

Empirical Study of behavioral factors influencing dividend considerations of Retail Individual Investors-Implications for organizations

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Abstract-

Retail Individual investors are exposed for immense risk and uncertainty, post globalization due to increase in volatility and fluctuations. Retail individual investors behavior towards equity investment and their considerations of returns i.e. capital appreciation and regular income is also getting change. Investor's expectations and considerations of dividend are influenced by variety of behavioral factors. Bird in hand approach of dividend policy also explains the behavioral approach of the investors. Investors behavioral influence can be explained with clientele effect also which explain that different investors have different expectations and on the basis of their behavioral and cognitive influence they respond towards the dividend declarations. Retail individual Investors behavioral perspective is getting change due to change in behavior and psychology towards financial decision making. This research paper is an attempt to study and understand the behavioral factors influencing dividend considerations of retail individual investors in the present era of uncertainty. For the research work primary data will be gathered from the retail individual investors by formulating structured questionnaire and secondary data will also be collected from journals, websites, published research papers and news articles. Research work can assist in understanding and acknowledging the retail individual investors dividend expectations and considerations which may be utilized to promote more domestic retail equity investment in equities as well as to formulate the dividend policy of organizations.

KEYWORDS- behavioral factors; equity; retail individual investors; Dividend; Dividend considerations; organizations,

Introduction-

Dividend considerations are always imperative because of expectations of retail individual investors due to influence of several behavioral factors. Behavior is said to be one of the determining factors for equity selection and investment decision making of individuals as it is their behavioral approach and considerations which affect their expectations and considerations. Behavioral and cognitive psychology of retail individual investors is influenced by variety of external and internal factors as well as by their distinctive state of affairs. Investor's considerations of dividend in terms of return and capacity for taking risk are influenced by their behavioral approach. Several Investors believe dividend announcement as signal for the organization's financial position as consider the primary part of information i.e. dividend and

become overconfident about their knowledge due to heuristics behavioral approach. In the present scenario due to escalating uncertainty investors expectations and considerations are also getting change as they desire to compensate with potential risk. It is vital to comprehend their considerations in form of dividend from equity investments as it influences their decision of making equity investment. In Accordance with the available data and research it can be stated that retail individual investors in equity is very less in India. Retail individual investment in equities can be improved if expectations and considerations for dividend are identified. So this research work is an attempt to focus and examine the influence of behavioral factors on dividend considerations.

Objectives of the study are-

- To study and identify the behavioral factors influencing dividend considerations.
- To understand the impact of behavioral factors on the dividend considerations of Retail Individual Investors
- To analyze the influence of dividend payout on the dividend considerations for Retail Individual Investors.

Hypothesis for the Research work--

1. H0: Retail individual investors' dividend considerations are not influenced by behavioral factors.
H1: Retail individual investors' dividend considerations are influenced by behavioral factors.

2. H0: Retail Individual Investors decisions are not influenced by dividend payout
H2: Retail Individual Investors decisions are influenced by dividend payout

Literature Review-

Researcher has done in depth evaluation and referred extensive literature to understand the research question and to state research gap.(Maditinos, Šević, Theriou, & Tsinani, 2007) explored and investigated the driving forces accountable for retail investors to reveal their choices for cash or stock dividends in the research work titled" Individual Investors' Perceptions towards Dividends: The Case of Greece". (Subrahmanyam, 2007) also acknowledged that there are studies and work has been done on behavioral finance but still there is long way to go to envisage more corporate actions with the help of behavioural finance in the research work titled "Behavioural Finance: A Review and Synthesis". (Akhtar, Hunjra, Andleeb, & Butt, 2012) in the research paper titled "Individual investors perception of dividends: Pakistan's perspective" acknowledged that investors in Pakistan have strong preferences for the dividends. Research work assist to identify the factors influencing the individual investor's preferences towards dividends i.e. either cash or stock dividends. (Vashkor, Islam, & Arifuzzaman, 2015) examined the behavioral facet of investor's attitude pertaining to dividend announcement in the developing Country with special reference to Bangladesh. In the research work titled" Behavioral Analysis of Investors' Attitude towards Dividend Declaration in Developing Country–A Case of Bangladesh" researcher

