



## Investors' behaviour in Bihar-An analysis

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### Abstract

The Level of Investment in India is very low as compared to other countries and this is also true for Bihar state. The reason for the same could be that the Investors' expectations are not fully met. The investors expect that they get maximum growth at bearable risk, monthly Investment, timely returns, value of money and ensured reliability of every company, scheme etc. During the past decade, there has been a growing recognition that Investors sometimes behave in a manner that can not be described as fully rational. They can become affected by cognitive biases and emotions. Behavioural finance is a new approach to financial markets that has emerged in response to the difficulties faced by the traditional paradigm and it focuses on investors' behaviours and the decision-making process. The present study is a moderate attempt to make an analysis of the Investors' Behaviour in Bihar.

**Keywords:** Bank savings accounts, economy of Bihar, investment behaviour, life insurance, mutual funds

### Introduction

The Economy of Bihar has been growing at a phenomenal rate since the last decade compared to the subdued growth rate in the 90s. Such economic growth leads to structural changes in the economy in the form of reallocation of economic factors within the different sectors of the economy. The increase of output with a reallocation of labour and employment composition is the silent feature of structural changes in the economy, and hence economic growth occurs as a result. Bihar, the most underprivileged state in India, drew attention due to rapid growth in late 2010.

Bihar is in the phase of structural transformation, as it is evident with a significant decline of income and workforce share of the primary sector and a continued positive growth rate of income. The sub-period analysis shows that Bihar has witnessed a golden period of growth during 2004-05 to 2011-12. Agriculture, construction, communication, and other services are the driving force toward the growth and structural change in the economy.

Bihar is situated in the eastern part of India. The city of Patna which is located on the banks of the holy Ganga, is the capital of Bihar. Bihar is the ninth largest state of India in terms of area (94,163 sq. km) and the third largest in terms of population (10.38 crores) in the country (Census of India, 2011). Bihar is bordered by Nepal in the north, West Bengal in the east, Uttar Pradesh in the west and Jharkhand in the south. The Bihar plain is divided into two parts by the river Ganga, which flows through the middle from west to east. The state has some of the most fertile lands of India. Central Bihar, south of the Ganga, is a region with rich agricultural resources. Most of North and Central Bihar is a plain.

Bihar falls in the Lower Gangetic plains. As per Planning Commission classification the state is divided into three geographic regions i.e. North Bihar Plains, South Bihar Plains and part of the Chhotanagpur Plateau. Approximately 76 percent of North Bihar Plains and 53 percent of South

Bihar Plains are flood-prone while regions falling under Chhotanagpur Plateau are drought prone (Tankha, 2009).

Bihar has 38 districts and 9 sub-divisions. The state is well linked by roads, state highways, national highways, rural and district roads. The state has fairly good railway network connecting to almost all cities in India. There are airports at Patna, Gaya and Darbhanga besides landing grounds in all major districts of the state. After the division of Bihar in the year 2000, most of the industries were left in mineral-rich Jharkhand. The state retained almost 75 percent of the population, while it was left with only 54 percent of the land. Bihar has consistently experienced socio-economic development over the last decade, despite limited availability of financial resources. The emphasis of the policy in state has been on making the benefits of the government programmes reach everyone in the society. This is evident from the achievements of the state in various sectors, both economic and social. The development achieved so far is a result of multiple policy initiatives of the State Government, including increased level of development expenditure.

