INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

IJARIIT

ISSN: 2454-132X
Impact Factor: 6.078

(Volume 7, Issue 4 - V7I4-1856)
Available online at: https://www.ijariit.com

The impacts of COVID-19 on the investment behavior of entrepreneurs in India

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ABSTRACT

Investment behavior is directly proportional to market stability. The onset of COVID-19 rattled the economy and as a result, there was a steep decline in the market stability. Various investors across the globe have reacted to this sudden change by adapting to the situation and making amendments to their investment strategies. Similarly, entrepreneurs have done the same by adopting a certain methodology to approach investment and make profits in the investment industry during the pandemic. The purpose of this paper is to analyze qualitative factors of investment behavior of entrepreneurs such as mental stress and underlying mentality to understand their investment strategies and provide a few solutions to decrease their chances of losses when they invest in any securities, especially during the pandemic. Primary data is used to conduct the research so that entrepreneurs can anonymously provide their insight on what they think are factors and purposes of investment for an someone who has active business operations underway.

Keywords: *Investment, COVID-19, Market, Behavior, Entrepreneurs*

1. INTRODUCTION

The global population is experiencing one of the biggest crisis of the century- COVID-19. It has impacted industries across the spectrum the financial industry has taken one of the largest hits. There are various factors which contribute to the investment behavior of individuals. Amongst the psychological factors, panic would be one of the main concerns. However, such a reaction is common during crisis and the investors usually regain their confidence and bounce back when markets become stable again.

This paper focuses on the investment behavior of entrepreneurs during the pandemic, across the country. There is no denying that the coronavirus has bombarded economies across the world, and this certainly does not exclude the budding entrepreneurs in the industry. During the pandemic, the entrepreneurs might face an added amount of pressure to increase their sales and maintain the minimum levels of profits in their own business. Hence, it is common for these people to worry about their investment portfolios and try to diversify their investment as much as possible. As a result, the investment behavior of individuals are highly volatile as a result.This volatility is likely to exist until the pandemic becomes manageable. Some of the qualitative factors which affect investment behavior are psychological factors related to investment activities.

This paper mainly focuses on a niche audience- entrepreneurs. Entrepreneurs have specific strategies when it comes to investing because they have a business to maintain and a market to pay attention to. However, human minds tend to look at the silver lining when they are faced with difficult situations and that is exactly what entrepreneurs do. They pay less attention to the equity market and are more drawn to fixed income funds due to falling interest rate situations. For a country like India, the government has a strong mandate to improve the scenario and revive the economy with the help of long-term reforms, some of which have already been implemented. This paper will further elaborate the qualitative psychological factors which affect investment behavior, which was mentioned previously and will suggest strategies that the entrepreneurs can adopt in order to maximize profit from their investment during the pandemic.

2. REVIEW OF LITERATURE

The covid-19 pandemic has *shocked* many people across the globe. The current outbreak has had severe economic consequences all over the world, and it does not look like any country will be unaffected. Using daily microdata, we document major outflows in these funds during this period, far greater than anything they experienced in past events. The inference of Covid-19 reflects the dynamic interplay between individual and contextual factors. governments across the world scrambled with emergency actions, such as lockdowns, travel restrictions, testing and quarantining, and economic packages. The main purpose of these actions was to ensure social distancing among people to contain the spread of the disease on the one hand, while to minimize the adverse economic impact on the other hand. However, these actions generated additional uncertainty regarding their effectiveness and impact. For instance, lockdowns, though could be effective in reducing new infections, increased the economic distancing as well thereby hurting the jobs and incomes of tens of millions of people. Despite the fact that long-term effect of these government actions yet has to be seen, in this paper, we examine their expected impact by analysing the stock markets' reaction to these actions. The COVID-19 crisis provides an opportunity to inspect their resilience in a major stress event. Using daily microdata, we document major outflows in these funds during this period, far greater than anything they experienced in past events. Large outflows were sustained over several weeks and were widespread across funds. Inspecting the role of sources of fragility, we show that both the illiquidity of fund assets and the vulnerability to fire sales were important factors in explaining outflows in this episode. The exposure to sectors most hurt by the COVID-19 crisis was also important. Two policy announcements by the Federal Reserve about extraordinary direct interventions in corporate-bond markets seem to have played an important role in calming down the panic and reversing the outflows. It is expected to cause a serious setback to the cash flow position of firms. Unlike the global financial crisis - which erupted on account of financial distress - the COVID-19 pandemic is a health crisis bearing economic implications for the whole world against the backdrop of disruptions caused by *lockdowns* and *travel-related* restrictions. There is a complete sense of uncertainty concerning its impact on the various structures of economic, social, and political sectors. Future progress depends upon the availability of a *vaccine*, and how quickly consumer and business sentiments could restore to the levels seen before the pandemic. Adequate corporate governance practices, digitization, environmental (awareness about adverse climate and biological events) and social factors (conducive work environment and access to healthcare) are the key pillars envisaging a recovery from the COVID-19 pandemic.1 These factors constitute an important essence in the ESG matrix. In other words, firms with a sustainable business model, adequate governance environment and workplace efficiency, are expected to bear the brunt in a much more effective manner. (Antonio Falato, Itay Goldstein, and Ali Hortaçsu, July 2020)

