

# IMPACT OF FINANCIAL STYLES ON INVESTING DECISIONS WITH MEDIATING EFFECT OF BEHAVIOURAL BIASES: A COMPARATIVE ANALYSIS OF PAKISTANI AND UK FIRMS

Mehwish Ali Khan, Riphah International University  
Iram Naz, Riphah International University  
Matti Ullah Farooqi, Riphah International University

## ABSTRACT

*Purpose of the study is to explore the impact of financial styles of top executives on investing decisions and the mediating role of behavioural biases (like status quo and illusion of control) between financial styles and investing decisions. Top executives in business organizations from Pakistan and United Kingdom constitute the population of this study. Considering the nature of study, convenient sampling was chosen for data collection. Questionnaires were emailed to top executives in sample countries. Structural Equation Modelling was used as data analysis technique with help of AMOS 18, SPSS 20. The results show that both status quo and illusion of control act as mediator between financial styles and investing decisions while financial styles significantly impact investing decisions.*

**Keywords:** Behavioural Finance, Financial Styles, Behavioural Biases, Investing Decisions.

## INTRODUCTION

Top executives of the firms are charged with the responsibility of decision-making that inevitably affects the value and performance of their respective organizations. It is therefore important for both the organizations and the executives to have an understanding of the processes that influence their decision-making styles. Conducting research studies on the process of decision making is not a new phenomenon. Research in decision-making process can be traced back to the eighteenth century through contribution in many academic and practical fields. In academic literature, it is now widely accepted that the roots of science of decision-making lie somewhere in human behaviours. It is basically the human thought processes and their reaction to the external world, involving the realized and expected incidents, and the cognitive significance of these events to the decision maker (Oliveira, 2007). Huber (1980) finds that there are two approaches to a study of decision-making in management. According to him one describes “how one should make a decision” (Normative), and the other describes “how people are actually making decisions” (Descriptive). An explanation of normative decision theory can be that “in order to be rational in decision-making, how one should make decisions”. This gives rise to a question: are top executives rational decision-makers? To answer this question, we need to move towards an accurate view of the concept of rationality. One such view, called bounded rationality, has been expressed by (Simon, 1979). According to the bounded rationality theory, the processes of human thought are limited or bounded. While an ability to make rational decisions remains a realistic possibility, in real world, not all of the top executives and managers are rational.

The inference that can be drawn from available information – and hence the value of information obtained for rational decision-making - is not only dependent on the social factors but also on the psychological characteristics of the decision-maker. Tversky & Kahneman (1974) have devoted years of research to find the factors and biases that effect rational decisions. In 1979, they came up with a prospect theory to analyse decision-making under risk. Elaborating on risk aversion theory, Tversky and Kahneman contend that people attach twice the weight to a probability of loss than to the probability of gain when making a decision under risk. Samuelson & Zeckhauser (1988) explained the loss aversion theory in another context, people tend to maintain status quo, because they believe that the loss of leaving a position outweighs the gains out of it. They termed this phenomenon as status quo bias. This bias originates out of human cognition and may lead the people to choose things that do not tend to change or change only marginally if they must change at all. The status quo bias among managers may increase the likelihood that they stick with their positions or decisions when they face new options. Illusion of control is yet another bias related to decision making. Shefrin introduced the theory of illusion of control. According to him people tend to believe that they have control over and can influence the outcome of their decisions whereas the actually situation may be quite different. This bias gives a false notion that outcomes of the decisions are controllable leading the decision-makers to be less vigilant in their task of objectively evaluating all the available information before making the decision.

