IMPACT OF PSYCHOLOGICAL FACTORS ON FINANCIAL DECISIONS

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Abstract

Investment, unlike saving is the most significant contributor in the economic development of an economy. However, Indians is regarded as a country of savers. The attitude of Indian masses towards investments is negative, they prefer keeping money at home instead of investing it and earning a return. This poses a threat to the nation for it results in unequal distribution of wealth. The reasons for this phenomenon need to be dig out so that appropriate steps may be undertaken to ensure better utilization of available savings. Besides, finding out the causes, an analysis of psychological factors which affect the financial decisions among Indians would be a worthy step. This study is undertaken with that objective. The study used theory of Planned Behaviour propounded by Ajzen in 1991 to measure investment intentions. This theory includes three motivational antecedents of attitudes, subjective norms and perceived behavioural control as the predictors of intentions to perform a desired action. As, a general rule, the theory holds, the more favourable the attitude and subjective norm with respect to behaviour and the greater the perceived behavioural control, the stronger should be an individual's intention to perform the behaviour under consideration.

Keywords: Financial Decisions, Intentions, Investment, Theory of Planned Behaviour, Youth

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Introduction

The traditional microeconomic approach to financial decisions posits that a fully rational and well- informed individual will consume less than his income in times of high earnings, thus saving to support consumption when income falls. However, in recent times, a considerable number of research findings have spotted a few anomalies in these theories under the real world

situations. The effort of researchers to provide explanations to these anomalies has paved the way for a new field in finance, namely, Behavioural Finance. It is an emerging field that combines the understanding of behavioural and cognitive psychology with financial decision – making process. This emerging field of behavioural economics and its related discipline i.e. behavioural finance, provide theoretical framework for this study increasingly questioning the notion of absolute rationality. Rationality itself is bound by context and directed to personal and community ends. Behavioural finance studies the psychological and sociological factors that influence the financial decision making process of individuals, groups and entities. There is no one rational outcome for every financial decision. Ajzen and Fishbein (1980) formulated the theory of reasoned action (TRA). Theory of Reasoned Action suggests that a person's behaviour is determined by his/her intention to perform a specific behaviour in a particular situation and that this intention is, in turn, depends on his/her attitude toward the behaviour and his/her subjective norm. The best predictor of behaviour is intention. Intention is determined by three things: attitude towards the specific behaviour, subjective norms and perceived behavioural control. The theory of planned behaviour holds that only specific attitudes towards the behaviour in question can be expected to predict that behaviour. In addition to attitudes toward the behaviour, measuring people‘s subjective norms is also important. Subjective norms are people‘s beliefs about how people they care about will view the behaviour in question. To predict someone‘s intentions, knowing these beliefs can be as important as knowing the person‘s attitudes. Finally, perceived behavioural control influences intentions. Perceived behavioural control is how people perceive their ability to perform a given behaviour. These predictors lead to intention. As a general rule, the more favorable the attitude and the subjective norm, the greater the perceived control, the stronger would be the person‘s intention to perform the behaviour in question. By changing these three ‘predictors’, we can increase the chance that the person will intend to do a desired action and thus increase the chance of the person actually doing it. This study attempts to predict intentions to invest in Indian youth by applying the above stated three antecedents, as suggested by Theory of Planned Behaviour. Intention is the cognitive representation of a person's readiness to perform a given behaviour, and behaviour is immediately preceded by intention. The theory of planned behaviour posits that attitudes, subjective norms and perceived behavioural control are determinants of behavioural intention and actual behaviour. Intention is assumed to be a necessary condition for voluntary action, which may be triggered by perceived

opportunities. Thus, there is a strong association between intention and action (Ajzen, 1991). Thus, intentions to invest can be regarded as the best predictor of actual investment behaviour. Technically, the term 'investment' is defined as the sacrifice or commitment of the present resources in hope of future benefits. However, in the general context investment is by and large understood as a subjective phenomenon depending on the financial life cycle and financial need of the people. Besides buying stock market products, purchasing an insurance policy, starting a business unit, putting money in a bank deposit, provident fund or pension schemes, bonds/ debentures, mutual funds, equity shares, bullion, real estate, post office schemes, higher education, few people classify putting money in a closet as an investment. Within personal finance, money used to purchase share, put in a collective investment scheme or used to buy any asset where there is an element of capital risk is deemed an investment.

Research Questions

This study endeavors to find answers to the following research questions:

1. Do the Indian youth hold intention to take up investment in future?
2. Which of the antecedents/ psychological factors identified by Theory of Planned Behaviour is/are more significant in prediction of intentions to invest?

Objectives

The present investigation aims to achieve the following objectives:

1. To assess the investment intentions among Indian youth.
2. To ascertain the significant psychological predictor of intentions to invest.

Research Methodology

The present study used the dimensions of Ajzen's (1991) theory of planned behaviour (attitudes, subjective norms, and perceived behavioural control) as predictors of investments intentions.

