

Investors' Perception of Financial Planning for Financial Well-Being

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Abstract

The present study analyses investors' perceptions of financial planning. The purpose of this empirical investigation was to examine the role of different factors like financial behaviour, financial freedom, financial anxiety, tenure of investment, financial goals, and risk involved in personal financial planning. The study's targeted population (425) was investors residing in the National Capital Region (NCR), India, which was approached based on purposive sampling techniques. A semi-structured set of questions was employed for collecting the information through Google Forms. SEM was adopted for analysing the primary data and finding the relationship among the factors. The results highlighted the most significant contribution of financial goals in financial planning. Tenure of investment, financial freedom, financial anxiety and risk also showed their relevance for financial planning. Risk has been found to impact financial planning negatively while other factors positively impact financial planning. The study favours financial planning to make sound financial decisions and protect themselves from fraudulent practices.

Keywords: Financial Freedom, Financial Anxiety, Tenure of Investment, Financial Goals, Risk, Financial Planning

Introduction

Financial planning has never been of as much concern as today due to the rapid changes observed by the modernised economies. India has a substantial financial market and financial scams on the one hand and lots of poverty on the other. The major concern is whether the standard

population has a sustainable livelihood and secure future. Financial Plan refers to setting one's life goals and then moving step by step in achieving your goals by managing your income, expenses and savings, but mistakenly, it is sometimes considered as managing investments. FPSB (Financial Planning Standard Board) defines it as managing finances and achieving life goals. The financial situation of an individual is the result of this planning. The Financial situation of all individuals or family is different and this situation is impacted by all financial actions undertaken. This impact also affects the life goals, so it is very important to be focused while planning financial activities. A comprehensive financial plan may reduce uncertainty by increasing quality and satisfaction in one's life. The life goals of individuals may differ depending upon individuals current financial position and life cycle stage. Some may plan for their safe retirement, some may plan for a child's education or marriage, and some may set buying a house or luxury car as their life goal. It sets a way that leads an individual to personal financial satisfaction through money management (Kapoor et al. 2004). Individuals make many decisions in their routine life related to money matters, out of which few involve complexities and have long-term impacts. One should take these decisions very carefully to avoid unfavourable long-term financial impact, and knowledge about finances plays a very critical role in creating a comprehensive plan to help achieve financial satisfaction. Many factors like an individual's age, education, income, family size, job profile, and status impact financial plans. There is a requirement for revision and updation in one's financial plan with the changes in one's goals and needs. The dynamic nature of the financial plans should be considered in framing such a plan, which is well explained by Gitman

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et al. (2014). Uncertainty and financial shocks like loss of jobs, death of earning members of the family, separation or divorce, and medical emergencies are a part of life, and these all can be dealt with ease if an individual is financially literate and moving with a carefully drafted financial plan.

Financial planning is a process that includes all individual spheres related to financial interest, including tax planning, cash and risk management in the financial market through insurance, investment, estate and retirement planning (Altfest, 2004). Likewise (Gitman et al., 2014) also considered money management, investment, estate, insurance and retirement planning as significant areas involved in financial planning. Many other researchers, including Ying et al. (2017), Deventer et al. (2014), and Jamal et al. (2013), have also confirmed the similar aspects to be included while doing financial planning. Financial planning is vital for individuals of all age groups, and awareness is critical to frame the right plan that can lead to financial well-being. This will guide the individual to utilise their financial resources wisely and make them financially secure. The aim of this observational study was to find out the impact of tenure of investment, financial anxiety; financial freedom; financial goals and financial investment risk on financial planning (Fig. 1).

Literature Review and Hypothesis Development

Lusardi and Mitchell (2014) referred that financial planning estimates future incomes, expenses, and other factors. A financial plan describes how funds will be generated to fulfil future expenses, such as via working, borrowing, or saving. Financial plan of a company might give an estimation of cash requirements and a decision on cash arrangements that may include borrowings or issue of shares. Some of the factors of individual financial behaviour that show their relevance to personal financial behaviour are discussed below:

- *Financial Freedom*

Most people think of financial freedom as being able to do anything you want, whenever they want. Having enough

money gives you a lot of direct benefits, like peace of mind and the ability to help other people financially. Numerous empirical studies targeting on financial/economic freedom on growth have been conducted utilising the economic freedom indexes (e.g., De Haan & Sturm, 2000; Gwartney, 2009). Other research finds the impact of economic freedom on various factors including inequality (Sala-i-Martin, 2007) and income concurrence (Xu & Haizheng, 2008).

