S M A R T

JOURNAL OF BUSINESS MANAGEMENT STUDIES

Vol.3 **No. 1** **January - June 2007**

ISSN 0973 - 1598

Chief Editor
Dr. M. SELVAM, M.Com., Ph.D.,
Bharathidasan University,
India

SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST
(SMART)
TIRUCHIRAPPALLI (INDIA)
http://www.geocities.com/smartbard

INVESTORS' PERCEPTION TOWARDS CAPITAL MARKET REFORMS IN INDIA

V.Sachithananthan

Senior Lecturer, Department of Management Studies, DDE, Annamalai University, Annamalai Nagar, India

M.Sayed Jaffer

Professor, Department of Management Studies, DDE, Annamalai University, Annamalai Nagar ,India

J.Raja

Assistant Professor, Department of Management Studies, National Institute of Technology, Tiruchy, India.

A. Suresh Kumar

Research Scholar, Department of Management Studies, National Institute of Technology, Tiruchy,India

Abstract

An attempt has been made in this paper to study the relationship between capital market reforms and amount of money invested by the investors. Normally, capital market reforms have definite influence over the investment pattern of investors. But investors' perception regarding capital market reforms would clearly indicate whether these reforms have positive or negative influence over investors' investments at the capital markets. In order to capture investors' perception,a standard questionnaire has been developed and survey has been done in major cities in Tamilnadu. Factor and multiple regression analysis were used to analyse the data. There are five factors identified from the factor analysis, namely, company reforms, growth reforms, educative reforms, attractive reforms, and innovative reforms. Subsequently, these factors, along with a few control variables, were submitted for multiple regression analysis. The result shows that educative reforms and attractive reforms were statistically significant but they had negative influence over money invested by investors at the capital market.

Key Words: Investors' Perception, Capital Market Reforms, Factor Analysis and Multiple Regression Analysis

Introduction

Capital market is an important constituent of the financial system. It is a market for long term funds in the form of both equity and debt. It mainly deals with financial assets, excluding coin and currency. The financial assets comprise shares, debentures, bonds, mutual funds, fixed deposits, pension funds, provident fund, insurance policies, and derivatives. The capital market in the country has witnessed a tremendous growth during the last one decade in terms of number of companies, capitalization, increase in number of investors, brokers, stock exchanges, foreign investments, mutual funds and so on. The economic liberalization and reforms initiated in our country have also acted as a catalyst in the development of capital market and Indian market has matured with rising volumes, transparency in operation and depository mode of holding investments. Capital market in India has witnessed unprecedented growth in the last few years which has very few parallels elsewhere in the world.

The paper has the following sections. The first section deals with review of literature about various aspects of investors' perception towards capital market reforms. The second section describes methodology and the third section deals with description of variables. The fourth section illustrates the analysis part of the paper. The fifth section presents conclusion of the paper.

a) Review of Literature

Mayya M.R. (1993) has given a compact picture of Bombay Stock Exchange in the past, present and future and profoundly believes in the future scenario of BSE in terms of its development. Abraham and David L. Ikenberry (1994) have conducted a study to investigate the week end effect on individual investor and found that it is substantially the consequence of information revealed in prior trading sessions, particularly on Fridays. Individuals in general tend to use Monday as an opportunity to satisfy liquidity needs.

Sarkar A.K. (1994) reports that there is need to continue the reform process undertaken by the government to strengthen and promote the growth of the Indian Capital Market. Rangarajan C. (1994) clearly expresses the problems, prospects and agenda for reforms in the capital market. It is concluded that the Capital Market in India is bound to grow in size with the introduction of private participation and public sector companies to the capital market to access funds.

Patil R.H. (1994) has identified the developments in capital market in India. The major requirement for the development of a healthy market is the presence of active bond dealers who not only act as intermediaries but also make markets deal in debt instruments. Bhole L.M. (1995) has analysed the major trends, changes, problems, and issues relating to primary and secondary markets over a period of 40 years and suggests various reforms for restoring the health of the capital market. An increase in the number of share holders and an increase in the new issues activity by themselves do not mean that equity culture has arrived because such trends have been accompanied by a number of countervailing trends and dysfunctional development and practices.

Singh N.K. (1995) aims to bring out the latest developments in Capital Market reforms and concludes that small investors who could stay away from market may not get allotment in good issues. Direct participation is made difficult due to reduced publicity costs.

Jain S.K. (1996) has examined the avenues for investors to get benefit from the current capital market situations. The stock market investors sentimentally remained weak throughout the year 1995. Stock market reeled under continuous bearish phases. The main reason for the slump in the secondary market is due to severe liquidity crunch and over supply of papers.

Sarkar A.K. (1997) has identified the recent developments and their implications for the Indian capital market. Some of the important problems which plague the Indian stock exchanges are delayed transfer of shares, delayed and non – receipt of refund orders, bad deliveries and liquidity of the market.

