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A STUDY ON BEHAVIORAL FINANCE AND INVESTMENT DECISION MAKING AMONG EMPLOYEES

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ABSTRACT

With an increasing emphasis on personal finance management, understanding how individuals navigate investment choices becomes paramount. Through a mixed-methods approach combining surveys and interviews, this research aims to discern the behavioral biases, cognitive heuristics, and socio-economic factors shaping employee investment decisions. By exploring these dimensions, the study seeks to provide insights into the psychological mechanisms driving financial behaviors within the workplace context. Ultimately, the findings aim to inform employers, financial advisors, and policymakers about strategies to enhance financial literacy, mitigate irrational decision-making tendencies, and foster more informed investment practices among employees. The sample size for study comprised of 178 respondents. The sampling technique used was convenient sampling. The research is Descriptive in nature. The statistical tools used for analysis include One way Anova, Correlation and Regression analysis along with Cronbach Alpha Reliability Test.

KEYWORDS: personal finance management, employee investment decisions , financial advisors, financial literacy

INTRODUCTION

In the realm of financial decision-making, traditional economic models have long assumed that individuals are rational actors, making choices based on careful analysis of all available information. However, the field of behavioral finance challenges this assumption by exploring how psychological factors influence financial behaviors and decisions. Within the sphere of employment, where individuals often navigate complex financial landscapes such as retirement plans and investment options, understanding the interplay between behavioral tendencies and investment decision-making becomes increasingly crucial.

This study aims to delve into the fascinating intersection of behavioral finance and investment decisions among employees. By examining the behavioral biases, cognitive errors, and emotional influences that impact how individuals approach financial choices, we seek to shed light on the underlying mechanisms driving investment decision-making processes in workplace settings.

REVIEW OF LITERATURE

Agrawal, 2012 observes that behavioural prejudices have had and will continue to have an effect on investor judgement. Though it is impossible for an investor to fully eradicate them, it is critical to avoid particular behavioural prejudices in specific circumstances.

Mangee, 2017 The relevance of psychological factors for aggregate stock price volatility is examined using econometric evidence in this paper. To that end, the Net Psychology Index (NPI), based on Bloomberg data, has been developed as a novel measure of stock market sentiment.

Jay R. Ritter 2003 provides a reasonable overview of behavioural finance. According to the author, behavioural finance involves research that abandons the conventional assumptions of rational investors in efficient markets maximising expected utility.

The Wall Street Journal 2009 This is where behavioural finance enters the picture. The majority of investors are sensible and not crazy. Yet, according to behavioural finance, we're also average, with overflowing brains and emotions. As a consequence, we can be normal smart at times and normal dumb at other times.

Ngacha, S. W. 2019 There was a strong positive association between overconfidence and investment decision-making, according to the report.

Bikas et al. (2013) explained that Behavioral finance is focused on recognizing and describing the impact of psychological factors on financial investment activities, as well as recognising and describing the influence of emotional factors on significant shifts in financial markets.

Statman, M. 2014 explained that Behavioral finance goes beyond asset pricing, portfolios, and business performance to broaden the scope of finance. It explores managers' and investors' actions in both direct and indirect ways, using questionnaires, tests, and the field to evaluate wants, mistakes, expectations, and behaviour.

Shiller (2003) many financial models took origin from the Efficient Market Hypothesis Theory such as Intertemporal Capital Asset Pricing Model by Roberts Merton (1973) this was to help investors to curb risks by identifying portfolios in the market to hedge against the risk, Asset prices in an exchange economy by Robert lucas which helps to forecast elements between the rational asset prices and consumption.

RESEARCH METHODOLOGY

RESEARCH DESIGN

The research is descriptive in nature. This research identifies the behavioural finance factors affecting the preferences of the employees on investment options and describes the significance each factor have on the employee's investment options.

SOURCES OF DATA

The research uses both Primary and Secondary data.

Primary Data

Primary data has been collected from 176 respondents using questionnaire (survey method).

Secondary Data

Secondary data was collected from reviewing various literature related to behavioural finance and investment decision making.

SAMPLE SIZE & TECHNIQUE

The population size is indefinite as the number of people investing in different investment options is large in number. It is difficult to access the population. The sample size is 176. The respondents are from various locations spread across Chennai City. Sampling technique is the technique used to select the sample size. Convenient sampling technique is used for this research. Investors were taken according to the convenience of the research study. The respondents are from various locations spread across the country.

