

IMPACT OF PSYCHOLOGICAL INFLUENCES ON INVESTMENT BEHAVIOUR OF SALARIED INVESTORS IN MAJOR CITIES OF TAMIL NADU

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Abstract

This research is an attempt to study the impact of various psychological influences on investment behaviour of salaried investors in India. As per classical economic theory and the economic man model, humans are completely rational decision makers who carefully evaluate all facts and evidences before taking decisions that aim at maximizing outcomes. For decades, investors' complete rationality was the main hypothesis of most of the research work in finance. The design for the research study is descriptive as it is conducted on the basis of some previous understanding of the research problem. The Cronbach's Alpha for the entire Investment Behavior scale and psychological BFI scale are more than 0.7. This shows that both the scales are highly reliable in this study. The results clearly states that respondents (salaried people investment behaviour) are having below average in risk taking capacity (i.e. before investing they are so precautious about where they invest and the type of company they invest and also the financial return policies).

Keywords: *Psychology, Salaried Investors & Investment Behaviour*

1.1. Introduction

This research is an attempt to study the impact of various psychological influences on investment behaviour of salaried investors in India. As per classical economic theory and the economic man model, humans are completely rational decision makers who carefully evaluate all facts and evidences before taking decisions that aim at maximizing outcomes. For decades, investors' complete rationality was the main hypothesis of most of the research work in finance. In fact, it was assumed that asset prices were entirely influenced by these rational investor's anticipations and reactions only, which consequently influenced demand and supply and thereafter, the price. Rationality refers to the comprehensive and objective treatment of all available as well as latent information to arrive at correct decisions that maximize the pay-off to the decision maker. As all humans were considered equally rational, there was only one correct or best solution to every problem, in black-and-white and there

was no question of any grey areas. This inherent simplicity of the rationality model enabled it to last for a very long time, supported by the then academic researchers in finance.

However, after many decades of supremacy, the rationality assumption was challenged by a new generation of practitioners and psychologists, after which the academic researcher's enthusiasm for this rationality hypothesis became much weaker. These changing perceptions lead to considerable experimental research being conducted to prove the irrationality of human beings. It was found through multiple experiments and studies, that in real life humans are not as rational and mechanistic as previously thought to be. It was also found that mostly normal humans, consciously or sub-consciously, consider various non-rational factors into consideration in their decision making than focusing on merely maximizing outcomes. Consequently, the presence of grey areas was also established as regard the best solution for each individual or situation. Researchers in finance therefore were forced to discard the full rationality hypothesis and to recognize the impact of the individual's unique characteristics on his decisions.

This research focuses on the investment related decisions of individual investors. In spite of a multitude of researches in the said field, the present state of knowledge about the investor behaviour is still at the embryonic stages and is further limited when applied to the purchase decision process of investors. The primary idealistic model of investment decision making considers only risk and return as the crucial variables affecting the investors purchase behaviour. Further, the model assumes investors to be rational. However, this is not the case and humans have been shown to be irrational at times (Shefrin, 2000). Literature in behavioral finance suggests that investor behaviour is predictably irrational (Ariley, 2008). Further, the literature also suggests that investor behavior is influenced by a variety of non-economic motives also (Nagy and Obenberger, 1994). Hence, this model of investment behavior has a limited applicability for the financial product marketers (Capon, Fitzsimons and Prince, 1996) and regulators. Therefore, a new model is required that considers traditional finance, behavioral finance as well as consumer behaviour to provide more insight into the purchase decision process of individual investors.

1.2. Importance of the Research

The above discussion leads to a promising conclusion that if these individuals can be classified into types according to their specific personality attributes, then it might become

possible to identify the best investment services that can be provided with regard to that particular type according to their unique requirements. In this research, the researcher has attempted to carry out such a classification of individuals, based on their unique attributes and thereafter tried to propose the best investment strategy and approach for each type such that their unique requirements are fulfilled.

1.3. Relevance of the Study

The study is relevant from both the academic as well as the practitioner's perspectives. With regard to the academic perspective, the study contributes to the existing body of knowledge, especially in the Indian perspective where, to the best of the researcher's knowledge and information, such an extensive study with regard to psychographic factors impact on investment behaviour has never been conducted. The study also provides a direction for further studies in this and related directions. From the practitioner's perspective, the study is even more relevant. The researcher proposes that based on an in-depth assessment of the psychographic and demographic traits / characteristics of the target customer, the financial service providers would be able to devise customized financial services and processes for them in order to generate optimum satisfaction. This thesis is relevant as it attempts to develop a framework for client profiling based on the client's demographics and psychographics, using a structured demographic and psychographic scale instrument. Such an instrument, when used by investment advisors for client profiling and delivering customized financial services, will bring scientific rigour to the currently unstructured investment advisory profession.

