

Analyzing the Factors that Influence Capital Investment Decisions: A Case Study of SME's Listed on Bombay Stock Exchange

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Abstract: *This research aims to examine the factors that influence the Long term investment decisions of Entrepreneurial firms listed on the Bombay Stock Exchange (BSE). The panel data of the research sample includes 100 entrepreneurial firms listed on the BSE from 2016 to 2021. A total of 20 entrepreneurial firms each were selected randomly from the six different sectors: Steel, Cement, Chemical, Food Processing and Textile. The Generalized Least Square is employed to address econometric issues and to improve the accuracy of the regression coefficients. In this study, the long term investment percentage is a dependent variable whereas liquidity, long term prospects, capital requirement, leverage, sales growth, size and firm risk are independent variables. The model results show that liquidity and sales growth have the same impact on the long term investment decisions of Entrepreneurs in India and the factors like fixed capital intensity, leverage, firm age, firm risks show a weak and insignificant impact on long term investment decisions. These findings are useful for firm administrators and managers to make the right long term investment decisions and these research results are meaningful to long term investment companies.*

Keywords: Long term investment Percentage; Liquidity; Size, Risk

1. Introduction

Entrepreneurs are vital to the country's economic development as they foster innovation, entrepreneurship, and create large-scale employment opportunities. Entrepreneurs generally have a high cash burn rate due to which they require constant funding. With the current situation impacting revenues, developing countries should look at supporting them during this crisis. Entrepreneurs suffer a lack of credit lines, with banks unwilling to lend to smaller firms at a time of squeezed liquidity. The developing countries especially India, have been investing in digital infrastructure over the past decade. The government plans to develop smart cities, use blockchain technology for government transactions, undertake ambitious financial technology (fintech) projects and launch a Fourth Industrial Revolution Centre. The pandemic has accelerated the need for disruptions in the traditional forms of firm and technology adoption. Fintech is one area where there is significant interest from startups in developing economies. One of the ways Entrepreneurs can adapt and grow in a competitive firm landscape is to embrace and leverage technological innovations, creating a resilient, competitive and sustainable firm environment. Entrepreneurs should make sure that their firm model is sustainable. The world has changed, so they should not look at things in an old-fashioned way rather they should take advantage of changing technology. The role of the Entrepreneur sector cannot be overemphasized in terms of its contribution to GDP and employment generation, particularly in emerging economies. Studies indicate that formal Entrepreneurs contribute up to 45 per cent of employment and up to 33per cent of GDP in developing economies, these numbers are significantly higher when taking into account the estimated contributions of

Entrepreneurs operating in the informal sector; whereas in high-income countries.

The modern finance theories believe that long term investment decision is one of the most fundamental problems an entrepreneur faces (Khan, Alam, & Syed, 2021). Researchers (Khan M. A., 2011) have assumed that the perfect security market condition is determined by the enterprise long term investment decision. The perfect alternative to internal corporate capital and the cost of using these funds are almost the same (Khan & Al Mamari, 2019). However, in practice, entrepreneurs often encounter many limitations while looking for external an financing source, which makes the long term investment activities depend heavily on the internal funding of firms. (Kfirmaskathiri, Alhaddad, & Alnajjar, 2021) used the financial risk as a measure of financial constraints and corporate sustainability looked at long term investment under the influence of Liquidity, long term investment opportunities and the returns on equity. This study shows that entrepreneurs with limited finances are more sensitive to investments decisions than entrepreneurs with little or no financial constraints. (Khan M. A., 2016) studied the relationship between capital structure and Long term investment Decisions of entrepreneur firms listed on BSE, results show that enterprises are more inclined towards liquid long term investment than long term corporate Investment. Long term investment decisions are considered the most important decision for an enterprise because it creates value and may take the Entrepreneurs to the sky or make them bankrupt. A carefully calculated long term investment decision can contribute toward increasing the firm value of the Entrepreneurs, thereby increasing the value of assets, whereas, a wrong long term investment decision will damage the Entrepreneur and its

value in the market. Developing countries are struggling with their economic development and want to diversify towards non-oil economic development. The developing countries believe that entrepreneurs play a significant role and are important for the economic development of any country. Therefore, this study on factors influencing enterprise long term investment decisions tributes towards classifying the influencing factors and proposes measures to improve the overall long term investment percentage with efficiency.

