ROLE OF SECONDARY MARKET INSTITUTIONS IN THE GROWTH AND DEVELOPMENT OF INVESTMENT ENVIRONMENT IN THE COUNTRY

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Abstract

The present paper incorporates the analytical study of the perception of various types of retail investors' of India towards the role of secondary market institutions in the growth and development of investment environment in the country. A sample of 500 (retail investors, brokers, sub brokers, financial analysts, mutual fund managers) was selected on the basis of non- probability convenience sampling technique from Delhi-NCR and the responses were collected through a structured questionnaire which were analyzed with the help of suitable statistical techniques such as simple percentage, mean, standard deviation, CAGR, Cross tabulation, and Chi-square test, etc. It was established through the results of the study that the secondary market institutions have a great say in the growth and development of investment environment in the country with a high aggregate mean score of 3.65 of all the 500 respondents taken together, though the government and private sector employees and investors 'under the age group 31 years' of age (4.00, 4.14, 4.05) showed the highest mean score while no significant difference was found in the perception of retailers and brokers (3.65); and the self-employed respondents recorded the lowest mean score (1.90) which ultimately shows that they did not favored the statement.

Key words: Retail investors, Investment environment, Secondary Market Institutions, Financial analysts, Long term and Short term investors

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Introduction

Economic development to great extent depends on the rate of investment or capital formation which, in turn, depends on whether finance is made available in time, and the quantity of it, and the terms on which it is made available. In any economy, in a given period of time, there are some persons (corporate, households, government) whose current expenditure are less than their current incomes, while there are others whose current expenditures exceed their current incomes. In corporate sector joint stock companies or corporations required the funds to carry on their activities. In order to raise funds, these organizations issue various types of securities such as equity shares, preference shares, debentures, bonds, treasury bills, etc. Such types of investments are illiquid and investors are bound to have these securities till their redemption by companies. In case of equity shares the investors cannot get back their invested amount during the life time of the company. Since the securities are listed and traded in the stock exchange, the secondary market is also called the stock market. The main objective of the secondary market is to provide liquidity, negotiability, marketability, control of dealings and protection of the interest of investors. It acts as an economic barometer and helps in capital formation.

Review of Literature

Eysell (1995) investigated the impact of suitable and timely disclosures of information on protecting the interests of investors. The study was found that Information should be disclosed when it is valuable to the market. The companies should, therefore, be made to disclose routine information on a periodic basis and price sensitive information on a permanent basis. It was found that the secondary market regulator and stock exchanges have played a significant role to play in ensuring that such information is accessible by all market participants rather than a few selected market players. The study further found that the use of modern technology, internet, and computers, should be enabled to enhance the efficiency of the disclosure process. It should be possible to submit and propagate financial and non-financial information by electronic means. The law should ensure a revelation regime that compels companies to disclose substantial information on a continuous and timely basis.

Sarkar and Bhole (1996) examined that the working of stock markets in India is characterized by unethical practices of diverse forms on the part of existing companies, new companies and entrepreneurs, brokers and other operators on the markets. The mergers and acquisitions through malpractices entering into unofficial transactions even before issues open up for subscription rigging up of premium on new issues, presenting excessively rosy picture about new ventures, insider trading, are some of the examples of unethical practices on stock markets. As a result of it, almost complete lack of protection to the interest of the genuine and small investors is the worst part of the function of the secondary markets.

Shah (1999) focuses on how four key developments relating to trading have changed the Indian secondary securities markets into being one of the largest and the most competitive in the world in terms of expenditure and have enhanced the informational efficiency of the market. The institutional developments it focuses on are the electronic limit order book, matching system, rolling settlement, dematerialized trading and innovation through a clearing corporation. The study further takes the view that with these developments the Indian secondary securities market mainly the equity market, has achieved nearly all the institutional development that is required for the scope of further development in the areas of investigation and enforcement.

Chakraborty (2001) studied in his research paper that since the beginning of liberalization FIIs flow to India has steadily grown its importance. The study analyzed foreign institutional investors flow and their relationship with other variables. The study further revealed that FIIs are the major players in the Indian stock market and their impact on the domestic market are increasing. Trading activities of FIIs and the domestic stock market turnover indicates that FIIs'are becoming more important source of finance.