So, the following is the first hypothesis of the study:

H1: Financial freedom positively impacts financial planning and risk management.

- *Financial Anxiety*

Financial planners, counsellors, and therapists are studying financial anxiety. Financial anxiety is stress about one's finances (Archuleta et al., 2013). Few researchers have operationalised anxiety related to finances by modifying it based on criteria (anxiety, irritability, difficulties in managing stress, problem in sleeping, complication in concentrating at work/school, etc.) (Archuleta et al. 2013). Student loans and financial dissatisfaction are linked to financial worry among students. This was true for working women with high levels of financial worry (Archuleta et al., 2013). Physiological and subjective financial anxiety measurements have been used to examine consumer financial planning goals. Grable et al. (2015) found that worries related to finances affects a customer's decision of engagement in financial planning activities in upcoming times. Higher-income people are less scared, worried, and hesitant about money decisions; according to Gasiorowska's (2014) study, reduced anxiety leads to greater financial happiness. Thus, the proposed hypothesis is:

H2: Financial anxiety has a positive impact on financial planning.

- *Tenure of Investment*

The tenure of an investment refers to the period of the investment. Studies suggest the importance of a period of investment for better returns (Ganzach, 2000; Hallahan, Faff & McKenzie, 2004; Bailey & Kinerson, 2005).

Investors, as per their need and availability of funds, choose shorter term (lower than 5 years) as well as longer term (greater than 5 years) investments (Mandell & Klein, 2007). The decision on the period (tenure) is crucial, and investors should take this carefully (Mandell & Klein, 2007).

So, the proposed hypothesis is:

H3: The tenure of investment positively impacts financial planning.

- *Financial Goals*

A goal is a statement of what a person wants to achieve that encourages people to work together. In making a financial plan, a person's financial goals are what they are saving for and how much they are saving. Financial plans show how and what needs to be done regarding saving, investing, and other behavioural changes to reach financial goals. So, you can think of financial goals as giving you the vision, goal, and focus you need to make financial plans (Keown, 2014). Goal setting theory says that for a person's financial goals to work, they need to be clear and challenging enough, while the person also needs to be committed enough, get feedback often enough, and be able to handle the complexity of the task (Locke, 1968; Locke & Latham, 2002).

In practice, setting financial goals often emphasises that goals should be specific, measurable, action-oriented, realistic, and have a set time limit (Kapoor, Dlabay, & Hughes, 2012). In line with this, past research has shown that experienced investors usually know their financial diversification goals and how much risk they are willing to take. They can also keep their long-term patience and not follow the crowd (Ciccoletto, 2009; Robbins, 2017). Past research has also shown that financial literacy is important for helping people reach their goals for cash flow, credit, savings, and investments (Mandell & Klein, 2007). Thus, the proposed hypothesis is:

H4: Financial goals have a positive impact on financial planning.

- *Risk*

Another important aspect of investment is Risk and it

must be considered when making financial decisions (Ganzach, 2000; Hallahan, Faff & McKenzie, 2004; Bailey & Kinerson, 2005). Economic theory is the basis of most research on taking risks and willingness to take risk, which says that people are risk avoider or have a low tolerance for risk (Chaulk, Johnson & Bulcroft, 2003). "An investor's risk tolerance is how well they can handle a certain type of risk involved in an investment. It may also be defined as "sleep factor," which quantifies the amount of risk that an investor can easily take without any stress and still enjoy a comfortable sleep (Ricciardi, 2007). Grable wrote in 2000 that the risk appetite of an individual is his ability to go through the potential losses while developing financial plan or making a financial decision". It measures how people feel about taking risks (Grable, 2000). It helps people figure out how to put together their assets to fit their needs regarding risk and return (Hallahan, Faff & Mckenzie, 2004). A Lot of earlier explorations have concluded that risks adversely affects individuals when they plan their finances (Grable, 2000, Grable, Britt & Webb, 2008).

