

## Non-participation in Stock Markets : A Road Map for Policy Initiatives in India<sup>1</sup>

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### Abstract

This paper aims at addressing the issue of non-participation in the stock market (NPS). Logical and deterministic models fail to explain the causes of NPS. However, behavioural aspects can provide a solution to the problem of NPS. This paper incorporates behavioural aspects and address the issue of NPS. The paper uses a two-stage approach. First stage, explores literature to find factors/constructs relevant for NPS. Second stage, runs a structural model to address the problem of NPS and provide a solution to the problem. Study found that KSM (knowledge about the stock market), TSM (trust in the stock market) and AFI (availability of funds for investment) contribute to WIS (willingness to invest in stocks). WIS impacts SIS (satisfaction from investment in stocks), which is mediated by TFI (time for investments). TFI negatively mediates the relationship between WIS and SIS, which is one of the main contributions of the paper.

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### I. Introduction

FINANCING IS A FUNDAMENTAL requirement for a business to survive and grow (Gatchev, Spindt and Tarhan 2009). The choice of financing options is discretionary to the corporate finance managers, and impacts the valuation of the firm (McConnell and Muscarella 1985). However, in the real world, making a choice between financing options is not necessarily always based upon the criteria of shareholders' wealth

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reduce the satisfaction level if time issue is not taken into consideration. The negative mediation by TFI between WIS and SIS support the argument that investment in stocks is a time consuming process.

## VI. Conclusion

This paper was aimed at exploring the behavioural factors relevant for NPS so that the problem of NPS can be resolved. This study brings forth the following determinants/ factors to support stock market participation (SMP): 1) knowledge about the stock market (KSM); 2) trust in the stock market (TSM); 3) availability of funds for investments (AFI); 4) willingness to invest in stocks (WIS); 5) time for investment (TFI); and 6) satisfaction from investments in stocks (SIS).

Moreover, the second objective of the paper to build a model for NPS is a good fit model. In this model, SIS is caused by a willingness to invest in stocks (WIS). In turn, WIS is caused by knowledge about the stock market (KSM), trust in the stock market (TSM) and availability of funds for investments (AFI). Moreover, TFI plays the role of a mediating variable between SIS and WIS.

The negative mediation of time for investment (TFI) and the importance of trust on the stock market (TSM) are the most important contribution of the paper. The regulation of stock market investments can incorporate these findings and make changes to the process of SMP accordingly. These alterations can reduce the incidence of non-participation in stocks (NPS). The implications of the findings of the paper serves not only managerial but policy level decision making as well. The issue of lack of participation in the equity can be strengthened using the findings of the paper.

A limitation of this study is that it does not separate investments into mutual funds and direct investments into equity; this is an area requiring further study. Further, the issue of endogeneity between SIS and WIS may be tested. This can also be an area of future study.

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### Annexure

The discriminant validity of the constructs is explained in Table A1.

**Table A1**  
**Reliability and Validity of Constructs**

	CR	AVE	MSV	Cronbach Alpha	TSM	KSM	AFI	WIS	TFI	SIS
TSM	0.814	0.525	0.334	0.8130	0.724					
KSM	0.865	0.762	0.306	0.0864	0.454	0.873				
AFI	0.801	0.669	0.306	0.0789	0.379	0.553	0.818			
WIS	0.867	0.686	0.334	0.8670	-0.578	-0.409	-0.297	0.828		
TFI	0.779	0.541	0.022	0.7580	0.103	0.054	-0.003	-0.089	0.735	
SIS	0.792	0.565	0.219	0.7890	-0.333	-0.332	-0.234	0.468	0.147	0.751

**Note:** The diagonal values are square roots of AVE for that construct. Off-diagonal values are inter-construct correlation coefficients. Square root of AVEs are greater than all the inter-construct correlation coefficients for that construct.

Source: Self Computed

### Questionnaire

Answer following questions on scale of five. 1 (*strongly disagree*) to 5 (*strongly agree*).

#### Knowledge or Awareness about Equity Market:

- I am not comfortable in online transactions.
- Stock market working is beyond my understanding.
- I lack the requisite knowledge about the stock market.

#### Cash Availability:

- I do not have cash to invest in the stock market.
- I am still meeting my other requirements and do not have excess cash to invest in equity market (directly or indirectly).
- I put my money into something which I rate better investment for me than putting money in the stock market. I am left with no money for investing in the stock market.

#### Willingness to invest:

- I am comfortable in investing in shares (directly or indirectly)
- Shares provide a good alternative to the conventional mode of investments (like FDs, Post Office Deposits etc.)
- If I get extra money, I would like to invest in shares

#### Time or Interest to invest:

- I am too busy to have the time for investing into the stock market.
- Learning about stock market is very time consuming and onerous which I do want to do.
- I do not find stock markets interesting to invest my hard-earned money.

#### Trust:

- Stock market is not for simple people.
- I invested money in SM and lost. I have no trust on the stock market.
- Fluctuations in stock markets are so much that I am not comfortable in investing there.
- The movement in the stock market is most of time man made, not the actual forces of demand and supply.
- I find stock market too risky to invest my money.
- I find those who invest in stock market are greedy people and want to make some quick bucks.
- I do not trust these businessmen who are money monsters for giving my money

#### Satisfaction

- Stock Market has the potential for giving better returns than other investment avenues
- In the long run, equity investment gives satisfactory results
- I gain or I lose, but I am content with investment in Stock Market (directly or indirectly).