

# THE IMPACT OF ADVOCATE RECOMMENDATIONS AND FIRM IMAGE ON INVESTMENT DECISION IN NEPALESE STOCK MARKET

**Manandhar, R.B.**

Department of Marketing, Faculty of Management, Tribhuvan University,  
Kathmandu, Nepal

raju.manandhar@pvc.tu.edu.np

## ABSTRACT

Investors may select the best investing decision more easily when all the factors that contribute to it are clearly understood. The process, which differs from person to person, is influenced by a variety of factors. While some people rely exclusively on intuition when making decisions, others use a number of factors to guide them toward the ideal choice. A multitude of factors, including market characteristics and individual risk profiles, are assumed to influence investment decisions. Investors are continuously looking for strategies to increase their earnings. The study's major goal was to look into the relationship between advocate recommendations and a firms' image and how they affect investment decisions in the Nepalese stock market. The current study uses a descriptive and analytical research design. The primary data is the most important source of information for analyzing and determining the study's outcome. An online Google form was used to collect required data utilizing a survey and structured questionnaire as research approach and instrument with a five-point Likert scale. The population of the study was Nepalese stock market investors. Researcher has selected 300 respondents using a judgmental sampling technique and provided a Google form. Out of them 86 people completed the survey and emailed it in. Eighty of them were correct. Mean, standard deviation, variance, independent sample t-test, and correlation were utilized in Excel and SPSS to analyze and interpret the collected data. According to the findings, advocate recommendations and firm image have a beneficial impact on investment decisions. Furthermore, there was no difference in advocate recommendations, firm image, and investment decisions across male and female in the Nepalese stock market.

**Keywords:** *Advocate recommendations, Firm image, investment decisions, Investors and Nepalese stock market*

## 1. INTRODUCTION

Generally, Investors make investment decisions in order to reduce risk by taking into account a variety of criteria. When it comes to investment analysis, investors frequently use fundamental analysis, technical analysis, and judgment (Mutswenje, 2014). The decision-making process becomes easier when investors have identified all of the contributing factors that contribute to the best pick. A range of factors influence the investment decision-making process, which varies from person to person. Some people make decisions primarily on intuition, while others rely on a variety of criteria to help them make the best decision possible. As a result, future losses can be avoided (Ahmad, 2012).

Fundamental analysis is a method of determining a security's value by focusing on the fundamental variables that influence a company's operations and future prospects (Drakopoulou, 2015). The psychological decision-making concepts that explain why people purchase and sell securities underpin investor market behavior. According to Ricciardi and Simon (2000), behavioral finance tries to explain and increase comprehension of investors' thinking patterns, including the emotional processes involved and their influence on decision-making. The Securities Exchange Act of 1983 governs the Nepalese Stock Exchange (NEPSE), which was established under business legislation. NEPSE's principal purpose is to give free marketability and liquidity to government and corporate assets by facilitating transactions on its trading floor through brokers and market makers.

The stock market performs two vital purposes. For starters, it connects companies who need money to launch new businesses with investors who are willing to spend money on new businesses. The second function is to provide a regulated marketplace for buying and selling assets at prices defined by supply and demand, regardless of other macroeconomic factors like interest rates and inflation (Farj, 2016). Stock market investment rises as investors are encouraged to spend their savings and corporations have more possibilities to invest in equity finance. The country's economic growth is improved as a result of these advancements (Sunde and Sanderson, 2009). There are no set criteria used by the many parties who make financial and investment decisions. For a variety of reasons, investors obtain information from the financial statements of the firms whose securities they are considering investing in.