Pandemics have affected the economies of many countries in past, some have recovered their economy, but other could not. Half of labors have lost their jobs all around the world, due to COVID-19, this shows that country should think about their county's wealth and health both, to make their nation happy. It made many changes to globe market. Stable global industries, who provide safety during new opportunity arise for global starts-up and also these industries provide guidance on fair trade and mechanism to resolve argument as they arise. They also encourage people about foreign business and investment. Major changes have been analyzed that start-up changed their goals, planning behaviour and decision rules. Political skills not only help to raise cost of venture, but also help to international entrepreneurs in increasing resources, saving time, and making opportunities. Countries have noticed depending nature on foreign companies for production of essential goods and services. Due to this crisis countries have started to complete their own needs first. For that they supplied medical essential to their nation first rather than any other foreign country. Production place has also changed, cause of tradewars. Also, culture has been a major part of economic crisis these daysand, help people to become more nationalist. This crisis highly affected stability and consistency of this network for flow of knowledge, funds, and other resources, which were occur by trade wars, politics and obviously COVID-19. Due to this investors have to find a new way for gaining knowledge and resources. Disruption of networks led entrepreneur to do business with personal relation, rather than professional or business. Thus, thinking of investors is changing and also politic has taken place of business so supply chain method has been change, main reason is trade wars. In a result of these damages, harmful consequences may happen. It may hard to develop new start up for entrepreneur. Lesser economy countries may also suffer from this, the reason is migrants, who were doing job in developed countries, they are losing jobs and also domestic unemployment has increased.

