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Social Interaction and Stock Market Participation: A Study of Kathmandu Valley Investors

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ABSTRACT

This research aims to explore how social interaction influences stock market participation in the Kathmandu Valley. It utilizes a descriptive and causal study design, applying a positivist approach to investigate the phenomenon. The focus is on understanding the effects of social interactions on individuals' involvement in the stock market within this specific geographical context. A questionnaire survey was conducted to collect data about factors influencing participation in the stock market. A total of 399 samples were gathered from this population using convenience sampling. The data was then analyzed using several statistical techniques. Reliability analysis was employed to assess the internal consistency of the measurement instruments. The results of the analyses found that internet usage, social norms/community influence, and the influence of friends/partners had a significant impact on whether someone participates in the stock market. However, there was no evidence that parental involvement in the stock market influences their children's participation. In summary, the study examined how different factors relate to individuals' participation in the stock market through a survey and statistical analyses of the collected data. Internet access, social environment, and peer influences were found to affect participation, but not parental involvement.

Keywords: Social interaction, Stock market participation, internet

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INTRODUCTION

Participation in the stock market involves buying and selling stock on the stock exchange in order to increase wealth. Investments are pension liabilities undertaken to something like a company for a specified period of time with the expectation of earning (Reilly & Brown, 2011). Participation in the stock market becomes crucially significant because it encourages the accumulation of wealth, welfare, and smoothing out consumption (Cole & Shastry, 2009). Failure to participate in the stock market results in economic welfare losses being incurred (Cocco et al., 2005). For analyzing people's behavior through social psychology research, social interaction was generally taken into account. Later, however, the same social characteristics were also seen to be important when analyzing subjects like economics, organization, and behavioral finance (Vanson, 2011). Social interaction is the process through which individuals mutually influence and regulate each other's behavior during social encounters (Hepler, 2022).

SEBON (Securities Board of Nepal) was established on June 7, 1993, with the objective of fostering the systematic growth of Nepal's capital markets. Its mission is to uphold credibility, fairness, efficiency, transparency, and responsiveness in accordance with the Securities Exchange Act of 1983. Serving as the supreme regulatory body for Nepal's securities markets, SEBON plays a pivotal role in various functions such as securities registration, approval of public offerings, formulation of market policies and programs, licensing of stock exchanges and brokers, and supervision of exchange operations and market participants. NEPSE Ltd. (Nepal Stock Exchange Limited) operates as a not-for-profit entity under the framework of the Securities Exchange Act of 1983. It commenced trading activities on January 13, 1994, with licensed market intermediaries utilizing an open outcry system for transactions involving listed corporate securities and government bonds. In the fiscal year 1993/94, the market comprised 30 participants, including 25 stockbrokers and 5 market makers. Over the subsequent two years, there was a marginal increase in the number of participants. By 1996/97, the participant count reached 49, with the addition of 11 new issue managers and 4 securities dealers. However, since 1997/98, there has been a gradual decline in the number of participants. Notably, no market makers have renewed their licenses in the past two fiscal years covered in the study.

The number of securities brokers is growing at a fairly slow rate, though. Currently, 50 member brokers work on the trading floor in accordance with the Securities Act, 2063 (2007), Securities Regulation, and bylaw. The broker firm has 21 branches spread over 21 distinct Nepali cities. According to CDS and Clearing Limited's official website, there are a total of 54, 08,242 Demat accounts in the country as of February 2022 but only half of them apply for IPOs (Investopaper, 2022).

Parental impact on an individual is intricate and multi-layered. It begins with genetic inheritance at birth and extends throughout life as parents shape their child's experiences within the social fabric. During early stages, parents influence their child's development through their

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behaviors, values, and attitudes. As the individual matures, parental influence persists through their presence in the individual's social circles, affecting various aspects of their life(Hellström et al., 2013).

In an action, a partner is someone who is connected to another person, according to the dictionary. "Partner" refers to a member of a couple with whom one has an intimate relationship. Accepting influence entails considering your partner's viewpoint and being willing to use her (or his) input when coming to a decision as a partnership. Household financial decision-making is typically represented by a unitary framework, where households are viewed as a single entity making decisions based on a shared utility function and combined income. However, research suggests that the risk preferences of individual household members, which significantly influence how households manage their portfolios, can vary between partners, e.g., Mazzocco (2004) and Kimball et al. (2008).