These behavioral biases arise out of different financial traits embedded in the personality of each decision-maker. According to Prince (2005) these financial traits are known as financial signatures (Raykov & Marcoulides, 2000). Now the question at hand is: how do the financial traits of the top executives influence firm's strategic financial decisions? All top executives of the firms have certain financial signatures. These financial signatures explain an intrinsic calculus possessed by all individuals; this calculus drives their behavior when they make decisions that involve risk and return, and cost and benefit. Every individual has characteristics to handle such situations. The financial signature imposes a systematic but unconscious bias on all decisions, particularly those that ultimately influence the financial performance, profitability, net worth and market valuation of the organization. There are two components of financial signature i.e. attitude towards resource utilization and value addition. Resource utilization attitude determines how CFOs/CEOs spend or conserve money (capital or resources) whereas value addition attitude is about how they seek to improve their returns (share value, market capitalization, etc.). By identifying financial signature of the CEOs/CFOs, we can understand how they evaluate or balance the value and resource use issue. Knowledge of a CEO/CFO's financial signature can help to improve the performance of their firm. There are nine financial signatures which are further categorized into three financial styles (surplus, puzzler and deficit). Bertand and Schoar, shed new light on the link between the personal profile of the top managers and the outcome of the company.

Most if not all decisions taken by corporations are dictated by the objective of value maximization. However, the principal tools of value maximization are investing and financing decisions. If financial signature (of the decision-maker) impacts these decisions, it is quite possible that such decisions may deviate from the path of value maximization. Certain personality attributes (arising out of financial signatures) are likely to lead financial managers to make less than optimal decisions. This diversion could be towards too risky or too safe decisions, leading to enhanced risk profile or sub-optimal returns. Therefore, the role of biases in connection with financial decisions is important. Board of directors that appoints CFO/CEO

must therefore pay due attention to the financial styles of those whom it is assigning the responsibility to make these decisions. This study tries to answer the question of how financial styles influence investing decision of the firm in the presence of behavioral biases as mediator. Prince (2005) relates financial styles to the financial outcome, while financial outcome is result of financial decisions. Thus, this study tries to explore the mechanism of this linkage between financial styles and financial outcome. Since financial signature generates certain biases, the mediation role of these biases has been allocated due weight in this study.

Researchers believe that several possibilities exist in the realm of financial styles of decision-makers. For example, it is possible that CEOs/CFOs with similar financial signatures may act similarly in a given economy while in a different economy, it may transpire that even similarity in financial signatures does not necessarily lead to similar decision-making. A need for studying such situations is not as infrequent as it may appear at first glance since most companies now operate in a number of different countries, each with its own set of economic circumstances and cultural boundaries. This effectively is an uncharted territory where very little, if indeed any, research exists. While attempting to seek the linkage between a particular personality attribute and a particular financial decision may not offer much scope for academic excitement; a formal study to explore causes and consequences of the possible differences in financial decisions made by persons with different financial styles in different economies is likely to add significantly to corporate financial behavioral science as well as corporate finance generally.

This study is based on primary data and it is expected to contribute towards literature on corporate behavioral finance. The study focuses on CEOs/CFOs who bear the responsibility for the financial performance of their respective organizations. An understanding of financial styles and their role in financial decision making can be very important for those who appoint such CEOs/CFOs. This study may help them to understand the extent to which the firm's corporate financial strategies will bear the stamp of financial styles of their new CEO/CFO. In turn this implies that if the board wishes to follow a particular line of financial strategy, it should appoint a CEO/CFO whose financial styles is consistent with the desired strategies and which also corresponds to the nature of the market and economy in which the company operates.

One important aspect of this study is focus on comparative analysis. We have tried to explore the impact of financial styles on investing decisions made by top executives in two different economies: Pakistan and UK. We are tried to discern if the difference in decisions is attributable solely to basic difference in financial styles or does the difference in economies (and kindred cultural boundaries) also has a role to play.

Prince (2005) introduced the term "financial styles", according to him financial styles influence performance of the firm but he skipped strategic decision which is the input of the financial performance. This study however follows the entire logical sequence in financial decision making process.

The study is organized as follows: Section 2 discusses the literature and hypotheses, Section 3 discusses the methodology of the study, and Section 4 discusses data analysis while section 5 concludes the study.