2. Review of Literature

The research studies (Khan M. A., 2016) explain why Entrepreneurs face higher interest costs does not attempt to derive money from other sources (i. e., debt, the stock market). (Khan, Alkathiri, Alhaddad, & Alnajjar, 2021) conducted a study on enterprise risk management for sustainability development under limited or unrestricted financial conditions, reveals that Entrepreneurs had a strong relationship between liquidity and investment, and are more sensitive than firms with financial constraints. (Khan, Syed, & Khan, 2021); (Khan, Meer, & Khan, 2021) use the relationship of entrepreneurs with banks as a measure of financial constraints and found that entrepreneurs, who do not have good relations with banks, face financial constraints, which discourage them from long term investment decisions. The results further reveal that Entrepreneurs with fewer financial constraints influence the company's Long term investment Decisions. Besides, (Khan, Tabook, & Zainab, 2018); (Khan, 2018) shows that the presence or absence of financial inconsistencies is not sufficient to exert significant liquidity effects nor is it necessary to obtain these Liquidity effects. (Khan M. A., 2019); (Khan M., 2015) analyzed various entrepreneurial factors to identify the relation between liquidity and long term investment decisions. They strongly support a significant relationship between the Entrepreneurs long term investment percentage and the net firm value change. (Khan, Alkathiri, Alhaddad, & Alnajjar, 2021) argues that enterprise risk management (ERM) practices have a significant impact on enterprise sustainability and performance. Their results show that enterprises that measure their firm risk and then adopt different strategies to manage their risk can visualize their future position and have better plans for improving their performance.

(Khan & Tabook, 2019) proves that entrepreneurs' novelty leads to traverse the growth of small and medium enterprises, which helps to predict and manage the associated risks and complexities of driving change in today's firm environment. The Entrepreneurs have become the significant wallop of constant, rapid and stimulating growth of the economy. An entrepreneur needs to be novel in choosing correct and appropriate financing sources to solve the company's financial challenges. (Khan & Alam, 2019) the study seeks to explore the influence of entrepreneurial novelty on small and medium-sized enterprises (Entrepreneurs) performances in a competitive market. (Khan, Alam, & Syed, 2021) describes that the ability of entrepreneurs to arrange working capital is the key to maximizing the

profitability of small-and medium-sized enterprises and the wealth of entrepreneurs. Their results demonstrate that there is a statistically significant negative correlation between profitability measured by gross profit and liquidity.

3. Design/Methodology/Approach

The capital market activity is seen picking up as the regional economies have transitioned to a 'new normal' characterized by uncertainties. The data used in the study were collected from the financial statements of 100 entrepreneurial firms listed on the Bombay Stock exchange in the period between 2016-2021. A total of 20entrepreneurs each were selected randomly from the six different sectors: Steel, Cement, Chemical, Food Processing and Textile. Further, this study proposes the following model to estimate the determinants of entrepreneur long term investment decision: $ELIPit = \beta_0 + \beta_1Xit + \epsilon it$; Whereas the dependent variable is long term investment percentage and the independent variable are liquidity, long term investment prospects, the capital requirement, leverage, sales growth, firm age, the firm risk is the error.

Table 1: Description of variables in the research model

Variable name	Code
Long term investment percentage	LIP
Liquidity	LQ
Long term investment opportunities	ROA
Capital Requirement	CPR
Leverage	LVG
Sales growth	SGR
Size	SZ
Firm risk	FR

4. Research Hypotheses

Based on the literature review, the following research hypotheses are formulated:

- H1) There is a significant relationship between liquidity and long term investment percentage
- H2) There is a significant relationship between long term investment prospects and long term investment percentage
- H3) There is a significant relationship between capital requirement and long term investment percentage
- H4) There is a significant relationship between leverage and long term investment percentage
- H5) There is a positive link between the growth of sales and long term investment percentage
- H6) There is a significant relationship between entrepreneurial venture age and long term investment percentage
- H7) There is a significant relationship correlation between firm risk and long term investment percentage