intended to study the empirical facts on the dividend clienteles of the Bangladesh Capital Market in addition to examine the relationships amongst numerous expectations of dividend and the diverse characteristics of investors' community in Bangladesh on dividend payment. (Kaur,2015) in her research paper titled "The Study and analysis of Retail Individual Investors behavior with reference to Equity Investment "investigated the behavior influence of retail investors in taking equity investment decisions. They stated that investors prefer dividend amount and consider it in making equity investment decision. (Saraf & Kaur, 2015) In their research paper titled "Empirical Analysis of Stock selection Behavior of Retail Individual Investors "investigated the Behavioral factors and stated that attitude, expectations, overconfidence, herding, prospect, Heuristic and market information are the crucial factors considered in the stock selection by retail individual investors.

Research Gap-

It can be observed and learnt from the available literature that Research work on the behavioral facet of investors are done largely on decision making for equity investment though the dividend component is vital with equity investments. Numerous studies are stated on the subject of behavioral finance of investors but main aspects are regarded investment decisions in these former research and studies. Research works available on dividend considerations are very less with reference to retail individual investor's behavioral considerations. Thus there is necessity to study the dividend considerations of retail individual investors in association with behavioral approach.

Theoretical Background-

Behavioral finance is describes as the field of finance which takes into account behavioral and cognitive psychological factors, theory and concepts with usual economics to provide justifications and rationale for individual behavior and grounds for the irrational financial decisions of individuals.

Forbes (2009) also explained "Behavioral finance as the science stating the influence of psychology on financial market."

The behavioral factors/variables which influence the Dividend expectations and equity investment decisions of retail individual investors are categorized into different factors as accessed from the available concepts and literature. i.e. Heuristics, Prospect, Market and Herding.

Behavioral Factors influencing Retail Individual Investors-

Dividend expectations and considerations of the retail individual investors are influenced by variety of behavioral factors which are categorized into different factors attained from the accessible concepts and literature i.e. Heuristics, Prospect, Market and Herding. Different variables are categorized under these factors which are mentioned below.

Herding Factors:

Choices and alternatives available to trade of other investors, Volume of stock to trade of other investors, buying and selling decisions of other Investors decisions, Speed of Herding

Heuristics' Factors:

Overconfidence, Representativeness, Availability, Anchoring, Gambler's Fallacy

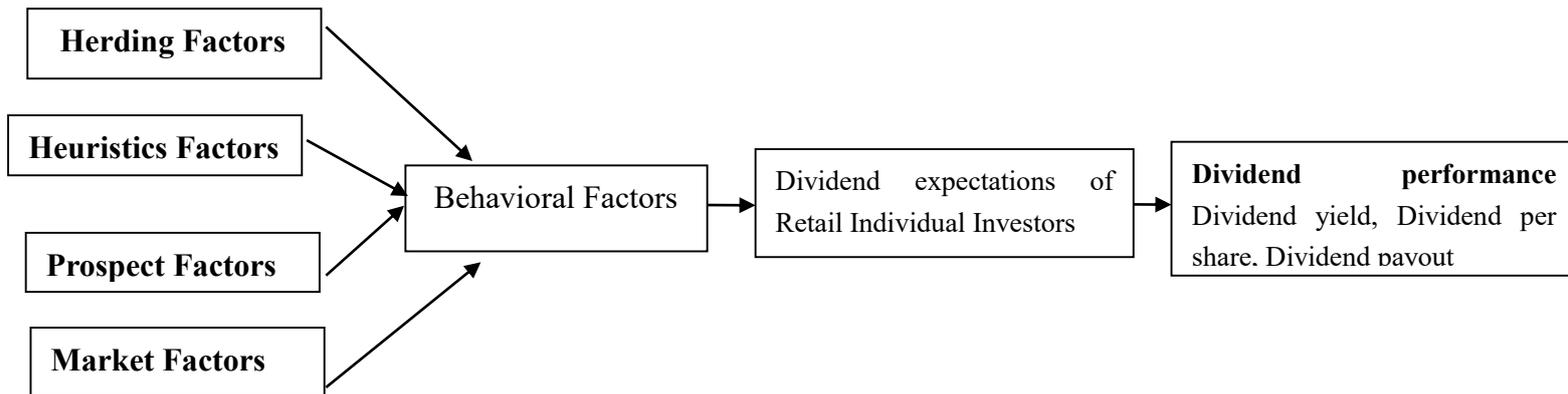
Prospect Factors:

