CHAPTER-I

Introduction
INTRODUCTION

1.1 INTRODUCTION

In the ancient times human being was drawing all his requirements from nature. As no one owned the nature, he was under no compulsion to sought permission from someone else for his livelihood. He was least bothered on his future, as he was able to draw everything he wanted from the nature without any difficulty till his last breath. His physical efforts and special skills were not needed except in hunting animals and plucking fruits from trees and plants.

It started changing slowly when he started inventing those products, which did not exist in this nature. Manufacturing these items needed special skills and physical rigour which he found it difficult to sustain till his last breath and hence he had to quit manufacturing either due to voluntary decision or termination by his employer. Hence he lost his earning capacity which raised concern on his future as by now his dependency on human invented items has reached a level of inseparable from his life.

Those who inherited sizable amount of property especially land, were feeling comfort as they were able to employ men on their land for exchange of the agricultural produce. They in fact, were exchanging it for virtually everything which another human being manufactured. But, unfortunately, the number of people who owned land was always less and hence their future was in serious problems. Ferguson.N (2008) describing the above situation, stated that the invention of one financial product called “currency” which loosely used as
“money” paved a way to find a solution for ever with a concept called “investment”. Since then, people are investing on assets which they are able convert into money or money’s worth in future whenever they needed any product or service.

1.2 THE CONCEPT OF INVESTMENT

The word “investment” has been used by many in different ways, but most of them did not define the term when they used it. The meanings of investment given in standard dictionaries are presented here.

The Oxford Dictionary says that “investment as an asset or item that is purchased with the hope that it will generate income or appreciate in the future”. Cambridge dictionary states investment as “the action or process of investing money for profit”.

Graham, Benjamin and David Dodd in their book “Security Analysis and Portfolio Management defined investment as “putting money into something with the expectation of gain within an expected period of time”.

From the above dictionary meanings and definition one can attribute the following characteristics to investment.

1. Investments are used for securing one’s future and not for immediate consumption.

2. Assets that can be converted into cash in future are purchased as investments.
3. Investment is expected to generate reasonable returns during their holding period.

1.2.1 Why do people invest?

Though people tend to invest for numerous reasons, National Council of Applied Economic Research (NCEAR), India with the sponsorship of Securities and Exchange Board of India (SEBI) has conducted a research on household savings and investments. In their report for the year 2011, they have mentioned the following prime reasons for people to invest.

**Securing post retirement life:** As per the recent World Health Organisation report (WHO 2012) on the life expectations of people around the world, it is mentioned that people across the globe are expected to live longer life but with bad health. This is a real cause of concern for many in the world, due to the increase in medicines and treatment. When most of the people are expected to live longer life after their retirement, they can have enough money when needed, only when they are able to invest during their days of earnings.

**Children education and marriage:** Due to the love and affection on the children, most people in this world feel that, it is their moral duty to create better future for their loved ones. As the needs of their children, whether education expenses or marriage expenses will arise after a long time, which in many cases may range over a decade or two, one can fulfil this family obligation only by making proper investment.
Creation of wealth: As someone famously said “yesterday is history and tomorrow is mystery”, it is true that no one knows what will happen in future. Hence, it is always advisable to invest today to face unforeseen events of future. Especially after every economic recession, the people who lost their earning capacity and could not invest during their earning days remained as unfortunate examples for others. If people invest and nothing unfortunate happens in the future, they can use investments either to spend on tours or can have a life much above the regular comfort and they will be in a position to create wealth to pass on them to their next generation who can utilise for any productive activity.

Barberis, N., A. Shleifer, and R. Vishny. (1998) have stated that apart from the above mentioned most common reasons for investment, some people who are very generous make investments to use the proceeds in future for social cause and some people are investing to obtain tax exemption.

1.2.2 Role of Investment in Economic Development of the Nation

Economic development of a nation will take place only when that nation is vibrant in at least in one of the sectors of Agriculture, Manufacturing and Service, if not in all of them. Along with men and machinery, investment in the form of capital is an important factor of production for an economic activity. In fact, it is not possible to arrange other factors of production without capital.

Some nations in this world are not blessed with abundance of natural resources. But still, only because of investment on industry and on technology,
they became economic superpowers. One can take Japan as an example to prove this point. Japan is a tiny nation which is subjected to a variety of natural calamities like earthquake and tsunami. It does not have enough of fertile land due to atom bombs that were dropped on its soil. But due to the investments made on technology front, it is able to become world fourth largest economy. (World Bank Report 2012).

Surprisingly, world’s most two populous nations; China and India did not invest to the required levels. As a result, they have become the global destinations for outsourcing and making goods for the companies of other nations. As per the global brand index, which is compiled by brandinex.com, China and India put together did not have at least one global brand where as small nations like Finland and Denmark are having number of brands. India, at least able to realize this fact that it has a global brand product and invested heavily on information technology education and infrastructure which helped it become one of the leading nations in the world on the front of information technology and the sector is generating huge amount of revenues to the nation both in domestic as well as foreign currency.