In early May 2020, the covid-19 pandemic has infected over 3.5 million people worldwide, with more than 250.000 dying as a consequence. While national governments are currently preoccupied with managing short-term implications such as lock-down policy and planning, longer term economic and societal implications are likely to be severe. As a corollary, it will also have direct impact on both short- and long-term individual career experiences, opportunities, and trajectories. Unemployment rates have drastically increased since the start of the pandemic. Globally, initial estimates from the International Labour Organization (ILO) indicate that roughly 7% of working hours will disappear in the second half of 2020, leaving up to 200 million people unemployed, particularly individuals and small business owners working in services, tourism, travel, and retail. We postulate that these government actions have both direct and indirect effects on stock market returns. For the direct effects, social distancing measures might have direct negative effect on stock market returns by adversely affecting economic activity. On the contrary, government containment and health response, and income support packages are likely to lead to positive market reaction by enhancing the investors' confidence and reducing the adverse economic effects due to the disease. The implications of career shock are directly impacted by the interplay between contextual and individual factors. the implications of the Covid-19 pandemic are to take into account the dynamic interplay between contextual and individual factors as critical determinants of how this particular career shock may have differential implications for different people. Prior empirical findings may help focus future studies in the selection of concepts to examine. the Covid-19 pandemic can be considered a career shock that will have a major impact on people's work and careers. There are set out to achieve two goals: to offer ways of understanding this impact through recent insights from the career shocks literature, and to help guide future research based on these insights. many feel pressures due to losing their jobs or due to working in close proximity to potentially infected people, as society depends on them fulfilling their duty. COVID-19 represents a fearsome and novel risk. As such, it stirred feverish behaviour by investors. Yet despite the volatility, despite the panic, reasonable economic expectations underlay movements in the stock prices of individual companies. The consequences of the pandemic outbreak have hit various sectors of society in different ways. International equity markets witnessed a drastic fall after the declaration of COVID-19 as a *pandemic* by the World Health Organization (WHO) in March 2020. It reflects greater risk aversion on the part of equity investors in their search for safer investment bets. Investors become more attentive to corporate fundamentals during times of economic uncertainty – causing capital flowing away from the defensive and EAFE portfolios to the ESG portfolio. The ESG portfolio has a lower downside risk, as it is based on the long-run sustainability of firms. The pandemic is essentially a shock that increases risk aversion on the part of investors, making them to reassess the relative downside risks of the three *safer* portfolio strategies. This reassessment stimulates capital flows between our undertaken portfolios and better performance for the ESG portfolio. After controlling for country characteristics and systematic risk due to international factors, we find that social distancing measures have direct negative impact on stock returns, while an indirect positive impact by reducing the growth rate of new confirmed cases. Containment and health policies and income support packages have direct positive impact on stock returns, but do not affect stock returns indirectly through the reduction in growth in confirmed cases. Together, our results provide evidence that stock markets have priced in the impact of government actions. Results remain robust against alternative sample compositions and alternative estimation methods. (Amanjot Singh. October,2020)

There is extreme increase in the usage of Internet and social media. The internet is at present also the main way to get essential supplies and receive essential services, like seeing a doctor. It is interesting to explore whether the disappearance of one solution for a market may be replaced by another Society can thus learn about the nature of the challenge we are facing in these trying times. The stock price reactions suggest that broad actions, including fiscal policy interventions, are required to avoid further negative outcomes and propagations of the COVID-19 shock. The COVID-19 outbreak poses a unique opportunity to study how markets are created and how they disappear within a very limited time span. The aggregate market experiences feverish fluctuations or falls strongly, the relative stock price moves of different stocks reveal which sectors and companies will be better off in the future than others. To explore whether the disappearance of one solution for a market may be replaced by another. There should be efforts to compartmentalize the two tasks to make this a more efficient way of life. Containment and health index are coded from 3 indicators representing public awareness campaigns, testing policy and contact tracing. This index represents government emergency policies regarding health system such as the COVID-19 testing regime. The volatility, despite the panic, reasonable economic expectations underlay movements in the stock prices of individual companies. The crystal ball of the market foretells a different economic landscape than the one we have gotten used to. Such changes bring potentially massive social and political upheavals. Unlike the global financial crisis - which erupted on account of financial distress - the COVID-19 pandemic is a health crisis bearing economic implications for the whole world against the backdrop of disruptions caused by *lockdowns* and *travel-related* restrictions. The desire to do everything in-home has impacted consumers' impulse buying habits. Slowly but surely, work–life boundaries will be blurred when both tasks are carried out from home. It's better to understand the effect of the COVID-19 on world major markets: equity (Bitcoin and S&P500), energy (WTI, Brent, and Gas), and precious metals (Gold and Silver). In addition, we examine the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) used to gauge fear and expectations of investors. Therefore, compared to the very few works on the effect of the COVID-19 on world economies, the contributions of our study follow. First, we reveal the effect of the pandemic on the frequent events in a set composed of world major markets. Second, we shed light on the effect of the pandemic on information sharing between world major markets. Third, we analyse the effect of the pandemic the market on investor's expectations, an important issue missing in existing studies. This would help understanding how the pandemic shaped fear and expectations in investors worldwide. Fourth, the comparison analyses are applied with and between market across time (before versus during pandemic). Fifth, we rely on the concept of multiscale entropy and mutual information since they have not been considered in investigating the response of economies to the pandemic, to the best of our knowledge. Being the major topic in information theory, entropy has been widely applied in plenty of fields in tectonophysics. Social distancing saves lives on the one hand, while imposes large costs on society due to the reduced economic activity on the other hand. Therefore, government actions, such as lockdowns and travel restrictions, targeted to ensure social distancing are expected to have both direct and indirect effects on stock returns. For the direct effect, such policies have adverse economic impact by shutting down places of work such as schools, offices, and factories. For instance, Sauvagnat (2020) estimate that a 10% increase in state-level labour restrictions in the US led to a 3% drop in employment and a 1.87% drop in firms' market value in the month of April 2020 only. (Salim Lahmir. July,2020)

