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Moderation Effect of Demographic Variables on Perception of Retail Investors Towards IPOS in Indian Scenario

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Abstract:
Purpose of this paper is to identify the effect of moderator variables like Occupation, Age and Education on the constructs involved in Retail Investors Investment Behaviour towards Initial Public Offers. Data was collected through structured questionnaire from selected sample size and finally 504 responses were used to justify the structure. The study was done with five constructs namely Behavioral Intention as Dependent variable and four Independent Constructs namely Information Asymmetry, Attitude, EIC attributes, Subjective norms. The study is an extension of already proven model fit to analyze the perception of retail investors towards IPOs in Indian scenario with knowing the dimensions when moderator variables are introduced in the model. Attitude is the major influencer even after in introduction of moderator variable. However age and Occupation are significant to influence as a moderator variable and levels of education is not a good moderator in influencing the perception of retail investors.

Keywords: *Initial Public Offers, Perception, Behavioural Intention, Attitude.*

INTRODUCTION

IPOs with Book Building process are widely accepted mechanism to mobilize capital through the primary market. IPO and the mechanism are controlled by SEBI since the abolition of CCI in India. Although there are many methods through which capital mobilization is happening IPO is the one which is widely accepted as the way through which retail investors can subscribe to the issue which is still not tested in the market. Retail investor's classification is based on the maximum threshold of investment Rs 2 Lakhs. Unlike Institutional investors and other classifications retail investors exposure to the information is not still a matured one since certain factors are not common to all classification of investors and the objective of various classification are different. Retail investor's perception on a investment avenue is based on not only the statistical figures of the issue and the issuer but also many qualitative parameters which are difficult to read. Also an investor is influenced by information, its sources like people around and medium, earlier experiences, objective of choosing an alternative over other. Above all can differ across the classification of Age, Occupation, Gender, Income level, Education and much more criteria. The intention here is not to test all the above but Age, Occupation and Education as moderators in influencing the decision variables, constructs and each and every variable which frames the perception on the instrument.

REVIEWS

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Mushtaq Hussain Khan(2014), Barbara Wanyana and Issac (2011), Knowledge an investors possess in any financial alternative makes the investor more confident on the corresponding security. David Pascual, Barbara and Beatriz (2013), Certain individuals like to be part of something so special, something new and exciting , the thrill of owning and the appeal gives them more confidence and reflect their character. The sources of information, the way the information is made available, abundance of availability and the attraction the subject of information has, make the subject under discussion so appealing. Junbo Wang, Sheen Liu and Chunchi Wu (2003), In any financial security which is managed by top bankers, underwriters; investors tend to be more confident in the corresponding security which is attributable to the credibility of the issue manager. Barber & Odean (2008), It's the familiarity of anything, that attracts and gives confidence in any purchase decisions. David Pascual, Barbara and Beatriz(2013). Expectations of the people around any individual influences the individual in making any decisions either riskier or not, again based on the expectations and belief the people have over an individual and the knowledge they possess. Ashbury, Isen and Turkey(1999), Individuals give more priority to the historical things , positive or negative outcomes are part of any decision making. Positive outcomes influences on further moves and also freely expressed compared to a negative outcome which is mostly hidden or not revealed. Sharing of positive outcomes are very common, not in the case of negative outcomes. Lowery et al (2002) Position of any subject in purchase consideration corresponding to the available closer competitors influences decision of any purchaser naturally. Individuals tend to hold something that is better in the position on comparison with anything that is closest available since position indicates the credibility and the future prospects of the subject under consideration. De, Gondhi and Pochiraju (2010), Any prior positive outcomes in the subject an individual considers, influences on the decisions since an individual considered the positive outcome may continue for some more time to come. Here the success of IPOs in the primary market that are prior to the IPOs an investor considers influences in the decision making is the statement to be tested.

