THE INFLUENCE OF INVESTORS' DISTANCE AND CULTURE ON STOCK HOLDINGS AND TRADING: CASE OF LISTED AGRICULTURAL COMPANIES AT NAIROBI STOCK EXCHANGE

BY

NDERITU FR4NCISCA WANJIKU

D61/P/ 7092/03

A MANAGEMENT RESEARCH PROJECT PROPOSAL SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE

SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

SEPTEMBER, 2008

DECLARATION

This research project is my original work and has not been presented to any institution for any academic award whatsoever.

Signed.. . . . . .Date. . . . . .\c.\.:ttt. . A .Vrr. .^rr.O.W.
Name: NBERJTU FRANCISCMVANJIKU

This research project has been carried out, examined, and submitted under my supervision as th&university supervisor.

Signed:. . . . .f l ^ ^ ^ . l ^ D a t e......
Supervisor: MR.BARASA JOSEPH LUMUMBA

ACKNOWLEDGEMENT

First and foremost is my gratitude to the Almighty God for the gift of life, resources, a sound mind and everything else that enabled me go through the course and I will be forever grateful.

The support and understanding from my dear husband Gabriel Muigai was immeasurable. The understanding of our adoring children Mary Annie, Jane, Lucy and John especially on the weekends while I was away for classes and CATs was a great source of inspiration to complete the course. To all my lecturers during the entire course, your hardwork and dedication was not in vain. Please allow me to pay a special tribute to the late Mrs. Margaret Ombok for the many Saturdays she woke up early to be in class at 8 am.

This work could not have been a reality without the scholarly assistance, guidance, patience and self sacrifice by my supervisor Mr Joseph Barasa who is also the chairman of the department of finance & accounting. My appreciation also goes to my moderator Mr. Ondigo for his indulgence as we worked to beat the deadline of presentation.

Special tribute also goes to my late father Joachin Nderitu inculcating in me a culture of discipline and hardwork. Thanks also go to my mum, brothers and my late sister for their love, support and keen interest in me.

I equally place on record my appreciation to all the classmates and group members for challenging me in many occasions and their valuable contribution that enabled me sail through the course.

There are many more who contributed in any form and whose list may be endless to publish.

To all of you, may our dear Lord richly bless you.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF ABBREVIATIONS

CMA	Capital Markets Authority
CDS	Central Depository Service
EASRA	East Africa Security Regulation Authority
FDI	Foreign Direct Investment
IPO	Initial Public Offer
MIMS	Main Investment Market Segment
NSE	Nairobi Stock Exchange
SPSS	Statistical Package for Social Science

ABSTRACT

The research explores the influence of investors distance, language and culture on stock holding and trading for listed agricultural companies at Nairobi stock Exchange.
The results of the paper are based on survey conducted on the four listed agricultural firms at Nairobi Stock Exchange. The study was inhibited by slow response rate and difficulties in locating the respondents out of 100 questionnaires sent out 69 were received back.

This being a new research in Kenya and Africa secondary data is not available locally. Primary data acquired was analyzed though percentages mean scores and standard deviation. The t- test was used to assess the significant deviation in the number of specific company shareholder respondents within the locality. .The analyzed data was presented in tables and charts. Findings from the study revealed that shareholders to a large extent are not affected by distance although cultural factors especially the locality of the directors does have some significant influence on the shareholding and trading of Agricultural Companies listed at Nairobi Stock Exchange.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

Investment management once seemed a simple process. In the U.S., well-heeled investors would hold portfolios composed, for the most part, of stocks and bonds of blue chip U.S. industrial companies, as well as U.S. Treasury bonds, notes, and bills. Mirroring the diversity of modern society, the investment environment now makes available a myriad of flavors to the investing public. Investors face a dizzying array of choices. Furthermore, the ability to purchase securities has become both less expensive and more convenient with the advent of advanced communications and computer networks, along with the proliferating market of mutual funds that has developed to serve large and small investors alike. Virtually all types of securities, be they traditional or of recent origin merit at least some discussion Loughran, (2004).

Investment affects virtually every one. An investment process describes how an investor should go about making decisions with regard to what marketable securities to invest in, how extensive the investment should be, and when the investment should be made. An investor needs a plan that directs his or her efforts, that plan is called an investment policy. Investment policy is a combination of philosophy and planning. On the other hand it expresses investor's attitudes toward important investment management issues such as why an investor should invest in a particular company. Some of the factors influencing an investor's choice are distance and culture (Andrews, 1999).

1.1.1 Distance between the shareholder and the head office of a company

Distance between the shareholder and the head office of a company significantly affects investment decisions, French & Poterba, (1991). Even within the United States, resident investors hold portfolios that are biased toward securities of local firms or otherwise familiar firms. Coval and Moskowitz CI999) find that U.S. money managers hold portfolios of companies that are located about 10% closer to their offices, on average, than randomly formed domestic portfolios. This local preference is particularly strong for small, highly levered firms that produce non-traded goods, suggesting that information asymmetry is the basis for the locally biased investment behavior. Coval & Moskowitz (1999) observes local bias behavior among individual investors that attenuates with distant firms' advertising expenditures, also consistent with the familiarity hypothesis. In many ways, local bias in stock investing is not unexpected. Generally investors also tend to be locally biased with respect to investments in employer firms' stock, depositary instruments issued by local banks, tax-advantaged bonds issued by local governments, and residential and commercial real-estate holdings in their communities, Cooper & Kaplanis (1994).

1.1.2 Culture

The term culture derives from an idea of cultivation, mostly of lands but also of goods. The concept evolved to conceptualize human kind's diversity. Hofstede,(1983) defines culture as the collection of relatively uniform and enduring values, beliefs, customs, traditions and practices that are shared by an organizations members, learned by new recruits, and transmitted from one generation of the society to the next. It asserts that we socially construct different understanding of nature and hence, of the reality that surrounds us. An individual's culture is one of the most important factors that influence an individual's way of life which includes an individual's investment behavior, Chatterjee & Lubatkin, (1992). Culture focuses on the values, beliefs and a meaning used by its members to grasp how its uniqueness originates, evolves and operates. Culture has also been considered among factors influencing an individuals investment decisions. Grinblatt & Keloharju, (2001).

1.1.3 Nairobi Stock Exchange

The first stock market is thought to have started at the beginning of industrial revolution in Europe. Many merchants wanted to start businesses that required huge amounts of money, which no single merchant would raise alone. This lead to people coming together pooling their savings and starting business partners. Each partner's contribution represented a unit of ownership (shares). As the need for funds increased, people started informal hawking of shares in the streets of London. This called for an organized market place for the exchange of shares for money. Initially the traders decided to be meeting at coffee house, which they later took over and changed its name to London stock exchange in 1793 AD.

In 1954 NSE obtained its formal constitution. However organized dealings in shares (stock) had been going since 1920; without formal market, rules or regulations to govern stock broking activities. Trading was based on a gentleman's agreement and it was a sideline business conducted by auctioneers, estate agents and lawyers who met in a bar to transact business. Francis Drummond, an estate agent established the first professional stock brooking firm in 1951. By 1952, there were 43 public companies whose nominal value of issued capital was a bout Kenya pound 11.8 Million. In July 1954, NSE was opened voluntarily. An association of stock brokers registered under societies Act with 85 securities listed. At this time, NSE was not a legal entity, a partnership nor a corporation. It had no trading floor and members met through a call over in a local bar. Pricing of securities was determined through negotiation and the association remained exclusively for the European untill1963. In 1971, a capital issue committee was formed under the ministry of finance to regulate and control issuance of new equity and debt securities. In 1975, the government imposed a capital gain tax of 35%.

