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ENTANGLE OF GENDER & EXPERIENCE ON INVESTMENT BEHAVIOUR OF CORPORATE INVESTORS

Management

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ABSTRACT

Behavioral corporate finance is ingredient of finance that seeks to comprehend and explain the methodical financial market implications of behavioral investment paradigm. It pools the knowledge of psychological implications which explain the irrational investor behavior that is not being captured by the conventional rational based models. Corporate investment Behavior is not only confined within the frame work of conventional mindset but also the situational expectations and values. Sometimes, the corporate investors make irrational decisions and do not behave rationally; the reason behind it can be answered with the help of clear understanding of Behavioral Corporate Finance. This study dialogues about how the gender and experience of an individual in the capacity of decision making influences while taking an investment decision in Indian investment market. This concept is covered under the topic of behavioural Corporate Finance. Behavioural Corporate finance is one of the branches of Finance that deals with psychology-based investment decision making. In this study, a detailed analysis has been made to understand the influence of corporate investors' gender and experience on investment behavioral paradigm and the concreteness of perceptions on a particular investment trend in the current investment scenario. An effort has been made to understand the behavioural biases of corporate investors and a comparative study has been done based on the primary data collected for the research.

Conceptual Background

Conventional Finance vs. Behavioural Finance

In ***conventional*** theories of finance investment decisions are based on the conjecture that corporate investors act in a rational manner. This means that they behave rationally so they earn returns for the money they put in stock markets. To become successful in the stock market it is crucial for corporate investors to have rational behaviour patterns. Rational behaviour is also required to overcome tendencies.

Modern theory of corporate investors' decision-making suggests that corporate investors do not act rationally at every time while making an investment decision. They deal with several cognitive and psychological errors. These errors are called behavioural biases and are exists in many ways. Behavioural finance has been growing explicitly over the last two decades as we find difference between the assumptions made in traditional finance theory and actual behaviour of corporate investors.

Objective of the study

Major objective of the study is to understand and highlight the investment behavior of corporate investors with the influence of their gender and experience

Review of Literature

Belsky and Gilovich(1999) prefer to call behavioral corporate finance as 'behavioral economics' and says that "Behavioral economics combines the twin disciplines of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow money." According to ***Barber and Odean (1999),***"Behavioral corporate finance relaxes the traditional assumptions of financial economics by incorporating these observable, systematic, and very human departures from rationality into standard models of financial markets. The tendency for human beings to be overconfident causes the first bias in corporate investors, and the human desire to avoid regret prompts the second".In the word of ***Fama (1998)***.Behavioral corporate finance can be defined as a field of finance that proposes explanation of stock market anomalies using identified psychological biases, rather than dismissing them as "chance results consistent with the market efficiency hypothesis."

According to ***Nofsinger (2001)***, the field of finance has evolved over the past few decades based on the assumption that people make rational decisions and that they are unbiased in their predictions about the future. Corporate investors are thought of as a rational lot that take carefully weighted economically feasible decisions every single time.

As per ***Thaler (2005),***arational investor can be defined as a one that always (i) updates his beliefs in a timely and appropriate manner on receiving new information; (ii) makes choices that are normatively acceptable.

Bernstein(1998)feels that the "evidence reveals repeated patterns of irrationality, inconsistency, and incompetence in the ways human beings arrive at decisions and choices when faced with uncertainty".

Research methodology

This Research methodology started with understanding the concepts and terminologies related to behavioural finance. The sources of the data are mainly from Primary data and a structured questionnaire has been used to understand the investment behaviour paradigm of the corporate investors.

Sampling and Data Collection

The Sampling method applied here is stratified sampling and the sample size includes information that has been collected by the respondents directly in the form of filling up of questionnaire. 20 questions were designed in such a way so that we can understand an individual's behaviour while investing in the stock market. The sample size of the research was initially 508 out of which only 480 responses is considered. So the final Sample Size is n=480. The response is availed from 480 active participants/ corporate investors in the stock market in the capitals of south Indian states of Karnataka, Tamilnadu, Seemandhra and Kerala. The samples availed are equally distributed in these southern states with the combination of male and female corporate investors

The investment behaviour of corporate decision makers by focusing on their gender and experience on their investment avenues is tested by using Chi-square test using critical value method.

Chi Square Test: A measurement of how expectations compare to results. The data used in calculating a chi square statistic must be random, raw, mutually exclusive, drawn from independent variables and be drawn from a large enough sample.

The parameters that has been tested:

Relation between Experience and Area for investment,

Relation between gender variation and Investment decision making

Hypotheses

Hypothesis-1. H_0: There is no significant relation between Experience and investment decisions.

H_1: There is a significant relation between Experience and investment decisions.

