



ORIGINAL RESEARCH PAPER

Finance

IMPACT OF DIMENSION OF EMOTIONAL INTELLIGENCE ON INVESTMENT DECISION

KEY WORDS: Emotional intelligence, traditional finance, cognitive ability.

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ABSTRACT

This study explores the impact of the dimensions of emotional intelligence (EI) on investor decision-making. Emotional intelligence refers to the ability to perceive, understand, manage, and utilize emotions effectively in oneself and others. While traditional financial theories have primarily focused on rationality and cognitive abilities, there is a growing recognition of the influence of emotions on investment decisions. This research investigates the specific dimensions of emotional intelligence, including self-awareness, self-management, motivation, empathy, and social skills, and their effects on investor decision-making. By analyzing existing literature, empirical studies, and real-world investment scenarios, this study aims to shed light on the relationship between emotional intelligence and investment choices. Understanding the impact of emotional intelligence on investor decision-making has significant implications for investors, financial advisors, and policymakers.

INTRODUCTION

In the world of finance and investment, decision-making plays a crucial role in determining success or failure. While traditional theories have predominantly focused on rationality and cognitive abilities as key drivers of investment decisions, there is an emerging recognition of the significant influence of emotional intelligence (EI) on financial outcomes. Emotional intelligence refers to the ability to perceive, understand, manage, and utilize emotions effectively, both in oneself and in others.

This research aims to delve into the dimensions of emotional intelligence and their impact on investment decision-making. By examining the relationship between emotional intelligence and investment choices, this study seeks to contribute to the growing body of knowledge on the role of emotions in financial decision-making.

Emotional Intelligence

Emotional intelligence (EI) is a concept coined by psychologist Daniel Goleman, referring to the ability to recognize, understand, manage, and effectively utilize emotions in oneself and others. It involves a set of skills and competencies that enable individuals to navigate social interactions, regulate their own emotions, and make informed decisions based on emotional cues.

- According to Goleman, emotional intelligence comprises five dimensions, which are as follows:

Self-awareness: This dimension involves the ability to recognize and understand one's own emotions, strengths, weaknesses, values, and motivations. Self-aware individuals have a deep understanding of their emotional states, thoughts, and behaviors, enabling them to accurately assess their impact on decision-making processes.

Self-regulation: Self-regulation encompasses the ability to manage and control one's emotions, impulses, and reactions. It involves staying calm under pressure, controlling emotional outbursts, and adapting to changing circumstances. Self-regulated individuals can effectively manage their emotional states to make more rational and well-thought-out decisions.

Motivation: Motivation refers to the drive and passion to achieve goals and pursue excellence. Individuals with high motivation are self-driven, resilient, and persistent in the face of challenges and setbacks. They are fueled by a strong sense of purpose and are more likely to persevere and make proactive investment decisions.

Empathy: Empathy involves the capacity to understand and share the feelings and perspectives of others. It includes the ability to accurately perceive and interpret others' emotions,

demonstrate compassion, and show genuine concern for their well-being. Empathetic individuals can better assess market dynamics, anticipate others' reactions, and build stronger relationships with clients and colleagues.

Social Skills: Social skills encompass the ability to effectively navigate and manage relationships with others. It involves communication, collaboration, negotiation, and leadership skills. Individuals with strong social skills can establish rapport, influence others, and create cooperative environments, which can be advantageous in investment settings that require teamwork and collaboration

Literature Review

The main goal of the research article is to examine how investors' emotional intelligence and behavioural biases influence their investment decisions. The analysis discovered a good relationship between financial experts' conduct predispositions and their venture selections, as well as a positive relationship between financial specialists' enthusiastic insight and their venture choices. However, the scientists discovered that enthusiastic insight predicts financial professionals' venture decisions better than speculators' behavioural predispositions. Among the various aspects of behaviour, the speculator's regret and carelessness are associated with the financial specialist's venture choices. Among the numerous evaluations of eager comprehension - care, dealing with emotions, motivation, empathy, and social aptitudes are linked to monetary hypothesis selections. (Raheja, 2020)

