological effect is created by the fear of losing money, sudden decline in stock indices, greed and lack of confidence about their decision making capability.

Adams and Mehran (2005) analyzed how investors' psychology changes the vision of financial markets and discussed the consequences of the new view of finance by capital market practitioners-investors, corporate policy makers and concluded with some thoughts on the future development of the capital market theory. Parliamentary Service Commission (2012) analyzed the relationship between retail investor trading behaviour and the cross section of future stock returns. The result suggests that stocks favoured by retail investors subsequently experience prolonged underperformance relative to stock out of favour with them. This results link the systematic component of retail investor behaviour to future returns, i.e., informed investors might begin selling stocks that they believe to be overvalued. The overvaluation that these investors perceived could be driven by changes in firms fundamental values (Levine, 1997).

Rutega (1999) Explored the relationship between various demographic factors and the investment personality exhibited by the investors, empirical evidence suggested that factors such as income, education and marital status affect an individual's investment decision.

Sevil *et al.* (2007) Classified investors on the basis of their demographics, the researcher found the investors' characteristics on the basis of their investment size and the percentage of risky assets to total financial investments had declined as the investor moves up through various stages in life cycle. Further, the researcher noted that investors' lifestyles based characteristics.

Ippolito (1992) States that an investor is ready to invest in those funds or schemes which have resulted in good rewards and most investors' are attracted by those funds or schemes that are performing better over the worst. Shafi (2011) Studied the factors influencing investment decisions in capital markets, the study covered individual investors using convenient sampling method to obtain information from 297 respondents through a modified questionnaire developed by Huberman and Halka (2001). Independent t- test, Analysis of variance (ANOVA) and post hoc tests were employed. The results indicate that the five most influencing factors on investment decisions of investors in Nigeria are past performance of the company's stock, expected stock split/capital increases/bonus, dividend policy, expected corporate earnings and get-rich-quick. Also, the five least influencing factors include religions, rumours, loyalty to the company's products/services, opinions of members of the family and expected losses in other investments. The study found that the socio-economic characteristics of investors (age, gender, marital status and educational qualifications) statistically and significantly influenced the investment decisions of investors in Nigeria.

In Nigeria, the study by IFC/ CBK (1984) found that the ten most influencing factors on investor's decision in order of importance are: motivation by people who have attained financial security through share investment, future financial security, recommendations by reputable and trusted stock brokers, management team of the company, awareness of the prospects of investing in shares, composition of the board of directors of companies, recent financial performance of the company, ownership structure of the company, reputable predictions of future increment in share value and bonus payments.

Sundaram (2011) Conducted a survey of individual investors with the objective to find out what information source investor depends on, the results explained that there are economical, sociological and psychological factors which control investment decisions

Holmstrom and Tirole (1993)'s study on to determine Investors' Perception towards Impact of Macroeconomic Performance on Stock Market Behavior found that the perception of investors differs around on the basis of different factors like age, income, experience of investing, investment objectives and individual social needs. This study involved the presentation of investor's perception towards the impact of macroeconomic performance on stock market behavior.

Fullerton and Marios (1993) Revealed the various risks experienced by investors in corporate securities and the measures adopted for reducing risks, they opined that calculated risk might reduce the intensity of loss of investing. As per their study, many investors were holding shares of those companies that were non-existent. They opined that investors may accept risks inherent in equity, but they may not be willing to reconcile to the risk of fraud. Promoters should not be allowed to loot the genuine investors by their fraudulent acts (Huberman and Halka, 2001).

Gompers *et al.* (2003) Examined the factors influencing investment behaviour and found that classical wealth maximization criteria are the most important to investors, even though investors employ diverse criteria when choosing stocks.

Verrecchia (2001) Assert that an investor has to search through thousands of stocks when making a buy decision, but only the limited number of stocks he already holds when making a sell decision. To the extent that attention is a scarce resource, investors are more likely to buy attention-grabbing stocks than to sell them. Furthermore, since advertising is designed to attract attention, an increase in advertising can temporarily boost firm value by generating more buy orders than sell orders. In a related vein, while advertising almost never portrays the underlying product or firm in a comprehensive and objective manner, investors with limited attention/processing capacity may take advertising at face value and respond overly optimistically, thus resulting in a temporary price overshooting.

Greene (1997) Explored on the influence of customer perceptions from the product market on firms' return characteristics in the stock market, using a unique dataset containing customers' opinions on over 1,200 brands, they found that stocks of companies with prestigious brands have large negative loadings on the Fama-French HML factor. This relation holds after controlling for risk explanations of HML (distress risk and asset irreversibility/growth). This relation, however, does not persist over time: it appears (dissipates) when overall market-wide investor sentiment is high (low); it attenuates as the brand becomes well-known; it varies as customer perceptions vary over time; and it diminishes as institutional holdings increase. Overall the researchers concluded that glamour in the product market appears to partially drive glamour in the stock market.