## LITERATURE REVIEW

The area which we are going to study is a relatively unexplored territory. We have very little to go by. There is an evidence in literature that while exploring a new area, authors can make certain assumptions and carry out the research for example Myer and Majluf in their study "corporate financing and investment decisions: when firms have information that investor do not

have” state that they have so far found no compelling theoretical justification that favored their statements about management’s objective under asymmetric information. Their three statements are; 1) managers act in the interest of all shareholders, and they ignore conflict between interest of old and new shareholder. 2) Managers act in the interest of old shareholders and suppose that they are inactive. 3) Managers act in the interest of old shareholder but assume they rationally rebalance their portfolio as they learn from the firm’s action. According to them a theory, or at least a story, could be developed to support these statements. They suggest some of these stories as they go along. However, they do not claim to have a theory of managerial behavior fully supporting their model. They treat the three statements as possible assumptions about managerial behavior. Since they cannot judge the assumptions’ realism, they turn instead to their positive implications. Due partly to a dearth of directly related literature, we have opted to proceed on the assumption that financial styles of top executives influence investing decision of the firm.

Samuelson & Zeckhauser (1988) observe status quo bias in variety of laboratory and field data, according to them status quo is tendency of individuals to stick on previous decision regardless of the change in their environment. They note that when transaction cost or calculations are high, status quo bias is optimal. According to Li status quo bias is a very vital factor that can influence decision making of the investors. The result of their study is that status quo bias is higher in the price differential frame than in the ratio frame of the investable portfolio. They also find that status quo bias is lower in positive emotion investors whereas it is higher in negative emotion investors.

Kempf and Ruenzi examine the extent of the status quo bias in the real world repeated decision situation in their paper of status quo bias and number of alternatives. According to them individuals who are subject to the status quo bias they choose an alternative that they have chosen previously even though that alternative is no longer optimal. They examine equity mutual fund market of US and find strong evidence of Status quo bias. According to Rubaltelli, Rubichi and Marcello investment decision are very important because they involve money and can also influence quality of life. They performed experiments and found proof of a strong absolute magnitude effect on investment decisions. Their results are consistent with results.

According to Langer & Rohit (1975) defines illusion of control as “*an expectancy of a personal success probability inappropriately higher than the objective probability would warrant.*” According to him there are different factors like choice, task familiarity, competition and active involvement that lead to overconfidence. Langer found that if we ask people to select their own number from lottery game they demanded higher price for their tickets than those who assigned random number. This was initial study, many researchers found that people perceived that they have more control then they actually have.

Charness & Gneezy (2010) investigate how investment choices between a safe and a risky asset vary with illusion of control. The success off risky investment is determined by rolling die. The treatment is different in who rolls the die or whether sit’s subject to pay themselves. They found that 68% people prefer to roll die if it is free whereas 9% are willing to pay \$0.50 for choice making. This is consistent with the low average willingness to pay for control. But they don’t measure beliefs. They thus cannot study whether those few paying for control hold illusory beliefs that control has instrumental value.

Prince (2005) explains how financial styles of managers impact financial and valuation metrics of firms. He uses assessment instruments to identify financial traits of the managers. According to him financial traits lie within us, so these are innate behaviours. These financial traits comprise of inner calculus, which drive how top executives/managers make decisions that

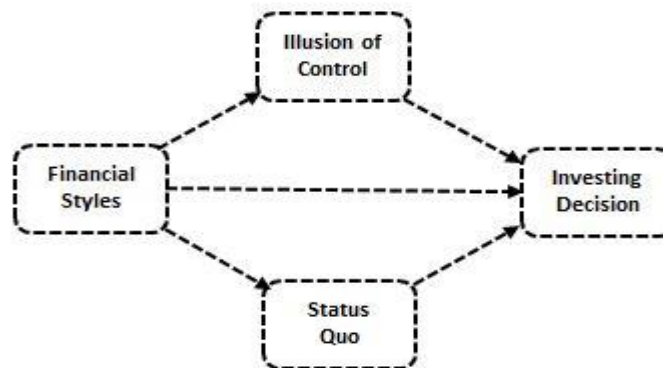
involve risk and return. Prince, (2005) explains that every individual has different behavioural patterns that will create different financial values for the firm. These behavioural patterns are called financial signatures. His research identifies nine financial signatures, which are grouped into three financial styles.