Hypothesis-2. H_0: There is no significant relation between gender and investment decisions

H_1: There is a significant relation between gender and investment decisions

Analysis

Hypothesis - 1

Experience Range of Corporate investors	Infrastructural projects	Non-infrastructural projects	Total
< 2 years	**20**	**67**	**87**
2 years – 5 years	**32**	**48**	**87**
5 years – 10 years	**68**	**90**	**158**
10 years & above	**88**	**60**	**148**
Total	**160**	**320**	**480**

Inference: Calculated chi-square value is 109.35 but the critical table value at 99% confidence level is 6.63. As the calculated value is greater than the table value, null hypothesis is rejected. So there is a significant relation between gender and the area of investment.

Types of Corporate investors	Infrastructural projects	Non-infrastructural projects	Total
Male	26	**214**	**240**
Female	134	**106**	**240**
Total	160	**320**	**480**

Hypothesis -2

Inference: Calculated chi-square value is 109.35 but the critical table value at 99% confidence level is 6.63. As the calculated value is greater than the table value, null hypothesis is rejected. So there is a significant relation between gender and the area of investment.

Result and Discussion

Out of the total number of males and females who participated in our survey 50% were males and Females were 50%. In the survey is 18% people belonged to the experience of less than 2 years, 18% people belong to the experience range of 2 years to 5 years. 33% of the respondent belongs to the experience range of 5 years to 10 years and 31% belong to the experience range of above 10 years. A large chunk of sample prefer that is 37% of sample prefer investing in non-infrastructural projects and second is non- infrastructural projects i.e., 30 % of the sample size tend to invest in IT-projects. Remaining corporate investors' preferences are spread.

Three parameters were measured as to why people prefer to invest and the result was as follows 29% of samples invest to get high long term returns. 20% of people invest so that they can meet future contingencies and 41% of people invest so that they can get a tax advantage. 10% people consider secured future after retirement so that they can fulfil their health needs. The maximum chunk of the sample that is 41% maintain an investment ratio to experience 20%-30% this shows they believe in some kind of usage of their salary in value adding investment. Nearly 72% of people are aware of risk return trade off this show people. It also revealed that while taking investment decision people follow "Heuristics" approach which a good while is deciding on Investment Avenue. This shows "herding" is avoided by majority of corporate investors which shows that they take irrational decision. 20% people take decision based on own thumb rule this may suggest "Overconfidence Bias", Overconfidence causes people to overestimate their knowledge, underestimate risks, and exaggerate their ability to control events. 8% of the corporate investors have herding behaviour while taking the investment decisions.

Outcome of the Research

Individuals who are overconfident about their abilities tend to think they are better than they actually are. This bias may sometimes lead to wrong investment decision. 35% of people take decision based on market information gathered by them and this denotes the Anchoring Bias which is a common mistake wherein a psychological situation exists when corporate investors give unnecessary importance to statistically random an psychologically determined 'anchors' which leads them to investment decisions that are not essentially 'rational' and 8 % of people follow the herding behaviour which is a common mistake where corporate investors tend to follow the investment decisions that taken by the majority.

It is also found that majority of the male corporate investors are ready to take high risk and expect the high returns but on the other hand female corporate investors prefer to invest in government bonds/securities or to go for less risky and regular returns investments.

To keep in mind……!

It is suggested for corporate investors are to make constant attempts to increase their awareness on behavioural finance by educating themselves on the field.

- By Studying about the biases and its impact on their decisions are likely to help achieve better self-understanding to the extent and manner to which they gets influenced by emotions while making financial decisions under uncertainty.
- Even after satisfactory awareness is achieved it is highly recommended that they maintain a chart of the behavioral biases they are likely to be vulnerable to. This should be reviewed periodically in order to recollect and refresh their memory thus giving themselves a better chance to make improved financial decisions in the stock market.
- Most essentially, what remains unanswered is whether greater awareness of corporate investors about behavioral biases is likely to increase the market efficiency. Awareness about behavioral biases and its application in the course of making investment decision would be increasing the rationality of investment decisions thus making way for higher market efficiency.
- Behavioral corporate finance, as a field, brings psychology and finance together. From a research perspective, behavioral corporate finance presents a lot of fresh opportunities and challenge mainly because it is a relatively young field in emerging countries like India.
- Moreover, it offers numerous opportunities for creative thinking and experimental studies, since there is an opportunity to focus on the human mind and its ways. The field is closely related to behavioral economics, which focuses on understanding the rationale behind economic decisions, by researching on various identified cognitive or emotional biases, which people may be suffering from.

Conclusion

The researchers would like to conclude this study by saying the various psychological Biases were identified and studied in detail to see the key effect on the corporate investors and consequences on the investor. An experimental research was realised to know how these biases play a major role while taking decision.

While psychology studies behavioural biases in order to understand how they arise and manifest themselves, behavioural finance aims to understand how they aggregate across individuals, whether they have impact on the market dynamics and ramifications for investor performance. In order to study such implications of investor biases it is important to understand the most relevant aspects of investor behaviour as well as the environment in which they are operating.

Therefore the researcher would like to conclude saying that Behavioural finance is very important topic which each and every investor should understand so that they do not make any mistake while investing their money whether it is government security or other securities if and only if it is upto their expectation, it will be fruitful.

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