



FACTORS INFLUENCING INVESTMENT DECISIONS IN THE NEPALESE STOCK MARKET



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Abstract

This study investigates the key factors influencing investment decisions in Nepal's emerging stock market, focusing on three critical variables: accounting information, firm image, and advocate recommendations. The study adopts a combination of descriptive and explanatory approaches to analyze how these factors shape investor behavior. The target population comprised Nepalese stock market investors, with a sample of 80 respondents selected through snowball sampling—a method particularly effective for reaching niche investor groups. Primary data were collected using a structured questionnaire featuring three question formats: Yes/No dichotomous questions, ranking questions, and 5-point Likert scale items, allowing for comprehensive measurement of investor perceptions and preferences. The collected data were analyzed using SPSS software, employing cross-tabulation, mean comparison, standard deviation, variance analysis, and correlation techniques. Results from the ranking questions revealed a clear hierarchy of influence: accounting information emerged as the most significant factor, followed by a firm image, with advocate recommendations perceived as least impactful. These findings were corroborated by descriptive statistics from the Likert scale responses, demonstrating consistent investor perspectives across different measurement approaches. Correlation analysis further confirmed statistically significant positive relationships between investment decisions and all three independent variables, highlighting their collective role in shaping market behavior. Financial advisors and firms must provide accurate & sufficient information for a better business environment. Investors need to analyze market dynamics properly using various tools before investing. Future researchers can study investment decisions by taking another variable in another geography with a large sample size.

Keywords: *accounting information, advocate recommendations, firm's image, investment decisions, and Nepalese stock market*

INTRODUCTION

Investment decisions are undertaken by investors or investment managers to mitigate the risk. According to Mutswenje (2014), investment analysis is typically carried out using fundamental analysis, technical analysis, and informed judgment. The effectiveness of the decision-making process is significantly enhanced when investors can accurately identify and evaluate all relevant contributing factors. As noted by Ahmad (2012), such comprehensive analysis facilitates more informed investment choices, thereby reducing the likelihood of financial losses in the future.

Fundamental analysis is an investment evaluation technique that seeks to assess the intrinsic value of a security by examining the underlying factors influencing a company's performance and prospects (Drakopoulou, 2015). This method involves analyzing financial statements, economic indicators, and industry trends to make informed investment decisions. In contrast, Ricciardi and Simon (2000) highlight the role of behavioral finance, which aims to enhance the understanding of investors' cognitive and

emotional patterns. Behavioral finance explores how psychological factors and emotional responses affect investor behavior and decision-making, thereby providing insight into deviations from purely rational financial models. When causal factors are well-known, decision-making becomes more relaxed and promotes making the best choice possible while reducing future risk (Ahmad, 2012). Tomic and Ricciardi (2000) suggest that when selecting mutual funds, invest in no-load funds with minimal expenses, look for those with a strong 5-10-year track record, choose tenured managers with a strong philosophy, and understand each fund's risks. The Nepal Stock Exchange (NEPSE), established under the Company Act and operating by the Securities Exchange Act of 1983, serves as the principal securities exchange in Nepal. It officially commenced its trading operations on January 13, 1994, marking a significant step in the development of the country's capital market. It was founded to provide a secondary market for stock exchanges. To help with securities transactions, NEPSE set up an open appeal system (Karna, Sahani, & Sharma, 2024). As the country's regulatory authority, the Securities Board of Nepal (SEBON) supervises the development, management, and growth of the country's capital market while upholding integrity, equity, and openness (Maharjhan & Bhattacharya, 2023).

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 (Manandhar, 2022). The stock market enables investors to manage their liquidity through a range of financial instruments, thereby facilitating the anticipation and assessment of associated risks. It serves two fundamental functions. Firstly, it acts as a conduit between firms seeking capital to initiate or expand their business ventures and investors willing to allocate funds to such enterprises. Secondly, the stock market offers a regulated platform for the trading of securities, where prices are primarily determined by the forces of supply and demand. This occurs alongside the influence of broader macroeconomic variables, including interest rates and inflation (Farj, 2016).

These developments, in turn, contribute to the enhancement of a nation's economic growth (Sunde & Sanderson, 2009). However, many equity investors lack a comprehensive understanding of the fundamental economic concepts necessary for sound investment decision-making. Consequently, it becomes essential to explore alternative factors that may influence such decisions beyond mere financial literacy. Following the integration of psychological principles into finance, attention has increasingly shifted towards demographic attributes and behavioral variations among investors (Kadariya, 2012). Financial signals play a pivotal role in shaping investor perceptions by illustrating market trends over time and distinguishing factual data from speculative information (Kadariya, 2012). While individual investors vary in their motivations and decision-making criteria, certain behavioral patterns remain consistent across groups, suggesting the existence of common investment tendencies within segments of the investor population.

