Research Article

A STUDY ON THE IMPACT OF SAVINGS MOTIVE ON INVESTMENT DECISIONS

Dr. C. Kanagaraj

Professor, Happy Valley Business School, Coimbatore
E-mail: *kenny.hvbs@gmail.com*

Abstract

Domestic savings and investment are the two sides of a coin in supporting the economic growth of a nation. Many factors influence savings behaviour of an individual. One such influencing factor is an individual's financial goal. Many people in spite of realising the importance of setting financial goals and objectives in life remain in a knowledge gap that hinders them from effectively managing their financial affairs. Many research studies has proved that financial literacy is influenced by the financial goals set up by the individuals, the study has attempted to find the impact of savings motive on investment decisions by using multiple regression. The study has found six investment decision factors which is influenced by savings motive and the research findings were used to give suggestions for the individuals, regulatory authorities and financial service providers.

Introduction

Investment behaviour is related to the activities of individual investors regarding searching, evaluating, selecting and reviewing the investment products, if necessary disposing such investment products and acquiring other investment products. A study of investment behaviour reveals how the individual investors allocate their savings to various available instruments. This process includes, why they invest, where they invest, how they get required information, what factors they use and who influences them and how they act after investment decisions are taken.

Financially literate people are more likely to perform their functions in a functional system better. Research studies of Lusardi, Mitchell (2007) indicate that financially literate people are more likely to plan for a better financial future and that such planning indirectly impacts household's savings behaviour. Clark and Madeline (2008) show that financial knowledge and savings programs are effective in overcoming the decrease in savings.

Financial literature is replete with evidence of financial literacy being a predictor of saving both at the level of an individual and a country. Studies by Jappelli and Padula (2011), observe that countries with higher levels of financial literacy witness an increase of 3.6% in national savings. Research by Lusardi and Mitchell 2009, Alessie et al.2008 provide empirical evidence to support the fact that low levels of financial literacy translate into lack of proper retirement planning. Lack of numeracy skills impedes financial security (Banks and Oldfield, 2007). Planning costs are also found to increase with low levels of financial literacy (Alessie et. al., 2008). Lusardi and Mitchell, 2008, Willis 2009, Delevande et al., 2008 opine that financial literacy is a useful instrument in predicting the savings – investment behaviour of individuals.

Studies by Rooij et. al., (2009), Calvet et. al., (2009) and De Bondt, 2008 provide evidence linking financial literacy to wealth creation and financial construction. The OECD (2005) survey that examined financial literacy levels of 12 countries in the world supported the notion financial literacy leads to financial discipline. While most of the studies are conducted in the context of countries like U.K, USA, EU, Japan and Australia, few studies are conducted in the context of developing economies. Also the relationships between financial literacy and investment decisions have not thoroughly researched. There are research studies which attempts to study how financial literacy influences investment decisions. The present research attempts to examine the impact of savings motive on investment decisions. The following points present the definition of the variables measures in the study:

1. Savings motive:

Warneryed (1999) said that, "from a psychology point of view, saving is considered as the result of a deliberate decision making process and to save as the act of regularly keeping away some resources for a goal." Keynes (1936) eight different savings motives:

a) Precautionary motive
It implies building up a reserve against unforeseen contingencies.
b) Foresight motive
It includes providing for anticipated future differences between income and expenditure.
c) Calculation motive
It refers to the wish to earn interest
d) Improvement motive
It means to enjoy a gradually improving standard of living over tim
e) Independence motive
It refers to the need to feel independent and to have the power to do things.
f) Enterprise motive
It means having the freedom to invest money if and when it is favorable.
g) Pride motive
It concerns about leaving money to heirs
h) Avarice motive
It means pure miserliness.

2. Investment decisions:

Decision making can be defined as the process of choosing a particular alternative for a number of alternatives. It is an activity that follows after proper evaluation of all alternatives. Determination of where, when and how much money to spend and / or debt to acquire of making a profit.

