

# An Analytical Study of Factors Affecting Investors' Decision Related to Investment In IPOs

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## Abstract

*The present study attempts to determine the factors that influence decision of an individual while investing in IPOs. The research aims to study the factors that influence the investor's behavior while investing in IPOs and the relationship between the factors. The study was undertaken in Greater Noida and Noida with a sample size of 72. The study applied an independent t-test, one way ANOVA and correlation to examine the collected data. Many factors are required to consider while investing in IPOs, like facts of the company, news in the media, friends' investment suggestions, GMP, investors experience, and herd behavior. The paper tries to establish relationship between all the above factors and also establish correlation behind the behavior of male and female investors in their decisions. Investment in IPO is a risky activity and now a days there are large number of investors investing in IPO, due to which most of the IPOs are oversubscribed. This paper is an attempt to determine the factors behind investors' decision in the IPOs residing in Noida and Greater Noida region.*

**Keywords :** Grey Market Price, Investment decision, Initial public offerings, financial performance, Investor behavior.

## Introduction

IPO is stock of company that offered to public for the very first time and after that it is traded in the share market. Company generally issues its IPOs for funds for many reasons, such as expansion, diversification, global requirements, funding joint ventures, infrastructure requirements, working capital requirement etc. Investors apply for IPOs in India by filling online application through the stock brokers and banks. There are number of information floated in the newspaper, social sites, broker's portal which are used by the investors to investigate about the worth of an IPO. Investors go through these information to know the facts of the company, its issue size, purpose of issue etc for investment in IPO. Investing in IPOs is a high-risk endeavor, and with the growing number of investors participating in such investments, it has become commonplace for IPOs to be oversubscribed. This study aims to identify the factors that influence investors' decisions to invest in IPOs in Noida and Greater Noida.

Investment decisions are taken by investors in the light of fundamental and technical analysis and there are number of other factors which affects their decision for investment in IPOs.

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## Research Objectives

- The aim is to examine the factors that impact the subscription of an IPO.
- The objective is to determine the correlation between different factors that affect the subscription of IPOs.
- To find out the difference in use of information by male and female investors while subscribing IPOs.

## Literature review

The present chapter centers on the discoveries made by multiple researchers regarding the factors that impact an investor's decision to purchase an IPO.

Martin Cherkes (2015), “An alternative theory of IPO underpricing” suggests a theory for IPO underpricing. His model (Cherkes, 2015) shows the following results According to L. Srinivas (2017), the asymmetric design of a contract poses an impossible challenge for diversification of risk, resulting in underpricing being an inevitable consequence of the IPO process, even if the underwriting market is fully competitive. On average, IPOs with larger fees will experience less underpricing. Additionally, any negative news revealed during the road show will be fully reflected in the price adjustment, while only a small portion of positive news will be factored in. Finally, issuers providing side-payments to underwriters can simultaneously increase their own proceeds and the underwriters' profits.

D. Kandavel (2011) - The study titled "An Empirical Study on the Factors that Influence Retail Investors' Preference for Mutual Fund Investments in Puducherry" investigates the correlation between the degree of acceptance among retail investors with varying demographic profiles and the factors that influence their decision to invest in mutual funds. The researcher employed the Chi-square test to analyze these factors.

Singh Jeet, Yadav Preeti (2016) - The study titled "An Investigation into the Factors Affecting Investment Decisions in Equity Shares in Jaipur and Moradabad, with a Special Focus on Gender" aims to identify the primary factors that impact investment decisions in equity shares in Moradabad. The research indicates that investors, regardless of gender, should conduct fundamental, technical, and financial analyses before investing in shares. Investors are advised to explore all investment opportunities when allocating their funds to diverse assets.

L. Srinivas (2017) – The paper titled "Factors that Impact IPO Decisions Among Retail Individual Investors in Visakhapatnam: A Study" aims to investigate the element that affect the buying decisions of retail individual investors in IPOs. The research concludes that capital appreciation and safety are significant factors that influence the decisions of retail investors.

## Research Methodology

**Research Design:** The present study in an experimental research design in which researcher has tried to investigate the interaction between dependent and independent variables.

**Data Collection:** Primary data has been collected for the study through a structured questionnaire with 23 questions. A five point Likert scale is used. Respondents are conveniently selected those who invest in IPOs in Noida and Greater Noida with a sample size of 72.

**Data Analysis:** Both descriptive and inferential statistics are utilized in the analysis of the data. Tools applied like Independent T test, One way Annova and correlation through SPSS.

### Hypothesis:

- H1.1:** There exists a notable disparity between male and female investors regarding their inclination to rely on a friend's recommendation when making investment decisions.
- H1.2:** The years of experience of investors have a significant impact on their reliance on media news when making investment decisions.
- H1.3:** A notable distinction exists between male and female investors and their herd behavior in investment decision.
- H1.4:** A considerable dissimilarity can be observed between male and female investors and their use of grey market price in investment decision of IPO.