Kadariya (2012) shows that the most of investors were youths and took decisions based on friend and family recommendations as a good source of information. Most of the stock investors desire capital gain rather than typical cash dividends and seasonal issues. Akhter & Ahmed (2013) found out that the majority of investors came into the market in their self-interest to increase their capital in the Bangladesh Stock Market. Ansari and Moid, (2013) investigated that expert recommendations, accounting information, financial performance, the firm's image, and past performance were the persuading factors. Jagongo and Mutswenje (2014) found out that the reputation of the firm, the firm's status, expected corporate earnings, profit and statement, past performance of the firm stock, share price, and expected dividend were the main factors that stimulus investors' investment decisions. Khan and Afrin (2015) have identified some investors behave rationally while making decisions, and analyze the stock considering its financial performance and dominance in the market. Some investors behaved irrationally and showed herding behavior. Singh and Yadav (2016) revealed that a firm's business performance is the most influencing factor whereas personal financing needs are the least influencing factor in investment decision-making.

The main purpose of this study is to identify the investment decision behavior of investors and to examine the relationship between accounting information advocate recommendations on investors' investment pattern firm's image with the investment decision of investors in the Nepalese stock market.

Literature review

2.1 Theoretical Support

The concept of mental accounting, introduced by economist Thaler (1999), describes the cognitive processes individuals use to categorize, assess, and monitor their financial activities. Rather than adhering to standard accounting principles, people mentally assign distinct purposes to different financial resources, often influenced by the source and intended use of the funds. This categorization can result in irrational financial behaviors, potentially leading to suboptimal spending and investment decisions. Mental accounting suggests that individuals treat money differently depending on contextual factors, which may affect their overall financial judgment. A considerable body of theoretical and empirical research has examined various elements influencing investors' decisions in stock markets. For instance, Singh and Yadav (2016) explored investment behaviors in Jaipur and Moradabad, identifying business performance as the most influential factor, while personal financial needs had the least impact. Similarly, Kothari (2001) argued that information asymmetry discourages potential investors from trading, as they lack adequate knowledge to assess an investment's value. In the context of the Bangladeshi stock market, Akhter and Ahmed (2013) examined investor behavior, focusing on variables such as firm image, financial performance, accounting data, and personal financial considerations. These findings underscore the complex interplay between rational evaluation and behavioral biases in shaping investment decisions. Investor perceptions of investment decisions are significantly influenced by gender, particularly regarding risk tolerance, decision-making preferences, and financial goals. Many investors display risk-averse behavior, favoring safer investments with predictable returns over riskier options, even when the latter may offer greater potential rewards. This inclination toward risk aversion is crucial in the investment decision-making process and highlights the importance for financial advisors and institutions to understand these behavioral traits to tailor strategies that cater to the varying risk profiles and psychological predispositions of their clients.

2.2 Conceptual Review

Accounting Information

Accounting information is a comprehensive report of the financial dealings of a person. It can be categorized into two groups. They are financial or public information and managerial or private information. The market cannot operate effectively without accounting information, and potential investors may be unenthusiastic about trade because of insufficient information to evaluate the value of the investment (Kothari, 2001).

Advocate recommendations

Advocate recommendations refer to advice from brokers, family, friends, coworkers, and majority shareholders. This includes purchase suggestions from both brokerage firms and individual brokers, as well as informal recommendations from personal networks. Krishnan and Booker (2002) studied the factors that influence investors' short-term decisions to hold or sell stocks, focusing on the role of expert recommendations.

Firm's image

A firm's image refers to the mental impression formed when its name is mentioned. It consists of psychological perceptions shaped by factors such as company performance, media coverage, public statements, and overall reputation. Epstein (1996) examined how individual investors respond to and seek out social information related to firms.

Investment Decision

An investment decision refers to a selection of assets in which a firm allocates its capital. According to Kothari (2001), unlike other investment instruments that offer fixed returns without ownership rights, equity investments grant investors partial ownership in a company and the potential for returns through dividends and capital appreciation

EMPIRICAL REVIEW

2.3.1 Accounting Information and Investment Decision: Akhter & Ahmed (2013), found that accounting information, the firm's image, and business performance were identified as behavioral aspects of individual investors' investment in the Bangladesh Stock Market. Ansari & Moid (2013) investigated that accounting information, financial performance, firm image, expert recommendation, and past performance were critical factors affecting youth professionals' investment behavior.