## 3. Methodology

This part describes the methodology that was adapted in addressing the study objectives. It includes the data collection techniques, research design, sample and sampling procedure, instrumentation, data analysis and techniques. The researchers adopted exploratory research design they sought to seek more clarity from the existing literatures on matters regarding the effects of investment incentives on the performance of stock markets. The population of this research comprised all the available literature on the online web as pertaining incentives and their

relationship with stock market performance. Using key word characters, the search initially identified 93 research papers and after a tentative scrutiny, 66 research papers were selected in a random sampling manner in order to give the birth of this discussion paper. This study relied wholly on secondary data and thus a survey of documented data was applied in acquisition of prerequisite information, literature and background of this research topic. Secondary data constituted information gathered from text books, unpublished and published dissertations, journals and the internet pertaining to the effects of incentives on the performance of stock markets. Secondary data was most favoured than primary data in this research because of its minimized bias, easy of reference, greater speed of knowledge retrieval and within the favourable time limits. Empirical results were then described in line with the empirical literature under review.

# 4. Empirical Results

Empirical studies have found ambiguities and many studies have disapproved the fact that incentives affect stock market performance to the view that it is the investors' perceptions which influence stock market performance instead (Capital Markets Authority, 1996; Hirshleifer, 1995; Lakonishok *et al.*, 1994). A 2002 OECD study revealed that although tax issues will always be taken into account by investors, these are rarely among the most important factors when an investment decision is made (Malkiel, 1977). This means that stock market investment incentives are not the only factors to look at when thinking about motivating investors to make investment decisions at the stock market.

Educational qualification was found as having a significant impact on tax advantages. Investment influences and investment benefits are having high relevance and hence perceptions have higher effects on performance as compared to even those other factors as tax incentives and awareness levels.

The investment climate is especially crucial for determining the effectiveness of incentives in attracting foreign direct investment (FDI). Although lowering effective tax rates helps boost FDI, the effect is eight times stronger for countries with good investment climates.

It has been seen that Nairobi Securities Exchange's Performance increases even when incentives are reduced and this shows that there is no direct notable relationship between stock market incentives and Performance. There is a dichotomy between the importance of incentives as perceived by governments and investors. The investors' perceptions are responsible for stock market performance changes.

Governments believe that incentives strongly influence investment decisions. But for investors, access to domestic markets, a good investment climate, security and stability, skilled labor, and other factors rank much higher than incentives. This dichotomy may be due to the fact that granting incentives is much easier for government officials than is providing a secure and stable political environment, implementing economic reforms, or developing a skilled workforce. The personal profiles of investors such as age, educational qualification, profession, annual family income and quantum of monthly savings have direct influence over the investors in making mutual fund investment decisions.

# 5. Conclusions

The rationale behind granting of tax incentives is to exploit investments opportunities, where tax system is seen as an obstacle. They are also used to improve social welfare of the community for example, granting incentives related to health, education or savings for future use. On the other hand they can also be used to discourage certain activities like overproduction of agricultural produce resulting to instability in prices.

The studies above all depict that although stock market incentives might pump performance upwards, the percentage of that change is very negligible and there is need to search for knowledge on the substantial factors affecting stock market performance. Investors' perceptions have been regarded as the most contributing factors towards stock market performance in majority of worldly stock markets. The investors have been known to portray certain heuristic characteristics which if not taken care of then the normal investor will remain un-motivated and un-known.

From a perspective of fiscal revenue, granting tax incentives to listed companies that would also list without such tax incentives actually simply constitutes windfall profits for the shareholders. Such is not an effective measure as the fiscal revenue is unnecessarily lost. However, it is in most cases impossible to calculate whether a tax incentive actually "bites" (is needed).

Sometimes developing countries want to compensate with low tax rates for a country's lack of fundamental production factors such as skilled labor, infrastructure or commodities. However, the studies above show that in most cases that gap is too wide anyway. Research has shown that there is consistency in the public's deviations from objective risk assessments and that affective/emotional reactions appear to drive both perceived benefit and perceived risk.

Research again has shown that there exist certain economical, sociological and psychological factors which control investment decisions. Such aspects entail: a favourable political environment, favourable loan facilities and a ready liquid in nature market to allow for free entry and exit in the stock markets. The availability, adequacy, and timeliness of relevant information about marketable securities are important for both pricing efficiency and market confidence.

Investment incentives work well in an ideal world to promote investment while investors' perceptions are relevant in the real world. Hence, the stock market incentives are a gift and not a motivator for investors at the stock market

## Acknowledgement

I am greatly indebted to my supervisors' Dr. Willy Muturi and Dr. Sifunjo Kisaka for their suggestions, criticism, comments and constant encouragement throughout the period of this study. Above all, i give all thanks to my family and my employer for their perseverance at times of my isolation to accomplish strict deadlines for this research. Finally, all the glory goes to the almighty god for his blessings and enablement in the long journey of this exciting piece of academic knowledge.

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