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Investment Decisions and Financial Statements Analysis Tools in Tanzania's Commercial Banks

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Abstract
The paper examined Financial Statement Analysis tools (FSTs) and its effect on potential investors' investment decision in banking industry country wide. Specifically, it established the influence of horizontal analysis, ratio analysis and vertical analysis on investment decision. In this study descriptive research design was adopted and employed to draw subject matter conclusion. Data (Secondary) were collected from five listed {Dar es salaam Stock Exchange (DSE)} commercial banks in the country from 2012 to 2021. Data analysis was computed via Statistical Package for the Social Science (SPSS) 25. Positive and significant relationship was found to exist in this study between ratio analysis, horizontal analysis, vertical analysis and the Investment decision. Since financial statement analysis have a huge impact on investment decision the study recommends timely and adequately provision of financial statement by banks and a continuous training on financial statement analysis by investors in order to reduce risks associated with investment.

Keywords: *Investment Decisions, Financial Statements Analysis Tools*

Introduction

In a contemporary competitive business world organizations make too much effort to excel and remain on top of business hierarchy. Competitive edge is a result of too many contributive factors including firm's financial aspect. Investment decision remains one of the key aspects that needs close attention. Ascertainment of organization business operations information including publication of financial statement needs to be done for an investment decision to be made (Maphilipa, 2020). Business operations information disclosure for an organization is likely to attract investors. Notwithstanding the fact that laws and regulations require information disclosure and through it monitor businesses, still many organizations fail to disclose (Berthilde & Rusibana, 2020).

Empirical evidence suggests that a decision to invest (by a potential investor) is largely a result of the availability of financial statement information (Birt et al., 2020). Financial information includes an element of profit, cash flow, assets and all are availed in the financial statement (Ige and Adewumi (2020). Arguably investors' worth may increase as return from investment increase and this can have new investors flowing to an organization as a result of sustainable returns from investments. Hence, in investment decision making financial statement is paramount (Al-Hadrami, et al, 2020).

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Nevertheless, financial statement analysis (FSA) can be an indispensable tool worth reckoning for an investor to be able to interpret and comprehend financial statements. Financial statement analysis remains a potential platform for investors' decision making. Through SWOT - strength, weakness, threats and opportunities can be recognized (Olanyika, 2022). In the end board of directors, management team, shareholder and stakeholders can be of best interest to the financial statement analysis particularly in analyzing profit, growth potentials, cash flows etcetera.

While financial statement analysis remains a proper platform in overseeing business operations for shareholders, management, director's board and other stakeholders alike it is important to comprehend techniques, methods and ways for thorough financial statement analysis. This study explains, discuss and covers in detail vertical analysis, horizontal analysis and ratio analysis. Financial statement information comparison can be of importance for one to make an investment decision. This can be done via horizontal analysis. Horizontal analysis tries to observe changes in financial statement over years. The primary motive of this kind of a model is to check and understand the trends (Ige and Aduwumi, 2020).

Vertical analysis remains a technique and a method in financial statement analysis. Financial statement structure is a core focus in the analysis. This method among other things provides firm financial stability snapshot. Organization value can be seen in this method. Potential investors rely on this method to make investment decision, nevertheless if a firm fails to show actual condition of it in financial statement, it can mislead investors. (Sanyaolu, et al 2020).

The third financial statement analysis method is ratio analysis. Financial ratio analysis is a tool that among other things helps organization to understand financial condition in detail. This can provide a room for organization's weakness, strength, threats and opportunity to be highlighted. All firm's operational cases can be shown under financial ratio analysis method. Risk indicators might be spotted with ratio analysis as well. What, when, who, which, why and how a firm spends its resources can be covered under ratio analysis (Linzzy, Asrizal & Shinta, 2018).

The observation aforesaid on all the analyses -vertical, ratio and horizontal, scholars and researchers concluded that a proper platform toward informed investment decision is financial statement analysis

(Susan, Innocent & Philip 2018). Moreover, another argument on analysis is a way it might help organizations improvement by determining important changes required (Berthilde and Rusibana, 2020).

Banking industry has a bigger role to play in any country's economic growth. Bank lends money to the public and increases money circulation. Shareholders and stakeholders alike all over the world have an interest in knowing how profitable an institution (including financial institution) is, bank growth for instance depends much on investors. Thus, the relationship between investment decision and financial statement analysis is not yet clear and that motivates the researcher to dig deeper.

