A Refeered Quarterly Journal
Vol.4, Issue 1, Udaipur (Raj.)

Equity Investment Culture and Entrepreneurship - Culture-Initiation and Adaptation

DR. RANJIT SINGH*

The purpose of this paper is to investigate the relationship between level of risk perception in respect of equity share investment and the reflection of equity share investment in the entrepreneurial-culture-initiation and adaptability. It is found that risk perception in respect of equity share investment has an influence on the overall equity shares investment behaviour of the people. It is also found in the literature that there is relationship between risk perception and entrepreneurial development among the people. Thus, it is concluded that equity share investment by the people will lead to growth of the role of 'Entrepreneurship-culture-initiator and adaptor'. Therefore, by promoting the equity investment culture among the people the entrepreneurship culture can be promoted. This is because they are also a kind of investment entrepreneur as they are the real risk takers in a company viz a viz the actual owners of a company.

Key Words: Risk Perception, Equity Investment, Entrepreneurship-Culture-Initiator

Introduction

Entrepreneurship is a multi-dimensional phenomenon and a continuous process in the economic development of a country. It is basically concerned with the conversion of innovative ideas into actions. The wide range of significant contribution that entrepreneurship makes to the economic development includes promotion of capital formation, creation of immediate large-scale employment, promotion of balanced regional development, effective mobilization of capital and skill etc. The overall role of entrepreneurship in an economic development of an economy is put, as "an economy is the effect for which entrepreneurship is the cause". During the last three decades, many countries of the world have experienced the need and importance of entrepreneurship development in small and medium scale industries as a means of solving the problem of unemployment and industrialization.

One of the essential requirements for an entrepreneur is that he has to invest his/her capital to earn profit. Hence the investment behaviour of the entrepreneur also requires an attention. The investment behaviour of the entrepreneur is affected by many factors of which risk perception is one. The risk perception has impact on the investment decisions whether it is related to investment in shares or investment in any other similar things like investment in real estate or investment in own small or medium Enterprises or venture.

In a study done by Singh, R. and Bhowal, A. (2009), the risk perceptions of the people are calculated on the basis of their perception towards the equity share investment. The study was based on the assumption

* Assistant Professor, Department of Business Administration, Assam University (A Central University), Silchar

that equity share investor is a kind of investment entrepreneur, where they are actually investing the capital and the business is done by the company on their behalf. Their return is also dependent upon the performance of the company. So, they are the ultimate risk takers in the company.

Equity Share Investor Vs Entrepreneur

We know that for becoming the entrepreneur the essential traits one should posses are the following:

1. Innovative
2. Risk Taking ability and ability to handle and manage risk.
3. Quick Decision Making
4. Opportunity seeking
5. Leadership
6. Foresightedness etc.

If we compare these traits with the equity share investor we find that these traits are also required by an entrepreneur to successful in his venture (Singh, R. and Bhowal, A., 2007). Let us test these features with respect to the equity share investment one by one.

[1] **Innovative:** An equity share investor has to be innovative; he has to innovate new ways and means and also new securities from a large number of securities in the stock exchange to invest and make money. The recent development in the capital market is the basically the result of those innovations.

[2] **Risk Taking Ability and Ability to Handle and Manage Risk:** Investment in the equity shares requires some degree of risk taking ability. There are always ups and downs in the stock market and an investor is exposed to all those risks. So he should have the ability to handle and manage the risk arising form those transaction. Further return from the equity share is also not guaranteed and keeps on changing; therefore, there is a risk in respect of getting certain amount of return from investment.

[3] **Quick Decision making:** An equity share investor has to make certain hard and quick decisions like to sell a security or to purchase a security which is currently undervalued but in the near future it is expected to go up or the decision to sell a security which he is holding for a long time but in the near future it is expected to fall.

[4] **Opportunity seeking:** This is also an important characteristic of an equity investor. He has to explore the opportunities from the ups and downs in the market.