According to Prince (2005), CEOs and top executives have their own financial preferences that are eventually expressed in their decisions. According to him every executive has different fiscal behaviour that will add value to the firm differently. Fiscal behaviour explains how CEOs/managers manage expenditure and income of the firms they run. To measure the fiscal behaviour of the executives he uses the term financial signature that can capture value related information, this value is built by the executives using firm resources.

Several researches investigate the decision making characteristics of CEOs and managers and relate these to their impact on financial performance of the company. Schoar & Zuo (2017) investigates the impact of managerial characteristics of CEOs on the performance of the company. Most recent research shows the consistency of financial styles between personal and corporate financial choices on the issue of personal and corporate leverage. These researches link financial behavior with financial outcomes. It shows that personal financial behavior of CEOs is at least partially predictive of their company's financial performance (Cronqvist et al., 2012). According to Cesarini behavioral anomalies such as conjunction fallacy, default bias, loss aversion are heritable and these are mediating by genetic variance in cognitive ability.

Financial styles may impact the investing decision. According to Prince (2005) there are unconscious bias (illusion of control and status quo bias) arise out of financial styles. Thus consistent with the theory of financial styles and following suggestions of Baron & Kenney (1986) to test for mediation this research put forward the following hypothesis:

According to behavioural decision theory and literature, we are going to test the following hypothesis and following theoretical proposed model. The proposed model show that investing decisions as dependent variable, behavioural biases as mediator and Financial Styles as independent variable Figure 1.



**FIGURE 1**  
**BEHAVIOURAL DECISION THEORY AND LITERATURE**

***Hypothesis 1:** The Illusion of control significantly mediates the relationship between Financial Styles and Investing Decision.*

**Hypothesis 2:** *The Status quo bias significantly mediates the relationship between financial styles and investing decision.*

## RESEARCH METHODOLOGY

The study was causal in nature and questionnaire was used for collection of data. Sample design consisted of the size of population, sample element, sample size sampling techniques. The population of the study was all top executives (CEOs, CFOs and General Manager Finance) of Pakistan and UK firms (Bertrand & Schoar, 2003).

Convenient sampling technique was used. Questionnaires were floated through Email. 80% of the respondents were males. An individual respondent was considered as element of study. In all, 630 questionnaires were distributed to top executives of Pakistani and UK firms. 330 questionnaires were sent out in Pakistan, out of which 132 were received. 300 questionnaires were e-mailed to UK executives, out of which 70 were received and are in usable form. Total 202 questionnaires have been collected out of which 32% are filled by CEOs, 39% by CFOs and the rest by GM Finance. The responses were gathered on 5 point Likert scale for all variables. The measures were tested for reliability and validity. Validity of content of measures was established through a panel of experts before using the measure for collecting data for study. We have used SPSS 20 to test the internal consistent reliability Cronbach's alpha (Edwards, 1954).

Financial styles were assessed through two variables: resource utilization and value addition. After using these two variables we identified financial styles as determined by Prince (2005) and classified the managers accordingly. The Cronbach's alpha of resource utilization is found 0.72 whereas for value addition it is 0.763. In this study we have used two behavioural biases illusion of control and status quo bias. Illusion of control was assessed by four items – a method used by Keh in their study. The Cronbach's alpha of illusion of control in context of this study is 0.832. Status quo bias was assessed by four items as done by (Babajide & Adetiloye, 2012). The Cronbach's alpha of status quo bias in context of this study is 0.7. The data of investing decision was gathered from four items which was already used by (Graham et al., 2013). The Cronbach's alpha of investing decision in context of this study is 0.745.

## DATA ANALYSIS

### Model Fitness

In this research paper we have conducted Confirmatory Factor Analysis by using AMOS 18 to test the construct questionnaire validity. The results of CFA show that the factor loading of observed variables on latent variables is significant and indicate a good model fit (Byrne & Van de Vijver, 2010).