Research Objective and the Framework:

Relationship between savings motive and investment decisions

Only few research studies in India has been conducted to find the influencing factors of financial literacy other than socio-demographic variables. Yash Pal Davar (2007) investigated the dimensions of the investment decisions made by households. The researcher has found that familiarities of financial products, satisfaction opinion are the factors which influence them in investment decisions.

Kasilingam and Jayabal (2009) are the researchers who found that there exists a relationship between savings motive and investment behaviour. They found two factors of savings motive namely, self support motive and family oriented motive (2009). The researchers have applied cluster analysis in segmenting the investors into rational, normal and irrational based on the respondent's savings motive and investment patterns. The following are the results of segmentation:

- Rational Investors are the individuals who consider criteria before making any investment
- Normal are the persons who expect risk protection for the capital invested
- Irrational persons will not consider any criteria for investment.

Bindhu (2013) finds that there exist an extensive differences between the savings/ investment practices of households and their satisfaction levels and concludes that Indians savings motive is different as compare to global standards, they prefer to invest/save for social obligation like self-marriage, repayment of debt. The author has given five life cycle stages of an individual and found that it will influence the financial literacy of respondents. The five cycle stages are:

Table 1: The Stages in the Family Lifecycle

Stage	Family Life cycle
1	Single but live either with parents or alone
2	Couples with (or) without children
3	Couples having adult children
4	Children are earning members (or) are just married
5	Old couples living separately, children have become independent

Source: Bindhu P.K 2013

Harsha Vijaykumar (2015) has examined the level of financial literacy and its impact on investment decisions of investors. The study concluded that there exists a lower financial literacy level among the investors. Using logistic regression, the researcher has found that the socio-demographic variable play an important role in the financial literacy levels and it has been proved statistically that financial literacy impacts investment decisions.

From the review of the literature, it is evidenced that the financial literacy levels possessed by the individuals is low. Several studies have recognised an association between financial literacy and demographic variables of an individual. There are studies which have proved that saving and investment behaviour are affected by financial literacy. From the above review of the literature, it has been found there is a research gap where the three components namely financial literacy, savings motive and investment decisions can be explored and analysed to find the relationship among them. In this context, the researcher has proceeded to explore the relationship between the components of financial literacy namely,

financial knowledge, financial attitude and financial behaviour and its impact on investment decisions. The study also attempted to examine the relationship between financial literacy and savings motive. Finally, this study has attempted to prove that demographic, socio-economic variables influence the financial literacy and investment decisions.

Based on the literature review, it is found that there are numerous studies on this area of financial literacy. But in developing countries like India, the studies are limited in number. All the studies have evidenced that the financial literacy level is found to be low among various segments of people and in turn affect the financial behaviour of the people. As this chapter gives an overall picture of financial literacy around the world and in India, the researcher has found a research gap and framed definite objectives for the study. The researcher has attempted to prove the relationship between financial literacy and investment decisions of employees in the IT/ITes and Banking sector. From the review of literature, the below table presents the research objective and the hypothesis framed for the study:

Table 2: Research Objectives and Hypothesis Statement

| Research Objective	Hypothesis Statement
To analyze the impact of savings motive on investment decisions of the respondents.	H1: Savings motive factors are not good predictors of perceived self imagery. H2: Savings motive factors are not good predictors of self ego. H3: Savings motive factors are not good predictors of the allegiance. H4: Savings motive factors are not good predictors of the financial inadequacy. H6: Savings motive factors are not good predictors of the risk aversion. H7: Savings motive factors are not good predictors of the prudence.

Sample for the Research:

Information technology industry has led to the economic transformation of the country and altered the perception of India in the global economy. It has accounted approximately 67% of the US$ 124-130 billion. It employs about 10 million workforces. India is gaining a reputation in terms of intellectual capital

with several global IT firms by setting up their innovation centres in the home country. IT services, Business Process Management (BPM), software products and engineering services, and hardware are the four major segments of Indian IT/ITes industry. This has also created a considerable requirement in the Indian education sector, especially for engineering and computer science.