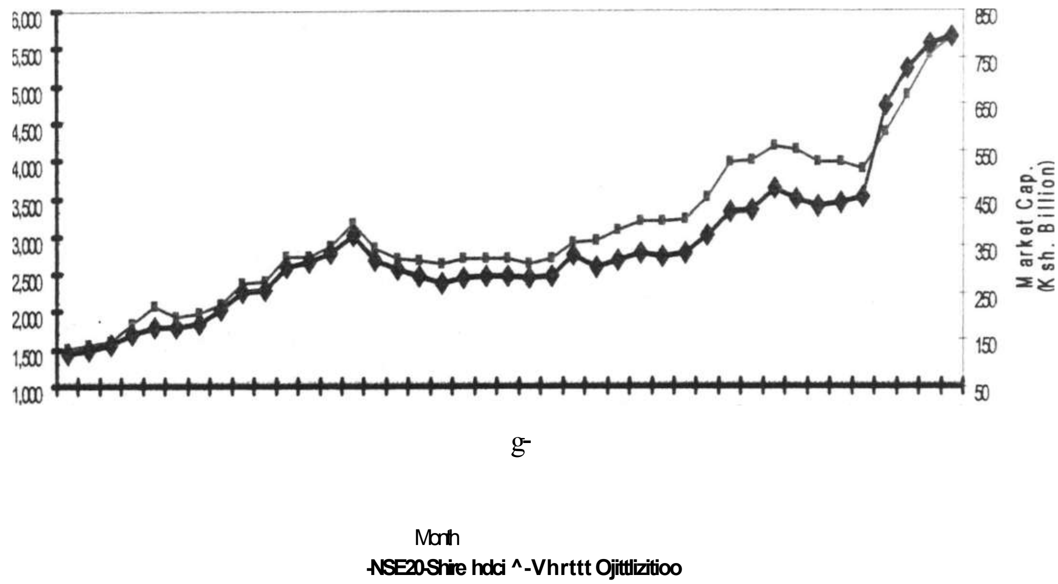
In 1989, the Capital Market Authority Act was enacted which led to the creation of the CMA in January 1990 with the objective of developing the capital market and protecting investors. This was followed by registration of NSE under the companies Act in 1991. In the same year, the call over trading system was faced out in favour of an open outlay system, which resulted in the establishment of trading floor at the Nation house. Eight new stockbrokers were licensed in 1994 (http://www.nse.co.ke, 2008).

In 1995, foreign ownership restrictions in locally controlled companies were doubled from 20% and 2.5% to 40% and 5% for aggregate and an individual limit respectively in the same year the commission charged by stock brokers were reduced from 2.5% to between 2% and 1% on sliding scale for equities and 0.05% for all fixed interest securities. Privatization of Kenya Airways was done through the NSE in 1996 and this was followed by the introduction of incentives to foreign investors in 1998. These included setting up tax-free venture capital funds and removal of capital gains axon insurance companies, investment allowance of beneficial ownership by foreign in local stock brokers and fund managers.

The year 1999 saw Kenya adopt International Accounting Standard, strict entry requirement, employment of qualified personnel and increasing competition a among brokerage firms. Plans were put in place to license a credit rating agency, integrate the three East African Security Regulation Authority. Also, CFC Finance Sendee Ltd became the first licensed dealer at NSE. In the year 2000, the central depository system was put in place leading to incorporation of Central Depository and settlement corporation limited consisting of a consortium of banks, insurance companies. IFC and other financial institution. The year 2001 saw the NSE reorganized into four independent market segments with each having its own listing and eligibility requirements. In the year 2001, cross border listing of East Africa Breweries Ltd in Kenya and Uganda, listing of Mumias Sugar Company, additional shares of ICDC limited were admitted to the official list of NSE.

The NSE currently has 52 equities; 5 corporate bonds; 72 Government of Kenya Treasury Bonds. Figure 1.1 below, is a diagram illustrating the NSE Equity market performance: NSE 20 Share Index & Market Capitalization from 31st December 2002 to 29 December. 2006. The whole market has four main sectors (Agriculture. Financial. Commercial and Industial). The study focuses on four companies in the Agricultural Sector quoted under the Main Investment Market Segment (MIMS) of the Nairobi Stock Exchange. These companies are Unilever Tea (formerly Brooke Bond Kenya Ltd), Kakuzi Ltd. Rea Vipingo Ltd and Sasini Tea and Coffee Ltd. These companies had a market value of KSh 6,903.68m as at 26th August 2008.

Figure 1.1 Stock Market trends



Source: Nairobi Stock Exchange. 2007

1.2 Statement of the problem

Whether an investor is an individual or represent an institution, without a clear sense of why an investment are being made and how long-run goals are to be achieved, he or she is likely to pursue inefficient approach that lead to unsatisfactory results. Investors want their investments to include high returns coupled with little risk. In the investment process, so many factors come into play to determine the investors' choice of stock. According to Grinblatt and Keloharj (2001), some of the factors that influence the holding and trading of stock are distance, language and culture.

Joshua and Makowitz (1999) who did a study on geography of investment found that 68 percent of investors would prefer to invest in a particular geographical location and not everywhere. According to Jun-Koo and Stulz (1997). 78 percent of the investors prefer investing in regions they perceived to be near their ancestral home. This view is true as majority of Kenyans working in the foreign countries, send money to their relatives back in the country to invest it here. In the local scene. Gakuru (2006); carried studies on empirical relationship between trading volume and return volatility at the NSE; Kipsitet (2006); Researched on Dividend policy and ownership structure of firms quoted at the NSE; Mwaura (2006) Carried out a study on mitigation of risk by institutions equity investors at the NSE; Sitienei (2005); Researched on the relationship between liquidity and stock ownership patterns at the NSE respectively. While these studies have important contributions in the related area, they do not address the effects of distance and culture in stockholding and trading at NSE because of contextual and environmental differences, an information gap therefore exist and it is this gap that the study seeks to address by answering the question: what are the effects of distance and culture on stockholding and trading at the NSE?

1.3 Research objectives

The specific research objectives for this study are;

1. Determine the influence of distance between the investor place of residence and the company's headquarters on stock holding and trading by shareholders at NSE.
2. Establish the influence of native language of directors on stock holding and trading by shareholders at NSE.
3. To investigate how the native culture of the directors of listed companies influence investors in holding a stock in the same company.

1.4 Importance of the study

This study is beneficial to corporate managers, brokerage firms, individual prospective investors, institutional investors, financial analysts among others.

Corporate managers will be able to observe the trend of investor and the how culture influences the flow of investment. From this the managers should align there corporation in order to benefit firm such influences. The management will be alerted of cultural effect on investments, other than the traditional risk and returns factors.

Institutional Investors are corporate investors. With continued enlargement of private individual investors, corporate investors have need to note their pattern of investments.

Financial Institutions which finance and intermediate between transactions will learn how-individual investors trend are moving. Upon this they are able to redirect their marketing strategies in order to capture many of these investors' transactions.

The study provides insight into how individual investors' subconscious minds influence their investment decisions. The subconscious minds are shaped by cultural practices. This insight is expected to make them evaluate their investment habits with an aim of improvement.

The study gives insight into how factors such as distance, language and culture influence stockholding and trading at the NSE. This can enable the listed companies take decisions that would encourage investors to buy their shares.

This study contributes to the existing body of knowledge on factors influencing the stock holding and trading. The study is also expected to stimulate research by academicians into this area of factors influencing investor choices at the NSE and other stock exchanges.

Financial analysts now should know that qualitative factors do influence investment flows. Consequently, they should be able to include these qualitative cultural factors into their decision models. Neglect of such consideration would lead to misguided results from analysis.

CHAPTER TWO

2.0 Literature Review

This study is pioneering in East African region. The influence of culture on investor decisions have not been studied before. Consequently, the reviewed studies were done in China, Finland, USA and UK. No study on this topic, known to the researcher, has been done in Africa yet.

2.1 Distance and Investment

Grinblatt and Keloharju (2001) examined the effects of distance, language, and culture on stockholdings and trade within Finland. Specifically, they examined the behavior of Finnish and Swedish investors in relation to Finnish and Swedish firms operating in Finland, using a gravity type equation model. Their empirical evidence suggests that "investors simultaneously exhibit a preference for nearby firms and firms where directors speak same language as investors and same-cultural background as investors" Grinblatt and Keloharju (2001). That is the share ownership weights showed a significant positive relationship with regards to a common language and culture and a negative relationship with regards to distance.