5. Findings & Results

Table 2 reports the overall observations, mean, standard deviation, minimum, and maximum values. Table 2 presents descriptive statistics including mean, median, and standard deviation as well as minimum and maximum

values of variables included in the model. The results of the descriptive statistical analysis presented in Table 2 show that there is a difference in the long term investment percentage and the Factors influencing the long term investment percentage among Entrepreneurs. On average, the Entrepreneurs in the sample had their long term

investment percentage near 3.67; the long term investment percentage has a large variation among Entrepreneurs the maximum value reaches 117.31 while the smallest is-13.91. Large disparities also occur in liquidity, long term investment prospects, capital requirement, leverage, sales growth, firm age, firm risk in Entrepreneurs

Table 2: Descriptive statistics of the variables

Variables	OBS	Mean	Std.	Min	Max
LIP	500	3.68	10.50	-13.92	117.32
LQ	500	2.25	4.51	-3.05	31.71
ROA	500	0.06	0.08	-0.41	0.72
CPR	500	0.14	0.12	0	0.55
LVG	500	0.51	0.22	0.006	1.29
SGR	500	0.38	1.21	-0.99	9.41
SZ	500	27.34	1.78	24.09	32.63
FR	500	0.57	2.93	0.0007	54.84

Table 4 shows the correlation coefficient between the dependent variable and the independent variables and between the independent variables. The correlation coefficient between the independent variables is not greater than 0.7, so there is no multicollinearity phenomenon. The variables capital requirement, leverage,

firm age was inversely correlated with the variable long term investment percentage, while the variables liquidity, long term investment prospects, and sales growth, firm risk are positively correlated with the variable long term investment percentage.

Table 3: Correlation coefficient matrix between the variables in the model

	LIP	LQ	ROA	CPR	LVG	SGR	SZ	FR
LIP	1							
LQ	0.41	1						
ROA	0.07	0.28	1					
CPR	-0.12	-0.35	0.11	1				
LVG	-0.07	-0.13	-0.22	-0.054	1			
SGR	0.29	0.15	0.13	0.055	-0.06	1		
SZ	-0.003	0.02	0.04	0.04	0.49	-0.0003	1	
RISK	0.18	0.018	-0.12	-0.07	-0.14	-0.05	-0.11	1

Table 4: Regression results

Variables	V. I. F.	Dependent variable (LIP)		
		POLS	FEM	FGLS
		0.996***	0.927***	0.583***
LIP	1.22	-8.199	-8.620	-4.093**
CPR	1.22	1.801	-4.147	1.765
LVG	1.46	0.233	1.258	-0.472
SGR	1.04	2.312***	1.915***	1.122***
SZ	1.36	0.052	-1.422*	0.074
FR	1.04	0.666***	0.460**	0.162
Cons		-1.258	41.29**	-1.741
N	1.24	500	500	500
Significance		F (6, 147) = 19.30	F (6, 379) = 10.88	Wald chi 2 (7) = 35.49

Note: (*), (**), (***) represent for the significant level at 1%, 5% and 10%, respectively.

The multicollinearity test results reveal that the VIF magnification coefficients are all <10, which validates that the model does not have a multi-Collinearity phenomenon. The greatest VIF is 1.46, showing that the possibility of the phenomenon of multicollinearity is negligible. The White test indicates that the model has heterogeneity (p-value <5%). Therefore, the Pool OLS model is not suitable. The Hausman test for p-value = 0.0075 < 0.05 rejects Ho, so the fixed effects model (FEM) is used. After selecting the FEM model, the authors performed a defect test of the model by the Wald test. The results obtained prob> chi2 = 0.0000 < 0.05 showed that the FEM model has defects. To overcome the variable variance defect, the authors use the FGLS model to

analyze the factors that influence the long term investment decisions of Entrepreneurs. The Prob value of independent variables such as liquidity, sales growth has p < 0.01, these are the factors that have the greatest impact on the long term investment decisions of Entrepreneurs. In which, liquidity, sales growth is positively correlated with the long term investment percentage. The long term investment prospects factor (ROA) with p < 0.05 shows that this factor is also correlated at a quite greater level with the long term investment percentage. The remaining factors include a capital requirement, leverage, firm age, firm risk, which are not correlated with long term investment decisions of entrepreneurs (P-value of these factors is > 0.1) (See Table 4).

