The International Journal Research Publication's
ISSN:2251 1547
Research Journal of Commerce & Behavioural Science

Do The Promotional Tools Mediate Investment Decision?

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Abstract:
This research examines the mediating effects of promotional tools towards the investment decision. This article also investigates the contribution of behavioral and emotional factors in arriving at a Ponzi investment. The study proposes a conceptual model to discuss the considered constructs. The survey conceded 159 completed and valid questionnaires. Using stepwise multiple linear regression, mediating effects, and structural equation modeling (SEM), this study investigates the relationship between behavioral and emotional factors towards the investment decision by measuring the mediating effect of promotional tools. The proposed model is established to be consistent with an acceptable degree of model fitness. Implications for individual investors are also addressed in this article.
Keywords: Investment Decision, Promotional Tools, Behavioral & Emotional Factors

1. INTRODUCTION

Investment can be determined as the commitment of funds for a period of time in order to arrive at a rate of return that will counterbalance the investor for the time throughout which the funds are invested, for the anticipated rate of inflation during the investment horizon and for the uncertainty postulated (Reilly, 1985). The assumption of classical theories of finance is that investors act exclusively rational while arriving at an investment decision, but the modern theories have counterpointed that investors often act irrationally, as an aftermath of various influences (Charles and Kasilingam, 2014; Opaluch and Segerson 1989; Ritter, 2003; Tseng, 2006). Investor behavior and emotion can predict the outcome of the investment and respond in a similar manner towards the investment decision process (East, 1993). The accessibility of the investors towards the financial information has escalated in making an apt investment decision in this present financial scenario. It is uncovered from various studies that the behavioral and emotional factors may play vital function in the investment decisions (Bhat and Dar, 2013; Charles and Kasilingam, 2014; Jing, Hao and Xian, 2013; Opaluch and Segerson 1989; Riaz, Hunjra and Rauf-i-Azam, 2012).

1.1 Scope & Purpose of the Study

Promotional activities are the communication practice exercised using marketing tools that feature an immediate impingement amongst the target population (Lilien and Kotler, 1983; Mohammadi, Esmaeily and Salehi, 2012). Since these promotional tools are regarded as the influencing factor by which the investors are motivated, the mediating effect found to have a greater impact in the investment decision. There is requirement to examine the role of these promotional tools in deriving an investment decisions. Considering the emphasis on the behavioral and emotional factors mediated by promotional tools towards the investment decision, it is staggering to know how very few researches have focused in this area. This present study will enlighten this very important but less researched area. In spite of having various legitimate investment options, in the recent years, the investors are entrapped by deceitful Ponzi schemes. These schemes are disguised as a rule-governed organization that pay high returns to investors. In this study the focus is made toward the behavioral and emotional factors of the investors, considering the mediating effect of the promotional tools, towards the decision making process in such Ponzi scheme. The main purpose of this research is to ascertain the attributes establishing the behavioral and emotional variables, and to analyze the mediating effect of the promotional tools that prompt the investors. Existing literature are explored to empathize the attempts made so far, by which, the research gap could be established.

1.2 Research Questions

It is found from the research background that there is only a little information about the research constructs explored. Hence this research has aroused following research questions:

- o What is the role of behavioral & emotional factors in deriving an investment decision?
- o Do the promotional tools mediate investment decision?

1.3 Objectives

Following objectives have been framed for the study with regard to the above mentioned research questions:

(i) Role of behavioral and emotional factors in deriving an investment decision.
(ii) Impact of promotional tools as a mediating factor in investment decision.

2. LITERATURE REVIEW AND HYPOTHESES

2.1 Behavioral Factors

Ray (2009) studied the behavioral factors of the investors by drawing the responsible factors, like – heuristics, regret, overconfidence, and herd behavior. It was found that the behavioral factors of the investors had a consequence of the global slowdown. Luong and Ha (2011) investigated the behavioral factors influencing individual investors' decisions. The relationship between these factors was examined against the investment performance. Five behavioral factors: Herding, Prospect, Market, Anchoring-ability bias, and Overconfidence-gamble's fallacy were found to be significant. Rauf (2014) contemplated overconfidence, representativeness, loss aversion, regret, and group behavior as the conceptions to probe the behavior of investors. A positive association between regret and herding behavior in making investment decisions was found.

