CHAPTER 8

CONCLUSION AND SUGGESTIONS

The success of a business unit in mobilising resources from the public depends on several factors. The most important factor is the attitude of the investors, both present and potential. Personal factors, (viz. Age, Education level, Income, Years of investment experience and Influence on investment decision) Company related variables, such as Expected Corporate earnings, Information from financial statements, Information from Reports and prospectus, the Price of share and so on, External variables such as Stock broker’s recommendations, Current economic indicators, Political stability etc., and Individual investor related variables such as Risk-return analysis, Attraction for non-stock investments, Competing financial needs of investors etc., play a dominant role in this regard.

The proposed study has been made to identify the key variables influencing the investor behaviour, the relationship between the personal factors and these variables, the nature of the investor response and the behavioural pattern of individual investors. In short, the various aspects of the investor response to the 25 identified variables forms the basis of the study.
The data collected from the investors have been analysed applying various statistical tools. A brief summary of the findings and conclusions and suggestions are given below.

8.1 MAJOR FINDINGS OF THE STUDY

The study has led to the identification of key variables and factors influencing investor behaviour. The relationship between the personal factors and the variables has been established. Further, the nature of responses of the individual investors and their pattern of responses have also been found.

8.1.1 Identification of variables

In the first place, twenty-five variables were identified as those influencing investor behaviour. These variables have been identified based on the review of literature. The variables identified were, Expected corporate earnings, Diversified business activities, the Influence of the nature of the firm's product and quality of service, Information from financial statements, Reputation of the firm, Stock brokers' recommendations, Information in reports and prospectus, The price of share, Past performance of stock, Expected dividend, Institutional holdings, Risk-return analysis, Tax concessions/exemptions, Expected stock market performance, Past performance of Investors' stock portfolio,
Current economic indicators, Promoters'/Managements' reputation and track record, Competing financial needs of investors, Recent price movements of firm's stock, Friends' or Co-workers' recommendation, International operations, Exchange listing, Influence of tips and information from Business journals, Attraction for non-stock investments and Political stability.

8.1.2. Key variables influencing individual investor behaviour

By employing a multivariate statistical tool, viz, Factor analysis, the key variables influencing the investor behaviour were reduced to nine factors. The extraction of the factors from the variables has been stopped when the eigen value dropped below one. From the Factor matrix, only those variables with high loadings have been considered. The nine factors which have emerged from the analysis account for a variation of more than 65 per cent, which is statistically significant. The nine factors influencing investor behaviour from the 25 variables are,

Factor 1 is named as "Product Superiority" This accounts for 21 per cent of the variance and the variables included in this factor are, Stock broker's recommendation and the influence of the nature of the firm's product and quality of service.
Factor 2 is "Relevant information". The variables included in this factor are, Influence of tips and information from Business journals, Information in reports and prospectus and Current economic indicators.

Factor 3 named as "Stable political environment" comprises of two variables, viz, Political stability and Competing financial needs of investors.

Factor 4 which is labeled "Performance of the Company". The variables included in this factor are, Recent price movements of firm's stock and Risk-return analysis.

Factor 5 "Diversification" comprises of only one variable, viz, Diversified business activities.

Factor 6 is "Reputation of the organisation". The variable which is included in this Factor is Promoters'/Managements' reputation and track record.

Factor 7 comprises of one variable, viz, Price of share and this factor has been named as "Share price".

Factor 8 influencing the investor behaviour is "Geographic Spread". The only variable included in this factor is International operations.
Factor 9 “Income from investments” is the last factor. This factor comprises of the variable, *Expected dividend*.

Of the 25 variables, 14 variables have been classified in the 9 factors extracted above. The other 11 variables, viz. Expected corporate earnings, Information from financial statements, Reputation of the firm, Past performance of stock, Institutional holdings, Tax concessions/exemptions, Expected stock market performance, Past performance of Investor’s stock portfolio, Friends or co-workers recommendation, Exchange listing and Attraction for non-stock investments are, however, not statistically significant to determine the investor behaviour.

Thus it may be concluded that of the twenty-five variables identified for the study, nine factors emerged and only fourteen variables have been associated with the nine factors. These factors and the related variables influence the investor behaviour.