[5] **Leadership:** Leadership is an essential feature to be possessed by any individual who is entering into an adventurous occupation and share investment is also not the exception to that.

[6] **Foresightedness:** This is also very important feature possessed by an investor. It involves application of intuition and reasoned based arguments as well as forecasting of the future to derive mileage out of his investment.

Thus we see that the features and traits required by and equity investor is also required by an entrepreneur. So if the equity investment culture can be developed as mass movement in the country it will be reflected in the risk assuming behaviour of the people in the domain of the entrepreneurial activity growth.

Risk perception and the Level of Entrepreneurial Development

It has been observed that in certain families the degree of risk perception is very low .In these types of families one can find that most of the family members will show behaviour which will reflect their risk taking nature like investment in equity shares, mutual funds or taking up an entrepreneurial activity etc (Sharma, P, 2004). Degree of risk perception depends on the factors like education, knowledge, exposure, and to a large extent on perception regarding risk which has been disseminated from their ancestors (Bhowal, A. and Singh, R., 2006). If their ancestors were having high risk taking ability then there is possibility that their successors will also be of having high risk taking ability. It is known that one important trait for an entrepreneur is the level of risk perception he has. If he is of very high risk taking nature then only he will go for the entrepreneurship (Sharma, P., 2004).

There is also relationship between entrepreneurial success and risk perception. In a study done by Panda, T. K. (2002), it is found that there are associations between the success levels of an enterprise with factors like technical education of the entrepreneur, occupational background of parents, previous background of the entrepreneur and capability to arrange working capital. The paper also brings out the entrepreneur's perception of risk namely, the functional risk and business risk (Singh, R. and Bhowal, A., 2008). It makes an attempt to learn about the hindrances encountered by the entrepreneur. It was found in this paper that lower level of risk perception leads to higher entrepreneurial success and vice versa.

Risk Perception and Equity Investment Decisions

It is known that stock market is very volatile. Even a slightest change in any part of economy affects the trading of securities in the stock market. This is due to the effect of risk perception of the peoples. For example if there is any undesirable event in any part of the country then it will be reflected in fall of index in the stock exchange.

So, while going for investment in shares people try to make proper trade-offs between risk and return. Moreover people are generally risk averse. They like to invest in such instrument, which give higher return for same amount of risk, or same return for less amount of risk i.e. they make proper trade-offs between risks and return while going to invest in particular investment instrument (Sharpe, W.F., 1964). An investor's background and past experiences can play a significant role in the decisions an individual makes during the investment process (Bernstein, P. L., 1995).

In another study recently concluded by Singh, R. and Bhowal, A. (2009) it is established that there is association between risk perception in respect of equity share investment and equity share investment behaviour of the people. Lower level of risk perception leads to the higher investment in equity and vice versa.