2.2 Emotional Factors

Despite the role of emotional behavior in investment decisions has attracted attention in financial studies in the recent years; there have not been many studies to associate emotional behavior with the investment decisions (Frank, 1988; Elster, 1996; Hopfensitz and van-Winden, 2005; Kuhnen and Knutson, 2011; Loewenstein, 2000). Evidently, financial decisions are affected by human emotions. Positive emotional behavior inclines investors empower more by accepting the risk and the reverse for negative emotional (Bhat and Dar, 2012; Kuhnen and Knutson, 2011; Wu, Bossaerts, and Knutson 2011). Brundin and Gustafsson (2013) determined that emotional factors gain the disposition to continue investments even in doubtfulness.

2.3 Promotional Tools

Bettman, Luce, & Payne (1998) developed vital promotional tools that determine consumer decision-making process. It was found that promotion tools play a vital role in understanding the purchase motivation. Ndubisi (2005) measured the efficacious of promotional tools on low involvement products by evaluating the efficacy of promotional strategies on purchase of less complicated products by Malaysians customers. Tavakoli-Zadeh and Amir-Shahi (2005) evaluated the effect of sales promotional tools on loyalty of customers in commercial banks. The study disclosed that there was a positive association between promotional tools and customers loyalty.

2.4 Investment Decision

The impact of investment behavior in deciding the investment scheme was inferred to the fact that there existed significant differences on investor decision making on market selection and the investor behavior (Lee et al., 2010). De-Bondt, Mayoral, and Vallelado (2013) illustrated that each financial decision was the outcome of various factors like instinct behavior, habit, emotion, reason, and social interaction. Hassan et al. (2013) described that the investors acquit rationally during the investment decisions.

2.5 Research Hypotheses

After reviewing the extant literature on behavioral factors, emotional factors, promotional tools, and investment decision, following hypotheses are formulated:

The International Journal Research Publication's ISSN:2251 1547
Research Journal of Commerce & Behavioural Science

H_1: There is a significant relationship between behavioral and emotional factors towards the investment decision.

H_2: Promotional tools significantly mediate behavioral & emotional factors towards investment decision.

