

FACTORS AFFECTING STOCK MARKET PARTICIPATION OF INDIVIDUAL INVESTORS IN SRI LANKA

K. S. T. De Silva^{1,*} and H. M. D. N. Somathilaka²

^{1,2}Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka, Mihintale, Sri Lanka

*Corresponding author (email: stdsilva98@gmail.com)

INTRODUCTION

Economically, people act as investors and savers in public life. They typically spend their money on multiple investment approaches depending on their level of awareness and capacity (Somathilake, 2020). Sri Lanka's stock exchange, known as the Colombo Stock Exchange (CSE), is one of South Asia's most developed stock markets, featuring a completely automated trading platform (Rathnayaka et al., 2006). This study used a self-administered structured questionnaire to conduct a cross-sectional survey and collected empirical data from 330 individual investors. Five dimensions were created using the component analysis in a model to quantify stock market participation: attitudinal factors, financial literacy, digitalisation, advocate recommendation & experience. In light of the study's accomplishment of its goals, it can be said that most individual investors always make the most logical decisions regarding their investments. The results showed that individual investors were more concerned with financial literacy and experience than attitudinal factors.

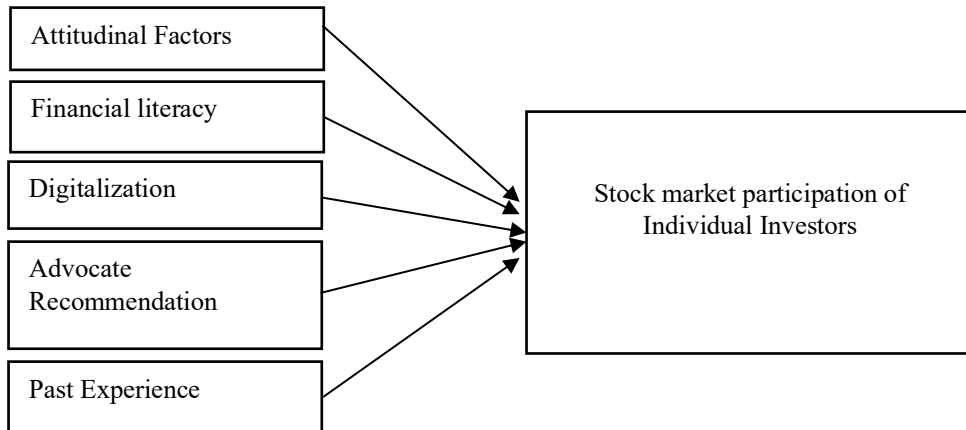
A person's attitude toward investment decisions is critical in determining whether or not to participate in the stock market. Investors' views toward investing, subjective norms, and perceived behavioural control all positively influence their behavioural intentions to participate in the stock market (Akhter & Hoque, 2022). Individuals with low financial literacy are substantially less likely to invest in stocks, and financial literacy statistically significantly influences investment decisions (Rooij et al., 2011; Jariwala, 2015). According to Sivaramakrishnan (2017), the likelihood of someone participating in the stock market positively correlates with financial literacy. Digitalisation significantly influences the productivity of personal economic portfolios by enhancing investing simplicity, enhancing financial information acquisition, and boosting consumer risk tolerance, as Wang (2021) suggested. Further, neutral information and advocate recommendations influence the individual investment decision. Individual investors are not so rational when they make investment decisions. Therefore, brokerage firms are advised to communicate reliable information with their clients (Indirani, 2021). Experience showed no significant direct impact on investors' intentions; however, it had a significant indirect relationship mediated by the attitude of investors (KPMG, 2020). Less experienced ones would have less participation in stock markets due to the fear of losing their money and not having accurate information about the past performances of the stock market (Weerasekara, 2020). To the researchers' knowledge, much research has not been done that emphasises financial literacy, attitudinal factors, digitalisation, advocate recommendation, and experience to explain investors' stock market participation. In particular, this study broadens the perspective of financial literacy and examines to which extent investors utilise it to the effects of stock markets. The study of

attitudes and experience has received much attention, but there has not been as much focus on how digitisation affects stock market behaviour. The knowledge already known may be significantly expanded by the fresh insight that this study can provide. Therefore, this research mainly focuses on the factors affecting stock market participation.

METHODOLOGY

This methodology part describes the conceptual framework, hypotheses, population & sample of the study, data collection and data analysis methods used in this study.

