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THE IMPACT OF FINANCIAL LITERACY ON INVESTMENT DECISION-MAKING: A STUDY OF IT PROFESSIONALS IN BANGALORE CITY

Sohini Gupta[1], P.V. Raveendra[2]

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Abstract

The IT sector plays a crucial role in contributing to India's GDP, and the significance of savings and investments in accelerating economic growth and propelling India to greater achievements cannot be overstated. This research aims to comprehensively comprehend the saving and investment behavior of IT professionals, exploring various dimensions of their financial decisions. These dimensions encompass elements of investment planning, determinants of investment preferences, as well as the distinct mindset exhibited by IT professionals when making investment choices, with an emphasis on seeking secure and liquid investment avenues. It should be noted, however, that each individual's decision-making process may differ depending on their risk tolerance. Furthermore, the investment objectives of IT professionals vary, ranging from financial stability to generating additional income, among other motivations. The present study examines the investment behavior of IT investors through the application of a structured survey, with a specific focus on investigating the behavioral factors that influence investment decisions within the IT industry. The findings of the study exhibit that age, gender, and income significantly impact the investment preferences among IT professionals.

Keywords: *Financial Literacy, Investment Behavior, Investment Decision-Making, Investment Preferences, Investment Preferences.*

[1] Department of Management Studies, MS Ramaiah Institute of Technology, Bangalore, India.

[2] Department of Management Studies, MS Ramaiah Institute of Technology, Bangalore, India.

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1. Introduction

An investment is an acquired asset or item intended to generate income or credit. From an economic perspective, investments involve the purchase of goods that are not consumed immediately but rather utilized in the future to generate wealth. In the realm of finance, investments refer to financial assets purchased with the expectation that they will yield additional income or be sold at a higher price in the future, resulting in a profit (Sharma, 2012).

Investment represents a financial activity undertaken with the goal of achieving a return. It involves allocating funds that have been saved from current consumption, with the anticipation of accruing benefits in the future. In essence, investment can be regarded as the compensation for deferring the use of money. Consequently, the initial step towards investment is the act of saving (Singal & Manrai, 2018). Several key factors influence investment decisions, including safety, return on investment, capital growth, risk, liquidity, tax benefits, and convenience (Kumar & Goyal, 2015). Numerous investment options are available, each with its own trade-offs between risk and potential reward. These options encompass bank deposits, stocks, mutual funds, post office savings, insurance, gold, physical assets, among others (Arti et al., 2011). A comprehensive understanding of fundamental concepts and a thorough analysis of these options can assist investors in constructing a portfolio that maximizes returns while minimizing exposure to risk. Investment entails sacrificing current money or other resources in anticipation of future benefits, and it can be defined as the net addition to a nation's physical capital stock (Kandpal & Mehrotra, 2018). Given the current financial market scenario, there exist numerous avenues for investment.

2. Literature Review

Shaik et al. (2022) conducted a study examining the investment preferences of college teachers, specifically those belonging to the salaried class and employed in both government and private colleges. The findings of the study revealed that the primary concern for these individuals when making investment decisions was safety. This cautious investment behavior was attributed to a combination of limited financial literacy and a lack of awareness regarding the available grievance redressal mechanisms in case of investment-related issues. The study further observed that a significant portion of the surveyed college teachers tended to invest in assets such as gold, real estate, secured fixed deposits or recurring deposits in banks, and insurance products. These investment choices were likely influenced by their perception of these assets as relatively secure options. Gupta and Kaur (2014) conducted a study investigating the relationship between financial literacy (FL) and its association with financial instruments and financial behavior. The study findings suggest that while individuals possess adequate awareness about various financial instruments, their impact on financial behavior remains limited, particularly in the context of financial literacy. Pandey and Kathavarayan (2017) conducted a research study focusing on the savings and investment behavior of college faculty members in the Puducherry region. The study aimed to examine the preferences of investors regarding various investment options, including shares, debentures, mutual funds, bank deposits, and life insurance. The primary data for this study was collected through a survey conducted among 113 respondents from the Pondicherry region. The findings of the study revealed that several demographic factors such as age, gender, education, marital status, and income significantly influenced investment preferences. Additionally, the study highlighted a significant correlation between awareness of investment avenues and education level. The chi-square analysis further indicated that satisfaction levels with investments were associated with age, gender, monthly income, marital status, and education. These findings contribute to the understanding of the investment behavior of college faculty members in the specific context of the Puducherry region and provide valuable insights into the factors that shape their investment preferences and satisfaction levels.