Commercial banks have to provide financial statement in order to show business position in European countries. Financial statement among other things provide evidence on whether a bank is making profit. The statement should also display some weakness (if any) and way to address it (Birt et al., 2020). Knowledge and skills possession for the preparation of financial statement and analysis is a pre requisite for commercial bank employees in Europe.

On the other hand, in an African context, financial statement core theme is to offer financial information to shareholders and stakeholders (Maphilipa, 2020). Accounting standards always act as an avenue in order to achieve this. The standards depict financial statements preparation; recognition & measurement and presentation & disclosure of Assets & Liabilities. Banks are required to disclose their financial statement for effective investment decision (Berthilde & Rusibana, 2020).

Financial statement analysis and banking sector financial statements countrywide are important for investment decision (Maphilipa, 2020). Nevertheless, different constraints remain as a result of creative accounting and normally financial statements are not detailed enough for one to make a sound investment decision.

In spite of financial analysis tools importance normally investment decision depends on potential investor's ability in making sound and comprehensive rational decisions on a firm's financial statement. Empirical evidence proves in developing countries that commercial banks face too many challenges including inflation, market, financial risk, operational, regulatory and stock instability (Al-Slehat, 2020; Abdulshakour, 2020; Fisseha , 2015).

In the past several efforts were made by scholars to examine the influence that Financial Statement has on potential investors investment decision for example, (Qadri,2020; Abdulshakour .2020; Sanyaolu, 2020; Olayinka, 2022; Berthilde and Rusibana ,2020; Suh, 2017). Nevertheless, other studies such as (Abdulshakour, 2020 and Qadri, 2020) were performed in other countries particularly in Saudia Arabia and UK respectively. Unfortunately, the countries differ with Tanzania on political, social and economic grounds; thus, their findings might not have a proper explanation in Tanzanian environmental context.

Different studies were conducted on this subject and other studies covered different industries other than banking, the studies such as (Nkuhi, 2015 and Suh, 2017). Moreover, other studies were done over a long period of time and may not necessarily explain modern reality, the studies such as (Michael 2013 and Komba, 2014).

Nonetheless, controversial findings on the influence of FSATs on the investment decision have been observed in previous studies. For example, Berthilde and Rusibana (2020) shown positive relationship between investment decision and ratio analysis exists. On the other hand, Sanyaolu (2020) found a negative relationship between ratio analysis and Investment decision. Few studies country wide such as Komba, 2014; were focused particularly on the ratio analysis as FSATs as influence on the Investment decision. Therefore, little is known FSATs influences on the investment decision in Tanzania.

Aforementioned explanations provide a solid ground for carrying out research on the FSATs influence on Investment Decision. The study intended to answer following fundamental research question; what influence does Financial Statement Analysis Tools has on investment decision?

In this study financial statement analysis delved into three variables (Independent variables) namely; Vertical Analysis (VA), Ratio Analysis (RA) and Horizontal Analysis (HA).

Literature Review

This section reviewed theoretical and empirical literature related to financial statement analysis tools and investment decision.

Theoretical Review

Modern Portfolio theory guided this paper by significant margins. Development of the Modern Portfolio theory can be highly credited to Harry Markowitz. The theory demands investor's risk evaluation before an investment decision is made. Up to this point the theory has undergone numerous changes. The theory aims at improvement of portfolio reward and minimization of investment risk (Agala et al, 2014).

The idea therefore is to ensure best possible return by encouraging investors to choose their investment methods carefully. This can be achieved by considering myriad economic factors (Labatt and White, 2002). The theory asserts that stakeholders can use financial reports data to choose and keep an eye on investment portfolios. Higgins (2012), investment profit is the leading factor to take into consideration in making investment decision.

Duru (2012) asserts that apart from the fact that in the financial industry Modern Portfolio Theory has been widely applied nevertheless its fundamental premise is by wide margin questionable. Examining financial reports influence on investment decision-making (as recommended by modern portfolio) in banking sector country-wide is a sole aim of this study.

Empirical Review

Qadri (2020) studied Commercial Banks Financial Statement Analysis in Bahrain. The study employed descriptive statistics, correlation and percentage analysis. Analysis results showed that return on equity and return on asset are negatively correlated and positively correlated with loan to asset. On financial statements contribution in Rwanda banks investment decision making Berthilde and Rusibana (2020) did an analysis choosing bank of Kigali as a case study. The finding revealed vertical analysis, common size analysis and horizontal analysis affect investment decision.