Investment Intention: An individual's investment intention is defined as his motivation towards a given investment alternative that directs him to act in a specified way and is a function of the person's attitudes, subjective norms and perceived behavioural control Ajzen (1991). All variables were measured using a 5-point likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. The items were combined to form an average score. Higher scores on this scale represent higher intentions to invest.

Attitude: The operational definition of this component of intentions as proposed by Ajzen (1991) is the degree to which a person has a favourable or unfavorable evaluation of the intention in question.

Subjective Norms: Defined as the perceived social pressure to perform the behaviour from ones' referent group or peers, Ajzen (1991).

Perceived Behavioural Control: operationalised as the perceived ease of performing the behaviour and it is assumed to reflect past experience as well as anticipated obstacles on intentions.

Reliability Test Questionnaire

The item to total and inter item correlation matrix along with the reliability coefficient of Cronbach's alpha for investment intentions scale is presented in **Table 1** to **Table 3** adopting Carmine and Zeller (1979) approach.

Table 1: Correlation Matrix and Reliability Coefficient of Investment Intentions (I.I)

Item to Total correlation	Item Label	Inter-Item Correlation				Cronbach's Alpha
		I.I 1	I.I 2	I.I 3	I.I 4	
.546	I.I 1	1				.793
.527	I.I 2	.438	1			
.730	I.I 3	.643	.458	1		
.688	I.I 4	.540	.488	.591	1	

Note: I.I1 – I.I4=Investment Intentions. Source: Primary Survey conducted by the researcher

Table 2: Correlation Matrix and Reliability Coefficient of Subjective Norms (S.N)

Item to Total correlation	Item Label	Inter-Item Correlation			Cronbach's Alpha
		S.N 1	S.N 2	S.N 3	
.651	S.N 1	1			.765
.547	S.N 2	.495	1		
.591	S.N 3	.620	.531	1	

Note: S.N 1 –S.N 4= Subjective Norms. Source: Primary Survey conducted by the researcher

Table 3: Correlation Matrix and Reliability Coefficient of Attitude towards Behaviour (ATB)

Item to Total correlation	Item Label	Inter-Item Correlation					Cronbach's Alpha
		ATB 1	ATB 2	ATB 3	ATB 4	ATB 5	
.550	ATB 1	1					.697
.425	ATB 2	.472	1				
.592	ATB 3	.538	.494	1			
.550	ATB 4	.695	.447	.512	1		
.675	ATB 5	.440	.538	.498	.431	1	

Note: ATB 1 –ATB 5= Attitude towards Behaviour. Source: Primary Survey conducted by the researcher

Table 4: Correlation Matrix and Reliability Coefficient of Perceived Behavioural Control (PBC)

Item to Total correlation	Item Label	Inter-Item Correlation			Cronbach's Alpha
		PBC 1	PBC 2	PBC 3	
.510	PBC 1	1			.701
.542	PBC 2	.460	1		
.640	PBC 3	.559	.639	1	

Note: PBC 1 –PBC3= Perceived Behavioural Control. Source: Primary Survey conducted by the researcher

The scrutiny of **Table 1** to **Table 4** reporting the reliability coefficient and correlation matrix of the Investment Intention Scale depict Cronbach's Alpha of acceptable ranges (above .60) for all the dimensions including investment intentions, subjective norms, attitudes and perceived behavioural control. Also the correlation measures for all the statements are above .30 showing acceptable values. The Cronbach's Alpha for the overall scale is .846 showing excellent reliability (Field, 2009) as shown in **Table 5**.

Table 5: Reliability coefficients of overall Investment Intentions Scale

Dimensions	Items	Cronbach's Alpha
Attitudes towards Behaviour (ATB)	5	.697
Subjective Norms (S.N)	3	.765
Perceived Behavioural Control (PBC)	3	.701
Investment Intention (I.I)	4	.793
Overall Scale	15	.846

Source: Primary Survey conducted by the researcher

Descriptive Analysis of understudy Variables

The variable of investment intention, measured on 5 point likert scale using Ajzen (1991) Theory of Planned Behaviour Model, higher score on this scale represents higher intention to invest and vice versa. As reported in **Table 6,** Investment intentions shows a mean score = 3.661, S.D = .685 indicating that the intention of youth understudy to start investment in future falls nearer to high level of 4 on the given 5 – point scale. Attitudes towards Behaviour (ATB) shows highest mean = 3.804 with S.D = .602 implying that the youth hold approximately high positive attitude towards making an investment in future compared to other antecedents of intentions like perceived behavioural control (PBC) with mean = 3.744, S.D = .598, subjective norms (S.N)= 3.417, S.D= .697. Thus, it can be concluded that the understudy youth evaluating starting an investment positively (ATB = 3.804, S.D = .602) and also possess moderate to high intention of starting an investment be it investing in financial assets or starting a venture. They also are confident about dealing with various issues related to investment (PBC = 3.744, S.D = .598) with this belief that most people important to them would favor their decision of starting an investment in future (SN= 3.417, S.D = .697). Overall, the descriptive statistics convey that the youth understudy hold a moderate to high level of intention of starting an investment in future. .