### Investment Behaviour in Bihar

The Level of Investment in India is very low as compared to other countries and this is also true for Bihar state. The reason for the same could be that the Investors' expectations are not fully met. The investors expect that they get maximum growth at bearable risk, monthly Investment, timely returns, value of money and ensured reliability of every company, scheme etc. During the past decade, there has been a growing recognition that Investors sometimes behave in a manner that can not be described as fully rational. They can become affected by cognitive biases and emotions. Behavioural finance is a new approach to financial markets that has emerged in response to the difficulties faced by the traditional paradigm and it focuses on investors' behaviours and the decision-making process. Decisions for investment are not easier, they are different and involve higher levels of uncertainty, and the decisions

tend to be more greatly influenced by emotions and feelings. Investors in various places acknowledge the role of emotions in investment decision making. Demographic factors also influence the investor investment decisions. Investors' behaviour of Bihar is also having several colors and it is necessary to have study of behavioural aspects of investors. This will lead accelerate the investment process and boost the economy. So, we have studied the determinants of investors' behaviour with reference to Bihar state. Our study has focus on Investment avenues available and behavioural aspects of investors of Bihar.

An analysis is made on the responses received from 500 sample investors of Bihar. The objective of the research is to find out behavioural dimensions of investors of Bihar during investment.

The research is basically empirical in nature. The data for the study were collected from the both primary and secondary sources. Primary data were gathered using questionnaire as a tool for data collection. Secondary data were collected from books, financial journals and magazines, reports, newspapers, websites and expert opinion published in various print media. For this purpose, the library and internet were used. For this study stratified random sampling method has been used from the certain identified strata of the population units. For analysis and interpretation several diagrams and tables were used to describe the performance of different financial instruments. The tools used for the purpose of analysis were simple percentage analysis and ranking method.

The questionnaire contains various questions on the investors' financial experience, based on those experience an analysis is made to find out a pattern of their investments. For the purpose of analysing all dimensions of the investors behaviour of Bihar. It is required to study the demographic factors and socio-economic feature of investors of Bihar. For this concern the following important various related with the respondents were studied. Age, sex, marital status, Education, Income, nature of employment etc are the parameters taken into consideration for this study. A profile of the respondents was framed with the help of tables, graphs, percentages etc. This chapter will provide an analytical picture of the profile of the selected respondents in this study.

The study discusses about the investors behaviour towards the various investment alternatives with special reference to Bihar state. The sampling method used was stratified random sampling technique with sample size as 500. The tool used for data collection was questionnaire. The tools used for the purpose analysis were simple percentage analysis and ranking method. It was concluded from study that respondents had chosen bank saving accounts as their first preference. The second place was occupied by life insurance, followed by fixed deposits. The fourth, fifth, sixth and seventh places were occupied by mutual funds, public provident funds, commodity market and equity market share market respectively. The least preference was given to government securities, followed by bonds, debentures and forex market respectively. The sample investors were considering safety as the important factor before making their investments. The investors were facing the constraint of time consuming process of investments. The investors had investment experience of more than 5 years. The investors were making the investments on medium term basis. The prime most important objective of

the sample investors was tax saving objective. In order to rationalize the investments in Bihar state, the respondents had given the suggestion to the financial institutions to make investment policies which would provide maximum returns within minimum time period.

Investment became an important part of economy of any nation. With the saving invested in various options available to the people, money act as driver for the growth of the country. Investment benefits both economy and society. It is the outgrowth of economic development and maturing of modern capitalism. For an economy as a whole aggregate investment sanctioned in the current period is a major factor in the determining aggregate demand and here level of employment in the long term. Current investment determines the economy's future productive capacity ultimately a growth in the standard of living. By increasing the personal wealth investing can contribute to higher overall economic growth and prosperity (Murithi, 2012) <sup>[8]</sup>. Investment refers to the employment of funds with aim of achieving additional income or growth in value. It involves the commitment of resources which have been saved or put away from current consumption in the hope that some benefits will accrue in future. It is basically reward for waiting (Preeti singh, 2009) <sup>[10]</sup>. Investment can be explained as purchase of a financial product or other item of value with an expectation of favorable future returns. Saving is left over the disposable income whereas when these savings are used to generate further returns are known as investment (www.investorwords.com).

The investment behaviour consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and the most importantly the timing of such investment (Chakraborty, 2012) <sup>[3]</sup> Investor refers to the person who puts their money in investment products in the expectation of favorable future returns. The future returns may be in the form of capital appreciation, income in the form of interest, dividend, bonus and other benefits.