Some nations have immense potentiality to become global economic superpowers by manufacturing goods and by creating their own brands. But, their economic policies which are not conducive for private investment are hampering their growth. Ruchir Sharma (2011) in his book Breakout Nations supported this point by taking examples of Russia and China. They both did not encourage private investment for long. They felt every business organization must be in the
hands of Government. As a result, though these two nations are having manufacturing capabilities, they could not produce any global consumer brand products. He further added that only after opening up of economies for private investors, along with Brazil and India, these two became raising economic powers and together called as BRIC nations.

East Asian nations like Malaysia and Thailand have invested on tourism infrastructure and as results they are able to attract domestic and foreign tourists which in turn developed their economies. A similar observation was made by Easterly, W. and Rebelo, S., (2011) in their research on the role of investment on infrastructure and its impact of economic development. They stated that the investment on infrastructure by Singapore attracted not only tourists, but also many Multi National Companies to set up their offices which resulted in the economic development of Singapore.

On the other hand, African most of the African nations like Nigeria, Uganda, Rwanda and other did not invest on any of the sectors and as a result, their people are not having any job to do in their hand and hence either they are suffering with internal wars or their people are turning into international pirates.

1.2.3 Where do people invest?

**Land:** According to Freguson.N (2010), when human being started investing for his future, he was looking for an asset which he was able to use for productive purpose and also the one that gives him safety and so, he started investing on land.
Probably land is first asset that was considered as worth investing and from time immemorial people are investing on land for many reasons. Most important reason among all of them is the fact that land is expected to generate agriculture produce for many years to come (Samuelson, P. A., 1969)

Byrne, A. (2007) stated that investment on land is a part of socio-economic culture. In some nations like India, a person who holds land is respected in his society. Karthik.C.K (2001) stated that in India, holding a title of land is a social security measure and hence the Government of India, dispersed agricultural land to retired persons of armed forces and some sections of society.

**Housing:** Every person in this world has a dream in living in his or her own house. As a result, without looking for much return, everybody considers investing on housing. Generally while making investment on asset, people tend to give highest ranking to return on the investment while selecting an asset. But, in the case of housing many feel return on investment is secondary to social security and comfort.

When an online survey is conducted among respondents of different nations by Struyk, Raymond & Margery Austin Turner in 2006, they found that 78% of the respondents mentioned housing is their first priority in their investments. They further stated that they are ready to lose any asset but certainly not their house.

Saunders, P. (1990) discovered that the emotional levels are very high when investors purchase a house than making any other investment. Especially, if
it their first house. He said that investors feel that it is not just their house but their “home” as they undoubtedly have sentiments with their home.

As every nation recognised the importance of housing, they are taking measures to improve the housing activity in their respective nations by establishing housing finance institutions or housing promotion boards and these actions are helping their citizen to house owners with a good growth rates.

To cite an example, India has stated National Housing Board and also keeping housing loan interest rates lesser than other loans. Apart from banks, some specialised housing finance institutions are also actively functioning to improve the housing ownership situation in India which can be seen in the following table.

TABLE-1.1

Population and Housing Growth Rates in India Between 1971-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Population Growth Rate</th>
<th>Housing Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>17.64%</td>
<td>34.75%</td>
</tr>
<tr>
<td>2001</td>
<td>21.15%</td>
<td>29.38%</td>
</tr>
<tr>
<td>1991</td>
<td>20.87%</td>
<td>16.83%</td>
</tr>
<tr>
<td>1981</td>
<td>18.27%</td>
<td>N.A</td>
</tr>
<tr>
<td>1971</td>
<td>16.73%</td>
<td>N.A</td>
</tr>
</tbody>
</table>

Source: National Sample Survey of India, 2011
From the above table, one can observe that till the year 1991, the population growth rate was higher than housing growth rate in India. But since then, housing growth rate surpassed population growth rate and remained higher due to the above mentioned measures by the financial institutions to improve the status of housing investment.

**Gold and Other Precious Metals:**

No researcher was able to trace the date since how long people are making investments on gold and other precious metals. But, everybody knows the reason for which large numbers of investors are investing on gold. World Gold Council has mentioned the following reasons for people to invest on gold.

**Portfolio diversification**

Most investment portfolios primarily hold traditional financial assets such as stocks and bonds. Diversifying one’s portfolio can offer added protection against fluctuations in the value of any single asset or group of assets. Risk factors that may affect the gold price are quite different in nature from those that affect other assets. Historically it is proven that portfolios containing gold are generally more robust and less volatile than those that do not.

**Inflation hedge**

Market cycles come and go, but over the long term, gold retains its purchasing power. Gold’s value, in terms of the real goods and services that it can
buy, has remained remarkably stable for centuries. In contrast, the purchasing power of many currencies has generally declined, due for the most part to the rising price of goods and services. Hence investors often rely on gold to counter the effects of inflation and currency fluctuations.