OBJECTIVES OF THE STUDY

- To classify the demographic profile of the respondents.
- To determine the relationship between investment decisions and behavioral bias
- To measure the impact of behavioral bias over investment decisions

HYPOTHESIS

- H_0 : Demographic factors do not exert influence over behavioral bias
- H_1 : Demographic factors do exert influence over behavioral bias
- H_{01} : There is no significant relation between investment decisions and behavioral bias
- H_{11} : There is significant relation between investment decisions and behavioral bias
- H_{02} : There is no significant impact of behavioral bias over investment decisions
- H_{12} : There is a significant impact of behavioral bias over investment decisions

DATA ANALYSIS & INTERPRETATION

DEMOGRAPHIC PROFILE

FACTOR	FREQUENCY	PERCENTAGE
AGE		
18-25	30	17
26-35	24	14
36-45	44	25
46-55	48	27
Above 55	30	17
GENDER		
Male	108	61%
Female	68	39%

EDUCATIONAL QUALIFICATION		
Under graduate	74	42%
Post Graduate	66	38%
Phd & Above	36	20%
SENIORITY LEVEL		
Employee below 5 years	23	13%
Employee below 10 years	51	29%
Employee below 15 years	65	37%
Employee above 15 years	37	21%
ANNUAL INCOME		
Below 2.5 lakh rupees	36	20%
2.5-5 lakh rupees	24	14%
5-7.5 lakh rupees	50	28%
7.5 – 10 lakh rupees	30	17%
Above 10 lakh rupees	36	21%

Inference:

Majority of the respondents are Male. Majority of the respondents are from the age group 46 to 55. Majority of the respondents are graduates. Majority of the respondents are employees below 10 years level. Majority of the respondents earn 7 to 10 lakh rupees in a year

ANOVA ANALYSIS BETWEEN DEMOGRAPHIC FACTORS AND BEHAVIORAL BIAS FACTORS

Anova for Gender and Behavioral Bias Factors

FACTORS	GENDER		F VALUE	P VALUE	Significance Level
	MALE (Mean)	FEMALE (Mean)			
Over Confidence	2.71	2.58	3.965	.001	Significant*
Loss Aversion	2.49	3.37	16.304	<0.01	Significant*
Anchoring	2.28	2.21	1.227	.270	Not Significant

**The level of significance is tested at 0.05

Table depicting Anova analysis for gender

Herding Behavior	2.37	2.38	5.310	.022	Significant*
Regret Aversion	6.71	6.84	.209	.648	Not Significant

Inference

From the table it is inferred that “education” as a demographic factor has an influent factor on all the behavioral bias factors except Regret aversion and anchoring . Hence reject H_0 . for all except regret aversion and anchoring.

Anova for Age and Behavioral Bias Factors

FACTORS	AGE				F VALUE	P VALUE	Significance Level
	18-25 (Mean)	26-35 (Mean)	36-45 (Mean)	45& above (Mean)			
Over confidence	2.36	2.74	2.72	2.81	4.103	.008	Significant*
Loss Aversion	2.14	2.23	2.19	2.75	3.435	.019	Significant*
Anchoring	2.25	2.51	2.57	2.88	4.146	<.001	Significant*
Herding Behaviour	2.75	2.18	2.56	2.56	2.608	.044	Significant*
Regret Aversion	6.69	6.71	6.64	6.94	4.292	0.006	Significant*

****The level of significance is tested at 0.05
Table depicting Anova analysis for Age**

Inference

From the table it is inferred that “age” as a demographic factor has an influent factor on all the behavioral bias factors. Hence reject H_0 . for all

Anova for Education and Behavioral Bias Factors

FACTORS	EDUCATIONAL QUALIFICATION			F VALUE	P VALUE	Significance Level
	Graduate (Mean)	Post Graduate (Mean)	Ph.d & Above (Mean)			
	Over confidence	2.25	2.36			

Loss Aversion	2.75	2.18	2.56	2.608	.003	Significant*
Anchoring	2.14	2.23	2.19	3.435	.019	Significant*
Herding Behavior	2.36	2.74	2.72	4.85	.009	Significant*
Regret Aversion	6.75	6.95	7.01	7.15	0.988	Not Significant

****The level of significance is tested at 0.05**
Table depicting Anova analysis for education

Inference

From the table it is inferred that “education” as a demographic factor has an influent factor on all the behavioral bias factors except Regret aversion . Hence reject H0 . for all except regret aversion .

