



The Impact of Investors' Emotional Intelligence On Investment Decision-Making

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ABSTRACT

In the present era, money has become a pivotal factor in every individual's life. This paper seeks to delve into the impact of emotional intelligence on investors' decision-making in the realm of investment. Given the closed size of 300 populations in this study population, non-probability sampling was employed, and sample selection was carried out via purposive sampling using a 5-point Likert scale questionnaire. The sample was confined to Chennai City in Tamil Nadu. The data collected underwent analysis using SPSS software, with the analysis methods consisting of descriptive statistics and simple linear regression analysis. The reliability test met the established criteria, validating the trustworthiness of the data for further scrutiny. Notably, the results uncovered a significant and affirmative correlation between emotional intelligence and investment decision-making. Financial investors displayed adeptness in managing their emotions and overcoming obstacles. Furthermore, possessing self-awareness, self-motivation, and empathy toward others' emotions and perspectives significantly enhanced their ability to make sound investments. This research is poised to guide investment advisors in recommending investments based on investors' emotional intelligence competencies.

Keywords: Investors, Emotion, Investment Decision, Purposive sampling, Simple Linear Regression, Stock market.

Introduction

Today, finances play a pivotal role in the lives of individuals. This is a universal truth that each person, regardless of their status or situation, must contend with (Leary, Reilly, & Brown, 2009). Moreover, research has shown that emotions can present obstacles to effective decision-making, particularly in the investment realm (Hess & Bacigalupo, 2011). To mitigate these challenges, it is essential for investors to possess a level of emotional intelligence that enables them to identify, comprehend, and regulate their emotions. By developing their emotional intelligence, individuals are better equipped to navigate complex situations, and this, in turn, can enhance their motivation and improve their decision-making capabilities.

Concepts of EI

The concept of emotional intelligence, as defined by Salovey & Mayer (1990), encompasses several key components:

Self-awareness: This involves recognizing our own strengths, weaknesses, and emotions. It involves understanding how our emotions impact our thoughts, actions, and decision-making.

Emotion Regulation: This component refers to our ability to manage and control our emotions, especially during stressful or challenging situations. It involves techniques such as deep breathing, mindfulness, and reframing negative thoughts.

Motivation: This pertains to our ability to use emotions in a positive and constructive manner to drive us towards our goals. It involves being able to persist in the face of setbacks, take initiative, and remain optimistic.

Empathy: This involves understanding and being sensitive to the emotions and perspectives of others. It involves being able to put ourselves in others' shoes and respond in a compassionate and empathetic manner.

Social Skills: This component refers to our ability to build and maintain relationships, communicate effectively, and work well with others. It involves being able to manage conflicts, influence others positively, and build rapport.

Overall, emotional intelligence encompasses the ability to recognize, understand, manage, and use emotions effectively, both in ourselves and in our interactions with others. It is a critical skill that can enhance various aspects of our personal and professional lives.

Review of literature

Salovey and Mayer (1995) are indeed credited with introducing the concept of emotional intelligence. According to their definition, emotional intelligence involves the ability to recognize, comprehend, and differentiate between one's own emotions and those of others. This understanding is crucial in guiding one's thoughts and actions, enabling individuals to make informed decisions and effectively manage their emotions.

Solomon (2000) suggests that an individual's own emotions significantly influence their propensity for risky behaviors. In this context, risky traits refer to behaviors or tendencies that carry a level of risk or uncertainty, which could lead to negative outcomes or consequences. Emotional states play a pivotal role in determining whether individuals will engage in such behaviors, as they may be more prone to taking risks when experiencing certain emotions. Understanding and managing one's emotions is therefore critical in minimizing the impact of risky traits and making more informed and rational decisions.

Indeed, Ladd & Chan (2004) have highlighted the role of emotional intelligence in facilitating effective decision-making. Emotional intelligence encompasses the ability to identify, understand, and manage emotions, both in oneself and in others. This capability can be instrumental in making sound judgments and decisions in various situations, whether in personal relationships, professional settings, or financial matters. By recognizing and regulating emotions, individuals can make decisions that are based on rational analysis and consideration of all relevant factors, rather than being driven solely by impulsive or emotional reactions. This can lead to better outcomes, improved relationships, and enhanced overall well-being.

Kunnanatt (2004) offers insight into emotional intelligence, suggesting that individuals with high levels of emotional intelligence tend to foster win-win relationships, where all parties involved benefit and thrive. Conversely, individuals with lower emotional intelligence may tend to engage in win-lose relationships, where one party dominates or gains at the expense of another. He posits that emotional intelligence training programs can significantly impact both the internal and external relationships of participants. By enhancing emotional intelligence, such programs can lead to improved attitudes, clearer perceptions, and more productive affiliations in various aspects of life.

