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Perception of investors towards creating shareholders value

DR. P. PRAVEEN KUMAR[1], MS. S. PADMAVATHI[2]

[1]Associate professor, Saveetha School of Management, Saveetha Institute of Medical and Technical Sciences, Saveetha University, Chennai-77
[2]MBA Student, Saveetha School of Management, Saveetha Institute of Medical and Technical Sciences, Saveetha University, Chennai-77
Email ID: praveenkumarp.ssm@saveetha.com

Abstract: Investing in the stock market has its own benefits. Investing in the stock market will primarily help to grow money, by earning more profit from the invested amount. Taking high risk, by investing in risky investment avenues like in the stock market, would eventually help to increase or grow money. As taxes and inflation of a country have a major impact on wealth, investing in equities would protect and slow the negative impact on both. By regular payment of dividends to shareholders, regular investment income would be maintained by the investors which would help to meet their financial goals. Stock market has wide choices of financial instruments for investing like bonds, shares, derivatives, etc., which would benefit an investor to reduce the risk level by diversifying. Irrespective of shares owned by the investors, a portion of ownership is acquired and would benefit in voting rights and advice in strategic decisions made by the company. An analytical study is conducted on shareholder value creation with a sample of 87, through which different types of investors have delivered their perception on value creation. Different statistical tools are applied to identify their perception.

Keywords: Shareholder value creation, shareholder value, stock market, innovation

INTRODUCTION

Individuals, corporations, governments or any organization who owns one or more shares in a company, which can be listed or unlisted in stock exchange, stock or mutual fund, are known as shareholders or stockholders. Ownership could be claimed by the highest percentage owned by the shareholders. Based on the shares claimed, shareholders are of two types. Common shareholders are the investors who have rights to vote and participate in decision making. Preferred shareholders don't take part in any decision making, but when the dividends are paid out, preference is first given to them. Different kinds of shareholders have different objectives based on their perceptions. Shareholders focus on increasing the value of the firm quickly, to obtain more return, i.e., one who is determined to earn short term gains and will only prefer to invest in companies who would support this interest. While shareholders with long term perceptions would focus to obtain long term growth and not quick returns. Such shareholders would invest in companies who also promote growth and sustainability. The motivation comes from regular dividend payment by the company. Other shareholders would want to be part of the decision making process to meet their individual objectives and goals. While making investment, shareholders would negotiate their terms on their level of influence on the firm for their benefits. Another main objective of any shareholder is to earn high profit with minimum risk, investors would focus on investments which have minimum financial loss and follow practices which would prevent those losses under their principles. If it's determined that the high in the investment is higher than the shareholders would quickly diversify from the firm.

Though, investing in the stock market has high risk, still most of the investors are willing to take the risk. As it's said, buying shares at high risk would provide high returns. Investing in the stock market has its own benefits due to which are preferred by the investors. Liquidity of shares is usually high when bought or sold under an exchange platform. There is no need to involve any broker for trading. Shareholders get a dividend as a part of profit which is a cash reward made by the company at the end of the year. Larger the shares on own, more the rewards would be received. Growth of the economy would help to increase the corporate earnings which help to grow shareholders return. Better the performance more will be the customer demand and high will be the revenue for the company which would provide regular dividend to the shareholders. Another reason for investing on shares is tax benefits. Tax rebates are available for long term investments. Shareholders liability is limited on the investment made. For instance, if the company, in which the investor has invested, goes in loss, then the loss in shares on the capital investment made won't be borne by the investors. Due to all these benefits, most individuals prefer to invest in the stock market for long and short term purposes. Our research idea is based on the rich knowledge acquired by our peer teams across the university.(A.C.Gomathi, S.R.Xavier Rajarathinam, A.Mohammed Sadiqc, Rajeshkumar, 2020; Danda et al., 2009; Danda and Ravi, 2011; Dua et al., 2019;

Ezhilarasan et al., 2019; Krishnan and Chary, 2015; Manivannan, I., Ranganathan, S., Gopalakannan, S. et al., 2018; Narayanan et al., 2012, 2009; Neelakantan et al., 2013, 2011; Neelakantan and Sharma, 2015; Panchal et al., 2019; Prasanna et al., 2011; Priya S et al., 2009; Rajeshkumar et al., 2019; Ramadurai et al., 2019; Ramakrishnan et al., 2019; Ramesh et al., 2016; Venugopalan et al., 2014).

REVIEW OF LITERATURE

(Hilmola, 2020) has studied the inventories role and the financial and creation of shareholders value assets of the company. The results have low explanation power due to the weakness developed. So, there arisis a question, if the management of inventory and assets should be done by the company's logical and classical stages through hierar- chy of organization or if it should be a part of a group of things, which aims to extend the value of shareholders together.