The IT-BPM sector which is currently valued at US$ 143 billion is likely to grow at a Compound Annual Growth Rate (CAGR) of 8.3 percent year-on-year to US$ 143 billion. The sector has contributed 9.5 percent of India's Gross Domestic Product (GDP) and more than 45 percent in total services export. The below figure shows the growth rate of IT industry based on the three segments.
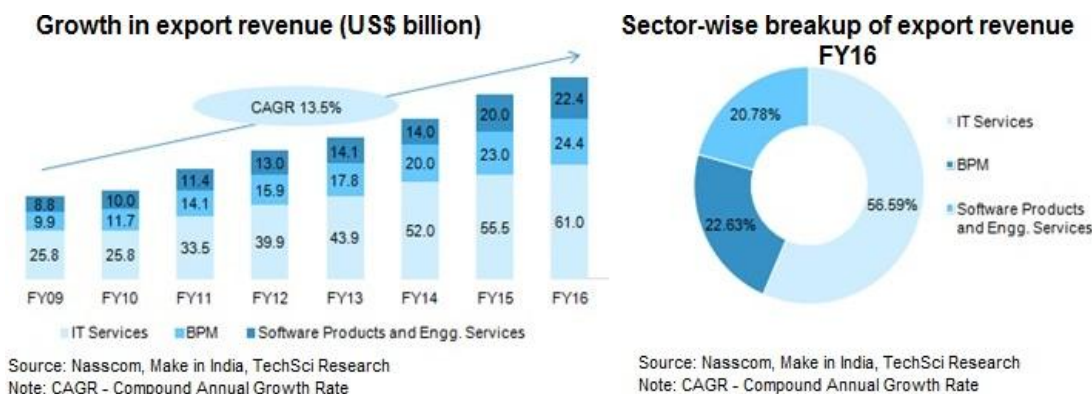
Source: WWW.NASSCOM.COM, 2016
Figure Error! No text of specified style in document. **The Growth rate of IT/ITes industry**

The emerging opportunities for IT companies lie in Social, Mobility, Analytics and Cloud (SMAC). It is expected that cloud represents the largest opportunity increasing at a CAGR of 30% by 2020, followed by social media offering a US$ 250 billion market opportunity. The Indian e – commerce segment is another attractive segment for IT industry to develop products and services to meet the customer needs.

As per the facts of Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far better to any other country in the world. Research studies related to banking suggest that Indian banks are generally hard-wearing and have withstood the global recession well. Indian banking industry has introduced innovative banking models like payments and small finance banks, reducing paper-based transactions and increasing the usage of digital channels.

The Indian banking system consists of 25 private sector banks, 26 public sector banks, 43 foreign banks, 56 regional rural banks, 93,550 rural cooperative banks, 1,589 urban cooperative banks besides cooperative credit unions. Public-sector banks control nearly 80 percent of the market, thereby leaving reasonably much lesser shares for its private banks. Standard & Poor's presents that credit growth in India's banking sector would progress to 11-13 per cent in FY17 from less than 10 percent. The below figure represents that during FY06–16, deposits has risen at a CAGR of 11.47 percent and reached 1.46 trillion in FY16. The reason behind the progress is the increase in savings along with rising disposable income levels. Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) have also increased to 250.5 million accounts and 192.2 million Ru Pay debit cards were issued. As of October 2016, US$ 6,755.5 million were deposited, while 250.5 million accounts were opened.
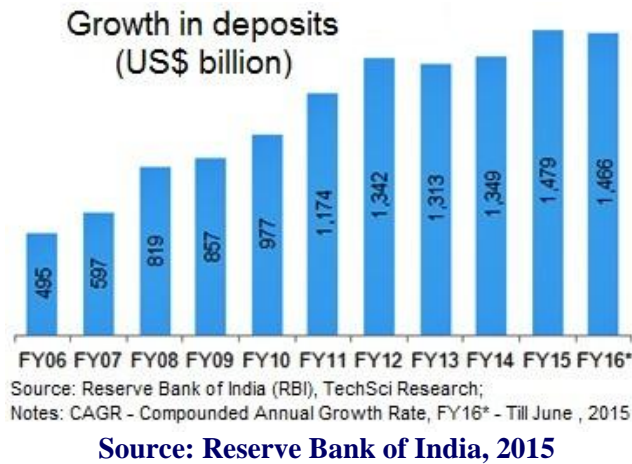
Source: Reserve Bank of India (RBI), TechSci Research;
Notes: CAGR - Compounded Annual Growth Rate, FY16* - Till June , 2015

Source: Reserve Bank of India, 2015

Figure 2 :The growth rate of banks in India in terms of deposits.

