

Analyzing the impact of psychological traits on investment bias

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Abstract - Venture capital is a sort of private value, a type of financing that is given by firms or assets to little, beginning time, developing firms that are esteemed to have high development potential, or which have shown high development (as far as number of representatives, yearly income, or both). Funding firms or assets put resources into these beginning period organizations in return for value, or a possession stake, in the organizations they put resources into. Investors go out on a limb of financing dangerous new companies in the expectations that a portion of the organizations they support will wind up fruitful. The new companies are typically founded on an inventive innovation or plan of action and they are generally from the high innovation businesses, for example, data innovation (IT), clean innovation or biotechnology. So We have completed an exact research to discover the mindfulness among the undergrad by the utilization of survey filled by goggle structures and results are translated there on.

Keywords – psychological traits, investment, funding, finance.

I. INTRODUCTION

Venture capital decisions is the most critical issue in funding venture determination. There are different vulnerability and unpredictability engaged with funding speculation choice making process. This paper investigation these questionable hazard in funding venture basic decisions, taking as the base different past investigations previously caused. In this paper we have examined vulnerability and hazard required under investment basic decisions as well as we have concentrated on the components which should be considered while settling on choice's relating to investment. The choice to contribute is a troublesome one with genuine unfavorable measure of hazard included in different measurements. With the end goal to examine, we have gathered an example from an arrangement of 60 understudies. In this gathered example we have translated different inquiries identifying with funding that impact or influence a man's choice. Through this we likewise came to think about people learning about funding and kind of choice taken by him dependent on such learning. It was seen that numerous individuals get trap to different dangers and vulnerability related with basic decision making.

II. LITERATURE REVIEW

Development of the speculation basic leadership process polished by financial speculators since 1970 is appeared in VCs in the good days confront less questions on the

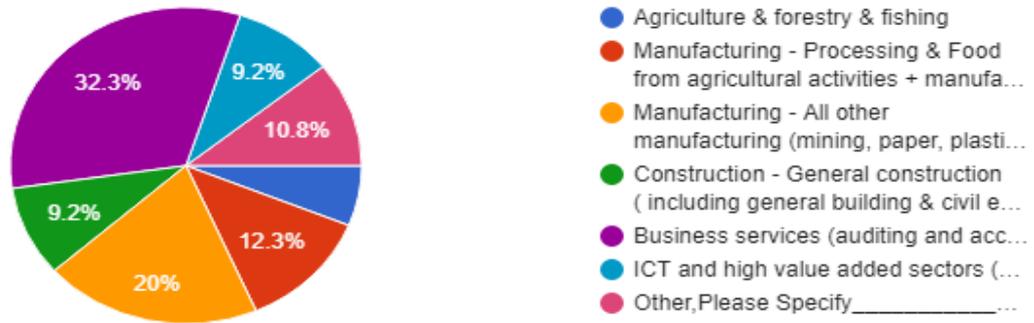
possibility of their venture organizations, in this way less criteria/methods were set in their basic leadership process. As rivalry in the business condition begins to develop, more imaginative and high-hazard organizations look for investment financing (Larsson and Roosvall, 2000). Thus, VCs confront more noteworthy vulnerabilities in their venture and more criteria included choosing their venture organizations. They trust that a decent choice model encourages them to separate best speculations hopeful from minimal ones (Jain, 1999). Later examinations anyway property the distinctions in basic leadership procedure to social, institutional, and regulative condition in distinctive countries (Bruton et al. 2004). Among all the proposed models, Fried and Hisrich (1994) show was generally acknowledged and tried in diverse districts (Silva, 2004). Fricasseed and Hisrich (1994's) think about includes individual meetings with VCs from 18 investment firms. VCs were requested to depict their venture procedure, select their venture criteria, time taken to settle on choices and whether any reference checking was associated with the choice procedure. Base on the reactions Fried and Hisrich built up a six phase investment basic leadership demonstrate and three speculation criteria. The discoveries too uncover that VC firms not just give supply-side advantages to their business adventures (business can raise fund without monetary reputation and guarantee) yet they additionally give request side (elective wellspring of capital) advantages to their business adventures.