Olayinka (2022) did a study on investment decisions and companies performance assessment via financial statement analysis. He concluded that firms should pay great attention on the use of FSA moreover, he inferred that FSA is adequate platform for effective decision making. Suh (2017) examined Micro Finance Institution Investment Decisions and the role Financial Statement has in it. The study found positive impact of financial reporting on investment decision. Suggestion was made by the study for managers to ensure preparation of financial reports is on time and in accordance with agreed standards.

Sanyaolu (2020) examined the effects that financial statement analysis has on investment decision choosing Nigerian deposit money banks as a case study. The findings suggested that liquidity (P > 0.05) had no significant positive impact, in addition, financial leverage (P > 0.05) had no significant positive impact; and lastly, on investment decisions, profitability (P > 0.05) had a significant positive effect; In conclusion the study found that on investment decision financial statement analysis has a significant positive combined impact. Nkuhi (2015) examined Financial Statements role in Investment Decision Making choosing Tanga Port Authority as a case study. In his study he found financial factors are important in making investment decisions.

Methodology

The study employed descriptive research design (descriptive and inferential statistics) to come to a subject matter conclusion. The study's population target ten listed (Dar es Salaam Stock Exchange) Commercial Banks country-wide. Five banks (CRDB, DCB Commercial Bank, NMB, KCB and MKCB) were selected and ten year's data set spanning from 2012 to 2021. Analysis of data was through Statistical Package for the Social Science (SPSS) 25. Standard deviation and mean interpreted descriptive data in this study. Changes in the past ten years were observed via trend analysis. Relationship of the variables were checked by regression analysis and Pearson correlation.

The study used the equation below

$$\mathbf{ID = \alpha + \beta_2 (VA) + \beta_1 (ROA) + + \beta_3 (HA) + \mu}$$

Where; α = Independent Variables Intercept.

ID = Investment Decision

HA = Horizontal analysis

VA = Vertical analysis

ROA = Return on Asset

μ = Disturbance Term

Rusibana (2020) and Qadri (2020) studies on Bahrain and Rwanda banks respectively was responsible for the formulation of the equation.

Findings and Discussions

In this section presentation and results findings concerning Investment Decisions and Financial Statement Analysis Tools in Commercial Banks in Tanzania were covered. The relationship between investment decision and analysis (Vertical, ratio, horizontal) were presented as specific objectives under descriptive and inferential statistics.

Descriptive Statistics

In this section part ten years (2012-2021) characteristics of vertical, ratio and horizontal analysis and investment decision were observed. Descriptive statistics based on Standard Deviation, Mean, maximum and minimum as presented in table 2.

Table 1: Descriptive Statistics of Study variables

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Asset (ROA)	50	-11	5	1.53	2.847
Investment Decision (Cash invested in Million Tshs)	50	858	559195	52270.61	106134.209
Horizontal analysis (Profit item in Percentage)	50	-917	1286	14.32	234.177
Vertical analysis (Profit item in Percentage)	50	-27	29	13.20	11.773

From Table 1, standard deviation, mean, a maximum and minimum value for the variables were variably explained in figures.

Return on Asset (ROA) demonstrates standard deviation (2.847) and a positive mean (1.53); From the above results the Banking industry Return on Assets (ROA) seems stable for the past ten (10) years as standard deviation is close to three (3). Banking industry has a 1.53 average percentage ROA while 5 is the maximum percentage and -11 is the minimum percentage.

The study demonstrates standard deviation (11.773) for vertical analysis and a positive mean (13.2); The results suggested standard deviation is closer to twelve, by implication in the past 10 years the vertical analysis (Profit item in percentages) contribution to investment decision is positive. Hence, -27 and 29 is the minimum and maximum percentage for profit item respectively while 13.2 is banking industry average profit item it scored from vertical analysis per year.

The study indicates standard deviation (234.177) and a positive mean (14.32) on horizontal analysis, impliedly it depicts on average, banking industry had for the past 10 years -917 minimum and 1286 maximum while 14.32 percentages on horizontal analysis (profit item).

The study demonstrates that standard deviation (106134.209) and a positive mean (52270.61); whereas, 559195 is the maximum and 858 million Tshs is the minimum on investment decision (Cash invested in Million Tshs) impliedly there was an average favorable amount invested per year.

Inferential Statistics Analysis

Regression analysis and Correlation analysis were both focused on making population inferences based on sample provided in this study. The analysis goal is to give subset information and assist in drawing a conclusion. Correlation analysis establishment preceded inferential analysis results for the measurement of the relationship between variables and after which regression analysis was deployed to check on the effect independent variables has on dependent variables. However, investment decision was in logarithm ten.