(Fiordelisi and Molyneux, 2010) have studied shareholder value creation determinants, where samples of European banks are used between 1998 and 2005. The company growth, efficiency of capital allocation and economic development can influence the banks performance. Model of Dynamic panel data is used where the linear function of many industries, macroeconomic variables and bank specifics is the bank's shareholder value. It shows that there is a positive relationship with the changes in cost efficiency and value of shareholders, while revenue efficiency changes are linked with the profits of the economy. It’s also found that leverage, credit losses, liquidity risk and market risk also influence bank performance.

(Hilmola and Laisi, 2015) have studied the shareholder value creation retrospective in railways freight of North America and four transportation of peer groups from Europe and Asia. It is found that an ability which is exceptionally increasing in the value of shareholders is determined over time of railway freights in North American. Ryanair and Copenhagen airports from peer group companies show similar results. Dow Jones index beat in comparison of all analyzed companies as it starts from the year 2000. The performance of an index would improve when enlarged and are taken into account for a long time period. Sometimes, companies which are performing well have economic crises which impacts the ownership advances due to decline being significant and rapid.

(Hanvanich et al., 2005) have developed a theory on joint ventures which determines the effect of shareholder value creation on technology and explains the relatedness of task and national culture effects. An event-study method is used to analyze the US partner’s parents in a joint venture’s shareholder value creation, with the support of hypotheses. The results show a complex interaction with task relatedness, national cultural difference and type of knowledge.

(Radić, 2015) has studied determinants of Japanese banks' large sample between 1999 and 2011. Economic Value Added approach is used to measure the equity price, which is enlarged for Japanese banking system’s specific characteristics. The linear function of bankas its dynamic panel data model is specific, bank risk and variables of macroeconomic is used with new shareholder value measures. The results determine the credit risk, bank size, and cost efficiency gains which are the most crucial factors to explain the creation of shareholder value of a Japanese banking system. They found the changes in cost efficiency which are also determined which influences the cost of equity.

(Kajackaite and Sliwka, 2020) have argued that it's not necessary in maximizing shareholders interests when the contracts are incomplete to select a manager who wants to increase the share value. It shows that selecting the manager interested to pay out on social causes would improve the motivation level of the employee, displayed in a formal model and uses data observations of 900 firms and in a set of experiments in the lab. While shareholder value’s losses on investments for social cause may ignore the gain of employee performance. The raise of employee motivation could select the manager with social interest who could serve as a commitment device.

(De Beule and Sels, 2016) have studied the role of absorptive capacity of creating shareholder value in emerging markets from developed acquisition of market. It determines the abnormal cumulative return of listed Indian firms of cross border acquisitions in Europe which focuses on research intensity of acquirers. The result shows a U-shape relationship between cumulative abnormal return and research intensity of Indian acquirers of Europe acquisitions. The firm could access advanced targets, which has no capacity in research which could satisfy from the acquisition, though firms with excellent capacity in research which lead the competitors of India because the capacity of firms have adsorption which exploits and explores the knowledge based on target acquired. A positive effect is found on the acquisition of higher tech target companies apart from the capacity of absorptive acquirer. The result in addition shows a positive impact of business group membership on the value of shareholders, where acquisitions which are horizontal are balanced with vertical.

(Teti and Tului, 2020) have studied the Cumulative Average Abnormal Returns (CAARs) of targeted companies, having a statistically and positive effect, where positive but non statistical significant CAARs is earned by acquire firms, using samples global vise of record infrastructure companies from period of 1997 to 2017 of which 80% were utilities. The result shows the restructuring which distinguished the 20 years strongly by altering the environment infrastructure and facilitation of the merger and acquisitions diffusion.