In this research paper we have used Structural Equation Model and Bootstrapping using AMOS and MedGraph software to conduct the analysis.

According to empirical researches, CFA is used to assess Comparative fit index (CFI), the root mean square of approximation (RMSEA), goodness fit index (GFI). Table 1 show the results of these tests.

<b>CMIN</b>	<b>DF</b>	<b>P value</b>	<b>CMIN/DF</b>
164.203	146	0.144	1.125
SRMR		0.063	
GFI		0.928	
AGFI		0.9	
CFI		0.98	
RMSEA		0.025	
NFI		0.91	

**CFI:** This index is used to compare proposed model fit with null model that assumes there is no relationship between the measures. The value of CFI close to 1 is considered as accepted indicator of well-fitting model. According to Bentler (1995) value of CFI more than 0.90 indicates an acceptable fit to the data. Table 1 indicates that value of CFI in our model is very high that is 0.98, which indicates a very good model fit (Kahneman & Tversky, 1973).

**RMSEA:** It is an index that is used to assess the residual. According to Hu & Bentler (1999) RMSEA should be equal to less the 0.08 for adequate model fit. Table indicates the value of RMSEA is 0.025.

**GFI:** This index tells us about the portion of variance in the sample variance-covariance matrix that is accounted for by the model. This should exceed 0.90 for a good model. Table indicates the value of GFI is 0.93.

**AGFI:** Adjusted GFI is an alternate GFI index in which the value of the index is adjusted for the number of parameters in the model.

**NFI:** The Normed Fit Index is simply the difference between the two models' chi square divided by the chi-square for the independence model. The value of NFI should be higher than 0.90 for good model fit. In our case, it stands at 0.91 as shown by Table 1.

### **Content (Internal) Validity**

According to Bohrnstedt & Felson (1983) validity of content based on how well the researcher created measurement items that are used by the relevant literature to cover the content domain of the variable that is being measured. The items that are used in this study are based on review of extensive literature and to give a strong content validity to the variables that are being measured in this study.

### **Convergent Validity**

The Bentler-Bonett NFI index obtained by using CFA can be used to assess convergent validity. This index measures the extent to which different approaches that are used to measure a construct that produces same results (Ahire et al., 1996). According to the rule of thumb, value of NFI must be greater than 0.90 to indicate an adequate model fit (Bentler, 1995). Table 1 shows that value of NFI is greater the 0.90.

## RESULTS

Analysis of mediation needs some assumptions as required by the regression analysis. Regression analysis is required to verify model fitness and to identify collinearity in the data. Therefore correlation coefficient, regression coefficients, t-statistics, F values, R<sup>2</sup>, adjusted R<sup>2</sup> and VIF are calculated for preliminary screening data and model fitness. The data in table 2 shows pair-wise correlation of all variables in the proposed model.

	<b>FS</b>	<b>IOC</b>	<b>SQ</b>	<b>ID</b>
<b>FS</b>	1			
<b>IOC</b>	0.243**	1		
<b>SQ</b>	0.177**	0.721**	1	
<b>ID</b>	0.253**	0.721**	0.751**	1

FS = Financial Styles; IOC = Illusion of Control;

SQ = Status Quo; ID = Investing Decision;

\*\* . Correlation is significant at the 0.01 level (2-tailed)

According to the results of Table 2 correlation coefficients are highly significant. No extreme correlation coefficients are found which indicates there is no sign of collinearity. For the purpose verifying model fitness and further examining collinearity, we have also calculated direct effect of all explanatory variables on dependent variables. The results of direct effects are summarized in Table 3.

For the purpose verifying model fitness and further examining collinearity, we have also calculated direct effect of all explanatory variables on dependent variables. The results of direct effects are summarized in Table 3.

