Critical Success Factors Influencing Investment Decisions of Retail Mutual Fund Investors in Ghana

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Abstract
Ghana’s investment banking industry is proliferating. Every investment bank tries to enhance overall performance and profits and increase market share. While the investment industry has experienced significant growth in assets under management over the past decade, investment banks still strive to understand better critical success factors influencing the investment decisions of retail investors in Ghana. This article overviews key behavioral finance biases prevalent within the African context. It then shares findings from a quantitative study conducted by the researcher, in which data was collected from 341 respondents across nine of Ghana’s 10 regions (at the time). The research found that the top two behavioral biases most prevalent in investor decision-making were herding and availability. Word of mouth/referrals was the most cited channel through which respondents (43.4%) had become aware of investment products they had patronized, supporting the notion that investing in one is based on trust and emotion. When dealing with money, investors will rely heavily on recommendations/referrals. The research also found that (1) the Image and reputation of the company, (2) the number of years the company has existed, (3) Competent and knowledgeable staff, (4) Past performance of returns, and (5) Time it takes to receive funds withdrawn were of most significant importance to Ghanaian investors in choosing which company to invest with. This was irrespective of age, income level, or geographic location. The article concludes with areas for future research.

Keywords: Investor Behavior, Behavioral Finance, Mutual Fund

Introduction
Ghana’s investment banking proliferating rapidly, despite still being in its infancy at just over 30 years. The Ghana Stock Exchange was launched in 1990, while Ghana’s first mutual fund was launched in 1996 by Databank Asset Management Services Ltd. (DAMSEL). By comparison, the first mutual fund was created in Europe in 1774, followed by the first modern-day mutual fund in the U.S. in 1924 and Canada in 1932 (IFIC, 2023). According to the Securities & Exchange Commission (SEC), in December 2014, there were 37 collective investment schemes (36 mutual funds and 1 Unit Trust) in Ghana, with a combined total of GHC 490 million in assets under management (AUM). Of the 37 schemes, GHC 477 million (97%) was invested with 6 companies and spread across 19 investments. By September 30, 2022, Ghana had 85 firms licensed by the SEC as fund managers and 83 collective investment schemes (49 mutual funds, 34 unit trusts). As of September 30, 2022, AUM for Ghana’s collective investment schemes had grown significantly to GHC 6.86 billion, with 93% of
those assets (i.e., GHC 6.3 billion) sitting in only 5 fund management companies and spread across 19 schemes (DAMSEL, 2022; SEC, 2022). The remaining GHC 473 million was invested in 33 schemes spread across 14 fund management companies.

Despite the impressive growth, the number of retail investors on record is woefully small, with the most significant and oldest investment bank recording just over five hundred thousand mutual fund accounts for retail investors (DAMSEL, 2022). If one considers that Ghana’s population exceeds 30 million (Ghana Statistical Service, 2021), it is clear that there remains significant room for growth in the investment industry. However, limited information exists about investor perceptions, preferences, attitudes, and behavior in the Ghanaian context regarding mutual fund investing.

Traditional finance theories assert that investors behave rationally; however, empirical evidence suggests otherwise. Studies by Kengatharan and Kengatharan (2014), Tripathy (2014), and Wamae (2013) indicate that investor behavior can be irrational to the extent that it makes the market unpredictable and further complicates the decision-making process for the individual investor. Behavioral finance, on the other hand, asserts that an investor’s decision to invest is based on a range of psychological, emotional, and cognitive factors. As Aduda et al. (2012) assert, however, empirical assessments of the behavior of individual investors have primarily been done in the U.S. Thus, despite growing literature on individual investor behavior, little has been done to empirically assess individual investor behavior in non-U.S. settings (Aduda et al., 2012). Hence, the researcher believes that if mutual fund companies, using the principles of behavioral finance, can better understand the critical success factors retail (“individual”) investors consider when deciding to invest (particularly in the Ghanaian context), it could help these companies increase market penetration, defend market share and create a competitive advantage. Thus, the research question this article seeks to answer is: What are critical success factors influencing the investment decisions of retail mutual fund investors in Ghana?