The results of the factor analysis are that an individual investor is guided by superiority of the product of the company, the extent of diversification and the geographic spread of the company, backed by a thorough knowledge of company’s performance (gained from various sources), stable political environment, relevant information, reputation of the organisation, share price and expected earnings from investments.
8.1.3 Relationship between Personal factors and investor variables

To study the relationship between Personal factors such as, Age, Education level, Income, Years of investment experience, Influence on investment decision and investor behaviour, Analysis of variance was used. For this purpose, the 25 variables were grouped into three classes as Company related variables, External variables and Individual investor related variables. The results of the analysis are:

The relationship between Age, Education level and years of investment experience with all the three groups of variables, viz, company related variables, external variables and individual investor related variables is statistically significant.

The income level of an individual with company related variables and external variables is not statistically significant. Whereas, the income level has a sure influence on individual investor related variables. Thus when the individual takes a decision to invest, he will be guided by his income.

The individual investors are not at all influenced by the views of other persons as regards all the three groups of variables. The study emphasises that individual investment decisions are made by oneself and without external help.
Thus it may be concluded that an individual's income level influences his investment behaviour as far as individual investor related variables are concerned. Whereas people who are educated and who have investment experience make a highly balanced investment decision, taking into consideration all the three groups of variables. Further, the decisions are made by themselves without any external influence. This finding may be presented in a diagrammatic form for greater clarity, as follows:

**PERSONAL FACTORS**

- AGE
- EDUCATION
- YEARS OF INVESTMENT EXPERIENCE

**VARIABLES**

- COMPANY RELATED VARIABLES
- EXTERNAL VARIABLES
- INDIVIDUAL INVESTOR RELATED VARIABLES

**INFLUENCE ON INVESTMENT DECISION**

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No Relationship
8.1.4 Nature of Responses

To analyse the nature of responses of the individual investors, Discriminant analysis was employed. The analysis emphasized that large variation in responses was found with regard to 8 variables in the context of income groups. The variables were, Risk-return analysis, Past performance of investor's stock portfolio, Current economic indicator, Competing financial needs, Exchange listing, Political stability, Influence of firm's product and quality of service and the Price of share.

On the other hand, in the context of years of investment experience, significant variation in responses was found with regard to nine variables. They are Expected corporate earnings, Expected dividend, Promoters'/Managements' reputation and track record, Competing financial needs of investors, Diversified business activities, Friend or co-workers' recommendation, International operation, Exchange listing, Information from financial statements.

It may be further observed that two variables, viz, Competing financial needs and Exchange listing are found in both the results underlying the fact that whatever be their income or investment experience, these variables play a significant part.
8.1.5. Behavioural Pattern of Investors

In order to study the behavioural pattern of investors, the grouping of responses was necessary to highlight the uniformity or otherwise of the responses. By employing Cluster analysis, a multi-variate technique, appropriate for the purpose, the grouping of responses was done. From the study, 12 cluster solutions emerged. The cluster solutions indicate similarity in responses to these groups of variables.

The following variables join together in the 11th cluster: They are. Expected corporate earnings, Attraction for non-stock investments, Information from financial statements, Tax concessions, Stock brokers recommendations, Friends or co-workers recommendation and the Influence of the nature of the firm’s product and quality of service.

In the 12th cluster, there was a merging of the following variables, viz. Information in reports and prospectus, Past performance of stock, Current economic indicators, Expected stock market performance and Influence of tips and information from Business journals.

The responses to the variables, which are outside this grouping or cluster solutions are not similar. Thus the behavioural pattern of individual investors, by way of grouping of responses was formed.
6.2. SUGGESTIONS

1. The study suggests that investors employ diverse criteria when choosing stocks, important among them being, Product superiority, the extent of diversification and the geographic spread of the company, backed by a thorough knowledge of company's performance, stable political environment, relevant information, reputation of the organisation, share price and expected earnings from the investments.