Dhawan and Mehta (2019) conducted a study utilizing a microeconomic approach to examine the savings and investment patterns among school teachers in the city of Rajkot. The main objective of the study was to explore the relationship between savings and investment behaviors among school

teachers. The research encompassed both government and private school teachers. The findings of the study indicated that a significant proportion of the respondents displayed a preference for saving their money through bank deposits, primarily driven by a desire to secure their financial future in the face of uncertain circumstances. These savings were perceived as a safeguard against potential unforeseen events. Manek (2017) conducted a research study on the investment behavior of professionals residing in Rajkot City. The researcher emphasizes that investors aimed to achieve high returns while prioritizing safety. The study revealed that a significant proportion of individuals found mutual funds to be an appealing investment option due to their potential for high returns and greater liquidity. Consequently, mutual funds were seen as meeting investors' expectations. On the other hand, conservative investors who prioritized the safety of their investments were more likely to opt for fixed deposits as they provided a sense of security. Following were the hypothesis formulated after conducting literature review:

- H_0: There is no statistically significant difference between income levels of the respondents and the choice of investment avenues.
- H_1: There is no statistically significant difference between the age of the respondents and their income levels.

3. Problem Statement

In India, despite the existence of the mutual fund (MF) industry since 1964, notably with the establishment of UTI (Unit Trust of India), there has been a dearth of significant studies concerning investor behavior, specifically in the context of MFs, within Bangalore City. It is important to recognize that investors' "expectations" play a crucial role in financial markets, influencing the prices of securities, trading volume, and various other financial activities in practical terms. These expectations are shaped by investors' "perception," and it is a common human tendency to link perception with action. During the investment process, investors' emotional inclinations, deeply rooted thought patterns, psychological biases, and other factors can significantly impact their investment behavior.

4. Objectives

The objectives of this study are as follows:

- To examine the investment preferences of IT professionals.
- To investigate the diverse factors that influence investment decisions among IT professionals.
- To evaluate the level of satisfaction among IT professionals regarding the financial services provided by investment agencies.
- To propose suitable recommendations aimed at improving the investment behavior of IT professionals.

5. Scope of the Study

This research study focuses on investigating the investment behavior of IT professionals within the realm of investment. Previous attempts to analyze and understand the investment patterns within this specific group have been relatively limited. The study aims to address this research gap and provide a comprehensive conceptualization of investment behaviors among IT professionals. Additionally, the study examines the notable trend of proactive consumption, which indicates a preference for spending rather than investing among the targeted population. Moreover, it explores the impact of increased income flow on investment decisions within this context. It should be noted that the scope of the study is confined to IT professionals of Bangalore City and their investment behavior, with an emphasis on understanding the unique patterns and factors influencing their decision-making processes.

6. Research Method

In this research study, a descriptive and exploratory research design is employed to examine the preferences of investors regarding mutual fund investments. The utilization of exploratory research serves the purpose of establishing connections between ideas and comprehending their interrelationships (Mainardes et al., 2010). Simultaneously, the descriptive research design is employed to present a comprehensive depiction of the characteristics of mutual fund investors and their perceptions towards mutual funds (Nassaji, 2015). Through an extensive literature review, it becomes

apparent that numerous factors exert a positive influence on investment decisions pertaining to mutual fund schemes. To ensure a rigorous analysis of the collected responses from the target respondents, the study adopts a quantitative approach utilizing statistical analysis, while qualitative research aids in the compilation of empirical evidence derived from the study (Watson, 2015; Bloomfield & Fisher, 2019). The primary data for this study were collected through a Google form questionnaire administered to a sample of 200 respondents who were IT professionals employed in various companies within Bangalore city. In addition, secondary data were gathered from reports, books, journals, records, and various websites. The data obtained from the questionnaires were compiled and organized using MS Excel. Subsequently, the SPSS 20.0 software was utilized to analyze the data and obtain the desired results. Various statistical tools, including ANOVA, t-test, chi-square test, and correlation analysis, were employed to further examine the data and draw relevant conclusions.