The Indian economy is on the way towards major transformation, with policy implementation like demonetization. The increase in business growth, superior consumer confidence and more controlled inflation are likely to support the country's the economic growth. With Reserve Bank of India initiatives like capital infusion for improving the liquidity of banks, special funds to deal with stressed assets of banks the banking sector is strengthening. All these factors suggest that India's banking sector is also on the brink of healthy growth. Also, development in the field of technology has brought about a revolution in mobile and internet banking. The banking sector is laying greater importance on providing better services to their clients and also making an investment in the advancement of their technology infrastructure, in order to improve the customer's experience which in turn leads to in building competitive advantage.

Analysis of components of savings

In order to study the respondent's savings behaviour three questions were included in the questionnaire. The first question deals with their savings behaviour, second deals with savings motive and the last reveals the reasons that prevent savings.

Savings Behaviour:

The below table shows the savings behaviour of the respondents. The savings behaviour is reflected in the form of money saved every month and the respondent plan for saving surplus etc.

Table 3: Savings Behaviour of the Respondents

Behaviour		Frequency	Percentage
a)	Save regularly, put money aside each month	102	9.3
b)	Spend regular income and save other income	161	14.6
c)	Spend income and save surplus	384	34.9
d)	No regular savings plan	411	37.4
e)	Do not save	42	3.8

The above table depicts the savings behaviour of the respondents. It shows that, 37.4 percent of the respondents had no regular savings plan, 34.9 percent of them spend their income, 14.6 percent of them spend their regular income and save other income, 9.3 percent of them save regularly, by keeping the money aside each month and 3.8 percent of them don't save at all.

Savings Motives

The eight savings motives which were identified by Keynes (1936) were considered in order to measure the saving motives of the respondents. The savings motive was measured on a five- point scale ranging from very high to very low.

Table 4: Savings Motives of the Respondents

S.No	Motives	Mean Score
1	Precautionary Motive	2.22
2	Foresight Motive	3.36
3	Calculation Motive	2.52
4	Improvement Motive	2.50
5	Independence Motive	2.75
6	Enterprise Motive	2.43
7	Pride Motive	2.31
8	Avarice Motive	3.26

With the mean score analysis, the research shows that, foresight saving motive was found to be the foremost saving motive among the respondents with a mean value of (3.36), followed by avarice saving motive (3.36) ranked second, independence saving motive (2.75) ranked third, calculation saving motive (2.52) ranked fourth, improvement saving motive (2.50) ranked fifth, enterprise saving motive (2.43) ranked sixth, pride saving motive (2.31) ranked seventh and precautionary saving motive (2.22) ranked eighth.

Reason that Prevent Savings

The respondents were requested to give the reason that prevents their savings habit and it was measured on a three-point scale and the level of agreement was defined as agree, unsure and disagree.

Table 5: Reason that Savings

S.No	Parameter	Mean Score
1.	Present days increase in wants considerably reduce the savings	2.15
2.	Now-a-days habit of saving is not properly taught to the children in families	2.18
3.	Genius investors are cheated by unscrupulous person in the field that in turn prevent individual from diversification of funds	1.94

The above table reveals the reasons that prevent the savings habit among the respondents. The mean value (2.18) shows that the habit of saving is not properly taught to the children in families and it is the foremost reason which prevented saving habits, followed by the present days increase in wants which considerably reduces the savings with a mean value of 2.15 and investors are cheated by unscrupulous person in the field with a mean value of 1.94.