Beverly R. Walther (1997) has studied investor sophistication and market earnings expectation and concluded that although analyst forecasts are generally accurate, market earnings expectations do not consistently follow these forecasts. Neither the publication of analyst forecasts for a subset nor the greater accuracy of analyst forecasts explains these results.

Nidhi Jain (1999) has stated that the agenda for further reforms of capital markets in India broadly comprises the developments in the debt market, revival of equity markets and improved disclosures and corporate governance standards, reforms in insurance and pension funds to enable the flow of funds in infrastructure and the emergence of financial derivatives and risk management products.

Sahoo M.S. (2002) expresses the reasons for the prevailing financial condition of Indian stock exchanges. It is found that multiplicity of exchanges, financial health of exchanges, economic viability, withdrawal of protection are the main reasons that must be taken care of for the successful functioning of capital markets in India.

Kamalesh Vikamsey (2002) analyses the trends of future capital market in India.

Dhananjoy Rakshit (2003) explains the awareness of investors in the stock market, process of trading and settlement in secondary market, modus operandi of stock prices and code of conduct for brokers / sub brokers regarding their duties to the investors.

Meir Statman (2003) is of the opinion that investors in the early 20th century and today are tempted by the lure of big money from the latest technology stocks. Yesterday's investors could hardly imagine today's Internet, but they hoped as intently to make their fortunes from mines, automobiles, and the wireless telegraph.

Eresi K. and Vasantavalli C. (2003) have studied the issue of perception of individual investors in relation to the risk disclosures made in offer documents by IT companies.

Sarma S.N. (2004) examines the presence of seasonality in the Indian stock market returns during the post liberalization period. Using the log returns data on the popularly used BSE indices- Sensex, and BSE200 for the period January 1st 1996 to August 10th 2002, the study provides evidences to the presence of seasonality across the days of the week. It confirms the conclusions of earlier studies as to the leptokurtic distribution of equity returns; presence of highest variance on Mondays; weekend effect, and regularity of returns across the indices.

Harvinder Kaur (2004) asserts that the implications for investors are also important for the stock exchange administrators and policy makers. The surveillance regime around the budget should be stricter to keep excessive volatility under check. There is no reason to be concerned over the spillover for the US markets as the evidence suggests weak and somewhat inconsistent relationship between the two markets.

Sanjai Bhagat, et. al. (2004) maintains that the performance of American corporations had long-term outside investors (relational investors) who would hold large stakes, monitor management performance and engage with management in setting corporate policy.

Abdul Abiad and Ashoka Mody (2005) have analyzed the determinants of financial reform, using a newly constructed cross-country database of financial liberalization covering 35 countries.

Sachithanantham V. and Syed Zafar M. (2006) surveyed capital market reforms and their impact on investors. They concluded that credit rating agencies should rate the shares also. Further they suggest that SEBI should attract rural investors by conducting various awareness programmes to tap the rural investors. The following research hypothesis is constructed on the basis of the above mentioned findings.

Hypothesis: Security market reforms have significant influence over money invested.

B) Methodology of the Study

The basic objective of the paper is to study the investors' perception towards capital market reforms in India. In this particular study, an attempt has been made to obtain a keener insight into investors' behaviour in Tamil Nadu towards capital market reforms in India.

The present study relates to the perception of 824 respondents from Tamilnadu (India) in order to observe individual investor's awareness and investment pattern beheviour regarding capital market reforms in India. The selection of a suitable instrument is of vital importance for data collection in social science research. In this paper, the structured questionnaire is used and survey is conducted in major cities in Tamil Nadu. In order to prove the research hypothesis, the principal component analysis and multiple regression analysis are used.

C) Description of variables

The following variables have been identified and used in this paper.

1.Dependent Variables: Percentage of investment made in the stock market. 2. Independent Variables are based on the capital market reforms in India. These variables are identified by conducting focus group study on the reforms and these reforms have been classified into six categories, namely, reforms in capital market, primary market, secondary market, instruments and their changes, returns on investments and latest developments and 3. Control Variables: this study employs following control variables to mitigate investor demographic bias in the survey such as annual income of the investor, occupation of the investor, marital status of the investors, age of the investor, gender of the investor, and educational qualifications of the investor.

D) Analysis of the Study

In this paper, the factor and multiple regression analysis are used to study the capital market reforms on percentage of amount invested in the Indian capital markets. According to the need of this paper, the principal component analysis is used for data reduction. Subsequently, the result of the factor analysis is used as input for multiple regression analysis. The regression analysis is used to predict a continuous dependent variable from a number of independent variables. In this paper, the multiple regression analysis is used to study capital market reforms influence on percentage of money invested in security. The multiple regression equation is as follows.

