



## **LOCUS OF CONTROL, SAVING AND INVESTMENT**

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### **Abstract**

Locus of control is a psychological concept that captures individuals' beliefs about the controllability of life events and is a key component of self-control. This paper analyses the relationship between locus of control, saving, and investment. For this study 100 samples have been collected and analyzed with SPSS. We find that locus of control and savings has insignificant positive relation and locus of control, investment in high-risk investment and moderate risk investment have significant positive relation, whereas locus of control and low-risk investment has insignificance relationship. Overall it can be concluded that the locus of control and savings have an insignificant impact and locus of control have a significant positive impact on investment.

Keywords: Locus of Control, Saving, Low Risk, Moderate Risk, High-Risk Investment.

### **INTRODUCTION**

Locus of control refers to the extent to which individual believe that they can control events affecting them. On the one hand, individuals who have a high internal locus of control (internals) believe that their own behavior and actions primarily, but not necessarily totally, determine many of the events in their lives. On the other hand, individuals who have a high external locus of control(externals) believe that the chance, fate, or other people primarily

determine what happens to them. Locus of control typically is considered to be a part of the conscientiousness factor.

Many differences between internals and externals are significant in explaining the aspects of behavior in the organization and other social settings. Individuals, who have better internal control on their own behavior better, are more active politically and socially and seek information about their situations more active than do externals. Compared to externals, internals are more likely to try to influence or persuade others and are less likely to be influenced by others. Internals often are more achievement-oriented than are externals. Compared to internals, externals appear to prefer a more structured, directive style of supervision.

### **NEED FOR THE STUDY**

Locus of control is the degree to which people trust that they have control over the outcome of the events in their lives. Individuals with a strong internal locus of control believe events in their life derive primarily from their own actions. People with a strong external locus of control tend to praise or blame external factors. Saving and investment play a vital role in an individual's life. The present study contributes to the existing literature on locus of control, saving and investment in India. It is also quite essential to understand the nature of the relationship between the locus of control, saving and investment. Hence, this study is needed to identify and measure the impact of locus of control on savings and investment.

### **REVIEW OF LITERATURE**

Jonathan G. Malacarne (2018) analyzed psychology and behavioral economics to better understand the way in which perceptions of self-efficacy influence investment behavior and through behavior, welfare. They demonstrated that control beliefs affect investment decisions and shape the way in which decision makers interpret success and failure.

Rosyeni Rasyid et al. (2018) analyzed the effect of locus of control on investment decision, the effect of financial knowledge on investment decision and the effect of income on investment decision. The locus of control, financial knowledge, and income affect 57.5% of employee's investment decisions; the remaining 42.5% is affected by other factors. Out of the three variables, financial knowledge was the most dominant variable in affecting investment decisions.

AgusZainulArifin (2017) study was based on the Theory of Planned Behavior (TPB), of which the subject is the entire Jakarta communities' categories in the workforce-age, who have already had the occupation and generate fixed-income every month. In his study, Financial Knowledge, Locus of Control and Income were taken as independent variables and the dependent variable in his study was Financial Behavior. The result of the study found that Financial Knowledge and Locus of Control do affect Financial Behavior, while Income was not providing the same direction.

DusaneeKesavayuth et al. (2017) investigated the relationship between cognitive abilities and financial risk attitudes. They found that locus of control is positively related to the risk attitudes of older individuals who also differ significantly from younger individuals.

Nicolas Salamanca et al. (2016) stated that the household heads with a strong internal economic locus of control are more likely to hold equity and hold a larger share of equity in their investment portfolio. This relation holds when we control for economic preferences and possible confounders such as financial literacy, overconfidence, optimism, trust, and other personality traits.

Nicolas Salamanca et al. (2016) stated that household heads with a strong internal economic locus of control are more likely to hold equity and hold a larger share of equity in their investment portfolio. With a strong internal economic locus of control perceive less variance in equity, making these investments more attractive.

Kibrom A. Abay et al (2016) investigated the implications of individuals' locus of control on time preferences in general and hyperbolic preferences in particular and the implications of locus of control and hyperbolic preferences on demand for commitment and savings. They found that locus of control significantly predicts discounting behavior in general and hyperbolic preferences in particular. They particularly found that individuals with an external locus of control are more likely to discount future payoffs hyperbolically.

Deborah A. Cobb-Clark et al (2013) analyzed the relationship between individuals' locus of control and their savings behavior, i.e. wealth accumulation, savings rates, and portfolio choices. Locus of control is a psychological concept that captures individuals' beliefs about the controllability of life events and is a key component of self-control. They found that households with an internal reference person save more both in terms of levels and as a percentage of their permanent incomes.

Miles S. Kimball and Tyler Shumway (2009) found that there is strong relationship between fatalism and external vs internal locus of control and he is given a fantastic example of how people's mental models of the world can make a difference to their actions.