2.6 Conceptual Framework

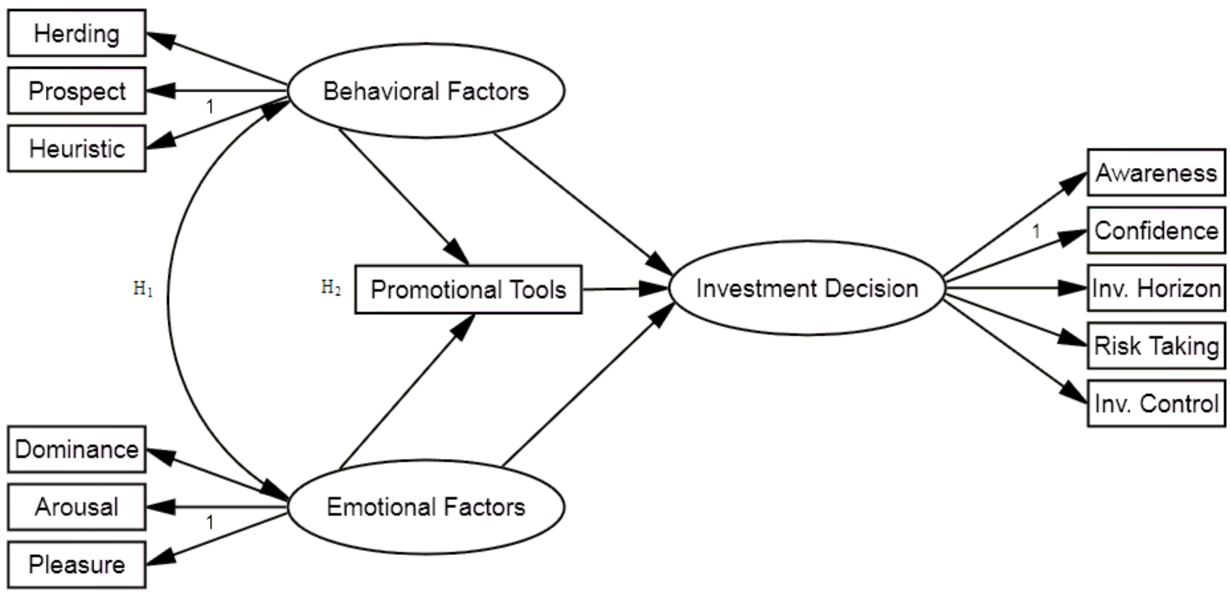

Figure 1: Conceptual Framework – "JAIKO Investment Decision Model"

3. RESEARCH METHODOLOGY AND RESEARCH STRATEGIES

3.1 Subject and Procedure

In this study, ex-post facto research is used to study the determined hypotheses by employing the primary data (Cohen, Manion, & Morrison, 2003; Kothari, 1985; Malhotra and Birks, 2000). Snowball sampling procedure that appertains to the class of non-probability sampling is accustomed to choose the potential unbiased respondents. These data are collected using a research instrument – questionnaire. The instrument is classified as socio-demographics, behavioral factors, emotional factors, promotional tools, and investment decision of the respondents. The validity and reliability tests are done using Cronbach's alpha and Confirmatory Factor Analysis for all the selected constructs (Holden, 1983; Kimberlin & Winterstein, 2008; Lincoln and Guba, 1985; Polit & Beck, 2004).

3.2 Analysis Methods

The investors of Ponzi scheme that functioned in the name of "M/s Fine Future and Group of Companies" in Coimbatore were selected as samples. As per Krejcie & Morgan (1970) sample size determination model, the sample size considered to be adequate for the study is 195 behaviors at 95% confidence interval and 5% margin of error. As per Churchill's model (1979), eliminating/revising double-barreled, ambiguous, and leading statements, 159 behaviors remained. Rating the items on a five-point Likert-type scale anchoring at "strongly disagree" (1), "strongly agree" (5), and "neither agree nor disagree" (3), the empirical assessment of the above conceptual model was done through stepwise multiple linear regression, mediating effects, and structural equation modeling (SEM) as the statistical techniques, using SPSS and AMOS.

4. DATA ANALYSIS AND FINDINGS

The Alpha reliability score suggested having a good degree of internal consistency ranging more than 0.754 in Cronbach's Alpha reliability test. The sample adequacy criteria, Kaiser-Meyer-Olkin (KMO) value at 0.797 and Barlett's value at 0.00, were found to be satisfied. Hence, the factor model was appropriate for further analysis (Dziuban & Shirkey, 1974). The proposed conceptual model was tested by using bootstrapping analysis with 100 re-samples, and path coefficients were re-estimated.

The results of Pearson's correlation coefficient values between the behavioral factors and emotional factors were found to be significant between all the variables. The Pearson's correlation coefficient 'r' values determined positive correlations, which evidence that there was a strong relationship between behavioral factors and emotional factors.

A stepwise multiple linear regression, each time removing the weakest correlated variable, was performed to analyze the association between behavioral and emotional factors towards the investment decision. The regression value 'R' was explained for 65.2%, the R Square value was at 51.2%, and the adjusted R Square value was at 50.6%. It was determined from the R Square value that the weighted combination of the predictor variables explained 51.2% of the variance of dependent variable. The ANOVA value for the regarded variables was determined to be significance. Hence the proposed model had a good fit. The results of stepwise multiple regression indicated four significant models – pleasure, arousal, herding, and heuristic to be significant with the investment decision.

