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## Assessing the drivers of Socially Responsible Investment Behavior among Retail Investors: Perspective from The Social Cognitive Theory

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### Abstract

*Conceptually grounded in the Social Cognitive Theory (SCT), the study uniquely investigates the interplay of personal and cognitive factors, environmental factors, and behavioral factors concerning socially responsible investment (SRI) decisions among retail investors. Using advanced statistical analysis, including partial least square structural equation modeling with Smart PLS-SEM v-4.0, the study was conducted on a diversified dataset of 487 Indian retail investors from various demographic backgrounds. The results demonstrate that the nexus of personal and cognitive factors, and environmental factor have a positive influence in driving responsible investment behavior among retail investors. These findings can be instrumental in promoting a more environmentally conscious society by emphasizing the importance of personal convictions in investment decisions, thereby strengthening collective efforts toward sustainable development.*

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*Stakeholders including policymakers, portfolio managers, and financial advisors may utilize the findings in structuring and refining realistic action plans for incorporating SRI in designing and effectively framing investment portfolio.*

**Keywords:** Social Cognitive Theory, Investment Behavior, Socially Responsible Investment (SRI), Mediation Model.

## 1. Introduction

Socially responsible investment (SRI), has gained traction in the financial sector as a pathway toward a more equitable and environmentally aware future (Revelli, 2016; Matharu, 2019; Arefeen and Shimada, 2020). The increasing awareness among investors in recognizing the urgent global sustainability issues such as the climate crisis, social inequality, and intricate corporate governance issues has made SRI even more crucial to promote favorable social and environmental impacts. SRI aims to direct capital toward companies and projects that actively improve their operations' social and environmental aspects while simultaneously making a profit for investors (Cowton and Sandberg, 2012). The notion of 'socially responsible investment' has evolved as a potent and pertinent paradigm within investment strategies, potentially influencing how the financial markets develop. There exists a significant gap in our understanding of the intricate mechanisms influencing investors' decisions in this field. This study endeavors to close this gap by proposing a comprehensive model underscoring the nexus of financial literacy (FL), social norms (SN), and environmental beliefs (EN), in shaping socially responsible investment decisions (SRID). Understanding the implications of sustainable investing and making educated investment decisions depend on strong financial literacy. Insufficient financial understanding can lead to poor investment decisions that ignore environmental, social, and governance (ESG) aspects and their long-term impacts on earnings and society (D'Hondt et al., 2022; Filippini et al., 2024). Furthermore, understanding environmental behavior is required to evaluate investor preferences and motivations to make socially responsible investing decisions. According to

Vanwalleghem and Mirowska (2020), EN is a crucial factor in increasing the demand for sustainable investment solutions and reflecting investors' environmental sensitivity. Similarly, social norms (SN) are cultural conventions, expectations, and attitudes toward smart investing strategies. Social considerations, peer pressure, and cultural viewpoints on sustainable investing can all influence investor behavior. According to Mishra et al. (2023), SN influences investors' attitudes and behaviors toward socially responsible investing by providing the socio-cultural environment for investment decisions. The critical impact of SN has been explored and validated in diversified decision-making contexts (Chang & Sanfey, 2013; Melnyk, 2019; Müller-Engelmann, 2013). Therefore, the study aims to present a novel conceptual model and investigate the affects of FL, EN, and SN collectively on determining responsible investment behavior.

### **1.1 Theoretical Framework**

To investigate the psychological elements that encourage retail investors to seek socially responsible investing (SRI), this study uniquely grounds the conceptual framework on the social cognitive theory (SCT). SCT has been widely used as a foundational framework in a variety of fields of study, including organizational management (Wood and Bandura, 1989; Chang and Edwards, 2014), health behavior (Anderson et al., 2007; Tsai, 2014), technology adoption (Boateng et al., 2016, Khoirunnida et al., 2017), purchase decision (Milakovic, 2021; Perera et al., 2019; Lim et al., 2019), and numerous other interdisciplinary domains.

