

The relationship between the role and the importance of "confidence in the capabilities and potentials" on increasing investment in the Tehran Stock Exchange

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Abstract

Economic development is required for progress of all countries in the world that this progress necessary gathering of all capitals. Capital market as part of the financial market, plays an important role in the economy. Through such markets, the savings in various sectors of the economy for investment is transferred to the companies. Development of the market capitalization of the two sides is possible: offer financial products (financing in the markets) and demand for buying it (investment in the market), that demand by members of the public to invest in this market or the people's volume of investment in the stock will be created. Therefore, the present study aimed to investigate the relationship of trust as important factors in increasing investment by people in the Tehran Stock Exchange. This survey- descriptive study was conducted. The gathering data is done by a researcher made questionnaire in this study. The results showed that the importance of trust with respect to the sub-factors presented in this research (trust based on the potential and the capacities), were higher than the level of average. Also, the analysis of the results in terms of

demographic factors (demographics) showed that the confidence factor base on background activity variable in the stock has significant relation and other variables (educational degree, gender, occupation) does not have significant relation.

Keywords: participation, capital market, stock exchange, participation in the capital markets.

Introduction

The economic development is essential for general development of all countries of the world and it necessitates the accumulation of capitals for their proper and targeted utilization. Most of the economic schools emphasize that the density of capital is the primary condition of economic development and capital market as an organized and coherent one plays a significant role in alignment of financial and capital means for furthering the economic growth and development of countries (Namvar and Abrishami, 2010).

Most of the researchers and economists believe that for attaining proper economic development with certain consequences such as lowering inflation, increase of investment and improvement of other economically favorable variables, one should reliable financing systems. In this regard, two ways are more reliable than the other ones. The first is using banking system (money market) and the second is using the capita, market (stock exchange). In Iran, only banking system was used before 1985 and foundation of stock exchange but now the exchange and capital market are both active and attract about 5% of the investors (Namazi, 2009) but this proportion is significantly low compared with current population of Iran and the economic growth which we should expect in Iran.

In Iran, one of the most significant characteristics of financial market is lack of strong financial instruments and institutes as well as its banking orientation due to lack of an efficient capital market. The studies on money and capital market of Iran show that the financial sector of Iran has not sufficiently developed and it cannot properly transfer capital from sectors with excess liquidity to other production and industrial sectors. In addition, a close look at the economy of Iran clearly shows that the national economy is passing through sensitive stages. The variations of oil price and reduction of oil resources are equivalent with lower levels of savings and resources of governmental sections. On the other hand, the international sanctions clearly show that in such a situation, the existence of a financial system based on private savings is highly necessary which necessitates the presence of a

fully developed financial market. In other words, some economists believe that the solution for shortage of liquidity in production and industrial sectors of Iran, increase of private capitals and reducing dependency upon oil incomes as a financing source is reinforcement of capital institutes, especial stock market (Mehrabani, 2011). The development of capital market plays a significant role in increasing national income and general welfare of society. The existing statistics show that the developed stock markets are located in advanced countries and in such countries, the security of investment is provided for the participation of internal and external investors in the stock market (Abasian et.al, 2009).

Problem Statement

The capital market as a part of financial market plays a significant role in the economy. It is through such markets that the savings of different sectors of national economy are transferred to the companies for investment in industry. In addition, the financial markets show the future perspective of the economic firms. The benefits of reinforcing such markets are numerous and of course, they are accompanied with many challenges too. The development of capital markets in economies with growing market has led to reduction of budget deficits and lowering of inflation (Abbasi, 2006). Finally, this market can significantly contribute to public convenience and enhancement of balance sheets of household. The attainment of proper economic development is impossible without offering long-term financial resources. In this regard, attention to the position and key role of capital market is of high significance. The capital market, as the market of supply and demand of financial resources, can properly play its critical role when the process of supply and demand of financial resources is properly assigned (Abbasi, 2006).

