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Factors Influencing Retail Investor's Participation in Initial Public Offers

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Abstract: Purpose of the study is to explore the factors that influence participation in an Initial Public Offer. The study was done during the period between April and July 2016, Samples were drawn from retail investor's base who has invested in IPO which got listed in the specific time frame. A sample of 253 investors was studied through a questionnaire administered either through e-mail or direct collection by field visit. Through factor analysis five constructs were identified. Based on the items that convened on the said constructs they were labeled as Investor attitude, Subjective norms, Information asymmetry, Economy, Industry and Company attributes and Behavioral intentions. Intention of the further research is to identify a structural fit with the constructs. 5 factors that were identified explained approximately 68% of the total variance in the data set. These five factors are supported by 21 variables, 9 were rejected will was not supported by the minimum requirement.

Key Words: Initial Public Offers, Factor Analysis, Behavioral Intentions

I. INTRODUCTION

Indian stock market is one of the markets among the developing countries that attract more investors and has also surprised being resilient to major turmoils which is evident from the recent situational factors that affected global markets a large, but not the same extent in our exchanges. Participation of domestic institutional investors is increasing with the increase in investor's confidence and awareness in our market. Individual investors are becoming more professional in their investment. There is a drastic increase in the number of investors who have opened Demat accounts post 2013 and counting still. Initial Public Offers are widely discussed and researched topic by many of the researchers and experts, Most of them related to the performance of Initial Public Offers with various factors either to measure long term or short term.

When it comes to performance it is related to the secondary data available, which were tested with performance as dependent and other factors as independent variables. It is imperative that investor's to behave rational, but decisions are made from the psychological point of view in many situations attributed to awareness level, availability of information etc., Psychological factors have major influence on decision making. Richard H. Thaler (2005) Behavioural finance explains interaction between human and his/her motivation towards investment, either partially or completely influenced by psychological factors.

II. REVIEW OF LITERATURE

Behavioural intention determinants: All the below listed constructs have hypothetical relationship with our dependent variable. 1. Attitude, 2. Subjective norms, 3. Perceived behavioural control. Actual Behaviour was not in our objective of measurement.

(a) Attitude

Attitude has long been identified to be a predictor of future behaviour. In the theory of reasoned action, attitude is defined as evaluative effect of individual positive or negative feelings toward conducting a specific behaviour (Fishbein and Ajzen 1980). However, behavioural intention is recently defined as individual's favourableness or unfavourableness toward psychological object. (Ajzen and Fishbein 2000). If an individual has a more favourable attitude toward a specific behaviour, the chances are higher that they will have an intention to conduct the behaviour. On the other hand, if they are more unfavourable of the behaviours, they are likely to not have the intention (Ajzen and Fishbein 1980). Many studies have claimed a significant effect of attitude on behavioural intention (Mathieson 1991, Teo and Pok 2003, Shih and Fang 2004, Ramayah and Suki 2006, Michael 2011). As a result, in the context of individual investment, it is reasonable to assume that if an individual investor is more favourable of the investment, they are more motivated to take the action than those who are less favourable. Ashbury, Isen and Turken(1999) Positive mood enhances an individual performance on many cognitive tasks. Damasio(1994), LeDoux(1996) indicate that emotion improves decision making in two aspects. First, emotion pushes individuals to make some decision when decision making is paramount. Second, emotion can assist in optimal decision making.

(b) Subjective Norms

The subjective norm is one of the two original constructs from TRA. It captures individual's perception regarding whether most of their significant others think they should or should not conduct the behaviour (Ajzen and Fishbein 1980). The subjective norm is considered to be one of the immediate determinants of behavioural intention in TRA and TPB. According to TPB, if a person, for instance an individual investor on stock market, sees that those who are more important to them think they should perform certain behaviour, it is highly likely that they will intend to do so. On the other hand, it is believed that if their significant others do not agree with performing the behaviour, chances are higher that they will not have the intention. This means, even if an individual is not favourable of the behaviour, he may conduct it anyway under social pressure and influence (Venkatesh and Davis 2000). Many experimental studies show the significant relationships between subjective norm and intention (Venkatesh and Davis 2000, Fu, Farn *et al.* 2006), while other studies prove insignificant links between the two constructs (Lewis, Agarwal *et al.*

2003). However, the mixed conclusions regarding the predicting power of subjective norm on intention could still hint a considerable link between them. It is rational to predict that if an individual investor perceives supporting subjective norms, they may have an intention of investing more than those that do not feel similar pressure.