Location significantly affects investment decisions, French & Poterba. (1991). Studies on the association of location and investments are a part of economists' long-running discussion on the effect of location on economies, Isard, (1949). Even within the United States, resident investors hold portfolios that are biased toward securities of local firms or otherwise familiar firms. Coval and Moskowitz (1999) find that U.S. money managers hold portfolios of companies that are located about 10% closer to their offices, on average, than randomly formed domestic portfolios.

This local preference is particularly strong for small, highly levered firms that produce non-traded goods, suggesting that information asymmetry is the basis for the locally biased investment behavior. Huberman (2001) finds that U.S. investors invest disproportionately in their local former Regional Bell Operating Company compared to distant ones; he suggests investors prefer familiar companies in spite of portfolio theory-based rationales for broader diversification.

Zou (2003) observes local bias behavior among individual investors that attenuates with distant firms' advertising expenditures, also consistent with the familiarity hypothesis. In many ways, local bias in stock investing is not unexpected. After all, U.S. investors also tend to be locally biased with respect to investments in employer firms' stock, depositary instruments issued by local banks, tax-advantaged bonds issued by local governments, and residential and commercial real-estate holdings in their communities, Anderson and Beracha (2006). What is intriguing is that local bias in portfolio holdings within the U.S. appears to affect trading activity and pricing of same-city stocks in a securities market that itself is national in scope. For instance, Loughran and Schultz (2004) show that the time zone in which a firm is headquartered conditions intraday trading patterns in its common stock. Similarly, they show that religious holidays and blizzards influence stock trading volume of companies headquartered in affected cities. Hong, Kubik, and Stein (2005) show that local bias may have implications for stock prices in some regions via an "only game in town" effect. Specifically, companies located in areas with relatively few firms per capita appear to be priced up to 12% higher than companies from regions with many resident firms. This suggests that excess demand by local investors drives up share prices of proximate firms when there are few other local stocks in which to invest.

Generally, an investor habitat effect is manifest when certain groups of investors who share a literal or virtual common habitat concentrate their attention on certain classes of stocks. Correlated trading by such investors may result in return comovement that is not attributable to underlying fundamentals or exposure to common risk factors. One Such correlated trading might be induced by privileged access to locally generated information or, alternatively, by rumors or noise trading among local traders who share social networks (Hong, Kubick, and Stein, 2004). Correlated local trading might also be conditioned by local factors that influence investor wealth and stock market participation. Anderson and Beracha (2006), for instance, report that local stock return comovement is higher for firms whose headquarters cities experience rapid residential real-estate price appreciation. This finding suggests that changes in real-estate related wealth spill over into trading of local stocks.

An implicit habitat effect motivates much of the research on integration of international capital markets. Specifically, national securities markets which are segmented from global capital markets are largely the habitats of domestic investors. Integration is inferred to occur following stock market liberalizations when the influence of global investors increases, the relative influence of domestic investors declines, comovement among returns of formerly segmented domestic stocks decreases, and their comovement with global pricing factors increases (Bekaert. Harvey, and Lumsdaine, 2002). The headquarters-city effect among U.S. stocks suggests that such habitat effects can occur within a country.

It has been known that most investors shun foreign stocks in their portfolios, Poterba (1991). This phenomenon, known as 'home bias', refutes the implications about investor behaviour developed in many standard asset-pricing models. Researchers such as Stulz (1981) and Serrat (1997) hypothesized that home bias may be due to restrictions on international capital flows or the non-tradability of some goods across international boundaries. However, recent research suggests that home bias may be part of a large phenomenon in which investors exhibit a preference for familiar companies. These studies were supported by Cooper and Kaplanis (1994).

Simple ratios documenting distance effects

Firm /'s shareowner weight for investors in the municipality of its headquarters

Firm /''s shareowner weight among all investors in Finland

Source: Grinblatt and Keloharju (2001)

The numerato is the number of household shareowners of firm i residing in nth municipality the firm is headquartered in. divide by the sum. across all firms, of the number of shareowners residing in that same municipality. The denominator is the comparable ratio for all Finland. (See appendix 3). The two types of summary statistics for this ratio are the median across firms and the fraction greater than one. In the absence of distance effect, this ratio is one. However, the third row indicates that the median ratio for house holds is 1.81 and for institutions is 1.45. Restricting the set of firms to those headquartered outside Helsinki makes the distance effect stand out even more. The median ratio for households is 12.16 and for institutions it is 8.12. For the more nationally known companies headquartered in Helsinki area, the median ratios are a more modest 1.41 and 1.26 for the households and institutions respectively. The results in the four rightmost columns show that distance strongly influence the active purchase and sales of seasoned stocks for non-Helsinki firms. The results clearly demonstrated that distance influences investor behaviour.

2.2. The impact of location on a firm's corporate actions

There are numerous papers in the corporate finance literature that examine how a firm's location affects the decisions made by the firm. Almazan, de Motta. Titman, and Uysal (2006) find that firms located within an industry cluster tend to have more acquisitions and have lower debt ratios then companies not located within a cluster. Kedia, Panchapagesan, and Uysal (2005) find that geographic proximity affects the stock returns gained by the bidder in an acquisition. They find that transactions where both the bidder and the target firms are local, the bidder receives a higher share of the surplus created. It is proposed that this gain is derived from greater information advantages arising from close geographic proximity. The three authors find that the effect is even stronger when both the target and bidder are located more than 50 km outside of the largest 21 US cities.

Geographic proximity between parties has even been found to affect the duration of contractual agreements. Ciccotello, Piwowar, and Hornyak (2007), using a large sample of US Air Force research agreements, find that parties located in remote rural areas use longer term contracts. The authors propose that the lack of viable alternatives encourages remote firms to lock themselves into the longer term research agreements.

2.3. Location and the dispersion of information

The critical difference between urban and rural/small city stocks is that, by definition, urban stocks are located near many people and hence near many potential investors. For rural and small city stocks, by definition, fewer people and fewer investors are located nearby. We contend that these differences in and of themselves will cause common information to spread from urban to non-urban stocks. There are three reasons to expect information to be spread in this way.

The first reason is familiarity. Investors hold and trade stocks in companies that are familiar to them, and, because they are nearby, urban stocks are local companies and familiar to more people than otherwise similar non-urban stocks. When information that is pertinent to several companies becomes public, investors will first trade the stocks that are familiar to them - which will be urban stocks for most investors. Some recent research presents evidence that familiarity makes investors more likely to hold or trade local stocks. Huberman (2001) shows that customers of the regional Bell operating companies are much more likely to own shares in the telephone *company providing* their service than another telephone company. Coval and Moskowitz (1999) examine the distance from a mutual fund's base to the companies the funds held in their portfolios in 1995. On average, funds were located about 10% closer to the companies they held in their portfolios than to the market as a whole. Ivkovic and Weisbenner (2005) examine the stock investments of over 30,000 households in the continental United States from 1991 through 1996. They find that the average household invests 32% of its portfolio in companies located within 250 miles of it.

Huberman (2001) observes that familiarity, not information advantage is likely to explain why investors overweight nearby company stock. Information would be expected to lead investors to underweight local stocks at times rather than always overweight them. Since urban companies will be local companies and to more people, and thus more familiar, they are more likely to be bought or sold when information that affects multiple companies is revealed.

The second reason to expect information to spread from urban to other stocks is information availability. Background information on individual companies is needed if an investor is to understand the implications of market wide or industry wide news for a company. Smith (1991) notes that information on local stocks is more easily and cheaply obtained by local shareholders. Further, urban companies are local companies for more people.

