

INVESTORS PERCEPTION TOWARDS SOCIALLY RESPONSIBLE IN INDIAN FINANCIAL MARKET- A STUDY

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ABSTRACT

In conventional finance, everyone aims to maximize their money rationally, but several times Emotions and illogical choices have an impact on reason. The focus of behavioural finance research is on the creation and management of financial assets by people. Financial decisions made by people, communities, and organisations are influenced by psychological and social variables known as behavioural finance. A rapidly expanding field called behavioural finance examines how psychology affects how financial professionals behave. The study of investors' illogical conduct is known as behavioural finance. The two sections of behavioural finance are limitations to arbitrage and cognitive psychology. What does cognitive psychology entail in terms of how people perceive a situation and defining the boundaries of arbitrage is determining which circumstances make sense for arbitrage forces to be in and which do not. Different biases have an impact on the judgments made by individual investors.

KEYWORDS: *Investors Perceptions, Social Responsibility, Financial Market*

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INTRODUCTION

The finance has provided invaluable insights into the complexities of human decision making within financial markets. Through the integration of psychology and economics, it has highlighted the irrationalities and biases that often guide investors, influencing market dynamics and asset prices. One of the key conclusions drawn from behavioral finance is that investors are not always rational actors, as traditional economic theories assume. Instead, they are prone to cognitive biases, emotions, and heuristics that can lead to suboptimal decision-making and market inefficiencies. These biases include overconfidence, loss aversion, herding behavior, and anchoring, among others. Understanding these biases is crucial for investors, as it helps them recognize and mitigate the potential pitfalls that can arise from irrational decision-making. By acknowledging their own biases and adopting strategies to counteract them, investors can make more informed and rational investment decisions. Furthermore, behavioral finance has implications for policymakers, regulators, and financial institutions. It underscores the importance of designing regulations and financial products that consider the behavioral tendencies of investors, promoting market stability and investor protection. Overall, behavioral finance has deepened our understanding of financial markets by incorporating insights from psychology into economic theory. By recognizing and addressing the behavioral biases that influence decision-making, both individual investors and the financial industry as a whole can strive for more efficient and resilient markets.

OBJECTIVES OF THE STUDY

The present study was a focus on the objectives as follows:

- To study the investment strategies used by Individual Investor in Indian financial Market.
- To understand the structure of Indian financial system and capital market.

RESEARCH METHODOLOGY

The present study is engaged in a detailed understanding of existing investors in Indian financial markets . An empirical study is being endeavored to capture the perceptions of Indian financial markets in Karnataka.

Research Design

The study is explorative cum descriptive in nature. It is exploratory in the sense that, earlier few studies have focused preferably on evaluating the performance of Indian financial market. The present study is also descriptive in nature because the researcher has attempted to describe the current scenario in the of Indian financial market on the existing beneficiaries of Indian financial markets Karnataka.

Sources of Data

The present research will be carried out with the help of both primary and secondary sources of data.

Collection of Secondary Data

The present study also gathers data from secondary sources. The data would be collected from various reports of Ministry of Labor and Employment, Census Survey reports, Economic Survey of Karnataka, ILO, Social Security plan documents about unorganized sector, plan documents of India, Karnataka State Government budget documents, Government of India budget documents, National Statistical Commission reports, NSSO Documents, Annual reports of social security schemes of various states, Newspapers, Journals, Magazines, thesis, dissertation reports, Books, etc. Furthermore, the required secondary data would also be gather from electronic sources.

REVIEW OF LITERATURE

(Richardson, Tuna & Wysocki, 2010). (Garahim& Dodd, 1934) employed fundamental analysis to determine the stock's intrinsic value while continuously monitoring economic factors, corporate financial statements, and industry trends. The fundamental analysis is based on the fundamental economic principle of supply and demand, which states that the market value of a financial instrument is determined by its supply and demand (Elena-Dana & Loana-Cristina, 2013).

Fundamental anomalies are deviations from the norm in a stock's value (Pompian, 2011). Most of the investor use fundamental analysis to forecast the change in future stock price with gripping factors related to stock value in the stock market (Ngoc, 2013).

Traditional finance with the themes of efficient market hypothesis argued that market price be a good for estimate the intrinsic value of the stock. The market anomalies, however, suggest that the market efficiency theory is not compelling (Bell, 1992), which is why certain investors may achieve an abnormal return on their investments (Ou & Penman, 1989; Xie, 2001).