**Currency hedge**

Gold is employed as a hedge against fluctuations in currencies, particularly the US dollar. If the world’s main trading currency appreciates, the dollar gold price generally falls. On the other hand, a fall in the dollar relative to the other main currencies produces a rise in the gold price. For this reason, gold has consistently proved to be one of the most effective assets in protecting against dollar weakness.

**Risk management**

Gold is significantly less volatile than most commodities and many equity indices. It tends to behave more like a currency. Assets with low volatility will help to reduce overall risk in your portfolio, adding a beneficial effect on expected returns. Gold also helps to manage risk more effectively by protecting against infrequent or unlikely but consequential negative events, often referred to as “tail risks”.

**Demand and supply**
The price of gold tracks the shifting balance of supply and demand. Long lead times in gold mining mean production of gold is relatively inelastic, regardless of increases in demand. That’s why the rally in the gold price since 2001 has not engendered a meaningful increase in gold production levels.

Some researchers like Sanfey, A., & Grafman, J. (2011) and Peters, E., & Slovic, P. (2011) have supported the concept of investment on gold and further added that till the recent economic recession, most of the investors were treating gold as an ornament. But, after the recession, they found that gold is a perfect hedge against the inflation and since then, their investment on gold has gone up.

Financial Assets

Investors would like to maintain a contingency fund to face unforeseen incidents in the form of holding cash any other financial asset that can be easily liquidated. According to International Financial Reporting Standards (IFRS), a financial asset is defined as one of the following:

- Cash or cash equivalent;
- Bond, Debenture or any other Corporate Security.

If an investor holds cash with him, it will not yield any return. Hence he is investing on Financial Assets that give considerable amount of return. Often, these financial assets are backed by Government (if they are issued by them) or
Physical assets of corporate body (in the case of Debentures). In India, if an investors makes any deposit in a bank, by default his deposit is insured to the extent of higher of deposit money or Rupees One Hundred Thousand (Reserve Bank of India Banking Regulations).

In nation like Japan, where availability of land for housing and agriculture purpose is very limited, the Real Estate prices are very high. Often, they are not in the reach of common man who is migrated to cities in seeking employment. Hence they tend to invest their money on financial assets and the proceeds are generally withdrawn only after their retirement. Hence, these kind of investors look to invest on financial assets (Scobie, Grant and Trinh Le, 2004).

According to Allianz SE (2012), in some of the nations, where inflation (which is defined as rate of increase in Wholesale Price Index) is relatively higher than other nations, the comparative returns on financial assets at times are giving lesser returns when compared to inflation rate in short term period (a period which is less than one year). But generally, investors tend to invest on them for longer periods as they appear safer investment during long term and also expected to yield a return that matches with inflation.

As safety is main concern while investing on financial assets, householders are predominantly investing their funds on Bank Deposits, especially after the
2007 global economic crisis. This shift in favor of bank deposits can be seen in the following graph.

Graph-1.1

Composition of Global Financial Asset

From the above graph, it can be seen that in the year 2000, households were depositing 28% on Bank Deposits and 41% on Market linked Securities. But, by the end of 2011, they have reduced their exposure to Market linked securities to 35% and at the same time increased their Bank Deposits to 33%.

Sources: National Banks and Statistical Offices, Allianz SE Group Economic Research and Corporate Development
1.3 EMERGENCE OF EQUITY CULTURE

Modern economies are heavily dependent on the corporate form of doing business. The scale of modern commercial activity, once it goes beyond the individual store and workshop, increasingly demands capital beyond the resources of most individual entrepreneurs. Although the capital needs could in some cases be met by partnership, the partnership form has proved rather inflexible and is used primarily by very small enterprises and by the professions. The use of companies to pool large sums of capital and therefore to raise capital for large new commercial ventures has been increasingly common since the Dutch and English East India companies were organized at the beginning of the seventeenth century. By the twentieth century corporations had become the dominant organizational vehicle for commercial ventures almost without exception throughout the world. Initially, these corporations have borrowed funds from others. But, they are having two main limitations: 1. Borrowed funds have to be repaid within limited period and 2. Irrespective of the profitability, interest is to be paid on them. The corporations were looking for a permanent source of capital on which they are under no compulsion to pay annual interest. As a result, they started issuing new class of securities called equity shares (Kenneth W Dam, 2006).

Features of Equity Shares: Though Equity Share is a financial instrument, in every nation in which it is allowed to offer to general public, it is governed by
Laws of the respective nations. There may be some differences in legal regulations; the following features are common across the globe.

1. Equity Shareholders are eligible to receive part of profit called dividend only after every other security holder received his due.

2. Equity Shareholders may get dividend only when the company is in profits and the company feels so. In the case of loss, they will not get any dividend.

3. It is only equity shareholders who are eligible to elect the Board of Directors and cast their vote in all other occasions.