Factor Analysis for Investment Decisions

Factor analysis was carried out for Investment decisions in which 23 statements relating to Investment decisions were factor analysed to identify the dimensions that explain the variance. For this purpose principal component analysis method was used with orthogonal varimax rotation. From the varimax rotated factors matrix, Six factors were identified with Eigen values >1 that explains 74.978% of the variance, from the original 23 variables. As a result, 4 statements were deleted from the analysis. Six investment decisions factors with 19 variables, were defined by the original 23 variables, that were loaded most heavily (loading >0.5) on them. The results of varimax rotation yielded an apparent factor structure that had higher loadings, on suitable factors. The variables with high loadings indicate a correlation of the variables, with the factors, on which, they were loaded. The Reliability analysis and internal consistency of identified factors were verified using Cronbach's Alpha. Suggestions of Fornell and Larcker (1981) were employed to evaluate scale reliability. The results showed that the alpha coefficient for the 6 factors ranged from 0.563 to 0.976, well above the minimum value of 0.5 considered acceptable, which is indicative of reliability of the research.

Sampling adequacy measure of 0.753 is mediocre as per guidelines (Heir et al, 2003). Bartlett's test of sphericity yielded a chi-square value of 24859.039 at 253 degrees of freedom and 0.000 significance level

that clearly demonstrates that the factors were related. The factors were given appropriate names based on the nature and loading observed on specific factors.

Table 6: Factor Analysis for Investment decisions

	Factor Load	Eigen Value	% of variance	Cronbach alpha
Factor 1: Perceived Self Imagery I feel I'm good in investment decision I make investment decision on my own My investment give me satisfactory returns I'm getting a good return because I have taken calculated decision.	0.975 0.948 0.940 0.940	4.571	17.339	0.976
Factor 2: Self Ego I take full responsibility for the result of my investment decisions I do not take intuitive investment decisions. Good investment opportunity induces me for making the investment. To me, thrill is essential while making investment	0.960 0.951 0.945 0.858	3.883	15.755	0.954
Factor 3: Allegiance Investment decision will have an impact on the lifecycle of a person. I consult my family members before taking investment decision I take decision on saving after getting full information	0.970 0.953 0.936	2.988	12.406	0.963
Factor 4: Financial Inadequacy Financial advisors will help me save more on tax. I feel that investment decision requires advisory support. Advisors can handle my investment better.	0.936 0.930 0.921	2.508	11.929	0.937
Factor 5: Risk Aversion Irrespective of inflation I will put money in fixed income bearing instruments. I prefer investments with minimum returns, maximum capital protection.	0.936 0.933	1.733	9.134	0.976
Factor 6: Prudence I save more when the interest rate is more. My investment decision has changed over period of time I review my investment decision frequently.	0.781 0.655 0.584	1.562	8.415	0.563

The above table indicates the factor analysis based on investment decisions statements. The 6 factors were named as perceived self imagery, self ego, allegiance, financial inadequacy, risk aversion and prudence.

Factor 1: Perceived Self-Imagery: This factor reflects the perceived self-imagery of the salaried employees. High scores on this factor can be characterised that, salaried employees feel that, they are good in investment decisions. They make investment decisions on their own, their investment gives satisfactory returns and they have taken calculated decisions. An alpha of 0.976 indicates that this scale is reliable. This factor accounts for 17.339 per cent of the variance and Eigen value of 4.571and may be named as "Perceived Self Imagery".

Factor 2: Self-Ego: This factor measures the self-ego of the respondents. Those scoring high on this factor are one who takes full responsibility, for the result of their investment decisions. They do not take intuitive investment decisions; good investment opportunity induces them for making investments and feels that thrill is essential in making investment decision. An alpha of 0.954 indicates that this scale is reliable. This factor explains 15.755 per cent of variance and Eigen value of 3.883and may be named as "Self-Ego".

Factor 3: Allegiance: This factor reflects the allegiance of the respondents. Those scoring high on this factor feel that Investment decision will have an impact on the lifecycle of a person. They consult family members before taking investment decision and take decision on savings after getting full information. An alpha of 0.963 indicates that, this scale is reliable. This factor explains 12.406 percent of variance and Eigen value of 2.988 and may be named as "Allegiance".