The market is not effective as a result. The initial argument of behavioural finance was that stock price does not always reflect intrinsic value. Fundamental analysis in behavioural finance seeks to determine if the current price adequately incorporates all available data to forecast future prices (Shiller, 2015).

Fundamental oddities prey on investors who respond by changing the stock price. However, the majority of research (Collin & Hribar, 2000; Xie, 2001) seem to indicate that stock price does not follow the future price included in financial information. They anticipate the future price based on previous price with the belief that financial data reflect all information (Abad & Laffarga, 2004).

The relative change in stock price during a 59 period is not a reliable predictor of the relative change in price over the following period (Murphy, 1966).

Most investors pay close attention to financial statements in order to determine the stock price. Waweru, Munyoki, & Uliana, (2008) present that Stock price change has an impact on investment behavior, which leads to the investor to overreaction (DeBondt & Thaler, 1985) and under reaction.

Most of the investor wants to buy to sell those stocks, which have a higher price change during last two years. Odean (1999) and Murphy (1966) found a relation between the relative growth of per share earnings and percentage change in stock's price. This behavior depicts that investor is overreacted to the price change. The situation of overreaction or under reaction to the price change of stock may result from news such as (Veronesi, 2000) investor reactions of price [change] to news is overreact in good time while underreact in a bad time.

The price change is considering the most important determinant of the rate of return on the equity investment (Murphy, 1968). ROR is reflecting the investor's minimum rate payback on his investment (Ranganatham, 2006). Behavioral finance shows some behavior that something is beyond to the risk and returns to calculate the ROR and provide some psychological application to the investor and financial market (Thaler, 2005).

In the fundamental analysis, the main theme to find out that current price is on the intrinsic value contained in the financial statement and analyst recommendation (Breton & Taffler, 2001). Investors are considering the price change [anomalies] to contend the market or achieve a higher return. Behavioral factors rather than fundamentals have an impact on the stock price dynamics (Shiller, 2015).

The further debate that investor does not follow the fundamental of underlying stock but on the greater extent judge the events by hearsay, clichés and casual observation (Waweru, Mwangit & Parkinson, 2014).

ANALYSIS OF THE STUDY

Indian Financial Markets

The economic growth of a country depends on advancement in the financial system. The financial system can be improved by capital accumulation which facilitates in providing credit facilities for industrial and infrastructure development. The dependency of the banking system on short-term foreign credit had led to financial crises in Asia in the year 1997-99. The reversal of international capital flow during Asian crisis led to macroeconomic dislocation. Moreover, countries need to homogenize on various fronts like regulations, financial products with their limits, and corporate governance to enable cross-border funding.

As per financial economists, two principal channels can improve the financial system, leading to economic growth. Firstly, a systematic and structured financial system is required to mobilize savings and channel them for capital build-up. Secondly, an efficient financial system can provide credit and other financial facilities to industries. Thus, this exhibits the importance of financial markets fuelling the economic growth in a nation. The development of a country's capital market always requires the flow of investment to serve the requirement of investment projects. The financial markets are one of the parameters for the real economic development of a particular nation. Financial markets act as an intermediary to channelize the hard-earned savings of households to the corporate sector. Thus, the risk involved in the business is shared by both households and businesses. Moreover, Stock markets are the source to continuously gauge the performance of firms and keep a check on the governance of the listed companies. Growth in the financial markets pave way for the development of Industries in the economy . An efficient stock market is an essential constituent of a strong financial system.

Capital markets are also known as stock markets which have been in existence for centuries. The first company which invited the public to purchase shares of a company was the Dutch East India Company in 1602 A.D. and from that time stock markets have gone through tremendous changes. The changes are made for the sake of the convenience of investors and various other market participants. Various regulatory authorities are framed all over the world to keep a check so that no one can take undue advantage of any information for monetary benefits.

The capital markets of India are among the oldest markets in Asian countries and its history starts from the 18th century. It has witnessed and advanced through turbulent times and bigbooms with time. Stock markets in India have progressed over time with practices in markets reflect the policies framed. Till the starting of reforms at the time of early 1990, upraising of funds under the primary sector of markets were under several controls. The settlement and trading system was obsolete as compared to international practices. As the transaction volume of securities increased the transaction cost also increased because the physical form of securities transaction resulted in increased cost. Alongside, long, uncertain settlement cycles resulted in many discomforts for the clearinghouses. The improvement in the settlement system and reduction of transaction costs were some measures that helped to upgrade the integrity of the Indian markets. Another important change was the Mutual fund industry was opened for the private players in 1992 which was initially a monopoly of UTI (unit trust of India).