Barbara Wanyana and Issac(2011), Similar to the earlier variable an individual decisions also relies on the personal experience in the past, experience may be related to positive outcomes derived of earlier experience or valid points to consider based on the negative outcomes. Ajzen (2006) The variable related to subjective norm discusses about the influence of the important others thinking about us. Here the variable is about to test family or friends confidence on one's decision making capacity and its influence on the participation. Also when important others thinks that one should invest, it actually motivates the person to invest more which is a test variable here.

David Pascual, Barbara and Beatriz(2013), Barbara Wanyana and Dr Issac Herd behaviour is most common among characteristics of individual. An individual try to imitate the decision of other person or institution based on the credibility they have on the benchmark they have, this can happen when the individual is confused on a decision or even during lack of information.

Merikas, A., Merikas, A. & Prasad, D. (2003) Investment happens in a more confident way when the economy is in a good shape, any purchase decision gets easy influenced by the economy that prevails and the trend give a feeling of safety when we decide on the purchases, during

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recessions it is evident that any decision will be more cautious even though the interest is a credible nature. Also the intention of any person to purchase an investment vehicle relies on the confidence that is prevailing in the economy. Forthcoming decisions get influenced by this variable.

Neeta and Padmavathi (2012), Plotnicki and Szyszka (2014) Most IPOs come during a Bull run and at the peak to be specific, so any decision an investor takes will get shape based on the market conditions, investors feel energized when the market is on a bull run or hot with the evidence on the return they see in the market. So the market condition is an important factor that rejuvenates a decision and hence the same was included to be tested.

Huang (2010) Familiarity is another thumb of rule an investor follows. Individually consider things that are not familiar or new to understand as the riskiest one. In many earlier researches it was evident that individuals prefer local companies over other companies. This is extended to test the business familiarity whether has an influence or not in the decision on investments. Products or services that are new or not familiar are considered riskier by any individual since it's untested and the outcome is highly uncertain.

David Pascual, Barbara and Beatriz(2013) When our closer relationship shows confidence it actually increases the appetite to take risk, since it's a motivation kind for a person. IPO itself an untested avenue, is tested for the approval of closer ones and its impact on improving confidence of an investor.

Barbara Wanyana and Issac (2011) A considered investment avenue is felt safer when the return on the considered one would be better than its closely comparable investment alternative. Here secondary market is used as a benchmark to check the risky nature.

Organisation with a better management practices signals the credibility of the company and in turn can be a better proxy to make decisions on purchase. In such a case it is interested to know whether I can be a proxy for measuring the risk. Prestigious board is a signal of effective control and enhances the value of the firm going public. Daily (2005) argue that where an IPO firm posses prestigious board, the underwriter is likely to offer a narrow offer price band and a higher offer price.

Neeta & Padmavathi (2012),Higher the age of the firm more would be the data available about the company. Data may be related to management practice, Dividend history, strength of the board, financial results and market depth for products or services. So with the age of firm credibility of the firm can be possibly known which is the test variable here. IPO firms are subject to uncertainties regarding quality of the firm because of missing track record and lack of public scrutiny. According to Daily (2005), because of greater uncertainties surrounding the prospects of younger firms, underwriters apply greater offer price spread and lower offer prices as compared to older firms with larger operating history.

RESEARCH METHOD:

Objective

1. To know the strength of relationship between the constructs when moderators are used

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2. To identify the perception variables reaction to the introduced moderator

Sample Size

Samples were drawn from retail investor's base who has invested in IPO which got listed in the specified time frame. A sample of 504 investors was studied through a questionnaire administered either through e-mail or direct collection by field visit.

Sampling Frame

IPOs subscription data says 82% of the investors invest less than Rs 50000, 14% of investors invest in the range of Rs 50000 to Rs 100000 and 4% of investors invest more than Rs 100000. To ensure a similar percentage of investors are represented from each population of the investor range disproportionate sampling was considered. It was made sure that each stratum was not overrepresented or underepresented and not leading to skewness.

Constructs:

5 constructs namely Information asymmetry(IA), Subjective norms(SN), EIC Attributes, Attitude(ATT) and Behavioural Intention(BI) were arrived and the model framework was tested through SEM.