### **1.2 Conceptual Model**

The research model of our study has been conceptualized based on SCT, as the theory fundamentally states that individuals learn and make decisions through the interplay of cognitive abilities, personal beliefs and environmental beliefs. In the context of SRI decisions, this theory provides a comprehensive framework for understanding how the various factors play their roles in influencing investor behaviour toward making SRI decisions. The conceptual model as depicted in Figure 1 incorporates the three main components of SCT. The personal factors and cognitive abilities component include financial literacy (FL) and environmental belief (EN) as the determinants of SRI decisions. FL

equips investors with the knowledge to evaluate the SRI options efficiently and EN aids in shaping the investors' preferences for SRI. The environmental factor of the SCT is represented by social norms (SN) in our study and the behavioral factor is determined by the SRI decisions of the retail investors as the outcome of the interplay between these cognitive and environmental determinants.

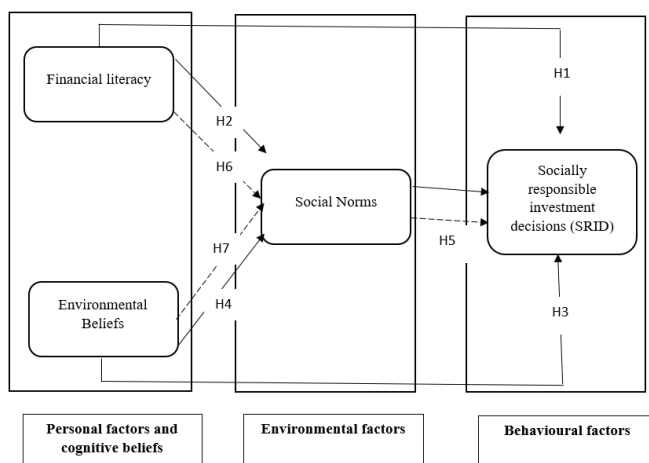


Figure 1. Conceptual Model

## 2. Review of literature and hypotheses formulation

### 2.1 The interplay between FL, SN, and SRID

Financial literacy is defined as having the awareness, understanding, and proficiency to manage personal finances, as well as the confidence to make sound financial decisions such as budgeting, saving, and investing (Redmund, 2010; OECD, 2017; Lusardi and Mitchell, 2014). Financially literate individuals have a better grasp on the concept of financial risks and their potential implications, according to several research, including those by Lusardi & Messy (2023), Molina-García et al. (2023), and Hermansson & Jönsson (2021).

While formerly FL focused solely on economic considerations, recently with the evolving definitions FL is acknowledged as critical in changing people's attitudes and behaviors regarding

environmental issues. Cucinelli and Soana (2023) demonstrated in their study that as retail investors learn more financial knowledge and improve their savings and financial control behaviors, they are more likely to choose socially responsible financial intermediaries. They are inclined to assess investment opportunities based on the variety of available options, associated expenses, and potential returns. This allows them to critically assess investment options and select those that support both their non-economic and economic objectives (Chrisman et al., 2012; Passi et al., 2024; Garg et al., 2022). According to Lusardi and Mitchell (2008), financial literacy extends beyond personal welfare to tackle societal concerns such as sustainability. OECD (2018) highlights the importance of sustainable financial literacy as a concept that integrates sustainability concepts into financial decision-making. Additionally, financial literacy was identified by Siddik et al. (2023) as a major predictor of company sustainability success. By reducing financial barriers and bolstering corporate governance, increased financial literacy may encourage business innovations. Thus, these factors support the development of sustainable companies and further efforts to mitigate the effects of climate change (Luo and Cheng, 2022). Furthermore, Kumari and Harikrishnan (2021) highlighted in their research the value of financial literacy as a tool for wise decision-making and guaranteeing the environment's sustainability in the future.

According to Gertler et al. (2012), and Lusardi and Mitchell (2014), financial literacy is critical in shaping how society as a whole views and manages financial matters, with implications ranging from individual savings to investment decisions. Financial decision-making based on social norms includes a variety of elements, including following cultural standards for investing, saving, and spending, as well as being influenced by peers' financial actions. This influence can be noticed through behaviors such as herd mentality and social proof, in which people base their financial decisions on what others are doing (Hidayanti et al., 2023; Rind et al., 2023; Banerjee & Das, 2023). Fernandes et al. (2014) proposed that financial knowledge could potentially reinforce social norms.