Thus, the proposed hypothesis is:

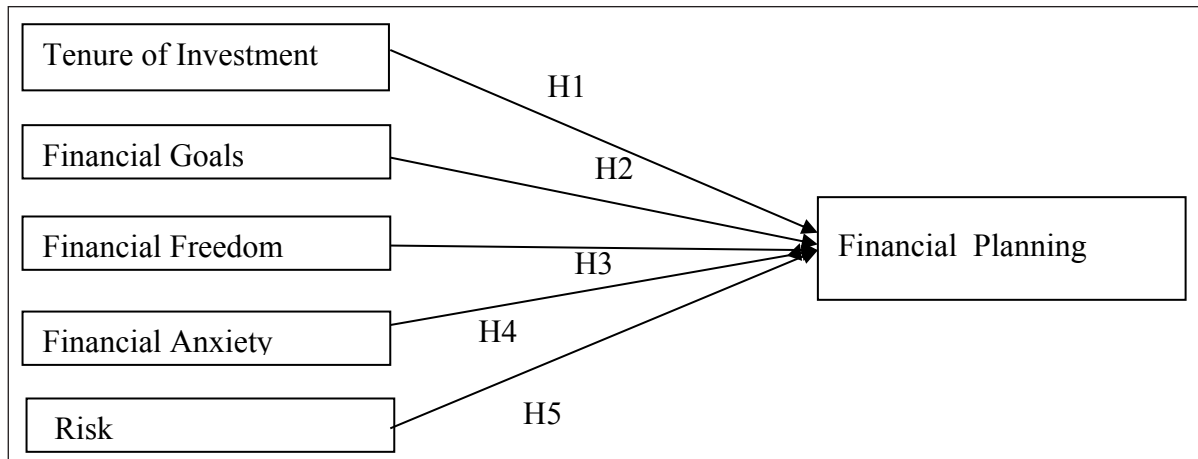
H5: Risk significantly negatively impacts financial planning.

Research Design and Methodology

This empirical investigation was conducted to study investors' perception of tenure of investment, financial goals, financial freedom, financial anxiety, and risk and their impact on their financial planning (Fig. 1).

Sampling Process and Data Collection

The targeted population for the study was investors residing in the National Capital Region (NCR), India, which was approached based on purposive sampling techniques. 425 respondents actively participated in the survey, out of which ten participants' responses were found biased and removed from the final analysis during the data cleaning stage. Thus, a sample of 415 respondents became part of the final analysis.



Source: Compiled by the researcher on the basis of previous studies.

Fig. 1: Conceptual Framework

Measurement Tools and Techniques

The researcher designed a set of questions to collect information from respondents and it was circulated through Google Forms. Survey instrument was categorised into two parts. Part A enclosed the demographic features of the sample, and part B combined 36 variables based on five point Likert scale, that varied from strong disagreement to strong agreement by respondents. The Questionnaire is based on previous literature and expert opinion (Ricciardi, 2007, Grable et al., 2015, Archuleta et al., 2013). A pilot survey was done with 40 investors, and expert opinion was also taken. Based on these preliminary survey results and expert suggestions, necessary improvement was undertaken. The questionnaire successfully passed the reliability test with Cronbach alpha value 0.906, further, instrument also passed the face validity criteria.

Participants' Description

Under this study, 415 participants' responses were put into software (SPSS 21) for interpretation. Of 415 respondents, 215 (51.81 percent) were male, and 200 (48.19 percent) were female. Regarding respondents' marital status, 52.29 percent (217) were married, and 47.71 percent (198) were unmarried. In terms of profession, 33.73 percent (147) were engaged in running their own business, while 35.42 percent (147) were private sector employees, and the remaining 128 participants (30.84 percent) were doing

jobs in government sectors.

Statistical Tests and Tools Applied

Structural equation modeling (SEM) technique using AMOS 21 has been adopted by the researcher to study individuals' financial behaviour's role in their financial planning. Structure equation modeling (SEM) is a multivariate technique based on confirmatory factor analysis and multiple regression and is targeted to study the interrelationship between independent and dependent variables (Hair et al., 2017). SEM is based on two components: the measurement model and the structure model (Anderson & Gerbing, 1988). The measurement model assesses the constructs' reliability and validity, while the structure model aims to test the hypothesised relation between latent variables (Doloi et al., 2011).

Measurement Model

A measurement model total six factors with 36 variables (Fig. 2) based on confirmatory factor analysis was framed to confirm the factor structure and prove the reliability and validity of the constructs. The model was evaluated on three criteria: Indicator loading, Model fit indicators and Reliability & validity criteria. The measurement model successfully passed the minimum indicator loading criteria as all the indicators showed standardised loading more than 0.5 (Truong & McColl, 2011; Hulland, 1999), as shown in Table 1.