Richard E. Boyatzis (2008) has conducted research demonstrating that emotional, social, and cognitive intelligence competencies are strong predictors of effectiveness in various professions. He also suggests that these competencies are not fixed traits but can be developed and honed over time, even in adults. By focusing on personal and professional development that enhances these competencies, individuals can enhance their effectiveness in their respective fields, fostering better outcomes for both themselves and those they interact with.

In their research, Soane et al. (2011) have concluded that emotions and their regulation significantly influence the decision-making process of investors. They have also found that the strategies employed by investors to regulate their emotions can have tangible consequences on their decision-making. This suggests that emotional intelligence, or the ability to recognize and manage one's emotions effectively, plays a crucial role in the investment process. By understanding and controlling their emotional responses, investors may be able to make more informed and rational decisions, thereby potentially improving their overall investment outcomes.

Okpara and Edwin (2014) discovered that emotional intelligence within the workplace has a significant impact on the return on investment. This suggests that organizations that foster emotional intelligence among their employees tend to see greater returns on their investments. Emotional intelligence can improve employee satisfaction, productivity, and overall performance, all of which can contribute to the success and profitability of a company. Therefore, investing in the development of emotional intelligence within the workplace may yield positive financial outcomes for organizations.

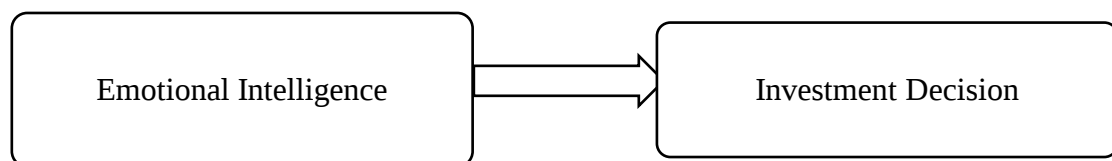
Hadi, F. (2017). Our findings underscore the crucial role of emotional regulation in financial decision-making, a factor that is significantly influenced by the level of financial knowledge among investors. Moreover, our study identifies additional factors that may impact the investor's decision-making process, thereby contributing to a more comprehensive understanding of investor behavior. It is essential to expand both the sample size and the geographical coverage of future studies to further validate and enhance the significance of our findings.

Muttath and Menachery (2018) conducted an analysis to discern the similarities and differences between individuals with high emotional intelligence and those with low emotional intelligence concerning their investment decisions. This study likely aimed to uncover whether emotional intelligence plays a significant role in shaping investment decisions and whether individuals with higher emotional intelligence tend to make more rational and successful investment choices compared to their counterparts with lower emotional intelligence.

Johnsi, S., and Sunitha, K. (2019). The primary aim of this study is to evaluate the impact of personality and emotional intelligence on investor behavior. The analysis relies on primary data, which is collected through the use of a well-designed questionnaire. The study has utilized the stratified sampling approach to identify the sample. A total of 120 investors who are investing in either NSE or BSE have been discovered, and their data has been gathered. The five primary personality qualities and Goleman's (1996) five categories of emotional intelligence are associated with the chosen behavioral biases. Logistic regression analyses were performed to analyze the hypothesis. The study has shown a correlation between psychological biases, personality characteristics, and emotional abilities.

Ran, Z., Gul, A., Akbar, A., Haider, S. A., Zeeshan, A., and Akbar, M. (2021). The study reveals that the impact of self-awareness and empathy, which are components of emotional intelligence (EI), on corporate financial decisions is more pronounced in female managers compared to their male counterparts. Male managers in a business context demonstrate a notably more significant impact of motivation, social skills, and self-regulation on their financial decisions compared to female managers. In general, the influence of emotional intelligence (EI) on cognitive flexibility and adaptability (CFD) is slightly more significant in male managers. These empirical results suggest that firms should evaluate job applicants not just for their technical talents but also for their emotional intelligence throughout the hiring process.

Theoretical Model Framework



Research Methodology

Objectives

The objective of this study is to examine the correlation between emotional intelligence and investment decision-making among investors. By understanding how emotional intelligence affects investment decisions, this research aims to provide valuable insights into how investors can leverage their emotional intelligence to make more informed and effective investment choices. The study may also uncover whether there is a positive association between emotional intelligence and successful investment outcomes, thereby shedding light on the potential benefits of developing emotional intelligence skills in the context of investing.

