

Initial Public Offering (IPO) and Factors Influencing Investment Decision: Evidence From Dhangadhi

Surendra Prasad Joshi

Faculty of Management, Thames International College, TU
Kathmandu, Nepal

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Abstract

This study examines the initial public offering (IPO) and factors influencing investment decisions: evidence from Dhangadhi on the prospectus review, academic qualification, and experience. Prospect Theory and the Information Processing Perspective are discussed to understand the psychological biases and information processing capabilities that influence investors in IPOs. Data was collected through a survey of 200 respondents to investigate these factors empirically. The results of the study indicate significant relationships between the variables. The correlation analysis reveals strong positive correlations between the review of the prospectus and investment decision, as well as experience and investment decision. The correlation between academic qualification and investment decisions was positive but relatively weak. Furthermore, the regression analysis confirms the influence of these factors on investment decisions. The regression results demonstrate that reviewing a prospectus, academic qualification, and experience significantly affects investment decisions in IPOs. A higher review of a prospectus, educational qualifications, and experience are associated with more favorable investment decisions. The findings of this study have important implications for investors, financial professionals, and policymakers. Future research could consider a more extensive and diverse sample and investigate additional factors influencing IPO investment decisions.

Keywords: information processing perspective, prospect theory, finance and behaviour, security market

Introduction

Business and decisions about investment are interlinked. The Initial Public Offering (IPO) is a critical factor in the lifecycle of a company (Rees, 1997), as it marks

the transition from being privately held to becoming a publicly traded entity (Jain & Kini, 1999). During an IPO, a company offers shares of its stock to the public (Ahmed & Koy, 2023) for the first time (Biswas & Joshi, 2023), thereby raising capital and allowing individual and institutional investors to become shareholders (Vo, 2016). Investing in IPOs can be an attractive opportunity for investors (Ahmad-Zaluki & Badru, 2021) seeking potentially high returns, as IPOs often generate significant interest and excitement in the financial markets. However, investing in IPOs also carries inherent risks (McLeod et al., 2022), as the performance of newly public companies can be volatile and unpredictable (Bourgeois III, 1985). The investment decision-making process for IPOs involves thoroughly evaluating various factors that can influence the potential returns and risks associated with the investment (Shafi, 2014). These factors can be broadly categorized into two types: external factors and investor-specific factors.

External factors include the review of the IPO prospectus, a document that provides comprehensive information about the company's financials, business model, competitive landscape, risk factors, and future growth prospects. The prospectus is a crucial source of information (Moogan & Baron, 2003) for investors to assess the viability and potential of the IPO. A thorough review of the prospectus allows investors to gain insights into the company's financial health (Bukh et al., 2005), management team, and competitive advantage, enabling them to make informed investment decisions. Investor-specific factors, on the other hand, include academic qualifications and experience. Academic qualifications such as degrees in finance, economics, or related fields can provide investors with a strong foundation of knowledge and analytical skills necessary to evaluate IPO (Fachrudin, 2016).

Furthermore, investors with prior experience analyzing and investing in IPOs may have developed expertise and insights that can influence their investment decisions. Experience evaluating similar companies, understanding market dynamics, and assessing industry trends can provide valuable context and improve decision-making capabilities (Maitland & Sammartino, 2015). The relationship between these independent variables (review of the prospectus, academic qualification, and experience) and the dependent variable (investment decision) forms the basis of this research study. The study explores

how these factors influence investors' decision-making when considering whether to invest in IPOs. By understanding the impact of these variables, investors, financial professionals, and researchers can gain insights into the factors that shape investment decisions and potentially develop strategies to enhance investment outcomes in the IPO market.