2.3.2 Advocate Recommendation and the Investment Decision: Kadariya (2012) found that most investors in the Nepalese capital market are young and depend on recommendations from friends and family as a key source of information. Similarly, Ansari and Moid (2013) observed that expert advice and past performance significantly influenced the investment decisions of young professionals. Additionally, Khan and Afrin (2015) reported that broker recommendations played a crucial role in shaping share investment choices in Khulan City.

2.3.3 Firm's Image and Investment Decision: Ansari and Moid (2013) identified expert recommendations, accounting information, financial performance, corporate image, and past performance as key factors influencing the investment behavior of young professionals. Similarly, Jagongo and Mutswenje (2014) highlighted additional determinants, including a firm's reputation, industry standing, projected earnings, profitability, financial statement health, historical stock performance, share price, macroeconomic outlook, and expected dividends as critical elements shaping investor decisions.

2.3.3 Conceptual Framework

The literature review indicates that investment decisions are influenced by multiple factors. In this study, the independent variables include accounting information, broker recommendations, and firm image, while the dependent variable is investment decisions. The relationships between these variables can be summarized as follows:

Independent variables

Dependent variable

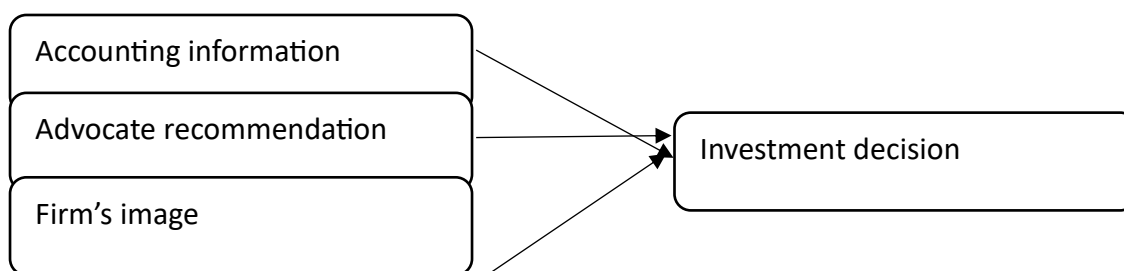


Fig: Conceptual framework

1.7 Research hypothesis

H1: There is a significant relationship between accounting information and the investment decisions of the investors.

H2: There is a significant relationship between advocate recommendations and the investment decisions of the investors.

H3: There is a significant relationship between the firm's image and the investment decisions of the investors.

Research methods

The study adopted descriptive and explanatory research design to deal with the various issues. This study focuses on all investors in the Nepalese stock market as its target population. A sample of 80 respondents was selected using a snowball sampling technique.

Primary data was collected through structured questionnaires distributed to stock investors operating in the Nepalese market. The questionnaire was developed consisting of Yes-No questions, ranking questions, and Likert scale questions were asked on the questionnaire. Cross tab, mean, standard deviation variance, and correlation have been applied to analyze the collected data using SPSS Software.

To assess the reliability and validity of the questionnaire items, the researchers conducted Cronbach's Alpha analysis, following the methodological recommendations of Manandhar (2022) and Gliem and Gliem (2003). The results of the reliability analysis are presented below.

Table 1

Reliability results

S.N.	Variables	Cronbach's Alpha Coefficient
1	Accounting information	.785
2	Advocate's recommendation	.812
3	Firm's image	.758
4	Investment decision	.752

Table 1 presents that Cronbach's Alpha of Accounting information is 0.785, the advocate's recommendation is 0.812, the firm's image is .758, and the investment decision is 0.752. In the Table, the values of Cronbach's Alpha of entire variables are more significant than 0.750. That demonstrates the consistency of all of the study's components.

Opinion on investment decision among Nepalese investors

Questions	No.	%
Do you think accounting information influences the investors' investment decisions in the stock market?		
Yes	58	72.5
No	2	2.5
Maybe	20	25
Total	80	100
Does the advocate's recommendation influence the investors' investment decisions in the stock market?		
Yes	52	65
No	4	5
Maybe	24	30
Total	80	100
Does the firm's image affect the investors' investment decisions in the stock market?		
Yes	58	72.5
No	4	5
Maybe	18	22.5
Total	80	100

Source: Online Survey

As shown in Table 1, 72.5% of respondents perceive accounting information as influential in stock market investment decisions. Similarly, 65% agree that broker recommendations affect investor decisions, while 5% disagree. Regarding firm image, a majority (72.5%) affirm its influence on investment choices, whereas 5% deny such influence and 22.5% remain uncertain.

