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CHALLENGES IN INVESTMENT DECISION MAKING IN INDIAN STOCK MARKET: A FACTOR ANALYSIS

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ABSTRACT

The present study analyzes challenges in the investment decision making. The study used primary data collected from 384 potential investors in Karnataka. The principal component analysis is used for the factor analysis. The study found that timely information on investment, delay in payment of returns and claim settlement, safety of principal, low liquidity, and inadequate disclosure have been identified under the first component. These five challenges need to be simultaneously addressed and need to be solved with the highest priority. Lack of knowledge, selection of company, and uncertainty of returns are the factors identified under the second component. These three challenges also need to be simultaneously considered for investment decisions. Unclear terms and conditions and selection of scheme are the factors identified under the third component with the third highest influence. Accordingly, the factor analysis succeeded in identifying the joint factors as a group of challenges under the three components in order to better understand challenges in investment decision making.

KEYWORDS: Investment, Uncertainty, Returns, Decision Making, and Factor Analysis

INTRODUCTION

Investment plays a crucial role in the growth and development process. There is positive linkage between investment and growth of a nation (Deepak, Pradeepta, & Rajit, 2022). The individuals of a nation will significantly contribute in the investment process (Geethaa & Vimala, 2014). Though the investment by each individual is small, the total investment by all individual is significantly high (Kiran & Arun, 2023). In India, the magnitude of domestic saving is very high and significant in the development and growth process (Tarlok, 2008). Therefore, promoting saving and investment is the prime objective of governments and stakeholders of the investment market (Syed, Fiza, Jawad, &

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 263-270

Sayema, 2022). In order to promote the investors, it is also important to understand the challenges faced by the individual investors (Dattatray & K. Kumar, 2019). Individuals have faced different types of challenges in the real world. The challenges faced by the investors are listed below (Jayant & Venkatesh, 2012);

C1: Lack of Knowledge,

C2: Selection of Company,

C3: Uncertainty of Returns,

C4: Unclear Terms and Conditions,

C5: Selection of Scheme,

C6: Timely Information on Investment,

C7: Delay in Payment of Returns and Claim Settlement,

C8: Safety of Principal,

C9: Low Liquidity, and

C10: Inadequate Disclosure.

The above mentioned are the important challenges faced by the investors. A better understanding of each of the above challenges will give a better idea for the formation of an investment strategy, which will help the investors and companies as well as the development of India.

REVIEW OF LITERATURE:

Saving and investment are the two important aspects largely examined and analyzed by the previous researchers (Syed, Fiza, Jawad, & Sayema, 2022). Researchers have also evaluated the factors that determine saving and investment (Fat Codruta & Dezsi, 2012). The reasons for investment are also discussed by many researchers. Trends, growth, and fluctuations in investment are also examined by using time series data (Deepak, Pradeepta, & Rajit, 2022). The awareness of investors on investment decisions is also analyzed by few researchers. However, the challenges faced by the investors are not exclusively discussed and examined. Investment decisions with challenges in investment are rarely examined by previous studies. The challenges faced by investors, particularly in the tier two cities, are also very rare. Therefore, the present paper will examine the challenges in the investment decisions. Hence, the present work is a step forward in this direction.

METHODOLOGY:

The present study uses primary data for the analysis of challenges in investment decisions. The primary data are collected from the tier two cities like Mysuru, Davanagere, Shimoga, and Hubli in

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 263-270

Karnataka. The size of the sample was determined with the large population formula method with 95 percent confidence and a 5 percent margin of error. As per the formula, the sample size is 384. The data are collected through questionnaire and mailing methods. The data are collected on a Likert scale. The scale starts from 1 to 5 with 1 for strongly disagree and 5 for strongly agree for the statement about the severity of the challenge in investment. Each of the challenges, individually and jointly with other challenges play a significant role in the investment decisions. Therefore, the factor analysis is used for the analysis. The factor analysis is the system procedures. Hence, descriptive statistics, correlation matrix, KMO, and Bartlett's tests are also used to support the factor analysis (Fat Codruta & Dezsi, 2012).

RESULTS AND DISCUSSION:

In the following section an attempt has been made to analyze the challenges in investment decisions using factor analysis. The factor analysis has been used to identify the combination of challenges, which jointly determine the investment decisions. The five point Likert scale was used for data collection, and opinions have been recorded on the scale of 1-5. The scores of the respondents are summarized and presented in the following descriptive table.

Table 1: Descriptive Statistics

Variables	Mean	Std. Deviation
C1	3.86	1.387
C2	4.16	1.222
C3	4.26	1.242
C4	4.34	1.209
C5	4.03	1.218
C6	2.016	1.1982
C7	2.107	1.2206
C8	2.091	1.1960
C9	2.401	1.2159
C10	2.474	1.0444

Source: Primary data; results are computed by author.

The average scores for each challenge in investment decision making are computed and presented above. The standard deviation is computed to know the consistency in the scores for challenges in investment decision making. The average score for challenges in investment decision making is 2.474, and the standard deviation in the average score is 1.0444. The respondents have given the highest score to mother consultation.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 263-270

The correlation matrix for challenges in investment decision making is estimated, and it is found that the diagonals are the unit matrix and give solutions for factor analysis. The highest correlation coefficient value was found between selection of company and uncertainty. It has also been proven that correlation coefficients between the factors are other than zero. Therefore, factor analyses are advisable for analysis of challenges in investment decision making.