Bose (2005) examined the scope of Indian secondary securities market laws, which have gradually evolved over time, they are now quite pervasive and the problem lies mostly in enforcing compliance particularly for crimes such as price manipulation and illegal insider trading. The study also suggests that there remains a need to ensure that laws or regulations should be streamlined completely to empower SEBI to carry out its functions as the principal regulator, while SEBI in turn needs to drastically upgrade its surveillance process enabling it to produce evidence that is trustworthy enough to secure confidence.

Rui and Gian (2006) asserted through their study that better investor protection implies better risk sharing and because of entrepreneurs' risk aversion, it results into a larger demand for capital which is known as the demand and supply effect follows from general equilibrium restrictions i.e. better protection and higher demand which increases the interest rate and lowers the income of entrepreneurs, decreasing current savings and next period's supply of capital. The supply effect is stronger the tighter are the restrictions on capital flows. The study concluded that the (positive) effect of investor protection on growth is stronger for countries with lower restrictions.

Walia and Kumar (2007) examined the investor's preference for traditional trading and online trading. The major findings of the study showed that Indian investors are more conservative, they do not change easily and Indian traditional traders still choose brokers for trading. But Internet traders are more comfortable with online trading because of its transparency and complete control over Sethi and Sucharita (2009) attempted a study to explain the effects of private foreign capital inflows (FINV) on some macroeconomic variables in India by using the time series data between April 1995 to Dec 2007. The findings revealed that Foreign Direct Investment (FDI) is positively affecting the economic growth, while Foreign Institutional Investment (FII) is negatively affecting the economic growth.

Abraham (2012) concluded that the regulatory institution is under duress and under severe attack from powerful corporate interests operating concertedly to undermine SEBI. He specially said that Finance Minister's office, and especially his advisor Omita Paul, were trying to influence many cases before SEBI, including those relating to Sahara Group, Reliance, Bank of Rajasthan and MCX.

Business today (October, 2015) found that sales were largely as a result of the overweight positions in India by foreign investors, who have been heavy buyers since 2012. Foreign institutional investors sold a record amount of shares in August 2015, offloading even more than in the midst of the global financial crisis, as turbulent markets in China led many funds to reduce their holdings in riskier emerging markets. The sales helped push the Nifty down 6.6 per cent in August its worst monthly performance since November 2011.

Objectives of the study

To study the perception of retail investors, brokers, sub brokers and financial analysts towards the role of secondary market institutions in the growth and development of investment environment in the country.

Research Methodology

The research design of the present study is exploratory cum descriptive in nature as the researcher has to study the role of secondary market institutions in the Growth and Development of Investment environment in the country.

Population and sample size

All the retail investors, the certified financial analysts, the total number of registered brokers, sub-brokers, and mutual fund managers in Indian stock exchanges across the country are considered as the population of the study. As it is not possible to collect information from all the sections of society so only Retail investors, brokers, sub-brokers, and mutual fund managers are considered as sampling unit of the proposed study. The study was carried out on a representative sample of 500 respondents (329 retail investors, 171 brokers and sub-brokers,) from Delhi NCR.

Data collection and statistical tools: the required data for the study were collected through primary sources only with the help of a structured questionnaire. The data collected were analyzed, evaluated and interpreted with the help of various statistical tools and techniques such as Cross tabulation statistical technique, Graphical presentation, Correlation, Regression, Chi Square test and other appropriate statistical techniques which will be suitable for analysis of data.

Analysis

The primary data were collected with the help of a questionnaire from 500 respondents to assess the role of the secondary market institutions in the growth and development of the investment environment in the country; the statement was prepared to get the responses of the respondents thereto and to draw the conclusions; The following is the table exposing the responses of the selected respondents on the statement:

Table 1

Secondary Market Institutions Play an Effective Role in the Growth and Development of Investment Environment in the Country.