(c) Perceived behavioural control

The control belief in TPB is represented by perceived behavioural control. The PBC construct is added to overcome the limitations in TRA model and to apply in contexts where individuals do not have the full control of resources in order to conduct the behaviour (Ajzen 2002). Ajzen (2005) defines PBC as individual's perception of the ease or the difficulty in conducting certain behaviour. This means, within TPB model, the stronger one's PBC is, for instance that of an individual investor, the more likely they would conduct the behaviour (Ajzen 2005). And vice versa, the chances will be less. Consequently, the performance of behaviour is correlated with one's confidence in their ability to conduct the behaviour. Part of PBC is built from past experience and part is from old information acquired via communication with relatives, family, friends and via factors that help control the perceived ease or difficulty in behaviour performance (Ajzen 1991). Additionally, increased availability of resources like time, money or opportunities would improve the perceived control and hence the possibility of performing behaviour (Ajzen 1991). Many experimental studies show that PBC could be accounted for considerable variance in intention and behaviour, and also prove positive link between PBC and intention (Mathieson 1991, Shih and Fang 2004, Fu, Farn *et al.* 2006). In this research, it is expected that individual with higher PBC would be more likely to have investing intention than those with less PBC. Thinking of the PBC from investment angle, investors tend to follow certain experiences of the past which may be like how the view the prevailing situations and factors. Here in our research the situational factors that influence IPO decision are taken as Perceived Behavioral Control. For Initial Public Offers factors like history of the company, market conditions and the related concepts are the situational factors which may influence the behaviour and can be considered as a proxy for Perceived Behavioral control, So in this research PBC is framed as the attributes of Economy, industry and Company. Lo and Repin(2001) has studied the psychological characteristics of professional securities traders while they are engaged in live trading. They reported a significant correlation between market events and physiological characteristics.

(d) Information Asymmetry

Information Asymmetry is the relationship between desire to learn and desire to prevent an opponent from learning a private information. Kung chang *et al.* (2008) in their study emphasized about the quality of information provided to investors through website of the companies. Lawrence (2013) Higher quality disclosure of financial part influence investors to take more risk by investing more.

III. OBJECTIVE

To explore the factors that influences a retail investor participation in an IPO

To identify the demographic profiles of a retail investor in an IPO

IV. RESEARCH METHODOLOGY

(a) Target Population

Target population in this study considered were investors who are investors in primary market in city of Chennai.

(b) Sampling Frame

Sampling frame was the investors in Initial Public Offers listed in National Stock Exchange between the period of April 2016 to July 2016. During these period following list of companies have listed in NSE through their IPOs namely Equitas Holdings, Thyrocare, Ujjivan Financials, Parag Milk, Mahanagar Gas, Quess Corp, L&T infotech and Advanced Enzymes. These companies provide a wider investor base which has industries of diverse nature and hence it was decided to concentrate on the investors who have invested in these companies.

(c) Sampling Technique

Even though the sampling frame is available convenient sampling technique is adopted since investor base is quite wider and limited accessibility due to the credible nature of this investment vehicle. Information exchange of investor towards the objective was supported only by chance so the option of creating a random was ruled out. However it was made sure that the sample drawn consists of majority of the investors in sub Rs 50000 investment category since the sample evidence of retail investor's participation in last few months indicates nearly 82% of the investors have invested in the above said range.

(d) Sample Size

Since structural equation modelling (SEM) is proposed a sample since of minimum 200 is required since it is the critical sample size recommended by Hoelter (1983). Bartlett, Kotrlik, and Higgins (2001) suggested suitable sample size calculation for scaled variables. For present research alpha level is set a priori at 0.05 and the level of acceptable error at 5%. The estimated standard deviation of the scale as 0.5. Cochran's sample size formula for categorical data is:

$$\text{Sample Size (n)} = \frac{t^2 p^2 q^2}{d^2}$$

$$n = (1.96)^2\ (.5)^2\ (.5)^2/(0.05)^2 = 384.$$

Our targeted respondents count was however 400 of which only 321 was taken into consideration due to no response and certain other issues. Outliers was tested for the sample of 321 and finally ended with 253 respondents.