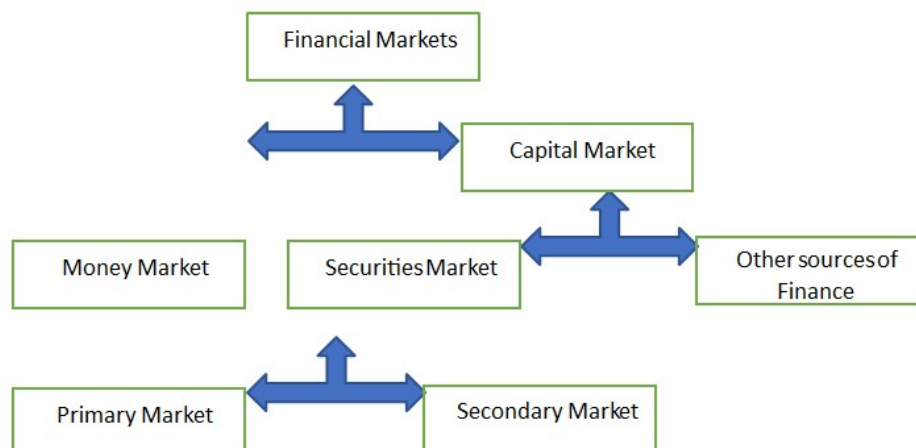


Figure 1: Structure of Financial Markets.

The two main divisions of financial markets are capital and money market. Long-term debt is traded in the capital market and short-term deals are traded in the money market. Both these markets are further divided into again two parts primary and secondary (figure 1.1).

Capital markets contribute to economic growth in the following ways

- It raises the amount of savings leading to the formation of capital in the economy.
- Efficient allocation of capital leads to raising the constructiveness of investment.
- An efficient financial system is constructed because various participants for the financial resource are available in the market
- The use of new, innovative, cost-effective, sophisticated financial instruments leads to reduction of cost of capital and financial broadening of the economy
- Proper rules of the capital market put pressure on firms to work in a disciplined manner.

Primary market is that where securities that are equity shares of the company are traded for the first time. The primary market acts as a facilitator to transfer the newly issued shares for the first time (initial public offering) from corporate to investors, therefore, expediting the process of capital formation. Whereas secondary markets is that platform where actual trading of outstanding shares takes place therefore it is also known as the stock market of India. Figureshows the structure of capital markets in India.

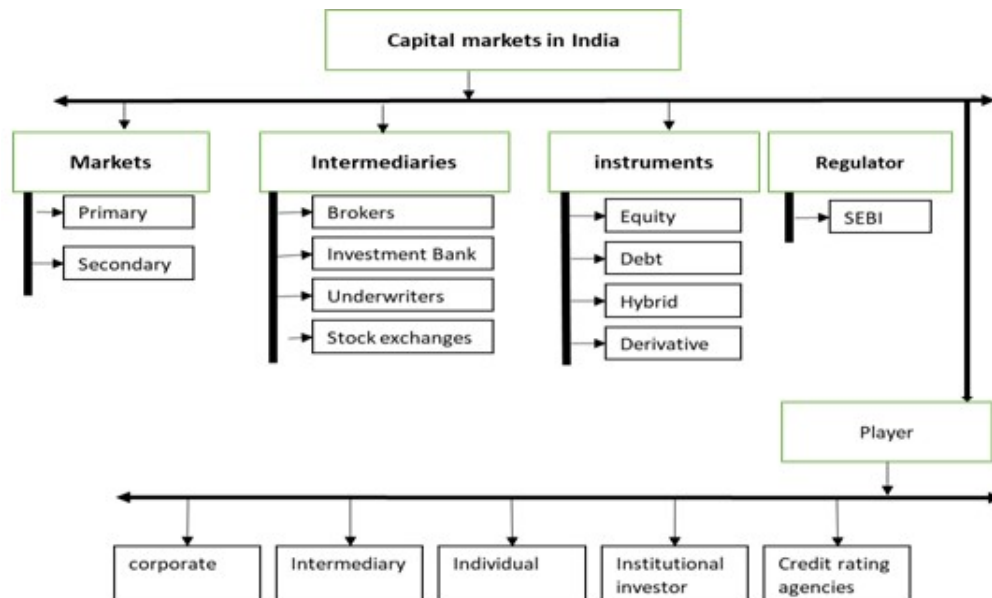


Figure 2: Structure of Capital Markets

One of the major Stock exchanges of the Indian stock market is NSE. NSE started screen-based trading in the year 1992 and the practice was also followed by other exchanges. Screen-based transactions make order-driven trading possible. This system provides uniform access to investors regardless of their locations. This move of an electronic system has led to fewer transaction costs, faster trade execution, transparency during trades, better price discovery. Operational efficiency was also enhanced by strengthening the clearing and settlement practices. Stock exchanges also make sure that any information which is price sensitive should reach all investors at the same time.

