

Factors Influencing Individual Investment Decisions In Colombo Stock Exchange

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Abstract- Stock markets can be considered as the place where stocks are exchanged. Most of the investors prefer to invest their money in stock markets. The purpose of current study is to examine factors influencing individual investment decisions in Colombo Stock Exchange. Accounting information, neutral information and advocate recommendation were identified as independent variables and Dependent variable is the individual investment decisions in Colombo Stock Exchange. Data was collected from 150 individual investors who actively participate in Colombo Stock Exchange in the year of 2020 via a standard questionnaire. Collected data were analyzed by using inferential statistics such as correlation and regression statistics. Finding revealed that both neutral information and advocate recommendation influence the individual investment decision but they do not much consider about accounting information. Finally, concluded that respondents were not so rational when they get investment decisions. Therefore, brokerage firms are advised to pay their attention on communicate reliable information with their clients.

Keywords- Accounting information, Advocate recommendation, Colombo Stock Exchange, Individual Investors, Neutral information

1. Introduction

Generally, people are acting as two parts called as investors and savers. Based on their level of knowledge, they tend to invest their savings in different investing methods. Among various kind of investments methods, most of the investors like to invest money directly in the stock market without investing their money in savings accounts (Rathnayaka et al., 2014). Stock Exchange, also known as Stock Market, is the place where securities are exchanged. There are many investment products available in stock markets ranging from bonds to options (Das, 2012). Securities include stocks, bonds and other currency trading (Capital Market Authority, 2013). The purpose of stock markets is to collect funds from individuals and institutions and provide them to industries and businesses (Akbar et al., 2016). In real world, individuals behave irrationally when they get economic decision (Hede, Financial Decision Making & Investor Behaviour, 2012). Generally they get their financial decisions according to their own perspectives. Based on that the behavioral finance has been get into consideration all over the world. When consider about the investors in the society, they can be classified as institutional and retail investors. Retail investors, also known as individual investors, are the main role in the market and the examination of them is required for academic and professional purposes (Akbar et al., 2016). Individual investors can be differ from each other and therefore they get different investment decisions. Investment decisions of individuals involves with the choice of commit funds to gain expected flow of benefits in future. It is an activity of selection after proper evaluation of all relevant alternatives (Kengatharan & Kengatharan, 2014). As mentioned above, there are two types of investors in the economy called as institutional and individual. Within the study, researcher focus only on individual investors' behaviour in stock market investments. There may be number of factors that affects to the decisions of individual investors and it is very important to investigate what are the psychological factors that influencing individuals. Therefore, present study tries to identify the factors influencing on individual investment decisions in CSE.

2. Research Questions

- I. Does the factors relating to accounting information influence the individual investment in CSE?
- II. Does the factors relating to neutral information influence the individual investment in CSE?
- III. Does the factors relating to advocate recommendation influence the individual investment in CSE?

3. Objectives of the Study

Main Objective

The main objective of this research is to examine factors influencing individual investments in CSE.

Sub Objectives

- To investigate how accounting information affect to individual investment in CSE.

- To investigate how neutral information affect to individual investments in CSE.
- To investigate how advocate recommendation affect to individual investments in CSE.

4. Literature Review

Among various kind of investments methods, most of the investors like to invest money directly in the stock market without investing their money in savings accounts (Rathnayaka et al., 2014). Investment decision process deals with broader range of factors. Before making decisions, investors should analyze investment factors carefully using reasonable business knowledge and should evaluate all the factors available in the market, instead of considering only one factor (Jagongo & Mutswenje, 2014). In addition to accounting information, investment decision can be affected by several factors such as market characteristics and personal profiles (Jagongo & Mutswenje, 2014). Other than that, Gunathilaka (2014) has revealed that the individual investors can be influenced by many factors including firm related components, macro environment variables and investors' psychological factors. In other hand investors do their investment analysis based on fundamental analysis, technical analysis and their own judgements (Jagongo & Mutswenje, 2014). According to Akbar et al., (2016) have studied on factors influencing individual decision making in Islamabad Stock Market and findings revealed that there is a positive significant relationship among advocate recommendation, neutral information and classical wealth maximization towards individual investment decisions. Jagongo and Mutswenje (2014) examined factors influencing investment decision relating to individual investors at Nairobi Security Exchange and recommended that the individuals should analyze the investment factors carefully by the reasonable business understanding before getting an investment decision. In recent past, Ahmad (2017) has examined on individuals' investment behaviour in Pakistan financial market and mainly addressed on Karachchi Stock Exchange and Islamabad Stock Exchange. According to the results of the study accounting information is most significant factor among all five categories while least influential category was the personal financial needs. Ikeobi and Jat (2016) evaluated their study to identify fundamental factors which influence individual investment in Nigerian capital market. Findings of the study showed that accounting information and company growth potential has large influence on individual investment in Nigerian Capital Market.