V. DISCUSSIONS

Table 1
Demographic profile of 253 investors who are our respondents

Variables	*Classification of variables*	*Frequency*	*Percentage*
Have you invested in any of the recent IPOs(<1yr)?	Yes	210	83
	No	43	17
How long are you an investor through IPOs?	<2 years	86	34
	>2 years	167	66
Approximately how much do you invest during initial offer period?	<Rs 50000	202	80
	Rs 50001 to Rs 100000	41	16
	>100000	10	4
What is your source of money for investing?	Savings	192	76
	Borrowed fund	13	5
	Sales proceeds from other investment	48	19
Which of the following best describes why you choose to invest in IPOs rather than doing something else with the money? (Multiple option)	To make huge return	187	74
	To strengthen my portfolio	51	20
	To be an initial investor	121	48
How long would you like to hold the stocks purchased through IPO?	Less than a day	159	63
	Upto my stoploss trigger	51	20
	Untill I get intended return	30	12
	No idea to sell	13	5
If you hadn't purchased shares of a considered IPO, What would have you done with the money?	Spent the money	25	10
	Invested in other securities	182	72
	Purchase same shares in secondary market	46	18
What would be the reason for avoiding an IPO afterconsidering to buy it?	Uncertainty about growth	53	21
	Limited Knowledge	48	19
	Priced High	104	41
	Other Investment	48	19
What is the most important source of information when making your decision whether or not to invest? (Multiple Option)	Newspapers/Magazines	114	45
	Offer Document	106	42
	Friends or family	48	19
	Expert's Research Reports	58	23
	Financial Advisor	41	16
Gender	Male	217	86
	Female	36	14
Age	20 to 35 years	71	28
	36 to 50 years	124	49
	>50 years	58	23

contd. table 1

Variables	*Classification of variables*	*Frequency*	*Percentage*
Occupation	Business	61	24
	Private sector employee	93	37
	Government employee	99	39
Education	Professional	71	28
	Undergraduate	78	31
	Postgraduate	91	36
	School level/Diploma	13	5
Annual Income	< Rs 500000	94	37
	Rs 500000 to Rs 1000000	141	56
	>Rs 1000000	18	7
Distribution of Investment scale	< Rs100000	121	48
	Rs100000 to Rs300000	94	37
	>Rs300000	38	15

Source: Primary Data

(a) Factor Analysis

The Bartlett's test of sphericity was used to determine the appropriateness of factor analysis by testing the magnitude of the correlations of the entire correlation matrix (Hair et al., 1998). Results from the Bartlett's test indicated significant correlations among measurement variables considered for the study, which are exhibited in table below

Table 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.872
Bartlett's Test of Sphericity	Approx. Chi-Square	6531.317
	Df	435
	Sig.	0.000

Source: Primary Data

Kaiser (1974) has recommended KMO value of greater than 0.7 is acceptable and if stated value is between 0.7 and 0.7 is good. Value of our test 0.872 confirmed the adequacy of sample size that is considered for the purpose. Significance value of 0.000 indicates existence of relationship between the variables used in the study. Varimax rotation is used in this study since it has higher generalizability and replicability power on comparison with oblique rotation.

SPSS output indicated 5 factors that explained approximately 68% of the total variance in the data set. These five factors are supported by 21 variables and the remaining 9 were not used of factor loadings less that 0.7 or communality lesser than 0.4.

(b) Total Variance is explained below

Table 3
Total Variance Explained

Comp	*Initial Eigen values*			*Extraction Sums of Squared Loadings*			*Rotation Sums of Squared Loadings*		
	Total	*% of Vari*	*Cum %*	*Total*	*% of Vari*	*Cum %*	*Total*	*% of Vari*	*Cum%*
1	11.000	36.666	36.666	11.000	36.666	36.666	5.653	18.844	18.844
2	3.268	10.892	47.558	3.268	10.892	47.558	5.613	18.711	37.556
3	2.531	8.438	55.996	2.531	8.438	55.996	3.191	10.637	48.193
4	2.039	6.798	62.794	2.039	6.798	62.794	3.155	10.518	58.711
5	1.780	5.932	68.726	1.780	5.932	68.726	3.005	10.016	68.726