1.4. Scope of the Study

The scope of the study is vast. The population of the study covers the entire set of salaried individuals in the entire country, India. The researcher has consciously selected only salaried individuals for the study as the investment question is crucial particularly for the salaried middle-class people only. This is the unique group of individuals, who is forever short of resources, has deep-rooted self-created ethical and moral boundaries, has sky-high ambitions but is constrained by numerous feasibility issues, has tax problems, et al. Therefore, to construct a model for these puzzled individuals, the salaried class seemed to be the best scope for this study.

1.5. Originality of the Study

There is evidence of many related studies that have been conducted in various western countries, which have been amply referenced in the Review of Literature. The related studies are concerned with both the investment aspect as well as the psychological aspect of the current study. Also, there have been few investor typographical studies also in the developed countries. But, to the best of the researcher's knowledge and information, such a study has never been conducted in India. Therefore, the researcher can truthfully say that the study is completely original in every way.

1.6. Research Objectives

Based on the extensive review of available literature, the researcher has formulated the following research objectives:

- 1) To measure the psychological traits of the salaried investors in India using Big Five Personality Theory, defined by Extraversion, Agreeableness, Conscientiousness, Openness to Experience and Emotional Stability.
- 2) To study the behavior of individual investors with regard to the identified investment behavior constructs.

1.7. Review of Literature

Benzion Uri, Shahrabni Shosh, Shavit Tal and Weiss Romy (2012) used unique data to examine emotions and economic expectations of people who were exposed to a fire disaster in Israel. The study was conducted 4 months after the disaster and surveyed two sub-groups the harmed and the un-harmed individuals. The results indicate that the harmed' group has higher average levels of negative emotions like anger and fear and also that these harmed individuals have more negative on lower expectations of self-economic improvements as well as lower expectations from the entire economy and the stock market, etc. This leads to the conclusion that the economic perception and decision making of individuals would be influenced by their emotions, especially negative emotions; for instance individuals may purchase insurance against emotionally vivid events even if those events have a low probability of occurrence.

Pelger Ines (2011) analyses the investment activity of German small and medium scale enterprises for the period 2003 - 2009. The evidence indicates that the firms that are female owned are less likely to invest and if they do; their average investment rate is lower than their counterpart male owned firms. It is also observed that the sensitivity to cash flow for women-owned firms investment is low, which indicates that this lower investment rate is not driven by difficulty in acquiring external finance. Also, analysis of stated investment goals in these firms reveal that women-owners show a lesser extent of aspirational and growth-oriented targets like sales increase, innovation, research and development and new product implementation.

Andreu Laura and Puetz Alexander (2012) analyzed the investment behaviour of professional investors with regard to their professional education level. Particularly, the performance, risk and investment style of equity MF managers having both CFA and MBA qualifications is compared to those fund managers who have only one of these professional qualifications. The results indicate that although there is no difference in performance results, the managers who have both degrees show less extreme and more stable risk levels as well as investment styles.

1.8. Research Methodology

This study attempts to study the impact of psychological influences of investment behaviour of salaried investors in four major cities in Tamil Nadu. The design for the research study is descriptive as it is conducted on the basis of some previous understanding of the research problem. The Cronbach's Alpha for the entire Investment Behavior scale and psychological BFI scale are more than 0.7. This shows that both the scales are highly reliable in this study.

The population for the study constituted of all the salaried investors across four major cities in Tamil Nadu, i.e Chennai, Coimbatore, Madurai and Trichy respectively. In the absence of a state list of all salaried people, constituting the population of the study, the researcher had no option but to resort to Quota Sampling, such that each demographic category was considered in adequate proportions in each geographical zone.

