sdmimd
JOURNAL OF MANAGEMENT

DOI:10.18311/sdmimd/2026/18014

Building Resilient Investors: Unravelling the Role of Financial Resilience and Controlled Decision-making in Translating Financial Literacy into Investment Self-efficacy — A Serial Mediation Model

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Abstract

Financial literacy is a key determinant of effective investment decision-making. Financial Literacy enhances rationality in investment and brings investment self-efficacy; however, its effectiveness can be mediated by psychological and behavioural factors. This study explores how Financial Resilience (FR) acts as a critical mediator in the relationship between Financial Literacy (FL) and Investment Self-Efficacy, while also examining the role of Controlled Decision-Making (CD) as a key mechanism driving Investment Self-Efficacy. The study adopted a survey-based approach where primary data were collected from 314 retail investors. Partial Least Squares Structural Equation Modelling (SEM) using Smart Pls 4 was used to test the direct and indirect relationships among the variables. The findings are expected to reveal how FR strengthens an investor's ability to apply FL in making rational and confident investment decisions. This study contributes to Behavioural finance research, offering a novel perspective on how investors' behavioural and cognitive states shape investment confidence.

Major Findings: FL significantly enhances FR and CD, which in turn strengthen investment self-efficacy among retail investors. The findings reveal that FL influences investment self-efficacy primarily through FR and CD, with a significant serial mediation effect.

Keywords: Controlled Decision Making, Financial Literacy, Financial Resilience, Investment Self-Efficacy, PLS-SEM, Serial Mediation

1. Introduction

The rapidly growing financial markets and the increasing intricacy of investment options have elevated the importance of FL, particularly investment literacy. FL is considered a cornerstone that empowers individuals to make rational decisions and brings efficacy in investment (Shafiee *et al.*, 2023). FL enables one to effectively use various financial skills and has long been recognised as a critical determinant of successful investment behaviour (Lusardi & Olivia, 2014). Various studies have documented the link between FL and investment decision-making (Bhabha *et al.*, 2014; Bhushan, 2014; Dwiarti *et al.*, 2024; Shaik *et al.*, 2022). However, mere knowledge does not guarantee sound decision-making, as psychological factors such as stress, anxiety, and resilience often shape investors' behaviours and confidence (Fernandes *et al.*, 2014; Bandura, 1977). Investment decisions are often made under conditions of uncertainty, market volatility, incomplete information, and emotional pressure. An investor may possess adequate financial knowledge but still hesitate to make investment decisions, become overly influenced by market fluctuations, or experience difficulty maintaining confidence when faced with financial uncertainty. Therefore, understanding

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the mechanisms through which FL contributes to investment self-efficacy is important for developing a more comprehensive explanation of investor behaviour. Recent studies suggest behavioural and psychological factors mediate the translation of FL into effective investment strategies (Afif & Sulhan, 2022; Kumar *et al.*, 2023; Madi *et al.*, 2018; Rasool & Ullah, 2020; Siratan & Setiawan, 2021).

The study aims to comprehend how the psychological factors and FL affect investment decision-making by delving into a Behavioural finance framework. FL is the cognitive foundation for making sound investment decisions. Also, investment decisions are highly influenced by psychological factors (Kahneman *et al.*, 1979). Despite extensive research on FL, there remains a significant gap in understanding how it relates to psychological and behavioural determinants. The study focuses on the interaction between FL and investment self-efficacy through the mediating role of two potential factors: controlled decision-making and FR.