Figure 1 Conceptual Framework



According to Figure 1: Conceptual framework, stock market participation is identified as the dependent variable of this study. Attitudinal factors, financial literacy, digitalization, advocate recommendation and experience were the independent variables. It implies that stock market participation depends on independent variables identified in this study. Based on the literature, the following hypotheses were developed and tested.

H₁: There is a significant influence of attitudinal factors on individual investors' stock market participation.

H₂: There is a significant influence of financial literacy on individual investor's stock market participation

H₃: There is a significant influence of digitalization on individual investor's stock market participation

H₄: There is a significant influence of advocate recommendation on individual investor's stock market participation

H₅: There is a significant influence of past experience on individual investor's stock market participation

The population of the study is individual investors in Sri Lanka, and there are more than 100,000 individual investors who took part in stock exchange activities in the current era. The current study identified 382 individual investors using a random sampling method as the sample of the study based on the sample size selection table (Krejcie & Morgan, 1970). Data

was collected by distributing an online questionnaire and analysed using social science statistical software (SPSS). Both descriptive and inferential statistical techniques were utilised to analyse the data collected from the questionnaire. Moreover, reliability and validity tests were performed by conducting pilot trials for the results to be accurately applied and interpreted.

The operationalisation of variables is depicted in Table 1.

Table 1 Operationalization of variables

Variable	Measurement	Supportive literature
Attitudinal factors	<ul style="list-style-type: none"> ● Attitude ● Risk avoidance ● Perception of regulator 	Stalnacke (2019)
Financial literacy	<ul style="list-style-type: none"> ● Financial indicators ● Interest rate policy awareness ● Sound knowledge of financial instruments 	Ahmad (2020)
Digitalization	<ul style="list-style-type: none"> ● Data accuracy and accessibility ● Digital literacy ● Technology awareness ● Trend awareness 	Ahmad (2020)
Advocate Recommendation	<ul style="list-style-type: none"> ● Broker recommendation ● Family member opinions ● Friend or coworker recommendations ● Opinion of firm's major shareholders 	Jariwala (2015)
Past experience	<ul style="list-style-type: none"> ● Past performance of the company ● Attractiveness of stock investment ● Needs for diversification ● Ease of obtaining borrowed funds ● Minimizing risk of loss on the market 	Stalnacke (2019)
Stock market participation of individual investors	<ul style="list-style-type: none"> ● Awareness ● Trust ● Transaction cost ● Cognitive skills ● Perceptions 	Sivaramakrishnan et al. (2017)

RESULTS AND DISCUSSION

The selected sample is normally distributed based on the probabilities of Kolmogorov - Smirnov test, the null hypothesis cannot be rejected because the probabilities are greater than the 5% significance level. Even though the sample profile is not tabulated, the figures confirmed that most participants represent males, around 57 percent. The mainstream of the individuals is in the age group 36- 55, which consists of 38% and 32% representing the 26 – 35 age group, and the lowest percentage representing the above 55 age group. Most participants have been educated up to school, and the percentage of undergraduates and postgraduates is 21%, and income is between the ranges of Rs. 51,000 – 100,000. 14% of participants earn below Rs. 25,000 monthly, while 81% get more than Rs. 26,000. Professionally occupied survey takers represent the majority which is 39%, and 33% are engaged in business activities. Nineteen surveyors are not employed. Fifty-nine respondents have experience trading for less than one year, and 29% of the respondents' trading experiences are between 1 to 2 years. Eighty-nine participants representing 27% of the entire participants, have experience of more than five years. Trading capital is less than Rs.50, 000 for 93 respondents, whereas 100 respondents invested between Rs. 200,000 – 500,000 as capital. 9% have financed more than Rs. 500,000.

Table 2 Result of Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
AF	330	1.00	5.00	4.3763	0.62219
FL	330	1.00	4.60	3.6842	0.48296
DI	330	1.00	5.00	4.4015	0.56492
AR	330	1.00	5.00	4.3721	0.56543
PE	330	1.60	5.00	4.3992	0.55746
SMP	330	1.40	5.00	4.3976	0.59029

Results of descriptive statistics (Table 2) show that the mean values of each variable are close to Likert scale 4. Therefore, it implies that all the variables are at in “agree” level. The highest standard deviation is 0.62219, and attitudinal factors represent it. Therefore, it can be considered as attitudinal factors are more deviated than other variables. On the other hand, the lowest standard deviation is 0.48296, which belongs to digitalisation.