The mediation effects of the independent variables - behavioral and emotional factors on the dependent variable - investment decision via the mediator - promotional tools was tested using AMOS package. It was found that the promotional tools significantly mediate behavioral and emotional variables towards investment decision. It was also understood that there the mediating effect was greater between behavioral factors than the emotional factors. The path diagram of the mediating effect is presented in Figure 2.

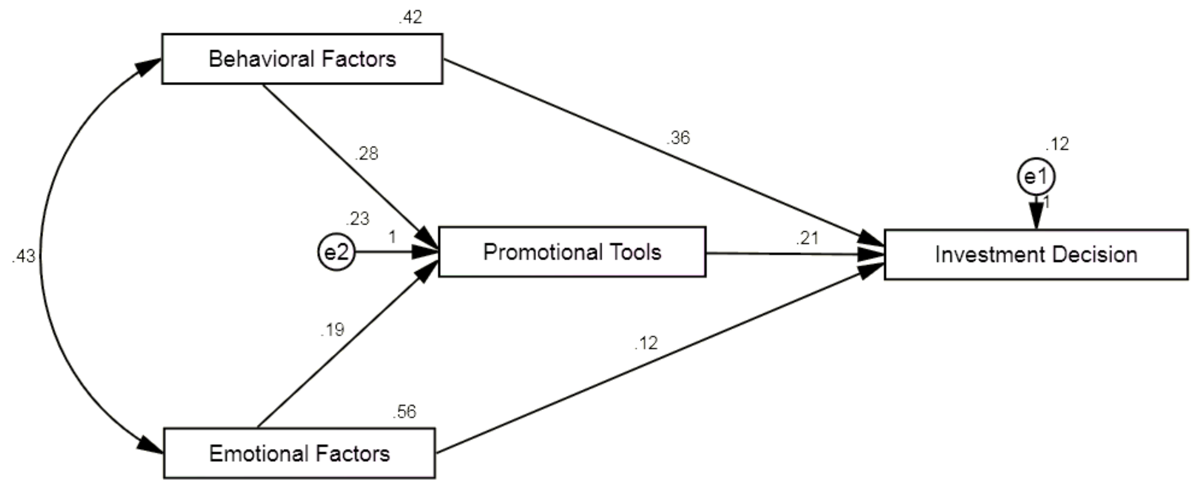

Figure 2: Path Diagram of the Mediating Effects

The proposed conceptual model - JAIKO Investment Decision Model was tested applying SEM using AMOS. The calculated Hoelter's critical N of the model was found to be significant at 0.000. The GFI of this model was 0.791, which showed a marginal fit. The AGFI of this model was 0.914, which established a good fit. The RMR was 0.027, which was an adequate fit. The CFI was 0.968, which indicated a good fit. Looking at the fit indices, it can be derived that the JAIKO Investment Decision Model had an adequate fit.

