CHAPTER - I

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1.1 INTRODUCTION

The capital market plays a major role in the development of an economy through the acceleration of industrial growth. The Indian capital market is one of the oldest capital markets since it has been in existence from 19th century and in terms number of listed companies, it is the second largest in the world. The capital market in India which was a dormant segment of the financial system has undergone a metamorphic transformation from the mid-eighties involving multi-dimensional growth. The magnitude of growth has been rapid and high in terms of funds mobilised, the amount of market capitalisation and expansion of investor population. In order to effectively tackle the problems associated with the massive growth, the regulatory framework of the capital market has been strengthened and streamlined.

India is one of the few developing countries with a long history of stock exchanges, the oldest one being established in Bombay (Mumbai) as early as in 1875. During the pre-independence period, stock exchanges had a chequered career. But development in the corporate sector as well as stock exchanges gained momentum with India going in for a planned economy since 1951. It was during the 1990s the process of economic reforms got a thrust. A survey conducted by the SEBI in 2000 reveals that the 1990s was the decade of reforms in the Indian economy. It was a period of
transformation of the Indian securities market and it was the age of the emergence of the securities market from the backwaters to the mainstream of the Indian financial system.

The balance of payment crisis in 1991 and various other factors compelled the government to introduce for reaching economic policy changes. The reforms introduced include abolition of industrial licensing except for a short list of industries, reduction in the reservation for public sector undertakings, abolition of asset ceiling for the companies covered by Monopolies and Restrictive Trade Practice Act (MRTP Act), formation of Securities and Exchange Board of India (SEBI) to protect the interest of the investors allowing 51% foreign ownership of equities and also permission to Foreign Institutional Investors (FIIs) to invest in securities traded in Indian capital market. These reforms were primarily considered to be responsible for the boom in the market and the heavy speculation noticed during the year 1991-1992.

The financial sector reforms, especially the free pricing regime that followed the abolition of the Controller of Capital Issues Act 1992, seem to have encouraged the corporate to rely on the securities market. This is evidenced by a significant increase in the number of issues accessing the securities market.

The number of issues was a meager 45 involving Rs.5477 crores in 1992, being the year of abolition of the controller of capital issues. After abolition, the number of issues as well as the amount of capital raised
registered a tremendous growth and 1995 there were 1445 issues amounting to Rs.14577 crores.

The securities scam that rocked the stock market during 1992-98 resulted in siphoning off the funds from the banks, which virtually stalled the growth of the capital market, when the capital market activities were thriving. India witnessed a stock scam that involved an amount to the tune of Rs.3542 crores. While describing the stock scam, the report of the Joint Parliament Committee (JPC) rightly pointed that the scam was basically a deliberate and criminal misuse of funds. This led to the erosion of investor faith in the capital market.

In the Indian capital market many ups and downs, the equity cult in India has grown at a rapid pace and has spread even to the remotest part of the country. Contrary to the popular belief that investors include only the middle income group from the urban area, it is found that even lower income group as well as the less educated belonging to rural area participates in the capital market activities. The SEBI's survey (2005) informs that the investor households have increased at a compared growth rate of 22% between 1985-86 and 2004-05. The rural investor households have increased at a compounded growth rate of 30% compared to 19% for urban investor households. The other major reason for development of capital market comes from the side of stock exchanges. The spread of trading terminals throughout the country brought the stock exchanges closer to the investor.

In Indian securities market Foreign Institutional Investors (FIIs) continued to invest large funds (SEBI 2008). FIIs made a net sales of
Rs.14,324 crore between January to March of 2008. The FIIs investment and debt more than doubled. Investments by mutual funds in equities and in debt increased by 79.9% and 40.4% respectively in 2007-08 (RBI).

All investments have an element of risk. The investors are bound to take all precautions to protect their interests. If they invest in any security without a proper evaluation of the risk, they may have to blame only themselves. But if there are malpractices by companies / brokers, they have reason to complain. Such grievances have been increasing in numbers in the recent years. In order to safeguard the interest of investors, the Securities and Exchange Board of India (SEBI), The Company Law Board (CLB), the Reserve Banks of India (RBI) and stock exchanges confer on the investors several rights that they can exercise in order to protect themselves from the perils of the stock market. The SEBI as well as the other bodies associated with the affairs of the corporate sectors not only put a check and malpractices of the securities market but also take effective steps to educate the investors to keep themselves aloof from the onslaught of the stock market irregularities. In spite of all these positive developments, there has been a greater concern for the need of increased protection to the investor community.