This study is designed to provide the Ghanaian investment industry with a framework for understanding key factors influencing retail investors’ decisions to purchase mutual funds using the principles of behavioral finance. Practically, this study first seeks to understand which behavioral finance traits are most prevalent in an African context and then informs fund managers on the key attributes investors will respond to. Additionally, the study further seeks to show the media consumption habits of retail investors in Ghana that are likely to yield the most significant results when marketing. This is expected to guide fund managers in putting proper programs in place to retain and grow their client base. Additionally, it is well known that financial literacy, which extends beyond the promotion of interest rates, is sorely lacking in Ghana. This study will highlight the other factors that are also important to clients, thereby setting the tone for further research on the Ghanaian mutual fund industry.

**Literature Review**

Behavioral finance continues to gain ground as a significant focus area in academic research. It studies how psychology affects financial decision-making and financial markets (Shefrin, 2002). Behavioral finance attempts to use psychology models and theories to describe investor decision-making patterns (Tetteh & Hayfron, 2017) and explain why investors make systematic errors when trying to optimize their market returns (Hunguru et al., 2020). Traditional finance theory is built around three theories: Capital Asset Pricing Model (Sharpe, 1964), Arbitrage Pricing Model (Ross, 1976), and Efficient Market Hypothesis (Fama, 1970, 1991). According to Tetteh and Hayfron, these theories propound that “(1) market participants are rational economic beings who always act in their self-interest to attain optimal decisions, and (2) the market fully, accurately and instantaneously incorporates all available information on the market into stock prices.” However, proponents of behavioral finance heavily criticize these assumptions, arguing that it is difficult for investors to have complete information regarding an investment’s risks and returns to achieve investment success, as there is a myriad of factors that can influence this decision (Hunguru et al., 2020). They further argue that an investor’s decision-making is influenced by age, gender, education, emotions, culture, socioeconomic factors, capital invested, profession, utility maximization, and returns (Tetteh & Hayfron, 2017). Furthermore, Tetteh and Hayfron
suggest emotions and feelings exert such a powerful force that they can override the ‘rational’ reasoning and negatively affect financial and investment decision-making.

Asamoah et al. (2020) further suggest that individual (retail) investor behavior differs from institutional investor behavior because four main biases affect individual investor behavior: heuristic, prospect, market, and herding. They posit that these biases are reflected in 10 different behaviors, which comprise the multidimensional construct called investor behavior. **Herd behavior** occurs when people follow the crowd even though private information suggests otherwise. **Loss aversion** considers the investor’s propensity to favor loss avoidance rather than making gains. **Mental accounting** looks at how individuals coordinate, evaluate and monitor financial behavior. **Overconfidence** occurs when investors overestimate the precision, performance, and capacity of their knowledge. **Overreaction** looks at the excessive response of investors to new knowledge about security resulting in a significant price shift such that the price no longer reflects the investment’s intrinsic value. **Underreaction** occurs when investors use exceptional past events to predict the future, causing them to underreact to current news. **Portfolio diversification** is where investors spread their money across various assets to minimize investment risk. **The trading frequency** occurs when investors use computer programs to execute multiple orders simultaneously. **Excessive trading** refers to the excessive purchasing or selling of investments. **Portfolio switching** occurs when investors switch from one investment fund to another and transfer or liquidate investments in pursuit of higher-returning investments.

**Behavioral factors**

A study by Asamoah et al. (2020) indicated the most frequently exhibited behavior by Ghanaian investors was portfolio diversification (34%). This was followed by overconfidence (20%), loss aversion (14%), herding (11%), mental accounting (7%), excessive trading (5%), underreaction (3%), frequency of trading (3%), portfolio switching (2%) and overreaction (1%). According to Asamoah et al., the high incidence of portfolio diversification suggests that Ghanaians are risk-averse. This is essentially the result of certain painful mental accounts they have recorded concerning past investment losses. These findings supported the premise of the loss aversion theory, which espouses that investors are more vulnerable to losses than gains, and the expected utility theory, which looks at how investors make optimal decisions under risk (Kahneman & Tversky, 1979).