2. Review of Literature

2.1 Financial Literacy

Financial Literacy denotes the knowledge and skills of individuals to understand financial concepts and investment options (Lusardi & Olivia, 2014). It involves the ability to interpret financial information, assess risk and return, and apply this understanding in practical decision-making contexts. FL helps investors select the best option and manage financial behaviours (Lusardi & Olivia, 2014; Mireku *et al.*, 2023). Van Rooij *et al.* (2011) examined the influence of FL in making financial decisions and found that investors with lower FL tend to invest in stocks more than those with greater literacy. The role of FL in developing sound financial behaviours has been extensively researched in the past. (Calcagno & Monticone, 2015; Nugraha *et al.*, 2022; Dwiarti *et al.*, 2024; Roemanasari *et al.*, 2022; Wang *et al.*, 2024; Xia *et al.*, 2014), but primarily, it must be backed by financial self-efficacy rather than mere stock market participation or investment. This has been addressed in very few studies (Forbes & Kara, 2010; Tripathi *et al.*, 2022; Putri & Ratnadi, 2023). While most studies suggest a positive link between FL and self-efficacy in investment and finance, some research highlights that overconfidence, structural barriers, or measurement issues can weaken or reverse this relationship (Alsemgeest, 2015; Willis, 2008).

2.2 Investment Self-efficacy

Self-efficacy refers to the confidence of a person in their capacity to regulate their actions and impact the circumstances of their lives (Bandura, 1997). It reflects the self-confidence in managing choices and making sound decisions (Bandura *et al.*, 1999). The concept of self-efficacy in financial decisions is conceptualised as an individual's confidence in their ability to obtain relevant information to make effective financial decisions (Netemeyer *et al.*, 2018). Financial self-efficacy avoids hostile economic behaviour and the stress associated with that behaviour (Hadar *et al.*, 2013). In financial decision-making, especially in investment choices, the concept of self-efficacy is relevant, as it has long-term implications and is designated as the construct of investment self-efficacy. Investment self-efficacy was defined as the capability to achieve long-term financial goals (Forbes & Kara, 2010). Investment Self-efficacy is termed as the strong belief of an investor in their ability to complete tasks and attain desired objectives (Srinivasan & Karthikeyan, 2023). Various studies have examined the factors affecting and improving self-efficacy in investment. Investment Self-efficacy is critical because higher self-efficacy has been linked to more proactive and effective behaviour in situations of financial challenges (Tripathi *et al.*, 2022). The study of Lim and Qi (2023) shows that subjective financial knowledge has a positive influence on investment self-efficacy and, in turn, positively influences investment intention. Srinivasan and Karthikeyan (2023) found that the presence of FL develops the self-efficacy of investors to make profitable investment decisions. Various studies (Forbes & Kara, 2010; Hadar *et al.*, 2013; Khalid, 2020; Lone & Bhat, 2024; Srinivasan & Karthikeyan, 2023; Tripathi *et al.*, 2022; Putri & Ratnadi, 2023; Yamani & Munir, 2023) highlighted the importance of investors' education, focusing on enhancing self-efficacy.

2.3 Controlled Decision Making

Controlled Decision Making (CD) involves deliberate, thoughtful investment behaviour based on analysis rather than impulsive or emotionally driven decisions. It reflects self-regulation in financial contexts. Individuals who are rational and confident in financial matters will enhance their self-control. Previous studies show that controlled behaviour has a positive consequence on investment decision-making (Agustin & Khasanah, 2023; Ardiyan *et al.*, 2022; Hapsari, 2021; Rahadjeng & Fiandari, 2020). CD involves understanding how to take action based on experience and the obstacles encountered when executing these actions (Billore *et al.*, 2023). From a cognitive-behavioural viewpoint, CD is shaped by both internal factors (such as self-regulation and cognitive control) and external influences (like financial education) (Cannon *et al.*, 2019). Those with strong FL can more effectively resist heuristic or emotionally-based choices, favouring analytical and rational thought processes instead (Fernandes *et al.*, 2014) Consequently, FL improves CD by equipping individuals with the knowledge and mental frameworks essential for structured investing decisions (Adiputra, 2021) and to build investment self-efficacy.