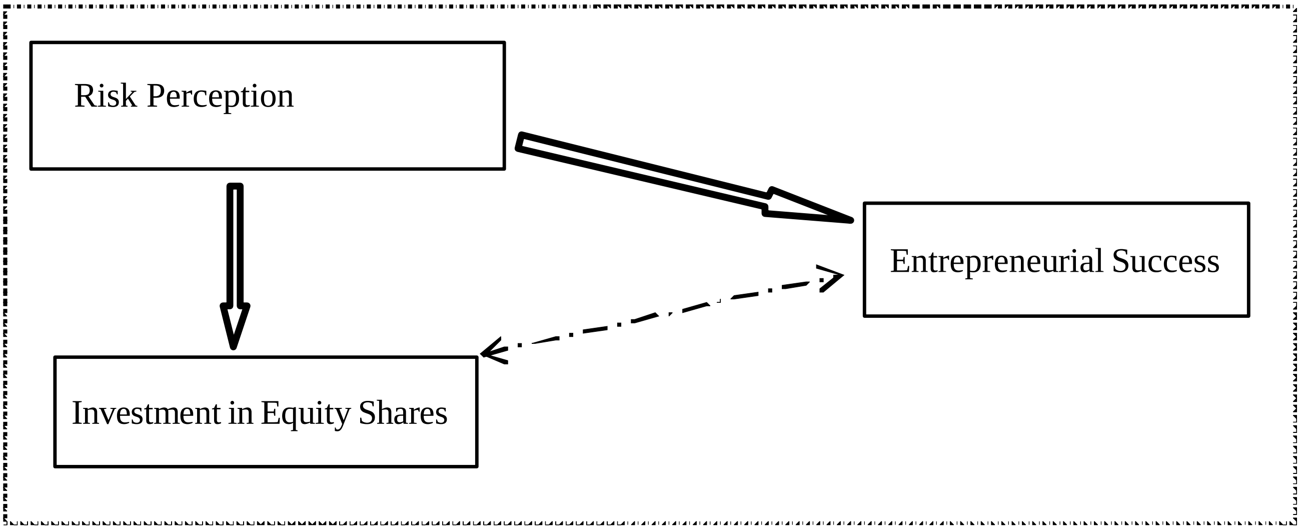
It was also found in the study conducted by Singh, R. and Bhowal, A. (2009) that apart from the level of risk perception the knowledge and skill to manage and handle risk is also important in equity share investment. It was also evident that the investment in the equity shares is changing without any change in the level of risk perception. Thus it can be concluded that although level of risk perception is the determining factor in the investment behaviour but at the same time knowledge and skill to handle and risk is also the determining factor (Sjoberg L., 2002). So, the people had acquired the necessary knowledge and skill to manage and handle risk from different sources like the print and electronic media, their experience from investing in the equity shares and the experience of their peers from the equity market and as a result the attitude as well as the risk perception of the people towards the equity investment had changed. Moreover, by investing in the equity market they have learned the necessary technique and skills to manage and handle the risk which has an impact on bringing down their level of risk perception.

Equity Share Investment and Entrepreneurship-Culture-Initiation and Adaptation

In above discussions it is seen that there is inverse relationship between 'level of risk perception' and 'entrepreneurial success' (Panda, T. K., 2002) and there is also inverse relationship between risk perception and equity share investment by the people (Singh R and Bhowal A, 2009). So, it has been inferred that if there is a favorable relationship between 'Risk Perception regarding equity investment' and 'Investment Behaviour relating to equity investment', then favourable 'Investment Behaviour relating to equity investment' will lead to growth of the role of 'Entrepreneurship-culture-initiator and adaptor' (Singh, R. and Bhowal, A, 2009). This can be explained with the help of following diagram:

Diagram 1

Relationship between Risk Perception, Investment in Equity and Entrepreneurial Success



Source: Author's Own Development

From the table 1 it is clear that there is inverse relationship between risk perception and equity investment risk perception and entrepreneurial success. Based on the above it can be inferred that there can be a relationship between equity investment and entrepreneurial culture which will ultimately lead to the entrepreneurial success (Singh, R. and Bhowal, A., 2009). So, if the people are imparted with the investment education and as a result they start investing in equity shares gradually they will learn the necessary knowledge and skill to manage and handle risk and their risk perception will come down and this will reflect in their increased equity investment behaviour as well as entrepreneurial success. This increase in equity investment is assumed to have favourable impact on their entrepreneurial behaviour and gradually they will be entrepreneurship-culture-initiator and adaptor From the above, the following model can be presented in respect of equity investment:

Table 1
Relationship between Risk Perception, Equity Investment and Degree of Initiation of Entrepreneurial Culture

Level of Risk Perception	Level of Equity Investment	Degree of Initiation of Entrepreneurial culture
Very Low Risk perception	Very high level of Equity Investment	Very high level of entrepreneurial culture initiator/adopter
Low Risk perception	High level of Equity Investment	High level of entrepreneurship culture initiator/adopter
Moderate Risk perception	Moderate level of Equity Investment	Moderate level of entrepreneurship culture initiator/adopter
High Risk perception	Lower level of Equity Investment	Low level of entrepreneurship culture initiator/adopter
Very High Risk perception	Lowest level of Equity Investment	Very low level of entrepreneurship culture initiator/adopter