1.2 NEED FOR THE STUDY

The study will be useful for Regulatory Bodies, Stock Exchanges, investors and brokers can take steps in to plug the loopholes in the regulatory mechanism to ensure that the innocent investors are not exploited by the operators in capital market. This may further help to regulatory
bodies as to what extent the investor education programmes have reached the investors.

Programmes can be redefined by facilitating the investors to insulate themselves against the shocks of the stock market. Investors get enlightened about the sources of investment information and the various protective measures the government has initiated. Brokers can get an insight into the capital market behaviour of investors, which will help them to tune their activities in accordance with the preference of the investors.

1.3 STATEMENT OF THE PROBLEM

An investor has various alternative avenues of investment in which he can invest his money. Savings are invested in assets depending on their risk and return characteristics. There are lots of difficulties in taking an appropriate decision on how to go about in investing in the various financial instruments available in the market. An investor should educate himself about the developments in the capital market environment. Newspapers, magazines, televisions, internet, brokers and consultancies are some of the sources of information available to an investor. What are the sources an investor uses to gather the necessary information?

The motive of investors differs and their risk perception may not be the same. Institutional investors employ experts to procure, analyse and interpret financial information where as individual investors generally lack the necessary knowledge, competence and experience to make the best use of the available information. In order to play safe, an investor has to take
necessary precautions in choosing the securities. This being the situation, what is his investment behaviour? An investor is enticed by advertisement and tempted by broker's advice. It is claimed that he confronts with the problems of delay in executing orders, delay in delivery and delay in settling back the amount wherever shares are not allotted. Is this really so?

The Companies' Act 1956 confers on an investor several rights which he can exercise. The Stock Exchanges in India have undergone several changes and now the stock market transactions can be done online also. They do have their own system for redressing the investor grievances. The SEBI has been instituted to regulate both the companies and stock exchanges. Against this back drop it becomes imperative to know (a) what is his level of awareness? and (b) what factors influence his level of awareness?

1.4 SCOPE OF THE STUDY

The study highlights the awareness level of equity investors. It brings to light the common problems faced by the investors in share market dealings. The major features of stock exchanges and regulatory bodies were projected. It highlights the sources of information, behaviour of equity investors, factors influencing investors and the socio-economic background of the investors. The study will also help the regulatory bodies, stock exchanges and brokers to protect the innocent investors in current as well as future. The study will help the investors in collecting of information, selecting of source of information and investment behaviour in stock market.
1.5 OBJECTIVES OF THE STUDY

The study makes an attempt to seek solutions to the questions raised above. Accordingly, the following objectives have been framed.

1. To examine the investment information seeking behaviour of equity investors,
2. To ascertain the investment behaviour and problems faced by them.
3. To find out the factors associated with the level of awareness and
4. To suggest suitable measures to enhance the level of awareness of investors and to formulate measures to protect the interests of investors.

1.6 METHODOLOGY

The validity of any research depends on the systematic method of collecting the data and analyzing the same in a sequential order. In the present study the required data was used in primary nature. Questionnaire method has been used to collect the data.

1.6.1 DATA COLLECTION

Primary Data

In order to fulfill the objectives set, a sample study was undertaken by using a well framed questionnaire that was duly filled by the investors. The investors were selected with varying background based on the important aspects of their nature of occupation, education and age. A more worthy
feature was that all the seven hundred respondents filled the questionnaire with much zeal. This was due to the high level of literacy among the investors and the researcher’s rapport established with them.

The specimen of the questionnaire given to the selected sample investors is shown in the appendix section of this thesis.

**Discussions and Informal Interviews**

In order to know the behaviour of the investors several rounds of discussions were held with the knowledgeable persons in the field of capital market and research supervisor.