The Initial Public Offering (IPO) market presents a unique investment opportunity for individuals and institutional investors (Certo, 2003). However, investing in IPOs carries inherent risks, as the performance of newly public companies can be volatile and unpredictable. Understanding the factors influencing investors' decision-making when considering IPO investments is crucial for optimizing investment outcomes and minimizing risks. While previous research has explored various aspects of IPO investments, there remains a gap in the literature regarding the specific factors influencing investment decisions in IPOs. In particular, little is known about the impact of factors such as the review of the IPO prospectus, academic qualifications, and experience on investors' decision-making process. The absence of a comprehensive understanding of these factors and their influence on investment decisions in the context of IPOs hinders investors' ability to make informed investment choices. This knowledge gap leaves investors without clear guidance on assessing an IPO's viability and potential risks, potentially leading to suboptimal investment decisions and increased exposure to financial losses. Therefore, the need arises for a research study that investigates the relationship between the review of the IPO prospectus, academic qualifications, experience, and investors' decision-making process when evaluating IPO investments. By identifying and analyzing these factors, the study aims to shed light on their individual and collective impact on investment decisions, providing valuable insights for investors, financial professionals, and researchers in the IPO market. Addressing this problem will contribute to the existing body of knowledge in finance and enable market participants, regulators, and academics to develop strategies and frameworks to enhance investment outcomes and minimize risks in the IPO market.

The objectives of this research article are as follows:

- To examine the relationship between the review of the prospectus and IPO

investment decision.

- To analyze the relationship between academic qualification and IPO investment decision.
- To examine the relationship between experience in the stock market and IPO investment decisions.

Literature Review

This review literature suggests that the review of the prospectus, academic qualifications, and experience are important factors influencing investment decisions in IPOs. These factors provide investors with essential information, knowledge, and expertise to evaluate IPO investments' potential risks and returns. Prospect Theory, proposed by Kahneman and Tversky (1979), suggests that individuals make decisions based on subjective values rather than objective probabilities. This theory emphasizes the role of psychological biases and risk preferences in investment decision-making. When applied to IPO investments, Prospect Theory suggests that investors may be influenced by the potential gains and losses associated with an IPO rather than solely focusing on the objective characteristics of the offering. The Information Processing Perspective (Forgas & George, 2001) suggests that investors' academic qualifications and experience can be crucial in enhancing their information processing capabilities.

Fachrudin (2016) found that investment decisions on stock markets are based on investors' mentality at the decision-making time; also, each group with common characteristics may have the same or different thinking. Males are more willing to take risks in making investment decisions than females (Ton & Nguyen, 2014); now there might be different results from the current research, and demographics can influence the decision to invest. Gill et al. (2018) found the relative significance of the investor's level of knowledge attribute is a function of the unique qualities of both the investor and the asset. Risal and Khatiwada (2019) found that decision accuracy, age, and experiences are insignificant. The analysis revealed a significant relationship of hasty decisions with herd behavior. Kusuma (2001) found that non-accounting information is relevant for the investment decision and may impact the primary market. According to Chakraborty et al.

(2023), retail investors pay more attention to firms' audit and board information while making investment decisions. Hence, reviewing a prospectus is related to information about non-accounting matters and can influence the decision process. Also, Dhungana et al. (2022) discovered a link between irrationality in financial decision-making and availability, overconfidence, and herd instinct biases. However, anchoring and regret aversion biases did not affect irrational investment decisions. However, though all the tendencies have a positive relationship with a foolish investment decision, overconfidence bias has the highest impact. Regret aversion bias has the most negligible impact on investment decisions compared to the other four preferences. Age, Education, and Gender were previously measured to determine. In conclusion, the literature suggests that factors such as the review of a prospectus, academic qualifications, and experience are crucial in shaping investment decisions in IPOs.