Percentage of money Invested $= \alpha+\beta 1 \times$ Factor I $+ \beta 2 \times$ Factor II $+ \beta 3 \times$ Factor III $+ \beta 4 \times$ Factor IV$+\beta 5 \times$Factor V$+\beta 6 \times$ Annual Income$+\beta 7\times$Age$+\beta\times$Gender$+\beta\times$Qualification $+ \beta\times$ Marital Status$+\beta\times$ Occupation+€

Table –I shows the results of Factor Rotated Component Matrix. Factor analysis is used to reduce the data into a few factors, which determine the investors' perception towards capital market reforms in India. For further interpretation of the above table, it is necessary to evaluate the appropriateness of KMO (Kaiser –Mayer -Olkin) measure of sampling adequacy. In this paper, the KMO test yields the result of 0.921 at 95 percent confidence level. It indicates that factor analysis is an appropriate technique to be used. Under factor analysis, the principal component method is used to identify factors. As a result, there are five factors extracted from the data. The final process in the factor analysis is to name factors. Naming of the factors has been based on subjective consideration rather than scientific guidelines. Five factors are identified and named as company reforms, growth reforms, educative reforms, attractive reforms, and innovative reforms. Factor analysis output is used for further analysis to determine capital market reforms influence on money invested by investors.(Table-I)

Multiple regression analysis is used to determine which factors have influence over money invested at capital markets. From the table, it is clear that the educative reforms and attractive reforms have significant influence over money invested by investors at capital markets. It shows that the educative reforms really played a very vital role in inducing investors to make investment at capital market, because it has 't' value of –6.195 at 95 percent confidence level. The attractive reforms have 't' statistics of –1.968 at 95 percent confidence interval, which shows that it has significant influence over money invested at capital markets. Further, the control variables such as occupations and annual income of the investors have statistically significant relationship with money invested by the investors.

E) Conclusion

An attempt has been made in this paper to study the relationship between capital market reforms and amount of money invested by the investors. Normally, capital market reforms have definite influence over the investment pattern of investors. But, investors' perception regarding capital market reforms would clearly indicate whether these reforms have positive or negative influence over investors' investments at the capital markets. From the analysis, it is concluded that educative reforms and attractive reforms are statistically significant but have negative relationship with money invested at the capital markets.

Reference

1. Mayya M.R. (1993), The Bombay Stock Exchange: Past Present and Future. *Charted Secretary*, Vol. XXII, July 1993, pp. 656-659.
2. Abraham Abraham and David L. Ikenberry (1994), The Individual Investors and Weekend Effect. *The Journal of Financial and Quantitative Analysis*. Vol. 29, No. 2, June 1994, pp. 263-277.
3. Sarkar A.K. (1994), Indian Capital market New Dimensions. *Chartered Secretary*, Vol. XXIV No. 9, Sep. 1994, pp. 803-807.
4. Rangarajan C. (1994), Indian Capital Market: Problems, Prospects and Prescriptions. *Reserve Bank of India Bulletin*, July 1994, pp. 841-845.
5. Patil R.H. (1994), Capital market Developments. *The Journal of Indian Institute of Bankers*. Vol. 65, No. 3, July-Sep., 1994, pp. 106-110.
6. Bhole L.M. (1995), The Indian Capital Market at Cross Roads, *Vikalpa*, Vol. 20, No. 2, April-June 1995, pp. 29-38.
7. Singh N.K. (1995), Update Capital Market, *The Management Accountant*,Vol. 30 No. 11, November 1995, pp. 853-854.
8. Jain S.K. (1996), How to Benefit from the Current Capital Market Situation. *The Management Accountant*, Vol. 31, No. 3, March 1996, pp. 177-181.
9. Sarkar A.K. (1997), Indian Capital Market: Recent Developments and their Implications. *The Management Accountant*, Vol. 32 No. 3, March 1997, pp. 173-179.
10. Beverly R. Walther (1997), Investors Sophistication and Market Earnings Expectations. *Journal of Accounting Research*, Vol. 35, No. 2, Autumm 1997, pp. 157-179.
11. Nidhi Jain (1999), Restructuring Capital Market. *Chartered Secretary*, Vol. XXIX, September 1999, pp.982-990.
12. Sahoo, M.S. (2002), Financial of Indian Stock Exchanges. *Chartered Secretary*, Vol. XXXII, pp. 1003-1009.
13. Kamlesh Vikamsey (2002), Capital Market – Future in India. *The Chartered Accountant*, Vol. XXXII. July 2002, pp. 89-94.
14. Dhananjoy Rakshit (2003), Investor Awareness in Stock Market. *Chartered Secretary*, Vol. XXXIII, March 2002, pp. 315-319.
15. Meir Statman (2003), A Century of Investors. *Financial Analyst Journal*, Vol. 59, No. 3, May-June 2003, pp. 52-68.
16. Eresi K. and Vasantavalli C. (2003), Perceptions of Individual Investors Vis-à-vis Risk Disclosure in IT Companies IPOs - A Study, *Indian Journal of Accounting*, Vol. XXXIII, June 2003, pp. 10-16.
17. Sarma S.N. (2004), Stock Market Seasonality in an Emerging Market, *Vikalpa*, Vol. 29, No. 3, July – September 2004, pp. 35-43
18. Harivinder Kaur (2004) Time Varying Volatility in the Indian Stock Market. *Vikalpa*, Vol. 29, No. 4, October – December 2004, pp. 24-42.
19. Sanjai Bhagat, Bernad Black and Margaret Blair. (2004), Relational Investing and from Performance. *The Journal of Financial Research*. Vol. XXVII, No. 1, Spring 2004, pp. 1-30.
20. Abdul Abiad and Ashoka Mody (2005), Financial Reform: What Shakes it? What Shapes it? *The American Economic Review*, Vol. 95, No. 1, March 2005, pp. 66-88.
21. Erichrist, lisakoonce, paul.j simko investor reactons to financial analyst research reports Joural of a accounting research vol.33 n0.2 autum 1995 pp331to 351.
22. Sghanmugam, r factors influencing investment decision Indian capital market trends and dimensions, tata mcgraw hill publishing co. ltd pp225 to 267.
23. Ray r strum investor confidene and return following large one dayprice changes. Journal of behavioural finance vol.no.4 pp 201-206 (2003)
24. Furquan qamar and illayas husain effect of education on occupational choices, earnings, savings behaviour and investment preference. Margin vol no.2&3 jan- June 2003 pp 87-102