Evidence that information is more readily available on local stocks comes from several sources. Ivkovic and Weisbenner (2005) find that retail investors earn 3.2% more per year on local stocks than on their other investments. Coval and Moskowitz (2001) report that mutual funds earn significantly higher returns on their holdings of firms located within 100 kilometers of them than on their more distant-firm holdings. These observations, combined with the fact that urban companies are local companies to more people than rural/small city stocks, suggest that information on urban stock is more readily available to more investors than information on other stock.

2.4 Intellectual origins and meaning of culture

Defining "culture" has been of scientific interest for centuries. Kroeber and Kluckhohn, (1952). We rely on the comprehensive, empirically based understanding by Hofstede (1980). He defines culture as collective programming of the mind which is primarily manifested in values and norms, but also more superficially visible in rituals and symbols. This so-called mental programming - also referred to as "software of the mind" - is stable over time and implies the same person showing consistently similar behavior in similar situations. When talking about culture. Hofstede refers to national culture.

In 1871 Edward B Taylor, one of the first anthropologist, introduced the term 'culture' in to the English language, Brown (1998). He defined the word as referring to "that complex whole which includes knowledge, beliefs, art, morals, law, custom and any other capabilities and habits acquired by man as a member of the society". Since the nineteenth century, the anthropologist have enormously elaborated and refined Taylor's original conception of culture.

There are considerable debates concerning the meaning of organizational culture. No such consensus has yet emerged concerning what the phrase 'organizational culture' refers to. There are however a great diversity of opinion concerning the phrase. This is because even before the terms 'culture' and "organization" were used in combination, the term culture had been defined in literary dozens of different ways. Selections of some of the best known and widely promulgated definitions are contained in the following paragraphs.

The term culture derives from an idea of cultivation, mostly of lands but also of gods. The concept evolved to conceptualize human kind's diversity. It asserts that we socially construct different understanding of nature and hence, of the reality that surrounds us. Schwartz and Davis (1981) define culture as a pattern of beliefs and expectations shared by the organizations members. These believes and expectations produce norms that powerfully shape the behaviour of individuals and groups in the organization.

In the international business literature, various accounts have discussed the effect of national culture on financial decision-making. Miller. Horn, & Mejia, (2001). The notion of national cultural has been widely disseminated in the international business literature in general Shenkar, (2001), and there are studies in the intersection of investments and national culture. Clark & Pugh, (2001). perhaps most notably in the foreign direct investment (FDI) area.

The FDI literature is an example of streams of international business studies touching the effects of national culture. In addition to frequency and asset specificity, uncertainty is one of the critical transaction elements that are involved in the economic assessment of FDI. The elements determine the optimal FDI strategy for a firm. Uncertainty is arguably the most important of these for the foreign firm (Calhoun, 2002), and one can expect that cultural and other distances have an effect of FDI decisions.

In examples of contemporary research in the intersection of FDI and cultural distance. Loree and Guisinger (1995) found that culture affects stock trading in United States of America's. Grosse and Trevino (1996) found that culture has a statistically significant negative influence on investments in the USA. Benito and Gripsrud (1992), however, found no support for the view that the first FDI takes place in culturally closer countries than subsequent FDIs.

During the 1990s, economists have begun to study business phenomena taking cultural aspects explicitly into account (Bikchandani, Hishleifer. & Welch, 1992; Lazear, 1999). In one of the studies that address culture's effect on investments, Stulz and Williamson (2001) showed that there is a link between investor protection and culture. They found that the origin of a country's legal system is more important than its language and religion in explaining shareholder rights. Still, a country's principal religion had more predictive power over the cross-sectional variation in creditor rights than a country's openness to international trade, language, income per capita, or the origin of the legal system. The authors showed that Catholic countries protect the rights of creditors less than other countries. Licht, Goldschmidt, and Schwartz (2001) studied the relations of law and culture in corporate governance setting with a cross-sectional sample from around the world. They found that along with legal systems of countries, cultural profiles are associated with practices of corporate governance. As inputs of their analysis, the authors used Hofstede's scores of national culture and scores obtained by one of the authors (Schwartz) from an ongoing project. Their results were consistent between the two sets of scores.

In the international business literature, various accounts pertain to the effect of national culture on financial decisions, as discussed above. Studies have, however, concentrated in areas from which venture capital is distinct, such as foreign direct investments (see Grosse & Trevino, 1996). Results of international business scholars, other management researchers, and financial economists support each other, but do not lend themselves for reliable generalization into the domain of venture capital.

Using data gathered from employees of IBM in 1968 and 1972, Hofstede (1980) developed four indices of national culture that have since become widely used by researchers. Kogut and Singh (1988) formed a composite index based on the deviation of two observations in each of the dimensions, comparing each country in their study with the US ranking. They used Hofstede's scores. Their distance measure was later modified by Morosini et al. (1998), whose formula is used in this study. Numerous studies have investigating if cultural fit plays a role, for instance in the field of mergers and acquisitions (see Weber & Shenkar, 1996). This would seem to make it interesting to check if cultural proximity has effect on venture capital investments. Several researchers have argued that relatedness in acquisitions should enhance post-acquisitions performance (see Datta, 1991).

The study of Morosini et al. (1998) forms is one exception to the general direction of the hypothesis. The authors hypothesized that national cultural distance enhances cross-border acquisition performance by providing access to the target's or the acquiring company's set of routines, such as inventiveness, innovation and decision-making practices, which are embedded in national culture. Indeed, they found a positive association between national cultural distance and cross-border acquisition performance. While several accounts have supported the notion that a small distance facilitates social exchange, the results of Morosini et al. highlight the potential ambiguity and problems in the construct of national cultural distance.

Cultural fit may be of a very high importance in cross-border investments - Weber and Shenkar (1996) even argued that the in acquisitions, the management of the acquiring firm should pay at least as much attention to cultural fit as it pays to strategic and financial considerations. National cultural distance between countries has been associated with, for instance, significant differences in their legal systems, administrative practices and incentive.

2.5 Individualism, Overconfidence, and Self-attribution Bias

Social psychologists make the distinction between what they call individualistic and collectivistic cultures. According to Hofstede (2001), individualism pertains to the degree to which people in a country tend to have an independent rather than an interdependent self-construal, and the reverse is the case for collectivism. Hofstede goes on to say that in individualistic cultures, "the ties between people are loose: Everyone is expected to look after herself/himself and her/his immediate family only" Hofstede

(2001, p. 225). Indeed, starting from their childhood, children in individualistic cultures learn to base their personal identity on themselves Hofstede (2001). In contrast. Hofstede (2001) argues that children in collectivistic cultures learn to base their personal identity on the social system, and Markus and Kitayama (1991. p. 227) suggest that people in collectivistic cultures view themselves "not as separate from the social context but as more connected and less differentiated from others." Gelfand et al. (2002, p. 835) describe the relationship between individualism and self-construal as the following: "The self is served in individualistic cultures by being distinct from and better than others, in order to accomplish the culturally mandated task of being independent and stand out... By contrast, the self is served in collectivistic cultures by being accepted by others and by focusing on negative characteristics, in order to accomplish the culturally mandated task of being interdependent and blending in."

The evidence in the psychology literature suggests that there is likely to be a link between individualistic cultures and overconfidence. For example. Markus and Kitayama (1991) argue that in individualistic cultures people are motivated to think positively about themselves and focus on their own internal attributes, such as their abilities. Moreover, Heine et al. (1999, pp. 769-770) argue that children in individualistic cultures "are encouraged to think about themselves positively as stars, as winners, as above average and as the repositories of special qualities." and as a result, people in individualistic cultures tend to overestimate their abilities. Indeed. Markus and Kitayama (1991) reviewed a relatively large body of evidence from cross-cultural psychological experiments and surveys, which show that while people in individualistic cultures, such as the United States, tend to believe that their abilities are above average, people in collectivistic cultures, such as Japan, do not have this belief. This work was supported by Heine et al. (1999)

There is also a link between individualistic cultures and self-attribution bias, which Zuckerman (1999, p. 245) describes as the tendency of people to "enhance or protect their self-esteem by taking credit for success and denying responsibility for failure." Since "maintaining self-esteem requires separating oneself from others and seeing oneself as different from, and better, than others", Markus and Kitayama (1991, p. 242). people with the independent view of self tend to have higher self-esteem. In contrast to the independent view of self, people with the interdependent view of self do not think that enhancing self-esteem can help them to be more connected to others. It was suggested that, for people with interdependent selves, "seeing oneself as *average*. however, would more likely serve their cultural mandate of maintaining interpersonal harmony" Heine and Lehman (1995, p. 596). As a result, the interdependent construal of self is only weakly related to self-esteem Henie et al. (1999).