A separate study by Tetteh & Hayfron (2017) of Ghanaian investors confirmed the existence of six critical behavioral biases that suggested the Ghanaian investment market is not efficient and psychological biases and prejudices significantly influence individual investors. The most prevalent was representativeness bias (50.39%), implying investors prefer to select investments that, in their estimation, perform better than other investments. This was followed by availability bias (42.76%) which looks at the likelihood of investors following new trends and information in the market. The other biases that were identified were risk aversion (40.02%), mental accounting (35.85%), anchoring (35.66%), and overconfidence (35.17%). Anchoring looks at the investor over- or underestimating the performance of an investment by using a specific investment or incident related to it as a reference point (Tetteh & Heyfron, 2017).

These findings align with several other studies. A study by Kartasova (2013) illustrated that overconfidence, anchoring, mental accounting, and behavior had the most decisive influence on financial decision-making. A study by Hunguru et al. (2020) of investors in Zimbabwe showed that the most prevalent behavioral factors were herding, regret aversion, and loss aversion biases. The six remaining biases included in that study (anchoring, availability, gambler’s fallacy, overconfidence, mental accounting, and representativeness) were shown to have a positive but moderate impact. A study of investors in Nairobi also showed a high propensity for herd behavior, regret aversion, overconfidence, and anchoring (Aduda et al., 2012). Aduda et al. revealed that Kenyan investors were heavily influenced by family and religious affiliations more so than the financial performance of the companies – a clear indication of herding behavior – and a firm reliance on the past profitability of companies irrespective of their riskiness. Additionally, the availability of good information in the public space on the prospective investment was attributed to 77% of investors who opted to invest, irrespective of the company’s eventual performance, another sign that the publicity of investments easily sways investors. Another study by Mbaluka (2008) showed that many investors failed to adjust their portfolio mix despite an unattractive macroeconomic outlook that indicated a change was required.
Demographic Influences
An investor’s decision is also impacted by their demographic profile. Hunguru et al. (2020) posit that the effects of behavioral biases differ for various investor types based on the market conditions and the demographic profile of the investor. For example, Kaleem et al. (2009) and Jain and Mandot (2012) assert that age, gender, marital status, income, language, education, and market knowledge all significantly influence the investment style and decision-making process of an investor. Aduda et al. (2012) purport that men are more prone to overconfidence than women, particularly in male-dominated areas such as finance. Men have been found to trade 45% more than women, thereby reducing their returns compared with women.

Cultural Influences
Aduda et al. (2012) suggest that cultural influences play a role in an investor’s decision-making process. Aduda and his colleagues posit that Hofstede’s cultural dimension of individualism–collectivism can help to explain this cultural impact. They further posit that “African cultures tend to lean towards a more socially collective paradigm than compared with Western cultures. In African cultures, family or group members will step in and help out-group members who encounter large, catastrophic losses. In individualist Western cultures, a person making a risky decision is expected to personally bear the adverse consequences of their decisions” (p. 38). Aduda et al. espouse that collective-oriented societies make allowances for the social diversification of risky decisions in much the same way they would justify purchasing an insurance policy. This in part, is based on the perception of catastrophic loss by African and Western cultures, where Stulz and Williamson (2003) assert that these cultural differences also affect investor protection.