Table- 1
Factor Rotated Component Matrix

Factors/ Criteria	Factor I	Factor II	Factor III	Factor IV	Factor V	Communalities
C1	.590	4.251E-02	2.629E-02	.345	.109	.481
C2	.193	-8.105E-02	.348	.507	.137	.441
C3	.274	.127	-1.615E-02	.670	3.416E-02	.542
C4	-.169	.158	-5.867E-02	1.974E-02	.732	.593
C5	.211	.457	-.158	.399	.239	.495
C6	.253	.627	.221	-.111	.196	.557
C7	.353	.249	.325	.250	5.333E-02	.357
C8	5.855E-03	.358	.592	.314	-2.878E-02	.578
C9	.140	.655	9.223E-03	.174	9.061E-02	.487
C10	-2.947E-02	.489	.391	.341	.155	.533
C11	9.233E-02	.249	.136	.386	.402	.399
C12	.283	.557	.230	.141	.136	.481
C13	.306	.454	.279	-.286	.315	.559
C14	.486	.251	.149	.220	.146	.390
C15	.204	.145	.646	8.840E-02	.226	.538
C16	.609	4.019E-02	7.918E-02	.112	.360	.521
C17	.287	-1.896E-02	.327	6.124E-02	.456	.401
C18	.201	.211	3.956E-02	8.688E-02	.611	.467
C19	.290	1.499E-02	.379	5.150E-02	.563	.548
C20	.485	.281	.377	.252	9.219E-02	.529
C21	.388	1.057E-02	.418	.376	2.072E-02	.467
C22	.193	.203	.307	.587	1.063E-02	.517
C23	.528	.448	.236	.166	-8.344E-02	.570
C24	.587	.199	.154	.241	5.409E-02	.469
C25	.715	.255	.146	5.276E-02	7.026E-02	.605
C26	.447	.103	.538	-2.845E-02	.114	.514
C27	.536	.251	.440	7.816E-02	5.580E-03	.550
Eigen Value	3.822	2.717	2.651	2.282	2.116	13.589
% of Variance	14.157	10.064	9.820	8.451	7.835	-
Cumulative % of Variance	14.157	24.221	34.042	42.492	50.328	-

Source: Primary Data

Table- II
Multiple Regression Analysis

Criteria	Unstandardized Coefficients	Standardized Coefficients	't' Test	'p' Value
Company Reforms	3.509E-02	-.050	-1.409	.159
Growth Reforms	4.278E-02	.061	1.797	.073
Educative Reforms	-.150	-.214	**-6.195***	.000
Attractive Reforms	-4.760E-02	-.068	**-1.968***	.049
Innovative Reforms	3.188E-02	.045	1.297	.195
Age	3.190E-02	.032	.777	.438
Gender	4.553E-02	.017	.495	.620
Marital Status	-9.040E-02	-.056	-1.530	.126
Education	1.371E-02	.020	.553	.580
Occupation	5.135E-02	.078	**2.080***	.038
Annual Income	7.760E-02	.106	**2.723***	.007
F Test	**'p' Value**	**R**	**R Squared**	**Adjusted R Squared**
5.719*	0.000	0.269	0.072	0.060

Source: Primary Data
* Significant at 0.05 percent.