The financial market has been subjected to unplanned and sudden economic turbulences for decades, which have contributed directly or indirectly to stock returns. Financial economists, academics, and practitioners are finding it difficult to identify the elements that influence stock returns. After the contribution of psychology to finance, the focus of the study shifted to demographic features and behavioral differences (Kadariya, 2012). Corporate financial reports are now regarded as an effective tool for giving important information to a variety of users, and they play a vital role in national economic progress. The study is largely intended to address a gap in the Nepalese setting, where similar studies are lacking. Some evidence suggests that the Nepalese stock market is inefficient, while others say that it is inefficient in the short term but efficient in the long run. Financial information provides concepts of consequences and a range of the markets in different periods and aids in the classification of information into truths and rumors (Kadariya, 2012).

Individual investors are unique and may make investing decisions based on a variety of criteria, yet there always appears to be a group of investors with similar investment patterns. Nepal's stock market has reached new heights. Investor participation in the stock market has increased considerably, according to the Nepalese Securities Board (SEBON), with NEPSE's online trading system accounting for more than 85 percent of all transactions. As a result, there is a need to comprehend investor behavior in a variety of ways, such as how they invest. This study looked into the many elements that appear to have a higher impact on NEPSE participants' investment decision.

The major goal of this research is to look into how investors make investment decisions and how rational investors differ from irrational investors. The following are the study's goals:

- To determine the relationship between advocate recommendation and the investment decision in the Nepalese stock market.
- To explore the relationship between firms' image and the investment decisions in the Nepalese stock market.
- To examine an impact of gender on an advocate recommendation firms' image and the investment decision in the Nepalese stock market.

## **2. LITERATURE REVIEW**

### ***2.1 Theoretical Support***

The term "mental accounting theory" was coined by economist Richard H. Thaler (1999). Mental accounting is a collection of cognitive techniques used by individuals and families to organize, evaluate, and keep track of their financial transactions (Thaler, 1999). According to this theory, people assign different functions to different asset types, which has an irrational and detrimental impact on their spending decisions and other activities. The primary idea behind mental accounting is that instead of thinking of money in terms of formal accounting, people regard it differently based on different facts such as its origin and purpose. There is a large body of theoretical and empirical research on the elements that influence an investor's stock market investment decision. Singh and Yadav, (2016) conducted research in Jaipur and Mordabad to determine the factors that influence investment decisions in equity shares. When it comes to investing, investors should consider all options. Potential investors may be hesitant to trade because they lack the necessary information to judge the investment's value (Kothari, 2001). According to the findings, the most influential factor in investment decision making is business performance, whereas the least influential aspect is personal financial demands. Individual investors' behavioral characteristics such as company image, business performance, accounting information, and personal financing needs for investing in the Bangladesh Stock Market were studied by (Akhter and Ahmed, 2013). The risk factor, which states that most investors are risk averse, is a primary guiding factor in their investing decision for the majority of investors.

### ***2.2 Conceptual Review***

#### ***2.2.1 Advocate Recommendation***

Advocate recommendations include those from a broker, a family member, a friend, or coworker, as well as the majority stockholder's views. This element includes purchase recommendations from brokerage firms and individual stock brokers. This part was also influenced by recommendations from friends or coworkers. Krishnan and Booker (2002) examined into what factors influence investors' short-term decisions to hold or sell a company based on expert recommendations.

### *2.2.2 Firms Image*

The firm's image is the mental image that comes to mind when a company's name is stated. It's a collection of psychological perceptions that changes depending on the company's conditions, media attention, performance, and remarks, among other things. Epstein (1996) looked on the demand for social information among individual investors.

### *2.2.3 Investment Decision*

Simple terms, investment decision refers to the choice of assets in which the firm's capital will be invested. According to Kothari (2001), unlike any other investment instrument that provides either fixed income or returns with no ownership in the company, equity investment allows investors to become a part of the company's ownership while also providing regular returns on investment in the form of dividend income or share price appreciation.

