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IMPACT OF EMOTIONAL INTELLIGENCE ON INVESTMENT DECISIONS OF EQUITY INVESTORS IN COLOMBO STOCK EXCHANGE; SPECIAL REFERENCE TO NORTH CENTRAL PROVINCE

D.M.H.D. Dissanayake[1], J.M.N. Wijekumara[2], W.A.S. Shehani[3]

[1,2,3]Department of Accountancy & Finance, Faculty of Management Studies, Rajarata University of Sri Lanka

[1]dinalhimanka@gmail.com, [2]nishantha@mgt.rjt.ac.lk [3]sadeepashehani1998@gmail.com

ABSTRACT

Investment decisions are of extreme significance, particularly in a time when individuals attempt to increase their returns from invested capital rather than focusing solely on instant consumption. In the landscape of investment decision-making, the role of behavioural biases and emotional intelligence has brought in considerable attention. This study investigates the influence of emotional intelligence on investment decisions among stock market investors, with a specific focus on those in the North Central Province, Sri Lanka. Employing a deductive approach and a descriptive research design, the study surveyed around 300 active investors from the Colombo Stock Exchange (CSE) in the North Central Province, selecting a sample of 100 through the simple random sampling technique and data were collected using structured questionnaire. The study examined Self-awareness, Self-management, Relationship management, social awareness, and Empathy as independent variables, while the dependent variable was the investment decisions of the investors. Descriptive analysis, correlation analysis and regression analysis were utilized to analyse the data. The findings revealed that there is a positive correlation between emotional intelligence and investment decisions among individual equity investors. Notably, Self-awareness, Social awareness, and Empathy are significantly impacted investment decisions of individual equity investors when they are inventing in CSE, whereas Self-management and Relationship management do not impact. The study concludes that individual stock market participants can improve their investment decisions by considering their emotional intelligence. It highlights the critical role of emotional intelligence in investment choices and stresses the need for further research on this topic across different regions of Sri Lanka and internationally.

Keywords: Emotional intelligence, Investment decisions, Stock market, Colombo Stock Exchange, Regression analysis

1. INTRODUCTION

In the dynamic landscape of financial markets, the realm of investment decisions stands as a crucial arena where human psychology intertwines with economic endeavors. This study delves into the nuanced exploration of the "Impact of Emotional Intelligence on Investment Decisions of Equity Investors in Colombo Stock Exchange; Special Reference to North Central Province." The study is rooted in the understanding that emotions, sentiments, and psychological aspects play a pivotal role in shaping the decisions of equity investors, particularly in the context of the Colombo Stock Exchange (CSE) (Webb et al., 2014).

Psychological theories, ranging from cognitive and personality theories to social psychological and behavioral theories provide a comprehensive framework to fathom the intricacies of human behavior and decision-making (Muttath and Menachery, 2018). Behavioral theory, in particular, emerges as a pertinent lens through which to observe motivation and comprehend the human mind. Sentiments and emotions, derived from individuals' moods, wield a substantial influence on decision-making processes, subsequently impacting stock aggregate outcomes and returns (Lepori, 2015).

Despite the acknowledgment that emotional intelligence significantly influences investment decisions, the specific connection between emotional intelligence and equity investors' decision-making in the Colombo Stock Exchange remains underexplored within the Sri Lankan context. While international studies hint at the partial impact of emotional intelligence on investment decisions (El-Chaarani, 2016), the scarcity of research in the Sri Lankan context prompts the identification of a critical research problem: What is the precise relationship between emotional intelligence and investment decisions among equity investors in the Colombo Stock Exchange?

The primary purpose of this study is to unravel the intricate dynamics of emotional intelligence and its impact on investment decision-making. The objectives include scrutinizing the five traits of emotional intelligence, self-awareness, self-management, empathy, relationship management, and motivation outlined by Raheja and Dhiman (2016) and understanding how these facets interplay in the investment decisions of equity investors in the North Central Province.

Investment decisions, categorized into long-term and short-term investments, are pivotal contributors to economic growth. Emotional intelligence emerges as a critical skill, influencing individual decision-making and, consequently, the broader financial market. Recognizing the dearth of studies on the subject within the Sri Lankan context, this research holds significant implications for investors, policymakers, and scholars aiming to comprehend the interplay of emotional intelligence and investment decisions.