### Hypothesis Testing

- H1.1:** There exists a notable disparity between male and female investors regarding their inclination to rely on a friend's recommendation when making investment decisions

Variables	Gender	N	Mean	Std. Deviation
Friend's Suggestion	Male	52	3.4744	1.23024
	Female	20	3.9667	1.03675

### Independent Sample t-test

Variables		Levene's Test for Equality of Variances		t-test for Equality of Means						
				T	df	Sig. 2- tailed	Mean Differen ce	Std. Error Differen ce	95% CI of the Difference	
		F	Sig						Lower	Upper
Friend's Suggestion	Equal variances assumed	5.044	0.028	-1.584	70	.118	-.49231	.31071	-1.11199	.12737
	Equal variances not assumed			-1.710	40.705	.095	-.49231	.28783	-1.07373	.08911

As per this table it is clear that on average male and female both have similar concern in considering friend's suggestion in investment decision while investing in IPOs. ( $M = 3.47$  and  $F = 3.96$ ). The p value is more than 0.05 (i.e. 0.118) As the null hypothesis is upheld and the alternative hypothesis is dismissed, it can be inferred that there is no notable distinction between male and female investors regarding their inclination to rely on a friend's recommendation when making investment decisions during IPO investments.

H1.2: The years of experience of investors have a significant impact on their reliance on media news when making investment decisions.

## Descriptives

### Media News

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
0-2 years	40	3.9063	.76520	.12099	3.6615	4.1510	2.25	5.00
2-5 years	25	4.0700	.55678	.11136	3.8402	4.2998	3.00	5.00
5-10 years	4	3.9375	.31458	.15729	3.4369	4.4381	3.50	4.25
above 10 years	3	4.5833	.52042	.30046	3.2905	5.8761	4.00	5.00
Total	72	3.9931	.67783	.07988	3.8338	4.1523	2.25	5.00

## Test of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Media News	Based on Mean	2.042	3	68	.116
	Based on Median	1.983	3	68	.125
	Based on Median and with adjusted df	1.983	3	62.577	.126
	Based on trimmed mean	1.992	3	68	.123

## ANOVA

### Media News

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.507	3	.502	1.098	.356
Within Groups	31.114	68	.458		
Total	32.622	71			

### Robust Tests of Equality of Means

Media News

	Statistic <sup>a</sup>	df1	df2	Sig.
Welch	1.373	3	7.302	.325

a. Asymptotically F distributed.

The table shows  $F(3,68) = 1.098$ ,  $p > 0.05$ . According to the outcome, the null hypothesis is confirmed while the alternative hypothesis is negated. This suggests that there is no considerable difference between the years of experience of investors and their reliance on media news when making investment decisions in IPOs.

H1.3: A notable distinction exists between male and female investors and their herd behavior in investment decision

### Group Statistics

Variables	Gender	N	Mean	Std. Deviation
Herding Behavior	Male	52	3.7115	.91473
	Female	20	3.8667	.93908

### Independent sample t-test

Variables		Levene's Test for Equality of Variances		t-test for Equality of Means						
				T	df	Sig. 2-tailed	Mean Difference	Std. Error Difference	95% CI of the Difference	
									Lower	Upper
Herding Behavior	Equal variances assumed	.246	.621	-.640	70	.524	-.15513	.24244	-.63865	.32840
	Equal variances not assumed			-.632	33.724	.531	-.15513	.24533	-.65384	.34358

Based on the t-test results, there is no significant difference between male and female investors and their tendency to exhibit herd behavior when making investment decisions, leading to the rejection of the alternative

hypothesis. ( $M=3.71, F=3.86$ )  $p > 0.05$ .

**H1.4:** A considerable dissimilarity can be observed between male and female investors and their use of grey market price in investment decision of IPO

### Group Statistics

Variables	Gender	N	Mean	Std. Deviation
Herding Behavior	Male	52	4.2356	.64628
	Female	20	4.1250	.63609

### Independent sample t-test

Variables	Levene's Test for Equality of Variances	t-test for Equality of Means								
		F	Sig.	T	df	Sig. 2-tailed	Mean Difference	Std. Error Differen ce	95% CI of the Difference	
									Lower	Upper
Herding Behavior	Equal variances assumed	.090	.765	.653	70	.516	.11058	.16932	-.22713	.44828
	Equal variances not assumed			.658	35.026	.515	.11058	.16811	-.23071	.45186

As the table shows ( $M=4.23, F=4.12$ )  $p > 0.05$ , male and female both have similar concern towards use of grey market price while investing in IPOs. The null hypothesis is supported and the alternative hypothesis is refuted, indicating that there is no dissimilarity between male and female investors in their consideration of grey market prices when making investment decisions in IPOs.