## **2.3 Empirical Review**

### *2.3.1 Advocate Recommendation and the Investment Decision*

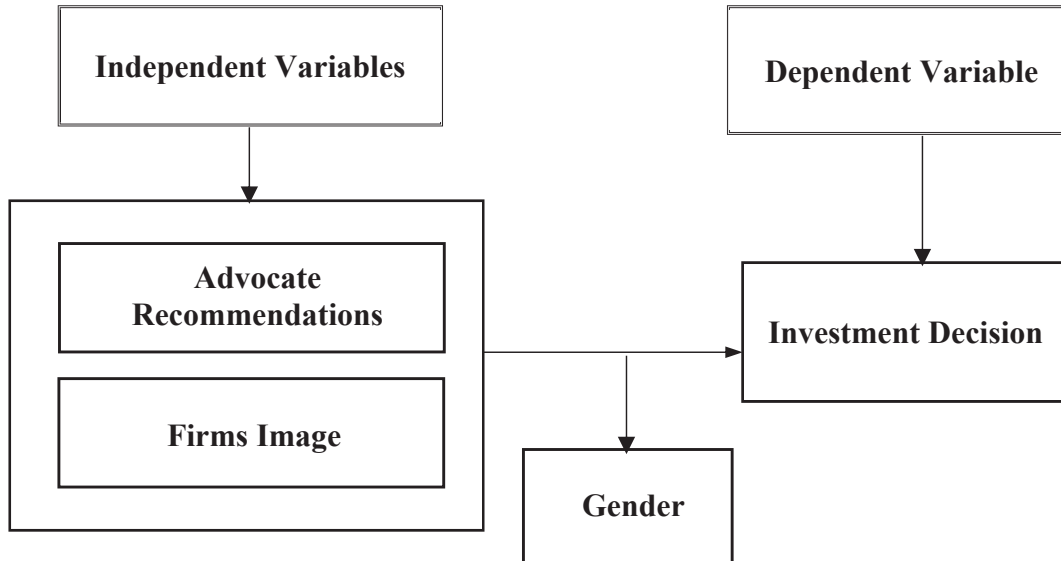
Kadariya (2012) found that the majority of investors are young and rely on recommendations from friends and family as a reliable source of information in the Nepalese capital market. Expert advice and prior performance were major influencing factors determining investment behavior among young professionals, according to (Ansari and Moid, 2013). Advocate recommendations influenced share investing decisions in Khulan city, according to (Khan and Afrin, 2015).

### *2.3.2 Firm's image and Investment decision*

Expert suggestion, accounting information, financial performance, firm's image, and prior performance were found to be major influencing elements determining investment behavior among young professionals (Ansari and Moid, 2013). According to Jagongo and Mutswenje (2014), the firm's reputation, status in the industry, expected corporate earnings, profit, and condition of the statement, past performance of the firm's stock, price per share, feelings about the economy, and expected dividend are the most important factors that influence investors' investment decisions.

### *2.3.3 Conceptual Framework*

Several aspects influence the investment decision, according to the literature review. The study's independent variables were advocate recommendation and firm image, while the study's dependent variable was investment decisions. The following is a summary of the relationship between these variables:



**Figure 1: Conceptual Framework**

#### *2.3.4 Research Hypotheses*

H1: In the Nepalese stock market, there is a link between advocate recommendations and investment decisions.

H2: There is a link between the image of a company and investment decisions.

H3: Gender has an impact on investment decisions, advocacy recommendations, and the image of a company.

### **3. RESEARCH METHODOLOGY**

The study has investigated the impact of advocate recommendations and firms' image on investors' investing decisions in the Nepalese stock market. It covers research design, sample planning, data types and sources, data collecting, and analytic tools.

#### *3.1 Research Design*

The study has assessed the impact of advocate recommendations and firms' image on investors' investing decisions using a descriptive and casual research design.

#### *3.2 Sample Planning*

The study's respondents were investors in the Nepalese stock market. The 300 investors were chosen to acquire the data needed to achieve the study's goals. The respondents in the study were chosen using the judgmental sampling approach.

#### *3.3 Data Collection Procedures*

This study relied on primary sources for its data. In order to establish the optimal outcome, an online questionnaire survey was employed to collect data from respondents.

A five-point Likert scale was used to develop the questionnaire.