Most of the researchers have measured accounting information in order to evaluate factors influencing individual investments (Ahmad, 2017) Generally, investors use accounting information derived by financial statements and the firm's financial position (Iqbal & Usmani, 2009). Behavioural finance researchers have done their study based on same dimensions to evaluate the variable of accounting information. The dimensions of accounting information were consisted with condition of financial statement, expected cooperate earnings, expected cooperate dividends, affordable share price, and past performance of stock, stock marketability and dividend paid (Merikas et al., 2011). Merikas et al. (2011) highlighted that the experienced stock holders trust on accounting information of the company rather than other things. They mainly consider about the expected cooperate earnings, conditions of financial statement and firm status in the industry. Bashir et al. (2013) suggested that all the dimension of accounting information have somewhat influence of investment decisions of individual investments. Specifically, according to their study, dividends paid by the firm is much important than other dimensions towards the investment decisions. Least influential dimension of accounting information was conditions of financial statements. According to Mweu and Omwenga (2017) conclude that accounting information positively impact to the investors' decision making process. Ikeobi and Jat (2016) has measured accounting information under dimensions namely expected bonus issues, historical dividend pay-out, future dividend, past performances, projected earnings per share. The findings of the study reveal that it is required to ensure that investors have access to get information of particular organisation. Further, study has recommended that decision makers of the organisation should provide timely information relating to the organisation which investors can use for investment purpose.

According to Bashir et al. (2013) revealed that neutral information significantly impact to individual investment decision making process. Among the dimensions measured relating to neutral information, government holding was the most influencing dimension. Individual investors do not pay their much attention on information obtained from internet when they get their investment decisions. Akbar et al., (2016) showed that there is a significant impact between advocate recommendation and individual investment decisions. Accordingly many of the researchers have evaluated advocate recommendations by considering dimensions of brokerage house recommendation, family member opinion, friend or co-worker opinion, and recommendation of firm's majority stockholder (Merikas et al 2011; Ahmad, 2017). Among those dimensions broker recommendations have significant influence toward individual investors' decisions and family member opinions have least influence toward investment decisions (Ahmad, 2017). According to Bashir et al (2013) revealed that advocate recommendations have least influence on individual investment decision. According to results of the study, individuals pay their attention on family member opinions and friends' opinion than broker recommendations. They do not consider about opinions of firms' majority stockholders when compared to the broker, family and co-workers'.

5. Conceptual Framework

For the investigation of current study, dependent variables and independent variables are used. To develop the conceptual framework, accounting information, neutral information and advocate recommendation are considered as independent variables

while individual investment decisions is considered as dependent variable. According to the conceptual frame work, individual investment depends on Accounting Information, Neutral Information and Advocate Recommendation.

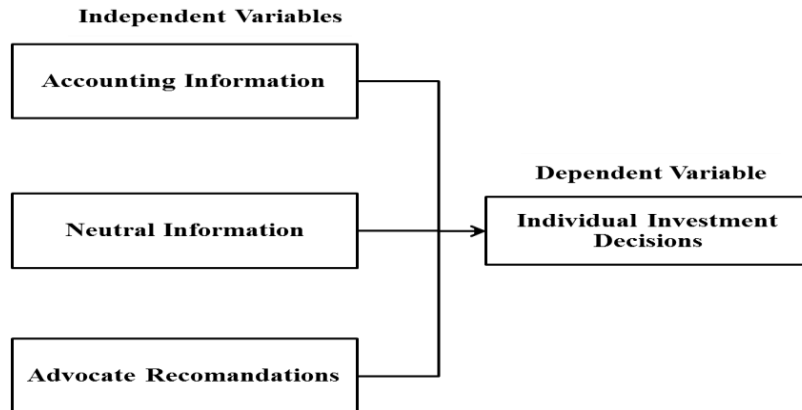


Figure 1: Conceptual Framework

6. Hypotheses

- H₁: There is a significant influence of accounting information on individual investment decision.
- H₂: There is a significant influence of neutral information on individual investment decision.
- H₃: There is a significant influence of advocate recommendation on individual investment decision.

7. Population, Sample, Data Collection and Research Model

In current study, target population include individual investors registered in brokerage firms of CSE. Based on convenience sampling technique 150 amount of investors registered in brokerage firms of CSE were selected as the sample to implement the study. Data were collected from the questionnaire which consists with five point Likert scales. Questions were presented base on two parts to gather information. First part was to gather basic information relating to investors and second part was to gather information relating to what are the factors influencing individual investment in CSE. Model for the study is represented follows.

$$IID = \beta_0 + \beta_1(AI) + \beta_2(NI) + \beta_3(AR) + \epsilon$$

IID - Individual Investment Decision
 AI - Accounting Information
 NI - Neutral Information
 AR - Advocate Recommendation

8. Data Analysis

8.1 Reliability Analysis

Table 1: Results of Reliability Analysis

| Variable | Cronbach's Alpha | No. of items |
|-------------------------|------------------|--------------|
| Accounting Information | 0.823 | 7 |
| Neutral Information | 0.875 | 7 |
| Advocate Recommendation | 0.807 | 5 |
| Investment Decision | 0.759 | 3 |

Source: Survey Data, 2019

- Cronbach’s Alpha value of each variables are more than 0.7. So, it implies the internally consistency of variables.