Advertising Influences
The essence of advertising is to create brand awareness and influence an individual’s preferences and selection of products or services (Chukwu et al., 2019). Kotler and Keller (2012) suggest that as individuals are exposed to 3,000 advertisements per day, advertising practitioners must use various tactics to cut through the cluttered advertising scenario of the modern world. The authors share that in the US in 1960, a company could reach 80% of US women with one 30-second commercial aired simultaneously on three TV networks, for example; today, the same ad would have to run on 100 channels or more to achieve this marketing feat. Consumers not only have more media choices, but they can also decide whether and how they want to receive commercial content. Additionally, Steenkamp (2019) cautions that as the world continues to become increasingly interconnected, these interconnections influence individuals’ worldviews. Steenkamp explains that in the not-too-distant past, consumer culture was “overwhelmingly, if not exclusively, local in content. However, in the last decades, consumer culture has been increasingly shaped by globalization processes” (p. 3).

Haslem (2012) notes that both sophisticated and unsophisticated investors continue to invest in actively managed funds, even when they underperform. The suggested reason was that actively managed funds historically spend large amounts on advertising because they know it increases AUM as investors chase past performance with the mistaken belief that it is a predictor of future performance. He asserts that Funds increase advertising spend even more when current past performance is high. Haslem further suggests that advertising encourages individual investors to select specific funds because investors are generally unsophisticated, uninformed, and have low financial literacy, including poor knowledge of fund expenses and fees. Danquah (2012) asked respondents in Ghana to what degree each of the following five factors influenced them the most to invest in mutual funds. The responses were: (1) Self-evaluation and decision (75.2%), Friend’s suggestions (64.4%), Brokers and Agents (33.7%), Newspapers and Magazines (26.7%), and Television and commercials (19.8%). Most respondents either did not or were not willing to admit that their decision to invest was influenced by advertising, whether via television, commercials, newspapers, or magazine.

It is against the background of the literature review conducted that this article seeks to share potential critical success factors, including media consumption habits, that could help investment companies effectively market their mutual funds to retail investors in Ghana.

Methodology

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A quantitative study for this research was conducted in Ghana. The research population comprised Ghanaians across all regions, with emphasis on the economic (or “golden”) triangle, which is defined by the major southern cities of Accra (the capital), Kumasi, and Takoradi. Based on the 2010 Population and Housing Census, these cities were deemed to be the most populous and have the highest literacy rate in the country. In selecting the study population, the researcher sought to get representation from individuals residing in urban areas who are literate (i.e., able to read and write in English) and are either tertiary students, salaried workers, or business owners. The researcher also targeted individuals desirous of saving but either do or do not currently invest in mutual funds. Due to time and resource constraints, the researcher used convenience sampling to select staff, clients of Databank as well as personal contacts. Snowball sampling was then used to expand the survey’s reach to get better representation from across the regions.

The questionnaire’s content reviews past annual investor surveys conducted by Databank from 2015 to 2017, along with feedback gathered from a series of semi-structured interviews conducted with select mutual fund investors. The questionnaire consisted of open-ended as well as close-ended questions as the means of primary data collection. The questions sought to establish the factors that potential and existing investors deem critical when selecting a mutual fund company. The close-ended questions were developed on three-point Likert scales with answers ranging from 1 (Very important, will consider) to 3 (Not very important, will not consider). The open-ended questions were designed to extract information about each individual’s media consumption habits. The questionnaire was distributed online, and three hundred and forty-one (341) responses were received.

This study was limited to retail (individual) investors who were already existing mutual fund investors or had the potential to be. Institutional/pension clients were not considered as part of the study. Additionally, while there were responses from individuals living in all 10 regions in Ghana, 82.8% of responses came from the Greater Accra (63.7%), Ashanti (14.7%), and Western (4.4%), regions. The study was also limited by the time allotted to administer the questionnaire. The survey was administered between April 28 and May 5, 2018. When the survey was conducted, returns on most mutual funds were quite strong, and Ghana’s equity market was one of the top-performing markets in Africa. As such, investor sentiment around mutual fund investing was quite upbeat. Had the survey been administered in a bear market, the results might have differed from what was obtained.

