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Behavioral Bias Factors on Making Socially Responsible Investment Decisions: Evidence from Individual Investors in Colombo District

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Abstract

Introduction: This Research investigates the impact of behavioral biases on socially responsible investment (SRI) decisions among individual investors in the Colombo District, Sri Lanka. It focuses on three specific behavioral biases: Herding, Overconfidence, and Loss Aversion. The study aims to fill Empirical and Geographical gaps in the field of behavioral finance by exploring the adoption of ESG-focused investments in a developing country context.

Methodology: The study used a quantitative approach, and the data were collected by distributing a Likert scale questionnaire among 385 individual investors. The following statistical tools were employed to assess the relationship between the variables: reliability test, descriptive analysis, correlation analysis, and regression analysis.

Findings & Discussion: Further, the findings reveal a significant positive correlation between herding, overconfidence, loss aversion bias, and socially responsible investment decisions. Also, the regression analysis highlights that loss aversion bias has the most significant impact, followed by overconfidence and herding.

Conclusion: According to the results obtained, they underscore the importance of addressing behavioral biases to promote rational decision-making in socially responsible investing. This study helps policymakers, financial institutions, and investment advisors to design targeted strategies to mitigate the negative impact of these biases. Understanding these biases correctly could enhance investor awareness as well as the preference towards the SRI.

Keywords: Herding, Overconfidence, Loss Aversion, Socially Responsible Investment Decision, Heuristics Theory, Prospect Theory