## **RESEARCH GAP**

The literature review identifies that there are only a few empirical studies on the locus of control in India. These studies focused only on locus of control and financial knowledge and saving behavior. These studies did not look into the impact of locus of control on saving and investment. Hence, to fill the research gap, an attempt is made in the present study to elaborately examine the locus of control, saving and investment.

## **OBJECTIVES OF THE STUDY**

- To study the relationship between Locus of Control and Savings.
- To study the impact of locus of control on investment decision.

## **HYPOTHESIS OF THE STUDY**

H<sub>0</sub>: There is no significant relationship between locus of control and savings

H<sub>1</sub>: There is a significant relationship between locus of control and savings

H<sub>0</sub>: There is no significant impact of locus of control on investing decision.

H<sub>1</sub>: There is a significant impact of locus of control on investing decision.

## **METHODOLOGY**

The research methodology is used for the study is presented as follows

## **SOURCE OF THE DATA**

The study is an empirical study. For this study only primary data is used and data is collected through structured questionnaire.

## **QUESTIONNAIRE FOR THE STUDY**

The structured questionnaire is divided into three parts first one is the personal profile of the respondents which contains Age, Gender, Marital Status, Educational qualifications, Religion, Occupation, Pension scheme and Annual income. The second one is locus of

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control is adopted from Burger, J. M. Personality: Theory and Research, and the third one contains saving and investment.

### **SAMPLE SELECTION**

For the present study convenience sampling has been taken. The data were collected from 100 respondents.

### **TOOLS USED**

The present study is analyzed with the help of SPSS and tools like descriptive statistics, Chi-Square test and independent-sample t-test were used for the analysis.

### **DATA ANALYSIS**

The Profile of the profile of the respondents in the study was analyzed by using Descriptive Statistics and to analyze the relationship between locus of control and investment Chi-Square and independent-sample t-test have been done.

<b>Tale: 1 Personal profile</b>		
<b>Age</b>	Frequency	Percent
Upto 30 Years	23	22.8
31 to 40 Years	60	60.4
41 Years and above	17	16.8
Total	100	100.0
<b>Gender</b>		
Male	61	61.4
Female	39	38.6
Total	100	100.0
<b>Marital status</b>		
Married	82	82.2
Unmarried	18	17.8
Total	100	100.0
<b>Education</b>		

Under graduate	1	1.0
Graduate	6	5.9
post graduate	73	73.3
Professional	19	18.8
Others	1	1.0
Total	100	100.0
<b>Religion</b>		
Hindu	92	92.1
Muslim	7	6.9
Christian	1	1.0
Total	100	100.0
<b>Occupation</b>		
Salaried	82	82.2
Business	1	1.0
Professional	7	6.9
Student	10	9.9
Total	100	100.0
<b>Pension scheme</b>		
Yes	33	32.7
No	67	67.3
Total	100	100.0
<b>Annual Income</b>		
Below 2,00,000	15	14.9
2,00,000-5,00,000	38	38.6
5,00,000-8,00,000	28	27.7
8,00,000-10,00,000	9	8.9
Above 10,00,000	10	9.9
Total	100	100.0

Source: Primary Data

Table 1 presents the personal profile of the respondents. It reveals that the majority of the respondents belong to the age group between 31-40 year (i.e., 60.4 percent) and the gender

the male respondents are maximum (i.e., 61.4 percent) as compared to female respondents (i.e.,38.6 percent) are participating in saving and investments. It also reveals that most of the respondents are married (i.e., 82.2 percent) as compared to unmarried (i.e., 17.8 percent) and the majority of the respondents belongs to the class of postgraduates (i.e., 73.3 percent) and professional are 18.8 percent are participating in savings and investment. Most of the respondents are belongs to Hindu religion (i.e. 92.1 percent) and majority of the respondents are salaried (i.e.,82.2 percent) and professional are 6.6 percent and most of the respondents are not covered under any pension scheme (i.e., 67.7 percent) and more number of respondents annual income is 200000 to 500000 it contains 38.6 percent.

<b>Tale: 2 Locus of Control and Savings ( Cross tabulation )</b>					
Locus of Control		Savings			Total
		Up to 20 Per cent	20 to 40 Per cent	Above 40 Per cent	
External	Count	21	26	8	55
	% within Locus of Control	38.2%	47.3%	14.5%	100.0%
Internal	Count	10	20	15	45
	% within Locus of Control	22.2%	44.4%	33.3%	100.0%
Total	Count	31	46	23	100
	% within Locus of Control	31.0%	46.0%	23.0%	100.0%
<b>Chi-Square Tests</b>					
		Value	df	Asymp. Sig. (2-sided)	
Pearson Chi-Square		5.875	2	0.053	

Source: Primary Data

Table 2 reveals the locus of control and savings. The external locus of control is 38.2 percent of respondent's savings are Up to 20 percent, 47.3 percent of respondent's savings are 20 to 40 percent and 14.5 percent of the respondent's savings are more than 40 percent. It indicates that the internal locus of control is 22.2 percent of respondent's savings are up to-20 percent, 44.4 percent of respondents savings are 20 to 40 percent and 33.3 percent of respondent's savings are more than 40 percent. It clearly shows that internal locus of control (77.7% i.e.