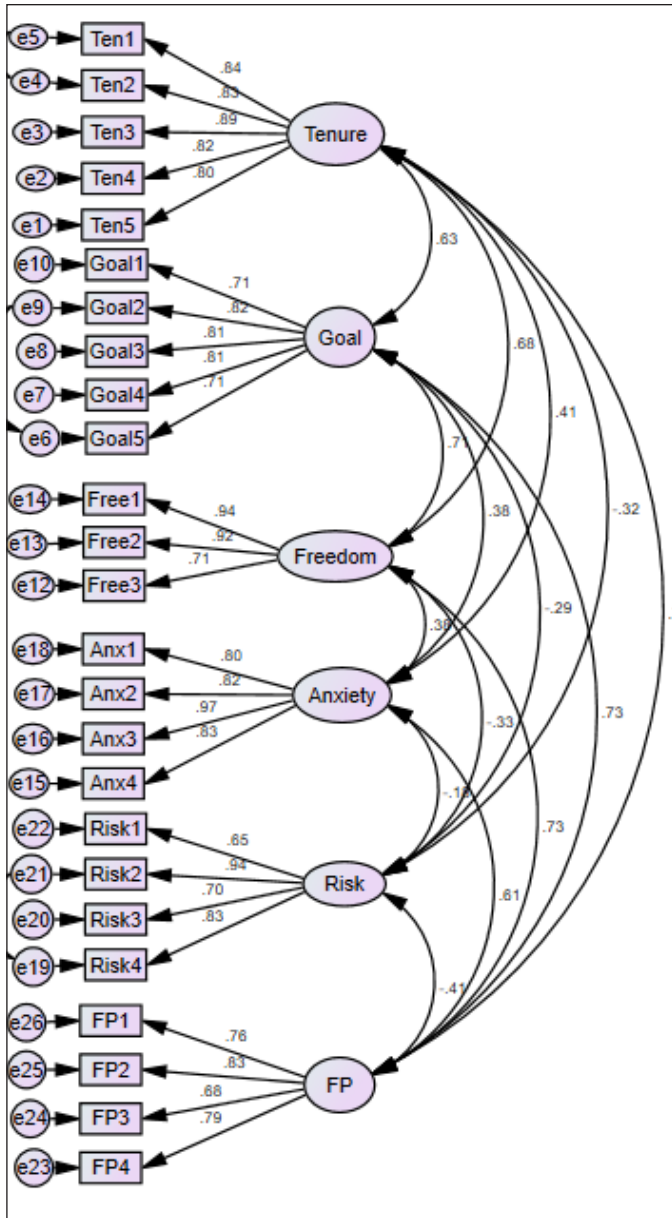
Furthermore, the Model (Fig. 2) had been examined on the basis of most widely used model fitness indicators: χ^2 statistics, χ^2/df ; Comparative fit index (CFI); Root mean square error of approximation (RMSEA) (Hair et al., 2010; Bentler, 1990). The recommended cut-off criteria for χ^2/df is <5 (Schumacker & Lomax, 2004); CFI, an indicator of a good fit, should be ≥ 0.9 (Bentler, 1990; Byrne, 1998);

RMSEA, badness fir indicator, less than 0.08 preferred (Byrne, 1998; MacCallum et al., 1996). TLI value ≥ 0.9 is considered acceptable (Bentler, 1990). The measurement model (Fig. 2) proved its appropriateness on the basis of model fitness criteria ($\chi^2= 909.105$; $df= 257$; $CMIN/df = 3.537$; $P= .000$; $CFI= .915$; $RMSEA= 0.078$; $TLI = .901$).