1.3.1 Why individuals invest on Equity Shares?

Generally, investors who are investing their funds for longer duration, look for capital appreciation. Companies which are growing in business size prefer not to distribute the dividends to shareholders. They rather, re-invest the profit in their business itself. As long as the company is able to generate better profits, the investor will be happy, as his capital is appreciated and hence the share value of the company in the market will also appreciate and in general, the return due to capital appreciation is higher than any other alternative.

The above argument is well substantiated by Thomas R.(2003) when he conducted research on comparing returns on equity shares, gold and bonds of USA, England and China and concluded that for any interval of 7 years, equity shares have outperformed all other assets.
Generally speaking, investors will not invest their entire funds on one single class of securities. They always create a portfolio of assets keeping in mind of their requirements, returns and safety. Mostly, certain amounts of funds are invested on Bank Deposits and other liquid assets by the investors. At times, the returns generated by these financial assets are lesser than inflation rate. Hence to match with inflation rate and to earn a positive return on their overall portfolio, investors are looking for an asset that is expected to generate a higher return than inflation and are investing on equity shares in attaining positive return on overall portfolio.

Some investors who have limited funds with them which are not sufficient to buy land or house are often investing their funds on equity shares as an alternative. Some class of investors who are having physical assets like land and/or house are also investing on equity shares as an alternative asset. In nation like India, Income tax exemption is offered to the investors who are investing on equity oriented securities. As a result, a good number of investors are investing on them (Basu.D, 2012).

Klinger (2009) has observed that some investors have made investment as their full time profession. He further noticed that a minimum of 60% of their investments are made on equity shares irrespective of stock market conditions. Some people who are habituated gamblers and punters on betting are also found as equity investors. But, they are found to be investing on equity shares only for a very less period of time. Hence, they are speculating more on the prices of the share than acting as long term investors.
Another interesting reason for equity investment by individuals is identified by Mathew S (2009). He found that some are investing on equity shares as they feel equity investment is fun and exciting. He stated that a majority of these sort of investors are influenced by the returns earned by their friends and other known persons. He further stated that these people are having similar mindset of those who buy lottery occasionally and these classes of investors are totally different from speculators and gamblers.

It is common that corporate may not pay dividend for a longer time due to growth of business and requirement of funds to propel the growth. But after some period of time, the corporate will have enough of reserves to pay regular dividends. The investors who are need of regular annual income tend to invest on equity shares of this type of corporate (Samuelson R, 2008)

1.3.2 Why equity culture is to be promoted?

It is an established fact that a nation cannot prosper if it does not develop industries. The most essential element of promoting any industry is to make the capital available. Most of the nations in the world are finding it difficult to arrange the necessary funds on their own to start industries as they are already in deficit budget. In some nations, the respective governments have promoted companies by issuing share to public and in other nations; the governments encouraged the private sector to do the same. This has led to economic development in their nations.
The nations, in which equity culture is existing for long have benefited with better industrialization which, in turn helped their economies to prosper. The following table is presented as an example of how industrialization helped various nations to have better Gross Domestic Product (GDP)

**TABLE-1.2**

Population and GDP Ranks of Select Nations

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Companies</th>
<th>Rank by population</th>
<th>GDP Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unites States of America</td>
<td>132</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>73</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>68</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>France</td>
<td>32</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>32</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
<td>26</td>
<td>22</td>
<td>9</td>
</tr>
<tr>
<td>7</td>
<td>Switzerland</td>
<td>15</td>
<td>95</td>
<td>31</td>
</tr>
<tr>
<td>8</td>
<td>South Korea</td>
<td>13</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>Netherlands</td>
<td>12</td>
<td>61</td>
<td>21</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>11</td>
<td>35</td>
<td>14</td>
</tr>
<tr>
<td>11</td>
<td>Italy</td>
<td>9</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Australia</td>
<td>9</td>
<td>52</td>
<td>17</td>
</tr>
<tr>
<td>13</td>
<td>Brazil</td>
<td>8</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>8</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>8</td>
<td>28</td>
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</tr>
<tr>
<td>16</td>
<td>Russia</td>
<td>7</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>17</td>
<td>Taiwan</td>
<td>6</td>
<td>51</td>
<td>32</td>
</tr>
</tbody>
</table>


From the above table, one can notice that Switzerland, which is ranked 95 on the basis of population, is ranked 31 on the basis of GDP. The reason is clearly visible from the about table itself as one can notice that out of Fortune Global 500 companies, 15 are from this small nation. Another small nation Netherlands, which is ranked 61 on the basis of population, is ranked 21\textsuperscript{st} largest economy again
for the same reason. It has 12 Fortune 500 companies. Germany and France are ranked 16 and 21 respectively on the basis of population, but ranked 5 and 7 largest economies in the due to their 32 Fortune 500 companies each.