There is a complete sense of uncertainty concerning its impact on the various structures of economic, social and political sectors. the return spill over effects across the three different safer investment strategies during the COVID-19 pandemic. Focuses on the long-run sustainability of firms. fragility in corporate bond funds was manifested through greater sensitivity of outflows to bad performance. Though some studies such as government social distancing measures are counterproductive, however we show that such measures also have indirect beneficial economic impact through the channel of reduction in the intensity of COVID-19 outbreaks. Therefore, it is difficult to predict their net impact on economic outcomes and more research needs to be done with the availability of further data to better understand the economic impact of such government measures. Our findings to some extent are aligned with Correia (2020) who find that stringent non-pharmaceutical interventions used across the U.S. cities during the 1918 Flu Pandemic led to better economic outcomes in the medium run. As the frequency of pandemics, including contagious diseases, has increased over recent decades a consensus regarding the net economic impact of government social distancing measures can help in designing better government response in the future. (Heyden and Heyden, Shanaev and Zaremba. September,2020)

3. RESEARCH METHODOLOGY

This research was conduction using the method of stratified sampling wherein a specific group of individuals were selected, who are entrepreneurs by occupation. The data was collected using a tool called Google Forms and the sample size was 100 respondents. The questions that were used in the google form survey were detailed in nature in order to understand and assess the characteristic, behaviors, and psychological patterns of each entrepreneur in terms of their investment strategies. The stratified sampling technique was used for the following reasons:

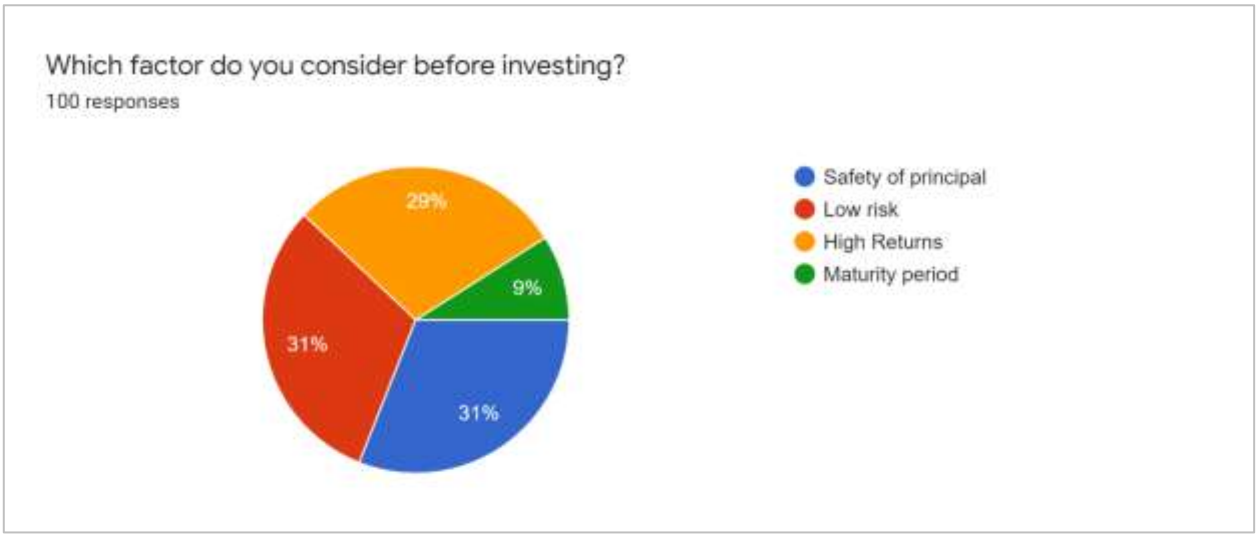
1. To categorize the entrepreneurs from the rest of the population in an accurate manner and assess their responses