2.4 Financial Resilience

Financial Resilience (FR) is the ability of an individual to withstand, adapt to, and recover from financial shocks or stressors (Carton *et al.*, 2024). It encompasses both the psychological and practical capacity to manage financial adversity while maintaining long-term financial stability (Salignac *et al.*, 2019). Resilient individuals are better positioned to utilise their financial knowledge (Bottazzi & Oggero, 2023) because they exhibit proactive behaviour, resourcefulness, and psychological readiness in situations of setbacks (Bialowolski *et al.*, 2022; Erdem & Rojahn, 2022). FL can enhance FR by providing strategies needed to anticipate and cope with financial difficulties, plan, and diversify financial behaviours (Erdem & Rojahn, 2022). This, in turn, reduces anxiety and facilitates controlled financial decision-making even in uncertain or risky investment scenarios. FR contributes to Investment Self-Efficacy (ISE) by fostering a sense of control and consciousness. Individuals with high FR are more likely to perceive investment challenges as manageable rather than a threat (Shroff & Paliwal, 2024), which enhances their confidence and willingness to engage in investment activities. Even though financial knowledge contributes to increasing investment self-efficacy (Farrell *et al.*, 2016; Forbes & Kara, 2010; Hensley, 2015; Putra *et al.*, 2021; Syaliha *et al.*, 2022), few studies have focused on the mediating role of the resilient attitude of individual investors in enhancing investment self-efficacy.

3. Framework and Hypothesis Formulation

3.1 FL and Investment Self-efficacy

Financial literacy provides individuals with essential knowledge, skills, and assurance to make an informed investment decision. Previous studies indicate people with higher FL levels demonstrate enhanced competence and confidence when dealing with complex financial issues (Herawati *et al.*, 2018). According to Social Cognitive Theory, acquiring financial knowledge increases self-efficacy by improving perceived control over economic activities (Thomas & Gupta, 2021; Zulfaka & Kassim, 2023).

H1: FL positively influences Investment Self-Efficacy.

3.2 FL and FR

Financial literacy plays a crucial role in fostering FR, which is the capacity to endure and rebound from financial shocks. Individuals with strong financial knowledge are more inclined to save for emergencies, purchase insurance, and adopt effective debt management strategies (Bialowolski *et al.*, 2022; Bottazzi & Oggero, 2023; Carton *et al.*, 2024), thus bolstering their ability to handle negative financial occurrences. Financial resilient behaviour here serves as a vital psychological and behavioural safeguard.

H2: FL Positively Influences FR.

3.3 FL and CD

Controlled Decision-Making refers to intentional, analytical, and logical financial practices rather than hasty actions. FL enhances the cognitive skills necessary for effective decision-making by bolstering

individuals' capacity to assess financial information and analyse risks and returns (Fernandes *et al.*, 2014). Theory of Planned Behaviour advocates that improved knowledge enhances perceived behavioural control, resulting in more deliberate behaviours.

H3: FL has a positive influence on CD.

3.4 FR and Investment Self-efficacy

Resilience behaviour in financial matters contributes significantly to Investment Self-Efficacy. Resilient individuals demonstrate higher emotional stability and confidence during market volatility and maintain their belief in their ability to make sound investment decisions. By managing financial adversities successfully, they reinforce their self-efficacy beliefs, consistent with Social Cognitive Theory's emphasis on overcoming challenges as a source of self-efficacy.

H4: FR positively influences Investment Self-Efficacy.

3.5 FR and CD

Financial Resilience can influence CD by promoting emotional regulation and forward-thinking behaviours. Individuals who have the resources and skills to manage financial stress and anxiety are less likely to make impulsive financial decisions and more rational under uncertainty (Salignac *et al.*, 2019). FR thus fosters a disciplined approach to financial choices.

H5: FR has a positive influence on CD.

3.6 CD and Investment Self-efficacy

Controlled Decision-Making is expected to directly enhance Investment Self-Efficacy. Making careful, thoughtful investment decisions reinforces individuals' perceptions of competence and leads to stronger self-efficacy beliefs. The deliberate approach reduces uncertainty and emotional bias, aligning with the concept of perceived behavioural control (Figure 1).