Browned and Hisrich (1994) display was adjusted by Bliss (1999) to explore basic leadership process for progress economies. He utilized meetings and line up surveys with an example of six VC firms in Poland. VCs were required to portray their speculation procedure base on real venture bargains. Comparative inquiries to the prior model were raised. Ecstasy (1999's) finding uncovers the investment basic leadership display for progress economies wanders from past research in two zones. In the first place, it was seen that privatization of state-possessed ventures are viewed as vital in arrangement beginning and most of the VCs were dynamic to request bargains from focused enterprises. Second, the examination uncovered that firm specific screens were seldom utilized in the funding venture process as industry division was not all around characterized and because of an absence of firm particular learning with respect to VCs. His investigation moreover demonstrated that two critical assessment criteria in VC basic leadership process are government impact what's more, lawful framework. Ecstasy (1999) declares that a short reputation in a free market like Poland makes it troublesome for VCs to assess administrative abilities of their investee organizations. Nonetheless, Kaplan et al. (2009) as of late recorded that VCs concern ought to be the business (horse) they are contributing not the administration (maneuver). This examination guarantees that the uniqueness of the business thought can maintain a strategic distance from impersonation or a sudden disappointment of the independent venture in the focused market. Since VCs are known for their own expertise, the investees' administration criteria (move) ought to be viewed as auxiliary. Some ongoing examinations on basic leadership forms utilize near contextual analysis approaches. They utilize existing basic leadership models in various settings and furthermore make correlations between existing models and established ones (Larsson and Roosvall, 2000; Dmitry, 2006). Larsson and Roosvall (2000) investigated VC basic leadership process and speculation criteria utilized by Sweden investors. They met a sum of 30 VCs through email enquiry. They tried past speculations with observational outcomes and locate that established hypothesis don't thoroughly clarify basic leadership process yet it can clarify why the basic leadership show is led for what it's worth. The investigation claims basic leadership forms proposed in the past can't be the most reasonable method for finding the ideal speculations for VC. Larsson and Roosvall (2000) extended Fried and Hisrich (1994) display by joining the possibility hypothesis in the speculation criteria. The

possibility hypothesis depends on VCs arrangement, review, calculation what's more, judgmental technique. Thus, different endeavors to present another investment basic leadership demonstrate came into place. Accentuation was given because of investee's administration in basic leadership process. Gluer (2003) investigated VCs basic leadership abilities for consecutive speculations. He talked with 30 experts from 21 VC firms and 3 investee organizations. His discoveries proposed a four stage choice making process (Table 1). Silva (2004) reports how VCs select beginning time interests in little value showcase (Portugal). This examination utilizes three methodologies, first was a pilot ponder utilizing member perception. This method expects analyst to take an interest in the setting that he watches. Scientists watched the day by day schedules and completed casual exchange with examiner and administrators of VC firms (incorporate perception of gatherings among VCs and entrepreneurs). The second methodology expects scientists to take an interest in the choice procedure by breaking down outer and inward data given by the investee (authoritative assentation, interior reports, official statement). The third methodology was a meeting with officials and speculation experts of VC firms. The investigation uncovers that choice making procedure and criteria utilized by VCs in little value markets vary from those utilized in created markets. Silva's (2004) discoveries uncover VCs put more noteworthy significance on the business thought, practical favorable position and development potential than to monetary projections. A few examinations uncover administration competency, firm particular criteria and VC factors have more impact on VC basic leadership process. Mann (2001) reports three such factors, which are solid administration group, advertise opportunity (innovation) and business idea of investee organizations. Strong management group incorporate those with industry experience, information and specialized aptitude. Market openings incorporate size of the organization's item and administration commercialization, hindrances to passage, upper hand, net revenue and client observation. Business ideas incorporate the uniqueness of the item or administrations, item improvement hazard and restrictive rights. Shepherd, Zacharakis and Baron (2003) featured the significance of VCs involvement in basic leadership. The analysts directed a review of 66 VCs from 47 VC firms in Australia. The discoveries uncover that inability and exceptionally experienced VCs settle on less solid choices than decently encounter VCs. Thusly they

Ques.2 What industry sector do you operate in?

65 responses



infer that more noteworthy VCs experience may not generally result in better choices. Dimov, Shepherd and Sutcliffe (2007) propose that venture decisions are affected by investee organization's administration mastery and VCs association with administration group of investee organizations. Brownd and Hisrich (1994) archive that business idea, desire for administration capacities and expected result assumes a critical job in the definition of basic leadership display (Table 2). Reid, Terry and Smith (1997) examined the hazard administration courses of action between funding financial specialists and investees as speculation criteria in basic leadership. They

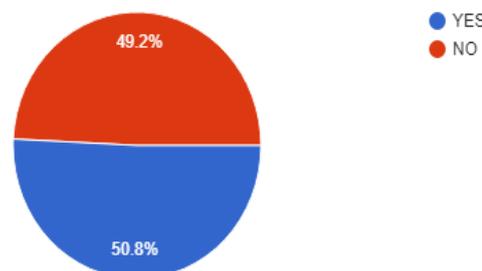
talked with 20 VCs and their relating investees in United Kingdom. The discoveries uncover that the two gatherings are presented to a noteworthy level of chance. VCs abstain from putting resources into a solitary part venture to counterbalance great results from poor ones. In this way they confine any antagonistic choice, by honing due industriousness and thorough screening. Discoveries appear just 3% proposition anchors VC retreating from 30% being checked on.