Source: Author's Own Development

Policy Implications

Efforts should be made to bring the people with high risk perception to the low risk perception category or train them to handle or manage high risk scenario. Once they are brought to the very low risk perception category or trained to handle and manage high risk scenario, then it will be easier for the govt. to promote equity investment culture amongst the people as well as the same people will act as entrepreneurship-culture-initiator and adaptor. These will ultimately lead to the promotion of entrepreneurship in the following ways like:

[1] Either after their retirement they may go for their own venture.

[2] Or, they may also go for their own venture during the continuation of their service with the help of their friends and relatives.

[3] And/Or, their next generation may also go for the entrepreneurship if they have inherited the culture of risk taking from their parents.

It is clear from the past studies that lower level of risk perception or necessary knowledge and skill to handle and manage risk are the essential qualities for becoming an entrepreneur and in absence of these qualities the chances of becoming entrepreneur is very limited.

Thus, the knowledge and skill to handle and manage risk should be provided to the people and this can be done by inculcating the culture of equity investment which can be done by imparting them the required amount of training and knowledge for investing in equity shares so that they can be perfect entrepreneurship-culture-initiator and adaptor. This can be done in the following ways:

[1] More number of trainings and workshops should be arranged for investment in equity shares.

[2] Those people who have already invested in the equities should be used for educating their peer group because there influence will be more on their group members.

[3] The management should give stock option to their employees and induce them to invest in it.

[4] Government should give Tax rebate like it is given u/s 80C on investment in equity shares.

Conclusion

For promoting entrepreneurship a lot of new schemes have been launched by the govt. but the success of these schemes is not possible without developing the competency level of the people. The people will go for the entrepreneurship only when they have the required competency for undertaking entrepreneurship activity which will be reflected in their low level of risk perception or their possession of the necessary knowledge and skill to manage and handle risk relating to entrepreneurial activity or equity investment. No doubt, it is a long continuous process.

Notes and References

Bernstein, P. L., (1995) ; "Risk as a history of ideas," Financial Analysts Journal; Vol.51, No.1, pg. 7

Bhowal, A. and Singh, R. (2006); "Bank Employees' Risk Perception as Entrepreneurship Culture Initiator and Adopter" presented by in a national seminar on small and medium enterprises organised by North East Hill University, Shillong on November 8 - 9

Panda, T.K. (2002), "Entrepreneurial Success and Risk Perception among Small-scale Entrepreneurs of Eastern India", Journal of Entrepreneurship, Vol. 11, No. 2, 173-190

Sharma, P. (2004); Want to become Rich , Monodrama Publications

Sharpe, W.F., (1964), "Capital Asset Prices: A Theory of Market Equilibrium under Considerations of Risk," Journal of Finance, Volume 19, No. 3: pp 425 - 42

Singh, R. & Bhowal, A., (2008), "Risk Perception-The Theoretical Kaleidoscope", Vanijya, Dibrugarh University Annual Journal of Business Studies, Vol. 18, page 54 -63

Singh, R. & Bhowal, A. (2009), "Developing Entrepreneurial Culture by Inculcating the Culture of Equity Investment", Business Vision, Vol. 5, No. 1, page 87-99

Singh, R. & Bhowal, A., (2009), "Risk Perception Dynamics and Equity Share Investment Behaviour", Indian Journal of Finance, June, Page 23 - 30

Singh, R. and Bhowal, A. (2007); "Risk Perception Dynamics - A Study of Employee cum Investment Entrepreneur" presented by in a NEC sponsored national workshop on identifying entrepreneurial opportunities in North East India organised by Department of Commerce, Dibrugarh University, Dibrugarh on July 13 - 14

Sjoberg L (2002); "The Allegedly Simple Structure of Experts' Risk Perception : An Urban Legend in Risk Research", Science, Technology & Human values, Vol.27, No. 4, pp.443-459