(Laing et al., 2019) have studied the experience of abnormal return having shareholders positive effect in the short term, by using samples inversions of corporate from 1993 to 2015 of the U.S. markets live firms. The form of country-pair and inversion differences in economic development, geographic distance and standards of corporate governance are part of the wealth of shareholders. It shows negative impact and non-linear effect between long-run shareholder returns and CEO total return.
(Kılıç et al., 2011) have studied the creation of talent enterprises of its shareholder value creation on the recession of the economy during the survival and by using lateral marketing instruments to improve their economies. The lateral marketing and shareholder value are examined and capacity shareholder value creation on the company is assessed. It is assumed that shareholder value creation might exceed the economic recession.
(Kiesel et al., 2017) have studied the determinants are scarce and post- merger performance effect. It uses 826 samples of transaction announcements occurred between 1996 and 2015 on the performance based on long term and short term abnormal shareholder returns. It's found that the performance of acquiring companies post-merger differ with the service provided. In short railway, term trucking, air cargo, and 3PL companies have abnormal returns as positive, while sea freight carriers have less effect and CEP companies have no effect. In the long term, 3PL and the railway companies have abnormal returns, while trucking, air cargo and sea freight do have any returns and CEP experience losses. Overall, focus increasing transactions of specialized operators have full service providers who outperform diversifying transactions.
(Boubaker et al., 2014) determine the Going Private Transactions (GPTs) declaration have generated a cumulative of average abnormal returns and the averages of pre-transaction shareholders are received as a raw premium. The gain of shareholder value of GPTs will impact the additional potential value which is created by private ownership.
(Mitra and Singhal, 2008) have studied the industry exchange effect on setting shareholder value, which is a tool used to determine the integration of supply chain. The value of the shareholders effect is analyzed next to the meaning of the reaction of the stock market or abnormal returns connected with joint industry exchanges or announcements to form. It's found that the positive result is shown to be abnormal returns from the involvement in the industry of exchange. It used 18 exchanges of 144 firm samples from 2000-2001. It's also found that firms having higher power of bargaining and process of efficiency bring great benefits and high involvement in the exchange industry.

RESEARCH METHODS

Statistical research design is applied using questionnaires which were provided digitally to the respondents. The questions were formulated into statements where the respondent had to determine their perception and grade based on the likert scale. The questionnaires consist of two parts. First part is the demographic details and second one is the main stream of the research i.e., different statements. Convenient sampling technique is used as sampling technique. 87 investors have responded which is the sample size of the study. Analytical tools used in this study are frequency, mean and one-way anova.

DATA ANALYSIS

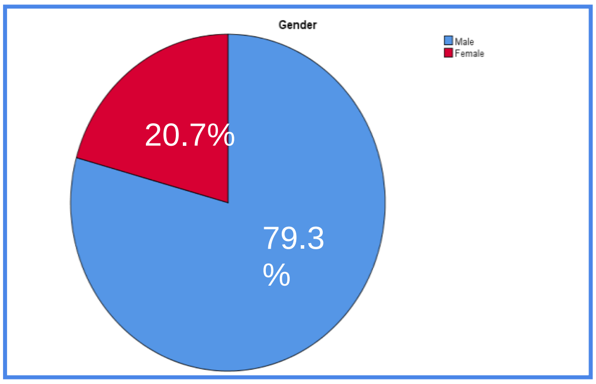

Fig.1: The pie chart shows the frequency analysis of gender in the sample where, male are 79.3% and female are 20.7%

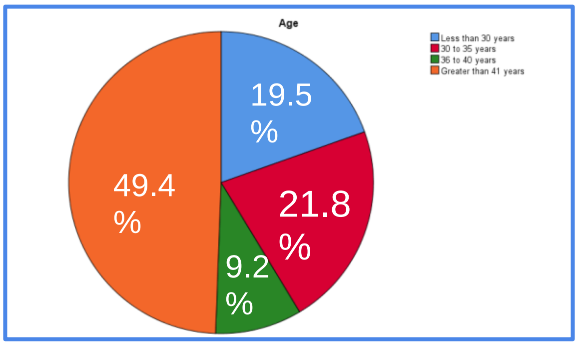

Fig.2: The pie chart shows the frequency analysis of age in the sample, where less than 30 years are 19.5%, 30 to 35 years are 21.8%, 36 to 40 years are 9.2% and greater than 41 years are 49.4%.

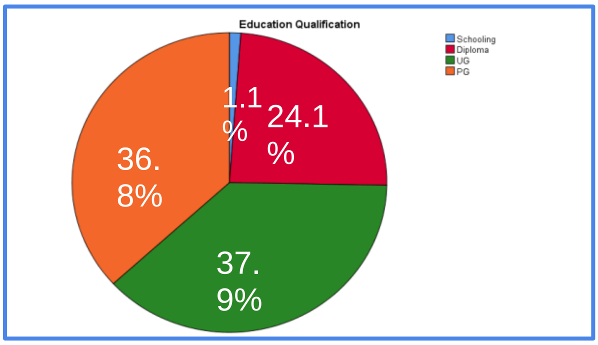

Fig.3: The pie chart shows the frequency analysis of education qualification in the samples, where schooling are 1.1%, diploma are 24.1%, UG are 37.9%, and PG are 36.8%.