Source: Primary Data

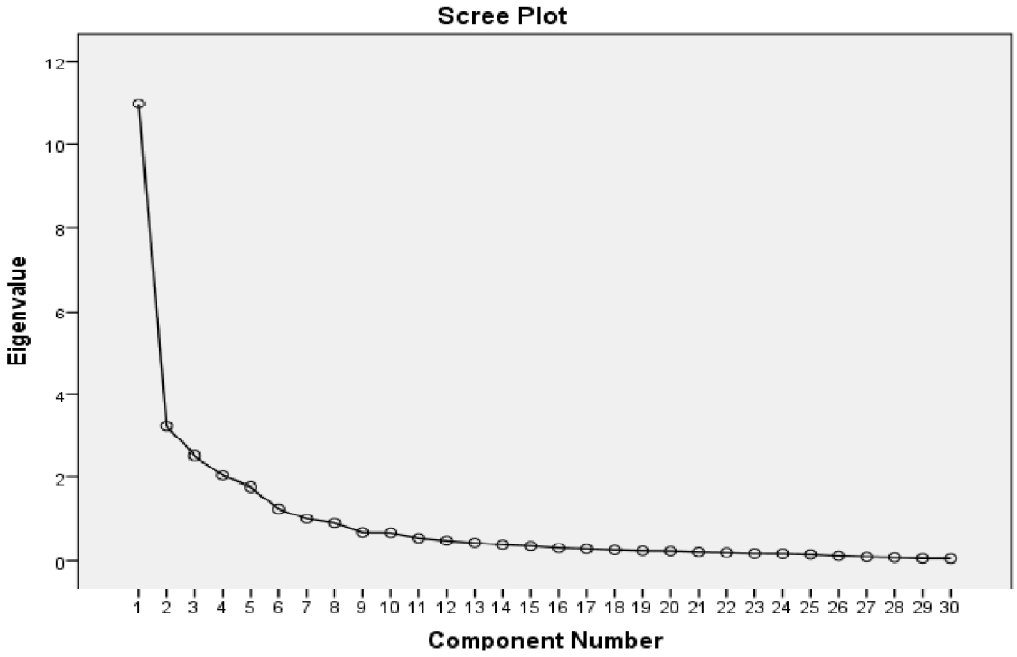

Figure 1: Scree Plot

Table 4
Dimensions identified for further study

Dimensions identifiedthrough EFA	*Description*	*Support*
Information asymmetry	Investors access to information can influence their perception towards behavior	Litterer (1965) Ricciardi (2008) Evans & Curtis (2005) Kung *et al.* (2008), Lawrence (2013)
Attitude	Attitude has evaluative effect on individual feelings towards a behavior. Attitude of a person related to confidence they have in the issue, familiarity in a issue and what guides them in decision making is used in this research	Shefrin (2000) Grable, Lytton and O'Neill (2004) Weber and Milliman (1997), Khoa Cuong Phan and Jian Zhou (2014)

Subjective Norms	Measures how the people important in their lives approve, expect and support their investment ideas	Ajzen (2002), Fishbein (1980)
EIC attributes	Taking control through the situational factors that are favourable for an IPO like Information about market, industry and company	Developed for the study
Behavioural Intention	Investor Behaviour in any investment decision is seen as a factor of attitude of individual, influence of social norms, information an individual has about the investment and influence of other control variables like market	Naveed *et al.* (2011) Rabin (1998), Hersh (2002), Khoa Cuong Phan and Jian Zhou (2014)

Table 5
Factors derived from Factor Analysis

No	*Factor Description*	*% of Variance explained*	*Supporting Variabes*
1	EIC Attributes (EIC)	18.844	5
2	Attitude (ATT)	18.711	6
3	Behavioral Intention (BI)	10.637	4
4	Information Asymmetry (IA)	10.518	3
5	Subjective Norms (SN)	10.016	3

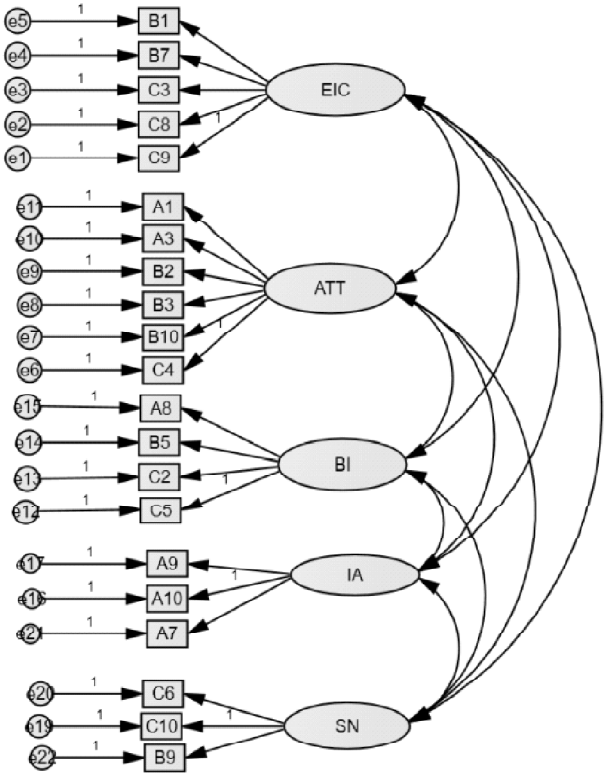

Figure 2: Measurement model of constructs

VI. CONCLUSION

Research has identified 21 variables and based on the underling meaning of the variables 5 constructs were labeled as Information asymmetry, Investors attitude, Subjective norms, Economy, Industry and Company attributes and Behavioral intentions. KMO and Bartlett's Test was used to identify the suitability of factor analysis to the research for identifying the constructs and 68% of the variance were explained by the identified constructs. Demographic variables used in the research have provided following observations. IPO is viewed as a short term investment by most retail investors, source of money for most retail investors was their savings, when they were unable to invest in IPO most suggested higher pricing as a hindrance for investment, if not invested the money is diverted to other investments, and finally IPO is preferred for making huge returns.

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