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RESEARCH ARTICLE

STUDY OF FACTORS AFFECTING FINANCIAL DECISION MAKING OF YOUNG INVESTORS IN JAIPUR CITY.

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Abstract

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Financial environment has become more susceptible because of financial revolution and the increasing intricacy of financial markets. The need for making correct financial decisions at correct time is the requirement of the time today. This paper tried to identify the factors which impacted financial decision making of an individual. To determine the factors, the technique of factor analysis was applied. Six factors were identified which affect financial decision making of an individual. The extracted variables were tested using cronbac's alpha which signified construct validity of the factors affecting financial decision making.

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Introduction:-

Financial decision-making process is complex in nature and with the emergence and innovation of new financial products the complexity is increasing day by day. Financial decision making is important for populace from all age groups. The decision making process under risk and uncertainty creates considerable problems for individuals in the framework of a turmoil financial market. The factors and experiences that shape the individual financial decision-making process vary from person to person and develop over the life course. In today's scenario the need for individuals to be equipped with the skills and confidence to make sound financial decisions is arising from a young age because of a set of change in global, economic and social trends. The consequence of it is that individuals need to make more multifarious financial decisions and should presume greater responsibility for their personal finances. All across the boundaries a turnaround in government policies is perceptible. A risk shift pattern in bearing financial responsibility from the government side to the individual side is evident. With the rollback of retirement benefits from the government side and a trend of individual taking caring of all financial responsibility, the need for financial knowledge is increasing at a rapid stage.

Lack of knowledge and confidence with respect to financial aspects and money management impacts the ability of an individual to tap their financial potential. Individuals face the fear of being known as uninformed and uneducated if they ask questions concerning their finances. The need for financial knowledge has increased more with time on account of deregulation of financial markets and the quick availability of credit, the rapid growth in financial products and the Government's encouragement for its citizens to take more self-responsibility for their retirement. Day by day the burden of financial security is shifting upon individuals'. (Figure 1 Exhibit the Factors Contributing Towards Need for Financial Decision Making).

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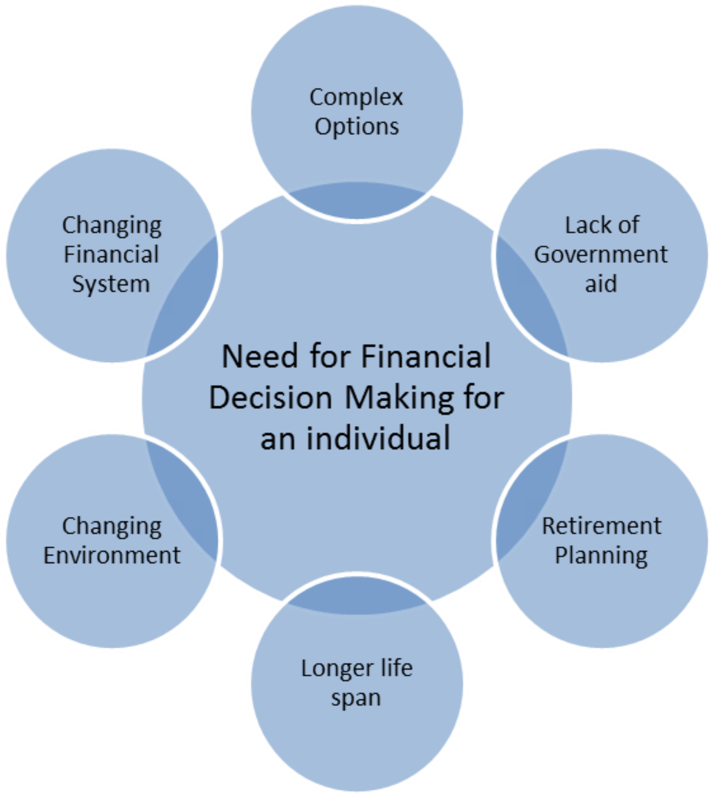

Figure 1:- Factors Contributing Towards Need for Financial Decision Making

Review of Literature:-

Elizabeth Johnson and Margaret S. Sherraden (2006) addressed theoretical and pedagogical approaches for financial capability. The paper proposed that with the help of financial knowledge and skills, financial capability could be increased.

Me LiezelKotze and Prof A.V.A. Smit (2008) founded that shortage of personal savings and lack of financial knowledge contributed in low incidence of new venture creation and caused high failure rate amongst South African entrepreneurs.