Contemporary concerns such as, Past performance of stock, Institutional holdings, Tax concessions, Expected stock market performance, Friends' or co-workers' recommendation, Exchange listing and Attraction for non-stock investments are to be given only cursory consideration. The companies should bear in mind these facts while raising capital issues of securities.

A logical outcome of the study is an investor Decision Process Model.

In the Investor decision making process, there are 3 stages, viz. Input, Process and Output.
The factors influencing the investor behaviour are: (Input)

1. Product Superiority
2. Relevant Information
3. Stable Political Environment
4. Performance of the Company
5. Diversification
6. Reputation of the Organization
7. Share Price
8. Geographic Spread
9. Income from Investments

An investor takes into consideration all these factors prior to making an investment decision.

In the second stage he pursues his need to invest by deciding what securities he should invest in, when to take up the investment, what are the conditions of purchase etc. In other words he is involved in pre-purchase/investment research. During this stage he finds out the various investment alternatives available to him. This is followed by a thorough
evaluation of the alternatives. When he has before him the evaluation results, this helps him to take the vital decision, i.e. Investment.

This decision making stage of choosing and investing becomes the third stage, which is referred to as the output stage. The output stage does not end with investment. The investor then considers post-investment strategies such as re-evaluation of the investment, disinvestment or continuity of investment. This investment decision making process may be presented in a diagrammatic form as follows:
INVESTMENT DECISION PROCESS

Factors Influencing Investment Behaviour

- Product Superiority
- Relevant Information
- Stable Political Environment
- Performance of the Company
- Diversification
- Reputation of the Organization
- Share Price
- Geographic Spread
- Income from Investments

INVESTMENT DECISION MAKING

- Need to Invest
- Pre-Investment Research
- Examining the Investment Alternatives
- Evaluation of Alternatives

PROCESS

POST INVESTMENT BEHAVIOUR

- Investment Decision
- Post-Investment Decision
  - Disinvestment
  - Continuity of Investment

OUTPUT
2. A deliberate Investor Relation Programme and a study of the investor decision process by the corporate houses are conspicuous by their absence. This was observed by the researcher during the interviews with Corporate executives and Investors.

Thus it is suggested that every company should develop a financial planning/investor relation program. A good investor relation programme should develop a plan that has specific objectives and then explain it to the company's shareholders – both present and prospective.

Investor relation programme should be under the care of some person/department. It should not be added to the work load of someone who will not have sufficient time to do the job well. Financial planning and investor relations are fundamental, and very important. For every company it is worthwhile to pursue the same. This is doubly true because the study has also found that investors are not influenced by others in their investment decisions. They take the decision themselves. Therefore it is very essential that a company maintains proper rapport with the investors and provides them the necessary information and services. This is because the study reveals that only the company (and not any external influence) has an influence on investors.

3. To test the general validity of these findings and to develop client-specified valuation models, it is recommended that additional research be
conducted on the common-stock investor decision process. It is suggested that the size and geographic dispersion of the sample be expanded as well as the number, types and specifications of decision variables examined. It is also recommended that other types of investor decision centers, e.g. institution, brokers and specialists, be examined/interviewed. An examination of multiple time periods should also be undertaken because the decision variables, their weights and the importance of the center could change over time. Further, comparison of actual investor behaviour with projected investor behaviour would be useful.

The results of the study in the form of key variables which influence the investor behaviour, personal factors such as age, education level, income, years of investment experience, influencing the investment decision making process, variation in the responses of the investors and the behavioural pattern of the investors, should go a long way in helping the Industrial houses in India especially the Corporate houses. India is going through a critical stage in its development process. Economic and political uncertainties and Socio-cultural changes appear to play a crucial role in the recessionary trends in the economy. The recovery of the Indian economy is important for which the corporate houses in India should take a leading role. Besides the above, the attitude of the investors seem to have a dampening influence on the primary and secondary market in India. The correct identification of the variables influencing the investor behaviour
and its relationship with the personal factors and the behavioural pattern of
the investors should help in the mobilisation of funds by the corporate
houses leading to the strengthening of the coffers of the corporate houses,
which should help in the rejuvenation of the corporate houses and the
dearly revival of the capital market. India should then be on the road to the
economic recovery and become a role-model for other developed
countries.