Since individualism is said to foster an independent construal of self and collectivism is said to foster an interdependent construal of self, people in individualistic cultures tend to put more emphasis on their self-esteem than people in collectivistic cultures do. Indeed, children in individualistic cultures are educated to care about their self-esteem. In individualistic cultures, "the purpose of education is to enable the child to stand on his or her own two feet," Hofstede (2001, p. 227) and "good educators are supposed to reinforce the students' self-esteem," Hofstede (2001, p. 235). This tendency to maintain and to promote self-esteem in individualistic cultures therefore results in pervasive self-attribution bias as well as overconfidence, Kagicibasi (1997). In a review of the studies on cross-cultural variation in self-attribution bias, Nurmi (1992, p.70) concludes that "this cross-cultural difference (in self-attribution bias) is typically explained by Western individualism and the collectivist orientation of Eastern cultures."

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

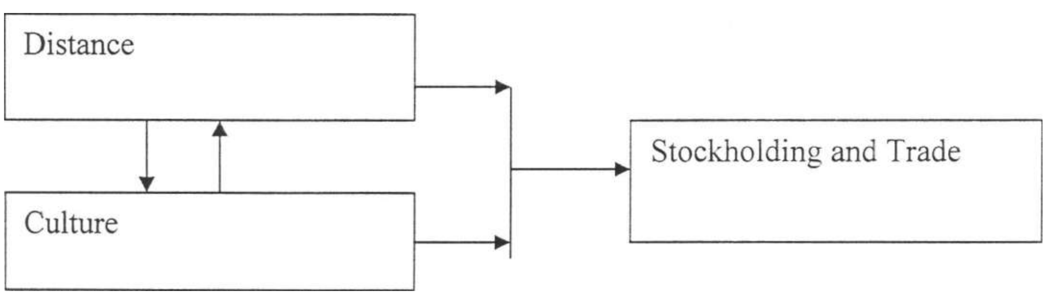
3.1 Introduction

The research methodology sets out the research design aimed at attaining the study objective. This chapter has the following main areas namely: Conceptual framework, research design, Population and sampling, Data collection methods, Research procedures, Data analysis and presentation and chapter summary.

3.2 The conceptual framework

The conceptual framework adopted in this study has been adopted from the objectives of this study and is illustrated in the figure 1.2. The dependant variables are stockholding and trade while the independent variables are distance, language and culture.

Figure 1.2 Conceptual framework



Source: Author (2007)

Distance refers to how far away is the company located from the Nairobi Stock Exchange in Nairobi. Most listed companies from the agricultural sector are found in the upcountry away from Nairobi where majority of the investors are found. In ascertaining the influence of distance on shareholding a t-test was used as follows:

(1)

p = sample mean of shareholders within the locality for agricultural firms
x = shareholders of an agricultural firm within the locality of the firm
a = standard deviation

Culture refers to the influence of factors such as language and traditions of the directors of the listed companies in the agricultural sector. Kenya is known for its diversity in culture. Every body likes to identify with their own language and traditions. Therefore the director's native language and traditions are expected to influence stockholding by the investors who share the same cultural background. The t-test will also be applied in assessing whether there is a strong relationship between culture and shareholding.

3.3 Research design

This will be a case study meant to assess the effects of distance, language and culture on stock holdings and trades in quoted companies operating in the agricultural sector at Nairobi Stock Exchange: The case study design will be adopted in order to allow an in-depth and exhaustive study. The case study was chosen because it significantly contributes to the depth and specificity of the study, Saunders, Lewis and Thornhill **(2000).**

3.4 Population

Cooper and Emory (1995) define population as the total collection of elements about which the researcher wishes to make some inferences. Element is the subject on which the measurement is being taken and is the unit of study, according to Cooper and Emory (1995). The population of interest in this study are the shareholders of the quoted companies in the MIMS board of the Nairobi Stock Exchange operating in the agricultural sector. The agricultural sector is made up of four firms namely Unilever Tea Company, *Kakuzi limited.* Re a Vipingo Plantations and Sasini Tea & Coffee. These companies were chosen because they are agricultural and Kenya being an agricultural country, the companies' nature of business is familiar to many Kenyans.

3.5 Sampling

Sampling design is the determination of who and how many people to interview, what and how many events to observe or what and how many records to inspect, according to Cooper and Schindler (2003). The basic idea of sampling is that by selecting part of the elements in a population, conclusions may be obtained about the entire population, posits Cooper and Schindler (2003). Cooper and Emory (1995) state that the ultimate test of a sample design is how well it represents the characteristics of the population it purports to represent and that a good sample must be valid by being accurate and precise. The population is considered and hence there is no sampling.

Cooper and Emory (1995), state that sampling frame is a list of elements in the population from which the sample is drawn. It is ideally a complete and correct list of population members only. This case study, the sampling frame will be the share registers of all the companies quoted on the MIMS board of the Nairobi Stock Exchange and operating the agricultural sector in Kenya.

A mixture of proportionate stratified and purposive sampling techniques will be applied in sample selection. Each company quoted on the MIMS board of the Nairobi Stock Exchange and operating in the agricultural sector in Kenya will form a strata. Purposive sampling will be taken in each stratum to ensure that it is the individual shareholders that are included in the interview and that institutional shareholder are left out because they are likely to be less influenced by the distance, culture and language.

Cooper and Schindler (2003), state that the size of a sample should be a function of the variation in the population parameters under study and the estimating precision needed by the researcher. A total sample size of 100 shareholders will be interviewed with 25 coming from each company.

3.6 Data Collection Method

For the purpose of this study, primary data will be collected by way of a questionnaire. The questionnaire shall be made up of semi-structured questions. The questionnaire shall have three sections. Section one will contain the respondents bio data. Section two shall contain questions on the effects of distance on stockholding while section three will contain questions on the effects of culture on stockholding. The questionnaire will be self administered by the researcher.

3.7 Data Analysis and Presentation

Data will first to be sorted, edited and coded. Content analysis will be applied to analyse the respondent's views about the factors under investigation. Descriptive statistics will be used mainly to summarize the data. The analysis of descriptive statistics will be done with the help of a computer on Statistical Package for Social Science (SPSS). Section one will analysed using frequencies and percentages while section two and three will be analysed using frequencies, percentages, mean scores and standard deviation. The study will use t-test analysis to test the relationship between distance and culture of the investors and stockholding. The analysed data will be presented in tables, graphs and charts for easier understanding of the information.

CHAPTER FOUR

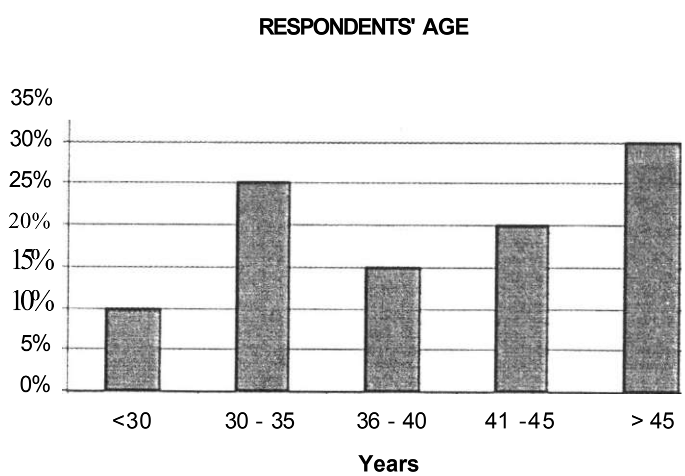
DATA ANALYSIS

4.0 DATA ANALYSIS AND PRESENTATION

Sample Data collected from the shareholders of the four companies in the Agricultural sector quoted on MIMS of NSE namely; Kakuzi, Rea-Vipingo, Sasin, Unilever Tea,, was summarised into four categories namely: i) Age of the respondents, ii) Shareholding duration, iii) Influence of investors distance on local shareholding and trading at NSE, iv) Directors culture influence on local shareholding and trading at NSE and v) Other factors that influence local shareholding and trading at NSE.