## Correlation:

### Descriptive Statistics

	Mean	Std. Deviation	N
Facts of the company	4.2604	.57445	72
Media News	3.9931	.67783	72
Friend's decision and suggestion	3.6111	1.19336	72
Grey Market Price	4.2049	.64093	72
Experience in Trading	4.1222	.59439	72
Broker Advice	3.8241	.90551	72
Herding Factor	3.7546	.91756	72
Investment decision	4.0556	.75267	72
Effects of Covid-19	3.8889	.83918	72

Correlations										
		Facts of the company	Media News	Friend's decision and suggestion	Grey Market Price	Experience in Trading	Broker Advice	Herding Factor	Investment decision	Effects of Covid-19
Facts of the company	Pearson Correlation	1	.317**	.064	.537**	.413**	.319**	.375**	.379**	.258
	Sig. (2-tailed)		.007	.592	.000	.000	.006	.001	.001	.029
	N	72	72	72	72	72	72	72	72	72
Media News	Pearson Correlation	.317**	1	.660**	.571**	.415**	.619**	.737**	.608**	.574**
	Sig. (2-tailed)	.007		.000	.000	.000	.000	.000	.000	.000
	N	72	72	72	72	72	72	72	72	72
Friend's decision and suggestion	Pearson Correlation	.064	.660**	1	.390**	.240	.647**	.661**	.530**	.566**
	Sig. (2-tailed)	.592	.000		.001	.042	.000	.000	.000	.000
	N	72	72	72	72	72	72	72	72	72
Grey Market Price	Pearson Correlation	.537**	.571**	.390**	1	.516**	.498**	.530**	.655**	.667**
	Sig. (2-tailed)	.000	.000	.001		.000	.000	.000	.000	.000
	N	72	72	72	72	72	72	72	72	72
Experience in Trading	Pearson Correlation	.413**	.415**	.240	.516**	1	.461**	.431**	.499**	.510**
	Sig. (2-tailed)	.000	.000	.042	.000		.000	.000	.000	.000
	N	72	72	72	72	72	72	72	72	72
Broker Advice	Pearson Correlation	.319**	.619**	.647**	.498**	.461**	1	.814**	.591**	.666**
	Sig. (2-tailed)	.006	.000	.000	.000	.000		.000	.000	.000
	N	72	72	72	72	72	72	72	72	72
Herding Factor	Pearson Correlation	.375**	.737**	.661**	.530**	.431**	.814**	1	.666**	.671**
	Sig. (2-tailed)	.001	.000	.000	.000	.000	.000		.000	.000
	N	72	72	72	72	72	72	72	72	72
Investment decision	Pearson Correlation	.379**	.608**	.530**	.655**	.499**	.591**	.666**	1	.657**
	Sig. (2-tailed)	.001	.000	.000	.000	.000	.000	.000		.000
	N	72	72	72	72	72	72	72	72	72
Effects of Covid-19	Pearson Correlation	.258	.574**	.566**	.667**	.510**	.666**	.671**	.657**	1
	Sig. (2-tailed)	.029	.000	.000	.000	.000	.000	.000	.000	
	N	72	72	72	72	72	72	72	72	72

\*\* . Correlation is significant at the 0.01 level (2-tailed).\* . Correlation is significant at the 0.05 level (2-tailed).

As per the table, media news is positively correlated ( $R=0.660, 0.619, 0.737, P < .05$ ) with friends decision, broker advice and herding factor, it depicts that people who go through media news for investment in IPOs, will also check their friend's decision and have herd behavior.

There is strong positive correlation between herding factor and broker advice ( $R=0.814, P < .05$ ). It shows that the people with more herd behavior see more advices from brokers while investing in IPOs.

People who check facts of the company for investment in IPOs are less interested in friends suggestion, as per the table there is no relation between friend's advices and facts of the company. ( $R=0.64, P > .05$ ).

The above table shows that people with experience in trading do not rely on friend's decision and advices for investment in IPOs. ( $R=0.240, P = .042$ ). There exists a positive but weak correlation between trading experience and the weight given to a friend's advice and decision-making in investments.

Those who saved money, and investing more during covid period are giving more weight to grey market price, broker advice, and others decision. Strong correlation between Covid 19 effect and grey market price, broker advice and herding factor is  $R=0.667, 0.666, 0.671$  and  $P < 0.05$  respectively.

As per the table correlation coefficient between covid 19 effects and investment decision is 0.657 and the p value for 2 tailed test of significance is less than 0.05. So conclusion is, there is a positive correlation between covid -19 effects on investment and investment decision.

### Conclusion

Factors which affects the investor's decision while investing in IPOs with a view to book maximum profit an investor uses these factors. It clearly shows that male and female both have same considerations for investment in IPOs. Facts of organization are an important factor which is used by most of the respondents to earn through investing in IPOs. Those who go through the facts of the organization are less interested in friend's suggestions. Investor's experience is least important in use of media news for the investment in IPOs. Correlation shows that the people who follow their friend's advice for investment in IPOs, will ensure this decision with the help of news in media and broker advice. As per the results, investors with experience in trading, can take their decision themselves and do not rely on their friends' investment decision.

### Implications of the Study

The study examined the factors which affects the investment decisions of an investor investing in IPOs. These factors are investigated by previous studies and also introduced some additional factors derived through personal interviews and found that has some influence on investor's decisions.

The study recommends that investors must go through the factors that has influence on the decision to invest in IPO. The study will help the investors to find the relation between the factors and their impact on the decisions. There is a scope of the further research that can be done by analyzing the impact of these factors on earning of investors in primary market.



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