Category of Respondents		Strongly Disagreed	Disagreed	Indifferent	Agreed	Strongly Agreed	Total	Mean Score
Age	up to 30 yrs.	13(8.6)	11(7.3)	11(7.3)	35(23.2)	81(53.6)	151(100)	4.05
	31-50 yrs	38(14)	37(13.6)	14(5.1)	104(38.2)	79(29)	272(100)	3.54
	51 & above	10(13)	16(20.8)	18(23.4)	11(14.3)	22(28.6)	77(100)	3.24
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65
Gender	Male	52(13)	52(13)	36(9)	136(34.1)	123(30.8)	399(100)	3.56
	Female	9(8.9)	12(11.9)	7(6.9)	14(13.9)	59(58.4)	101(100)	3.71
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65
Residential Status	Urban	52(12)	61(14.1)	30(6.9)	131(30.2)	160(36.9)	434(100)	3.65
	Rural	9(13.6)	6(7)	10(12)	19(28.8)	22(33.3)	66(100)	3.80
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65
Investment Period	Short- term	35(12.4)	44(15.5)	18(6.4)	91(32.2)	96(33.6)	283(100)	3.59
	Long-term	26(12)	20(9.2)	25(11.5)	59(27.2)	87(40.1)	217(100)	3.74
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65
Occupation of Respondents	Government	7(5.1)	7(5.1)	19(13.8)	50(36.2)	55(39.9)	138(100)	4.00
	Private	11(4.2)	14(5.4)	19(7.3)	98(37.5)	119(45.6)	261(100)	4.14
	Self	43(42.6)	43(42.6)	5(5.0)	2(2.0)	8(7.9)	101(100)	1.90
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65
Type of Investors	Retailers	38(11.55)	42(12.76)	27(8.2)	110(33.4)	112(54.8)	329(100)	3.65
	Brokers	23(13.45)	22(12.86)	16(9.3)	40(23.39)	70(40.9)	171(100)	3.65
Total		61(12.2)	64(12.8)	43(8.6)	150(30)	182(36.4)	500(100)	3.65

Source: Compiled from primary data **Note**: Figures in brackets show the percentages.

The analytical table 1 which has been compiled from the collected primary data expresses the role played by the secondary market institutions in the growth and development of Investment environment in the country as per the responses opined by the various categories of respondents. As per the age, the respondents were classified into three categories- ‘up to 30 years’, ‘31-50 years’, and ‘51 and above’ dependent on their age. Among 151 respondents ‘up to 30 years’ of age 53.6 per cent strongly agreed and only 8.6 per cent strongly disagreed with a mere 7.3 per cent respondents who chose to remain indifferent to the statement made initially. Taking into consideration respondents between ‘31-50 years’ of age, out of 272 respondents, 38.2 per cent agreed whereas only 13.6 per cent disagreed. The percentage of indifferent respondents was only 5.1 per cent in this category. Among 77 respondents of age group ‘51 and above’ 14.3 percent agreed and 20.8 percent disagreed, with a percentage of 23.4 indifferent respondents. The highest mean score (4.05) was observed followed by 3.54 of ‘31-50 years’ and 3.24 of ‘51 and above’ respectively which confirms the fact that the younger the investor more feeling of effective role played by secondary market institutions in the growth and development of investment environment as they are more technology savvy and are well equipped with the latest information and developments in the area.

After that the responses were analysis on the basis of gender that is male and female. Respondents belonging to the two gender categories gave distinct responses to the statement about growth and development of investment environment in the country. Out of the total 399 male respondents, 123 strongly agreed, 52 strongly disagreed and 36 did not show any response. Among the 101 female respondents, 59 strongly agreed, 9 strongly disagreed and only 7 remained indifferent. They favored the statement with a high mean score of 3.65 where by the female respondents endorsed the statement with a higher mean score of 3.71 in comparison to 3.56 of their male counterparts.

Under the category of residential status of respondents - rural and urban, the responses indicated that out of the total 434 urban respondents 131 agreed, 61 disagreed while 30 turned out to be indifferent. Talking of mere 66 rural respondents 19 agreed, 3 disagreed and 13 exhibited no response. The rural respondents found a better role played by the institutions with a high mean score of 3.80 in comparison to 3.65 of their urban counterparts in the growth and development of the investment environment in the country.

When the responses of the respondents were categorized into short-term and long-term investors- investors who invested for short period of time were found 283 and long period investors were 217. Out of the long-term investors 40.1 per cent strongly agreed, 12 per cent strongly disagreed and 11.5 per cent remained indifferent while, from short term investors, 33.6 per cent strongly agreed, 12.4 per cent strongly disagreed while 6.4 per cent did not respond to the aforesaid statement. Long-term investors showed a slightly higher mean score of 3.74 with short-term investors scoring a mean score of 3.59. Long-term investors found the statement more appropriate with a high mean score of 3.74 in comparison to the 3.59 of short-term investor respondents.