ECONOMIC GROWTH AND SAVING

The connection between savings and investment is a topic of considerable attention for emerging countries like India. The role of investment and savings can help to promote the economic growth of a country. The growth path of the Indian economy has changed from moderate (1950-1980) to a high growth path after 1980. Over many years Indian economy has been one of the fastest-growing economies. The macroeconomic perspective has a long-standing view that if the increased savings are properly channelized into productive investment then it would support to capture economic progress. When the savings rate is increased the steady-state output is also increased but its impact is more than the direct impact on investment because the induced increase in income enhances savings which in turn makes a further rise in savings. The theories of endogenous growth given by Romer, and Lucas endorse the view that the assemblage of physical capital acts as a driver of economic growth in the long run. Talking about studies that confirm the relationship between domestic saving and investments, some studies confirm correlation while others also found the presence of cointegration depending upon the period of study. A high amount of correlation between investment and domestic savings was found by Feldstein and Horioka. Frankel also confirmed the fact of high correlation among domestic savings and investment in around 14 developed and 50 developing countries. In the U.S savings and investments were cointegrated before world war II but after that, they were not cointegrated due to increased mobility at the international level after the war. The European union savings and investment were found to be cointegrated. In the Indian context domestic savings and investment are cointegrated with bidirectional causality in long run. Domestic savings since lead to investment can act as fuel for the economic growth of a country.

Indian equity markets are one of the vastly evolving financial markets in the World. Advancement in the financial system of a country has been identified as a reason for the economic growth of a country by economists and researchers. The financial system can be improved by capital accumulation which in turn facilitates in providing credit facilities for industrial and infrastructure development. The deepening of capital markets through increased local participation may play a greater role in the strengthening of the financial system. There is a high amount of correlation between capital markets and institutional investor base and they have the ability to invest in local currency [25]. Institutional investors are major players of capital markets as they pool a large amount of money in capital markets.

INSTITUTIONAL INVESTORS INVESTMENT IN FINANCIAL MARKETS

The ownership in the stocks of Indian companies is basically divided into promoter and non-promoter parts. Promoters majorly hold around 50% of the shares in the companies. If promoters work for their own interest against the interest of minority holders, then the situation can become detrimental. To control any conflict-of-interest, SEBI has taken some measures for example a minimum float for the public needs to be maintained so that proper free float stock should be maintained in the market for its liquidity. SEBI has also given the rule for the disclosure requirement to safeguard the interest of the non-promoter shareholder. Another important development in Indian stock markets is the growth in the participation of institutional investors. Institutional investors are those legal entities who accumulate funds from various investors. These funds are in turn invested in many financial assets therefore they invest on behalf of those investors who pool funds with them. Institutional investors are those organizations who have a large amount of money to invest in financial markets or those organizations which have high trading volumes. They can invest on behalf of their investors and on their own money. They can invest in private placements an option commonly not open for retail investors.

If institutional ownership strengthens in financial markets, then it benefits the society as a whole and not just the individual company. Institutional investors cannot be treated as one similar group as they differ among themselves due to their investment styles, for example, those that invest for the long horizon and short horizon. They can also be classified as a transient investor and dedicated investor as told by Bushee and Noe. Transient investors are those who trade actively in the market and are dedicated and thus they are associated with the corporate disclosure of the company.

After the economic reform of 1991 in India, the Indian equity market has grown many folds with a market capitalization of \$2.1 trillion. Better developed financial markets allocate capital efficiently. Institutional investor's investments play a vital role in stock market movements compared to retail investors. Institutional investor's granger causes economic growth and stock market development. DII and FII both investors constitute a significant portion of investment in Indian financial markets. Foreign investors are impatient than domestic investors if they have short-lived private information based on which they trade intensely. Money invested by FII is known as hot money as it can be easily pulled out to leave the market dry, but DII are more stable investors

In emerging economies like India, most people are uneasy about investing money directly into the stock market. Here, DII's role becomes essential because they become a critical link in channelizing domestic savings into stock markets. As a result, the DII investment share has increased significantly due to increased retail investors' participation. Institutional investor creates stock price informativeness and liquidity. They are motivated and equipped to keep a sharp eye on the stocks in which they invest. However, their trading might lead to volatility as their volume of trading is high in a thin market.