World’s 1st and 2nd largest populated nations, China and India are ranked 2nd and 3rd world’s largest economies respectively. In the case of China, it has 73 Fortune 500 companies. Hence its rank as world’s 2nd largest economy is justifiable. But, in the case of India, though it is ranked as 3rd largest economy in the world, it can be attributed predominantly to its status as world’s 2 largest populated nation. It has only 8 out of Fortune Global 500 companies.

On answering the question whether equity culture helps an economy to grow, one can cite the research findings of Kiron P (2008), who argued that it is the equity culture that made USA a better economy than Russia. He contended that on technology front, Russia is not an inferior nation in many areas. They were the first to send a human being into space and so many scientists have hailed from Russia. But, they could not start any business. In Russia, other than Government no private person was allowed to do business. This killed the entrepreneurial aspirations of many. On the other hand, USA has been encouraging its citizens to be entrepreneurs. The equity culture of USA is helping those prospective entrepreneurs to find Venture Capitalists and Private Equity Funds to set up their ventures.

If equity culture is strong in a nation, then the domestic equity investors will work as a cushion when foreign investors withdrew their funds. There are
strong evidences in support of this point. During the late 1990s, there was a capital flight from East Asian Nations, which were till that time called as Asian Tigers. The sudden withdrawal of funds by the foreign investors from these nations, send them into severe financial crisis (Osaka K, 2004). During the recent economic recession, most of the Foreign Institutional Investors (FIIs) have sold the shares of Indian companies, though most of the companies have continued to put up better profits, the FIIs were forced to sell the Indian company shares to book profit to offset the losses they incurred on other the investments made in other nations. This forced the Indian stock markets to lose their Market Capitalisation (which the product of number of shares issued by a company and its market price) by around 70%. As the size of domestic equity investors is negligible when compared with FIIs and hence they could not arrest the fall of the stock market (Suryanarana Y.M, 2012).

It is true that a company that invents a new technology would like to reap the benefits for a long time. If they sell their technology, they will be getting money only once but not for an eternal period. Hence, they would like to sell the technology in exchange of shares so that, they will be able to get eternal returns. There are so many such examples across the globe, where the companies that are low on technology, but having huge market potentiality like India, benefited in terms of technology transfer in exchange of equity shares (Brian C.L, 2009).

If the equity culture in a nation does not exist, then Government of that nation has to promote the business on its own. Often, the developing nations
barrow funds from international agencies to promote the business. This proved as a costly affair in the long run in terms of negative balance of payments (Balance of payments is the difference between inflows and outflows of a nation). India solved this problem by allowing Foreign Direct Investment (FDI) in most of the sectors. As 100% FDI is not allowed in some sectors like civil aviation, insurance and others, some domestic companies ventured with them. If these companies would like to expand in future, it will be easier to them only if the equity culture is properly nurtured.

1.4 EQUITY INVESTMENT TRENDS

As there is no specific data available on how many persons in this world are investing directly on equity shares and how many persons are taking the help of Investment Companies. But from some sources like Securities and Exchange Board of India (SEBI), it is found that around 27% of global investors are directly investing on equity shares and the rest are investing through Investment Companies.

1.4.1 Equity Investment through Investment Companies

A large number of investors in this world are taking the help of various Mutual Fund, Insurance and Pension Fund which together known as Conventional Asset Management Companies while making investments on equity shares as they feel that their funds are better managed by the Fund Managers of the Investment Companies.
From the above graph, it is quite evident that the size of all conventional assets put together is 115% when compared with the size of world GDP. In that Mutual Fund size is around 45% of world GDP and Insurance and Pension Funds are around 35% each of world GDP. These figures are much higher for all developed nations except France, where the size of Mutual Fund alone is more than 100% of GDP. In the case of France it is Insurance whose size is close to its GDP.
The above graph shows the raising importance of Conventional Assets Management in terms of their growing size. They have been raising continuously from 39.6 Trillion US Dollars in the year 2000 to 74.5 Trillion US Dollars in the year 2007. Due to global economic recession, there is a slump in its size in the year 2008 to 64.2 Trillion US Dollars, but this figure again rose to 79.3 Trillion US Dollars.
US Dollars by the end of year 2010 which was greater than the earlier peak figures of year 2007.

**Graph-1.4**

**Worldwide Mutual Fund Assets under Management**

Mutual Funds are collective investment schemes in which the Mutual Fund companies collect funds from investors and invest them on a range of portfolios which include equity shares and other securities. As per the statistics of Investment Company Institute, USA 80% of the funds are invested on equity shares by the Mutual Fund companies. From the above graph, one can notice the investments made on Mutual Funds in each quarter is continuously increasing from 18.2 Trillion US Dollars in the first quarter of 2009 to 25.6 Trillion US
Dollars in the first quarter of 2011 except for the second quarter or 2010, in which, 21.4 Trillion US Dollars were invested.