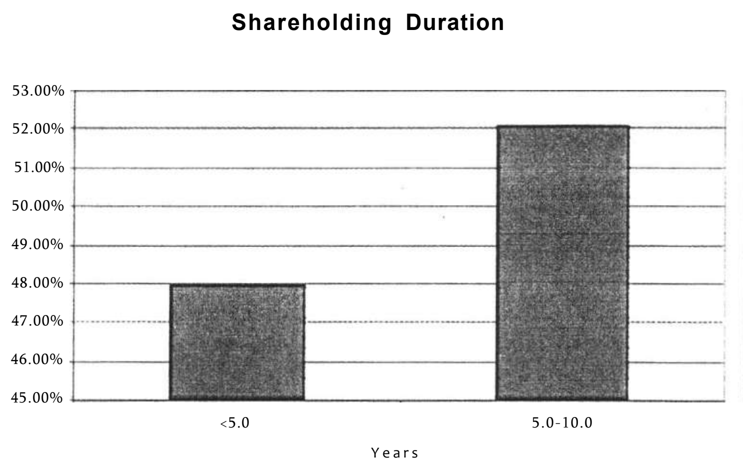
4.1 Age of Respondents

The age of the respondents appeared to reflect a trend in which most of the stock investors are above the age of 30. This is not surprising given that older people have managed to amass greater savings and assets given the number of years worked. Consequently, on the whole, the culture of stock investing is largely with the middle to senior population age groups within the community.



4.2 Shareholding Duration

The respondents who held agricultural stocks appear lo be, for the most part, long term investors; with 52% of the respondents having held their respective shares for more than five years. On the other hand, the general decline in the prospects of agricultural stocks may have also played a significant part in the decision of the respondents to hold the stocks as they did not want to sell off their shares at a loss due to a general decline the stock price level of most agricultural companies over the years. Further, the restraint in selling off maybe in part explained by the existence of social networks (Hong, Kubick, and Stein, 2004) among shareholders from the local community who meet each other often and discourage one another from exiting their positions.



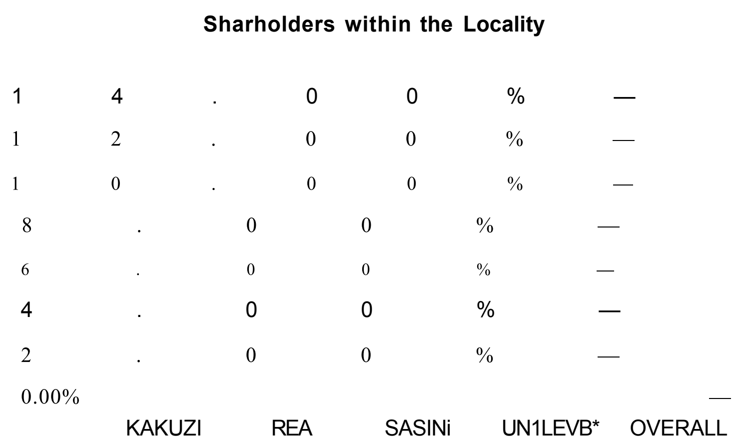
4.3 Shareholders within the Locality - Distance

With regard to distance to company operations, agricultural companies like Sasini and Kakuzi have spread out their operations in various geographical regions in the country and as such they command a larger shareholder following from the locality of their operations. Of the respondents interviewed, 12% of sasini's shareholders were from the locality of their respective plantations. In addition, Sasini has gained a greater urban influence in shareholding by virtue of opening coffee houses in the city centre. Overall, it only 8% of the respondents were found to be within proximity of the locality of the respective firms. As such, distance does not appear to play a leading role in shareholding.

Shareholders within the Locality

	KAKUZ!	REA	SASIN!	UNILEVER	OVERALL
Total Respondents	17	11	21	21	69
% of Respondents within the locality of the firm's area of operation	6.62%	1.44%	11.91%	0.00%	8.22%
t-statistic	0.22	-0.96	1.43	-1.28	0.59
significance at the 5% level (*)					
significance at the 10% level (**)					

Figure 4.3 Shareholding within the Locality-Distance



The t-test was used to assess whether there was a significant deviation in the number of specific company shareholder respondents within the locality from the sample mean of all respondents (overall sample mean) within the locality. In this case the overall sample mean was 8.22%. Based on the agricultural industry averages, the t-statistic did not register significance in the mean deviation at both the 5% confidence level and the 10% confidence level. As a result, distance, as indicated by the proximity of shareholders to the firms' regional headquarters, does not have a significant influence on shareholding of agricultural firms.

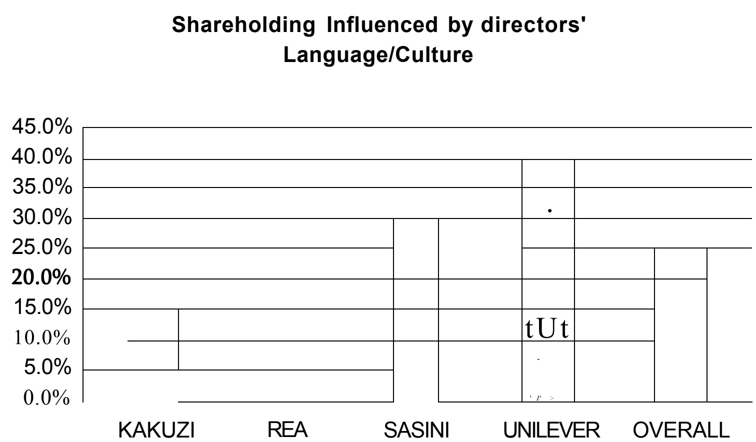
4.4 Directors Influence on Local Shareholding

In figure 4.4 below; the influence of directors from the locality on shareholders within the same localities was found to be largely significant with 24% of the local shareholders acknowledging a direct or indirect influence of a company director in their decision to acquire shares of the agricultural company. Company directorship appears to have had a greater influence in Unilever (40%) and Sasini (30%).

Director's cultural influence on shareholding

	KAKUZI	REA	SASINI	UNILEVER	OVERALL
Total Respondents	17	11	21	21	6S
% of Respondents influenced by company directors culture	12.5%	0.0%	30.0%	40.0%	24.2%
t-statistic	1.56	-1.28	5.55	7.82	4.24
significance at the 5% level (*)			*	*	
significance at the 10% level (**)			**		

Figure 4:4Directors cultural Influence on Local shareholding



The t-test was used to assess whether there was a significant deviation in the number of specific company shareholder respondents that admitted having been influenced by directors from the sample mean of all respondents (overall sample mean) who affirmed that directors played a role in their decision to acquire the respective shares. In this case the overall sample mean was 24.2%. .Based on the agricultural industry averages, the t-statistic recorded significance in the mean deviation at both the 5% confidence level and the 10% confidence level for Sasini and Unilever. In addition, the overall t-statistic was significant at the 10% confidence level. Accordingly, cultural factors, as measured by director's influence on shareholders, have a significant influence on shareholding of agricultural firms.