Figure 3: Trading Volume of DII

The trading pattern of institutional investors and their effect on stock markets has been a focusing research area for academicians, policymakers, and researchers. It is essential to decompose institutional ownership into various components because there is considerable heterogeneity among DII due to their investment horizons, goals, and liabilities; therefore, their investment reactions can differ. Moreover, the investment horizon of an institutional investor is related to the informational role played by them. The technique of doing ¹ Foreign institutional investors research in stock markets has changed a lot during the last decades. For instance, the current scenario's focus has shifted from the aggregate investor to specific investors. These changes enable present study to get a deeper insight into the market phenomenon and carry out the analysis at the level of market microstructure. Developed economies are more oriented towards the market microstructure level studies than emerging economies. Brzeszczyński et al., stated some reasons for conducting studies at the microstructure level in emerging markets. First is Institutional investor's desire to trade in emerging economies, as seen

by the growth in institutional capital flows. Secondly, economic reforms and structural changes are key support pillars for development in emerging stock markets which is the reason for increased institutional flows. However, research at the market microstructure level is gaining attention in developed markets but is rare in emerging economies like India.

DII investments were positive even during demonetization in India (October 2022 to December 2022) when FII's investments were detrimental. In 2025, even though FII's withdrew more than Rs. 340bn from Indian markets, DII's remained net buyers with Rs.1090bn². This behaviour of DII helped Indian stock markets to outperform other emerging markets. They act as a cushion, whenever the market dips, DII buys equity at every small drop to become a counterbalance for FII's in the future. It becomes important for the regulatory authorities to increase the investment scope of DIIs, as their investments can prove to be crucial in stabilizing Indian stock markets. The increasing participation of DII in the Indian stock market can be seen in figure1.3. Regulatory authorities require to update policies on the investment limit of DII's. It is also quoted by Malhotra and Chauhan in their research that DII's have limited opportunities for investment. These restrictions on the flow of domestic investor's money may restrict them to invest in Indian stock markets.

FINDINGS AND SUGGESTIONS

- People tend to feel the pain of losses more strongly than the pleasure of equivalent gains. This leads to risk-averse behavior, often resulting in selling winning investments too early and holding onto losing investments for too long.
- Individuals often overestimate their own abilities and knowledge, leading them to trade more frequently and believe they can beat the market. This can result in excessive trading and underperformance compared to passive investing strategies.
- Investors tend to anchor their decisions to irrelevant reference points, such as the price at which they bought a stock. This can lead to reluctance to sell a losing investment until it reaches the purchase price again, even if there's no fundamental reason for the price to rebound.
- People often mimic the actions of others, particularly in uncertain situations. This can lead to market bubbles and crashes as investors follow the crowd rather than conducting independent analysis.

SUGGESTIONS

- Explore various cognitive biases and heuristics that affect investor behavior, such as loss aversion, confirmation bias, anchoring, and availability heuristic.
- Understand how these biases can lead to suboptimal financial decisions and their implications for market dynamics.
- Investigate the role of emotions, such as fear, greed, and overconfidence, in shaping investment choices. Understand how emotional responses can drive market volatility and lead to irrational behavior among investors.
- Examine how individuals make decisions under conditions of uncertainty and ambiguity. Explore prospect theory and its implications for risk perception and risk-taking behavior.
- Study various market anomalies and anomalies that defy traditional financial theories, such as the momentum effect, value premium, and the January effect. Analyze how investor sentiment contributes to these anomalies and their persistence over time.

CONCLUSION

This chapter concludes the study with key findings, suggestions, their implications to financial advisors, brokers. Investment advisors and future researchers, every person has his or her personality traits and faces with the different behavioral biases Likewise, the risk tolerance depend on the personality traits. The most important is that the investors must have the knowledge of their own personality. Psychological biases and their emotional intelligence. Every individual has a different personality and they invest according to their personality some are extrovert in nature, some are introvert and they differ according to their personality. The personalities of the individual vary them from the other individual. Accordingly, they take risk which may vary from one individual to another. It is known that every individual has different emotional intelligence. Moreover. The individual invest indifferent avenues different emotional intelligence. Moreover, the individual invest indifferent avenues according to their emotional intelligence.

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