Anova for Seniority and Behavioral Bias Factors

Factors	SENIORITY LEVEL				F VALUE	P VALUE	Significance
	Below 5 Years (Mean)	Below 10 years (Mean)	Below 15 years (Mean)	Above 15 years (Mean)			
Over Confidence	9.00	11.89	6.25	8.23	7.729	<.001	Significant*
Loss Aversion	8.92	12.195	8.00	17.69	7.615	<.001	Significant*
Anchoring	9.15	11.68	4.00	7.923	7.723	<.001	Significant*
Herding Behavior	8.85	12.16	9.00	8.39	6.748	<.001	Significant*
Regret Aversion	9.20	11.25	8.46	10.98	2.492	.044	Significant*

****The level of significance is tested at 0.05**

Table depicting Anova analysis for seniority

Inference

From the table it is inferred that “seniority” as a demographic factor has an influent factor on all the behavioral bias factors . Hence reject H0 . for all

Anova for Income and Behavioral Bias Factors

****The level of significance is tested at 0.05**

Table depicting Anova analysis for Income

FACTORS	ANNUAL INCOME					F VALUE	P VALUE	Significance
	Less than 2.5 Lpa (Mean)	2.5-5L p.a (Mean)	5-7.5 L p.a (Mean)	7.5-10 L p.a (Mean)	10 L & above (Mean)			
Over Confidence	2.45	2.19	2.65	2.79	2.45	5.404	.001	Significant*
Loss Aversion	2.82	2.25	2.32	2.70	2.43	6.132	.001	Significant*
Anchoring	2.73	2.69	2.45	2.79	2.57	3.699	.0144	Significant*
Herding Behavior	2.59	2.31	2.60	2.67	2.47	3.699	.004	Significant*
Regret Aversion	2.75	2.18	2.56	2.32	2.63	5.035	0.002	Significant*

Inference

From the table it is inferred that “income ” as a demographic factor has an influent factor on all the behavioral bias factors. Hence reject H_0 . for all .

CORRELATION ANALYSIS BETWEEN INVESTMENT DECISIONS AND BEHAVIORAL BIAS

H_0 : There is no relation between investment decisions and behavioral bias

H_1 : There is relation between investment decisions and behavioral bias

Table: Correlation Analysis between investment decisions and behavioural bias

	INVESTMENT DECISIONS
BEHAVIORAL BIAS	$r = 0.332^{**}$

****Correlation is significant at the 0.05 level.**

Interpretation:

The r value lies between -1 to +1. There is a positive relationship between investment decisions and behavioral bias

Hence Reject H_0

Inference

There is a positive relation between investment decisions and behavioural bias

REGRESSION ANALYSIS BETWEEN INVESTMENT DECISIONS AND BEHAVIORAL BIAS

H_0 : Behavioral bias do not impact investment decisions

H_1 : Behavioral bias do not impact investment decisions

Table Regression Analysis between investment decisions and behavioral bias

BEHAVIORAL BIAS	INVESTMENT DECISIONS					
	R	R Square	Adjusted R Square	F Value	P Value	Significance level
	0.332	0.110	0.106	24.595	0.001	Significant**

***Significant at 0.05 level**

Interpretation:

The p value is lesser than 0.05 therefore Reject H₀. Behavioral Bias factors impact investment preferences

Inference:

Behavioral bias Factors have an impact over the preference of Investment among employees

CRONBACH ALPHA RELIABILITY TEST BETWEEN RESPONDENTS OF THE SURVEY REGARDING IMPACT OF BEHAVIORAL BIAS & INVESTMENT DECISION MAKING

	Scale Mean if Item Deleted	Item -Total Statistics	Scale Variance if Item Deleted	Corrected Item - Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Qu1	24.20	45.029	47.352	.633	.588	.767
Qu2	23.93	47.352	46.638	.520	.651	.783
Qu3	24.07	46.638	47.114	.654	.899	.767
Qu4	23.40	47.114	51.257	.551	.823	.779
Qu5	23.60	51.257	50.695	.389	.573	.799
Qu6	24.47	50.695	45.210	.372	.693	.802
Qu7	24.07	45.210	56.457	.615	.777	.770
Qu8	24.20	56.457	45.210	.128	.791	.823
Qu9	24.07	45.210		.589	.610	.774

Table depicting cronbach alpha reliability test between respondents of the survey regarding impact of behavioral bias & investment decision making

Cronbach's Alpha	Cronbach's Alpha based on Standardized items	N of items
0.805	0.796	9

Interpretation :

Since the coefficient of Cronbach's alpha lies between 0.8 to 0.89 its reliability level is good i.e the survey and the internal consistency is closely related and is considered to be reliable.

CONCLUSION

In conclusion, this study sheds light on the intricate interplay between behavioral finance principles and investment decision-making among employees. Through an analysis of various behavioral biases and their impact on investment choices, it becomes evident that human psychology significantly influences financial outcomes. Recognizing these biases and understanding their implications is crucial for both employees and employers in fostering informed decision-making and promoting financial well-being. By integrating behavioral finance insights into financial education programs and investment strategies, organizations can empower employees to navigate the complexities of the financial markets more effectively, ultimately enhancing their financial security and resilience. This study underscores the importance of addressing behavioral factors in investment decision-making processes, thereby paving the way for more rational and successful investment outcomes.

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