Table 1: Construct and Standardised Indicator Loadings

Construct	Items	Description	Standardised loading
Tenure of investment	Ten1	Deciding about Tenure of Investment is difficult.	0.84
	Ten2	Making investments with time horizon is stressful.	0.83
	Ten3	Investment tenure is considered in deciding the Return on Investments.	0.89
	Ten4	I generally prefer a short time horizon for my investments (less than 5 years).	0.82
	Ten5	Thinking about long-term investments (more than 5 Years) makes me feel uncomfortable.	0.80
Financial Goals	Goal1	Financial Goals give direction to Financial Planning activities.	0.71
	Goal2	Financial goals are achieved with financial planning.	0.82
	Goal3	I face difficulty in setting financial goals.	0.81
	Goal4	Financial Goals need to be Realistic.	0.81
	Goal5	Financial Goals are difficult to achieve.	0.71
Financial Freedom	Free1	I have sufficient funds to do the things I wish to do and enjoy life.	0.94
	Free2	I am free to make my investment and financial decisions.	0.92
	Free3	I am maintaining an emergency saving fund for major unexpected expenses.	0.71
Financial Anxiety	Anxiety1	My financial situation make me feel stressful.	0.80
	Anxiety2	My sleeping pattern is being disturbed due to my financial situation.	0.82
	Anxiety3	I tend to postpone my financial decisions.	0.97
	Anxiety4	After taking any financial decision, I feel anxious about being right or wrong.	0.83
Risk	Risk1	I am ready to take risks while planning my finances.	0.65
	Risk2	I take advice from an expert to plan my finances to avoid risk.	0.94
	Risk3	I consider risks associated with different investment options while framing my investment portfolio.	0.70
	Risk4	I am confident of my risk and return assessment related to investments.	0.83
Financial Planning	FP1	I have the knowledge of various investment options available.	0.76
	FP2	I discuss with my family, friend and colleagues before investing my money.	0.83
	FP3	I consider the Safety of the Principal essential while planning my finances.	0.68
	FP4	Liquidity provided by the investment affects my financial decisions.	0.79

Source: Primary data.



Source: Amos Output.

Fig. 2: Measurement Model

Table 2: Reliability and Validity Assessment

	α	CR	AVE	MSV	MaxR(H)	Risk	Tenure	Goal	Freedom	Anxiety	FP
Risk	0.822	0.866	0.623	0.171	0.924	0.789					
Tenure	0.924	0.921	0.701	0.508	0.925	-0.322	0.838				
Goal	0.872	0.882	0.600	0.529	0.889	-0.291	0.630	0.775			
Freedom	0.888	0.897	0.747	0.533	0.937	-0.333	0.683	0.711	0.864		
Anxiety	0.913	0.916	0.732	0.371	0.954	-0.181	0.412	0.382	0.384	0.855	
FP	0.851	0.851	0.590	0.533	0.861	-0.413	0.713	0.727	0.730	0.609	0.768