The previous studies on the role of Tehran Stock Exchange compared with major stock markets of the world led to this conclusion that in Germany, 58 percent of the investments finance themselves in the stock market through selling stocks and bonds. This value in England, Malaysia, South Korea and Iran is respectively 38, 27, 19 and 0.5% (Abbasi, 2006). The other statistical evidence show that in the past five years, 1997 to 2001, the mean ratio of savings to GNP for countries with less-than-average income is 29.6% and in the same period, this ratio was recorded to be 26.6% for Iran. In addition, within the above-mentioned period, the ratio of capital formation to GNP for countries with less-than-average income is 26% but it was 24.9% for Iran (Namvar and Abrishami, 2010). These statistics show necessity of attention to national capital market to attain development and realize macro-economic objectives.

Therefore, the main problem of present study is to examine trust building as one of the influential factors upon attracting public participation. In this regard, with a short review of previous studies on participation in capital market and stock exchange of Tehran, one can evidently observe that there is no comprehensive study on simultaneous analysis of different factors. So, based on the significance of this issue, the present study seeks to find some ways for increasing the public participation in stock exchange as an influential factor upon facilitation of economic development.

Literature Review

In regard to the three dimensional factors of trust building, there is no comprehensive study on simultaneous measurement of the three factors. However, some of the studies on each dimension are discussed shortly in the following.

Gholipur and Piran-Nejad (2007) called trust building in the e-government as a crisis. These authors discussed trust from two personal and social viewpoints. Then, they analyzed the six influential factors upon trust as introduced by Sztompka (1999) and concluded that trust is the cornerstone of any state to do a significant activity. In addition, their study on different types of justice showed that informational justice has the highest influence upon trust.

Bordbar (2007) believed that trust is the lost chain of modern Iranian organization. Offering different definitions of trust, he considered trust as one of the influential and key factors of social capitals in different groups and communities and stated that trust is a necessity for reinforcement, order and comprehensive development of different sectors in Iran. Then, he studied the five components of trust by Thomas and Thomas and Schindler (1993) and stated their level of significance in the following manner:

Openness < Consistency < Loyalty < Competence < Integrity

They also stated eight methods of trust building and concluded that without considering the principles of trust building, one cannot expect much of common methods and techniques of production and business. He stated that trust is the main issue of social capital as codified in article 98 of the Fourth Law of Economic, Social and Cultural Development.

Panahi (2009) studied the issue of trust and trust building in an organization and identified different types of trust such as trust based on deterrence, based on knowledge, based on recognition, examined the trust model from the viewpoint of Matinez and concluded that trust is an important element for success of an organization. The lower levels of trust leads to increase of stress and decrease of efficiency which finally disrupts decision making. On the other hand, the high levels of trust reinforces motivation, innovation and growth of an organization.

Norozi and Sariolghalam (2010) studied trust in e-business environment and found out that the concept of trust is one of the primary concepts of social capital which leads to efficient relations and participation of members of a community and satisfaction of mutual interests of the members. In the following, the defined indexes of trust in previous studies are represented in a summarized manner. In conclusion, they stated that trust plays a fundamental role in business so that mutual trust between the firm and the client contributes to facilitation of the business process.

Adler (1999) stated that there is a paradoxical hierarchy in the market which could be dealt with through three significant principles the first one of which is trust that plays a significant role in coordination mechanism.

Bottozzi et.al (2010) stated that they got three statements on trust. First, there is a positive mutual influence between trust and decision making from statistical and economic viewpoints. Second, 1% increase of each trust-building factors in different countries leads to 70% increase of effects upon investment. Third, trust is not primarily limited to an organization and it can be developed for decision-makers too. In the end they concluded that trust is an external belief and the significance of this issue has been proved in experiences of effects of trust.

Ziaulhog, Sultana and Amin (2010) considered trust as the main key of development of associations between banks and clients. They also stated that this issue has been confirmed in theory of market as the basic policy in development and support of long-term communication. They found out that in the industry of Islamic banking, trust is an important criterion which plays the primary role in supporting long-term communications with the client while honesty is the main factor of building trust. In conclusion, they expressed that the key of increasing trust in Islamic banking, persistence of interactive association between bank and its clients and efficacy of Islamic banks is convincing the clients to start business based on Islamic Sharia.