	<b>ID</b>
<b>FS</b>	$\beta$ (t-value; p-value)
	0.090(2.015; 0.05)
<b>IOC</b>	0.321(5.663; 0.000)
<b>SQ</b>	0.526 (7.771; 0.000)
<b>R<sup>2</sup></b>	0.637
<b>AR<sup>2</sup></b>	0.632
<b>F (sig.)</b>	116.011 (0.000)
<b>VIF</b>	2.754

Note: FS = Financial Styles; IOC = Illusion of Control; SQ = Status quo; ID = Investing decision

The results shown in Table 3 depict that Investing Decisions, Financial styles, Illusion of Control and status quo bias significantly contribute (F= 116.01; p value 0.000) and it explains 63.7% variation in investing decisions. Values of beta (FS,  $\beta$ = 0.090; IOC,  $\beta$ = 0.321; SQ,  $\beta$ = 0.526) show significant association between explanatory variables and outcome variable at 5% level of significance.



### Mediation Effect of Illusion of Control (IOC) in Association Between Financial Styles (FS) And Investing Decision (ID)

To test mediation effect we used Sobel test which is perhaps the most recommended technique for the purpose. Sobel test is appropriate for the 200 or above sample size and data having good statistical power. The software used for the purpose was MedGraph.

The explanatory variables are financial styles, outcome variable is investing decision and predicted mediators are behavioural biases (IOC and SQ). To get the estimates of coefficients for the paths specified in Model, Sobel test was used. The following steps and series of regression analysis were carried out for the Sobel test.

In MedGraph software we first label three variables considered as independent (FS), Mediating variable (IOC) and outcome variable (ID). In the next step we calculate pair-wise correlation (using SPSS 20) between Independent variable, mediating variable and dependent variable and then feed these figures in the software. In the third step we regress independent variable on mediating variable and its un-standardized regression coefficient and standard error is entered in the software. In the last step, dependent variable (ID) was regressed on Independent and mediating variable and un-standardized regression coefficient, standard error, standardized coefficient and part correlation of mediating variable (IOC) were entered, as well as standardized coefficient and part correlation of independent variable (FS) and total R<sup>2</sup>. Table 4 shows the results of mediation effect of Illusion of control between investing decision and financial styles.

	ID
Sobel z value	3.418507
P Value > 0.05	0.00063
Total Effect	0.253
Direct Effect	0.083
Indirect Effect	0.17
IDE/TE ratio	0.673

The results in Table 4 show that Sobel Z value of 3.418 for mediation of Illusion of Control in relationship between financial styles and investing decision, p value is less than 0.05 which signifies that mediating variable plays a significant role between financial styles and investing decision. The indirect effect of the proposed model for investing decision was 0.170 which was found statistically significant at  $Z = 3.418$  and  $p < 0.05$ . Indirect effect to total effect ratio is 0.673 in Table 4 which shows that 67.3% of total direct effect of the financial styles has gone through mediating variable (IOC) on the investing decision. The comparison of coefficient for the direct and indirect effect (0.083, 0.170) implies that a large part of the effect of financial styles was mediated by the Illusion of Control. From the current study we concluded that illusion of control is statistically significant part of the total effect of financial styles and investing decision.

### Mediating Effect of Status Quo Bias (SQ) in association between Financial Styles (FS) and Investing Decision (ID)

Once again, Sobel test was used to get the results of mediating effect of the Status quo bias in relationship between Financial Styles and Investing Decision. To conduct the Sobel test we followed the same steps as were taken in the previous section. All pair-wise correlation, unstandardized coefficient, standardized coefficient, standard error, part correlation,  $R^2$  were calculated using SPSS 20 and the results were fed in software MedGraph. The results obtained are shown in Table 5.

<b>Table 5</b>	
<b>MEDIATION EFFECT OF SQ IN ASSOCIATION BETWEEN FS AND ID</b>	
	ID
Sobel z value	2.523664
P Value > 0.05	0.011614
Total Effect	0.253
Direct Effect	0.137
Indirect Effect	0.009
IDE/TE ratio	0.034

The results shown in Table 5 depict a Sobel Z-score of 2.524 for mediation of Status quo in association between Financial styles and Investing Decision and p value of 0.00116. As this is less than 0.05, it indicates that status quo bias significantly mediates between financial styles and investing decision of the firm. The indirect effect of the proposed model for the investing decision was 0.009 which is found statistically significant at p value 0.0116. The comparison of the indirect to total effect ratio in Table 5 pointed out that 3.4% of the total direct effect of the financial styles has gone through mediating variable (SQ) on the investing decision. The comparison of coefficients for direct and indirect effects (0.137, 0.009) showed that very small part of the effect of financial styles was mediated by the status quo bias. It comes out from the results that mediation through status quo though statistically significant, it explains only a very small part of the total effect of the financial styles on investing decision of the firm.