Variables: 35 Items were used and at the end of CFA confined to 21 items

Hypothesis:

1. H0: There is no significant influence of Occupation on the constructs
2. H0: There is no significant influence of Age on the constructs
3. H0: There is no significant influence of Education on the constructs

Table 2: Regression Weights

FINDINGS & DISCUSSIONS:

Fig 1: Structural Equation Model

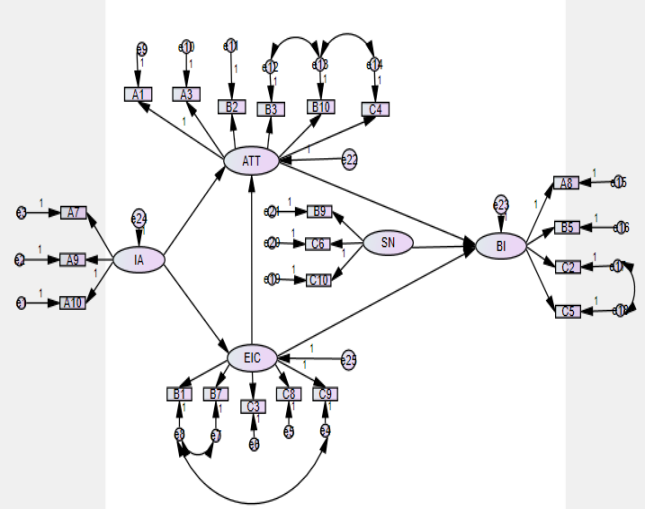

Table 1: Model Fit

Absolute Fit Index	Recommended Value	Value from Model	Conclusion
Goodness of Fit(GFI)	>0.90	0.894	Fit
Adjusted Goodness of Fit(AGFI)	>0.80	0.822	Fit
Chi-Square(X) 2	P</=0.05	0.000	Fit
Chi-Square(X)/Df	<3.0	2.489	Fit
Root Mean Square Residual(RMR)	<0.09	0.063	Fit
RMSEA	<0.08	0.077	Fit
Incremental Fit Indices			
Norm Fit Index(NFI)	>0.90	0.900	Fit
Comparative Fit Index(CFI)	>0.90	0.937	Fit

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			Occupation			Age		
			Business	Private	Public	Young	Middle	Old
EIC	<---	IA	0.459	0.164	0.311	0.474	0.197	0.161
ATT	<---	IA	0.476	0.16	0.121	0.151	0.243	0.089
ATT	<---	EIC	0.361	0.593	0.617	0.587	0.609	0.536
BI	<---	SN	0.194	0.196	0.226	0.202	0.148	0.332
BI	<---	EIC	-0.019	0.232	0.287	-0.056	0.208	0.205
BI	<---	ATT	0.639	0.315	0.316	0.701	0.455	0.148
A10	<---	IA	0.499	0.863	0.777	0.69	0.837	0.831
A9	<---	IA	0.482	0.886	0.844	0.773	0.802	0.967
A7	<---	IA	0.919	0.635	0.676	0.702	0.652	0.628
C9	<---	EIC	0.744	0.707	0.745	0.722	0.728	0.737
C8	<---	EIC	0.908	0.933	0.98	0.928	0.936	0.99
C3	<---	EIC	0.973	0.941	0.984	0.977	0.958	0.988
B7	<---	EIC	0.639	0.763	0.823	0.656	0.779	0.835
B1	<---	EIC	0.609	0.615	0.798	0.609	0.743	0.774
A1	<---	ATT	0.692	0.813	0.688	0.651	0.777	0.668
A3	<---	ATT	0.866	0.925	0.937	0.906	0.883	0.974
B2	<---	ATT	0.827	0.829	0.906	0.836	0.829	0.967
B3	<---	ATT	0.757	0.859	0.728	0.7	0.837	0.752
B10	<---	ATT	0.654	0.752	0.67	0.627	0.724	0.764
C4	<---	ATT	0.617	0.748	0.725	0.617	0.701	0.869
A8	<---	BI	0.962	0.898	0.814	0.826	0.897	0.981
B5	<---	BI	0.782	0.905	0.91	0.842	0.897	0.808
C2	<---	BI	0.607	0.773	0.642	0.695	0.699	0.607
C5	<---	BI	0.671	0.746	0.661	0.715	0.7	0.603
C10	<---	SN	0.914	0.662	0.887	0.931	0.732	0.843
C6	<---	SN	0.854	0.88	0.921	0.849	0.88	0.969
B9	<---	SN	0.543	0.711	0.71	0.58	0.679	0.776