Martha Klatt (2009) talked about women's lack of knowledge and confidence with regard to money management and investment programs and how it impacted their ability to reach their financial potential. The paper examined the resources needed to provide women with financial information. Challenges faced by women were also reviewed and explored.

Werner F M De Bondit and Richard H Tholer (1995) talked about the psychology behind decision making and the need for it in behavioral finance. This paper discussed behavioral concepts and the relevance of these concepts in investment theory and corporate finance.

Denis J Hilton (2001) attempted to identify possible applications of experimental and organizational psychology to improve the efficiency of financial institutions. This paper suggested how knowledge can be used to improve efficiency in financial strategy, market and human resource management.

It is evident from past studies that more focus was given on the analysis and techniques used in financial decisions rather than on variables affecting financial matters of individuals.

Objective of the Study;-

To find out the major factors affecting financial decision making process of young investors in Jaipur city.

Research Methodology:-

Population Frame:-
The population of the study was young investors in the age bracket of 25- 35 years in Jaipur city.

Sample Size:-
Considering time constraint 200 questionnaire were distributed out of which 149 were received duly filled. These respondents were selected randomly.

Sample Unit:-
Sample of this study included young individuals managing their own business or involved in family business. Individuals working in private and government sector were also included.

Survey Instrument:-
A questionnaire was designed and respondents were asked to give their preference on 5- point Likert Scale (Strongly Disagree was coded as 1 and Strongly Agree as 5). Questions on money management and factors influencing financial decision making were covered.

Reliability Measure:-
Table 1:-Cronbach's Alpha for the variables of Reliability Statistics

Cronbach's Alpha	N of Items
.669	16

The cronbach's alpha for the 16 variables of factors influencing financial decision making as shown in Table 1 is 0 .669. Hence, this allows the researcher to perform factor analysis for these 16 variables of financial decision making.

Before proceeding further in factor analysis, the test of appropriateness of factor analysis was done. For this the following hypothesis was formulated:
Ho: The variables do not have any correlation in the population.
Ha: The variables have significant correlation in the population.
For this correlation matrix was constructed and the above hypothesis was tested using Kaiser-Meyer-Olkin (KMO) Statistics and Bartlet's Test of Sphericity.

The Kaiser-Meyer-Olkin (KMO) Measure for Sampling Adequacy was used to examine the appropriateness of factors analysis. As shown in Table 2, the KMO value for variables preferred by respondents as source of information is 0.723, which is nearer to 1.0. Hence, this value was acceptable and justified the suitability of factor analysis.

The Bartlett's test of sphericity is a statistical test for computing the existence of correlations among the variables. It is used to test the null hypothesis that whether the variables are uncorrelated in the population or not. This test provides the statistical significance that the correlation matrix has significant correlation among at least some of the variables. As, shown in Table 2, the Bartlett's test of sphericity value was less than 0.05 so alternative hypothesis was accepted.

Table 2:- KMO and Bartlett's Test.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.723
Bartlett's Test of Sphericity	Approx. Chi-Square	577.428
	Df	153
	Sig.	.000

Hence the null hypothesis that the variables were not correlated was rejected by both tests. Therefore factor analysis was appropriate technique for analyzing the correlation matrix.

Factor Analysis:-
Factor Analysis identified a set of measurements i.e. not easily detected in a large set of variables. The analysis summed up a greater part of the information available in the data set into the form of fewer new groups known as factors. This technique helped in simplifying the set of large data, which could be interrelated causing multi

collinearity, into small controllable number of factors (Refer Table 3), which were not inter related but still hold a good number of information available in the original data.

Table 3:- Total Variance Explained.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.345	20.906	20.906	3.345	20.906	20.906	2.221	13.883	13.883
2	2.036	12.723	33.629	2.036	12.723	33.629	2.203	13.771	27.654
3	1.388	8.675	42.305	1.388	8.675	42.305	1.777	11.105	38.759
4	1.315	8.218	50.523	1.315	8.218	50.523	1.554	9.711	48.471
5	1.181	7.384	57.907	1.181	7.384	57.907	1.375	8.592	57.063
6	1.087	6.796	64.703	1.087	6.796	64.703	1.222	7.640	64.703
7	.912	5.698	70.401						
8	.709	4.430	74.831						
9	.689	4.309	79.139						
10	.660	4.127	83.266						
11	.577	3.607	86.873						
12	.520	3.248	90.121						
13	.460	2.877	92.998						
14	.436	2.725	95.723						
15	.403	2.519	98.242						
16	.281	1.758	100.000						
Extraction Method: Principal Component Analysis.									