Table 6: Descriptive Statistics

Variables	Mean	Standard Deviation
Investment Intentions	3.661	.685
Perceived Behavioural Control	3.744	.598

Subjective Norms	3.417	.697
Attitude towards Behaviour	3.804	.602

Source: Primary Survey conducted by the researcher

Structural Model for Investment Intentions

According to Ajzen (1991), an individual's intentions are influenced by three motivational factors, that is, Attitude towards Behaviour (ATB), Subjective Norms (SN) and Perceived Behavioural Control (PBC). Thus, to test this contention, the present study tries to examine the extent to which these antecedent variables can be used to predict investment intentions. However, before drawing any inference from the path analysis, the model was subjected to the fit indices examination. The model fit is scrutinized by using four indices, Normed Chi Square, GFI, CFI and RMSEA being most widely used indices in social sciences (Hair et al. 2010). The results of model fit analysis, as depicted in **Table 7,** reveal that the values of Normed $\chi 2$ =4.431, GFI = .958, CFI = .865, RMSEA = 0.049 show acceptable values. Thus, the results suggest that the model provides a good fit and thus it is suitable to proceed to further examination of the model results. The next step is to look at the estimates of path analysis about the predictor power of TPB in investment intentions. With estimates of each path (relationship), an interpretation can be made of each relationship represented in the model shown in **Figure 1**.Looking at the first three relationships that is the impact of ATB, PBC and SN on the investment intentions, we see that the standardized weight of regression (SWR) are .348, .231 and .227 with critical value (C.R) = 10.309, 6.794, 7.769 for ATB, PBC and SN respectively. Thus, it is concluded that one's own evaluation and attitude about investments is found to be the most significant predictor of intentions. Also the perceived ease of dealing with various issues related to investments is a significant factor so far as intentions to invest are concerned.

Table 7: Model Fit for Structural Model of Investment Intentions

Model fit Index used	**Acceptable Value**	**Source for (b)**	**Value obtained by the model**
[Normed] Chi – Square ($\chi 2$)	< 5.0		4.431 *

Goodness of Fit Index **(GFI)**	Closer to 1 preferably >. 90	Hu and Bentler (1998) and Hair et al. (2010)	.958
Comparative Fit Index **(CFI)**	Closer to 1 preferably >. 90		.865
Root Mean Square Error of Approximation **(RMSEA)**	< .08		.049

Source: Primary Survey conducted by researcher

**** Normed χ2 = Chi square / df (13.295/3)***

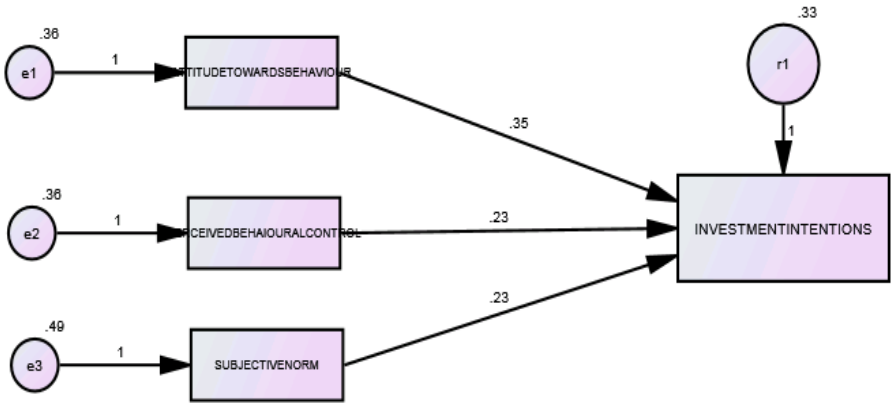

Figure 1: Structural Model for Investment Intentions

Conclusions:

The findings reveal that the youth demonstrate a high intention to invest while holding a high positive attitude towards it. The respondents show that the people important to them, who can impact the intentions or the actual action of a behaviour on their part including their family and friends would support their decisions about taking up investment that is subjective norms depict a score of 3.744 indicating a high support of the people of influence in a particular decision. Similarly, the perceived ease of performing certain behaviour, investment in the present case that is perceived behavioural control also show a mean of greater than moderate level (3.417). Thus, it is concluded that the youth being investigated depict a high intention to invest in future be it investing in shares, taking up investments in other financial assets or starting their own venture. The findings about assessment of Theory of Planned Behavior (TPB) model for investment intentions show that the model fits the data well. It was observed that attitudes, subjective norms

and perceived behavioural control are significant predictors of intentions to investment with attitudes towards behaviour, being the most important predictor. Thus, it is concluded that applying the TPB to explaining the investment intentions, it is found that attitudes, subjective norms and perceived behavioural control are significantly related to intentions to invest. Further, it is found that one's own attitude is the most influential factor of intentions to invest. Also it is found that the influence of friends and relatives and perception of easy access to resources, profitability and security have an important impact on the investment intentions among the potential investors. Thus, the study conclude that psychological factors viz, attitude, perceived behavioural control and subjective norm included in this investigation have a significant bearing on the financial decisions – investment intentions in the present case.

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