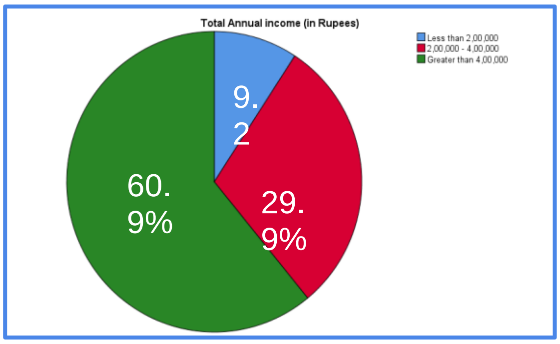

Fig.4: The pie chart shows the frequency analysis of total annual income (in Rupees) where, less than 2,00,000 are 9.2%, 2,00,00-4,00,000 are 29.9% and greater than 4,00,000 are 60.9%.

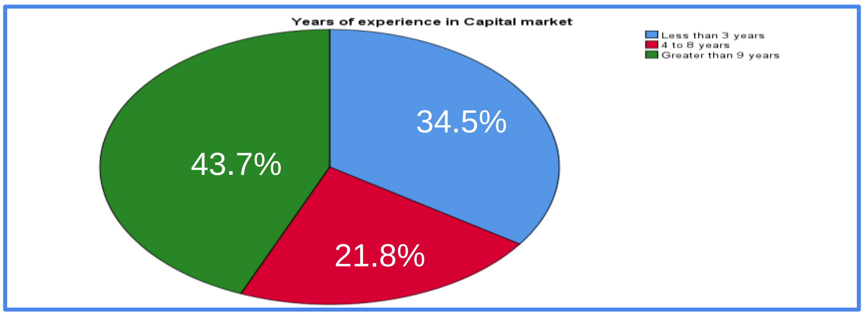

Fig.5: The pie chart shows the frequency analysis of years of experience in capital market where, less than 3 years are 34.5%, 4 to 8 years are 21.8% and greater than 9 years are 43.7%.

Table 1: Perception on value creation

S.No.	Variables	Mean	Rank
1	Providing proper earnings guidance enhances the shareholder value. (Earnings guidance)	3.53	2
2	Making proper strategic decisions leads to increase in shareholders' value. (Strategic decision)	3.57	1
3	Decisions on mergers and acquisition maximize the expected shareholders value. (Mergers and acquisition)	3.21	8
4	Carrying only assets would enhance the shareholders' value. (Assets)	3.05	10
5	Repayments will indirectly create shareholders value. (Repayments)	3.26	6
6	Giving rewards or incentives to CEOs and other senior executives affects value. (Rewarding CEO)	3.13	9
7	Rewarding operating unit executives will affect the shareholders' value creation strategies. (Rewarding operating units)	3.24	7
8	Reward to middle level managers and front employees influences the value. (Rewarding middle level)	3.28	5
9	When the executives bear the risks of ownership, then there will be value creation. (Risk bearing)	3.29	4
10	Value relevant information is provided to the investors to create shareholder value. (Relevant information)	3.43	3

The above table represents mean analysis towards shareholders value creation. It is found that, if proper "Strategic decision" is provided to the shareholders, value would be created, which has the highest mean value with 3.57, followed by "Earnings guidance" with mean 3.53, third highest preferred way to create shareholder value is "Relevant information" with mean 3.43, then is "Risk bearing by executives" with mean value 3.29, followed by "Rewarding middle level" with mean value of 3.28, at the sixth place is the "Repayments" which has the mean value of 3.26, then is "Rewarding operating units" with mean value of 3.24, at the eighth place is the "Mergers and acquisition" with mean value of 3.21, then is "Rewarding CEO" with mean 3.13 and then is the "Carrying only Assets" with mean 3.05.

Table 2: Perception on shareholders value Vs Demographics

S.No.	Particulars	F	Sig.
1.	Age	3.468	0.020
2.	Educational Qualification	0.910	0.440
3.	Annual Income	1.380	0.257
4.	Years of Experience	1.753	0.180

The above table shows the value of F and its significance. It is clear from the table that the majority of the significant value is > 0.05%. Hence, accepts the null hypothesis, i.e., there is no difference between demographic details of the respondents and their perceptions towards value creation.

CONCLUSION

The primary motive of a company should be to create and increase shareholder value. So it's important for the management to consider shareholders interest and make strategic decisions. Higher the shareholder value better will be for the company and management. Different companies follow different methods to create and expand shareholder value to retain them. To create shareholder value, a company can increase the price of the product which would increase its sales. Providing adequate earning guidance to the shareholders would impact the value creation, as it's said, those who can't meet the investors' expectations, would end up destroying a portion or even the market value of the company. If a company has no value creating opportunities on the investment, then the company should be liable enough to give cash or any other to the investors. Rewarding the senior and operational level executives for their best performance would affect growth and creation in the shareholder value. The important key in value creation is communication. It is important for any organization or company to provide value relevant information to the shareholders, mainly on financial reports.

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