**Table 01: Reliability of the study variables**

S.N.	Variables	Cronbach's Alpha
1	Advocate recommendation	0.812
2	Firm's image	0.758
3	Investment decision	0.752

Source: Field Survey, 2021

According to Table 1, Advocate recommendation has a Cronbach's alpha of 0.812, Firm's image has a Cronbach's alpha of 0.758, and Investment choice has a Cronbach's alpha of 0.752. Cronbach's Alpha is larger than 0.750 for all variables in the table. This demonstrates the consistency of all of the study's components.

### **3.4 Methods of Analysis**

#### *3.4.1 Reliability Analysis*

Cronbach's alpha was used to analyze the reliability and validity of each question in the data set (Gliem and Gliem, 2003).

#### *3.4.2 Descriptive Statistics*

The basic data was examined using mean standard deviation, variance independent t-test, and correlation.

#### *3.4.2 Correlation Analysis*

The impact of advocate recommendations and firm image on investors' investment decisions in the Nepalese stock market was investigated using correlation analysis.

### **3.5 Demographic Status**

This table shows the gender, educational level, and age of Nepalese stock market investors. The male and female profiles of respondents are depicted in Panel A of the table. The table's panel B illustrates the respondents' profiles as investors based on their educational degree. Panel C depicts a profile of the respondents based on their age.

Table 2 shows that females made up the majority of participants, accounting for 53.75 percent of the total respondents, while males accounted for 46.25 percent. The majority of the respondents, 76.25 percent, had at least a bachelor's degree. Similarly, 20% of those polled had a plus two educational level. 2.5 percent of all respondents had educational levels up to master's level, and 1.25 percent had academic degrees up to A-levels. Participants between the ages of 20 and 25, who made up 83.75 percent of the total, were followed by those between the ages of 31 and 35, who made up 10% of the total. The respondents between the ages of 26 and 30 account for 5% of the overall number of respondents.

**Table 02: Respondents' profile**

<b>Panel A: Gender based</b>			
Gender	Frequency	Percent	Cumulative percent
Male	37	46.25	46.25
Female	43	53.75	100
Total	80	100	

<b>Panel B: Educational based</b>			
Educational level	Frequency	Percent	Cumulative percent
+2	16	20	20
Bachelors	61	76.25	96.25
A-levels	1	1.25	97.5
Masters	2	2.5	100
Total	80	100	

<b>Panel C: Age based</b>			
Age	Frequency	Percent	Cumulative percent
20-25	67	83.75	83.75
26-30	5	6.25	90
31-35	8	10	100
Total	80	100	

Source: Online Survey, 2021

### **3.6 Descriptive Statistics Analysis**

The mean and standard deviation were employed as descriptive statistics in this study to show the sample's responses.

**Table 03: Descriptive statistics for the whole sample**

Variables	Mean	Standard deviation	Variance
Advocate recommendation	3.20	0.76	0.58
Firm's image	3.59	0.79	0.62
Investment decision	3.55	0.76	0.58

Source: Online Survey, 2021

Table 3 shows the mean, standard deviation, and variance of the variables for all variables based on the replies supplied by respondents in the Likert scale question. In total, there are four variables and 32 questions. The mean of all the variables is bigger than 3.5. This means that the majority of people agree with the comments.



### 3.7 Independent Sample T-Test

**Table 04: Independent sample t-test**

The findings of a correlation analysis of the study's variables, which is used to examine the relationship between the dependent and independent variables, are shown in this table.

Variable	Gender	Number	Mean	Std deviation
Advocate recommendations	Male	37	3.09	0.86
	Female	43	3.33	0.72
P- Value = 0.2626				
Firm's image	Male	37	3.64	0.91
	Female	43	3.63	0.70
P- Value = 0.5974				
Investment decision	Male	37	3.65	0.97
	Female	43	3.54	0.52
P - Value = 0.3056				

Source: Online Survey, 2021

The mean differences between male and female investors in the variables under investigation were investigated using an independent sample t-test. The table reveals that there is no difference in advocate recommendations between male and female advocates because the p-value is greater than 0.05, i.e. 0.2626. Similarly, because the p-value is 0.5974, which is larger than 0.05, there is no difference in the firm's image between male and female employees. Similarly, there is no difference in investing selections between male and female investors because the p-value is greater than 0.05.