Rofiq and Mula (2011) considered trust as the basis of business conducts and activities. They stated that if there is trust between two persons, more commercial transactions occur between them. The two researchers defined trust as a characteristic which denotes confidence in something you expected. Quoting from Meyer (1995), they expressed that the three factors of competence, generosity, and security and integrity form the structure of trust and concluded that the factors of competence, benevolence and integrity and honesty positively affect e-business.

Research Questions

In the present study, the author intends to suggest certain questions on dimensions of trust building so as to analyze the ideas of active investors of stock markets regarding the significance of these three dimensions in their decision to enter the stock market.

Primary Questions

Q 1. To what extent is trust building significance in investors' decision making to invest in Tehran Stock exchange?

Secondary Questions

Secondary questions on trust building.

Q 1.1. To what extent is the role and significance of “trust building after the dimension of capacities and potentials” in increasing investment in Tehran Stock exchange as defined through measurement of significance level of the sub-factors of “proper efficiency versus risk for stock companies compared with other investments”, "management of listed companies," " agencies’ inspection and verification of complaints in capital market of Iran ", " liquidity potential ", "stability and trend of profitability of listed companies ", “implementation of Article 44 of the privatization policies and privatization trend for further development of the market ", " role of rating agencies in the capital market "and" effect of foreign policy and international relations of the country”?

Research Hypotheses

In the present study, the author intends to verify the following hypotheses based on the obtained results from the above questions on trust building and summarization of comments of active investors in the market.

Secondary Hypotheses

Secondary hypotheses on trust building.

H 1. “Trust building from dimension of capacities and potentials” is highly significance in increasing investment in Tehran Stock Exchange.

Data Collection

In the first stage, the data collection was done through review of library sources on domestic and international studies. Due to the fact the most common instrument of data collection in surveys is questionnaire, the author composed a questionnaire for the second step of data collection. The necessary data was collected through obtained the filled-in questionnaires form previously distributed through email, social networks such as telegram and physical handing out.

Instrument of Data Collection

The instrument of data collection in the present study was a questionnaire developed by the author based on theoretical principles. In this regard, the questionnaire items were edited based on the pre-determined objects, simplicity, and lack of ambivalence ordinal perceptions of respondents. The respondents were supposed to pick their response among the choices that were based on five-point Likert scale (i.e. very high significance, high significance, medium significance, low significance and no significance).

The questionnaire was set up in two parts the first part of which included 16 items as included in table 1 and the second part was associated to demographic characteristics of respondents.

Table 1. Correspondence of Questionnaire Items with Main Aspect

Main Aspect	Correspondence of Items
Trust Building	1-8

Table 2. Correspondence of Questionnaire Items with Secondary Aspects

Main Aspect	Correspondence of Items
Capacities and Potentials	1-8

Descriptive Findings

Through descriptive statistics, the demographic data of the questionnaire and data of questionnaire questions were analyzed. Then, considering the educational degrees of majority of respondents and their significant experience in this domain, one might claim that the respondents have relatively high level of knowledge in this regard and their comments in response to the questionnaire questions have acceptable validity.

Table 3. Frequency Distribution of Sample Based on Educational Degrees

Statistical Indices Educational Degree	Frequency	Frequency Percentage
High School Diploma or Below	23	24
Associate Degree	11	11.5
Bachelor's Degree	46	47.9
Master's Degree or Higher	16	16.6
Total	96	100

Based on the results of the above table, 47.9 % of the participants in the present study had bachelor's degree.

