

## The Impact of Choice Criteria on Investors' Financial Satisfaction: Examining the Mediating Effect of Financial Behaviour



Ronia Liza Mathew

Research Scholar, School of Management Studies, Cochin University of Science & Technology Kochi – 682022,  
Kerala, India

**ABSTRACT:** Financial satisfaction is the subjective measure of financial well-being, and it indicates the level of satisfaction perceived by the individuals with regard to various aspects of their financial situations and investment decisions. Financial behaviour is the fundamental component which enhances investors' financial satisfaction which is a subjective measure of financial well-being. Investors' choice criteria for selecting stocks determines investors' financial behaviour. This study examined the potential effects of investors' choice criteria on their financial behaviour. Simple Regression analysis was performed using SPSS for analysing the data collected from 200 individual investors. The statistical results indicated that choice criteria and financial behaviour positively influence investors' financial satisfaction. This study adds to the existing body of literature by providing insight into the influence of choice criteria on financial behaviour among investors in Indian equity market.

### INTRODUCTION

The rapid spread of financially complex products is increasingly requiring people to decide how much to save and where to invest and, during retirement, to take on responsibility for careful disbursement so as not to outlive their assets while meeting their needs (Chu et al., 2017). Investment decision making is an essential part in strategic decision making and the quality of investment decision making is affected by large number of factors. Those factors considered by a potential investor before making an investment decision, for evaluating various investment products and selecting an efficient asset mix for making an investment significantly influences a person's financial behaviour and their financial well-being. These choice criteria's influences the quality of investment decisions. Prior researches indicates that investors' financial behaviour was influenced by the criteria's they choose to select stocks to invest in. The financial literacy level contributes to investors financial behaviour which is an essential element required to examining various source of information. Investors objectives decides their choice criteria and based on the choice criteria, investors' financial investment behaviour varies from one person to other. Choice criteria refers all those factors considered by a potential investor before making an investment decision, for evaluating various investment products and selecting an efficient asset mix for making an investment. In other words all those criteria's influences the quality of investment decision can better be termed as choice criteria. All those criteria used by the investor to evaluate and select various investments available. The factors which have influence on investment decision making involves - Risk, Return, Source of information, safety, Liquidity, past performance etc. The behaviour of an individual, dealing with his/her financial affairs, which enhances financial capability as well as financial satisfaction that improves the overall financial wellbeing. Those financial activities includes-budgeting, saving, investment, expense management, balance control, credit management, debt management, compulsive buying etc. Financial satisfaction is satisfaction with one's present financial situation. In other words, it is the satisfaction with present standard of living, emergency savings, past investments and savings and general financial situation. It refers to the satisfaction attained by an investor by way of exhibiting an efficient financial behaviour. In other words, it is the satisfaction obtained by an investor from the outcome of their saving and investment decisions. The present study intended to examine the influence of investor's choice criteria on their financial behaviour.

### REVIEW OF LITERATURE

Financial satisfaction can be conceptualized as contentment with one's financial situation (Zimmerman, 1995; Arifin, 2018; Ali et al., 2015). Financial satisfaction can include individual assessments of debt, income, savings, and long-term goal achievement (Hira & Mugenda, 1999; Joo & Grable, 2004). Of the various domains of life satisfaction for an individual, financial satisfaction is certainly

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a very important one. Financial satisfaction is satisfaction with personal finance. Porter (1990) defined perceived attributes as "an individual's subjective evaluation of his/her own financial situation." This study observed financial satisfaction as satisfaction with income, level of living, net worth, general financial management, cash management, credit management, risk management, capital accumulation, and retirement/estate management for perceived indicators of financial well-being. Hira (1986) studied financial satisfaction level and the domains established for her study were satisfaction with money management practices, level of living, level of saving, ability to stay out of debt, ability to pay back money owed, level of assets, willingness to discuss money matters, and ability to meet large emergency expenses. Prior researches elaborates that financial well-being was heavily influenced by economic outcomes" (Zurlo, 2009; Sahi, 2013)