Loss Aversion, Mental Accounting, Regret Aversion

Market actors:

Market information, Customer's preferences, Market price changes, over reaction toward market Price changes, past trends of the stocks, Fundamental Analysis of the Underlying Stocks

Behavioral factors and Dividend performance



Research Methodology-

Type of Research Work -Research work is of descriptive in nature as research objective is to understand and describe the behavioral factors influencing the dividend considerations of retail individual investors.

Universe- The universe for research work is all individuals who invest in equity in Kanpur region. As there is no appropriate database which exactly enlightens the population, therefore population is considered as infinite.

Sampling Frame- All those Individuals who invest in equity in Kanpur region of the age group of the 18 to 65 is considered as Sampling Frame.

Sampling Size- Sampling size considered for the research work is 400.

Sampling Method- For data collection of retail individual investors non probability sampling is used as population is infinite or undefined. In non probability sampling, Purposive sampling is used for the collecting primary data.

Sources of data Collection-

Primary data- For the research work, Primary data is gathered by preparing the structured Questionnaire and by unstructured interviews and discussions with retail individual investors.

Secondary data- Secondary data is collected from the web links, books and research journals, news articles and from available literature relevant to research work

Data Analysis –

Primary Data for the research work is gathered by filling Questionnaire from the respondents. The researcher made effort to make sure that diverse sections of the respondents are represented in the collected data. The collected data was abbreviated and entered in SPSS 20.0. The questionnaire

was coded into different variables and factors to analyze. For the gathered data Hypotheses has been tested by using factor analysis in SPSS 20. Analysis of data and the interpretation is mentioned below-

Case Processing Summary-

Factor analysis method is used for the analysis of collected data. First of all, case processing summary is found which depicts the valid cases as data is collected from 400 retail individual investors. So value of N is 400. All cases are included to do factor analysis so total cases used in factor are 400 with reference to respondents as sample includes data collected form 400 respondents.

Table No-1.Case Processing Summary

	N	%
Valid	400	100
Cases Excluded ^a	0	0
Total	400	100

a. List wise deletion based on all variables in the procedure.

KMO and Bartlett's Test -

The Kaiser-Meyer Olkin (KMO) and Bartlett's Test measure of sampling adequacy was used to examine the suitability of Factor Analysis. The approximate of Chi-square is 87.872 with 12 degrees of freedom, which is significant at 0.05 Level of significance. The KMO statistic of 0.687 is also large (greater than 0.50). Hence it can be said that Factor Analysis is suitable method for analysis of the data.

Table No- 2. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.687
Bartlett's Test of Sphericity	Approx. Chi-Square	87.872
	df	12.000
	Sig.	0.000

Factor Analysis- Extraction of Behavioral variables-

For the research work, data analysis components, which have Eigen value more than 1 is considered as major factors for extraction of the data. The initial components are the numbers of the variables used in the Factor Analysis. Though, not all the identified variables will be taken and retained.

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Table No -3. Factor analysis- Extraction of Behavioral variables

Factors	Variable	Factor loadings				
		Herding	Heuristics	Prospect	Market	Dividend
Herding	Buying and selling decisions of other Investors decisions	.857				
	Volume of stock to trade of other investors	.781				
Heuristics	Anchoring		.776			
	Overconfidence		.674			
Prospect	Mental Accounting			.746		
	Loss Aversion			.714		
Market	Market Information				.823	
	Over reaction toward market Price changes				.761	
Dividend	Stable Dividend payout					.853
	Dividend yield					.698

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

From the result of factor analysis, it can be stated that Retail individual investor's dividend considerations are influenced by behavioral factors. So it can be stated that first alternative hypothesis should be selected and null hypothesis should be rejected.