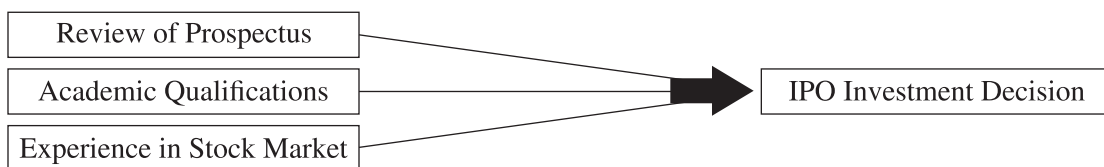
Understanding these factors can assist investors, financial professionals, and regulators in making informed decisions and developing strategies to optimize investment outcomes in the IPO market. Further research in this area is needed to explore the interplay of these factors and their impact on investment decisions. The following framework is developed based on the above theory and research:

Figure 1

Research Framework

Independent Variables

Dependent Variable



Methodology

This study is based on a descriptive and causal-comparative survey research design. This study intended to find what most Nepalese investors in IPO invest in by analyzing the prospectus or without examining the prospectus through exploratory survey research.

Non-probability convenience sampling technique is employed, and efforts are made to ensure the sample is diverse in age, gender, educational background, and investment experience. The sample size for this study is 200 IPO investors.

The collected data are analyzed using appropriate statistical techniques. The expert-reviewed questionnaire is employed on a scale of 1-5; 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree. The first part of the questionnaire includes demographic information of respondents; in the second part review of a prospectus, academic qualifications, and experience with investment decision items were incorporated; descriptive, correlation, and regression analysis is the data analysis method for this research article. Descriptive statistics are used to summarize the participants' demographic characteristics, academic qualifications, and investment experience. The research article is based on the following respondents.

Table 1

Respondents

	Nos	%		Nos	%
<i>Gender</i>			<i>Education:</i>		
Male	95	47.5	Intermediate	32	16.0
Female	87	43.5	Bachelor Degree	130	65.0
Prefer not to say	18	9.0	Master's Degree	24	12.0
Total	200	100.0	M. Phil or above	14	7.0
<i>Age group:</i>			Total	200	100.0
20-30 Yrs.	81	40.5			
30-40 Yrs.	48	24.0			
40 – 50 Yrs.	41	20.5			
50 Yrs. and above	30	15.0			
Total	200	100.0			

Table 1 shows a relatively balanced gender representation, a higher proportion of respondents with higher educational qualifications, particularly at the Bachelor's degree level, and a diverse distribution across different age groups, with a slight emphasis on the younger age cohorts. These characteristics provide insights into the sample composition and should be considered when interpreting and generalizing the research findings to the

larger population.

For data consistency and validity, the study used a validity test of the items used in the study; the following table shows the validity result.

Table 2

Validity Test

Cronbach's alpha	No of Items
0.773	11

Table 1 shows the alpha coefficient is satisfactory internal consistency reliability for the scale used in this study (Taber, 2018).

Presentation and Analysis

To examine the relationships between the independent variables (review of a prospectus (RP), academic qualifications (AQ), and experience (EXP) and the dependent variable (investment decision), inferential statistical analysis is conducted. This includes techniques such as correlation, regression, or multivariate analysis.

Table 3

Correlation Matrix

	Review of Prospectus	Academic Qualification	Experience
Investment Decision	.781**	.258**	.938**

**Correlation is significant at the 0.05 level (2-tailed)

***correlation is significant at the 0.01 level (2-tailed)

Table 3 suggests that there are significant relationships between the variables. A high positive correlation between the Review of the Prospectus and Investment Decision indicates that investors who thoroughly review the prospectus are more likely to make informed investment decisions. The positive correlations between Academic Qualification and Investment Decision and Experience and Investment Decision indicate that higher academic qualifications and more experience may also positively influence investment decisions. The findings signify that reviewing the prospectus, possessing more experience, and their low relation with an educational qualification significantly influence

investment decisions in IPO. The regression result shows the impact of the independent variable on the investment decision in the primary market.