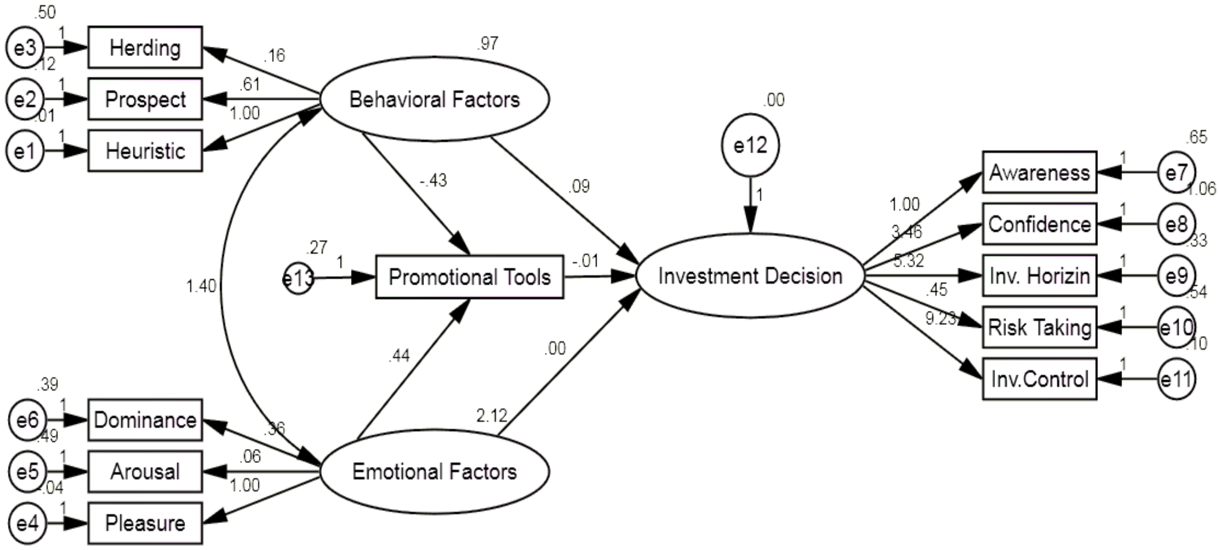

Figure 3: Unstandardized Estimates of the proposed "JAIKO Investment Decision Model"

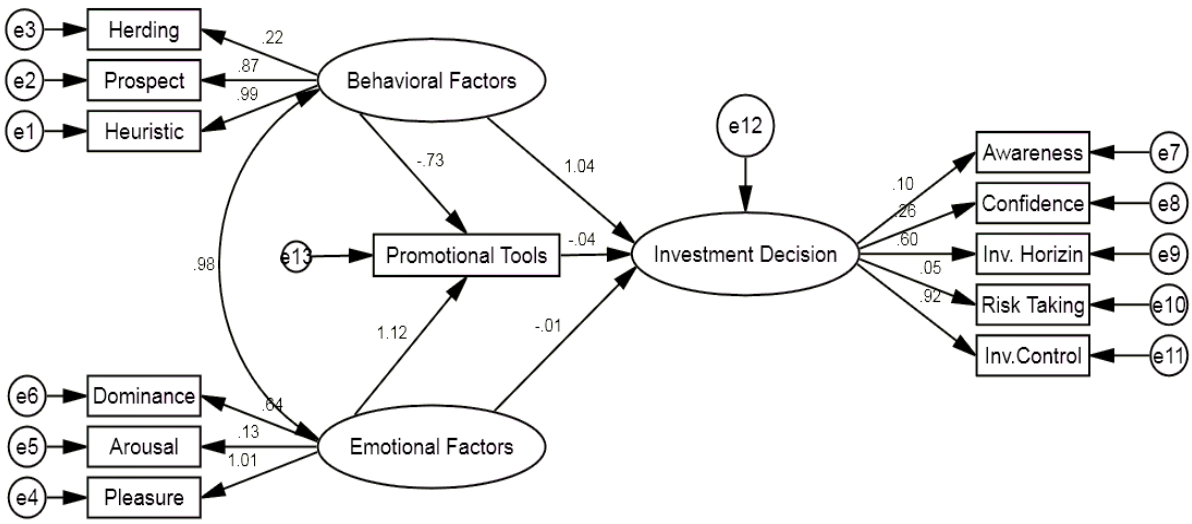

Figure 4: Standardized Estimates of the proposed "JAIKO Investment Decision Model"

5. CONCLUSION

This article incorporates behavioral and emotional factors, considering the influence of promotional tools as a mediation effect, to formulate the antecedents of investment decision towards the Ponzi schemes. The findings of this article contribute to the existing literature by determining the antecedents of investment behavior. This article has few limitations that deserve to be addressed which could have influenced the findings. Due to the nature of confidentiality of investors, the process of data collection was a challenge. Factor loadings and squared multiple correlation were detected for few constructs. The proposed JAIKO Investment Decision Model evidenced an adequate fit to explicate the investment decision.

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