III. RESEARCH METHODOLOGY

Empirical research is being used, via goggle forms we took the responses of 60 students and to check the awareness. It was based on primary data, then all the details has been analyzed and interpretation has been given.

Ques.1 Can I just confirm that you are the person who has primary responsibility for making financial decisions in your business?

65 responses



Interpretation and analysis

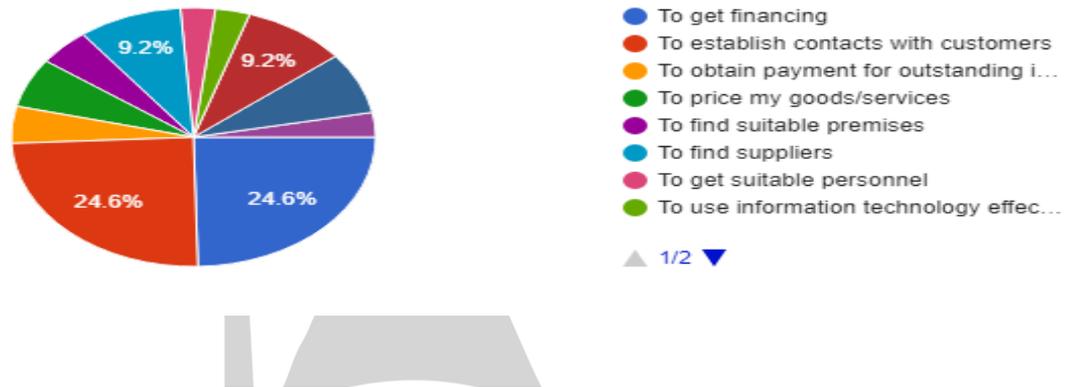
According to this analysis, we found 50.8% of people confirm that they believed in making financial decisions as their primary responsibility in their business whereas, 49.2% of people not believed in making financial decisions as their primary responsibility in their business. So, our 51% respondents are decision makers and other are just partners who don't take financial decisions in the particular business.

As observed under this analysis, we interpret that 32.3% of people operates in Business sector (such as providing auditing and accounting services, financial consulting, legal consulting/services), followed by 20% of people indulged in Manufacturing

sector(Primary) (such as mining, paper, plastic, chemical, pharmaceutical, etc.) whereas 12.3% people re indulged in Manufacturing, Processing & Food from agricultural activities & manufacturing of food from non-agricultural activities (such as tobacco and beverages), that is followed by 10.8% of people who have their own industrial sector or other sector in which they operate. On the other hand, there are 9.2% of people who are indulged in ICT and high value added sectors (such as cinema, industrial engineering, web designing, fashion etc.) and Construction - General construction (including general building & civil engineering) respectively and others are indulged in the agriculture, forestry and fishing. So we can say business services and manufacturing collaboratively has $32.3+12.3+20= 64.6\%$ part, which is really a big figure to be seen out of this.

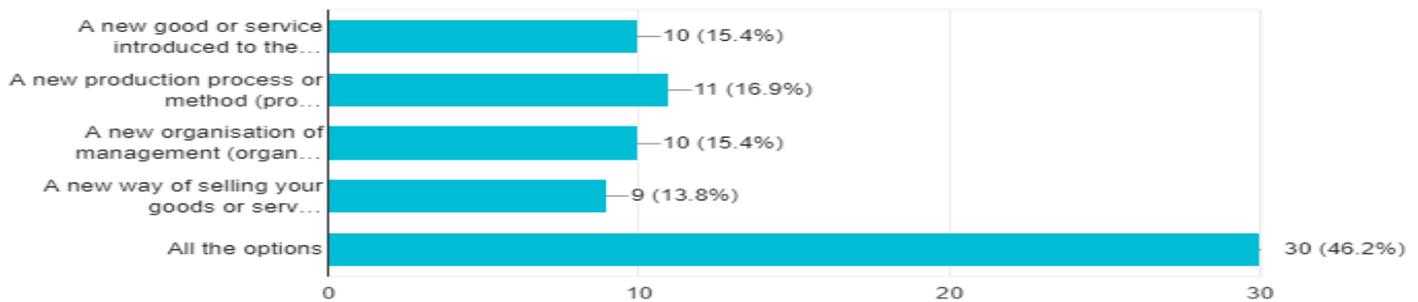
Ques.3 What did you find difficult when starting up your enterprise?