Financial stress levels, financial behaviours, financial risk tolerance and financial knowledge are found to be the predictors of financial satisfaction. It was determined that education, financial knowledge, financial risk tolerance, financial solvency, financial behaviours and financial stress level had a direct effect on financial satisfaction. Xiao et al. (2009) in their study found that "positive financial behaviours contribute to financial satisfaction and financial satisfaction in turn contributes to life satisfaction". From the perspective of a bottom-up model of subjective wellbeing (Diener, 1984), income is probably associated most highly with levels of satisfaction in the financial domain. The literature also suggests that financial behaviours can affect financial satisfaction (Godwin & Carroll, 1986; Mugenda et al., 1990). Hira & Mueller (1987) observed that satisfaction with money management practices, level of living, level of saving, ability to stay out of debt, ability to pay back money owed, level of assets, willingness to discuss money matters, and ability to meet large emergency expenses.

Financial behaviours were found to be significant factor to experience high level of financial satisfaction and financial well-being especially in the investment context Investors who practiced better behaviours tended to have higher levels of financial satisfaction. This finding supports an assertion made by O'Neill et al (2000) who indicated that if consumers receive education in the basic personal finance content areas they may be in a better position to manage their financial behaviours, resulting in improved financial satisfaction. Grable et al. (1998) and Roszkowski (1999) concluded independently that there appears to be a common psychological profile among risk tolerant individuals and those with more financial knowledge that allows them to make different financial decisions, which may ultimately lead to greater attained levels of financial satisfaction. Research also indicates that a relationship between financial satisfaction and financial knowledge may exist (Joo & Grable, 2004). Specifically, higher levels of financial knowledge and solvency, and the practice of better financial behaviours led to higher levels of financial satisfaction. The positive relationships between a person's solvency, financial behaviours, and financial satisfaction support previous research findings (Mugenda et al., 1990). The literature also suggests that financial behaviours can affect financial satisfaction (Godwin, 1994; Falahati et al., 2012; Godwin & Carroll, 1986; Joo, 1998; Mugenda et al., 1990). The major element noted in earlier researches, while making an investment decision is that the choice criteria applies in evaluating and choosing investment avenues. It refers to all those factors considered by a potential investor before making an investment decision, for evaluating various investment products and selecting an efficient asset mix for making an investment. The financial literacy level of investors influences their choosing criteria which influences financial behaviour and ultimately leads to financial satisfaction. Based on the above facts from the previous researches, it is evident that, there exists linkages among Investors choice criteria and financial behaviour

## OBJECTIVES OF THE STUDY

The objectives of present study are to examine the level of influence of choice criteria considered by the individual investors' to invest in financial products, on their financial satisfaction and to examine the mediating role of financial behaviour on the influence of independent variable choice criteria on the dependent variable namely financial satisfaction.

## Hypotheses

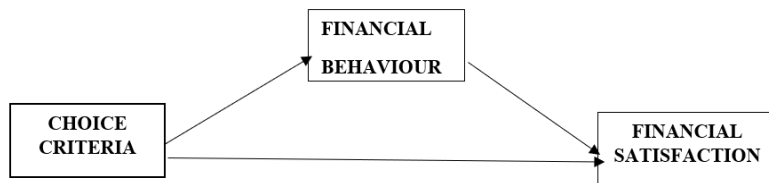
- There exists a positive relationship between choice criteria and financial satisfaction of individual investors'.
- Financial behaviour mediates the relationship between choice criteria and financial satisfaction.

## RESEARCH METHODOLOGY

The present study is explanatory in nature. In this study, the primary data required were collected using a structured questionnaire from a group of active stock market individual investors in the Indian stock market. The population of the study covers individual investors who have a minimum of two years of trading experience in the Indian stock market. Judgemental sampling, a non-probability method, was used to identify sample respondents for primary data. The number of participants who participated in this study was predetermined to be 200 in total.