In dividend factor, stable dividend payout and dividend yield components are extracted by considering Eigen value more than 1 which shows that Retail Individual Investors decisions are influenced by dividend payout. As a result, second null hypothesis should be rejected and alternative hypothesis should be selected.

Data Analysis & Interpretation-

- For the research work, collected data belongs to diverse class like respondents are of private job (30 %), Business (20 %), retired (10%), students (15 %) and (25 %) Govt. job.
- From the data analysis it can be stated that most of the respondents belong to the age group of 25-35(35 %) and of 35-45 age groups (30 %).

- From the data analysis it is found that the most of the respondents belongs to annual income of 4.5 lakhs to 5.5 lakhs (32 %) and 5.5 lakhs and above (29 %).
- Most of the respondents responded positively that they agreed for the statement that organization should follow stable and continuous dividend policy as 50 % respondents said strongly agree and 25 % respondents said agree for the statement.
- 72 % respondents stated that Investor's expectations of dividend varies as due to diverse economic conditions, as they responded that in boom capital appreciation gives the return in stocks but in other economic conditions due to instability expected returns are not obtained.
- It is found that the 88 % respondents responded that amount of dividend depend on the recent financial condition of the organization and emulate the financial soundness of the organization.
- Respondents (70 %) responded strongly agree for the statement that they can hold and wait for recovery in the particular share price, if loss is compensated by more dividend payments.
- It is found that the 62 % Respondents stated that because of past financial performance, future potential movements of the stock prices can be predicted.
- 81 % respondent shown more preference towards short term returns as compared to future potential gains due to uncertainty in future.
- It is found that retail individual investors consider market information in making their decision of holding stock of the organizations.

Findings and Observations-

From the analysis of data, major findings and observations drawn are mentioned as-

- It can be stated that Retail individual investors are influenced by variety of behavioral factors which affects their considerations and expectations of dividend.
- Retail individual investors have considerations of stable dividend payout and have concern for the dividend yield also it can be stated that they prefer the organizations with stable dividend amounts and of stable growth in dividends.
- Retail individual investors have shown preference for the dividend amount which lead to be evidence for the affect of mental accounting variable of prospect factor.
- It is observed that rate of dividend affects the market value of the organizations as more respondents stated positively for the same.
- From the data analysis, it is observed that the retail Individual investor's supports more immediate return as compare to future potential return which also leads to reflect investor's behavioral preference for the dividend payouts due to risk aversion.
- Retail Individual investors are also influenced by the Buying and selling decisions of other Investors as found in the data analysis due to influence of herding behavioral component.
- Retail Individual investors consider the dividend payout as a signal for the organization financial health which gives you an idea about the influence of anchoring behavioral variable in Heuristics factor.

Recommendations-

- To avoid the irrational decision making or to lessen the influence of behavioral variables of retail individual investors, organizations can follow stable dividend policy for different economic cycles.
- Organizations can consistently hoist its annual dividend payments over the years with special dividend payment as the way of optimizing the capital structure in years where there are greater cash inflows.
- Organizations can try to maintain stable growth in divided payments over the years instead to making fleeting changes in dividend amount.

Scope of Study –

The study can assist in acknowledging the retail individual behavioral preferences and expectations towards the dividend which may facilitate organizations in formulating the dividend policy and making dividend decisions. This research is confined only to Kanpur region. The research works can also assist in promoting more domestic investment by understanding the expectations of retail individual investors.

Scope for Further research-

This research work can be further extended to be familiar with influence of behavioral factors on other investment avenues. The research work can be further extended to different demographics locations.

Conclusion-

It can be concluded from the research work that there are variety of behavioral factors which influence the investor's decision and expectations of the dividend amount. It is also found that dividend payout influences the retail individual investor's decisions and has major impact on the stock selection of the organizations. Retail individual investors belonging to different demographics profile prefer dividends due to the influence of behavioral factors i.e. heuristic, herding, prospect and market factor. Retail Individual Investors expectations and considerations for the dividend amount differ due to influence of the cognitive and psychology factors. Buying and selling decisions of other Investors decisions, anchoring, mental accounting, market information and stable dividend payout are the major variable considered by the retail individual investors under the behavioral factors.

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