Correlation Analysis

The purpose of the study was to examine the relationship between investment decision and financial statement analysis tools. The main objective was on the examination of relationship between independent variables (Vertical, Ratio and Horizontal an analysis) and dependent variable (*Investment Decision*) as presented in Table 2.

Table 2: Correlations

		Investment Decision	Ratio analysis	Vertical Analysis	Horizontal Analysis
Ratio analysis	Pearson Correlation	.843**			
	Sig. (2-tailed)	.000			
	N	50			
Horizontal Analysis	Pearson Correlation	.842**	.975**		
	Sig. (2-tailed)	.000	.000		
	N	50	50		
Vertical Analysis	Pearson Correlation	.946**	.872**	1	
	Sig. (2-tailed)	.000	.000		
	N	50	50	50	
Investment Decision	Pearson Correlation	1	.843**	.946**	.842**
	Sig. (2-tailed)		.000	.000	.000
	N	50	50	50	50

**. The significance of the Correlation is at the level 0.01 (2-tailed).

In Table 2, the results indicate significance and myriad coefficient of correlation on each independent variable with the dependent variable.

The coefficient of correlation between vertical analysis (Profit item in Percentage) and investment decision (Cash invested in Million) and (r=.946) was the highest recorded, significant statistically with *p-value* of .000. Impliedly it shows that a unit profit percentage increase would up (favor) investment decision (in term of millions).

Coefficient of Correlation between Ratio analysis (Return on Asset) and investment decision (Cash invested in Million) (r=.843), significant statistically with *p-value* of .000. By implication that means a unit ROA increase would up (favor) investment decision.

Furthermore, the result demonstrates positive correlation between horizontal analysis (Profit item in Percentage) and investment decision (Cash invested in Million) (r=.842), significant statistically with *p-value* of .000. Impliedly that means a unit profit percentage decrease will not favor investment decision.

Regression Analysis

To what extent variables affect each other was the purpose for performing the regression analysis. It was done purposely to see whether the assumption and the model met in this study.

Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947[a]	.898	.893	1.04081	.516

a. Predictors: Ratio analysis, Horizontal analysis, Vertical analysis, (Constant)

b. Dependent Variable: Investment Decision

In Table 3, correlation coefficient of .947 indicated the relationship between dependent and independent variable was strong and positive. The coefficient determination as explained by R-square (.898) established in investment decision linear model accounts only 89.8%. Thus, therefore, in investment decision independent variables account for only 89.8%. The rest 11.2 % of factors that influence Investment Decision is unexplained by the regression model.

The preliminary tests for regression on auto correlation within the models' residuals was done via Durbin-Watson test. Durbin Watson value shows 1(.973) that implies a high negative or positive first-order autocorrelation amongst the models' residual values. Table 4 depicts the Analysis of Variance.

Table 4: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	712.120	3	237.373	219.123	.000[b]
	Residual	81.247	75	1.083		
	Total	793.367	78			

a. Predictors: Vertical analysis, Horizontal analysis, (Constant), Ratio analysis.

b. Dependent Variable: Investment Decision.

Results in table 4, implied that ratio analysis, horizontal analysis and vertical analysis provide a fair prediction of Investment Decision. This was supported by the reported p (0.000) and an F statistic of 219.123.

Independent variables Stimulus effect (i.e., *Vertical analysis, Ratio analysis and Horizontal analysis*) towards dependent variable (*Investment Decision*) was highlighted by simple regression. Table 5 depicts The Findings.

Table 5: Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	.983	.266		3.697	.000		
	Horizontal analysis	.486	.620	.132	.783	.436	.048	20.816
	Ratio Analysis	.174	.642	.047	.271	.787	.046	21.828
	Vertical analysis	2.440	.213	.873	11.446	.000	.235	4.259

a. Dependent Variable: PP

In Table 4.4, the regression model is as follows;

$$\text{Investment Decision} = 0.983 + 0.486(\text{HA}) + 0.171(\text{ROA}) + 2.44(\text{VA})$$

The above model demonstrates that investment decision was only 0.983 when other factors are constant; taking into account the positive constant, impliedly it demonstrates stable investment decision without even independent integration of variables.

Moreover, it was found in the model that the coefficient of Ratio analysis (B_1=.171), impliedly it depicts a unit increase in Ratio analysis (ROA) would increase Investment Decision by .171 and vice versa.