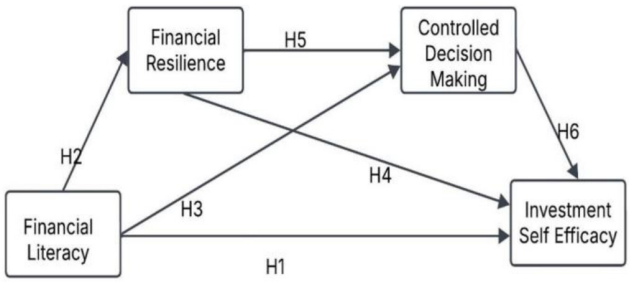


Figure 1. Model framework.

H6: CD positively influences Investment Self-Efficacy.

Financial reliance is taken as the first mediator in the relationship between FL and investment self-efficacy. Subsequently, CD is taken as the second serial mediator. Overall, the serial mediation of this study considered FR and CD as the two potential mediators for assessing the association between FL and Investment self-efficacy.

4. Methods

4.1 Research Design

A quantitative approach is adopted to explore the relationships among FL, FR, CD, and investment self-efficacy in retail investors. A cross-sectional research design was employed in collecting data at a specific point in time. The target population for this study is retail investors in India. A non-probability purposive sampling method was used to select individuals who have prior investment experience. The final sample size comprises 314 respondents, which is considered adequate for SEM, as per the recommendation of Hair *et al.*, 2019 having more than the criteria of a minimum of 10 respondents per indicator.

4.2 Measurement and Questionnaire

A structured questionnaire was used for collecting responses, which included multiple validated scales adopted from related previous literature to measure the constructs. Responses were recorded on a 5-point Likert scale. FL was measured using the scale introduced by van Rooij *et al.* (2011), subjectively focusing on investment knowledge. Investment Self-Efficacy (ISE) was quantified using the scale from the literature of (Lown, 2011). CD was quantified using the scale used in the study of (Atmaningrum *et al.*, 2021). FR is captured using a resilience scale from (Salignac *et al.*, 2019).

4.3 Demographic Profile of the Respondents

The research explored 314 retail investors in India, comprising 56% males and 44% females aged 21 to 55. A significant portion of respondents (62%) held postgraduate degrees, with most working in salaried positions (48%) or as self-employed (22%). Approximately 70% had more than three years of investment experience, while 60% actively utilised digital investment platforms. This varied sample offered a well-rounded depiction of education, experience, and financial behaviours relevant to the study's objectives and goals.

5. Results

5.1 Measurement Model

Partial Least Squares (PLS) approach is used for analysing the data, as it is primarily used for predictive modelling.

The analysis of validity and reliability of constructs shown in the Table 1 confirms the robustness of the model. All item loadings exceed the suggested threshold limit of 0.7, indicating strong individual item reliability. The Cronbach's Alpha values exceed the threshold limit of 0.7 for all constructs, ensuring high internal consistency. The values of Composite Reliability range from 0.889 to 0.952, confirming the reliability of the constructs. The AVE values for all constructs are above 0.7, indicating that a significant portion of the variance in the observed variables is explained by the underlying latent constructs. These findings suggest that the constructs demonstrate strong convergent validity and reliability, making them suitable for further analysis.

5.2 Discriminant Validity

The discriminant validity of the constructs is checked using the Fornell-Larcker criterion shown in Table 2. The square root of every AVE value should exceed the highest correlation found with other constructs, confirming that this criterion is essential for analysis.

The constructs exhibit greater variance with related indicators compared to other constructs, as diagonal values are greater than the quadratic correlation with different constructs. This affirms that all the estimated model constructs satisfy the discriminant validity criteria.

5.3 Multicollinearity

Table 3 shows the values of VIF are below the critical threshold of 3 suggested by Hair *et al.* (2019), indicating that there is no multicollinearity among variables in the inner model. The constructs are distinguished, ensuring reliable results in the structural model analysis.

