Impact of Corporate Governance on Investment Decision: Whether Transparency Decides Investment Decision?

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Abstract- *The present paper reveals that investor's investment decision is based on the internal as well as external factors. Corporate governance is an external factor at the same time human psychology acts as an internal factor in the investment decision. The corporate governance plays an important role in investment decision process through publishing company information in all aspects but the investors perceive the information according to their own perceptions and assumptions in the way of their psychology. Hence, the company's transparency has a limited role in the investment decision and it works to some extent only and the remaining part of the investment decision process is occupied by the human behaviour. It cannot be assured that the investor will behave rationally always towards their investment decision even though the company transparency is well and good. Every investor should behave rationally towards their investment decision. Hence, it is an investor duty to follow the information which is presented by the company but sometimes the investors failed to follow it. Therefore, investment decision of investors is beyond the scope of company transparency due to investor psychology. Hence, the study suggests that a behavioural survey will be helpful to find the factor behind the investors' investment decision.*

Keywords- Behavioural Finance – Behavioural Survey – Corporate Governance – Investor Psychology – Investment Decision – Stakeholders.

JEL Codes: G34, G11, D90, D91

I. INTRODUCTION

The investment decision is not an easiest in an ever-changing market environment. Every investor takes maximum effort for construing an efficient portfolio by analysing the information presented by the company because they want to get a constant and regular return, capital appreciation, safety and security of the principal, liquidity, and minimize the tax burden (Bhalla 1982). The investor reacts to the information from either in financial or capital market, company reports, agents, friends and relatives, media, own guess and prediction (Berman n.d.).

According to the view of V. K. Bhalla, the investment decision is the outcome of information, expectation and evaluation and these are interrelated. These factors are appraised by the investors from time to time for making an effective investment decision. The factor 'information or facts of investment' contained general at the same time particular data or information relating to the investment or the firm. It is the observable environment, in which investors can pick better investments by analysing the information. The second factor 'expectation' is related to the information about the alternative investments in the market but it provides the available environmental and financial fact. The factor 'valuation' contained the size, regulatory, income, safety, and negotiability of specific investments (Bhalla 1982, 3).

Corporate governance is a system of rules, process and practice which are used to direct and control the firm's activity. The main duty of the corporate governance is to balance the interest of company's stakeholders. Good corporate governance helps to maintain the standard of the company. Transparency, accountability and security are the pillars of the corporate governance and it helps to run the company in the successful way and form the solid professional relationship among the stakeholders of the company (Roman 2014).

Maintaining integrity of accounting statements as the most important characteristics for corporate governance, fewer possibilities of frauds (ethical behaviour) as the second most important characteristic, maximizing shareholders value as the third most important characteristic, followed by sound risk management practices and protecting minority shareholders' interest (Noronha and Mehta 2012).

The theory of reasoned action (TRA) and theory of planned action (TPA) to explain the individual investor behaviour Coimbatore city in Tamilnadu and also it attempted to study the influence of social factors like social interaction, media and internet on investment decision. The study concluded that social interactions and media were found a positive correlation with the trading attitude of the investors but the internet is not influencing on investment trading. The highly positive correlation found between intention towards trading and trading behaviour. Social interaction and media is highly influenced factor and decided the trading behaviour of Coimbatore investors (Shanmugham and Ramya 2012).

A descriptive study conducted in Indian investors with the sample size of 100 respondents. The present study found that most of the investors invest their money in gold and land and it gives more return and also the study confirms that even well educated, salaried, high income and independent investors are conservative and prefer only safer soon of the investment avenues. The study also confirms that Women are the decision authority in the family and they expect a high return and low-risk investment avenue (Murithi, Narayanan and Arivazhagan 2012).

A study examined the investment pattern of the middle-income group of Nagpur households. The present research conducted by the researcher to answer few important questions like middle-class household's objective in investment, whether there is an increase in savings of the households in Nagpur. The study concluded that the middle-class households saving habit is good but they don't want to save long-term basis so the government arrange necessary steps to make awareness to invest the money in long-term or build financial crops (Samudra and Burghate 2012).

The Indian household investor preferred only the government schemes because of they are an unwillingness to take the risk instead of that they averse the risk. He concluded with the investors are the backbone of the economic development by promoting investment activities. Behavioural finance will help to find out the unanswered questions about the stock market and it will teach the investors to make an investment decision on the stock market to further development of Indian economy. Thus, the household investors may avoid the mistakes in investing and strategies works in financial markets to get a super nominal return (Srivastava 2012).

A. Role of corporate governance on investment decision

Investors very interested in financial statements of the company to make an investment decision in the particular company. Every investor makes through analysis about the company's financial and non-financial information for their investment decision. Corporate governance plays a significant role in an investment decision by supplying the full fledged information about the company. The corporate governance is supported by the transparency, accountability and security and these are very essential to each company. Each and every pillar has contributed significant function to the company. The transparency of company allows the outsiders to observe the processes and transactions. The accountability of the company reveals that answerability or liability of the company when it goes with something wrong. The security of the company reveals that to ensure the security of the company's data from unauthorized access.

B. Company's Transparency and Investors Decision

Among the pillars of corporate governance, the transparency of the company is the important pillar to the investors for the investment decision. The financial and non-financial information reporting comes under the company's transparency. It means the company make a legal requirement. So every company should make necessary information disclosure about the process and transaction to the outsiders and their stakeholders without hiding anything. The transparency of the company helps to create a good reputation for the company in the market. It provides full details about the company so it is the major source to the investors to take investment decision in a particular company. The investor analyses the financial and other aspects of the company which relate to taking investment decision in the particular company. Hence, corporate governance plays a significant role in the investment decision.

Information is important to the investors so the corporate governance helps to the investor in decision making by supplying the company information (Noronha 2012). Investor's investment decision is based on the internal as well as external factors. Corporate governance is an external factor at the same time human psychology acts as an internal factor in the investment decision. Sometimes investor used the information which is observed from the either in financial or capital market, company reports, agents, friends and relatives, media and own guess for making the investment decision.

The corporate governance plays an important role in investment decision process through publishing company information in all aspects but investor perceives information in their perceptions and assumptions. Therefore, a new disciple is required to understand the human psychology in the investment decision (Srivastava 2012; Pompian 2006).

II. SUMMARY AND CONCLUSION

The investor's investment decision is based on the internal as well as external factors. Corporate governance plays a significant role in the investment decision by providing company details in all aspects but the investors perceive the information according to their own perceptions and assumptions (Li, Zhao, and Sun 2004). Hence the company's transparency has a limited role in the investment decision and it works to some extent only and the remaining part of the investment decision process is occupied by the human behaviour. It cannot be assured that the investor will behave rationally always towards their investment decision even though the company transparency is well and good. Every investor should behave rationally towards their investment decision.

Hence, it is an investor duty to follow the information which is presented by the company but sometimes the investors failed to follow it. Therefore investment decision of investors is beyond the scope of company transparency because the investor considers the factors like extreme commitment on government schemes, less financial education, more cultural differences, incomplete security & weak law enforcement, loose accounting report requirements, and disclosure of information are leads the investors behave irrationally rather than rationally (Singh and Lao 2011; Shanmugasundaram and Jansirani 2012; Srivastava 2012). Therefore, investment decision of investors is beyond the scope of company transparency due to investor psychology. Hence, the study suggests that a behavioural survey will be helpful to find the factor behind the investors' investment decision.

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