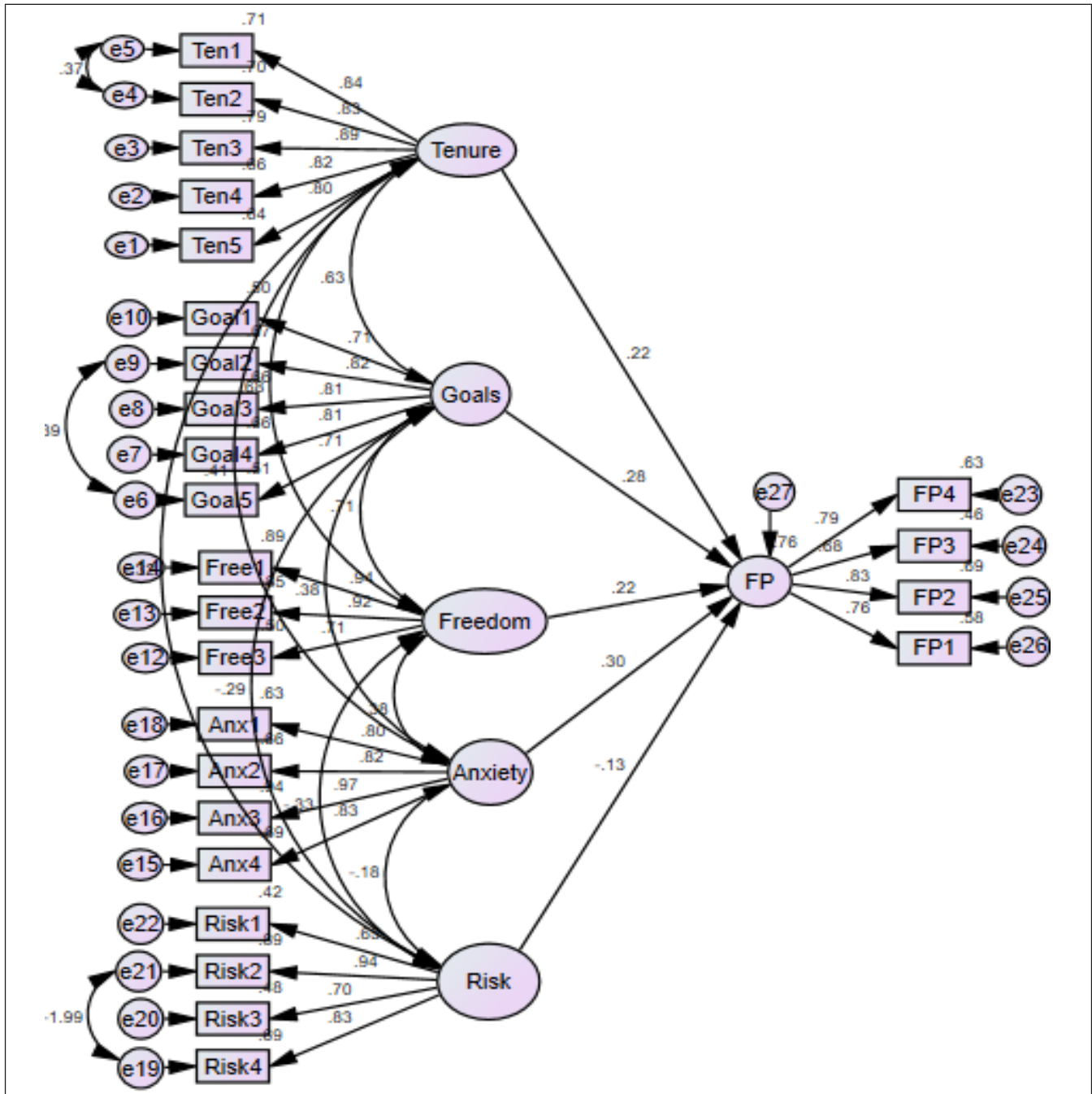
Source: Primary data.

Moreover, the Model was examined on the basis of reliability and validity standards. Cronbach's alpha (α) score was computed to measure the internal consistency or reliability of the construct; Cronbach's alpha greater than 0.7 signifies an appropriate fit for reliability (Sekaran, 2003; Hair et al., 2017). The computed range of Cronbach's alpha lies between 0.822 to 0.924. Hence, the entire construct fulfilled the reliability criteria and can become a part of SEM.

The convergent validity of the construct was examined based on recommended criteria of Malhotra and Dash (2016). As per the required criteria Average variance explained (AVE) > 0.5; Composite reliability > 0.7 and CR > AVE. Table 2 demonstrated that all constructs fulfilled the recommended criteria and proved the convergent validity. Fornell and Lacker's criteria were followed to judge the discriminant validity of the construct. As per the required criteria, the variance of the latent variable itself must be greater than its variance from other latent variables (Fornell & Larcker, 1981). Results showed that the required criteria were successfully obtained, and no discriminant validity issue arose. Hence the measurement model was found adequate, and there was no concern about reliability or validity.

Structure Model

A Structure model was developed using SEM to evaluate the hypothesis of relationship between variables I (Fig. 3). The structure model proved its appropriateness and was adequately fit to the data ($\chi^2= 909.105$; $df= 257$; $CMIN/df = 3.537$; $P= 0.000$; $CFI= 0.915$; $RMSEA= 0.078$; $TLI = 0.901$).



Source: Amos Output.

Fig. 3: Structure Model

Path coefficients (β) were used for measuring the significance of association, and coefficient of determination (R^2) determined the Model's strength. Study results showed that investors' perception towards tenure of investment ($\beta = 0.22$; $P = 0.000$); financial goals ($\beta = 0.28$; $P = 0.000$); financial freedom ($\beta = 0.22$; $P = 0.000$); financial anxiety ($\beta = 0.30$; $P = 0.000$) and risk

($\beta = -0.13$; $P = 0.000$) significantly impact the financial planning. Hence, the alternate hypotheses H1, H2, H3, H4 and H5 are accepted hereby. Table 3 displays the summary of hypothesis acceptance and rejection. Furthermore, the coefficient of determination (R^2) with a value of 0.76 showed that independent variables substantially explained the dependent variable (Henseler et al., 2009).