7. Data Analysis and Discussion

Demographic Details

A total of 200 responses were gathered from mutual fund investors, and the demographic characteristics of the respondents are summarized in Table 1. The study results indicate a statistically significant difference between gender and the various factors influencing investment preferences among IT professionals. Table 1 presents the t-test results for testing the hypothesis. From a managerial perspective, it was observed that reduced interest rates, tax benefits, and considerations of safety and security were the primary factors that influenced the investment decisions of male respondents. This finding rejects the null hypothesis and supports the acceptance of the alternative hypothesis. Conversely, female respondents tended to prioritize different options that aligned with their specific needs, while also considering avenues that were less costly compared to oil-based alternatives.

Table 1: Demographic Details

	Gender	N	Mean	SD	T-Value	P-Value
Interest rates	Male	100	2.75	0.497	3.119	0.005
	Female	100	2.56	0.511		
Risk &Return	Male	100	2.76	0.478	1.209	0.231
	Female	100	2.72	0.489		
Regular Income	Male	100	2.87	0.357	6.05	0.001
	Female	100	2.64	0.511		
Safety & security	Male	100	2.31	0.509	1.619	0.103
	Female	100	2.37	0.549		
Tax benefits	Male	100	2.38	0.498	2.717	0.005
	Female	100	2.47	0.53		

Reliability Analysis

A high value of Cronbach's alpha exhibits good internal consistency of the items in the scale. Table 2 exhibits the Cronbach alpha value of 0.931 for all the items (20 items) included in the study, which was above the acceptable limit of 0.7 (Tavakol & Dennick, 2011). Hence, the data has good internal consistency and reliability for further analysis.

Table 2: Reliability Statistics Test

Reliability Statistics	
Cronbach's Alpha	N of Items
0.931	20

Analysis of Variance

The study carries out Analysis of Variance, a statistical technique widely employed in academic research to compare means across multiple groups or treatments, enabling the examination of significant differences or relationships between variables. (Sawyer, 2009). The ANOVA results, as presented in Table 3, investigated the variation in age groups and the factors influencing investment preferences among IT professionals. The findings revealed that respondents aged 31 years and above attributed greater significance to the various factors when making investment choices. Consequently, the null hypothesis is rejected, indicating that there is a significant difference in the importance assigned to different factors among different age groups.

Table 3: ANOVA Test

	Age	F Value	P-Value
Interest rates	21-30 years	2.549	0.071
	31-40 years		
	Above 40 years		
Risk &Return	21-30 years	4.271	0.019
	31-40 years		
	Above 40 years		
Regular Income	21-30 years	3.041	0.001
	31-40 years		
	Above 40 years		
Safety & security	21-30 years	4.127	0.01
	31-40 years		
	Above 40 years		
Tax benefits	21-30 years	2.013	0.145
	31-40 years		
	Above 40 years		

Multiple Regression Analysis

A multiple regression analysis was conducted to assess the influence of age, income, and gender on the investment decision of the respondents. Table 4

presents the correlation coefficient (R) and the coefficient of determination (R squared) values. The correlation coefficient (R) measures the strength and direction of the linear relationship between the independent variables (age, income, and gender) and the dependent variable (investment decision). In this analysis, the correlation coefficient is calculated as 0.617, indicating a strong positive correlation. The coefficient of determination (R squared) represents the proportion of the total variation in the investment decision that can be explained by the independent variables (age, income, and gender). In this case, the R squared value is computed as 0.559, indicating that approximately 55.9% of the variation in the investment decision can be explained by the combined effects of age, income, and gender. This indicates a substantial amount of explanatory power.