In addition, vertical analysis coefficient (B_2=2.44) implies that vertical analysis percent unit increase in would increase Investment Decision by 2.44. By implication horizontal analysis coefficient (B_3=.486)

demonstrates that Horizontal analysis unit increase would increase Investment decision by .486 and vice versa, whereby all independent variable is statistically significant (p- value is less than 0.05).

Lastly, the results in Table 5, shows tolerance statistics and the VIF values for the variables. Pallant (2013), explained that multicolliniarity assumption is not assumed to be violated by acceptable range if tolerance measure VIF is less than 10(<10) and greater than 0.2(>0.2). The findings in Table 5 demostratred that VIF for all variables is greater than 10, and it is not within the tolerance; with the results therefore, the suggestion is multicollinearity exists between the independent variables.

Findings discussion

Critical discussion is presented in this section and analysis of the key findings obtained from this study. The discussion dwells on the findings from the research compared to others and theory employed.

The influence of that ratio analysis has on investment decision

Return on Asset (ROA)

The study showed standard deviation (2.847) and mean (1.53), this impliedly tells there was stable ROA in the market (Banking Industry) for the period under study (2012-2022). This is in agreement with Morden Portfolio which promotes investors risk evaluation before a decision (Investment decision).

It is arguably correct to contend that stakeholders must have a close eye on their portfolio by always looking at financial reports data. Findings is in line with Higgins (2012) who found some important aspects to consider before making an investment decision. They found investment profitability to be the top most aspect to consider before an investment decision is made. It conqurs as well with Sanyaolu (2020) who found profound profitability effect on investment decision ($P < 0.05$).

Furthermore, the study found correlation coefficient between ratio analysis (Return on Asset) and investment decision (Cash invested in Million) (r=.843), statistically significant with *p-value* of .000. It implies unit increase in ROA would favor investment decision.

The findings concur with Qard (2020) who examined Bahrain's banks financial performance and found the same. Hence, investment decision is influenced by a thorough understanding of ratio analysis.

The influence that vertical analysis has on investment decision.

The study demonstrates highest positive correlation coefficient between vertical analysis (Profit item in Percentage) and investment decision (Cash invested in Million) (r=.946), statistically significant with *p-value* of .000. The findings concurred with Berthilde and Rusibana (2020) who found that ratio analysis and vertical analysis are linked with the long-term investment decision while short-term investment choice is influenced by common size analysis.

Hence, it is arguably correct to contend that investors are given such an invaluable tool for lowering significant risks associated with business establishment and expansion by just having a thorough financial statement analysis understating.

The Influence that Horizontal analysis has on investment decision.

The finding indicated positive correlation between Horizontal analysis (Profit item in Percentage) and investment decision (Cash invested in Million) (r=.842), statistically significant with *p-value* of .000. The findings concurred with Berthilde and Rusibana (2020) who found holding independent variables constant to zero, horizontal analysis and element enhanced ratio analysis in the term investment decision limited by a factor of 0.001 correlated with the long-term investment decision.

The study concurred with Olayinka (2022) who concluded Financial Statement analysis is sufficient for better investment decisions, that investors should be keen and check on FSA frequently and adequately in evaluation of their investment potentials. Furthermore, the findings are supported by Nkuhi (2015) who demonstrated that financial statement analysis (financial factors) is really important for informed investment decisions.

Conclusions and Recommendations

In this study it was concluded that significant positive relationship between exists between horizontal analysis, Vertical analysis and Ratio analysis and Investment decision. Moreover, return on asset (ROA) increase will have a favorable impact on investment decision. Furthermore, banking profit increase will have favorable impact on investment decision.

The study recommends that since investment decisions are largely impacted by Financial Statement Analysis; it will be worthy for businesses to start to work on their business decisions ensuring provision of timely, adequately financial statement which are not only free from material misstatement but also in conformity with the Accounting Standards.

The study also recommends for Investors, shareholders, different stakeholders to have a knowledge in analyzing businesses for better future investment decisions. Comparisons should be made between banks on year to year and per a particular item for proper understating of businesses and proper returns while minimizing risks. Engaging in that kind of practices would by wider margins strengthen informed investment decision making and in turn increase in economic growth potentials. Moreover, financial analysis examination should be thorough and proper understanding of the meaning, implication and subsequent effects on banks value is required.

The study recommends expansive study to be done in other countries to examine if the study results hold for other nations. Furthermore, the study suggests increase sample years and the inclusion of other factors not covered in this study in the future studies like common size ratio. Moreover, quarterly analysis of data should also be employed and would perhaps provide more data points for the regressions.

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