Factor 4: Financial Inadequacy: This factor reflects the financial inadequacy of the respondents. Those scoring high on this factor, rely on financial advisors to help them save more on tax, require advisory support and feel that advisors can handle investments better. An alpha of 0.937 indicates that this scale is reliable. This factor explains 11.929 percent of variance and Eigen value of 2.508 and may be named as "Financial Inadequacy".

Factor 5: Risk Aversion: This factor reflects the risk aversion of the respondents. Those scoring high on this factor feel that Irrespective of inflation they will put money in fixed income bearing instruments and prefer investment with minimum returns and maximum capital protection. An alpha of 0.976 indicates that this scale is reliable. This factor explains 9.134 percent of variance and Eigen value of 1.733 and may be named as "Risk Aversion".

Factor 6: Prudence: This factor reflects the prudence of the respondents. Those scoring high on this factor are feeling that they will save more when the interest rate is more and their investment decisions changes over period of time. An alpha of 0.563 indicates that, this scale is reliable. This factor explains 8.415 percent of variance and Eigen value of 1.562 and may be named as "Prudence".

Savings motive factors predicting the investment decisions

Eight savings motive factors namely; precautionary motive, Foresight motive, Calculation motive, Improvement motive, Independence motive, Enterprise motive, Pride motive, Avarice motive and Six Factors of investment decisions namely; Perceived Self-Imagery, Self-Ego, Allegiance, Financial Inadequacy, Risk Aversion and Prudence were considered for multiple regression. The multiple regression is used in order to find which investment decision factors are good predictors of savings motive.

Table 7: Result of Multiple Regression of Savings Motive and Investment Decisions

Savings Motives	Perceived Self Imagery	Self -Ego	Allegiance	Financial Inadequacy	Risk Aversion	Prudence
Precautionary Motive	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors
Foresight motive	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors
Calculation motive	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Not Good Predictors	Not Good Predictors
Improvement motive	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Good Predictors
Independence motive	Good Predictors	Good Predictors	Good Predictors	Good Predictors	Not Good Predictors	Not Good Predictors
Enterprise motive	Good Predictors	Good Predictors	Good Predictors	Not Good Predictors	Not Good Predictors	Not Good Predictors
Pride motive	Good Predictors	Good Predictors	Not Good Predictors	Good Predictors	Good Predictors	Not Good Predictors
Avarice motive	Not Good Predictors	Good Predictors	Not Good Predictors	Good Predictors	Not Good Predictors	Good Predictors

The following points are interpreted from the above table:

1. In case of Precautionary motive all six investment decision factors are good predictors.
2. In case of Foresight motive all the six investment decision factors are good predictors.
3. In case of Calculation motive four factors namely perceived self imagery, self –ego, Allegiance and financial adequacy are good predicators. Remaining two factors, risk aversion and prudence are not predicators of calculation motive.
4. In case of Improvement motive all the six investment decision factors are good predicators.
5. In case of Independence motive four factors namely perceived self imagery, self –ego, Allegiance and financial adequacy are good predicators. Remaining two factors, risk aversion and prudence are not predicators of calculation motive.
6. In case of Enterprise motive three factors namely perceived self imagery, self –ego and Allegiance are good predicators. Remaining three factors, financial inadequacy, risk aversion and prudence are not predicators of calculation motive
7. In case of Pride motive four factors namely perceived self imagery, self –ego, financial inadequacy and risk aversion are good predicators. Remaining two factors, Allegiance and prudence are not predicators of calculation motive.
8. In case of Avarice motive three factors namely self –ego, financial inadequacy and prudence are good predicators. Remaining three factors, perceived self –

imagery, Allegiance and risk aversion are not predicators of calculation motive.

Conclusion

Using appropriate multivariate techniques this study identified that savings motive plays an important role in enhancing financial literacy and investment decisions. Of the eight savings motive the precautionary motive, foresight motive and improvement motive are found to be good predictors of all six factors of investment decisions. Therefore, it is important for investment planners to thoroughly study the savings motive of investor's before designing investment programs.

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