1.9. Analysis and Interpretation

Table.1.1. Classification on the Basis of Geographical Zone

Labels	Frequency	Percent
Chennai	449	27.6
Coimbatore	380	23.4
Madurai	402	24.7
Trichy	396	24.3
Total	1627	100.0

The total sample was categorized on the basis of geographical zones into four segments. Out of 1627 respondents, 449 (27.6%) belonged to Chennai, 380 (23.4%) belonged to Coimbatore, 402 (24.7%) belonged to Madurai and 396 (24.3%) belonged to Trichy.

Table.1.2. Classification on the Basis of Extraversion

Labels	Frequency	Percent
Very Low	433	26.6
Low	282	17.3
Neutral	193	11.9
High	445	27.4
Very High	274	16.8
Total	1627	100.0

The first psychographic variable was Extraversion. Out of 1627 respondents, 433 (26.6%) scored Very Low on the scale, 282 (17.3%) scored Low on the scale, 193 (11.9%) were assessed Neutral, 445 (27.4%) scored High on the scale and 274 (16.8%) scored Very High on the scale.

Table.1.3. Classification on the Basis of Agreeableness

Labels	Frequency	Per cent
Very Low	425	26.1
Low	307	18.9
Neutral	184	11.3
High	166	10.2
Very High	545	33.5
Total	1627	100.0

The second psychographic variable was Agreeableness. Out of 1627 respondents, 425 (26.1%) scored Very Low on the scale, 307 (18.9%) scored Low on the scale, 184 (11.3%) were assessed Neutral, 166 (10.2%) scored High on the scale and 545 (33.5%) scored Very High on the scale.

Table.1.4. Classification on the Basis of Conscientiousness

Labels	Frequency	Percent
Very Low	373	22.9
Low	270	16.6
Neutral	210	12.9
High	146	9.0
Very High	628	38.6
Total	1627	100.0

The third psychographic variable was Conscientiousness. Out of 1627 respondents, 373 (22.9%) scored Very Low on the scale, 270 (16.6%) scored Low on the scale, 210 (12.9%) were assessed Neutral, 146 (9.0%) scored High on the scale and 628 (38.6%) scored Very High on the scale.

Table.1.5. Classification on the Basis of Openness to Experience

Labels	Frequency	Percent
Very Low	417	25.6
Low	289	17.8
Neutral	209	12.8
High	135	8.3
Very High	577	35.5
Total	1627	100.0

The fourth psychographic variable was Openness to Experience. Out of 1627 respondents, 417 (25.6%) scored Very Low on the scale, 289 (17.8%) scored Low on the scale, 209 (12.8%) were assessed Neutral, 135 (8.3%) scored High on the scale and 577 (35.5%) scored Very High on the scale.

Table.1.6. Classification on the Basis of Emotional Stability

Labels	Frequency	Percent
Very Low	206	12.7
Low	110	6.8
Neutral	237	14.6
High	821	50.5
Very High	253	15.6
Total	1627	100.0

The fifth psychographic variable was Emotional Stability. Out of 1627 respondents, 206 (12.7%) scored Very Low on the scale, 110 (6.8%) scored Low on the scale, 237 (14.6%) were assessed Neutral, 821 (50.5%) scored High on the scale and 253 (15.6%) scored Very High on a scale.

Table.1.7. Classification on the Basis of Risk Capacity

Labels	Frequency	Percent
Very Risk Averse	442	27.2
Risk Averse	479	29.4
Neutral	99	6.1
Risk Takers	178	10.9
Aggressive Risk Takers	429	26.4
Total	1627	100.0

The total sample was measured on dependent variable Risk Capacity, using 6 questions with regard to various aspects of risk taking behaviours, and thereby categorized into five Risk Capacity categories. Out of 1627 respondents, 442 (27.2%) scored as Very Risk Averse, 479 (29.4%) scored as Risk Averse, 99 (6.1%) were assessed Neutral, 178 (10.9%) scored as Risk Takers and 429 (26.4%) scored as Aggressive Risk Takers.

Classification on the Basis of Investment Strategy

Labels	Frequency	Percent
Very Passive	69	4.2
Passive	519	31.9
Neutral	266	16.3
Active	515	31.7
Very Active	258	15.9
Total	1627	100.0

The total sample was measured on dependent variable Investment Strategy, using 7 questions with regard to various aspects of investment strategy, and thereby categorized into five categories. Out of 1627 respondents, 69 (4.2%) scored as Very Unsystematic, 519 (31.9%) scored as Unsystematic, 266 (16.3%) were assessed Neutral, 515 (31.7%) scored as Systematic and 258 (15.9%) scored as Very Systematic.