**Graph-1.5**

**Asset Structure of Pension Funds**

Pension Funds which collect funds from investors during their days of earnings and invest them on various securities to provide pension to its investors during their retirement time are playing a vital role in economy as in most of the nations, it is functioned in the form a social security measure. It can be seen from the above graph that, in US, Uk and Australia the proportion of pension funds invested on equity is either 50% or above. Even in nations like Japan and Canada which are relatively conservative economies, the Pension Funds have invested
40% and 44% respectively on equity shares. One can further observe that except in Japan, in every other nation mentioned in the graph, the proportion of investment on equity shares is highest than Debt and other Securities. Even for Japan, the proportion of equity investment (40%) is slightly lesser than that of Debt (45%). The fact that these figure are for the year 2010, which is two years after the severe global economic recession that took place in 2007 and 2008 shows the confidence of Pension Fund Managers on the potentiality of equity shares.

Insurance Companies is the last of the Conventional Asset Management Companies, which collect premiums from investors and apart from offering them insurance coverage, a large amount of their funds are invested on various Securities in the Market.

Unit Linked Insurance Plan (ULIP) is the most popular investment product offered by Insurance Companies across the globe. In an ULIP, the premium amount (after deducting Mortality and Administrative charges) is invested on different Securities. The ULIP investors can choose equity based, debt based or combination of Debt and Equity based schemes. The performance of these schemes will depend on the Capital Market (a market meant for Debt, Equity and other long term products).
Table-1.3

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>Canada</td>
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</tr>
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<td>Belgium</td>
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<td>Switzerland</td>
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<td>United Kingdom</td>
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<td>United States</td>
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<td>Average</td>
<td>43</td>
<td>46</td>
<td>22</td>
<td>28</td>
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</table>

Source: Insurance Regulatory and Development Authority, India

Going by the above table, Only Insurance companies from United Kingdom have reduced their exposure on equity from 43% in the year 2002 to 33% in 2012. Rest all companies from the remaining nations that are listed above have witnessed a rise on equity exposure. As a result, the average exposure on equity rose from 22% in year 2002 to 28% in the year 2012. Another point that one can
notice is barring Australia and Sweden, rest all nations’ insurance companies have invested less than 40% on equity shares. Those two nations have invested 53% and 46% on equity shares in the year 2012.

1.5 ROLE OF WORKING WOMEN IN ECONOMY

Women constitute roughly half of the population of the world and thus potentially half of its work force. As a group they do as much work as men, if not more. But, for long “men” along with money and material are mentioned as factors of production. Women were not given much of significance in that list. Women were often disadvantaged compared to men in access to employment opportunities and conditions of work; furthermore, many women forego or curtail employment because of family responsibilities. The removal of obstacles and inequalities that women face with respect to employment is a step towards realizing women’s potential in the economy and enhancing their contribution to economic and social development. Thankfully, of late things are changing and women are playing a vital role in the economy.

Nowadays, more women are entering into tertiary and higher education in wide variety of faculties. In fact, as per the United Nations Gender Report 2010, in tertiary enrolment, men’s dominance has been reversed globally and gender disparities favour women. The increased level of education has done a world of
good to women. It made them to be more confident and as a result, they started looking at the world on par with men.

The emergence of information technology has created more number of opportunities to women especially in service sector. As mentioned by International Labour Organisation (ILO) in its annual report of 2011, disparity of income is vanishing in many sectors between men and women, more women are now entering into workforce to prove their worthiness.

Earlier, women were not able to find enough time to attend work due to their domestic compulsions. But, due to the change in the mindset of other family members, especially men who are sharing the certain domestic responsibilities like parenting and others, women are able to find time to seek employment opportunities.

Apart from the above mentioned reasons, certain socio economic compulsions are forcing women to work. As more and more people are migrating to urban areas, the cost of living in urban areas is increasing. This is forcing the women to enter into workforce as the income earned by the male member of the family alone is not sufficient to secure their future. This is supported by a survey conducted by National Council for Applied Economic Research (NCAER Survey 2011) India, in Delhi and Mumbai. The survey found that just like women are looking to marry men who own a house, men are also looking to marry women who are either already in employment or capable of being employed in future.
Certain lifestyle expenses like family dine outs, weekend trip and holiday tours slowly transforming from desires to needs of urban families due to their busy families. But these are turning into expensive activities. It is not that women are entering into workforce just to fulfil this need but, in another survey conducted by Rajan K (2010), a majority of working women said that the income of the male members of the family are used to secure their future and the income of working women is used to fulfil this need. Due to these reasons, the proportion of working women in the world is increasing (United Nations Gender Report 2010).

1.5.1 Emergence of Women Managers

In the past, women were more concentrated in traditional “feminine professions” like nursing and teaching. But now days, due to increased participation in higher education in various faculties, women are making inroads into the management sectors. In a joint study conducted by all Indian Institutes of Management (IIMs), it is found that the women applicant for their much coveted Management Degree is rising every year. By understanding the need to promote management education among women, all the IIMs in India have decided to award additional three marks for women applicants in their admission process.