Investing money is a huge challenge for investors in India since they have to consider and rethink about it owing to the different influences of emotions and behavioural sentiments. The purpose of this review article is to investigate and shed light on how emotional intelligence and financial literacy affect investment planning and decision making for various investment avenues available in the financial market. The findings of this study will assist financial institutions and firm advisors in understanding the genuine desires of investors, as well as investors in properly managing their emotions when making investment decisions. (REKHA NARANG, 2021)

This study intended to investigate and broaden understanding of how EI influences investors' investment behaviour and decisions. The study specifically examined the effects of emotional intelligence variables/factors on investor behaviour in Ghana, as well as the indirect effect of emotional intelligence on investor behaviour via the mediating role of financial literacy. (Asamoah G, 2021) Emotion and perception are settings of financial behaviour that influence decision making from several viewpoints. This study is looking into emotional intelligence and how it affects financial decisions.

Emotion intelligence was discovered by studying 225 investors from the stock exchanges in Karachi, Lahore, and Islamabad. On emotion intelligence, linear and multi regression were used with correlation assistance. The majority of investors in the survey are male, have more than one year of experience, and are well educated. The findings demonstrated that emotion intelligence has a significant impact on investment decisions and plays an important role in security selection. Investors have self-awareness, self-control, motivation, and empathy, but they place little emphasis on relationship management. The entire study demonstrated low emotion intelligence and a great deal of decision-making influence. This research is vital for investors, firms listed on the stock exchange, and new entrants, but it is more important for researchers to investigate investor behaviour in diverse contexts in the future. (Muhammad Tanvir, 2016)

Individual investment behaviour is concerned with decisions regarding the purchase of small amounts of securities for one's own account. Investment decisions are frequently aided by decision tools. It is considered that the market's information structure and market dynamics systematically influence individuals' investment decisions as well as market results. The study's goal was to identify the factors impacting investment decisions at the Nairobi Stock Exchange. (SHIUNDU, 2009)

Research Methodology

➤ **OBJECTIVES OF THE STUDY**

- To find out the relationship between the dimension of emotional intelligence and investor's decision making.
- To study the effect of demographic profile on investors decision making.

➤ **RESEARCH DESIGN**

Descriptive research design is intended for the current research. Past researches shall guide the design of the current study.

➤ **SAMPLING DESIGN:**

Sample Size	100 Respondents
Sampling Unit	Investors
Sampling Technique	Non Probability method
Sampling Method	Convenience methods.

➤ **DATA COLLECTION:**

- Secondary data from internet sources as well as past reports shall be reviewed in order to form the basis of data collection instrument for the survey.
- Self-administered Questionnaire shall be used as data collection instrument
- Primary data shall be collected from the respondents based on the questionnaire designed.

➤ **DATA ANALYSIS**

Parametric/Non-parametric statistical tools shall be used to analyse the data collected from the respondents.

➤ **LIMITATIONS OF THE STUDY**

1. Small sample size: As sample size taken by me for purpose of survey was 50 respondents. So the result may have some deviations from the facts because of small sample size.
2. Limited area: The study although carried out with the fullest possible effort and devotion, the limitation of area covered may lead to an element sampling error.
3. Data Collection was done through questionnaire technique. However, the design of questionnaire was not tested for validity. Questions relied mostly on the questionnaire designed by past researchers for similar objectives. As such, the collected data may not justify the topic under study.
4. Conclusion drawn Since the analysis of data was drawn based on the limited understanding of the subject matter,

conclusion arrived is highly debatable

Data Analysis

➤ **Level of emotional intelligence of the respondents**

Table 1 Level Of Emotional Intelligence

Statistics		Self_awareness	Self_management	Empathy	Motivation	Social_skill
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
Mean		2.1000	2.3600	2.1960	2.0320	2.0800
Median		2.0000	2.2000	2.0000	2.0000	2.0000
Mode		2.00	2.00	2.00	2.00	2.00
Std. Deviation		.40850	.57700	.45392	.36705	.45837

Interpretation

According to Table 1, the emotional intelligence level among investors is categorized as High overall. Self-management stands out as their strongest aspect, with a weighted mean of 2.36. This indicates that investors possess a Very High level of emotional intelligence in terms of their ability to remain focused and think clearly even when experiencing intense emotions.