Table 4 illustrates the results of model fit assessment. The coefficient of determination (R^2) indicates how much of the variability in a dependent variable can be explained by its predictors. In this analysis, the R^2 value for Investment Self-Efficacy (ISE) is

Table 1. Validity and reliability of constructs

	Item Loading	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Financial Literacy		0.817	0.889	0.73
FL 1	0.817			
FL 2	0.939			
FL 3	0.886			
Financial Resilience		0.939	0.952	0.766
FR 1	0.817			
FR 2	0.939			
FR 3	0.886			
FR 4	0.912			
FR 5	0.817			
FR 6	0.939			
Controlled Decision Making		0.912	0.935	0.921
CD 1	0.912			
CD 2	0.817			
CD 3	0.939			
CD 4	0.886			
CD 5	0.912			
Investment Self-efficacy		0.886	0.921	0.745
ISE1	0.939			
ISE2	0.903			
ISE3	0.841			
ISE4	0.879			

0.719, suggesting that FL, FR, and CD together explain 71.9% of the variation in ISE, reflecting a strong model fit for this construct. For CD, the R^2 is 0.185, meaning that FL accounts for 18.5% of its variation. Similarly, an R^2 of 0.035 for FR implies a relatively weak explanatory power, with only 3.5% of the variation in FR explained by FL. Adjusted R^2 values, which correct for the number of predictors, remain close to the original R^2 values, supporting the overall robustness of the model. To evaluate predictive relevance, Q^2 values were obtained using the blindfolding method. Following Hair *et al.* (2019), Q^2 values above zero signify acceptable predictive ability. The constructs in this study, CD (0.060), FR (0.026), and ISE (0.053), all recorded Q^2 values above zero, indicating that the model performs reasonably well in predicting out-of-sample data.

Table 2. Fornell-Larcker criterion

	CD	FL	FR	ISE
CD	0.861			
FL	0.271	0.854		
FR	0.378	0.187	0.875	
ISE	0.798	0.251	0.567	0.863

Table 3. Inner Variance Inflation Factor (VIF) values

Predictor	Dependent	VIF
CD	ISE	1.227
FL	CD	1.036
FL	FR	1.000
FL	ISE	1.089
FR	CD	1.036
FR	ISE	1.178

Table 4. Model fit analysis

	R^2	R^2 adjusted	Q^2
CD	0.185	0.180	0.060
FR	0.035	0.032	0.026
ISE	0.719	0.717	0.053

5.4 Path Coefficients: Direct Effects

The hypothesis testing results presented in Table 5 indicate that FL has a significant positive effect on FR ($\beta = 0.187$, $p < 0.001$) and CD ($\beta = 0.208$, $p = 0.003$), supporting H2 and H3. However, FL does not have a significant direct effect on Investment Self-Efficacy (ISE) ($\beta = 0.009$, $p = 0.783$), thus H1 is not supported. Both CD ($\beta = 0.679$, $p < 0.001$) and FR ($\beta = 0.309$, $p < 0.001$) show strong positive effects on ISE, confirming H4 and H5. Additionally, FR has a significant positive impact on CD ($\beta = 0.339$, $p < 0.001$), supporting H6. These results suggest that FL enhances ISE indirectly through FR and CD rather than directly.

5.5 Mediating Effect

The results of the mediation analysis presented in Table 6 provide valuable insights into the indirect pathways through which the independent variable influences the dependent variable through mediating variables. The mediation analysis results show that FL influences ISE indirectly through FR and CD. The indirect effects of FL on ISE through FR and CD are statistically significant, suggesting FL enhances investment self-efficacy primarily through these mediators rather than through a direct relationship. Additionally, FR significantly mediates the relationship between CD and ISE, and a serial mediation effect is observed where FL influences ISE through both FR and CD, indicating a multi-step mechanism through which FL shapes investment confidence. These findings align with modern mediation theories (Memon *et al.*, 2018; Zhao *et al.*, 2010), which suggest that a direct effect is not a prerequisite for mediation. Instead, the significant

