

INFLUENCE OF FIRM'S MARKET CAPITALIZATION AND ITS REPUTATION ON INDIVIDUAL INVESTORS BEHAVIOR IN POST LIBERALIZATION ERA

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ABSTRACT

Company size is a basic determinant of asset allocation and risk-return parameters for stocks. Today companies are technologically advanced, they have very highly skilled and trained human resources, these companies have global presence further as customers are more informed, aware and more demanding. This has forced many companies to become more customers centric, innovative, aggressive, competitive, ethical and transparent in their operations and management. The present study reveals that during pre liberalization there was a weak correlation between market capitalization and risk level of investors. But in the post liberalization era it has improved and considerably influencing an investor's investment decision. Firm's reputation is an important measure of risk considered by an investor while making his / her investment decision in a firm, this study also reveals that firm's reputation was a significant factor influencing individual investment behaviour during pre liberalization which has further improved in the post liberalization era.

Key words - Market Capitalization, Firm's Reputation, Investor Behaviour.

INTRODUCTION

There are various factors which influence individual investor investment decision like anticipated level of risk, expected rate of return, development of capital markets and instruments available for investment, tax incidence, liquidity, transaction cost, competition, research and development, sector / industry, government policies, ease of trade, management of company, firms reputation, market capitalization, etc. In the present study the researcher attempts to highlight two important factors i.e. firms reputation and its market capitalization does have any influence on individual investor's investment decision or not.

Market Capitalization means the total rupee market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determining a company's size, as opposed to sales or total asset figures. Company size is a basic determinant of asset allocation and risk-return parameters for stocks. The term should not be confused with a company's capitalization, which is a financial statement term that refers to the sum of a company's shareholders'

equity plus long-term debt. The stocks of large, medium and small companies are referred to as large-cap, mid-cap, and small-cap, respectively. Investment professionals differ on their exact definitions, but the current approximate categories of market capitalization are Large Cap Rupees 10000 crore plus and include the companies with the largest market capitalization. Mid Cap Rupees 3000 crore to Rupees 5000 crore and Small Cap Less than Rupees 1000 crore. Firm reputation is the opinion of the public toward an organization.

REVIEW OF LITERATURE

Elena Rangelova (2001) "Disposition Effect and Firm Size: New Evidence on Individual Investor Trading Activity" the research attempts to highlight that the tendency of individual investors to sell the winners from their stocks portfolio and to hold on to the losers. Study also indicates that trades in stocks at the bottom 40 percent of the market capitalization distribution exhibit a reverse disposition effects, investors keep their winners and realize their losers. Moreover, the relationship between firm size and the disposition effect appears to be monotonic. The larger the market capitalization of the firm, the more likely people is to realize their gain and to hold on to their loss.

Sunil Poshakwale and Michael Theobald (2002) in their study "Market Capitalization, Cross Correlations, the Lead / Lag Structure and Microstructure Effects in the Indian Stock Market" highlights the lead / lag relationship between large and small cap firms is investigated by using a number of Indian equity index series that differ in their market capitalization characteristics. Large cap indices are found to lead small cap indices and to have higher speeds of adjustment towards intrinsic values. Pure thin trading effects and a thin trading/adjustment interaction effect are found to make significant contributions to the lead/lag effect. The intrinsic value processes themselves, are found to be characterized by a small degree of overreaction.

Petri Kyrolainen and Jukka Perttunen (2005) in their study "Do individual investors care about transaction costs? Bid ask spreads and holding periods for common stock". The study suggests that individual investors are rational enough in taking the transaction costs into account when making their investment decisions. Study also indicates that holding periods depend on overconfidence related investor attributes such as gender and investment experience. That average holding periods tend to get longer with the share of female owners and average experience of investors. These findings suggest that overconfidence not only shortens holding periods on the individual investor level but also in the more aggregate stock level.

C. S. Shylajan and Sushama Marathe (2006) in their research article "A Study of Attitudes and Trading Behaviour of Stock Market Investors", identify the major factors responsible for determining the attitudes and trading behavior of stock market investors. Based on their shared investing attitude and behaviour the stock market investors are classified into two categories i.e. aggressive investors and non aggressive investors.