In alignment with Salehi and Mohammadi (2017), which reveal a positive association between investors' stock decisions and psychological aspects, economic circumstances, and capital market transactions, this study seeks to contribute valuable insights that extend beyond the decision-making process to impact the consequences of such decisions. As asserted by Hess and Bacigalupo (2011), emotional intelligence serves as a valuable trait for understanding negotiation dynamics, ultimately aiding individual investors in making more informed and effective investment decisions. The below are the specific objectives of the study.

1. To examine the impact of self - awareness on the investment decisions of equity investors.
2. To examine the impact of self- management on the investment decisions of equity investors.
3. To examine the impact of social awareness on the investment decisions of equity investors.
4. To examine the impact of relationship management on the investment decisions of equity investors.
5. To examine the impact of empathy on the investment decisions of equity investors.

2. LITERATURE REVIEW

2.1 Emotional Intelligence (EI)

Emotional intelligence is the frontline with respect to perceiving our own opinions and those in others, for stimulating ourselves, for overseeing feelings well in us and in our networks (Golmen, 2006). In today's context, investment is crucial for everyone because individuals consistently choose investment opportunities based on their behavioural investment elements (Dhiman & Raheja, 2018). Mayer et al. (2002) define emotional intelligence as the awareness of one's emotions, while intelligence is the ability to reason with information. According to Cherniss (2000), emotional intelligence influences the ways in which one makes significant future decisions. Ameriks et al. (2009) found significant associations between emotional intelligence and investor behaviour in several, but not all, areas they examined. Rubaltelli et al. (2015) determined that emotional intelligence influences investment motivation and uniquely impacts investor behaviour by affecting additional explored aspects. Grewal et al. (2006) noted that emotional intelligence is related to behavioural traits of investors such as loss aversion, the endowment effect, and status quo bias.

2.2 The Role of Emotional Intelligence in Investment Decisions

Numerous scholars, including Golman (2006) and Hess & Bacigalupo (2011), have underscored the pivotal role of emotional intelligence in investment decision-making. Golman (2006) posits that emotional intelligence aids in making better investment decisions, emphasizing its impact on the cognitive and emotional aspects of decision-making. Similarly, Hess & Bacigalupo (2011) argue that emotional intelligence enhances not only the decision-making process but also the outcomes of those decisions. This body of literature forms the basis for our contention that emotional intelligence is a crucial factor influencing investment decisions.

2.3 Positive Association between Emotional Intelligence and Stock Investment

The work of Salehi and Mohammadi (2017) establishes a positive association between investors' stock investment decisions and psychological aspects, including emotional intelligence. Their findings contribute to the understanding that emotional intelligence is intertwined with investment decisions, suggesting that investors leverage this skill to navigate the complexities of the stock market. However, despite these valuable insights, a critical gap emerges concerning the specific nuances of this association within the context of the Colombo Stock Exchange and the North Central Province.

2.4 Limited Exploration in the Sri Lankan Context

While international studies, such as El-Chaarani (2016), have delved into the partial impact of emotional intelligence on investment decisions, the Sri Lankan context remains underexplored. This dearth of research becomes a critical gap in the literature, raising questions about the universality of findings and necessitating a focused inquiry into the specific dynamics within the Colombo Stock Exchange. Consequently, the gap in the literature prompts the current study's central question: What is the precise connection between emotional intelligence and investment decisions among equity investors in the Colombo Stock Exchange, with a special reference to the North Central Province?

2.5 The Five Traits of Emotional Intelligence

Raheja and Dhiman's (2016) identification of five traits of emotional intelligence—self-awareness, self-management, empathy, relationship management, and motivation—offers a theoretical framework that aligns with the present study's objectives. These traits provide a lens through which to analyse and comprehend the specific components of emotional intelligence influencing investment decisions.

2.6 Integration of Emotional Intelligence with Economic Factors:

Tanvir et al. (2016a) assert that individual decision-making is influenced by emotional intelligence, with emotions impacting decisions in the financial domain. This perspective aligns with the present study's focus on the Colombo Stock Exchange and underscores the need to integrate emotional intelligence with economic circumstances to holistically understand its impact on investment decisions.