- Attitude strengthens due to EIC attributes when the occupation is private and public employees.
- Attitude strengthens due to EIC attributes when age category is Young and Middle.
- BI strengthens due to SN when the Occupation is Public employees.
- BI strengthens due to SN when the investor belongs to old age.
- BI strengthens due to EIC when the Occupation is Public employee.
- BI strengthens due to EIC when the Occupation is Public employee, the age category is Middle and Old, There is no support when Occupation is Business and age is Young.
- BI strengthens due to EIC when the occupation is Business and age is Young.
- IA has highest relationship with Broker reliability when the moderator is Private, public Occupation and age is middle and old.
- IA gets a good measurable strength due to "data sufficiency" when Occupation is private or public employee and Age is middle or old.

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- IA gets a good measurable strength due to the item "Abundant data sources" when Occupation is Business and age is young
- EIC get a measurable strength due to "Firm's Age" across all occupation and Age classification.
- EIC get a measurable strength due to "Better Management Practice" across all occupation and Age classification.
- EIC get a measurable strength due to "Primary market trend" across all occupation and Age classification.
- EIC get a measurable strength due to variable "Recent IPOs listing return" when occupation is Public and age is old.
- EIC get a measurable strength due to variable "Pricing/Valuation influences decisions" when occupation is Public and age is old.
- Attitude get a measurable strength due to variable "Knowledge on IPOs" when occupation is Private and age is Middle category
- Attitude get a measurable strength due to variable "Confident on own opinion" across all occupation and age classifications.
- Attitude gets a measurable strength due to variable "Group company as benchmark influencing decisions" across all occupation and age classifications.
- Attitude get a measurable strength due to variable "Follow other(s) decision" when Occupation classification is Private employee and age classification is Old
- Attitude get a measurable strength due to variable "Less Riskier if familiar business" when Occupation classification is Private employee and age classification is Old
- Behavioural Intention gets a good strength due to variable "Prefer IPO over other investments " when occupation classification is Business and Private, age classification is Middle and old.
- Behavioural Intention gets a good strength due to variable "Positive result on earlier IPO(s) invested" when Occupation classification is Private and Public, across all age category.
- Behavioural Intention gets a good strength due to variable "Investment intention in future IPOs" when Occupation classification is Private, Age classification is Young and Middle.
- Behavioural Intention gets a good strength due to variable "Recommend IPOs to friends" when Occupation classification is Private, Age classification is Young and Middle.
- Subjective Norms gets a good strength due to variable "Important others influence to invest" when Occupation classification is Business and age is Young.
- Subjective Norms gets a good strength due to variable "Families approval in risk taking" when Occupation classification is Public and Age classification is Old.
- Subjective Norms gets a good strength due to variable "Friends/Family confidence in decision capacity" when Occupation classification is Private employee and Public employee, age classification is Old Age.

Table 3: Occupation as Moderator

MODERATOR: OCCUPATION						
Regression Weights: (Group number 1 - Default model)						
			Estimate	S.E.	C.R.	P
ZBIm	<---	ZSNm	0.198	0.062	3.201	**0.001**
ZBIm	<---	SN*OCCU	-0.014	0.062	-0.222	0.825
ZBIm	<---	ZOCCU	0.117	0.062	1.896	0.058

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ZBIm	<---	ZEICm	0.385	0.06	6.455	***
ZBIm	<---	EIC*OCCU	-0.021	0.058	-0.367	0.713
ZBIm	<---	ZOCCU	0.184	0.058	3.161	**0.002**
ZBIm	<---	ZATTm	0.504	0.055	9.231	***
ZBIm	<---	ATT*OCCU	-0.134	0.054	-2.507	**0.012**
ZBIm	<---	ZOCCU	0.103	0.054	1.892	0.059