4.5 Other Factors that Influence Local Shareholding

Over the last two years, there has been tremendous increase in the awareness of the stock market largely as a result of the Government sponsored IPOs - KenGen and Safaricom. Consequently, most of the local shareholders who have acquired shares, tended to have purchased one of the two stocks if not both. This was also influenced by the fact that the locals use the services of these companies on a daily basis and are therefore able to identify with them more as opposed to agricultural companies which export most of their produce to foreign countries. The sawier local investor community pointed to the financial instability of agricultural firms as their main reason for not buying stocks. They argued that agricultural firms' were prone to unpredictable adverse weather conditions and as a result this greatly diminished the certainty of their income subsequently making their stock price very volatile.

CHAPTER FIVE

5.0 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings, Conclusions and Recommendations

The findings partially contradict those of Grinblatt and Keloharju (2001) as it is evident that shareholding is to a large extent not affected by distance although cultural factors namely the locality of directors, does have some significant influence on the shareholding of agricultural stocks listed at the Nairobi Stock Exchange. It is most probable that the directors within the locality have been encouraging the locals to buy shares of the respective listed agricultural company. On the other hand, distance does not seem to play a major role in shareholding decisions because stock purchase decisions are not to a large extent influenced by the proximity to the firms' operations. In many cases, especially for firms whose operations are not near urban areas, the rural communities in those areas tend to be poor and as such are unable to participate in the purchase of stocks. Further in such communities there is very little awareness about how the stock market operates. Many are not able to read and understand annual accounts since they are written in only two languages, English and Kiswahili. Rural communities are not very familiar with the two languages. This is major hindrance to local community stockholding and trading at NSE.

The recently government awareness for Kengen and Safaricom IPOs have increased the interest of the rural populace in the stock market and stockholding. Listed Agricultural companies should publish their Annual Accounts in three languages; English, Kiswahili and one popular local language to enable local people understand the operations of these companies, thus feel motivated to invest their money in local stock.

Government Programme on Poverty Eradication should penetrate more in rural community to raise the Economic wellbeing of the rural poor people to enable them invest in local stock. Listed agricultural companies should strive to improve on their share value by improving their profit margin to encourage investment by local investors. Academicians are encouraged to cany out a similar study on other MIMS namely; Financial, Commercial, and Industrial sectors.

5.2 Limitations

The study has had to rely on stock agents with clients from the respective regions where that house the operations of the listed agricultural firms since neither CMA nor CDS were willing to divulge shareholder information on grounds of client confidentiality. Further, unlike in Finland, where Grinblatt and Kelohaiju (2001) conducted an earlier Research, Kenya does not have a high savings and investment culture, especially in the less urbanized regions where agricultural firms operate. Consequently, the bulk of individual investors are urban dwellers and urban migrants hence shareholding by locals largely took into account urban migrants from the respective regions of operations who had acquired the stocks; since the rural populace is largely poor and unable to afford buying shares. Further, some of the agricultural firms listed, tend to have subsidiaries in various regions and as such there maybe two or more cultures that identify strongly with these companies.

5.3 Suggestion for further research

The findings of the study is hoped to contribute to the existing body of knowledge and form a basis for future research on The influence of Distance, Language and Culture on stock Holding and Trading for the other three MIMS sector listed at NSE namely; Commercial, Finance Investments and industrial sector.

REFERENCES

Almazan, A., A. de Motta, S. Titman, V. Uysal. (2006): "Financial Structure, Liquidity, And Firm Locations," . *Working Paper,* University of Texas.

Andrews, Edmund, 1999, 8 European stock exchanges form alliance, *New York Times,* May,4

Benito, G. R. G., and G. Gripsrud, (1992): "The Expansion of Foreign Direct Investments: Discrete Rational Location Choices or a Cultural Learning Process?" *journall of International Business Studies,* Vol. 23: 461-476.

Bikchandani, S„ D. Hishleifer, and I. Welch, (1992): "A Theory of Fads, Fashion. and Cultural Change as Informational Cascades," *Journal of Political Economy,* Vol. 100, pp. 992-1026.

Bekaert, G., R., H., Campbell, and L.L. Rubin, (2002): "Dating the Integration of World Equity Markets," *Journal of Financial Economics,* Vol. 65, pp. 203-248.

Calhoun, M. A., (2002): "Unpacking Liability of Foreignness: Identifying Culturally Driven External and Internal Sources of Liability for the Foreign Subsidiary," *Journal of International Management*, Vol. 8, pp. 301-321.

Cooper, D. R. and C. W. Emory, (1995): **Business Research Methods,** Irwin. Chicago, USA.

Cooper, D. R. and Schindler, P. S. (2003): **Business Research Methods.**McGraw-Hill-Irwin, New York, USA.

Cooper. L, and E. Kaplanis, (1994): "What Explains The Home Bias fn Portfolio Investment?" *Review' of Financial Studies,* Vol.7, pp. 45-60.

Chomsky, N. (2000): "Knowledge of Language: Its Nature, Origin, and Use," *Perspectives in the Philosophy of Language*, Vol. 5,pp. 195-230.

Chatterjee, S., M., H. Lubatkin, D. M. Schweiger, and Y. Weber, (1992): "Cultural Differences and Shareholder Value in Related Mergers: Linking Equity and Human Capital." *Strategic Management Journal,* Vol. 13, pp. 319-334.

Ciccotello, C., M. Piwowar, M, Hornyak, (2007): "Geography and the Opportunity Costs of Relationship Specific Capital," *Working Paper,* Georgia State University.

Clark, D., and D. S. Pugh, (2001): "Foreign Country Priorities in the Internationalization Process: A Measure and an Exploratory Test On British Firms," *International Business Review,* Vol 10:

Coval, J. D. and Moskowitz. J. T. (1999): "Home Bias at Home: Local Equity Preference in Domestic Portfolios" *Journal of Finance,* Vol.54, pp. 2045-2073.

Datta, D. K. (1991): "Organizational Fit and Acquisition Performance: Effects of Post-Acquisition Integration," *Strategic Management Journal,* Vol. 12, pp. 281-297.

French, K. R., and J. M. Poterba, (1991): "Investor Diversification and International Equity Markets," *American Economic Review,* Vol. 81, pp. 222-226.

Grinblatt, M. and M. Keloharju, (2001): "How Distance, Language, and Culture Influence Stockholdings and Trades," *The Journal of Finance*, Vol. LVI, 3 June 2001.

George, M. H. and Rene St. (eds.j, The Handbook of the Economics of Finance, Publisher North Holland.

Gelfand, M. J., H. Marianne, M. Fumio, Y. Susumu. H. N. Lisa. L. R. Jana, and D. Alexandria, (2002): "Culture and Egocentric Perceptions of Fairness in Conflict and Negotiation," *Journal of Applied Psychology,* Vol. 87, pp. 833-845.

Heine, S. J., and R. L. Darrin., (1995): "Cultural Variation in Unrealistic Optimism: Does the West Feel More Invulnerable Than the East?" *Journal of Personality and Social Psychology* Vol. *68,* pp. *595-607.*

Heine, S. J., R. L. Darrin, R. M., Hazel and K. Shinobu. (1999): "Is There A Universal Need for Positive Self-Regard*?" Psychological Review* Vol. 106, pp. 766-794.

McClure. B. http://click.investopedia.com , Investopedia Advisor.

Hau, H., (2001): "Location matters: An examination of trading profits", *Journal of Finance,* 56, pg, 1959-1983.

Hofstadter.D.R., (1979). **Godel, Escher, Bach:An Eternal Golden Braid.** New York: Random House.

Hofstede, G., (1980): **Culture's Consequences: International Differences in Work-related Values,** Sage Publication: Beverly Hills, CA.

Hofstede, G., (1983): "Dimensions of National Cultures in Fifty Countries and Three Regions," in Deregowski, J. B., S. Dziurawiec, and R.C. Annis (Eds.), **Expectations in Cross-Cultural Psychology,** Lisse, Netherlands: Swets and Zeitlinger.

Hofstede, G., (2001): **Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations,** 2nd edition, Sage Publication: Beverly Hills, CA.

Hong, H., D.K. Jeffrey, and C. S. Jeremy, (2004): "Social Interaction and Stock Market Participation," *Journal of Finance,* Vol. 59, pp. 137-163.