Hypothesis

There is a significant relation between emotion intelligence and investment decisions of investors
 There is no significant relation between emotion intelligence and investment decisions of investors

Research Methodology

This study employs a quantitative research design. Given the closed size of 300 people in this study population, non-probability sampling was employed, and sample selection was carried out via purposive sampling using a 5-point Likert scale questionnaire. The sample was confined to Chennai City in Tamil Nadu. The data collected underwent analysis using SPSS software, with the analysis methods consisting of descriptive statistics and simple linear regression analysis.

Result Analysis

Table.1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percentage
Age	18-25	40	13.3%
	26-35	90	30%
	36-45	100	33.3%
	46 and above	70	23.4%
Gender	Male	180	60%
	Female	120	40%
Education Level	High School	30	10%
	Bachelor's Degree	140	46.7%
	Master's Degree	110	36.7%
	Others	20	6.6%
Income Level	Below 20,000	50	16.7%
	20,001-40,000	80	26.7%
	40,001-60,000	100	33.3%
	Above 60,000	70	23.3%

*** Source: Primary data

The demographic profile of respondents shows a diverse age distribution, with the majority (63.3%) being between 26 and 45 years old. The sample is predominantly male (60%), and most respondents are highly educated, holding a Bachelor's or Master's degree (83.4%). The income levels are fairly distributed, with a significant proportion earning between 20,001 and 60,000.

Table.2: Reliability Statistics

Cronbach's Alpha	N of Items
0.749	10

Table.3 : Descriptive Statistics

EMOTIONAL INTELLIGENCE	N	Minimum	Maximum	Mean	Std. Deviation
EI1	120	2.00	5.00	4.1333	.81924
EI2	120	2.00	5.00	4.1917	.80226
EI3	120	2.00	5.00	4.3000	.74020
EI4	120	3.00	5.00	4.4667	.63422
EI5	120	3.00	5.00	4.5167	.59385

Table.4: Descriptive Statistics

INVESTMENT DECISION	N	Minimum	Maximum	Mean	Std. Deviation
ID1	120	3.00	5.00	4.5000	.60807
ID2	120	3.00	5.00	4.3583	.64555
ID3	120	3.00	5.00	4.4750	.66056
ID4	120	3.00	5.00	4.5583	.57680
ID5	120	3.00	5.00	4.6583	.49359

Simple linear Regression

The first table of interest is the model summary table, which provides the R1 and R2 values. The R value, which is 0.51, signifies the simple correlation, indicating a high degree of correlation between the variables. The R2 value, which measures how much of the dependent variable (investment decisions) can be explained by the independent variable (emotional intelligence), indicates that 42% of the variability in investment decisions can be attributed to emotional intelligence.

Table.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.225 ^a	.051	.042	2.01759

a. Predictors: (Constant), EI

The ANOVA table confirms that the regression model effectively predicts the outcome variable. The model's statistical significance is indicated by the P-value, which in this case is less than 0.0005 ($P < 0.05$). This suggests that the model is statistically significant and, as such, is a reliable tool for predicting the outcome variable.

Table.6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	25.381	1	25.381	6.235	.014 ^b
Residual	476.266	117	4.071		
Total	501.647	118			

a. Dependent Variable: ID

b. Predictors: (Constant), EI

The below table represents the Coefficients, which provide information on the independent variable, Investment Decision. Specifically, the B column under the Unstandardized Coefficients presents the regression equation as: $EI = 18.712 + 0.177 (ID)$

This equation indicates that Emotional Intelligence (EI) can be predicted by multiplying the Investment Decision (ID) value by 0.177, and then adding 18.712. In other words, for every one-unit increase in Investment Decision, Emotional Intelligence is predicted to increase by approximately 0.177 units.

Table.7: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	18.712	1.540			12.150	.000
EI	.177	.071	.225		2.497	.014

a. Dependent Variable: ID

Findings and Conclusion

The primary objective of this study is to ascertain whether emotional intelligence significantly influences investment decision-making. We have formulated hypotheses based on prior research and tested them using statistical measures. Financial investors typically base their investment decisions on their own capabilities and knowledge, although they may encounter emotional challenges along the way. It is therefore imperative for companies to provide their clients with sound advice that considers various factors influencing investment decisions. Previous studies have suggested a notable correlation between emotional intelligence and investors' decision-making regarding investments. Investors who can regulate their emotions tend to make more informed decisions. Our research also confirms that investors may not always act rationally; they may sometimes demonstrate opportunistic or irrational behaviors during the investment decision-making process. This study offers valuable insights into the intricate relationship between emotional intelligence and investment decisions in today's dynamic economic landscape.

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Ethics declarations

Conflict of interest

All authors declare that they have no conflict of interest.

Ethical approval

This study was approved by the local ethics committee, and research involving human participants, all informant consent.

Informed consent

Informed consent was obtained from all individual participants included in the study

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