Table 3 Result of Correlation Analysis

	AF	FL	DI	AR	PE	SMP
AF	1					
FL	0.460**	1				
DI	0.856**	0.540**	1			
AR	.720**	0.476**	0.708**	1		
PE	0.790**	0.500**	0.855**	0.683**	1	
SMP	0.822**	0.505**	0.862**	0.705**	0.837**	1

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

The highest positive correlation of 0.856 can be seen between financial literacy and experience. This positive correlation indicates that these two variables are moving in the same

direction. Each variable positively correlates with the relationship between stock market participation and the independent variables.

Table 4 Result of Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-0.003	0.137		-0.022	0.982
AF	0.201	0.049	0.212	4.122	0.000
FL	0.035	0.037	0.028	0.941	0.347
DI	0.365	0.063	0.349	5.831	0.000
AR	0.096	0.040	0.092	2.415	0.016
PE	0.311	0.053	0.294	5.896	0.000
R 0.895, R Square 0.800, F 259.469, Sig 0.000					

According to the Table 4 indicates the result of regression analysis. According to the R^2 value, it implies that 80% of the factors affecting stock market participation of individual investors are attitudinal factors, financial literacy, digitalisation, advocate recommendation and experience, and the other 20 percent of stock market participation is decided by other factors which are explicit to the study. According to Akhter and Hoque (2022), investors' views toward investing, subjective norms, and perceived behavioural control positively influence their behavioural intentions to participate in the stock market. The analysis portrays the highest standard deviation, 0.62219 for attitudinal factors. Individuals with low financial literacy are substantially less likely to invest in stocks, and financial literacy statistically significantly influences investment decisions (Rooij et al., 2011; Jariwala, 2015) which the researcher analytically proved. According to KPMG (2022), past experience showed no significant direct impact on investor's intentions; however, the study proved that individuals' experience highly affected investment decisions in the stock market.

CONCLUSIONS AND IMPLICATIONS

With a diverse ethnic population and several cultural traits shared with other Asian nations, Sri Lanka is a developing economic powerhouse. In this study, the researchers concentrated on examining the factors affecting the stock market participation of individual investors in Sri Lanka. To determine which elements had the most and least impact on an individual's decision to invest in the CSE, the study focused primarily on attitudinal factors, financial literacy, digitalisation, advocate recommendation and experience. The analysis has determined that all variables are positively correlated with individual investment in CSE, as per the study's objectives. Nevertheless, individuals mainly consider financial literacy and experience when making their selections and pay little attention to digitalization. The researchers illuminate that before making an investment decision, investors should carefully analyze the investment elements using reasonable business expertise since they affect how well a share performs on the market. Investors should also be able to comprehend market and economic statistics. Considering this, the objectives of the present study were satisfactorily met, and it is reasonable to draw the conclusion that the majority of individual investors make sensible investment choices.

Keywords: Advocate recommendation, attitudinal factors, digitalization, financial literacy, past experience.

REFERENCES

- Ahmad, M. (2020, 05 03). Does underconfidence matter in short-term and long-term investment decisions? Evidence from an emerging market. *Management Decision*, 59(3), 692-709. doi:10.1108/md-07-2019-0972
- Akhter T, & Hoque M.E. (2022). Moderating effects of financial cognitive abilities and considerations on the attitude–intentions nexus of stock market participation. *International Journal of Financial Studies*. 10(1), 1-21. <https://doi.org/10.3390/ijfs10010005>
- Indirani, S. (2021). Digitalization of stock markets. Retrieved from https://www.academia.edu/50103375/Digitalization_of_Stock_Market
- Jariwala, H. V. (2015). Analysis of Financial Literacy Level of Retail Individual Investors of Gujarat State and Its Effect on Investment Decision. *Journal of Business & Finance Librarianship*, 20(1-2), 133–158. doi:10.1080/08963568.2015.97772
- Krejcie R.V., & Morgan D.W., (1970). Determining digitalization or research activities. *Educational and Psychological Measurement*, 30, 607-610.
- Rathnayrea, R. M. K. T., Seneviratna, D. M. K. N., & Nagahawatta, S. C. (2006). Empirical investigation of stock market behaviour in the Colombo Stock Exchange. *International Conference on Management and Economics*, 209–216. http://www.mgt.ruh.ac.lk/pubs/pdf/ICME2014_OP_p209.pdf
- Stalnacke (2019). Individual investors’ sophistication and expectations of risk and return. *Review of Behavioral Finance*, 11(1), 2-22.
- Sivaramakrishnan, S., Srivastava, M., Rastogi, A. (2017). Attitudinal factors, financial literacy, and stock market participation. *International Journal of Bank Marketing*, 35(5), IJBM-01-2016-0012. doi:10.1108/IJBM-01-2016-001