65 responses



Ques.4 Do you consider your enterprise to be innovative with respect to any of the following categories?

65 responses

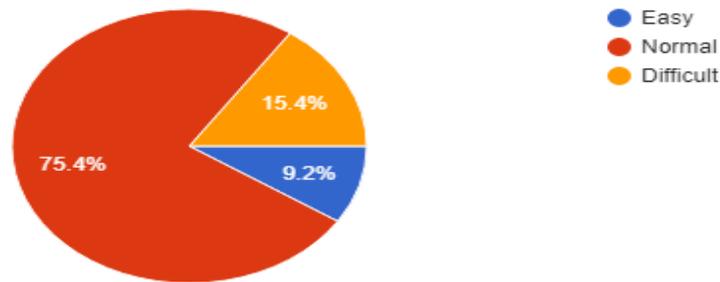


According to this analysis, 24.6% of people finds difficulty in getting financing and to establish contacts with customers, followed by 9.2% who finds it difficult to deal with legal / governmental /administrative matters (such as registration, taxes etc.) and to find suppliers whereas 7.7% of people finds difficulty in to be alone as an entrepreneur, followed by 6.2% who finds it difficult to price their goods and services, whereas 4.6% of people finds it difficult to obtain payment for outstanding invoices from their clients and to find suitable premises respectively whereas 3.1% people finds it difficult to get backing from his/her spouse or family, to use information technology effectively, to get suitable personnel respectively.

As per the observation, we find that 15.4% of people finds a new good or service introduced to the market (i.e,product innovation) and introduction of a new organisation of management (organisational innovation) helps in making enterprise innovative whereas 16.9% of people finds introduction of a new production process or method (i.e, process innovation) to make the enterprise innovative, followed by 13.8% of people considers that a new way of selling your goods or services (i.e, marketing innovation) makes the enterprise innovative while other 46.2% of people considers all the above options to make the enterprise innovative.

Ques.5 Access to financing for firms in your situation is considered:

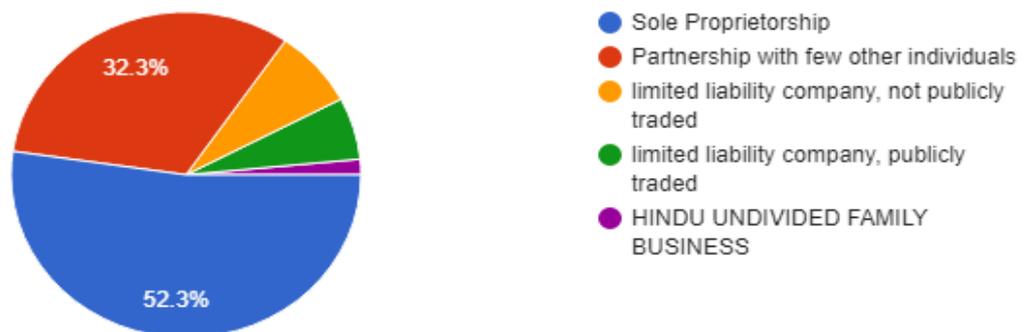
65 responses



According to the observation, we find that 75.4% of people considers that access to finance for company is normal (i.e neither easy nor difficult) whereas 15.4% considers that access to finance for firms is quite difficult followed by 9.2% of people who considers that access to finance for Firm as/companies is easy in nature.

Ques.6. What is the current ownership/equity situation (tick only one):

65 responses



After analyzing the above situation, we find that 52.3% of people are having ownership as sole proprietorship whereas 32.3% of people are having partnership with few other individuals form of business ownership, followed by 7.7% of people having limited liability company form, not publicly traded, on the other hand, 6.2% of people are having limited liability form of company, publicly traded whereas 1.5% of people are having Hindu Undivided Family Business.

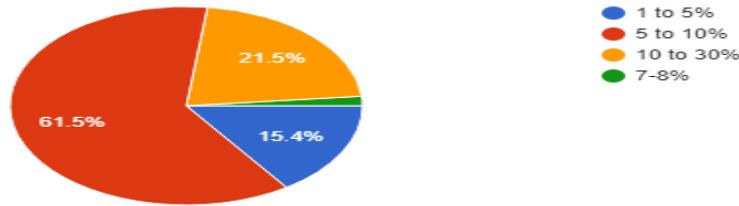
Ques.7 During the next 3 years, the enterprise will (only one answer):

65 responses



Ques.8 What percentage of gross sales income of the enterprise is likely needed in the next 3 years to service the debt (interest plus repayment):

65 responses



As per the analysis, we find that 24.6% of people considers that during the next 3 years, the enterprise will seek mainly financing from owners, employees, friends or family against equity given to them, followed by 23.1% of people said that they need no financing whereas 18.5% of people considered that the enterprise will seek mainly loans from banks or other financial institutions prepare or execute an initial public offering on the stock market respectively. On the other hand, .7% of people seek mainly loans from owners, employees, friends or family and seek mainly financing from others against equity.