A number of papers (e.g., Grinblatt et al., 2011; Kaustia and Knüpfer, 2011) have established a correlation between an individual's decision to participate and the actions of their neighbours, colleges, or, more generally, other community members. According to Shah (2020), individuals currently spend a lot of time online and consequently interact with real people less. The benefits of the Internet in terms of improved connectivity are clear, with people connecting on a global scale. There is no doubt, according to Burgess (2020) that human communication has improved thanks to the internet. Compared to before the internet, we are now more connected than ever. Another significant contemporary social media platform that might impact stock market involvement is the internet (Liu et al., 2014).

As per the research conducted by Hellstrom et al., (2013), there was a positive and significant relationship between partner influences, parental influence with the stock market participation while community effect had positive yet non-significant relationship with the stock market participation. Moreover, research done by Liang and Guo, (2015) have only focused on internet access to explain its impact on SMP. In the previous researches only the secondary means of data were used which shows the methodology gap. There was no previous study regarding the independent variables (i.e., parental influence, partner influence, community effect and internet) which shows the frame gap. Thus, this study is showed to know the impact of parental influence, partner influence, community effect and internet on stock market participation of Kathmandu Valley.

The research questions that are important to achieve the objectives of the research can be listed as below:

- What is the perception of individuals towards social interaction?
- What is the effect of social interaction on SMP in Kathmandu valley?
- How do parental influence, partner influence, community effect and internet impact on SMP in Kathmandu valley?

The general purpose of the study is to examine and analyze the impact of social interaction on stock market participation in Kathmandu valley.

The specific purposes of the study are as follows:

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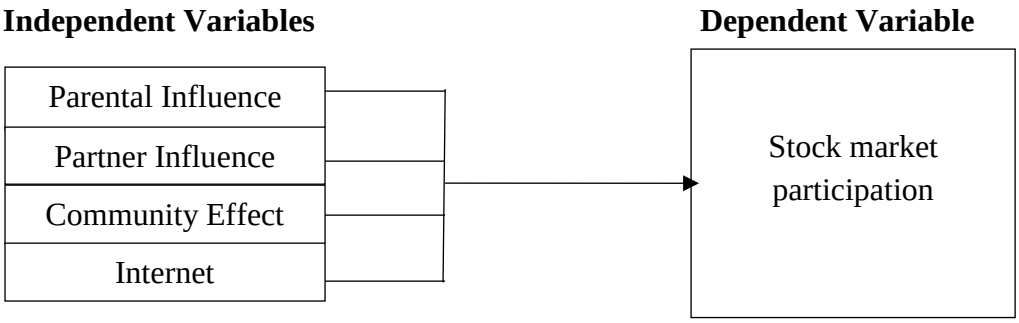
- To examine the Parental influence on SMP.
- To examine the Partner influence on SMP.
- To evaluate the community effects on SMP.
- To assess the impact of the internet on SMP



Source: (Hellström et al., 2013; Liang & Guo, 2015)

Figure 2.1. Conceptual framework

Parental influence, partner influence, community effect and internet have relation with stock market participation (Hellström et al., 2013; Liang & Guo, 2015). So, this research assume the following alternative hypotheses (H_A):

H_{A1}: Parental influence has a significant impact on SMP.

H_{A2}: Partner influence has a significant impact on SMP.

H_{A3}: Community effect has a significant impact on SMP.

H_{A4}: The internet has a significant impact on SMP.

METHODOLOGY

Analysing the effect of social interaction on stock market involvement was the aim of the research. A descriptive and explanatory research strategy was used to achieve the study goal. Research constructs were derived after a careful examination of the body of work. the positivist methodology applied in this study. As a result, the study is referred to as "quantitative research." The use of quantitative research is justified for three reasons. Initial research designs for hypotheses should be obvious (Creswell 2009). This research amply supported the hypotheses (H_{A1}-H_{A4}). Additionally, it is important to utilize a representative sample from the study. Furthermore, the analysis and testing were conducted on quantitative data gathered through a questionnaire survey.

Respondents who resided in Kathmandu and engaged in the stock market made up the population of this study. 399 samples from Kathmandu were included in the research sample. A big sample is one that has more than 200 participants and is adequate to provide meaningful findings (Eldred, 1987).

The study has used primary data to get the information. The study project consists of a total of 37 structured questions. There were seven-point rating scales for the closed-ended items in the questionnaire. The scale items range from 1 (indicating Strongly Disagree) to 7 (indicating Strongly Agree), with intermediate points of 2 (Disagree), 3 (Somewhat Disagree), 4 (Neutral), 5 (Somewhat Agree), and 6 (Agree) serving as intervals.