While existing literature acknowledges the significance of emotional intelligence in investment decisions, there is a notable gap in the exploration of this relationship within the Sri Lankan context, particularly in the Colombo Stock

Exchange. This study endeavours to address this gap by examining the nuanced dynamics of emotional intelligence and its impact on equity investors' decisions in the North Central Province, thus contributing to the existing body of knowledge and guiding future research in this domain.

3. METHODOLOGY

3.1 Conceptualization

Conceptual framework is depicted in figure 1

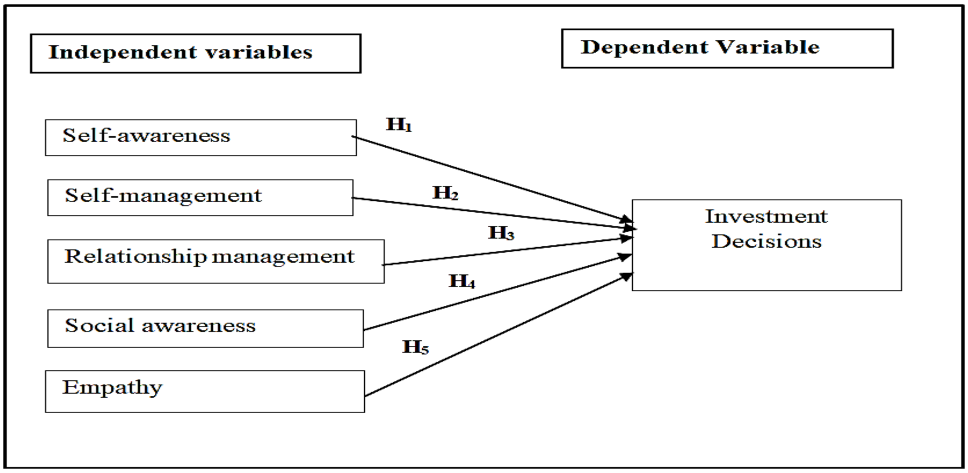

Figure 1: Conceptual Framework
Source: Authors Constructed

3.2 Research Philosophy/Approach

The research philosophy guiding this study is rooted in a positivist paradigm. Positivism emphasizes the objective and empirical observation of social phenomena, seeking to identify patterns and relationships through systematic analysis (Sekaran & Bougie, 2016). In alignment with this philosophy, the deductive research approach is adopted, where predefined hypotheses guide the investigation into the impact of emotional intelligence on investment decisions among Colombo Stock Exchange (CSE) investors in the North Central Province.

3.3 Research Strategy

The chosen research strategy involves a quantitative survey method, enabling the collection of structured and quantifiable data. This strategy aligns with the study's deductive approach, focusing on testing hypotheses related to the relationship between emotional intelligence and investment decisions (Sekaran & Bougie, 2016). By employing a survey, the research aims to systematically gather data from a representative sample of CSE investors in the North Central Province, allowing for a comprehensive analysis.

3.4 Research Context

The study is situated within the context of the CSE, specifically focusing on investors from the North Central Province. This context provides a localized perspective on the interplay between emotional intelligence and investment decisions within the Sri Lankan financial landscape. The insights gained will contribute to a nuanced understanding of how emotional intelligence influences investment behaviours in this specific regional context (Kumari et al, 2022).

3.5 Sample Selection

The target population comprises approximately 300 CSE investors from the North Central Province. From this population, a representative sample of 100 investors has been selected using a random sampling technique. This method ensures that each investor in the population has an equal chance of being included in the study, promoting unbiased and generalizable findings.

3.6 Data Collection Method

Primary data for the study was collected through a modified structured questionnaire. The questionnaire is designed to capture relevant information pertaining to investors' emotional intelligence and its impact on investment decisions. The self-administered nature of the questionnaire ensures consistency in data collection. The questionnaire was distributed electronically to the selected sample via email addresses obtained from the CSE Anuradhapura branch.