2. The study demanded that we use this technique to avoid any unnecessary responses from the category of individuals that are not required for the study

All the responses mentioned in the study were collected in the form on online surveys by approaching each individual who was be a good fit for the sample. The summary of the respondents are summarized as follows:
Sample size- 100 respondents
Sample method- Non-probability sampling (Stratified and deliberate)
Sample respondents-Individuals who are entrepreneurs and have an active business of their own

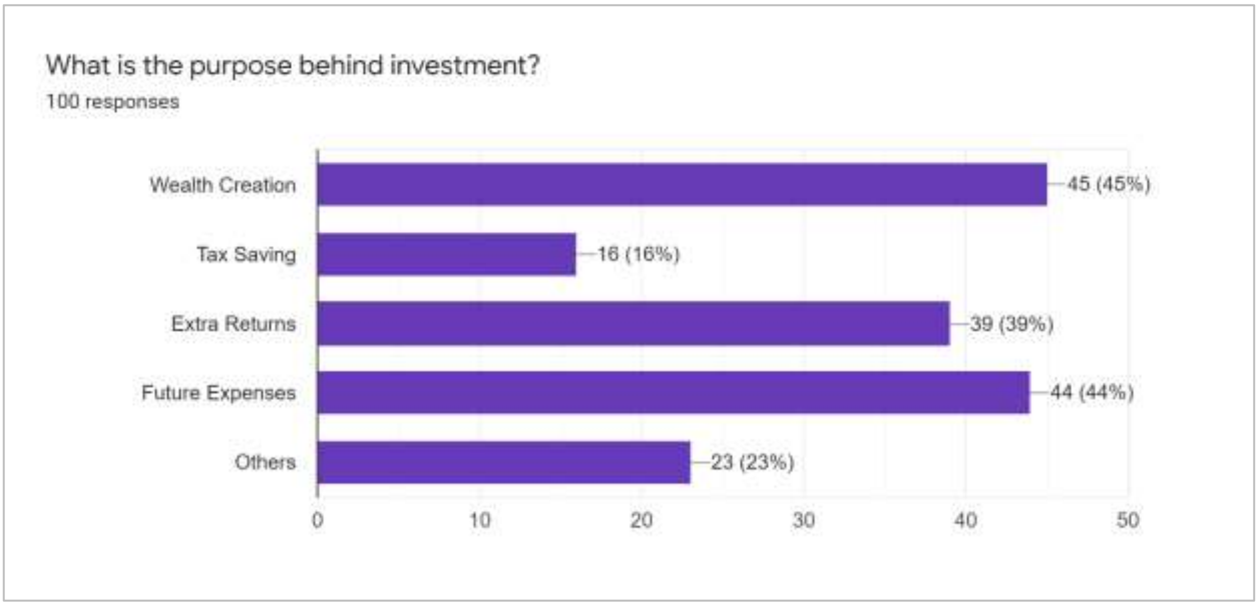
4. DATA INTERPRETATION

The following research questions were posed to people to understand underlying factors that affect investment behavior among entrepreneurs. The data collected reflects qualitative factors only.