Drawing on the preceding arguments, we propose the following hypotheses:

H<sub>1</sub>: FL significantly influences SRID.

H<sub>2</sub>: FL significantly influences SN.

## **2.2 The interplay EN, SN, and SRID**

Environmental beliefs are an individual's attitudes, values, and convictions regarding environmental issues and sustainability (Dietz et al., 2005). These attitudes are developed by personal experiences, sustainable financial literacy, societal influences, and environmental awareness. They have an important role in molding behaviors and affecting cultural norms on environmental conservation and sustainable activities (Stern, 2002). Gifford and Nilsson (2014) emphasized the role of environmental views in creating societal norms about sustainability. Furthermore, Leiserowitz (2006) emphasized the complex and multifaceted nature of public responses to climate change, demonstrating that these responses stem from a combination of values, beliefs, and personal experiences. Environmental values influence societal norms and can foster widespread adoption of sustainable practices (Dilla et al., 2019; Kollmuss and Agyeman, 2010). For example, investors who pay close attention to environmental issues are more likely to incorporate important information into their decision-making process (Barber and Odean 2008). Furthermore, Bolton and Kacperczyk (2017) found that environmentally conscientious investors evaluate carbon emissions and environmental risks while evaluating investment opportunities. Value-driven investors prioritize environmental values and social responsibility when making investment decisions (Schoenmaker & Schramade, 2023).

Thus, we propose the following hypotheses:

H<sub>3</sub>: EN significantly influences SRID.

H<sub>4</sub>: EN significantly influences SN.

## **2.3. The interplay between SN and SRID**

Individuals' investing decisions are influenced by social norms, which dictate acceptable behavior within society. This can lead to herding behavior, in which investors follow the crowd based on social conventions rather than financial incentives (Cialdini and Goldstein, 2004). Over the last two decades, economists have expanded traditional rational choice theories to reflect collective behaviors by incorporating social and psychological factors. Bikhchandani et al. (2001) investigated the idea of herding in investing decisions and discovered that social norms

play an important role in persuading investors to follow the pack. Furthermore, Li et al. (2021) explored how cultural norms influence investing choices, implying that investors from various cultural backgrounds may exhibit varied investment behaviors shaped by the societal norms and values common in their respective cultures. Furthermore, Gutsche et al. (2019) noted how cultural standards that promote ethical and sustainable behaviors have aided the emergence of socially responsible investing.

Therefore, we propose the following hypotheses:

H<sub>5</sub>: SN significantly influences SRID.

H<sub>6</sub>: SN mediates the relationship between FL and SRID.

H<sub>7</sub>: SN mediates EN and SRID.

### **3. Research Methodology**

To create the questionnaire for this study, we employed a rigorous process that included an extensive examination of current literature, expert comments, and pilot testing (Carpenter, 2018). Using primary data, the study used an explanatory methodology to assess the links between FL, EN, SN, and SRI decisions. A well-structured questionnaire was created, incorporating measuring questions primarily derived from existing research and making required revisions to fit the study's setting. We customized the items for the 'financial literacy' construct to assess long-term financial literacy for our study (see Appendix 1).

The study used a survey instrument with four constructs and 17 statements: 4 items for Financial Literacy (FL), 4 for Environmental Beliefs (EN), 4 for Social Norms (SN), and 5 for Socially Responsible Investment Decisions (SRID). These constructs were measured using a "five-point" Likert scale, with '1' indicating "strongly disagree" and '5' indicating "strongly agree".

BSE India's publicly accessible database (bseindia.com) provided the first list of registered investors from every Indian state. The states of Assam, Delhi, and Karnataka were chosen at random using a simple random sampling technique. After that, questionnaires were given to individual investors in each state that was chosen based on the percentage of retail investors in that

state. The entire set of data was gathered between March 21, 2024, and June 30, 2024.

#### **4. Results**

In this study, for structural and measurement analysis, we used PLS-SEM with SmartPLS v4.0.8.7 software. PLS-SEM has the advantage of evaluating complex models, such as mediation and moderation effects, within a unified framework. We evaluated the measurement model first, then the structural model, in accordance with Hair et al.'s (2019) guidelines.