Table 5. Hypothesis testing

Hypothesis	Relationship	Beta Value	T- statistics	pvalues	Result
H1	FL -> ISE	0.009	0.276	0.783	Not Supported
H2	FL -> FR	0.187	3.567	0.000	Supported
H3	FL -> CD	0.208	2.994	0.003	Supported
H4	CD -> ISE	0.679	16.147	0.000	Supported
H5	FR -> ISE	0.309	8.365	0.000	Supported
H6	FR -> CD	0.339	7.069	0.000	Supported

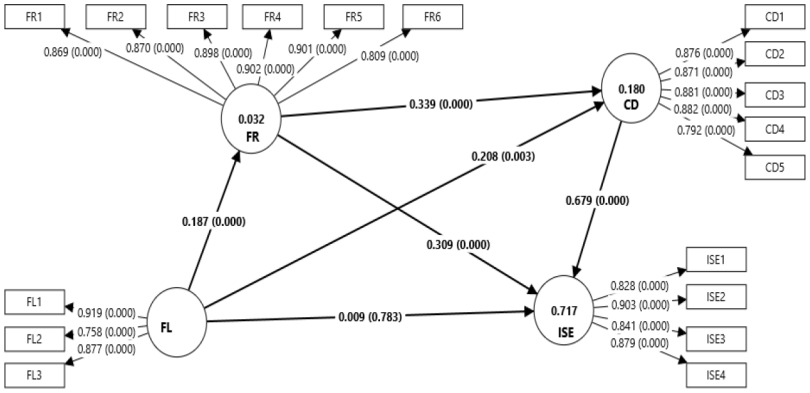


Figure 2. Structural equation model.

Table 6. Indirect path

	Beta Value	T-statistics	pvalues	Result
FL -> FR -> ISE	0.058	3.263	0.001	Significant
FL -> CD -> ISE	0.141	3.225	0.001	Significant
FR -> CD -> ISE	0.230	7.100	0.000	Significant
FL -> FR -> CD -> ISE	0.043	3.143	0.002	Significant
FL -> FR -> CD	0.064	3.103	0.002	Significant

indirect pathways confirm full mediation, where FL affects ISE entirely through FR and CD.

6. Discussion and Conclusion

The study conceptualised FL as an exogenous variable that indirectly influences Investment self-efficacy through two parallel mediators, FR and CD. The findings indicate that FL does not directly boost confidence in one's investment capabilities. Instead, individuals who are financially literate are more likely to be seen as resilient and capable of making controlled decisions, which in turn enhances their investment self-efficacy. FL specifically promotes a sense of FR, helping individuals handle and recover from unexpected financial difficulties. It also enhances CD, fostering careful and informed analysis over impulsiveness. These skills together boost investment self-efficacy. Resilience reduces emotional reactions to financial stress, establishing a cycle where knowledge leads to stability, disciplined behaviour, and confidence. This model demonstrates that simply providing financial information isn't enough; effective financial education must also strengthen investors' adaptive coping mechanisms and their ability to make well-thought-out decisions based on this knowledge.

These findings have important practical implications, emphasising that FL programs should focus on knowledge dissemination as well as developing FR and structured decision-making skills to enhance individuals' investment confidence and capability. The study recommends that initiatives designed to enhance investor results include resilience-building elements like stress management and contingency planning, coupled with training in systematic decision-making methods. In conclusion, this study presents a detailed framework indicating that the effect of FL on investment self-efficacy is primarily indirect, functioning through the interconnected factors of resilience and managed decision-making. By identifying and utilising these mediators, institutions, policymakers, and financial educators can devise more effective tactics to improve investor wellbeing. Future research could investigate how these relationships develop over time, consider additional psychological or demographic variables, and test the model across various cultural or technological settings to enhance our comprehension of what truly fosters investor resilience and confidence.

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Author Contribution

Aparna conceptualised the study, conducted the literature review, formulated research objectives and hypotheses, research design, data collection, statistical analysis, interpretation of findings, and preparation of the original manuscript draft. Nirmala supervised the research work, provided methodological guidance, validated analytical procedures, critically reviewed the manuscript, refined the theoretical framework, and provided final approval of the manuscript for publication.