Of late, even Governments of different nations also understand the need to promote women into corporate boards. Very recently the European Union Commission proposed a bill which makes all the corporate functioning in European Union to set a 40% quota for women in the corporate boards. This is a significant move to elevate women in managerial profession.
By allowing women to managerial positions and to corporate boards, the business organizations are not doing any special favour for women as it has become a business compulsion for them to promote them. In a study conducted by Boston Consultancy Group, it is found that less than 1% companies in this world are producing products meant for only men. Rest all companies are dealing with goods which are used by everybody. In fact, the number of companies dealing with specialized goods for women has outnumbered the companies dealing with specialized products for men by 13 to 2. As the women participation rate in household consumer decision making is increasing, more companies in the world found that it is better to promote women to managerial level as they are capable of understanding the consumers’ needs in a better way.

A budding school of thought is finding favour in both business and research circles that women inherently make better managers compared to their male counterparts. A study conducted by Yael Itzhaki of Tel Aviv University reveals that women are more likely than men to use leadership styles and she further added that they produce better worker performance and effectiveness in today's world! Specifically, women are more likely to be transformational leaders, i.e. they successfully serve as role models, mentor and empower workers and encourage innovation.

Another argument in favour of women in management is that women managers are bringing stability to business. They are more concerned with long-
term sustainability than immediate profits. A study conducted by Catalyst can be taken as example in this context. They found that the companies that have at least three women members on their board have done better in terms of earning 15% higher returns in the longer run than the companies that do not have any women on their board. They further found that during the recent global economic recession, the companies that have women on their board have survived with a higher proportion than the companies without women on their boards.

By virtue of these qualifications women are entering into managerial positions and rising to the level of Chief Executive Officer (CEO) of even Fortune 500 companies which are considered as the top 500 companies in the world. Another significant dimension is that they are becoming CEOs of companies in those sectors which were earlier considered for men only sectors like Manufacturing and Heavy Engineering, Banking, Beverages, etc. this can be seen in the following table.

<table>
<thead>
<tr>
<th>NAME</th>
<th>COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meg Whitman</td>
<td>HP</td>
</tr>
<tr>
<td>Virginia Rometty</td>
<td>IBM</td>
</tr>
<tr>
<td>Patricia A. Woertz</td>
<td>Archer Daniels Midland Company</td>
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<tr>
<td>Indra K. Nooyi</td>
<td>PepsiCo</td>
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<tr>
<td>Irene B. Rosenfeld</td>
<td>Mondelez International</td>
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<tr>
<td>Marillyn Hewson</td>
<td>Lockheed Martin</td>
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<tr>
<td>Ellen J. Kullman</td>
<td>DuPont</td>
</tr>
<tr>
<td>Phebe Novakovic</td>
<td>General Dynamics</td>
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<tr>
<td>Carol M. Meyrowitz</td>
<td>The TJX Companies</td>
</tr>
</tbody>
</table>
From the above table, it is evident that the women CEOs are leading the companies that are functioning in diversified areas viz. Computer Hardware, Energy, Consumer goods, Technology, Media, Chemical Engineering and others. Even in India, women CEOs are working in well diversified sectors. Some of the prominent names are worth mentioning here. They are Shikha Sharma (Axis Bank), Chanda Kochar (ICICI Bank), Kiran Majumdar Shah (Biocon technologies) and Mallika Srinivasan (Tafe Tractors).

The trend of women reaching the positions of CEOs is not confined only to developed nations. In fact, trend in some of the developing nations like India is much better. According to a survey by international executive research firm, EMA Partners International, around 11 per cent of Indian companies have women CEOs, while in the case of Fortune 500 list from the US, the women CEOs just
account for 3 per cent of the total consideration set. In India, the survey conducted among 240 large companies which are listed in Bombay Stock Exchange.

1.5.2 Women as Emerging Entrepreneurs

A quiet revolution is taking shape right now among women. Unlike the quiet revolution in the past which saw women leave the home and enter the workforce in droves, women today are leaving the workforce in droves in favour of being at home. But unlike generations of women before, these women are opting to work in the home not as homemakers—but as job-making entrepreneurs.

Some women view corporations today as being fundamentally flawed and limiting in their value structures. The Guardian Life Index, an initiative to understand America’s small business owners, cites “office politics” as a driving factor for women leaving Corporate America to start businesses.

With the cost of starting a business at an all-time low, women are saying “no thank you” to spending years climbing and clawing their way up the corporate ladder, dealing with corporate politics, and working long days without feeling the overall fulfillment they desire.

Women entrepreneurs were traditionally in a select band of businesses like beauty parlors, mom & pop shops and food related business. But, with the
emergence of technologies like internet and mobile telephony, they are now venturing into nontraditional businesses.

With more number of banks and other financial institutions are lending money to women to women entrepreneurs, they are finding it easier these days to start their business. USA for example has made an act in the year 1974 which forces the banks to treat women entrepreneurs on par with men as earlier to that enactment; women were asked to provide a wide variety of securities including a guarantee from either husband or father in order to get loans.