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Responses for the four independent variables were gathered through a self-administered questionnaire, while the dependent variable utilized a questionnaire adapted from Nadeem et al. (2020) and administered to 399 individuals representing diverse age groups, genders, occupations, and education levels. To collect research data, a Google form was created, and the survey link was distributed to participants via the internet.

The study employed several statistical techniques to analyze the collected data. Frequency analysis provided demographic and stock market participation details. Reliability analysis measured the internal consistency of the survey instruments. Descriptive statistics summarized the research constructs. Correlation analysis examined relationships between variables. Multiple regression analysis then tested the hypotheses and determined the impact of independent variables on the dependent variable while controlling for other factors. SPSS software facilitated reliability testing, descriptive analysis, correlation analysis, and regression analysis. A variety of analytical methods were thus utilized to comprehensively investigate the data and hypotheses.

The report makes clear that 48.6 percent of respondents were women and 51.4 percent were men. With 46.1 percent of the responders being graduates of upper secondary school and 39.3 percent being bachelor's grads. Of those surveyed, 31.1 percent had jobs, 32.3 percent were students, and 36.6 percent were jobless. Of those surveyed, 43.4 percent were between the ages of 20 and 30, and 41.6 percent between the ages of 30 and 40. Comparably, 7.0 percent of respondents were between the ages of 40 and 50, while 4.8 percent of respondents were under 20. At last, 3.3 percent of respondents fall into the age category "Above 50 years."

RESULTS AND DISCUSSION

100 percent of respondents have demat account. Majority of respondents i.e., 71.4 percent of respondents didn’t participate in the secondary market, and 28.6 percent of respondents participate in the secondary market36.6 percent of those who answered Depending on family wealth, 21.8 percent of those who answered have wealth More than 50,000, 14.5% of those who answered had income Around 12% of those who answered had an income between 20,000 and 30,000, 11% had an income between 30,000 and 40,000, and 4% had an income between 40,000 and 50,000.

Cronbach's alpha is a measure used to assess the reliability or internal consistency of a group of scale or test items. It evaluates how consistently a measurement tool captures a specific concept, providing a numerical indication of the degree of that consistency (Mukaka, 2012).

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Table 1

Reliability Analysis

Code	Variables	Cronbach's Alpha	N of items
PI	Parental Influence	0.841	4
PAT	Partner Influence	0.926	5
CME	Community Effect	0.940	5
INT	Internet	0.931	6
SMP	Stock Market Participation	0.919	5

[Source: Calculation Based on SPSS]

The value of Cronbach's Alpha Coefficient for family impact was shown in Table 1. It was more than 0.81 for community impact, partner influence, internet use, and stock market involvement. That's why the info is good enough for further research (George & Mallery 2009).

Descriptive Analysis was used to utilize the data collected from the respondents that has been interpreted. Mean is used to calculate the average of the responses and standard deviation is used to calculate the deviation of value from the mean (Sharma & Chaudhary, 2018). If the data showed a mean value higher than 3, It was assumed that respondents responded well to the Likert scale. In Table 2, descriptive statistics are displayed.

Table 2

Descriptive Analysis

Code	Variables	Mean	Std. Deviation
PI	Parental Influence	5.3033	1.39244
PAT	Partner Influence	4.8827	1.41673
CME	Community Effect	5.0381	1.39221
INT	Internet	5.0760	1.29658
SMP	Stock Market Participation	5.2195	1.33545

[Source: Calculation Based on SPSS]

Table 2 expressed descriptive analysis where Parental Influence is 5.3033, Partner Influence is 4.8827, Community Effect is 5.0381, Internet is 5.0760 and Stock Market Participation is 5.2195. This point out that the Parental Influence has the maximum mean of 5.3033, whereas Partner Influence has the lowermost mean of 4.8827. Similarly, standard deviation of Parental Influence is 1.39244, Partner Influence is 1.41673, Community Effect is 1.39221, Internet is 1.29658 and SMP is 1.33545. This shows that Internet has the lowest standard deviation of 1.29658, which explains that the value in the Internet is near from the mean.

Pearson correlation was used to examine the relationships between the variables in the study. As the research data consisted of continuous variables measured on Likert scales, Pearson correlation was suitable for analyzing the association between the independent and

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dependent variables. It generated correlation coefficients ranging from -1 to 1, indicating the strength and direction of relationships. Specifically, Pearson correlation helped explore the link between stock market participation and parental influence, partner influence, community effect, and internet usage.