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## CONCEPTUAL MODEL



## PROFILE OF RESPONDENTS

Out of the total respondents, 64 percent (128) are male and 36 percent (72) are female. Among the sample of 200 respondents, 34 percent are in the age group of 20-30, 30 percent are included in 30-40, 20 percent are included in 40-50, and the rest, 16 percent, are included in the age group of 50 years and above. In the selected sample, 46.7 percent of the respondents are post-graduates, 34.7 percent are graduates, 14 percent are professional, and only 4.6 percent of the respondents are SSLC/HSC. Majority (48.7 percent) of the sample respondents have income level under the less than Rs. 25,000, 36.7 percent having an income in a range of Rs. 25,000-50,000, 8.7 percent of the respondents belong to the Rs. 50,000-75,000 income group, 3.3 percent of the respondents having an income level of Rs. 75,000-1, 00,000, and only 2.6 percent of the respondents having an income of more than Rs.1, 00,000.

## DATA ANALYSIS RESULTS AND DISCUSSION

The reliability of the scale used in the study was verified by computing Cronbach's alpha ( $\alpha$ ) value for each of the four variables. The computed values of Cronbach's alpha for the constructs used in the study namely choice criteria (19 items) 0.743; financial behaviour (23 items) 0.851; and financial satisfaction (3 items) 0.835.

### Relationship Between Choice Criteria and Financial Satisfaction

Hypothesis formulated based on the first objective of the study proposes a positive relationship between choice criteria and financial satisfaction. To test the hypothesis  $H_1$ , correlation analysis was done using SPSS 21. The results of the analysis show that there is a positive relationship between choice criteria and financial satisfaction ( $r = 0.477, p < 0.05$ ). The descriptive statistics and correlation value of choice criteria and financial satisfaction are presented in the following table:

**Table 1. Descriptive statistics of choice criteria and financial satisfaction**

Variable	Mean	Standard deviation
Choice criteria	3.796	0.4535
Financial satisfaction	3.678	0.8429

The table 4.20 shows the mean scores given by the respondents for choice criteria and financial satisfaction out of the maximum score of 5. The results shows that choice criteria have a mean score of 3.796 and standard deviation of 0.4535 and financial satisfaction have a mean score of 3.678 and a standard deviation of 0.8429, which can be considered as fair. It indicates that in the present study sample respondents possess a moderate level of financial satisfaction and choice criteria selection.

The results of the correlation between choice criteria and financial satisfaction are presented in the following table.

**Table 2. Correlation between choice criteria and financial satisfaction**

Choice criteria	Financial satisfaction	
	Pearson Correlation	0.477**
	Sig.	.000
	N	150

**\*\* Correlation is significant at the 0.01 level**

From table 1, it can be inferred that the choice criteria and financial satisfaction are positively correlated with each other (0.447\*\*). It indicates the extent to which two variables are linearly related. The probability value associated with the correlation is less than 0.01. The above analysis indicated the positive relationship between the choice criteria and financial satisfaction. Hence, the hypothesis

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(H2), there exists a positive relation between choice criteria and financial satisfaction of individual investors' is accepted.

### Testing the mediating role of financial behaviour on the relationship between choice criteria and financial satisfaction

To test the mediating effect of financial behaviour in the relationship between choice criteria and financial satisfaction, on the basis of Baron and Kenny approach four steps that must be taken to establish that a mediated relationship exists. Here in this case,

- Step 1: Choice criteria significantly predicts financial satisfaction
- Step 2: Choice criteria significantly predicts financial behaviour
- Step 3: Financial behaviour significantly predicts financial satisfaction, when controlling for choice criteria

To find out whether choice criteria significantly predicts financial satisfaction a simple regression was done. Financial satisfaction was regressed on choice criteria. The results also shows that choice criteria is positively and significantly predicted financial satisfaction ( $\beta = 0.477$ ,  $P < 0.05$ ). The regression results are presented in the table – 3.

**Table 3. Simple regression analysis results for choice criteria with financial satisfaction**

Variables	B	Beta value	Sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	Durbin Watson
Choice criteria	0.886	0.477	0.000	0.227	0.222	2.002

**Dependent variable:** Financial satisfaction

From the table 2, it is seen out that, since,  $p < 0.01$ , this model is significant and the R<sup>2</sup> value of 0.227, shows that model has accounted for 22.7% of the variance in the financial satisfaction. The beta regression coefficient ( $\beta = 0.477$ ) assess the strength of the relationship between choice criteria and financial satisfaction