To reduce the possibility of Common Method Bias (CMB), which occurs when data is collected from the same group of participants using a single instrument that includes both the dependent and independent variables, we used two different strategies. First, we used procedural procedures by randomly arranging all research objects (Podsakoff et al., 2012). We then ran two statistical procedures to determine the presence of CMB. The first test entailed running the Harman one-factor test with SPSS 21.0 software. According to the findings, the highest explained variance came out at 42.578 percent, falling below the essential criterion of fifty percent. This result rules out any large CMB presence (Fuller et al., 2016; Podsakoff et al., 2012).

##### **4.1 Measurement model assessment**

The results demonstrated that all of the constructs' outer loadings were statistically significant and exceeded the "planned" 0.70 criteria. Cronbach's alpha and composite reliability (CR) were both more than 0.70, indicating adequate internal consistency (Hair et al., 2017). Furthermore, as shown in Table I, all components had average variance extracted (AVE) values much higher than the cutoff of 0.50, indicating strong convergent validity per the recommendations established by Fornell and Larcker (1981) and Hair et al. (2017).

To determine discriminant validity, the study employed the heterotrait-monotrait (HTMT) correlation ratio in addition to Fornell-Larcker's (1981) criterion, as indicated in Tables II and III. All HTMT values remained below the 0.85 limit, indicating discriminant validity. The measurement model is depicted in Figure 2.

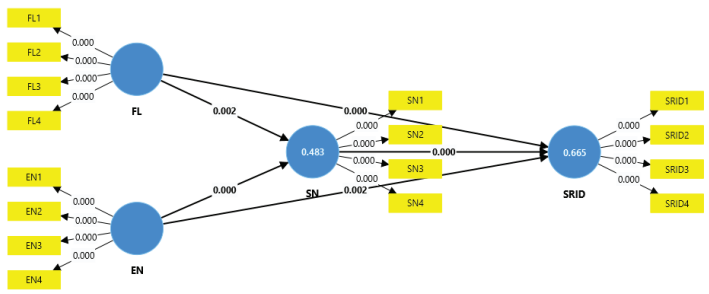


Figure 2. Construct measurement assessment model.

Table I: Convergent validity assessment.

| Constructs | Cronbach's $\alpha$ | CR    | AVE   |
|------------|---------------------|-------|-------|
| EN         | 0.839               | 0.839 | 0.677 |
| FL         | 0.753               | 0.756 | 0.574 |
| SN         | 0.770               | 0.779 | 0.592 |
| SRID       | 0.838               | 0.843 | 0.674 |

Table II: HTMT Ratio

| Constructs | EB    | FL    | SN    | SRID |
|------------|-------|-------|-------|------|
| EN         |       |       |       |      |
| FL         | 0.657 |       |       |      |
| SN         | 0.807 | 0.688 |       |      |
| SRID       | 0.782 | 0.827 | 0.830 |      |

Table III: Forenell-Larcker values.

| Constructs | EB    | FL    | SN    | SRID  |
|------------|-------|-------|-------|-------|
| EN         | 0.784 |       |       |       |
| FL         | 0.560 | 0.750 |       |       |
| SN         | 0.654 | 0.543 | 0.783 |       |
| SRID       | 0.667 | 0.596 | 0.686 | 0.766 |

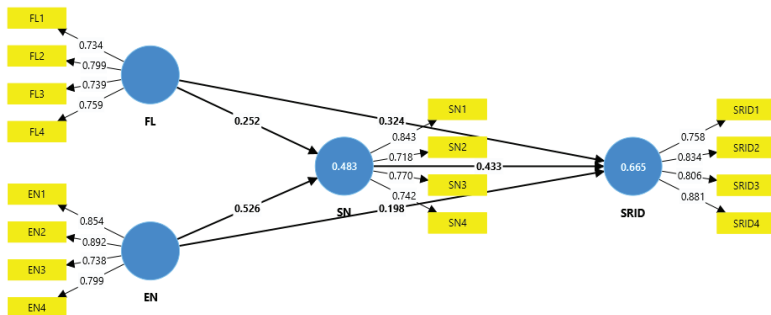
## 4.2 Structural model assessment

The appropriateness of the structural model was established through standardized root mean square residual (SRMR) value. An optimum match is suggested when the SRMR value is less than 0.10 (Henseler et al., 2016). While saturated SRMR represents perfect fit, which is impossible to achieve in real-world circumstances, estimated SRMR evaluates model fit while taking into account model complexity, assisting in determining the model's capacity to recreate observed correlations between variables. In our analysis, the model performed well, with an estimated SRMR value of 0.075. This shows that the relationships hypothesized in our model are statistically valid and that the model accurately represents the underlying data structure.