4. FINDINGS AND DISCUSSION

4.1 Reliability Test

In the reliability statistic, if the alpha value is equal to or greater than 0.70, it signifies a significant improvement in the research's internal consistency due to the employed research technique. This suggests that the research tool is of high quality. Specifically, if the alpha value surpasses 0.7, it indicates the excellence of the research tool. Consequently, the research tool can be deemed good.

Table 1: Reliability Statistics

Variable	Cronbach's Alpha	N of item
Self-awareness	.791	4
Self-management	.771	4
Social Awareness	.611	4
Relationship Management	.842	4
Empathy	.814	4
Investment Decisions	.642	5

Source: Survey Data (2023)

On the other hand, if alpha values are measured above 0.6 and below 0.7, the research tool remains acceptable. (Sekaran & Bougie, 2016). Conversely, a recorded value lowers than 0.5 indicates unreliability. For detailed values of Cronbach's alpha for the variables, please refer to Table 1.

4.2 Descriptive Statistics

The descriptive test evaluates if the distribution of the sample observations is normal. By comparing the values of observations distributed with a normal distribution's mean and standard deviation, the test showed that the sample was free of deviations.

Table 2: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
SA	1.00	5.00	1.831	.595	.355
SM	2.25	4.25	3.185	.405	.165
RM	1.25	3.50	2.873	.376	.142
SOA	1.00	3.50	2.232	.590	.349
E	1.00	3.25	2.339	.628	.394
ID	1.20	3.20	2.138	.451	.203

Source: Survey Data (2023)

According to table 2, the mean value of the self-awareness to investment decision was 1.8317, and the standard deviation was 0.596, Self-management to investment decision had a mean value of 3.186 and a standard deviation of 0.406. Relationship management and investment decisions had a mean value of 2.874 and a standard deviation of 0.377 Additionally, the standard deviation was 0.591, with the mean value of social awareness to investment decision being 2.233 Empathy to investment decision was 2.339, and the standard deviation was 0.628, Individual stock market participants made investment decisions, with a mean value of 2.139 and a standard deviation of 0.451.

4.3 Correlation Analysis

The range of the correlation value is from -1 to +1. Between the dependent variable and the independent variable, - 1 denotes the ideal negative relationship and +1 the ideal positive relationship. The table 3 shows the relationship between the independent and dependent variables.

Table 3: Correlation Matrix

	SA	SM	RM	SOA	E	ID
SA	1					
SM	.293**	1				
RM	.327**	.237**	1			
SOA	.325**	.144**	.526**	1		
E	.344**	.418**	.703**	.563**	1	
ID	.486**	.298**	.416**	.535**	.601**	1

Source: Survey Data 2023

The correlation matrix indicates substantial positive relationships between various dimensions of emotional intelligence (SA, SM, RM, SOA, E) and interpersonal decision-making (ID). These findings suggest that as one aspect of emotional intelligence increases, it tends to be positively associated with others, and this positive association extends to the ability to make effective interpersonal decisions. The stronger correlations, particularly with ID, imply that individuals with higher emotional intelligence scores in these dimensions are more likely to exhibit superior interpersonal decision-making skills.

4.4 Regression Analysis

According to the table 4, the R-value, which was 0.703, indicates an obvious correlation. The adjusted R square value is the percentage of total variance in the dependent variable that can be explained by the independent variables. The results above show that the independent variables used in model 1 accurately predicted 0.467 of the emotional intelligence of individual stock market investors. Statistical significance is set at P0.5, and R squared is 0.703. It indicates that the amount of emotional intelligence was able to predict 0.703 different investment decision variations. The level of prediction is good.

Table 4: Regression analysis (Model summary test)

Model	R	R Square	Adjusted R Square	St. Error of the Estimate
1	.703a	.494	.467	.329

Source: Survey Data (2023)

4.5 ANOVA Test

The ANOVA table's F-Ratio shows how effectively the total regression model fits the data. The regression model fits the data effectively when the significant value is less than 0.05.

Table 5: ANOVA test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.027	5	2.005	18.546	.000b
	Residual	10.272	95	.108		
	Total	20.299	100			

Source: Survey Data 2023

Above table demonstrates that the overall regression model fits the data well. According to the table, F = 18546, P < 0.05, the independent variables statistically significantly predict the dependent variable. It indicates that the regression model fits the data well.