Srivastava Aman (2007) in his study "An Analysis of Behavior of Investors in India" the author highlights the changes in Indian business environment since post liberalization and emerging trends like increase in number of IPO's, investment by DII's and FII's which lead to the change in the perception of retail investors towards stock market investment, which resulted in increase in number of retail investors in Indian stock market over the last fifteen years. This study also attempts to measure the expectations and confidence of the retail investors in Indian stock market.

OBJECTIVE OF THE STUDY -

To study whether firms market capitalization and its reputation have any influence on individual investor behavior in post liberalization era.

HYPOTHESIS OF THE STUDY -

Null Hypothesis

Firms Market Capitalization is the factor, which influences the individual investor behavior.

Firms Reputation is the factor, which influences the individual investor behavior.

Alternative Hypothesis

Firms Market Capitalization is not the factor, which influences the individual investor behavior.

Firms Reputation is not the factor, which influences the individual investor behavior.

TOOLS OF DATA COLLECTION AND METHODOLOGY -

The data required for this study is collected from both the sources i.e. primary source and secondary sources. The primary data required for the study is collected through, structured questionnaire for retail investors.

AREA OF STUDY -

The study is confined to Belgaum district, Karnataka State.

DATA ANALYSIS -

To test the above hypothesis, the researcher has taken a sample population of 700 retail investors, representing the length and breadth of the district by using random sampling technique. A comprehensive questionnaire was prepared and used for the purpose. The data so collected with the help of primary and secondary sources are analyzed by using Statistical Package for Social Science (SPSS) whereas the Correlation Analysis is used specifically.

Table 1 Number of Retail Investor's in Pre & Post Liberalization Era

	YEAR						Total
	Pre Liberalization			Post Liberalization			
	Before 1980	1980 – 85	1985 – 90	1990 - 95	1995 - 2000	After 2000	
Respondent	17 2.43%	27 3.86%	67 9.57%	56 8%	124 18.70%	409 58%	700

Source - Primary Data from Survey

Research reveals that 2.43 percent of the respondents under study were investing in stock market before 1980, 3.86 percent started investing during the period 1980-85, 9.57 percent during 1985-90, 8 percent during 1990-95, 18.70 percent from 1995-2000, where as 58 percent of the respondents started investing in stock market after 2000.

Table 2 Frequency Distribution showing influence of firms market capitalization on Investment behaviour in pre liberalization era

		FIRMS REPUTATION				Total
		Largely	Somehow	Don't Know	Does not influence	
YEAR	Before 1980	4	11		3	18
	1980 - 85	6	15	3	3	27
	1985 - 90	18	37	11	1	67
Total		28	63	14	7	112

Source - Primary Data from Survey

Out of 112 respondents who started investment before liberalization, 38 of them invest in large cap stocks, 49 of them invest in madcap, 24 of them invest in small cap, whereas 1 of the respondent invest in multiple categories.

Table 3 Frequency Distribution showing influence of firms market capitalization on Investment behaviour in post liberalization era

		FIRMS MARKET CAPITALISATION				Total
		Large Cap	Mid Cap	Small Cap	Multi	
YEAR	1990 – 95	12	38	4	1	55
	1995 – 2000	42	74	8		124
	After 2000	84	286	29	10	409
Total		138	398	41	11	588

Source - Primary Data from Survey

Out of 588 respondents who started investment after liberalization, 138 of them invest in large cap stocks, 398 of them invest in madcap, 41 of them invest in small cap, whereas 11 of the respondents invest in multiple categories.

Table 4 Correlation Analysis between firms market capitalization and level of risk in pre liberalization era

		FIRMS MARKET CAPITALIZATION	RISK
FIRMS MARKET CAPITALIZATION	Pearson Correlation	1	.00011
	Sig. (2-tailed)	.	1.0001
	N	112	112
RISK	Pearson Correlation	.00011	1
	Sig. (2-tailed)	1.0001	.
	N	112	112

Table 4 (a) Correlation Analysis between firms market capitalization and level of risk in post liberalization era

		FIRMS MARKET CAPITALIZATION	RISK
FIRMS MARKET CAPITALIZATION	Pearson Correlation	1	.034
	Sig. (2-tailed)	.	.409
	N	588	588
RISK	Pearson Correlation	.034	1
	Sig. (2-tailed)	.409	.
	N	588	588