As per Sharma & Chaudhary (2018), correlations below 0.30 are categorized as weak, those ranging from 0.30 to 0.60 are deemed moderate, and correlations above 0.60 are classified as strong.

Table 3

Correlation Matrix

Construct	Correlation	Stock Market Participation
Stock Market Participation	Pearson Correlation	1
Parental Influence	Pearson Correlation	.791**
Partner Influence	Pearson Correlation	.850**
Community Effect	Pearson Correlation	.871**
Internet	Pearson Correlation	.898**

[Source: Calculation Based on SPSS]

Table 3 displays the Pearson's correlation coefficients among the variables under investigation. The table shows that there was a high correlation between parental influence, partner influence, community effect, and the internet with stock market participation, as their correlations were 0.791, 0.850, 0.871, and 0.898.

Before running the regression analysis, its assumption must be satisfied. Four tests of regression assumption were conducted: independence of error, multicollinearity test, linear test, and normality test. Regression analysis enables us to grasp how the average value of the dependent variable shifts when any individual independent variable is modified, while keeping all other independent variables unchanged. The findings of the regression analysis are presented in Table 4.

Table 4

Coefficients

Independent variables	Coefficients value of beta	Sig.
(Constant)	.432	.000
Parental Influence	.064	.124
Partner Influence	.139	.011
Community Effect	.227	.000
Internet	.521	.000

Result variable Stock Market Participation R = 0.913; R^2 = 0.834; Adj. R^2 = 0.833; S. E. = 0.54632; F-Value = 495.055; p-value of F test = 0.000. Sig. at 5% level

[Source: Calculation Based on SPSS]

Table 4 emphasises that the p-value, or alpha, is 0.000. Apart from that, the 495.055 value of the F-statistic is noteworthy. As such, the model provides a solid explanation of the

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relationship between dependent and predictor variables. The R-square value of 0.834 indicates that the internet, community impact, and spouse influence account for 83.4% of the variance in stock market participation.

Based on the findings from Table 4, the p-values associated with partner influence, community effect, and internet are statistically significant at the 5% level of significance. Therefore, hypotheses H_{A2}, H_{A3}, and H_{A4} are accepted, indicating that partner influence, community effect, and internet presence have an impact on stock market participation. Conversely, the p-value of parental influence is not significant at the 5% level, leading to the rejection of H_{A1}. Thus, parental influence does not play a significant role in influencing stock market participation.

Summary

The research discussion section provides further analysis of the results from the study. Firstly, it examines the reliability analysis, which evaluated the internal consistency of the measurement scales. The Cronbach's alpha values exceeding 0.8 indicated good reliability for all constructs except parental influence, suggesting the items reliably measured each concept. Next, descriptive statistics revealed the mean level of agreement with statements relating to each variable. Parental influence had the highest mean of 5.3033, followed by community effect, internet usage, and finally partner influence, showing respondents agreed most strongly with parental influence items. Standard deviations were also examined, with internet having the lowest at 1.29658, indicating responses were more concentrated around the mean for internet versus the other variables.

Correlation analysis then explored relationships between variables, finding high positive correlations between 0.791 to 0.898 for all independent and dependent variables. This suggested stock market participation increased or decreased collectively with the other factors. Regression analysis controlling for other variables identified partner influence, community effect and internet as significantly predicting stock market participation based on their p-values below 0.05. However, parental influence was not a significant predictor. Overall, the multiple statistical tests provided strong support for hypotheses regarding social norms, peers and technology impacting stock investing, but not family influence specifically. Still, the descriptive findings revealed parental factors received higher agreement ratings on average. In conclusion, the research discussion offered deeper insight into relationships between variables and thoroughly examined the hypotheses.

CONCLUSION

This study examines how social interaction affects Kathmandu Valley stock market involvement. From literature, Kathmandu Valley stock market engagement is influenced by parents, partners, communities, and the internet. After testing hypothesis, spouse impact, community effect, and internet influence Kathmandu Valley stock market involvement. Parental influence was unsupported. Stock market participants are mostly influenced by the partner influence, community effect and internet. Nepal stock market is still on growing, so internet has the strong influence n people due to heavy use of internet in the present era. The parental influence was insignificant with regard to stock market participation and reason for

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this could be a lack of trust in the stock market by Nepalese parents (Koirala & Bajracharya, 2018). According to Hellstrom et al., (2013) the stock market participation is influenced by the social interaction dimensions. This result demonstrates a comparable type of outcome for the research. However, the outcome in terms of internet is comparable to the researchers' earlier findings Liang & Guo, (2015) and Liu et al., (2014).

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