Findings

Profile of Respondents

Of 341 respondents, 220, representing 64.5%, were male, while 121 (35.5%) were female. Approximately 90% of respondents were between 18 and 40 (18-30: 58.4%; 31-40: 31.9%). 7.0% of respondents were between 41 and 50, while 2.6% were above 50. 80% of the respondents had either a graduate degree (54.3%) or a post-graduate degree (26.1%). 2.6% of respondents had completed only SHS, 8.8% held diplomas, and 8.2% held professional degrees. Most respondents, despite holding graduate and post-graduate degrees earned less than GHC 20,000 per year. 43.7% earned less than GHC 10,000 per year, while 23.0% earned between GHC 10,000 and 20,000 per year. 19.8% earned between GHC 20,000 and GHC 50,000, while 13.6% earned above GHC 50,000. Most respondents were from the Greater Accra and Ashanti Regions, with 63.9% and 14.7% of the responses, respectively. The highest responses came from the Volta region (7.0%) and the Western region (4.4%). The remaining responses came from respondents in the Brong Ahafo, Central, Eastern, Northern, and Upper East regions. The researcher could not get responses from individuals in the Upper West region.

Investment Objectives, Knowledge, and Ownership of Mutual Fund Investments

Respondents identified their top three (3) savings/investment objectives as retirement (62.8%), contingencies/emergencies (58.7%), and investing to fund a project (44.3%). Starting a business and investing in children’s education followed closely with 43.1% and 33.7%, respectively. 85.1% of respondents indicated familiarity with mutual fund investments. 9.1% of respondents said they were not familiar, while 6.2% indicated they were not sure what a mutual fund was. Of the 19 respondents who were unsure what a mutual fund was, 42% still indicated ownership of at least one mutual fund. The inconsistent and negative responses suggest a herding bias and that there is more work to be done on educating Ghanaians about mutual funds in

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general. Furthermore, some of those who invest in mutual funds do not seem to be aware of the actual product type they are investing in, which implies that investors are not fully educated even at the point of sale. The researcher sought to determine what percentage of the respondents went beyond the familiarity of mutual funds and owned at least one mutual fund. 71.6% of respondents owned at least one mutual fund, while 28.4% did not.

Factors investors consider when selecting an investment company
Out of a list of 18 items, the top five factors respondents considered to be very important in choosing which company to invest with were (in order of importance): (1) the Image and reputation of the company, (2) the Number of years’ company has existed, (3) Competent and knowledgeable staff, (4) Past performance of returns and (5) Time it takes to receive funds withdrawn. What was deemed to be not very important to respondents was 1) Allowable expenses of the fund, (2) Size of the assets being managed, (3) Number and location of branches, (4) Minimum initial investment, and (5) Comfortable/attractive banking hall.

Media consumption habits
Respondents were asked to list the top two (2) TV stations they watch the most. TV3 was the most watched station with 46% of respondents naming the station. This was followed by GH One (22%), GTV and UTV (18% each), and Joy News at 13%. 6% of respondents indicated that they do not/rarely watch TV. Respondents were then asked to list the top two (2) radio stations they listen to the most. As 63.9% of respondents are based in the Greater Accra region, the responses were skewed to Accra-based radio stations, though many of the major stations also broadcast all or part of their programs simultaneously in other regions. Citi FM had the highest percentage of listenership at 41%, Joy FM followed at 38%, and Peace FM at 19%. YFM, Adom FM, and Sunny FM rounded out the top 6 with 10%, 8%, and 8%, respectively. 3% of respondents indicated that they do not/rarely listen to the radio. Respondents were asked to indicate the newspaper that they read the most. The response was overwhelming in favor of Daily Graphic. Of the four major papers named by respondents, 62% indicated Daily Graphic as their newspaper of choice. 19% indicated Business & Financial Times. This was followed by Daily Guide and the Mirror, both of which were named by 7% of respondents. Only 3% of respondents cited online news channels such as myjoyonline or Ghana Web as their go-to source for news. 5% of respondents indicated that they do not read the newspaper. For social media, respondents were provided with five of the most popular social media platforms and asked to indicate how often they used each platform. Usage options were daily, 2-3 times per week, a few times a month, or not at all. The platforms with the highest daily usage were WhatsApp and Facebook, which had usage of 98% and 59%, respectively. Twitter, Instagram, and LinkedIn were used most by respondents only a few times a month. Twitter had the highest incidence of non-use at 26%.