The following phase involved assessing the structural model's predictive relevance using  $R^2$  and  $Q^2$  metrics, as recommended by Yao et al. (2023). Chin (1998) provided three distinct ranges for  $R^2$  values to classify the degree of fit: weak (0.02 to 0.13), moderate (0.14 to 0.26), and considerable ( $> 0.26$ ). In our analysis, all endogenous variables had  $R^2$  values ranging from 0.314 to 0.587, indicating a high degree of fit, as shown in Figure 3. This suggests that our model can explain a significant portion of the variance in the endogenous constructs, increasing confidence in its predictive capacity. Furthermore, all of the exogenous constructs had  $Q^2$  values above zero, ranging from 0.278 to 0.344. These findings suggest that each exogenous construct made a significant contribution to predicting the expected correlations (Hair et al. 2016). Values greater than zero are important because they represent the degree of predictive accuracy in the PLS path model. The relevance of the model's accuracy is rated as small, medium, or big, with values greater than 0, 0.25, and 0.50, respectively. As a result, our model revealed significant explanatory competence and showed strong predictive power.

Furthermore, the study utilized the boot strapping technique using 5000 sub samples to rigorously evaluate the importance of path coefficients. Table IV has detailed data for the hypothesized connections, which are displayed in Figure 3. The use of bootstrapping strengthens our findings by guaranteeing that the computed path coefficients are accurate and statistically valid.

In the study, hypotheses 1 and 2 proposed that FL and SN each had a considerable impact on SRID. Financial literacy has a considerable impact on socially responsible investment behavior ( $\beta = 0.526$ ,  $p < 0.000$ ). This means that those who have more understanding of sustainable finance are more likely to participate in SRI. The study found a substantial influence of FL on SN ( $\beta = 0.543$ ,  $p < 0.000$ ), supporting the adoption of H1 and H2. In support of hypotheses 3 and 4, EN has a significant and favorable impact on both SRID ( $\beta = 0.503$ ,  $p \leq 0.000$ ) and SN ( $\beta = 0.563$ ,  $p \leq 0.000$ ). Furthermore, SN had a substantial influence on SRID ( $\beta = 0.489$ ,  $p < 0.000$ ). As a result, hypotheses 3, 4, and 5 were validated and accepted. The structural model is depicted in Figure 3.



**Figure 3. Structural model.**

**Table IV: Results of total effects**

| Hypotheses | Linkage               | $\beta$ | p-value | Remarks   |
|------------|-----------------------|---------|---------|-----------|
| H1         | FL $\rightarrow$ SRID | 0.526   | 0.000   | Supported |
| H2         | FL $\rightarrow$ SN   | 0.543   | 0.000   | Supported |
| H3         | EN $\rightarrow$ SRID | 0.503   | 0.000   | Supported |
| H4         | EN $\rightarrow$ SN   | 0.563   | 0.000   | Supported |
| H5         | SN $\rightarrow$ SRID | 0.489   | 0.000   | Supported |

### 4.3 Mediation assessment

To investigate the mediation effects, we used Preacher and Hayes' (2008) bootstrapping resampling approach. In addition, we examined the importance of interaction terms to assess their effect on the dependent variable. Table V shows that SN significantly affects the link between FL and SRID ( $\beta = 0.386$ ,  $p \leq 0.000$ ) and EN and SRID ( $\beta = 0.267$ ,  $p \leq 0.000$ ), supporting H6 and H7. These findings indicate that social norms play an important role in changing people's attitudes and behaviors toward sustainable investing.