4.6 Coefficients

The standardized beta coefficient of self-awareness was 0.216 with the significance value of 0.001 which is less than 0.05. This indicates that there is a significant impact of self-awareness on investment decisions of equity investors. Self-management's standardized beta coefficient is equal to 0.029 and value is 0.757. It denoted that there is no any impact from self-management on investment decisions of equity investors. The standardized beta coefficient of relationship management was -0.149 with the significant value of 0.757 which is more than 0.05. This indicates that there is no impact of relationship management on investment decisions of equity investors.

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.910	.366		2.486	.015
	SA	.216	.061	.286	3.530	.001
	SM	.029	.092	.026	.310	.757
	RM	-.149	.127	-.124	-1.172	.244
	SOA	.198	.070	.260	2.814	.006
	E	.310	.084	.432	3.699	.000

Source: Survey Data 2023

For social awareness, the standardized beta coefficient is equal to 0.198 with significant value of 0.006. It emphasized that social awareness significantly impacted to the investor’s decision making. Finally, Empathy, the standardized beta coefficient is equal to 0.310 and significant value is 0.000. It highlighted that empathy is significantly impacted on investor’s decision when they are taking. Overall, Emotional intelligence is key determinant to be considered as majority of selected variables are significantly impacted on the investment decision of equity investors at Colombo stock exchange in Sri Lanka.

5. CONCLUSION

In the realm of investment decisions, behavioural biases often dissuade investors from exploring opportunities in developing economies such as Sri Lanka. This study delves into the antithesis of behavioural biases—emotional intelligence—and its profound impact on stock market investors' decisions to invest. Emotional intelligence, characterized by the capacity to understand and positively control one's emotions to alleviate stress, emerges as a crucial factor encouraging investment.

The primary aim of this study was to scrutinize the influence of emotional intelligence on the decisions of individual stock market investors in the Sri Lankan context, considering the dearth of research in this area. Building upon the findings of Tanvir et al. (2016), which identified a significant and positive relationship between emotional intelligence and investment decisions, this research reaffirms that emotional intelligence indeed has a noteworthy effect on investment decisions.

Analysing the specific dimensions of emotional intelligence, the study discerned that self-management and relationship management do not significantly impact investment decisions. However, social awareness and empathy exhibit positive relationships with investment decisions. Furthermore, the research highlighted that social awareness holds significant influence in shaping investment decisions, as evidenced by the statistical significance earlier.

These findings contribute to the understanding of how emotional intelligence influences decision-making among Colombo Stock Exchange (CSE) investors. The positive impact of emotional intelligence on investment decisions not only provides valuable insights for individual investors but also holds implications for policymakers, governmental bodies, financial institutions, and private investors.

This study examined the impact of emotional intelligence on investment decisions of equity investors in Colombo Stock Exchange in a deeper manner. Meanwhile, the following could identify as the limitations, had during this study.

1. The data collection of this study will be limited to an only North Central Province.
2. This study does not consider other provinces in Sri Lanka.
3. This study is limited on sample size. As well as this study limited consideration with individual investors.
4. This study only focuses impact of emotional intelligence on individual's decision making.

The goal of this study is to examine the types of financial assets that investors choose to purchase such as stocks, bonds, mutual funds and futures and option contracts and to explore emotional intelligence in the context of investors in Sri Lanka. Therefore, the actual assets like land and buildings, properties and commodities like gold could not be examined in this study.
This study did not explore the emotional intelligence of investors in an international context. The sample was limited to 100 individual CSE investors from the North Central Province and another limitation was the primary use of survey questionnaires for data collection. Future research with a larger sample size could provide more reliable and validated results. To gather more valuable data in future studies, researchers could utilize discussions, controlled experiments, observations and in-depth personal interviews.

The study advocates that financial advisor and issuing corporations, before releasing securities on the stock market, should recognize the diverse emotions and behaviours of investors. Recognizing the importance of emotional intelligence, individual investors are empowered to manage their emotions effectively, potentially leading to more informed and profitable investment choices in the future.

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