We also applied bootstrapping technique to test the mediation effect of behavioural biases in association between financial styles and investing decision and the results are consistent with Sobel Z test.

The results on the mediation effect of behavioural biases (IOC and SQ) in association between financial styles and investing decision provide satisfactory evidence to accept H1 and H2.

### **Comparison of Pakistani and United Kingdom's Firms**

For this part of the study we used the data from two countries; Pakistan and United Kingdom. Pakistan is a developing country whereas UK is a developed economy. Our objective was to determine if the impact of financial styles on investment decision of the top executives of the firms was similar or different in these two fairly different economies. For the purpose of analysis, we created intercept dummy variable for Pakistan and then regressed investing decision on financial styles and dummy variable. The results of regression are shown in Table 6.

	ID
DPFS	$\beta$ (t-value; p-value)
	0.030(5.316; 0.000)
FS	0.283(3.179; 0.002)

Note: DPFS = Dummy variable of Pakistan\*Financial Style; FS = Financial Styles.

Table 6 shows that t-value of slope dummy is 5.316 which is significant at p-value 0.000. This shows that impact of financial styles on investing decision is different for both countries. This difference can be attributed to the disparity in economies and cultural frameworks of the two countries. According to Xie et al. (1998), “*people in different cultures often have different ideologies and such differences are important to an organization*”. Different management studies have concluded that different economic and cultural environments require different ways to lead people and/or organisations.

According to the definition of Hofstede's culture is, “*the collective programming of the mind*”, which will influence both the leader and employees, and also the way the decisions are made. Culture have a different degrees of impact on decisions depend upon the part of world in which they are made. The result of our study is consistent with the literature that is the impact of financial styles of investing decision of the firms CEOs/CFOs in two different economies is likely to be different.

## CONCLUSION

The objective of the study was to explore the impact of financial styles of top executives on investing decisions. This was achieved by estimating significant impact of the mediating role of behavioural biases in association of financial styles and investing decision.

Based on the data which was collected through questionnaires from top executives of Pakistan and United Kingdom, we conclude that financial styles and behavioural biases have significant impact on investing decision of the firm. Various statistical tests used by us amply demonstrate that the relationship between behavioural biases and investing decisions is significant. The results of indirect to total ratio show that financial styles through behavioural biases is highest for illusion of control.

This study should prove of help to the following:

(a) Those who select top executives of firms. They can do well to carefully evaluate the financial styles of potential appointees before handing them the responsibility to take major investing decisions for the firm.

(b) Those who study or analyze financial markets, or make a living out of such markets. They can widen the scope of their investigations to include a study of the financial traits of important decision makers in the companies they are investing in.

## Directions For Future Research

The scope of the current study is limited to the CFOs/CEOs of Pakistan and UK firms. The scope of this study can be expanded by collecting data from other developing and developed countries. Due to our limitations in access to data, we were constrained to work with a fairly small data base. Future studies can be made with data collected from a much larger sample size.

This study is restricted to studying the impact of financial signatures only on investing decisions with only two behavioural biases (status quo and illusion of control). Future studies can cover wider areas and explore the impact of all financial signatures and financial styles on all financial or non-financial decisions of the firm.

Mediation of the behavioural biases (status quo and illusion of control) in the model indicates that there may be some other behavioural biases such as overconfidence, conservatism, regret aversion and loss aversion that can play mediating role. Future research should investigate other behavioural biases as mediating and moderating variable and their links with risk management, financing and dividend policy decisions or even non-financial decisions.