**Secondary data**

The secondary data pertaining to the study was gathered from the records published by Reserve Bank of India, SEBI, NSE, and BSE. The latest information was gathered from the well equipped libraries in Bangalore, Chennai and Coimbatore and from internet resources. Further the secondary data were also collected from various leading journals.

**1.6.2 Sampling Design**

For collecting primary data field survey technique was employed in the study area. The information pertaining to information seeking behaviour, investment behaviour and factors influencing equity investors were collected from seven hundred sample investors.
Erode district consists of seven Taluks was chosen for collecting data by stratifying into seven Blocks. The equity share investors were chosen from all the seven stratified geographical area representing one hundred investors on the basis of proportionate stratified method from each Taluk. The selection of sample investors was made in consultation with the share brokers. The investors were selected randomly from the list of clients maintained by brokers in all the seven Taluks.

The geographical distribution of sample investors is exhibited on the Table No. 1.1

**TABLE 1.1**

**GEOGRAPHICAL DISTRIBUTION OF THE EQUITY SHARE INVESTORS IN THE STUDY AREA**

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of Taluk</th>
<th>No. of Respondnts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Erode</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Bhavani</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Perundurai</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Gobichettipalayam</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Sathiyamangalam</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Kangeyam</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Dharapuram</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>700</strong></td>
</tr>
</tbody>
</table>

**1.6.3 TOOLS OF DATA COLLECTION**

**1.6.3.1 Pilot Study**

The questionnaire meant for the equity share investors was pre-tested with twenty five sample equity share investors. After the pre-testing, necessary modifications were made in the questionnaire.
1.6.3.2 Framework of Questionnaire

The study depends on primary data. The data required for the study have been collected through a questionnaire. Questions related to the study have been included after consulting investors, brokers and financial experts. Based on the information gathered through a pilot study, the structure of the questionnaire has been designed. The questionnaire has been divided into five sections; socio-economic profile of investors, details about the sources of investment information, particulars regarding investment behaviour of investors, investor awareness about the company related information including investor rights, stock exchanges as well as SEBI regulations and investor grievances are the broad components included in the questionnaire.

1.6.4 FRAMEWORK OF ANALYSIS

In this study the following statistical tools are used to analyse the data. i) Chi-square test ii) Analysis of variance (ANOVA) iii) Simple correlation iv) Multiple regression and v) step-wise regression.

1.6.4.1 Chi-square test

Chi-square test has been used to examine whether there exists any association between selected variables and i) Information seeking behaviour of investors, ii) Investment behaviour of investors and iii) Level of awareness of investors.
In the chapter four, nineteen variables / attributes have been selected for examining their association with level of awareness. They are i) Sex, ii) Age, iii) Educational qualification, iv) Occupation, v) Types of newspaper read, vi) Number of newspapers read, vii) Types of magazine read, viii) Number of magazines read, ix) Reading habit, x) Television viewing, xi) Usage of internet, xii) Period of investment, xiii) Regularity of investment, xiv) Motives of investment, xv) Type of market preferred, xvi) Proportion of wealth in shares, xvii) Portfolio diversification, xviii) Annual value of trading and xix) Frequency of meetings attended.

The level of confidence chosen for the chi-square test is five percent.

1.6.4.2 Analysis of variance (ANOVA):

Analysis of variance (ANOVA) has been used to test whether the mean awareness index among different groups of investors significantly differed or not.

1.6.4.3 Simple Correlation

Factors that are significantly associated with awareness of investors have been tested for their nature and strength of relationship through correlation analysis. Only those variables that are quantifiable have been considered for correlation analysis. They are (i) Educational qualification, (ii) Number of newspapers read, (iii) Number of magazines read, (iv) Reading habit, (v) Usage of internet, (vi) Regularity of investment, (vii) Proportion of wealth in shares (viii) Portfolio diversification,
(ix) Annual value of trading and (x) Frequency of meetings attended. The levels of confidence chosen are five and one percent.