To find out whether choice criteria significantly predicts financial behaviour a simple regression was done. Financial behaviour was regressed on choice criteria. The results also shows that choice criteria is positively and significantly predicted financial behaviour ( $\beta = 0.663$ ,  $P < 0.05$ ). The regression results are presented in the table 4:

**Table 4. Simple regression analysis results for choice criteria with financial behaviour**

Variables	B	Beta value	Sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	Durbin Watson
choice criteria	0.740	0.663	.000	0.439	0.435	1.989

**Dependent variable:** Financial behaviour

From the table 3 it is clear that, the regression effect is statistically significant ( $P < 0.05$ ). Furthermore, the model has accounted for 43.5 percent of the variance in the financial behaviour. The closer to 2 that the value is, the better, and for this model the value is 1.989 which is so close to 2 that the assumption has almost certainly met. The results implied that the choice criteria significantly contributes to financial behaviour.

Next, to find out whether financial behaviour significantly predicts financial satisfaction, when controlling for choice criteria a multiple regression was carried out using choice criteria and financial behaviour as predictors and financial satisfaction as outcome. The results of the analysis is presented in the following table:

**Table 5. Multiple regression analysis results for choice criteria and financial behaviour with financial satisfaction**

Variables	Beta value	Sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	Collinearity Statistics		Durbin Watson
					Tolerance	VIF	
Choice criteria	0.423	0.000	0.328	0.318	0.561	1.783	1.911
Financial behaviour	0.197	0.031			0.561	1.783	

**Dependent variable:** Financial satisfaction

The table 4 reports the results of multiple regression analysis, which point out that the weighted combination of the choice criteria and financial behaviour explained approximately 31.8 percent of the variance of financial satisfaction. So, from the above results it is inferred that financial behaviour have a partial mediation role in the relationship between choice criteria and financial

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satisfaction. The summary of the above results proving mediation role of financial behaviour on the relationship between choice criteria and financial satisfaction is clearly understand with the help of the table 6.

**Table 6. Mediating effect of financial behaviour between choice criteria and financial satisfaction**

DV	IV → M	M → DV	IV → DV	IV → DV Mediator controlled
Financial satisfaction	$\beta = 0.663^{**}$	$\beta = 0.921^{**}$	$\beta = 0.477^{**}$	$\beta = 0.423^{**}$
			$R^2 = 0.227$	$R^2 = 0.318$

**\*\* P < 0.05**

DV - Dependent variable (Financial satisfaction)

IV - Independent variable (Choice criteria)

M - Mediating variable (Financial behaviour)

From the above Table 5 it is seen out that all the conditions for testing the mediation are satisfied here. Financial satisfaction was regressed on choice criteria and financial behaviour. Choice criteria ( $\beta = 0.4677$ ,  $p < 0.05$ ) and financial behaviour ( $\beta = 0.663$ ,  $p < 0.05$ ) was found to be a significant predictor of financial satisfaction. It can be observed that the strength of the relationship between choice criteria and financial satisfaction was reduced from  $\beta = 0.477$  to  $0.423$ , when controlled for financial behaviour. Also  $R^2$  value increased from  $0.227$  to  $0.318$  i.e. the weighted combination of choice criteria and financial behaviour explained more variance of financial satisfaction. Therefore we can conclude that financial behaviour partially mediated the relationship between choice criteria and financial satisfaction. From the results it can be inferred that investors criteria for choosing stocks significantly impacts their financial satisfaction through the positive financial behaviour which reflects as their saving and investment behaviour. Investors have financial satisfaction from their investment only when they set the stock selection criteria's in the best way and manage their saving and investments efficiently.

### CONCLUSION

The advancement of an economy is based on the savings and proper allocation of capital for the developmental activities of the country. The reduction of disposable income or increase in per-capita income significantly contribute to savings. This leads to the increase in the allocation of funds to various investment avenues. The investors' preference to stock investments are based on the saving and investment behaviour which derives from the choice criteria's, they prefer to choose stocks. These preferences vary from person to person based on their investment objectives and personality traits. Thus, the present study implied that human behaviour that is pertinent to financial and investment decision-making and money management are based on the attitude towards various choice criteria's such as risk, return, source of information, safety, performance of stock.

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