Table 2: KMO and Bartlett's Test for Challenges in Investment

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.762
Bartlett's Test of Sphericity	Approx. Chi-Square	4492.948
	df	45
	Sig.	.000

Source: Primary data; results are computed by the author.

The Kaiser-Mayer-Olkin and Bartlett's test were conducted to identify the adequacy of samples for factors determining challenges in decisions. It has been found that the KMO value is 0.762, and it is greater than 0.5. Hence, sample data used for factor analysis are adequate for identifying the factors for challenges in investment decisions. The chi-square test value is 4492.948, and it is significant at the one percent level. Therefore, there are strong relations among the factors used for factor analysis of challenges in decision making.

Table 3: Communalities for Challenges in Investment

Factors	Initial	Extraction
C1	1.000	.938
C2	1.000	.974
C3	1.000	.964
C4	1.000	.968
C5	1.000	.968
C6	1.000	.775
C7	1.000	.843
C8	1.000	.844
C9	1.000	.742
C10	1.000	.712
Extraction Method: Principal Component Analysis.		

Source: Primary data; results are computed by the author.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 263-270

The communalities for each factor of challenges in investment are calculated, and it is found that initial values for factors are one and extraction values are other than zero. Accordingly, the present factor analysis will identify at least one component, which represents more than one factor, which represents challenges in investment.

Table 4: Total Variance Explained for Factors of Challenges in Investment

Components	Total	% of Variance	Cumulative %
1	3.913	39.131	39.131
2	2.910	29.100	68.231
3	1.907	19.069	87.300

Source: Primary data; results are computed by the Author.

The total eigenvalue for the factors of challenges in investment related components and the percentage of variance explained by each component for factors are estimated and presented in the above table. Based on the eigenvalue, three components are extracted. The first component explains 39.131 percent of the variation in total variation explained by all the factors. The second component explains 29.1 percent of variations. The third component explains 19.069 percent of variations. Together, three components have explained 87.3 percent of variation in challenges in investment decisions.

Identification of Factors for Challenges in Investment:

The pattern matrix, which is also a rotated component matrix has been used for factor extraction under each component, as multiple components have been identified by the Principal Component Analysis (PCA). The component matrix method has been used to identify the factors under each component for which the value is greater than 0.7 (a factor loading of approximately 0.7 is considered to be sufficient).

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 06 Nov-Dec; 2025 Page. No. 263-270

Table 5: Rotated Matrix of Factors for Challenges in Investment

Factors	Component		
	1	2	3
C1	.026	.917	-.309
C2	.021	.967	-.199
C3	.040	.973	-.127
C4	-.054	-.187	.965
C5	-.045	-.384	.905
C6	.879	.035	-.048
C7	.917	.006	-.048
C8	.918	.001	-.023
C9	.861	.018	-.004
C10	.841	.056	-.036
Extraction Method: Principal Component Analysis. Rotation Method: Vari-max with Kaiser Normalization.			
a. Rotation converged in 4 iterations.			

Source: Primary data; results are computed by the researcher.

The principal component analysis (PCA) for factors of challenges in investment has been performed and identified all 10 factors under three components, which significantly (with a factor score of 0.7 and above) influence the investment decisions.

Out of 10 factors, five factors have been identified under the first component. Three factors have been identified under the second component. Two factors have been identified under the third component. According to the order of factor identification, timely information on investment, delay in payment of returns and claim settlement, safety of principal, low liquidity, and inadequate disclosure have been identified under the first component. These five factors have jointly posed challenges to investment with the highest influence. Lack of knowledge, selection of company, and uncertainty of returns are the factors identified under the second component with the second highest influence. Unclear terms and conditions and selection of scheme are the factors identified under the third component with the third highest influence.

It has been found from the above analysis that out of ten identified factors, five factors have been identified under the first component. Accordingly, while making investment decisions, all five factors need to be jointly considered. Hence, issues in timely information on investment, delay in payment of returns and claim settlement, safety of principal, low liquidity, and inadequate disclosure need to be

simultaneously addressed and need to be solved with the highest priority. At the same time, the three factors lack of knowledge, selection of company, and uncertainty of returns also need to be simultaneously considered for investment decisions. Last but not least, unclear terms and conditions and selection of scheme will also need to be jointly considered in solving the issues in investment decisions.

CONCLUSION:

The present paper has analyzed the challenges in investment decision making. Ten important challenges have been identified for the study, and it was found that timely information on investment, delay in payment of returns and claim settlement, safety of principal, low liquidity and inadequate disclosure have been identified under the first component. These five challenges need to be simultaneously addressed and need to be solved with the highest priority. Lack of knowledge, selection of company, and uncertainty of returns are the factors identified under the second component. These three challenges also need to be simultaneously considered for investment decisions. Unclear terms and conditions and selection of scheme are the factors identified under third the component with third the highest influence. Accordingly, the factor analysis succeeded in identifying the joint factors as a group of challenges under the three components in order to better understand challenges in investment decision making.

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