1.6.4.4 Multiple Regressions

The technique of multiple regressions has been employed to ascertain the combined influence of the ten variables included for correlation analysis on the awareness of the investors. The following regression equation is framed and tested.

\[ AI = a + b_1 EQ + b_2 NNPR + b_3 NMAG + b_4 RH + b_5 UNET + b_6 RI + b_7 PWS + b_8 PD + b_9 AVT + b_{10} FMA + e \]

Where,

- \( AI \) = Awareness of Investors
- \( a \) = Intercept Term
- \( EQ \) = Educational Qualification
- \( NNPR \) = Number of Newspapers Read
- \( NMAG \) = Number of Magazines Read
- \( RH \) = Reading Habit
- \( UNET \) = Usage of Internet
- \( RI \) = Regularity of Investment
- \( PWS \) = Proportion of Wealth in Shares
- \( PD \) = Portfolio Diversification
- \( AVT \) = Annual Value of Trading
- \( FMA \) = Frequency of Meetings Attended
- \( e \) = Error term
The significance of the regression co-efficient are tested through ‘t’ statistic. $R^2$ value, calculated to ascertain the goodness of fit of the regression equation, has been tested for its significance through ‘f’ statistic. The levels of confidence chosen for ‘t’ and ‘f’ statistics are five and one percent.

1.6.4.5 Step-wise Regression

The most prominent factors that influence investor awareness are ascertained through step-wise regression analysis.

1.7 DEFINITION OF TERMS

Investor awareness, awareness index and investors' attributes are the terms frequently used in this study. The meaning of these terms is shown as below.

1.7.1 Investor Awareness

The present study examines the extent of awareness of investors and factors that are associated with it. Awareness of an investor as used in the study refers to awareness of investors about

(i) Company related information including rights of investors, (ii) stock exchanges and their role in investor protection and (iii) regulations of the Securities and Exchange Board of India (SEBI). In order to ascertain the
awareness of the investors, 33 awareness associated questions have been included in the questionnaire.

1.7.2 Awareness Index

The level of awareness of the investors has been measured by constructing an index called ‘awareness index’. For this purpose, the awareness related questions, numbering 33, have been given scores on a three point scale, ranging from one to three. Thus, the maximum score an investor would get is 99. The awareness index has been ascertained by converting the score of each investor into percentage. Thus,

\[
\text{Awareness Index (AI)} = \frac{\text{Awareness Score of an Investor}}{\text{Maximum Score}} \times 100
\]

1.8 PERIOD COVERED BY THE STUDY

The primary data and review of literature were collected during the first year (2007). In the second year first six months (January to June, 2008) spent for analysis and interpretation of data collected. The last six months (July to December, 2008) were used for rough drafting and for the final form of the thesis.

1.9 LIMITATIONS OF THE STUDY

The study is based on the data collected from equity investors residing in Erode District alone. Out of total population only 700 hundred equity
investors were selected for eliciting first-hand information. In view of the
time and monetary constraints, it was not possible to contact more than the
selected number of respondents. Further, the taluks of Kangeyam and
Dharapuram which were earlier attached to the Erode revenue district, have
been attached to the newly created Tirupur District with effect from
22nd February 2009. Hence while generalizing the results caution may have
to be exercised. Any limitation that pertains to an opinion survey is bound to
be applicable to this study as well. Hence, the generalization of the findings
of study is subject to these limitations.

1.10 CHAPTER SCHEME

The present descriptive study has been divided into Five Chapters.

The First Chapter introduces the theme of the study, the statement of
the problem, objectives of the study, research methodology employed to
carry out the study, the method of data collection, sampling procedure,
purposes for which the various statistical tools used and the framework of
the analysis are presented.

The Second Chapter is devoted to an overview of the capital market
in India. The developments that have taken place in the capital market over
the years and the protective measures taken by the regulatory authorities for
safeguarding the interest of the investors are discussed.
The Third Chapter is for the review of the related studies. The results of the study carried out in India and abroad are brought out in this chapter.

The Fourth Chapter is for Analysis and interpretation of the study. The Socio- Economic profile of the sample investors, sources of investment information, information seeking behaviour of equity investors, investment behaviour of equity investors, the factors influencing the behaviour of investors and determinants of investor awareness are analysed and discussed in this chapter.

The Fifth Chapter summarises the findings of the study. It gives the suggestions for improving the level of awareness of the investors as well as the protective measures to be taken by the regulatory authorities are included.