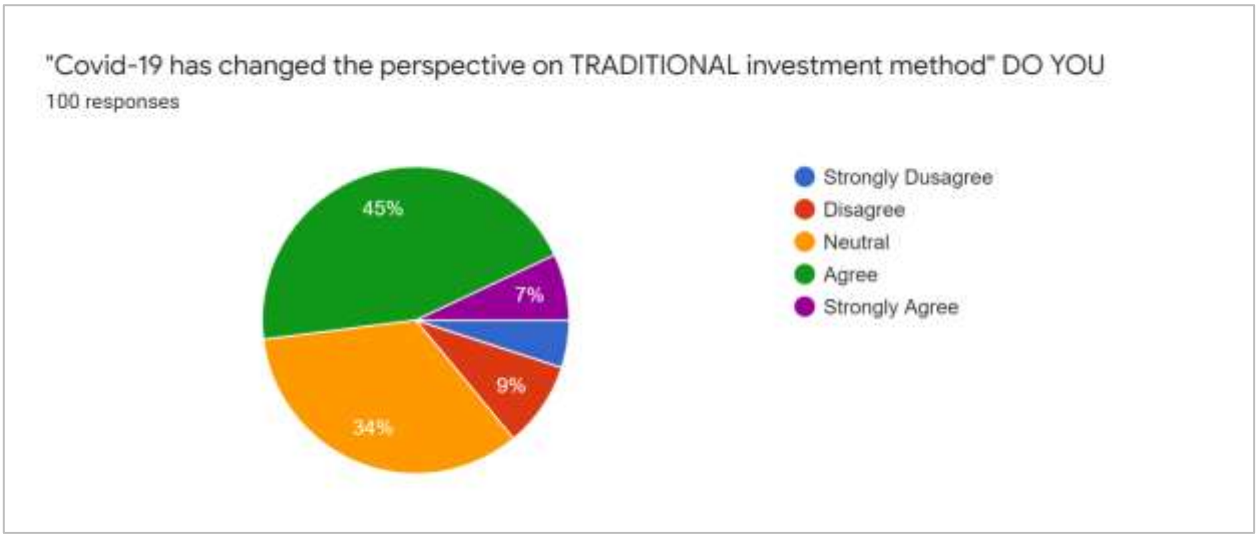
From the options of four significant factors that people consider before investing, safety of principal and low risk were the two principal ones that people selected. Out of 100 responses, 31% of individuals picked safety of principal and low risk closely followed by 29% of them who chose high returns and 9%, who believed the maturity period was the most important factor.

Majority of the respondents believed that low and safety of principal were primary considerations. This meant that entrepreneurs are not willing to risk their money in any market during the pandemic and they think that they must not indulge in too much speculation. The reason for this could be that their primary reason to invest is to steadily increase their principal over a period of time rather than putting "all their eggs in one basket" and posing the risk of losing the principal amount altogether due to economic recession or decline of any particular company they are investing in.



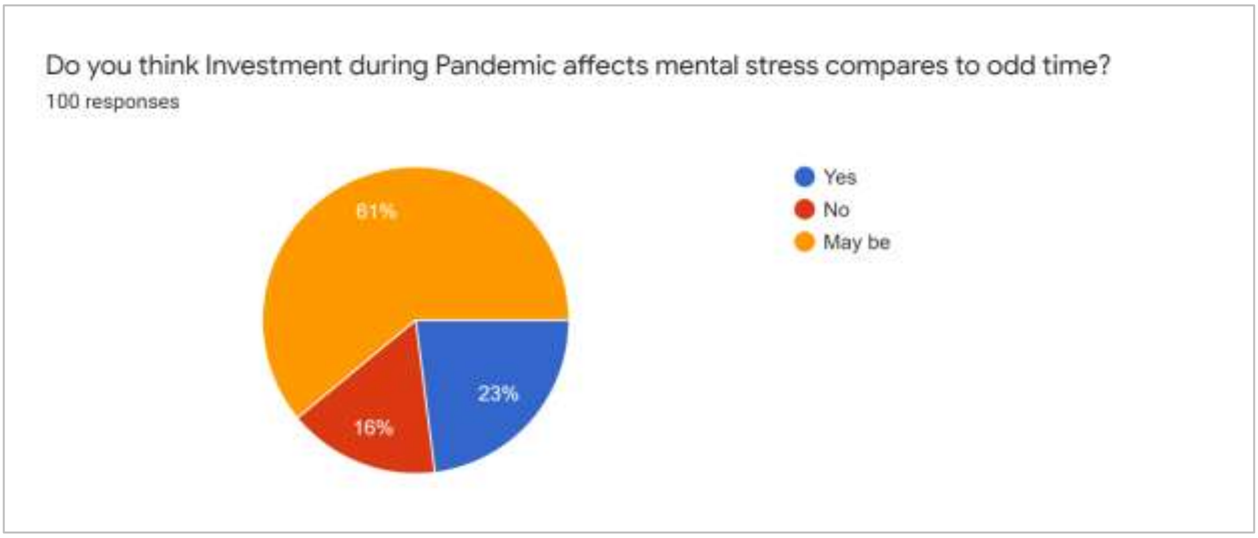
There can be various personal and professional reasons to invest money. It can range anywhere from making immediate profits to saving money for long term expenses. The options considered for this survey were wealth creation, tax saving, extra returns, future expenses, and others. The difference between factors and purpose of investment is the time during which each of these are considered. Factors are usually considered before and during investing and the purpose is considered keeping the maturity period and post investment return period in mind. 45% of respondents chose wealth creation to be their primary purpose of investing, 44% chose future expenses, 39% wanted to create extra profits or returns during the time of investment, 23% had other personal reasons and finally, 10% of people considered tax to be a major purpose for their investment