Huberman, Gur, 1998, Familiarity breeds investment, Working paper, Columbia University.

Ilmanen, Matti, and Matti Keloharju, 1999, Shareownership in Finland, *Finnish Journal of Business Economics* 48, 257-285.

Ivkovic, Z., and S. Weisbenner, (2005): "Local Does As Local Is: Information Content of The Geography of Individual Investors' Common Stock Investments," *Journal of Finance* Vol. 60, pp. 267-306.

Jones, G. K., and H. J. Teegen, (2001): "Global Rand D Activity Of U.S. MNCS: Does National Culture Affect Investment Decisions," *Multinational Business Review*, Vol. 9, pp. 1-7.

Kedia, S., V. Panchapagesan, and V. Uysal, (2005): "Geography and Acquirer Returns," *Working Paper,* Rutgers Business School.

Kogut, B., and H. Singh, (1988): "The Effect of National Culture on The Choice of Entry Mode," *Journal of International Business Studies,* Vol. 19, pp. 411 -432.

Kock, Gunhard, 1995 and 1996, *Porssitieto* (Porssitieto Ky, Helsinki, Finland).

Loughran, T. and S. Paul, (2004): "Weather, Stock Returns, and the Impact of Localized Trading Behavior," *Journal of Financial and Quantitative Analysis* 39, 343-364.

Loree, D. W., and S.E. Guisinger, (1995): "Policy And Non-Policy Determinants of *U.S. Equity Foreign Direct Investment,'" Journal of International Business Studies*, Vol. 26, pp. 281-299.

Markus, H. R. and Shinobu K., (1991), "Culture and the self: Implications for Cognition, Emotion, and Motivation," *Psychological Review* Vol. 98, pp. 224-253.

Miller, J. S„ P. W., Horn, and L. R. Gomez-Mejia, (2001): "The High Cost of Low Wages: Does Maquiladora Compensation Reduce Turnover?" *Journal of international Business Studies,* 23: 585-596.

Morosini, P., S. Shane, and H. Singh, (1998): "National Cultural Distance and Cross-Border Acquisition Performance," *Journal of International Business Studies,* Vol. 29, pp. 137-158.

Morosini, P., and Singh, H. (1994), "Post-Cross-Border Acquisitions: Implementing 'National-Culture-Compatible' Strategies to Improve Performance," *European Management Journal, 12:* 390-400.

Ozsolyev, H. N., (2005). "Asset Pricing Implications of Social Networks," *Working Paper, Oxford University.*

Petersen, Mitchell, andjlaghuram Rajan, 2000, Does distance still matter? The information revolution^ in small business lending, Working paper, Northwestern University.

Pan, Y. (1996): "Influences on foreign equity ownership level in joint ventures, " *China Journal.*

Rang, Jun-Koo, and Reng Stulz, 1997, Why is there a home bias? An analysis of foreign portfolio equity ownership in Japan, *Journal of Financial Economics* 46, 3-

Serrat, Angel, 1997, A dynamic equilibrium model of international risk-sharing puzzles. Working paper, University of Chicago.

Stulz, R. M., and R. Williamson, (2001): "Culture, Openness and Finance," *Working Paper,* National Bureau of Economic Research.

Stulz, Rene, 1981a, On the effect of barriers to international investment. *Journal of Finance* 36, 923-934.

Sheppard, Eric, 1984, The distance-decay gravity model debate: in Gary Gaile and Cort Will-mott, eds.: *Spatial Statistics and Models* (D. Reidel Publishing Company, The Netherlands

Shenkar, O. (2001): "Cultural Distance Revisited: Towards A More Rigorous Conceptualization and Measurement of Cultural Differences," *Journal of International Business Studies*, Vol. 32:

Tesar, Linda, and Ingrid Werner, 1995. Home bias and high turnover, *Journal of International Money and Finance* 14, 467-492.

Thomas, Reginald W., and R. J. Huggett, 1980. *Modelling in Geography. A Mathematical Approach* (Barnes & Noble Books, Totowa, New Jersey).

Weber, Y., and 0. Shankar, (1996): "National and Corporate Cultural Fit in Mergers /Acquisitions: An Explorative Study. *Management Science,* 42: 1215-1227.

Zou, N., (2003): "The Local Bias of Individual Investors". *Working paper, Yale School of Management*

Zuckerman, M., (1979): "Attribution of Success and Failure Revisited, Or: The Motivational Bias Is Alive And Well In Attribution Theory," *Journal of Personality* 47, 245-287.

APPENDIX I: QUESTIONNAIRE

Please tick and update where appropriate.

SECTION I: BACKGROUND INFORMATION

1. Name of respondent (optional)—

2. Gender Male [ ] Female [ ]

3. In what age bracket are you?

Below 30 years	30-35 years	36-40 years	41-45 years	Over 45 years

-

4. Name of the company in which you are a shareholder

5. Where is the company located?

6. For how long have you been a shareholder in the company?

Less than 5 years	5-10 years	11-15 years	16-20 years	Over 20 years

7. Who are the directors of the company?........

SECTION II: INFLUENCE OF INVESTORS DISTANCE ON STOCK HOLDING AND TRADING BY SHAREHOLDERS AT NSE

8. How many kilometers is your residence from the company located?

Less than 20 Kilometers	20-50 Kilometers	51-100 Kilometers	101-200 Kilometers	Over 20 Kilometers

ifc-".

9. To what extent does distance from your residence to the company influence your decision to hold share in a company?

No extent	Small extent	Moderate extent	Large extent	Very large extent

10. What percentages of the shareholders who have invested in the company come from within the locality?

Less than 10%	10-30%	31-50%	51-70%	Over 70%

11. Using a five point likert scale 1 -5 below, indicate to what extent you will be comfortable to invest in a company located far away from your location of residence.

No extent (1)	Small extent (2)	Moderate extent (3)	Large extent (4)	Very large extent (5)

12. In your opinion, to what extent do you think distance between the investor residence and the companies head office generally influences the holding of stock by investors? Please use a five point likert scale 1 -5 given below.

No extent (1)	Small extent (2)	Moderate extent (3)	Large extent (4)	Very large extent (5)

13. Apart from the distance from the investor's residence to the company hearquater, are there other factors which influenced your decision to you investing in the company's shares? Yes [ ] No [ ]

14. If yes, what are they?

i)

ii)

iii)

SECTION III INFLUENCE OF NATIVE LANGUAGE OF DIRECTORS ON STOCK HOLDING AND TRADING BY SHAREHOLDERS AT NSE

15. What is the average distribution of the directors of the company by native language?

Majority of the directors speak my native language [ ]

Majority of the directors are from different ethnic communities [ ]

The distribution is equal in terms of language composition [1

16. Going by the information above, is there any relationship between the native language of the directors and your decision to investor in the company's shares?

Yes [ ] No [ ]

17. If yes, explain

18. If your observation was that people from a particular language buy shares from companies whose directors belong to their own language, give reason why this may be so?

19. Apart from the language of the directors are there other factors which influenced your decision to you investing in the company's shares? Yes [ ] No [ ]

20. If yes, what are they?

i)

ii) -

iii)

SECTION IV: INFLUENCE OF NATIVE CULTURE OF DIRECTORS ON STOCK HOLDING AND TRADING BY SHAREHOLDERS AT NSE.

In your opinion, has culture of the directors influenced stock holding and trade by the shareholders? Yes [ ] No [ ]

21. If yes explain

22. Do you share some culture with any of the directors of company you hold shares?

Yes [ ] No [ ]

23. Did the fact that you share culture with any director of a company influence your decision to invest in the company's shares at the Nairobi Stock Exchange?

Yes [ ] No [ ]

24. Investment is about the benefits expected, if today you were to invest in another company, would you look at other factors e.g. the expected returns, stability of the company, etc or would you look at the native culture of the director?

Would look at other benefits [ ]

Would look at the native culture of the directors [ ]

25. Explain your answer in above

26. State any other reason that would have influenced you to invest in the company?