8.2 Descriptive Analysis

Table 2: Results of Descriptive Analysis

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------------------|-----------|-----------|-----------|-----------|----------------|
| | Statistic | Statistic | Statistic | Statistic | Statistic |
| Accounting Information | 150 | 1.86 | 5.00 | 3.705 | .719 |
| Neutral Information | 150 | 1.43 | 5.00 | 3.991 | .747 |
| Advocate Recommendation | 150 | 2.20 | 5.00 | 3.796 | .745 |
| Investment Decision | 150 | 2.00 | 5.00 | 4.033 | .758 |

Source: Survey Data, 2019

- Results of descriptive statistics shows that the mean value of each variables are close to Likert scale 4. Therefore, it implies that all the variables are in “agree” level. Highest standard deviation is 0.758 and it represent by investment decision. Therefore, it can be considered as investment decisions are more deviated than other variables. In other hand lowest standard deviation is 0.719 and it belongs to accounting information. Therefore, accounting information are not much deviated.

8.3 Correlation Analysis

Table 3: Results of Correlation Analysis

| | | Correlations | | | |
|-------------------------|---------------------|------------------------|---------------------|-------------------------|---------------------|
| | | Accounting Information | Neutral Information | Advocate Recommendation | Investment Decision |
| Accounting Information | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| Neutral Information | Pearson Correlation | .624** | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| Advocate Recommendation | Pearson Correlation | .646** | .707** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | | |
| Investment Decision | Pearson Correlation | .456** | .634** | .585** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |

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

- According to results of correlation analysis, there is significance positive correlation between accounting information, neutral information, and advocate recommendation with individual investment decisions.

8.4 Regression Analysis

Table 4: Results of Regression Analysis

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|-------------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.184 | .282 | | 4.197 | .000 |
| | Accounting Information | .009 | .090 | .008 | .095 | .924 |
| | Neutral Information | .445 | .094 | .438 | 4.756 | .000 |
| | Advocate Recommendation | .275 | .096 | .270 | 2.864 | .005 |
| | R Square | .440 | | | | |
| | Adjusted R Square | .428 | | | | |
| | F | 38.229 | | | | |

| | | | | |
|---|--------------------|--|--|--|
| Sig. | 0.000 ^b | | | |
| a. Predictors: (Constant), Advocate Recommendation, Accounting Information, Neutral Information | | | | |
| b. Dependent Variable: Investment Decision | | | | |

- R square value is 0.440. It implies that the 44% of variation in investors’ decisions is depend on factors considered in this study. Further, significance value is 0.000 at 0.05 significance level. It implies that the model is significance at 0.05 level of significance level.
- According to regression results, Significance value of accounting information is 0.924. It indicates that there is an insignificant relationship between accounting information and individual investment decision. Further, significance value of neutral information and advocate recommendation are 0.000 and 0.005 respectively. It indicates that both variables have significantly influence toward investment decision.

8.5 Hypotheses Testing

Table 5: Results of Hypotheses Testing

| Hypotheses | Regression Result | Result | Accept/Reject |
|---|------------------------|--------------|---------------|
| H ₁ : There is a significant influence of accounting information on individual investment decision. | Positive Insignificant | (0.924>0.05) | Rejected |
| H ₂ : There is a significant influence of neutral information on individual investment decision. | Positive Significant | (0.000<0.05) | Accepted |
| H ₃ : There is a significant influence of advocate recommendation on individual investment decision. | Positive Significant | (0.005<0.05) | Accepted |

9. Conclusion

Sri Lanka is an emerging economy in Asia with different ethnicity and many cultural characteristics similar to other Asian countries. In this study researcher focused the investigation of factors influencing individual investment in CSE. Therefore, researcher mainly considered about accounting information, neutral information and advocate recommendation in order to find out what are the most and least influencing factors towards individual investment in CSE. Accordingly accounting information, neutral information and advocate recommendation considered as independent variables while individual investment decision considered as dependent variable. To have a conclusion, entire investigation is carried out based on 150 amount of investors who currently engage in stock market transactions. According to the research objectives, researcher is identified that there is a positive relationship of accounting information, neutral information, and advocate recommendation with individual investment in CSE. But only neutral information and advocate recommendation have influence toward investment decisions and they do not much consider about accounting information when they get their investment decisions. Therefore, it can be conclude that above mentioned three variables are positively engage with investment decisions but only neutral information and advocate recommendation have significant influence on investment decision in CSE. Accordingly, objectives of the current study were full filled and it can be conclude that individual investors are not so rational when they are making their investment decisions. Because, the results described that the individuals concern more on neutral information and advocate recommendation than accounting information

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