In India, many banks and financial institutions are offering loans at subsidized rates to promote women entrepreneurs. In the recent Financial Bill for the year 2013-14, the Finance Minister of India proposed a separate bank exclusively for women. If operational, this bank will strive to solve the financial requirements of women and it will be wholly managed by women.

The financial institutions across the globe are quite happy in lending money to women entrepreneurs as the success rate of women entrepreneurs is higher than that of men. Women entrepreneurs are found to be much cost savvy in doing their business and they are not greedy about the money but focusing on sustainability. This approach of them saved their business even in most testing conditions like the recent global economic recession.
In the future, it is expected that more women will turn out as micro entrepreneurs (with less than or equal to 5 employees) than men. In this context, one can take note of the study by United Nations (UN Gender Report 2010) which states that by 2018, due to new businesses by women entrepreneurs 9.72 million jobs across the globe will be created.

1.6 INVESTMENT BY WOMEN

By virtue of increased employment rate and entrepreneurship activities, women are becoming financially independent. At the same time, a need for investment is also increasing for working women due to various reasons, out of which some of them are presented below.

First, an aging overall population that leaves women – who generally live longer than men – in a difficult situation. In the United States alone 80% of women outlive their husbands and they remain widows for an average of 14 years. Again, this situation can leave women in need of sophisticated financial planning for income purposes at a crucial yet unfortunate time in their (and their families’) lives.

Second, the recent recession has, for better or worse, transformed the economic roles women play in their families. Men have for the most part suffered more job losses than women, which has caused women to have a more active role in many aspects of daily family life, including investment decisions.
Finally, women are increasingly entrepreneurial in nature, seizing opportunities to start new businesses. This trend leads to difficult time management issues, particularly with familial commitments. Women need to make sure they are properly invested in order to make sure that they don’t just invest the appropriate amount of time in their family, but they also invest the appropriate amount of money as well.

Due to the reasons mentioned above, women started investing to secure their future and are becoming one of the largest groups of investors across the globe. They are controlling a sizable amount of wealth. It can be explained with the help of the following picture.

**Figures: 1.1**

![Image of wealth distribution by women in 2009](image)

*Source: BCG Global Wealth Markets 2010*

From the above picture, one can notice that the total amount of wealth that women were controlling globally stood at 20.2 US Trillion Dollars in the year
2009 and it is expected to rise to 29 US Trillion Dollars by 2014 with compounded annual growth rate of 8% per annum.

It is clearly visible that the wealth controlled by women is increasing in all regions of world. Currently North America and Western Europe are accounting for larger proportion of that wealth. But, in the future other regions of the world are also expected to have higher contribution as their compounded annual growth rate except for the regions Japan, Australia & New Zealand are higher than that off world rate of 8%.

As women are controlling sizable amount of wealth, few researchers have carried on research to know the investment behaviour of women and some of the observations from existing literature on the investment by women mentioned below.

As a group, women display certain characteristics that help them make sound decisions about their finances. They tend to be holistic thinkers, aware of all aspects of an issue and equally aware of the importance of balance. Women tend to be intuitive – they are discerning and perceptive in their view of the world – and they tend to be more concerned with quality rather than quantity, which can translate into better decision making in the complex world of investing.

Women’s goals for financial saving and investment tend to take the longer-view and value the bigger-picture than those of their male counterparts. Women
are more likely to think of their spouse, children, grandchildren, and even unborn members of their family line. They also consider philanthropic outcomes when investing for the future.

Women trade less frequently and prefer less volatile portfolios than men; they have more risk-averse investing strategies. Women investors also expect lower returns, but value them for the long term. Women are not interested in accumulating money and wealth just for the sake of accumulation. Women are interested in wealth from the standpoint of stability. They view money as a way to care for themselves and their family and improve their lives. Therefore, women want a financial advisor that can help them accomplish these very specific goals.

When it comes to equity investment a larger proportion of women are entering into equity market through mutual funds. They are taking some time to understand equity market to invest directly on equity shares. Some of them are even turning out into full time traders. In Indian state of Gujarat, it is found that a large number of housewives are trading on equity on daily basis and in order to facilitate them the two national level exchanges in India namely Bombay Stock Exchange and National Stock Exchanges have started trading in Gujarati language apart from English and the Indian national language Hindi.

In the context of above one can conclude on the contribution of working women to the world of economy which is observed by United Nations in its gender report 2010 as follows:
“Now in the world, women are the economy driving force. Their contribution in providing job openings in business sectors continues to rise. They are involved in enterprises at all levels as managers, entrepreneurs, owners and investors. Combination of influence of more education, technology and fast economic growth make women more assertive concerning their right, more aggressive in reaching their ambition while we already acknowledged that the number of women in the work force from country to country are almost as high as those of men”.