Table 4: Model Summary

Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	0.617	0.559	0.591	0.978

Table 5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	57.753	3	19.844	18.639	0.000
Residual	491.756	196	0.951		
Total	549.509	199			

The ANOVA table (Table 5) includes the F-ratio, which assesses the suitability of the overall regression model for the data. The results indicate that the independent variables are statistically significant predictors of the dependent variable. Specifically, the F (3, 196) value is 18.639, with a p-value of less than .05. These findings indicate that the regression model is indeed a good fit for the data, as the independent variables have a significant impact on predicting the dependent variable.

Table 6: Coefficients Summary

Model	Unstandardized Coefficients		Unstandardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	1.346	0.719		11.728	.000		
Age	0.431	0.322	0.391	5.618	.001	0.978	1.013
Gender	0.213	0.391	0.231	2.518	.007	0.991	1.005
Income	0.109	0.071	0.241	3.413	.001	0.962	1.019

Table 6 presents the results of a multiple linear regression analysis examining the relationship between the investment decisions of the respondents (dependent variable) and independent variables such as age, income, and gender. Regarding the presence of multi-collinearity, each independent variable in the analysis exhibits a tolerance value greater than 0.1 (Mason & Perreault Jr, 1991). Additionally, all variance inflation factor (VIF) values are below 10 (Miles, 2014). These findings suggest that there is a low level of correlation among the variables, indicating that multi-collinearity is not a significant concern in the analysis. The analysis indicated that the overall model was found to be statistically significant. It is evident from the analysis that age, gender, and income significantly impact the investment preferences among IT professionals. The model coefficients were used to construct the linear regression equation as follows:

$$Y = 1.346 + 0.431\ X_1 + 0.213\ X_2 + 0.109\ X_3$$

Where,

X_1 = Age
X_2 = Gender
X_3 = Income

Therefore, multiple regression statistics were run to predict Investment decisions from age, gender and income variables. All the independent variables were found to be significant.

8. Conclusion

The primary aim of this study is to examine the investment behavior of IT investors through the application of a structured survey, with a specific focus on investigating the behavioral factors that influence investment decisions within the IT industry specifically in Bangalore. In the realm of Information Technology (IT) employment, it is evident that the majority of IT employees exhibit a considerable level of awareness when it comes to exploring various investment alternatives, particularly in relation to bank deposits and government securities. They possess a comprehensive understanding of the risks associated with equity investments and mutual funds, resulting in a heightened risk perception for these financial instruments. Conversely, their risk perception tends to be relatively low when it comes to bank deposits and government securities. Furthermore, IT employees display a strong preference for equity and mutual funds due to their expectations of a high rate of return, while viewing insurance as a vehicle for relatively low returns. Among the respondents surveyed, there exists a noteworthy perspective regarding the positive impact of savings and investment on family income. They recognize that engaging in prudent savings and investment practices can contribute to augmenting their overall household earnings. Furthermore, savings and

investment are perceived as crucial tools to address unforeseen medical expenses. This acknowledgment highlights the importance placed by IT employees on building a financial safety net, as they recognize that savings and investment serve as effective means to mitigate the financial burden associated with unexpected medical costs.

The investment behavior of IT professionals' reveals that a significant portion of respondents have a relatively low level of savings. Bank deposits and insurance policies are the preferred investment options among these professionals. The primary objective of their investment is to secure returns and ensure future financial stability for their families. The economic scenario plays a crucial role in influencing their investment decisions. A considerable majority of respondents favor medium-term investments with moderate risk, which offer a balanced level of returns. While most respondents express satisfaction with their current investment returns, they also anticipate an increase in returns over time. Interestingly, family members and friends serve as the main sources of information for investment decisions. Therefore, it is crucial to provide financial literacy and guidance to professionals to encourage increased investment, ultimately contributing to the overall economic development.

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