According to the data, majority of the entrepreneurs wanted to expand their wealth and most probably use them as an additional capital for the growth of their business. This is a great method of generating cash flow in their business if the sales and performance of the company is in a downward trend due to the pandemic. This purpose is closely followed by future expenses, which reflects the 'Indian Mentality' of saving up for the future in case anything goes wrong. Companies who are doing well might invest just to gain some extra returns for personal benefit.



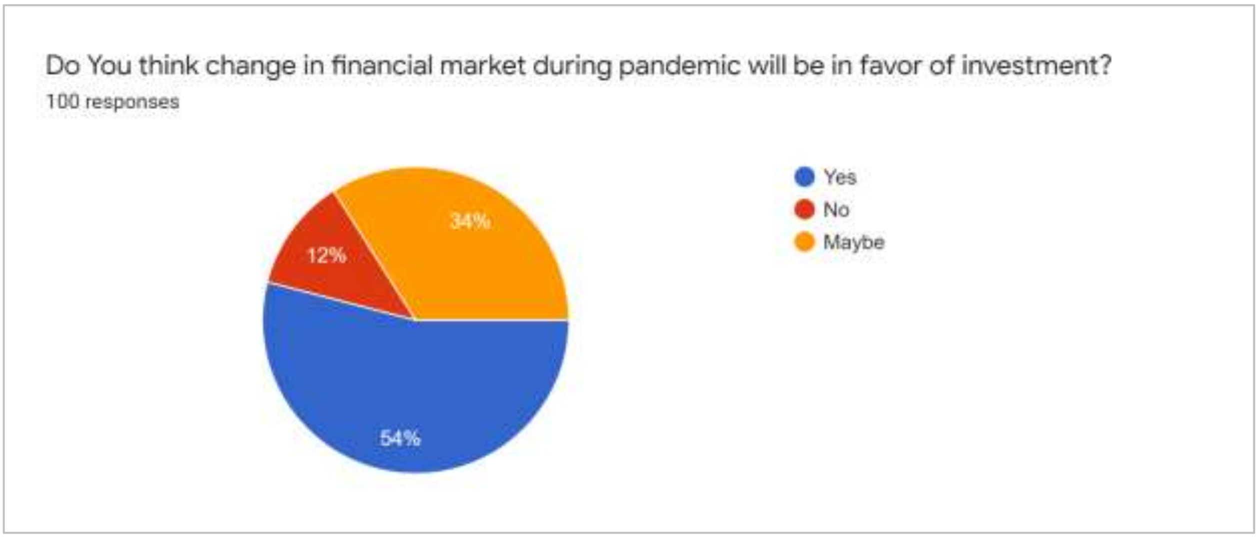
This question revolves around the individuals' insight on whether they think if the pandemic has impacted people's perspective on traditional investment methods. Usually, people like to take a gamble at trying to get the highest profit in the shortest amount of time. Now, people, especially entrepreneurs may reconsider how they position their investment portfolios to manage the volatility of the market during the pandemic. According to the results, 45% of the respondents agree that COVID-19 has changed the perspective of traditional investment methods. 35% share a neutral stance on the topic. 9% disagree and the remaining strongly agree that the investment methods are subject to change.