The analysis results provide empirical evidence on the factors influencing the long term investment decisions of entrepreneurial firms listed on the Bombay Stock Exchange. The independent variable Liquidity has a positive impact on the Long term investment Decisions of Entrepreneurs with significance of 1%. This result shows that an increase of 1% in liquidity might lead to an increase of 0.58% in long term investment whilst other independent variables are constant. In other words, this indicates that liquidity plays an important determinant for Entrepreneurs long term investment decisions and helps encourage investment. This result also validates the findings of (Khan, Alkathiri, Alhaddad, & Alnajjar, 2021). The method of representing liquidity does not influence in any way the information users in making financing decisions (Khan, Alkathiri, Alhaddad, & Alnajjar, 2021). Long term investment prospects harm the long term investment decisions of the women entrepreneur with a significance of 5%. This result also shows that an increase of 1% in long term investment prospects leads to a decrease of 4.09% in long term investment whilst other independent variables are constant. This result is opposing findings of (Khan, Alam, & Syed, 2021); which can be explained by the fact that long term investment prospects are being expressed through book value and not by taking the market value. The independent variable capital requirement shows a positive impact on an entrepreneur's long term investment decisions but is not statistically significant. This result validates the finding of (Khan, Alam, & Syed, 2021); (Khan M. A., 2014). This shows that capital requirement does not play a significant role in the entrepreneur long term investment decisions. The leverage harms in some way the long term investment decisions but is not statistically significant. This result is opposing the findings of (Khan, Alkathiri, Alhaddad, & Alnajjar, 2021). This reveals that the level of debt used does not play a significant role in an entrepreneur's long term investment decisions. The characteristics of each women entrepreneur are different and their level of using debt financing is different, thus this dynamic does not have a significant impact on entrepreneurs' long term investment decisions.

The independent variable sales growth always proves to have a significant and positive impact on the long term investment decisions of Entrepreneurs with a significance of 1%. The result reveals that an increase in sales growth by 1%, might lead to an increase in long term investment percentage by 1.13%; while other independent variables remain constant. In other words, this specifies that the sales growth rate is an important determinant of women entrepreneurs long term investment decisions and can help in stimulating the investment. This result validates the findings of (Khan & Alam, 2019). The independent variable Entrepreneur firm age shows a significant and positive impact on entrepreneurs' long term investment decisions but is not statistically significant. This result validates the findings of (Khan M. A., 2019). This proves that the firm age of the enterprise does not play a significant role in the long term investment decisions of Entrepreneurs. Because Entrepreneurs quite dynamic and large compared to other countries. Entrepreneurial firm age is positively related to the Entrepreneurs performance

(Khan M. A., 2016); the longer the enterprise is in existence, the greater is their scale of capital. The independent variable firm risk has a significant and positive impact on entrepreneurs' long term investment decisions but is not statistically significant. This proves that the firm risks do not have any significant impact on the entrepreneur long term investment decisions of Entrepreneurs.

6. Conclusion & Discussion

This research study gives enough evidence of the factors that influence the entrepreneur long term investment decisions. Based on the empirical results, several suggestions for improvement of long term investment decisions at the level of a women entrepreneur are given as follows:

- The capital in Entrepreneurs normally comes from internal and external sources; therefore, Entrepreneurs must bring transparency in financial information and should strive to maintain a good level of liquidity.
- The Entrepreneurs should ensure high sales growth rates, good liquidity level and strong good financial status before using the external sources of capital that are essential for Entrepreneurs.
- The government should come up with different schemes encouraging Entrepreneurs to invest.
- Besides, financial institutions need to make it convenient and easier for Entrepreneurs to use collateral for financing.
- Finally, the government and the banking system should make policies that work with Entrepreneurs firm plans and firm strategies and are consistent.

With a sample of 100 Entrepreneurs, listed on the Bombay Stock Exchange during the period 2016-2021, the research shows how different factors of Entrepreneurs impact long term investment decisions. The results revealed that independent variables like liquidity, sales growth have a significant impact on the long term investment decisions of Entrepreneurs and the other independent variables like long term investment prospects do harm in one way or the other the capital long term investment decisions of Entrepreneurs. The study further reveals that the other independent variables like a capital requirement, leverage, Entrepreneur firm age and firm risks have a weak and insignificant impact on the long term investment decisions of Entrepreneurs. These research findings are very useful for entrepreneurs and Entrepreneur finance managers in identifying these factors and planning the right long term investment decisions that help in improving the entrepreneur efficiency and Entrepreneurs performance.

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