Table 2

Opinion on the priority of the most important factor influencing investment decision

Factors influencing investment decision/ Rank	Rank 1 N o. %	Rank 2 No. %	Rank 3 No. %	Total responses	Weighted value	Mean weight	Ran k
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Accounting information	38	47.5	24	30	18	22.5	80	140	1.75	1
Advocate recommendations	9	11.25	43	53.75	28	35	80	179	2.24	3
Firm's image	28	35	22	27.5	30	37.5	80	162	2.03	2

Source: Online Survey

Table 3 demonstrates that accounting information was ranked as the most influential factor by the majority of respondents (47.5%), with a mean weight value of 1.74. The firm's image emerged as the second most important factor (mean weight = 2.03), while broker recommendations were ranked third, indicating they were perceived as the least significant among the three factors affecting investment decisions in the stock market.

2.9 Descriptive statistics

Table 4

Descriptive statistics for the whole sample

Variables	Mean	Standard deviation	Variance
Accounting Information	3.81	0.79	0.62
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

The descriptive statistics presented in the table reveal that accounting information has the highest mean score (3.81) among all variables, followed by firm image, investment decisions, and broker recommendations. On the 5-point Likert scale, all variables shared a maximum response value of 5, while accounting information and investment decisions recorded a minimum value of 1. The analysis shows accounting information and firm image have the highest dispersion, each with a standard deviation of 0.79.

This study examines four variables: one dependent variable (investment decisions) and three independent variables (accounting information, broker recommendations, and firm image). Correlation analysis was employed to assess the relationships between these variables.

Table 5

Correlation Analysis

	AI	AR	FI	ID
AI	1			
AR	0.573	1		
FI	0.665	0.635	1	
ID	0.403	0.326	0.409	1

Source: Online Survey

Table 5 presents the correlation analysis results examining relationships between variables. The analysis reveals significant positive correlations between investment decisions and: (1) accounting information ($r = 0.403$), (2) broker recommendations ($r = 0.326$), and (3) firm image ($r = 0.409$). All relationships demonstrate linear positive associations, with a firm image showing the strongest correlation.

Table 6

Hypothesis test

Hypothesis	Results
H1: There is a significant relationship between accounting information and investment decisions.	Accepted
H2: There is a significant relationship between advocate recommendations and investment decisions.	Accepted
H3: There is a significant relationship between a firm's image and investment decisions.	Accepted

Findings and Discussions

Accounting The analysis reveals that accounting information exerts a strong, significant influence on investment decisions in Nepal's stock market, emerging as the most important factor for Nepalese investors. This finding aligns with Ansari and Moid's (2013) study of young professionals in Lucknow, which identified accounting information, firm image, and expert recommendations as key decision-making factors.

Furthermore, a positive relationship exists between firm image and investment decisions in the Nepalese context. This supports Jagongo and Mutswenje's (2014) research at the Nairobi Stock Exchange, which highlighted corporate reputation and industry standing as crucial investment determinants.

The study also confirms a positive association between broker recommendations and investment choices, consistent with Kadariya's (2012) findings that young investors particularly rely on media coverage and peer advice when making investment decisions.

5. Conclusion and Implications

5.1 Conclusion

This study identifies three critical factors influencing investment decisions in Nepal's emerging stock market, ordered by their relative importance: (1) accounting information (primary factor), (2) firm image (secondary factor), and (3) advocate recommendations (tertiary factor). The convergence of results from both ranking exercises and Likert-scale measurements reinforces the robustness of these findings. Notably, our regression analysis confirms statistically significant positive relationships ($p < 0.01$) between investment decisions and each of these three determinants.

These conclusions align with emerging market studies by Ansari and Moid (2013) and Jagongo and Mutswenje (2014), while uniquely highlighting the Nepalese context where accounting transparency appears particularly valued. The findings support the growing literature on behavioral finance in developing economies, demonstrating how both quantitative financial data and qualitative factors collectively shape investor behavior.

5.2 Practical Implications

This study yields important implications for multiple stakeholders in Nepal's financial ecosystem: investors should prioritize fundamental analysis of financial statements over secondary recommendations, develop financial literacy to better interpret disclosures, and balance quantitative data with qualitative firm characteristics; listed firms must enhance financial reporting quality and transparency, strategically manage corporate reputation, and recognize the impact of disclosures on investment attractiveness; financial intermediaries should recalibrate advisory approaches to emphasize accounting fundamentals, provide investor education, and contextualize recommendations within comprehensive analysis; regulators need to strengthen reporting standards, develop investor protection frameworks, implement literacy programs, and foster institutional infrastructure. These recommendations collectively highlight how improving information quality and investor competence could enhance market efficiency in Nepal's developing capital market, with future research opportunities examining variations across investor demographics or market segments.

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