### 3.8 Correlation Analysis

In total, there are three variables in the study: one dependent variable and two independent variables. The dependent variable is the investment decision, while the independent variables are advocate recommendations and the firms' image. The correlation analysis was used to find the reciprocal link or connection between the dependent and independent variables.

**Table 05: Correlation table**

	Advocate Recommendation	Firms Image	Investment Decision
Advocate Recommendation	1		
Firms Image	0.635	1	
Investment Decision	0.3257	0.408	1
P - Value = 0.043			

Source: Online Survey, 2021



Table 5 displays the results of correlation analysis, which is used to examine the mutual relationship between the dependent and independent variables. The correlation coefficient between investment choice and advocate recommendation is 0.3257, demonstrating a positive relationship between the two variables. Similarly, the table shows that the correlation coefficient between investment decisions and company image is 0.408, demonstrating a positive linear association between the two variables.

### 3.9 Test of Hypotheses

**Table 06: Summary of Hypotheses Testing**

	Relationship/ Impact	Outcome
H1	Advocate recommendation - Investment decision	Supported
H2	Firm's image - Investment decision	Supported
H3	Gender - Investment decision, Advocate recommendation and Firms' image	Supported

As demonstrated in Table 6, the result of H1 reveals that there is a correlation between advocate recommendations and investment decisions. H2 has also shown a correlation between a company's image and the investment decisions of its investors. Finally, H3 found that gender (both male and female) has no bearing on advocacy recommendations, the firm's reputation and investment decisions.

## 4. RESULT AND DISCUSSION

In this study, it is found that advocate recommendation has significant relationship on the investment decisions of the Nepalese stock market. It is found that the firms' image has significant relationship on the investment decisions of the Nepalese stock market. There is no difference in firms' image across male and female investors of the Nepalese stock market as p-value is 0.5974, which is greater than 0.05. Because image of the firms remains same for both male and female investors. The findings of the study show that there is no difference in advocate recommendations between male and female stock in Nepalese stock market, with a p-value of 0.2626, which is greater than 0.05. Because both male and female investors seek the advice of others before making any financial decisions. Because the p-value is greater than 0.05, there is no difference in investing decisions between male and female investors in the Nepalese stock market.

In the Nepalese stock market, the study discovered a positive association between advocate recommendations and investment decisions. The findings are congruent with those of Kadariya (2012), who found that the majority of the investors were young, and that they made decisions in the Nepalese Capital Market based on media coverage and recommendations from friends. The findings are also similar with Khan and Afrin's (2015) findings, which found that financial performance and advocated recommendations influenced share investing decisions in Khulan City. It's also similar to the findings of (Ansari and Moid, 2013), who found that expert recommendations, accounting information, financial performance, corporate image,

and prior success were all significant influencing factors on young professionals' investment behavior.

The firm image and investment decisions in the Nepalese stock market have a beneficial association. The findings of the study are congruent with those of Jagongo and Mutswenje (2014), who found that the firm's reputation and industry status are major factors that impact individual investing decisions on the Nairobi stock exchange. Expert recommendation, accounting information, financial performance, corporate image, and prior performance, according to Ansari and Moid (2013), are all major influencing elements influencing investment behavior among young professionals. It's also similar to the findings of (Ansari and Moid, 2013), who found that expert recommendations, accounting information, financial performance, corporate image, and past performance were all significant influencing factors on young professionals' investment behavior.