### Findings of the Study

Investment is the employment of Funds with an aim of getting return on it. In general, investment means the use of money in the hope of multiplying more money. In finance, Investment is the commitment of funds, which have been saved from current consumption with in this hope that some benefits will be received in future. It is a real challenging for the Investors to select the investment avenues, the reasons behind of challenging for select the investment avenues is to determine the characteristics of the various investment avenue and then matching them with the individuals need and preferences.

Investor differs from one another others in all aspects based on the various factors like demographic factors, socio-economic background life style etc., even though investor investing design in order to achieve certain objectives. These objectives may be tangible such as buying a car, purchase or construct the house, etc. and intangible objectives such as social Status, security etc. similarly, these objectives may be classified as financial or personal objectives. Financial objectives are safety, profitability and liquidity. Personal or individual objectives may be related to personal characteristics of individuals such as family commitments, status, dependants, educational and marriage requirements, income, consumption and provision for

retirement etc. Further perception of the investors related to the elements of investments like Risk and Return relationship, Time, Liquidity, Tax savings, etc.

This study deals with the behaviour of the investor to identify the better investment avenues available in India. The investment strategy is a plan, which is created to guide an investor to choose the most appropriate investment portfolio that will help them to achieve their financial goals with in a particular period of time. By increasing personal wealth, investing can contribute to higher, overall economic growth and prosperity. The process of investing helps companies where they can raise their capital through financial markets. Specific types of investments provide other benefits for the investor, corporate as well as the society. The Indian investors are very much aware about the concept of portfolio allotments and risk and return of the investment. The mantra of the investment is "Prevention is better than Cure" which is expected with more income but less risk.

The major findings of the research study are summarized below

- Most of investors (70%) whose survey was done were in the age group of 20-40 years.
- The majority of respondents (73.6%) were married.
- Most of the investors (73.6%) were male investors and 26.4% were female investors.
- Most of the investors (42%) were possessing higher education like graduation and 31.8% are were possessing post-graduation.
- The majority of respondents (60%) were working people or having salaried occupation.
- Most of the respondents (31%) were falling in the income category 2-4Lac and (37%) were falling in the income category less than 2 lacs.
- The Majority of respondents had chosen bank saving accounts with (98.8%) as their first preference. The second place was occupied by life insurance with (65.6%), followed by fixed deposits with (53.8%). The fourth, fifth, sixth and seventh places were occupied by mutual funds, public provident funds, commodity market and equity market share with (34.6%), (29.2%), (17.6%) and (15.8%) respectively. The least preference was given to government securities with (8.4%), followed by bonds, debentures and forex market with (5.4%), (2%) and (1.4%) respectively.
- Most of the respondents (56.6%) preferred to invest their in public sector only.
- The Majority of the respondents (59.2%) considered safety as the important factor before investing.
- Most of the respondents (48.4%) considered tax saving as the important objective and followed by children education (43%) of respondents.
- The Majority of respondents (46.2%) have an investment experience of more than 5 years.
- The Majority of respondents (47.4%) were medium term investors.
- Most of the investors (57.2%) were investing 0-15% of their income.
- The majority of respondents (74.6%) were motivated from family and friends for making investment decisions.
- The majority of respondents (19.6%) were facing the constraint of time consuming process of the investment.

- The majority of respondents (39.2%) given the suggestion of making the investment policies which would give high return to investors in minimum period.
- The study reveals that male investors dominate the investment market in India.
- Most of the investors possess higher education like graduation and above.
- Most investors read two or more sources of information to make investment decisions.
- Most of the investors discuss with their family and friends before making an investment decision.
- The investment habit was noted in a majority of the people who participated in the study.
- The objective of investment was either capital appreciation or balance of capital appreciation and current income.
- Investors prefer to park their funds in avenues like PPF/FD/Bonds next to Equities and Mutual Funds Scheme.
- Most of the investors get their information related to investment through electronic media (TV) next to print media (Newspaper/ Business newspaper/ Magazines).
- Most of the investors are financial illiterates.
- Gender and the risk tolerance level of the investor are independent attributes of the investor.
- Increase in age decrease the risk tolerance level.
- Percentage of income that they invest depends on their annual income.