The remaining four aspects received ratings of High from the respondents. Empathy ranked second, with a weighted mean of 2.1960. Self-awareness followed closely in third place, with a weighted mean of 2.1000. Social skills were rated fourth, with a weighted mean of 2.0800, while motivation ranked fifth with a weighted mean of 2.0320.

In summary, the table suggests that investors have a strong overall emotional intelligence level, with self-management being their most prominent attribute. The other aspects, although slightly lower in rating, still indicate a high level of emotional intelligence among investors in motivating oneself, demonstrating empathy, self-awareness, social skills, and motivation.

- Correlation between Emotional intelligence and investors decision making.

Table 2 Correlation Between EI & Investors Decision Making

			Emotional intelligence	Investor decision making
Spearman's rho	Emotional intelligence	Correlation Coefficient	1.000	.449**
		Sig. (2-tailed)	.	<.001
		N	100	100
	Investor decision making	Correlation Coefficient	.449**	1.000
		Sig. (2-tailed)	<.001	.
		N	100	100

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

Interpretation

The correlation analysis shows that there is a significant positive correlation between emotional intelligence and investor decision-making. This means that as emotional intelligence increases, there is a tendency for investor decision-making to improve. The Spearman's correlation coefficient of 0.449 indicates a moderate positive relationship between the two variables. The p-value of less than 0.001 suggests that this correlation is statistically significant.

- Effect of Demographic profile on investors decision making
- Effect of Age group on investors decision making

Table 3 Effect Of Age Group On Investors Decision Making

Kruskal-Wallis Test

Ranks			
	Age_group	N	Mean Rank
Investor_decision_making	less than25	58	55.64
	26-45	36	43.83
	45-60	4	26.50
	Above-60	2	69.50
	Total	100	

Test Statistics^{a,b}

Investor_decision_making	
Kruskal-Wallis H	7.349
df	3
Asymp. Sig.	.062

Table 4 Statistics

- a. KruskalWallis Test
- b. Grouping Variable: Age_group

Interpretation:-

The Kruskal-Wallis test was conducted to analyze the ranks of investor decision-making across different age groups. The test yielded a chi-square statistic of 7.349 with 3 degrees of freedom. The asymptotic significance value associated with the test was 0.062.

This indicates that there is a marginal level of significance in the differences of ranks among the age groups in terms of investor decision-making. o Effect of education on investors decision making

Table 5 Effect Of Education On Investors Decision Making

Kruskal-Wallis Test

Ranks			
	Education	N	Mean Rank
Investor_decision_making	H.S.C	10	32.30
	Greduate	38	40.39
	Post Greduate	46	64.89
	Others	6	34.50
	Total	100	

Test Statistics^{a,b}

Investor_decision_making	
Kruskal-Wallis H	21.789
df	3
Asymp. Sig.	<.001

Table 6 Statistics

- a. KruskalWallis Test
- b. Grouping Variable: Education

Interpretation:-

The Kruskal-Wallis test was performed to examine the ranks of investor decision-making based on different levels of education. The test resulted in a chi-square statistic of 21.789 with 3 degrees of freedom. The asymptotic significance value associated with the test was less than 0.001.

This indicates that there are significant differences in the ranks of investor decision-making across various education levels. The results suggest that the level of education has an impact on investor decision-making. Specifically, postgraduate education received the highest mean rank, followed by graduate education, high school completion, and others.

CONCLUSION

Emotional Intelligence and Investor Decision-Making: There is a significant positive correlation between emotional intelligence and investor decision-making. This suggests that enhancing emotional intelligence skills can lead to improved decision-making abilities among investors.

Age Group and Investor Decision-Making: Although the level of significance is marginal, there are observed variations in the ranks of investor decision-making across different age groups. This indicates that age may play a role in shaping decision-making processes.

Education Level and Investor Decision-Making: The significant differences in the ranks of investor decision-making based on education level indicate that higher education levels, particularly postgraduate education, may positively impact decision-making skills, followed by graduate education, high school completion, and others. Encouraging ongoing education and training in investment-related areas could potentially enhance decision-making abilities among investors.

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