Table 4

Regression Result

Items	Beta	Std. error	t-value	p-value
Constant	-.322	.075	-2.285	.013
Review of Prospectus	.068	.033	.611	.000
Academic Qualification	.525	.019	2.04	.043
Experience	.443	.035	.420	.000

R-square= 0.869, Df= 2, F=833.81 and p-value<0.01

The regression results demonstrate that the variables Review of Prospectus, Academic Qualification, and Experience significantly affect the Investment Decision. Investors who review the prospectus, possess higher academic qualifications, and have more experience are likelier to make favorable investment decisions. The model shows an overall solid fit and indicates that these predictor variables explain a substantial proportion of the variance in the Investment Decision.

Discussion

The study's main objective was to provide the core information regarding IPO issuance as well as factors that influence the investment decision of the investors in IPO depending on the analysis done by investors before investing in the IPO of the stocks. The mediating variable is knowledge of IPO. According to Ton and Nguyen (2014), investors with an investment experience of over five years tend to be more willing to take risks; the present study is near to conclude that experience has a significant line on the decision about primary stock investment. Kadariya (2012) concluded that determinants include luck, financial education, and assessments of trend patterns in the Nepalese capital market. Thapa (2013) anticipated costs, potential returns, and the individual's level of knowledge, experience, competence, and capacity for risk all go into the individual's investment decision. The research is in line with this statement. Finally, Fachrudin (2016) found that investors with five-year-or-more investment experience often take higher risks than others; investors of different income levels have the same

ability to take risks; single investors tend to take higher risks than married investors. This study has not integrated investors like big investors and investors with low academic qualifications and stock market experience. Hence, the overall scenario of IPO investment shown in the study is limited. The study cannot be generalized, and the data collected does not represent the general population sample market with good IPO knowledge.

Conclusion

In conclusion, this study examined the factors influencing investment decisions in Initial Public Offerings (IPOs) with a focus on the review of prospectus, academic qualification, and experience. The findings provide valuable insights into the relationship between these factors and investment decisions in the context of IPOs. The literature review revealed that the review of prospectus, academic qualifications, and experience are essential factors in investment decision-making. Prospect Theory suggests that investors may be influenced by subjective values and psychological biases when evaluating the potential risks and returns associated with IPO investments. Additionally, the Information Processing Perspective highlights the role of academic qualifications and experience in enhancing investors' information processing capabilities. Based on the correlation matrix and regression results, the empirical analysis supports the theoretical underpinnings. The correlation analysis showed strong positive correlations between the review of the prospectus and investment decision, as well as experience and investment decision. The correlation between academic qualification and investment decisions was positive but relatively weak. The regression analysis further confirmed the significance of these factors. The regression results indicated that the prospectus review, academic qualification, and experience significantly influenced investment decisions. A higher review of the prospectus, academic qualifications, and experience were associated with more favorable investment decisions in IPOs. The findings of this study have important implications for investors, financial professionals, and policymakers. Investors should prioritize thoroughly reviewing the prospectus, enhancing their academic qualifications, and gaining experience to make well-informed investment decisions in IPOs. Financial professionals can consider these factors when advising clients on IPO investments. Policymakers can promote investor education and awareness regarding the importance of prospectus review, academic qualifications, and experience in investment decision-making.

Research Implications

The research is essential for those interested in IPO investments. It depicts the current IPO landscape in Nepal. This report can also serve as a foundation for additional research on Initial Public Offerings in Nepal. This report is helpful for organizations that offer their clients advice and consultation regarding their stocks and financial portfolios. This report helps novice investors comprehend an IPO and its operation. It is also a source for estimating the investors' investment patterns. This study will give investors a clearer understanding of their investments, allowing them to make the best decisions. It will also be helpful for students researching IPO. This study will help analyze the legal provisions, opportunities, challenges, and prospects of IPO in Nepal. Knowing how investors react to IPOs in various industries would also be helpful. The prospective offering company may also gain valuable insights from this research. It may be able to determine the causes of the unpredictable fluctuations in Nepal's Initial Public Offering.

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