## 5. CONCLUSION

As a result, investors regard a company image as a key influencing factor in investment decisions, while advocate suggestions are regarded as the least essential factor affecting investment decisions in the Nepalese stock market. It means that before investing in a stock market, Nepalese investors pay careful attention to the company's image. The investors need to analyze the firm's image before making an investment decision. They need to evaluate different business firms considering advocate recommendation too to minimize risks and maximize returns. Likewise, firms need to use the influential factors that affect the investors' decision for their future strategies and plans. Financial advisors need to assist investors for providing important documents to study and analyze. Government need to support investors to avoid the restrictions and regulate the stock market through the concerned department for developing market.

## REFERENCES

- Ahmad, N., 2012. A conceptual paper on factors affecting investment decision of Malaysian investor. *International Conference on Innovation, Management and Technology Research*, 450.
- Akhter, R., and Ahmed, S., 2013. Behavioral Aspects of Individual Investors for Investment in Bangladesh Stock Market. *International Journal of Ethics in Social Sciences*, 1(1), pp. 58-70.
- Ansari, L., and Moid, S., 2013. Factors Affecting Investment Behavior among Young Professionals. *International Journal of Technical Research and Applications*, 1(2), pp. 27-32.
- Drakopoulou, V., 2015. A review of fundamental and technical stock analysis techniques. *Journal of Stock and Forex Trading*, pp. 1-3.
- Epstein, M. J., 1996. Social Disclosure and the Individual Investor. *Accounting, Auditing and Accountability Journal*, 4(199), pp. 94-109.

- Farj, R. M., 2016. Importance of Accounting Information to Investors in the Stock Market: A Case Study of Libya. *IOSR Journal of Economics and Finance*, 7(1), pp. 70-79.
- Gliem, and Gliem., 2003. Meta-analysis of Alpha Cronbach's Coefficient. *Journal of Consumer Research*, University of Chicago Press.
- Jagongo, A., and Mutswenje, V., 2014. A Survey of the Factors Influencing Investment Decision: The Case of Individual Investors at the NSE. *International Journal of Humanities and Social Sciences*, 4(4), pp. 92-102.
- Kadariya, S., 2012. Factors Affecting Investor Decision Making: A Case of Nepalese Capital Market. *Journal of Research in Economics and International Finance*, 1(1), pp. 16-30.
- Kahneman, D., and Tversky, A., 1979. Prospect Theory: An Analysis of Decision under Risk. *Econometrical*, 47(2), pp. 263-291.
- Khan, F., and Afrin, F., 2015. Factors Influencing Investor's Decision in Stock Market Investment in Bangladesh: A Study on Khulna City. *Journal of Finance and Accounting*, 3(6), pp. 198-204.
- Kothari, S., 2001. Capital Market Research in Accounting. *Journal of Accounting and Economics*, 31(1-3), pp. 105-231.
- Krishnan, R., and Booker, D. M., 2002. Investors' Use of Analysts' Recommendations. *Behavioral Research in Accounting*, 14(1), pp. 129-158.
- Merikas, A. A., Merikas, A. G., Vozikis, G. S., and Prasad, D., 2004. Economic Factors and Individual Investor Behavior: The Case of Greek Stock Exchange. *Journal of Applied Business Research*, 20(4), pp. 93-98.
- Mutswenje, V. S., 2014. A survey of the factors influencing investment decisions: the case of individual's investors at NSE. *International Journal of Humanities and Social Science*, 92.
- Ricciardi, V., and Simon, H., 2000. What is behavioral finance? *Business, Education and Technology Journal Fall*, pp. 2-3.
- Singh, J., and Yadav, P., 2016. A Study on the Factors Influencing Investors Decision in Investing in Equity Shares in Jaipur and Mordabad. *Amity Journal of Finance*, 1(1), pp. 17-130.
- Sunder, T., and Sanderson, A., 2009. A Review of the Determinants of Share Prices. *Journal of Social Sciences*, 5(3), pp. 188-192.
- Thaler, R., 1999. Mental accounting matters. *Journal of Behavioral Sciences*.