Table.1.8. Classification on the Basis of Investment Attitude

Labels	Frequency	Percent
Very Negative	53	3.3
Negative	445	27.4
Neutral	184	11.3
Positive	724	44.5
Very Positive	221	13.6
Total	1627	100.0

The total sample was measured on dependent variable Investment Attitudes, using 8 questions with regard to various aspects of investment attitudes, and thereby classified into five categories. Out of 1627 respondents, 53 (3.3%) scored as Very Negative, 445 (27.4%) scored as Negative, 184 (11.3%) were assessed Neutral, 724 (44.5%) scored as Positive and 221 (13.6%) scored as Very Positive.

Table.1.9. Classification on the Basis of Investment Priorities

Labels	Frequency	Percent
Very Unfocused	28	1.7
Unfocused	80	4.9
Neutral	365	22.4
Focused	634	39.0
Very Focused	520	32.0
Total	1627	100.0

The total sample was measured on dependent variable Investment Priorities, using 7 questions with regard to various investment priorities, and thereby classified into five categories. Out of 1627 respondents, 28 (1.7%) scored as Very Unfocused, 80 (4.9%) scored as Unfocused, 365 (22.4%) were assessed Neutral, 634 (39.0%) scored as Focused and 520 (32.0%) scored as Very Focused.

Table.1.10. Descriptive Statistics – Personality & Investment Behaviour

Study Variable	N	Mean	Median	Mode	Sd
Extraversion	1627	2.90	3	4	1.476
Agreeableness	1627	3.06	3	5	1.635
Conscientiousness	1627	3.24	3	5	1.632
Openness to Experience	1627	3.10	3	5	1.642
Emotional Stability	1627	3.49	2	4	1.207
Risk Capacity	1627	2.80	2	2	1.583
Investment Strategy	1627	3.23	3	2	1.178
Investment Attitudes	1627	3.38	4	4	1.118
Investment Priorities	1627	3.95	4	4	0.945

The descriptive statistics of the study variables, independent as well as independent in nature, is elucidated in the table above. The results indicate that personality is a multidimensional construct, measured by five sub-constructs, called Extraversion, Agreeableness, Conscientiousness, Openness to Experience and Emotional Stability and that these are viewed as independent variables in the study. These variables have been measured on a five point Likert Scales and classified into five levels, 1 being Very Low and 5 being Very High.

The dependent variable is Investment Behaviour, which is measured using four separate independent sub-constructs, called Risk Capacity, Investment Strategy, Investment Attitudes and Investment Priorities. Risk Capacity is measured on a 5 point scale from very Risk Averse to Aggressive Risk Taker, while Investment Strategy is measured from Very Unsystematic to Very Systematic, also on a five point scale. The remaining two Investment Behaviour constructs, Investment Attitude and Investment Priorities are also measured on five point scales and categorized as Very Negative to Very Positive and Very Unfocused to Very Focused respectively.

A study of the independent psychographic variables shows that the medians of Extraversion, Agreeableness, Conscientiousness and Openness to Experience are equal at 3, which is the mid-point of the Likert Scale, used to measure them. However, the median of Emotional Stability is 2, which is lower than the scale mid-point. The inference that may be drawn from this data is that as a whole, the sample is average on these psychographic variables, neither too high, nor too low.

With regard to the dependent variables of the study, Risk Capacity has a median of 2, while Investment Strategy, Investment Attitude and Investment Priorities have medians of 3, 4 and 4 respectively. Based on this data, it can be inferred that the sample as a whole is somewhat below average in risk taking capacity, average as far as strategy is concerned and above average with regard to attitudes and priorities.

1.10. Conclusion

The results clearly states that respondents (salaried people investment behaviour) are having below average in risk taking capacity (i.e. before investing they are so precautions about where they invest and the type of company they invest and also the financial return policies). As elucidated through the above discourse, this research study carries a significant value for all parties in the financial and investment sector, including investment marketers, investment advisors as well as the investors themselves. The results of this study can even be used to develop a model of psychological testing for potential clients of investment advisory firms. Also, this research is a significant forward movement for the academicians studying and researching investment behaviour because a study of this kind has never been done in India before, to the best of the researcher's knowledge. The study also provides a direction for further research in the area of psychological influences on decision making with regard to finance and investments as well as other fields.

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