According to the analysis, we find that 61.5% of people needed 5 to 10% of gross sales income to service the debt whereas 21.5% of people needed 10 to 30% of gross sales income to service the debt. On the other hand, 15.4% of people needed 1 to 5% of gross total income to service the debt while 1.5% of people needed 7 to 8% of gross total income to service the debt.

As observed with easier and cheaper access to finance, 49.2% of the people believed that business will grow during next 3 years if the finance is readily available at ease. This is followed by a percentage of 26.2%, these people think that the business will do it as it anyway is doing i.e. after a period of 3 years it will grow by itself there is no need for cheaper and ready funds.

A percentage of 23.1 believed it will grow at much faster rate and will largely effect the growth of business in long run. Only 1.5% believed that it will survive ,which it in present condition would not i.e. some business close at initial stage itself due to non-availability of cheaper funds at right time.

Ques.10. Which of the following is a characteristic feature of venture capital firms ?

65 responses



Ques.11 Venture capital firms are usually organised as :

65 responses



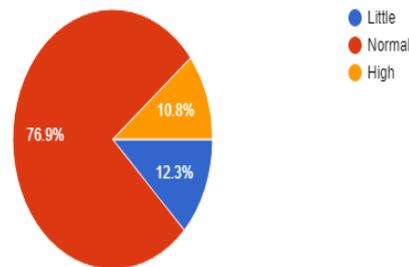
It can be seen that 44.6% of people believed that allowing the firms to use funds as they see fit was a major characteristic feature of venture capital. Whereas 40% believed that developing a portfolio of the company was crucial element, this was

followed by 12.3% and 3.1% which were holding debts in the firm that are funded and having a short term investment horizon.

A major proportion of 49.2% of people believed that venture capitals are usually organized as limited partnership, whereas 36.9% believed it to be organized as co-operations. Only a limited % of people believed it to be organized as closed end mutual funds (7.7%) and non-profit organizations (6.2%).

Ques.12 The "red tape" (burden imposed upon your enterprise by fulfilling all administrative requirements that do not generate sales) is considered:

65 responses



It is observed that the red tape (burden imposed upon your enterprise by fulfilling all administrative requirements that do not generate sales) is considered as a normal activity by a large proportion of 76.9%. A proportion of 12.3% believed that it is little whereas only 12.3% that it is high.

IV. CONCLUSION

As observed under this analysis, we interpret that 32.3% of people operates in Business sector (such as providing auditing and accounting services, financial consulting, legal consulting/services), followed by 20% of people indulged in Manufacturing sector(Primary) (such as mining, paper, plastic, chemical, pharmaceutical, etc.) whereas 12.3% people rehabilitee in Manufacturing, Processing & Food from agricultural activities & manufacturing of food from non-agricultural activities (such as tobacco and beverages), that is continued by 10.8% of people who have their own industrial sector or other sector in which they operate. On the other hand, there are 9.2% of people who are indulged in ICT and high value added sectors (such as cinema, industrial engineering, web designing, fashion etc.) and Construction - General construction (including general building & civil engineering) respectively and others are indulged in the agriculture, forestry and fishing. So we can say business services and manufacturing collaboratively has $32.3+12.3+20= 64.6\%$ part, which is really a big figure to be seen out of this. It is observed that the red tape (burden imposed upon your enterprise by fulfilling all administrative requirements that do not generate sales) is considered as a normal activity by a large proportion of 76.9%. A proportion of 12.3% believed that it is little whereas only 12.3% that it is high.

As we have taken data from the respondents, we came to a conclusion that all other thing which we have taken in different questions of our questionnaire, are a very important factor to the psychological affects of the investor for venture capital. When we come to say what are the

determinants of the decision of the venture capitalist is totally dependent on the current situation of the enterprise , the past performance of the enterprise is also one of the factor that creates a bias effect on the part of the venture capitalist. Risk taking attitude and the attributes of the owner also forms a major role in te decision of venture capital decisions. So by concluding we can say that psychological traits are really an important aspect of venture capital decision making, It is a field that is studied by some researcher including us but still lot of scope is there to work on different dimensions. We must put our time to do further research in this field.

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