## REFERENCES

- Ahire, S.L., Golhar, D.Y., & Waller, M.A. (1996). Development and validation of TQM implementation constructs. *Decision sciences*, 27(1), 23-56.
- Babajide, A. A., & Adetiloye, K. A. (2012). Investors' behavioural biases and the security market: an empirical study of the Nigerian security market. *Accounting and Finance Research*, 1(1), 219-219.
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of personality and social psychology*, 51(6), 1173.
- Bentler, P. M. (1995). *EQS structural equations program manual* (Vol. 6). Encino, CA: Multivariate software.
- Bertrand, M., & Schoar, A. (2003). Managing with style: The effect of managers on firm policies. *The Quarterly journal of economics*, 118(4), 1169-1208.
- Bohnstedt, G.W., & Felson, R.B. (1983). Explaining the relations among children's actual and perceived performances and self-esteem: A comparison of several causal models. *Journal of Personality and Social Psychology*, 45(1), 43.
- Byrne, B. M., & Van de Vijver, F. J. (2010). Testing for measurement and structural equivalence in large-scale cross-cultural studies: Addressing the issue of nonequivalence. *International journal of testing*, 10(2), 107-132.
- Charness, G., & Gneezy, U. (2010). Portfolio choice and risk attitudes: An experiment. *Economic inquiry*, 48(1), 133-146.
- Cronqvist, H., Makhija, A. K., & Yonker, S. E. (2012). Behavioral consistency in corporate finance: CEO personal and corporate leverage. *Journal of financial economics*, 103(1), 20-40.
- Edwards, W. (1954). The theory of decision making. *Psychological bulletin*, 51(4), 380.
- Graham, J. R., Harvey, C. R., & Puri, M. (2013). Managerial attitudes and corporate actions. *Journal of financial economics*, 109(1), 103-121.
- Hu, L.T., & Bentler, P.M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural equation modeling: a multidisciplinary journal*, 6(1), 1-55.
- Huber, G.P. (1980). *Managerial Decision Making*. Glenview, IL: Scott, Foresman and Co. 225 p. *Management Applications Series*.
- Kahneman, D., & Tversky, A. (1973). On the psychology of prediction. *Psychological review*, 80(4), 237.
- Langer, E. J., & Roth, J. (1975). Heads I win, tails it's chance: The illusion of control as a function of the sequence of outcomes in a purely chance task. *Journal of personality and social psychology*, 32(6), 951.
- Oliveira, A. (2007). A discussion of rational and psychological decision-making theories and models: The search for a cultural-ethical decision-making model. *Electronic journal of business ethics and organization studies*, 12(2), 12-17.
- Prince, E. T. (2005). The fiscal behavior of CEOs. *MIT Sloan Management Review*, 46(3), 23.
- Raykov, T., & Marcoulides, G. A. (2000). A method for comparing completely standardized solutions in multiple groups. *Structural equation modeling*, 7(2), 292-308.
- Samuelson, W., & Zeckhauser, R. (1988). Status quo bias in decision making. *Journal of risk and uncertainty*, 1, 7-59.
- Schoar, A., & Zuo, L. (2017). Shaped by booms and busts: How the economy impacts CEO careers and management styles. *The Review of Financial Studies*, 30(5), 1425-1456.
- Simon, H. A. (1979). Rational decision making in business organizations. *The American economic review*, 69(4), 493-513.
- Tversky, A., & Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases: Biases in judgments

reveal some heuristics of thinking under uncertainty. *science*, 185(4157), 1124-1131.

Xie, J., Song, X. M., & Stringfellow, A. (1998). Interfunctional conflict, conflict resolution styles, and new product success: A four-culture comparison. *Management science*, 44(12-part-2), S192-S206.

**Received:** 24-Jan -2024, Manuscript No. jmids-24-14580; **Editor assigned:** 25-Jan -2024, Pre QC No. jmids-24-14580 (PQ); **Reviewed:** 10-Feb-2024, QC No. jmids-24-14580; **Published:** 17-Feb-2024