Table 3: Acceptance and Rejection of the Hypothesis

<i>Hypothesis</i>	<i>Relation</i>	<i>Path Coefficients (β)</i>	<i>Significance</i>	<i>Accepted/ Rejected</i>
H1	Tenure of investment-> Financial planning	0.22	0.000	Accepted
H2	Financial goals -> Financial planning	0.28	0.000	Accepted
H3	Financial freedom -> Financial planning	0.22	0.000	Accepted
H4	Financial anxiety -> Financial planning	0.30	0.000	Accepted
H5	Risk -> Financial planning	-0.13	0.000	Accepted

Source: Primary Data Survey.

Results Discussion

Financial planning estimates future incomes, expenses, and other factors. A finance plan or financial plan describes how funds will be generated to fulfil future expenses, such as via working, borrowing, or saving. Considering the significance of financial planning, the current investigation targeted to study the significance of tenure of investment, financial anxiety, financial goals, financial freedom and risk on financial planning. The study's results proved that individuals' tenure of investment significantly impacted financial planning and suggested accepting hypothesis H1. This study's finding was supported by the previous research of (Remund 2010; Garman & Fogue, 2006), those who argued that individuals with better tenure of investment are more sound financial planners and their financial planning are better than the ones who do not have tenure of investment. Individuals' financial goals showed a positive relation with financial planning. Results of the study confirmed that individuals' financial goals had the most significant role in financial planning compared to other selected factors. Therefore, Hypothesis H2 was accepted under the investigation. Previous research by Keown, 2014 (Mandell & Klein, 2007) supported this study result. The findings of the study further confirmed the relevance of financial freedom in financial planning, and hypothesis H3 was accepted. This finding was similar with the previous findings of Danes and Haberman (2007), who confirmed that individuals with high financial freedom are better financial planners as they have confidence in themselves about their financial decisions.

In the study, financial anxiety also showed relevance in financial planning; therefore, hypothesis H4 was accepted. Previous research by Archuleta et al. (2013) also revealed similar results. Research by Archuleta et

al., 2013 reported that individuals with financial anxiety on the higher side are more inclined towards financial planning. Through proper financial planning, they want to be secure financially about their future requirements. Risk was found to be negatively related to financial planning, and hypothesis H5 was accepted. This study result was in line with the previous research (Grable, 2000; Grable, Britt & Webb, 2008), which confirmed that risks adversely affect financial planning.

Implications for the Study

This study showed its realistic implications for investors and financial advisors both. The research proved the importance that determinants of financial behaviour plays in financial planning and suggested that investors consider selected factors while doing financial planning. As per results, financial anxiety plays the most crucial role in financial planning, as financial insecurity helps the investor do proper financial planning. The importance of financial goals guided investors to set well-defined financial goals for evaluating financial products before making an investment decision. Tenure of investment and financial freedom helps the investor to do sound financial planning. The study suggests that investors should consider investment tenure before making a good financial plan. Perceived risk hampers the investor's investment decision. This result directs the investors to be aware of fraudulent practices. Furthermore, the study's results help financial advisors to analyse the crucial factors that impact the financial planning of investors while promoting any financial products. Financial advisors should link investors' financial goals with financial products and make them financially literate to draw investors' attention towards their products. Advisors should consider the contributing role of financial anxiety level and financial freedom of investors before promoting the securities.

Financial advisors should calculate investment risk and communicate it to investors before encouraging investors to put the securities in their portfolios.

The results of the study show its theoretical implications for academicians and researchers. The financial market is very dynamic, and the study results guided the researchers and academicians working in this direction by providing information about the factors for financial planning in the current scenario. Thus, the study showed its relevance on both theoretical and practical grounds.

Limitations and Future Directions

The study considered the selected factor for financial planning over a sample of NCR only. The limitation of small geographical areas for collecting samples created difficulty in generalising the results of the study. Although the study successfully identified the relevance of financial goals, financial anxiety, financial freedom, tenure of investment and risk in financial planning, there may be many more factors that contribute to financial planning, like financial awareness, financial knowledge, safe investment etc. that provide the future directions to researchers for further research. Also, a comparative analysis can be done to study the significant difference between personal and institutional financial planning. Further research can be conducted on a sample collected from other geographical areas. Rural and urban investors' financial planning can be studied through further research.

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