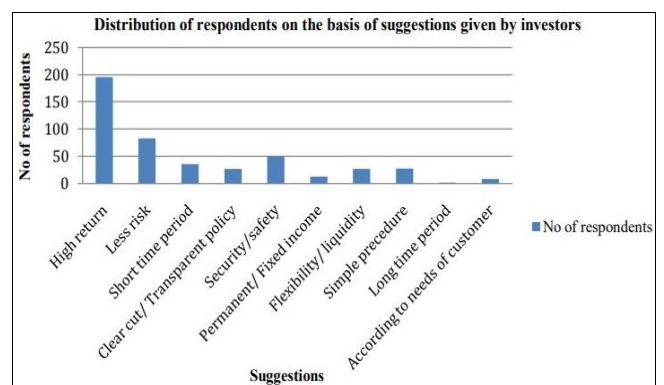
**Suggestions**

The respondents were asked to present their views about the rationalization of investments in Bihar. The distribution of respondents regarding the suggestions given by investors for rationalizing the investments in Bihar is being presented below in the table 1.

**Table 1:** Distribution of respondents on the basis of suggestions given by investors

| Suggestions                    | Frequency | Percentage |
|--------------------------------|-----------|------------|
| High return                    | 196       | 39.2       |
| Less risk                      | 83        | 16.6       |
| Short time period              | 36        | 7.2        |
| Clear cut/ Transparent policy  | 27        | 5.4        |
| Security/safety                | 50        | 10         |
| Permanent/ Fixed income        | 13        | 2.6        |
| Flexibility/ liquidity         | 27        | 5.4        |
| Simple procedure               | 28        | 5.6        |
| Long time period               | 2         | 0.4        |
| According to needs of customer | 9         | 1.8        |

Source: Primary Data



**Fig 1:** Distribution of respondents on the basis of suggestions given by investors

It can be inferred from table 1 that majority 39.2% of respondents had given the suggestion of high return, followed by 16.6% had given the suggestion of less risk, followed by 10% of respondents had given the suggestion of security/ safety, followed by 5.6% of respondents had given the suggestion of simple procedure, 5.4% of respondents had given the suggestion of flexibility/ liquidity, followed by 2.6% of respondents had given the suggestion of permanent/ fixed income, 1.8% of respondents had given the suggestion of according to the needs of customers, 0.4% respondents had given the suggestion of long time period. Thus, it can be concluded that large no of investors offered the suggestion that investment policy should be designed in such a way that it should provide more return to the investors within minimum time period.

### Conclusion

It can be concluded from the study that respondents had chosen bank saving accounts as their first preference. The second place was occupied by life insurance, followed by fixed deposits. The fourth, fifth, sixth and seventh places were occupied by mutual funds, public provident funds, commodity market and equity market share market respectively. The least preference was given to government securities, followed by bonds, debentures and forex market respectively. The sample investors were considering safety as the important factor before making their investments. The investors were facing the constraint of time consuming process of investments. The investors had investment experience of more than 5years. The investors were making the investments on medium term basis. The prime most important objective of the sample investors was tax saving objective. In order to rationalize the investments in Ludhiana city, the respondents gave the suggestion of to the financial institutions to make investment policies which would provide maximum returns within minimum time period.

This study confirms the earlier findings with regard to the relationship between gender and age, the risk tolerance level of individual investors. The study has important implications for investment managers as it has come out with certain interesting facets of an individual investor. The individual investor still prefers to invest in financial products which give risk free returns. This confirms that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors prefer to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant and use TV as a marketing media as they seem to spend long time watching TVs.

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