44.4+33.3) of the respondents has saved more than 20 percent of saving compared to the external locus of control (61.8 i.e. 47.3+14.5) percent. The chi-Square value is 5.875 and 'p' value is 0.053 statistically insignificant. Therefore the Null hypothesis is accepted. It can be concluded that there is evidence to suggest there no association between internal locus of control and external locus of control in terms of savings.

<b>Table: 3 Locus of Control and Investments (Group Statistics)</b>											
	Locus of Control	N	Mean	Std. Deviation	Std. Error Mean						
LRI	External	55	4.3742	1.26672	0.17081						
	Internal	45	3.9558	1.15621	0.17236						
MRI	External	55	3.9955	1.65516	0.22318						
	Internal	45	3.2556	1.44057	0.21475						
HRI	External	55	3.4756	1.76167	0.23754						
	Internal	45	2.4080	1.19373	0.17795						
<b>Independent Samples Test</b>											
		Levene's Test for Equality of Variances		t-test for Equality of Means							
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
										Lower	Upper
LRI	Equal variances assumed	0.092	0.763	1.71	98	0.091	0.4184	0.2449	-0.0676	0.9044	
	Equal variances not assumed			1.72	96.79	0.088	0.4184	0.2427	-0.0632	0.9000	
MRI	Equal variances assumed	1.816	0.181	2.36	98	0.020	0.7399	0.3141	0.1166	1.3632	
	Equal variances not assumed			2.39	97.60	0.019	0.7399	0.3097	0.1252	1.3546	
HRI	Equal variances assumed	7.694	0.007	3.46	98	0.001	1.0676	0.3081	0.4562	1.6791	
	Equal variances not assumed			3.60	94.93	0.001	1.0676	0.2968	0.4784	1.6569	

Source: Primary Data

Table -3 shows the locus of control and investment. An independent sample test was conducted to compare to an external locus of control and internal locus of control in terms of investment. There was an insignificance difference between external locus of control and internal locus of control in Low-Risk Investments (LRI). Degree of freedom is 98, t- value 1.71 p-value is 0.091 which is more than 0.05, the mean value of external locus of control is 4.37 with a standard deviation 1.26 scoring higher than internal locus of control. The mean value of internal locus of control is 3.95 with a standard deviation of 1.15. The magnitude of the difference in the mean (mean difference = 0.418, 95% Confidence Interval of the Difference: 0.067 to 0.90) was small.

There was a significant difference between external locus of control and internal locus of control in Moderate Risk Investments (MRI) in line with RosyeniRasyidet.all (2018). Degree of freedom is 98, t- value 2.36 p-value is 0.020 which is less than 0.05, the mean value of external locus of control is 3.99 with a standard deviation 1.65 scoring higher than internal locus of control. The mean value of internal locus of control is 3.25 with a standard deviation of 1.44. The magnitude of the difference in the mean (mean difference = 0.73, 95% Confidence Interval of the Difference: 0.116 to 1.363) was moderate.

There was a significant difference between external locus of control and internal locus of control in High-Risk Investments (HRI). Degree of freedom is 98, t- value 3.60 p-value is 0.001 which is less than 0.05, the mean value of external locus of control is 3.47 with a standard deviation 1.76 scoring higher than internal locus of control. In consistence with (Nicolas Salamanca et. All) (2016). The mean value of internal locus of control is 2.408 with a standard deviation of 1.193. The magnitude of the difference in the mean (mean difference = 0.296, 95% Confidence Interval of the Difference: 0.478 to 1.656) was moderate. Previous studies in consistence with PiaPingeret. all (2018).

## **IMPLICATIONS OF THE STUDY**

The present study indicated that there is a significant relationship between locus of control and investments. While designing financial products the personality aspects of the investors may be considered. This will be helpful to both investor and organisation too.

## CONCLUSION

India has one of the highest saving and investment rates in the world. Based on the result, it can be concluded that internal locus of control has a positive relationship with savings i.e. 77.7 percent of the respondents were saved more than 20 percent of their earnings. External Locus of control has a significant positive relationship with high-risk investment and moderate risk investments, whereas low-risk investments and locus has a statistically insignificant relationship. It can be concluded that there is a positive relationship between locus of control, saving and investment.

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