Table 4. Frequency Distribution of Sample Based on Experience in Stock Exchange

Statistical Indices Experience in Stock Exchange	Frequency	Frequency Percentage
Less than 1 Year	18	18.8
1-3 Years	29	30.2
3-5 Years	14	14.6
More than 5 Years	35	36.4
Total	96	100

Table 5. Frequency Distribution of Sample Based on Sex

Statistical Indices Sex	Frequency	Frequency Percentage
Male	78	81.2
Female	18	18.8
Total	96	100

Descriptive Data of Questions

Table 6. Frequency Distribution and Response Rate (Percentage) of Questions on Trust Building

Row	Dear Investor. Please define which one of the following items was significant in your investment decision.	Statistical Index	Insignificant	Low Significance	Medium Significance	High Significance	Very High Significance	Mean
1	Good efficiency versus risk for stock companies compared with other investments	Frequency	1	3	19	34	39	4.11
		Percentage	4.1	13.3	79.19	43.35	63.40	
2	Management of listed companies	Frequency	2	7	13	35	39	4.06

		Percentage	8.2	29.7	54.13	46.36	63.40	
3	Agencies of inspection and verification of complaints in capital market of Iran	Frequency	3	8	25	29	31	3.80
		Percentage	13.3	33.8	4.26	21.30	29.32	
4	Liquidity potential	Frequency	1	3	14	32	46	4.26
		Percentage	4.1	13.3	58.14	33.33	92.47	
5	Stability and trend of profitability of listed companies	Frequency	1	2	18	31	44	4.20
		Percentage	4.1	8.2	75.18	29.32	83.45	
6	implementation of Article 44 of the privatization policies and privatization trend for further development of the market	Frequency	4	7	30	32	23	3.66
		Percentage	17.4	29.7	25.31	33.33	96.23	
7	Role of rating agencies in the capital market	Frequency	5	8	37	28	18	3.48
		Percentage	21.5	33.8	54.38	17.29	75.18	
8	Effect of foreign policy and international relations of the country	Frequency	2	4	17	28	45	4.15
		Percentage	8.2	17.4	71.17	17.29	88.64	

The above table shows that the highest average score regarding trust building was 4.45 for the first question item of “accuracy of the published financial information” while the least mean score was 3.48 which was associated to question of the fifteenth item of “role of rating agencies in the capital market”.

Q 1.1. To what extent is trust building based on capacities and potentials significant in investors’ decision to invest in Tehran Stock Exchange?

Table 7. Comparison of Mean Score of Effect of Trust Building Based on Capacities and Potentials on Investors’ Decision to Invest in Tehran Stock Exchange

Item	Mean	Standard Deviation	Mean Deviation	t	Degree of Freedom	Level of Significance
Trust building based on capacities and potentials	3.85	0.69	0.034	26.121	95	0.001

Based on the findings of table 9, the mean score of effect of trust building based on capacities and potentials upon investors’ decision to invest in Tehran Stock Exchange is 3.85. The calculated t is more than the t in the table. Therefore, the effect of trust building based on capacities and potentials upon investors’ decision to invest in Tehran Stock Exchange is more than average.

Limitations

The researcher should report its research findings in a clear and honest manner. If the researchers express the limitations of their studies, many miscomprehensions due to lack of research limitations in a paper are prevented (Sekaran, 2012). These limitations are generally divided into two types. The first type of limitations are the limitations imposed by the researcher and the second type of limitations are environmental limitations. In the present study, the limitations that the researcher imposed on present study included the selection of individuals in Yazd Province with transaction code. Therefore, the obtained results are not generalizable to all shareholders. In future studies, one could increase the size of sample and analyze the viewpoint of other users. Regarding the environmental limitations beyond the control of researcher, the most significant ones in the present study were political and economic conditions, status of stock market, age of companies, education and experience of company managers, measurement limitations, users' limitations, and regulation limitations. Another significant limitation was distribution and collection of questionnaire forms which is a time-consuming issue.

Suggestions

- For attracting the trust of individuals not active in the stock market and encouraging them to enter the capital market and flow their static or wandering capitals, more attention should be drawn to this market.
- The tree factors of lack of stability and security of investment, the oppressive set of complicated regulations and undeveloped financial markets are the main factors of slow trend of investment process and finally, the low ration of development in Iran. The long-term planning and dealing with such factors would lead to development of national economy as one of the primary policies of the country.

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