From the calculated correlation analysis we can observe that in the pre liberalization era there was a very weak correlation between market capitalization and risk level of investors. Primarily due to monopoly, number of control on price / profitability, poor awareness on firms market capitalization, closely held share capital, limited product range, limited geographical spread, conventional technology etc. In the pre liberalization era Firm Reputation had a positive correlation of 0.00011 on influencing an investor investment decision. However, in post liberalization era this correlation has improved to 0.034 and strengthened considerably influencing an investor investment decision. The number of players has increased forcing companies to be more competitive, efficient and effective in globalized Indian economy. Stiff competition from national as well as international companies resulted in narrowing profit margins. Further, exclusive and extensive information availability about companies from various medias, goodwill, brand image has created wide spread awareness amongst investors. Wide public holding in companies has resulted in frequent churning and also brought transparency in companies operations. Therefore, null hypothesis accepted indicating that Firm market capitalization has an influence on individual investor investment decision in pre and post liberalization era further; we can observe the change in this correlation which was in pre liberalization era 0.0011 to 0.034 in post liberalization era.

Table 5 Frequency Distribution showing influence of firms reputation on investment behaviour in pre liberalization era

		FIRMS REPUTATION				Total
		Largely	Somehow	Don't Know	Does not influence	
YEAR	Before 1980	4	11		3	18
	1980 - 85	6	15	3	3	27
	1985 - 90	18	37	11	1	67
Total		28	63	14	7	112

Source - Primary Data from Survey

Out of 112 respondents who started investment before liberalization, 63 of them feels that firms reputation influences their investment behaviour somehow, 28 of them feels that it influences largely, 14 of them say they don't know, whereas 7 of them says it does not influence at all.

Table 5 Frequency Distribution showing influence of firms reputation on investment behaviour in post liberalization era

		FIRMS REPUTATION				Total
		Largely	Somehow	Don't Know	Does Not influence	
YEAR	1990 - 95	15	27	10	3	55
	1995 - 2000	30	74	19	1	124
	After 2000	87	198	89	35	409
Total		132	299	118	39	588

Source - Primary Data from Survey

Out of 588 respondents who started investment after liberalization, 299 of them feels that firms reputation influences their investment behaviour somehow, 132 of them feels that it influences largely, 118 of them say they don't know, whereas 39 of them says it does not influence at all.

Table 6 Correlation Analysis between firms reputation and level of risk in pre liberalization era

		RISK	FIRMS REPUTATION
RISK	Pearson Correlation	1	.031
	Sig. (2-tailed)	.	.744
	N	112	112
FIRMS REPUTATION	Pearson Correlation	.031	1
	Sig. (2-tailed)	.744	.
	N	112	112

Table 6 (a) Correlation Analysis between firms reputation and level of risk in post liberalization era

		FIRMS MARKET CAPITALIZATION	RISK
FIRMS MARKET CAPITALIZATION	Pearson Correlation	1	.034
	Sig. (2-tailed)	.	.409
	N	588	588
RISK	Pearson Correlation	.034	1
	Sig. (2-tailed)	.409	.
	N	588	588

** Correlation is significant at the 0.01 level (2-tailed).

In the post liberalization era there is a dramatic change in Indian corporate. Today Indian companies are technologically advanced, they have very highly skilled and trained human resources, these companies have global presence further as customers are more informed, aware and more demanding. This has forced many companies to become more customers centric, innovative, aggressive, competitive, ethical and transparent in their operations and management. The calculated correlation analysis from the research data we can observe that in the pre liberalization era Firm Reputation has a positive correlation of 0.031 influencing an investor investment decision. This has improved in the post liberalization era to 0.263 influencing an investor investment decision. Therefore, null hypothesis accepted indicating that firms reputation has an influence on individual investor behaviour in pre and post liberalization era.

CONCLUSION

The null hypothesis Firm's Market Capitalization and its Reputation are the factors which influence the individual investor behaviour are accepted. This conclusion has been drawn on the basis of co-relation analysis of firm's reputation and level of risk taken by the investors in pre and post liberalization era. Likewise Co-relation analysis was also done to confirm the co-relation between firm's market capitalization and the level of risk taken by investors in pre and post liberalization era.

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