Based on occupation, respondents were studied under three heads- government, private and self-employed. Out of total 138 government employee respondents, 39.9 per cent strongly agreed, 5.1 per cent strongly disagreed and 13.8 per cent remained without a response. Out of total 261 respondents employed under private sector 45.6 per cent strongly agreed, 4.2 per cent strongly disagreed and only 7.3 percent showed no response while there were 101 self employed respondents who eagerly responded 85.2 per cent respondents either strongly or simply disagree, approximately 8 per cent agreed and just 5 per cent remained neutral out of a total of 101 self employed respondents. The statement was appreciated the most by the respondents who are private sector employees with a mean score of 4.14 followed by 4.00 of government sector employee respondents and a very low of 1.90 of self-employed respondents.

In the final category of investors, a total of 329 retailers and 171 brokers were surveyed. Out of which 159 retailers and 70 brokers extended their support strongly while 28 retailers and 25 brokers did not seem to agree. Retailers (12) and Brokers (16) did not exhibit any response. Both retailers and brokers favored the statement with the high mean score of 3.65.

It is evident from the analysis of the responses of the respondents pertaining to the various categories that the secondary market institutions have a great say in the growth and development of investment environment in the country with a high aggregate mean score of 3.65 of all the 500 respondents taken together though the private sector employee respondents (4.14) showed the highest mean score followed by government sector employees (4.00) and self-employed respondents recorded the lowest (1.90).

Hypotheses Testing

H_{01}: There is no significant difference among the perception of respondents on the basis of their age on the statement that-'The secondary market institutions play an effective role in the growth and development of investment environment in the country'.

H_{02}: There is no significant difference between the perception of various types of respondents on the basis of gender on the statement.

H_{03}: There is no significant difference between the perception of various types of respondents on the basis of their residential status on the statement.

H_{04}: There is no significant difference between the perception of various types of respondents on the basis of the investment period on the statement.

H_{05}: There is no significant difference between the perception of various types of respondents on the basis of their occupation on the statement.

H_{06}: There is no significant difference between the perception of various types of respondents on the basis of their types of investors' on the statement.

Exhibit 1

Category	**Pearson's Value**	**Degrees of Freedom**	**Significant Value**	**Minimum Expected Count**	**Result**
Age	66.016	8	0	6.62	Rejected
Gender	29.458	4	0	8.69	Rejected
Residential Status	15.298	4	0.004	5.68	Rejected
Investment Period	18.266	4	0.039	10.11	Rejected
Occupation	252.003	8	0	8.69	Rejected
Type of Investors	13.445	4	0.009	8.89	Rejected

(0 cells (0%) have expected count less than 5.)

Source: Researcher's Calculations.

Pearson's Chi-square test was applied to check the association between different categories of respondents and their perception towards the role of secondary market institutions in the growth and development of investment environment in the country. It was found through exhibit 1 that significant P- value was less than .05 in case of all the categories of respondents i.e. Age, Gender, Investment period, Residential Status Occupation and types of investors and hence the null hypotheses were rejected in all these cases which proves that a significant difference was observed in the perception of respondents of above categories on the statement. Higher Pearson's Chi-square value verified the rejection of null hypotheses.

Conclusion and suggestions It can be concluded that investment environment in the country is growing slowly and steadily besides all odds coming from global economic environment and credit of which definitely goes to the secondary market institutions which are responsible for its growth and development. The null hypotheses on the basis of age, gender, residential status, investment period, occupational status and type of investors were rejected, which indicated that all the respondents agreed that the secondary market institutions play an effective role in the growth and development of investment environment in the country. It is suggested that the secondary market institutions should further be improved by providing them more capital base, latest technology and the required authorities clubbed with a strong controlling mechanism so that the secondary market may become more effective and efficient with regards to their delivery mechanism in the interest of all the investors in general and the small investors in particular. As per the findings of the study that the young retail investors 'up to 30 years' endorsed the statement the most Therefore, it is suggested that the government of India should prepare such plans and policies which may help to educate more and more young educated people of the country regarding the investment to be made in the secondary market and to have a good returns thereof. It will further help in eliminating the problem of unemployment and poverty from the country.

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