**Table V: Mediation results.**

| Hypotheses | Linkage                                | $\beta$ | p-value | Remarks   |
|------------|----------------------------------------|---------|---------|-----------|
| H6         | FL $\rightarrow$ SN $\rightarrow$ SRID | 0.386   | 0.000   | Supported |
| H7         | EN $\rightarrow$ SN $\rightarrow$ SRID | 0.267   | 0.000   | Supported |

## 5. Discussion and implications

The study provides empirical evidence demonstrating the efficacy of Social Cognitive Theory (SCT) in decision-making within the context of SRI. From a theoretical approach, the current work empirically evaluates the interrelationships between FL, EN, SN, and SRID, adding to our theoretical understanding of these interactions. The data indicate a significant association between FL and SRID, EN and SRID, and SN and SRID, which is similar with previous study by Jain et al. (2022), Kumari and Harikrishnan (2021), Raut (2020), and Cucinelli and Soana (2023). This tendency represents a global change in which investors prioritize environmental and social concerns over financial profits (Tripathi and Kaur, 2020; Ahmad et al., 2023; Liu et al., 2023; Dmuchowski et al., 2023). Interestingly, our data show that social norms play an important role in determining SRI-related decisions. This is consistent with previous studies indicating a favorable relationship between normative influence and socially responsible investment decisions (Cialdini and Goldstein, 2004; Gutsche et al., 2019; Hong and Kacperczyk, 2009). This observation serves as a reminder that human conduct is intricately linked to societal processes. Social norms, which often operate in the

background, have a substantial impact on investor decisions and help to promote responsible investing as a desired and widely accepted practice. In conclusion, our research offers light on the complex factors that underpin SRI choices and gives a path for multiple stakeholders to guide the economy toward greater environmental consciousness and sustainability.

The study's findings have several important theoretical implications that contribute to our knowledge of social cognitive theory (SCT), sustainable development, and behavioural finance. To begin, by applying SCT to the realm of sustainable finance and emphasizing the importance of FL, EN, and SN as critical components in individual investment decisions, this work contributes to SCT. The study extends the application of SCT beyond traditional domains such as health behavior and education by investigating the interaction of FL, EN, and SN in deciding responsible investing choices. This update expands SCT's utility as a theoretical framework for understanding various pro-environmental behaviors and financial decisions. Additionally, the study merges concepts from the domains of behavioral finance and sustainable investing. Behavioral finance focuses on how psychological biases influence financial decisions, whereas sustainable investing seeks to match investments with ethical, social, and environmental goals. This study combines ideas from both disciplines to provide a comprehensive understanding of investor behavior in the context of sustainable finance by highlighting the importance of FL, EN, and SN as drivers of SRI decisions.

Furthermore, the study offers important practical consequences for many stakeholders, including financial institutions, educators, politicians, and individual investors. It provides actionable insights for furthering sustainability goals and boosting SRI. The report suggests that educators and policymakers prioritize developing targeted financial education projects centered on sustainable finance for people of all ages. Moreover, policymakers could also explore incorporating social responsibility incentives and standards into financial rules. This might include urging financial firms to offer SRI options and regularly report ESG data. They could also encourage sustainable investments through tax breaks, subsidies, and research projects aimed at sustainable

technology and businesses. To attract a broader range of investors and help clients achieve both financial returns and positive societal impact, the study emphasizes the role of EN as a driver of sustainable investment decisions, encouraging financial advisors and portfolio managers to incorporate ESG factors into their investment strategies by providing investment options that align with multiple ESG themes and risk profiles. Additionally, based on the study's results about the significant impact of social norms on investment decisions, policymakers, and organizations might create campaigns promoting sustainable investing as a socially responsible activity. These programs can use the influence of peers, public personalities, and social networks to create positive feedback loops that encourage more people to adopt responsible investment habits. Recognizing the potential for sustainable investments to have positive results over time might encourage a move away from short-term profit-seeking behaviours and toward sustainable investment methods that are aligned with the larger goal of sustainable development.

## **6. Limitations and Future Research scope**

Despite the study's contribution, there are certain limitations that need to be addressed and explored for future research potential. Since the study is based on data captured within a single time frame and specific geographical context, it is suggested to assess the model in a different setting of emerging economies with extended time period to generalize the findings of the study. Additionally, future research may consider extending the model by incorporating factors such as ethical values, self-efficacy, environmental concern and status-quo bias to contribute to the existing research of SRI behavior.

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