Discussion and Recommendations
Following the analysis of the data, it was found that the top two behavioral biases that were most prevalent were herding and availability. Word of mouth/referrals was the most cited channel through which respondents (43.4%) had become aware of investment products they had patronized, supporting the notion that the decision to invest is based on trust and emotion. When dealing with money, investors will rely heavily on recommendations/referrals.

This research zeroed in on the top 10 factors Ghanaian investors considered to be very important in choosing which company to invest with. The top five (in order of importance) were: (1) the Image and reputation of the company, (2) the number of years the company has existed, (3) Competent and knowledgeable staff, (4) Past performance of returns, and (5) Time it takes to receive funds withdrawn. This was irrespective of age, income level, or geographic location. The researcher believes the selection of items 1, 2, and 5 was likely influenced by the current instability and liquidity issues prevailing at the time of the survey in the financial services industry. The next five factors investors considered important were year-to-date returns, swift and effective handling of complaints, channels available to make deposits, speed of service delivery, and choice/availability of product. The fund expenses, number and location of branches, and comfort of those branches were of the least importance when someone was deciding to invest. The researcher believes that investors typically visit one physical branch to conduct transactions, so there is little thought given to the number of branches available.
beyond the one that they visit. Investors also are more interested in the speed of service than the comfort of the banking hall, as most investors are coming to transact business during working hours and do not have much time to wait. This was an interesting contrast to a survey done on determinants of bank selection among undergraduate and postgraduate students (Narteh & Owusu-Frimpong, 2011), which indicated that the most important factors were (1) minimum deposit required by the banks, evidence of information technology related products, a bank with a large branch network to enhance accessibility, trust, and variety of service delivery. The researcher also discovered that among the majority of investors, the most used communication channel among radio, TV, newspaper, and social media was WhatsApp, with 100% usage and 98% of that daily. This is a clear indicator of the fact that new media is just as powerful as traditional media. Following the guidance of Steenkamp (2019), Ghanaian investment companies should note that local culture remains the major influence on consumer behavior and many consumers prefer local consumption imagery because they more easily identify with local lifestyle, values, attitudes, and behaviors.

The findings reveal there is still a lot more education that needs to be done for retail investors about investing in mutual funds. This should include basic information about the definition, types, and benefits of mutual fund investing. When creating communications about the benefits of investing, the company should deliberately seek to include reference to all or some of the top five influencing factors in every communication (i.e., Image and reputation of the company, number of years the company has existed, competence/knowledge of staff, track record of past performance and ease of access when withdrawing funds). Companies should also seek to maintain a sense of transparency in their dealings by continuing to share information on investment processes, governance structures, and performance. The researcher acknowledges some investors are driven by rates more than anything else and, as such, will not respond to the attributes above. However, investment companies should not renege on this strategy as many investors tend to flock to the safety of proven investment companies bearing the five features mentioned when stories arise of financial services companies collapsing or being investigated by a regulator.

Investors are significantly more interested in having multiple channels to invest versus multiple physical branches to invest. The researcher recommends that investment companies, as part of their marketing strategy, remain cognisant of the key factors that cause customers to switch service providers such as staff behaviors and attitudes, customer relationship management, core service delivery, competitive pricing/fees, and electronic banking alternatives. Knowing that Ghanaian investors are susceptible to availability bias, investment companies should seek to leverage the various media channels that are highly patronized by investors.

It is recommended that further research is conducted on the factors influencing the decision of Ghanaian retail investors to invest in mutual funds. The sample size and the geographic representation of respondents should also be increased to be more in line with the population breakdown per the most recent Housing and Population Census (2021). The research also suggests that further research is done to determine factors that specifically influence retail investors in the informal sector as well as institutional investors.

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