The principal factor analysis was used for analyzing the factors from 16 variables. On applying the principal factor analysis technique, communalities were calculated and based on Eigen Value Method and percentage of variance method the factors were determined. In this way from factor analysis six factors were extracted that explains a total variance of 64.703.

Rotated Component Matrix:-

Rotation of the factor recovers interpretation by reducing some of the obscurities that often accompany initial unrotated factor solutions. For the study purpose, the orthogonal factor rotation method was applied. Table 4 shows the Rotated Component Matrix. This method of factor rotation reduced the number of variables with higher loadings on a factor, thereby enhancing the interpretability of factors and had proved gainful as an analytical approach to obtain an orthogonal rotation.

Table 4:- Rotated Component Matrix.

	Component					
	1	2	3	4	5	6
More resources are needed	.771					
Interested in attending workshop	.741					
Workshops will be helpful	.694					
Financial literacy will improve quality of life	.602					
Resources available about money management		.767				
Read investment statements		.764				
Stay informed on financial planning		.755				
Good in managing financial matters			.840			

Confident in making investment decisions			.730			
Parents talked about financial matters			.516			
Aware about different investment avenues				.754		
Own knowledge of personal finance				.734		
Currently invest in any investment avenue					.737	
Parents handle all financial matters					.703	
Make budget for your expenses						.763
Dislike making investment decisions						-.533
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 12 iterations.						

From the rotated component matrix six factors were identified. The first factor identified was named as financial awareness, the second factor was named as willingness to acquire financial knowledge, financial background was identified as third factor, the fourth factor was named as financial confidence, and money management was identified as fifth factor and financial aspiration as sixth factor. The determinant factors were identified and named on the basis of previous studies. Table 5 shows composition of factors identified in Factor Analysis with their respective factor loading.

Table 5:- Composition of Each Factor Identified in Factor Analysis.

Factor	Items	Factor Loadings
Factor 1 Financial Awareness	More resources are needed	.771
	Interested in attending workshop	.741
	Workshops will be helpful	.694
	Financial literacy will improve quality of life	.602
Factor 2 Willingness to acquire Financial Knowledge	Resources available about money management	.767
	Read investment statements	.764
	Stay informed on financial planning	.755
Factor 3 Financial Background	Good in managing financial matters	.840
	Confident in making investment decisions	.730
	Parents talked about financial matters	.516
Factor 4 Financial Confidence	Aware about different investment avenues	.754
	Own knowledge of personal finance	.734
Factor 5 Money Management	Currently invest in any investment avenue	.737
	Parents handle all financial matters	.703
Factor 6 Financial Aspiration	Make budget for your expenses	.763
	Dislike making investment decisions	-.533

Table 6:- Testing of Reliability Statistics.

Factors	Cronbach's Alpha	Number of Items
Financial Awareness	0.686	04
Willingness to acquire Financial Knowledge	0.425	03
Financial Background	0.439	03
Financial Confidence	0567	02
Money Management	0.640	02

Financial Aspirations	0.530	02

Interpretation: Reliability statistics of scales for the study were tested by using Cronbach's Alpha and results were found acceptable. It's evident from the Table 6 that all the extracted factors using factor analysis were acceptable values of cronbach's alpha which signified construct validity of the factor affecting financial decision making.

Limitations of the Study:-

Responses of individuals residing in Jaipur city were only covered. The data used for analysis was on the basis of response given by respondents, so the possibility of biasness could be there. A large scale study including individuals from different part of the country may provide a more representative of the population.

Conclusion and Recommendation for Future Studies:-

From the results of the present study, it is evident that financial awareness plays the most important role in financial decision making among young investors followed by their willingness to acquire financial knowledge, financial background, financial confidence, money management habits and financial aspirations. The research would be useful to different stratum of the society. The research could be useful in designing financial product. It would also be useful to market regulators. The paper possibly could be useful in building a personal financial planning model that all professionals and families can use in maximizing personal financial decisions. It is hoped that this study could help other researchers and the community to expand the knowledge in the area of behavioral finance.

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