The fact that majority of the entrepreneurs agree with the statement means that they might have altered their own investment behavior according to current market conditions. Those who mentioned that they are 'neutral' may be oblivious to investing and have savings of their own. However, this is just a probability. It may also be that they do not have enough information to predict what is going to happen in the market in the short and long term. On that other hand, those who chose to strongly disagree with the statement may want to take advantage of the market and skim as much profit as they can before the economy falls into a deep recession. Overall, majority of the people seem to agree with the statement and are adapting to the scenario. However, this research question is subjective and is entirely dependent on the portfolio of each entrepreneur.



It is unusually common how much mental stress can occur because of investment losses. Many times, it goes unnoticed and is brushed under the carpets but this research gave an idea of how much stress entrepreneurs undergo when it comes to investment. Surprisingly, 61% of the respondents chose "maybe", 23%, said "yes" and the rest of the entrepreneurs mentioned "no".

If 61% of the entrepreneurs said "maybe", it could mean that investment is not the only cause of mental stress for them. There are various other factors which contributes to psychological disturbances and investments could only be one among them. Those who are neutral to the scenario may not be keen on investing in the industry until they receive quantitative clarity that they will gain profits from their investments. Hence, they may choose not to worry about it at this point in time. Those entrepreneurs who states “yes” to the question may have risky investments currently playing its cards and may be apprehensive about their principal amount being recovered soon. On the contrary, those who have said “no” may not be engaged in investing or they could have invested in securities which possess the lowest risk such as mutual funds, fixed deposits and/or savings accounts. Hence, investing would not affect them regardless of the pandemic situation



COVID-19 has rattled the investment sector like never before. It has greatly increased the fluctuations in the market due to a sudden increase and decline in share prices of different industries. Surprisingly 54% of the entrepreneurs think that the rapid changes in the financial market will be in favor of investments of various kinds. 34% have opted for a neutral stance by choosing “maybe” and 12% think that the changes in the financial market will be unfavorable in terms of investing in securities.

Contrary to popular opinion, entrepreneurs think that the current drastic changes that are taking place during the pandemic will turn out to be positive for the investment sector. This may be due to the fact that the government is introducing laws that can help various companies improve their business and by the end of this year, the economy is likely to begin its road to recovery. Those have had adopted a neutral stance may be unsure or indifferent to how the financial market is being affected by the economy. Finally, those who have mentioned “no” has followed the common norm that the financial market will not be in favor of investment, at least in the near future due to the huge risk of recession and volatility in the market.

5. CONCLUSION

The research may not have been quantitatively conclusive, but it has provided an in-depth insight into the various factors and pressure points that affect entrepreneurs when it comes to the investment industry. There are a plethora of reasons why an individual may choose to invest during the pandemic, but the underlying factors that contributed to the same were ‘safety of principal’ and ‘low risk’. This means that the purpose of investing relates to wealth creation and saving up for future expenses. Entrepreneurs would need to be more cautious while investing during the pandemic because the rapid change in the economy would stimulate change in investment methods by various experienced investors. Inevitably, entrepreneurs would follow the same strategy to protect and increase the value of their principal amount. However, psychological pressures such as mental stress cannot be ignored and can also have the ability to majorly influence how an entrepreneur invests in various types of securities.

In the near future, it is likely that the global economy will start to revive and recover by the laws and regulations introduced by the government and also the initiatives taken by the entrepreneurial sector as well. People may change the way that they invest by more carefully analyzing risk factors and ensuring a minimum level of profit before speculating with a large amount of money. In order to decrease the chances of the losses incurred during the pandemic, entrepreneurs could diversify their investments and also evaluate which industry would boom in the short and long run. Budding entrepreneurs could benefit from this research by using its qualitative data to make firm investment decisions. The scope for this research could be extended further by analyzing how various companies would react to this pandemic in the upcoming months.

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