Table 4: Education as Moderator

MODERATOR: EDUCATION						
Regression Weights: (Group number 1 - Default model)						
			Estimate	S.E.	C.R.	P
ZBIm	<---	ZEDU	-0.015	0.062	-0.25	0.803
ZBIm	<---	ZSNm	0.203	0.062	3.265	0.001
ZBIm	<---	SNEDU	0.049	0.067	0.737	0.461
ZBIm	<---	ZEDU	0.024	0.059	0.409	0.682
ZBIm	<---	ZEICm	0.362	0.059	6.121	***
ZBIm	<---	EICEDU	-0.027	0.061	-0.442	0.659
ZBIm	<---	ZEDU	0.008	0.055	0.154	0.878
ZBIm	<---	ZATTm	0.487	0.055	8.85	***
ZBIm	<---	ATTEDU	-0.026	0.055	-0.47	0.638

Table 5: Age as Moderator

MODERATOR:AGE				
Regression Weights: (Group number 1 - Default model)				

			Estimate	S.E.	C.R.	P
ZBIm	<---	ZAGE	0.095	0.062	1.538	0.124
ZBIm	<---	ZSNm	0.2	0.062	3.233	0.001
ZBIm	<---	SNAGE	0.023	0.063	0.37	0.711
ZBIm	<---	ZAGE	0.128	0.058	2.193	0.028
ZBIm	<---	ZEICm	0.368	0.059	6.284	***
ZBIm	<---	EICAGE	-0.048	0.056	-0.861	0.389
ZBIm	<---	ZAGE	0.064	0.054	1.177	0.239
ZBIm	<---	ZATTm	0.501	0.055	9.182	***
ZBIm	<---	ATTAGE	-0.15	0.05	-3.007	**0.003**

Age as a moderator:
a. Young Age: Model gets strengthened, significant in influencing the dependent variable
b. Middle Age: Model gets strengthened, significant in influencing the dependent variable
c. Old Age : Model weakens, insignificant in influencing the dependent variable

Occupation as moderator:
a. Business : Model gets strengthened, significant in influencing the dependent variable
b. Private : Model weakens, insignificant in influencing the dependent variable
c. Public : Model weakens, insignificant in influencing the dependent variable

Education as moderator: Model weakens and insignificant in all categories

CONCLUSION:

The overall model is fit with Attitude as a major contributor in influencing the Behavioral Intention

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which is the dependent variable. Of the five variables used to measure the construct attitude, three are strong enough when the model is intervened by the moderator variables Age and Occupation across all its classifications and the other two variables are also strong but not supportive in certain classifications. Subjective norms when intervened Public employees and Old Age classifications are the strongest enough in influencing the construct. EIC Attributes when intervened by moderator variables three variables are supported by all classifications and two variables are supported by Public employees and Old age classification. Among subjective norms almost every age category and Public/Private employees category supports all the variables. Overall Age and Occupation as moderators has a significant influence in the dependent variable, while Education as a moderator is not a influencer in framing the Behavioral Intention.

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APPENDIX

Variables

A1	Knowledge on IPOs
A3	Confident on own opinion
A7	Abundant data source
A8	Prefer IPO over other investments
A9	Safer on sufficient data
A10	Safer if reliable broker

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B1	Pricing/Valuation influences decisions
B2	Institutional investor interest influencing decisions
B3	Group company as benchmark influencing decisions
B5	Positive result on earlier IPO(s) invested
B7	Recent IPOs Listing return
B9	Friends/Family confidence in decision capacity
B10	Follow other(s) decision
C2	Investment intention in future IPOs
C3	Primary market trend
C4	Less Riskier if familiar business
C6	Families approval in risk taking
C5	Recommend IPOs to friends
C8	Better Management Practice
C9	Age of Firm
C10	Important others influence to invest

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