

**EMOTIONAL INTELLIGENCE AS INVESTMENT RATIONALITY DETERMINANT: A STUDY OF INDIVIDUAL INVESTORS IN EMERGING REGIONAL MARKETS IN WEST BENGAL****Tanaya Das**Research Scholar,  
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**ABSTRACT**

This present research study focuses on the role of emotional intelligence (EI) in shaping the investment rationality among the individual investors, with specific focus on emerging regional markets of West Bengal. Here, it has been shown that different traditional financial theories, like, efficient market hypothesis (EMH) assumes the rational and utility-maximising behaviour in investment context, but behavioural finance highlights the influence of psychological and emotional factors. By using a deductive approach, grounded in EI and behavioural finance theories, this research has employed a structured questionnaire survey of 75 individual investors across chosen districts of West Bengal. The data has been analysed through PLS-SEM, by using SmartPLS4. Findings show that EI significantly influences both investment behaviour under market uncertainty and rational investment decision-making. Particularly, self-regulation and reflective thinking are the critical dimensions to mitigate the biases, such as, panic selling, herd behaviour and overconfidence. Results confirm that EI has both direct as well as indirect effects on the rationality, acting as a stabilising psychological resource to address the issues, like, limited financial literacy and informal advisory networks. This study therefore contributes to the literature of behavioural finance by empirically validating EI as a determinant of the rationality in the area of underexplored regional markets. This study offers some practical implications for the policymakers, educators and advisors to integrate EI training into the financial literacy initiatives. Strengthening EI among retail investors can foster the resilience and promote sustainable financial behaviour in volatile markets.

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**KEYWORDS:** Emotional Intelligence; Investment Rationality; Behavioural Finance; Investor Behaviour

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**INTRODUCTION****Research Background**

Investment decision-making has traditionally been analysed through the classical financial theories, which assumes that investors should be rational, risk-neutral and utility-maximising the individuals (1). Different models, such as, “Modern Portfolio Theory (MPT)” and “Efficient Market Hypothesis (EMH)” emphasised several quantitative factors, such as, risk, return and diversification. However, increasing evidence from the behavioural finance has further challenged these different assumptions by demonstrating that individual investors often deviate from the rational decision-making due to their psychological, emotional and cognitive influences (2). These deviations have therefore become more pronounced in emerging and semi-urban markets, where financial decisions are frequently shaped by the personal experiences, social interactions and emotional responses instead of any pure analytical evaluation.

Emotional Intelligence (EI) has been defined as the ability of individuals to perceive, understand, regulate and utilise the emotions effectively, which has further gained increasing attention in the context of organisational and

psychological research. Investors with the higher levels of emotional intelligence are more likely to demonstrate the self-control, emotional regulation and reflective thinking, which further could strengthen their capacity to make more rational investment decisions (3). In the emerging regional markets across West Bengal, individual investors often face limited access to the resources, while there is absence of formal financial advisory services, different levels of financial literacy and exposure to the informal information sources.

### Research Purpose and Objectives

The primary purpose of the research is to examine the role of emotional intelligence (EI) to shape the investment rationality among the individual investors in chosen districts of West Bengal. By integrating emotional intelligence theory with the perspectives of behavioural finance, this research study seeks to extend the existing literature, while provide nuanced insights into the human investment behaviour. This finding is expected to offer some practical implications for the financial educators, policymakers as well as investment advisors, by highlighting the significance of the emotional competence, while promote the rational investment decisions and improve the financial well-being across the emerging regional markets.

- To examine the influence of emotional intelligence on the investment rationality of the individual investors in emerging regional markets of West Bengal
- To identify the dimensions of emotional intelligence, that significantly affect rational investment decision-making among individual investors in West Bengal
- To assess the role of emotional intelligence on mitigating irrational investment behaviour during market uncertainty

According to (4) emotional intelligence or EI has been considered as a critical psychological construct through which one can elaborate how an individual perceives, process as well as regulate the emotions. (5) has conceptualised the EI as the ability to monitor the one’s own and other’s emotions, discriminate among them, while use the emotional information to guide the thinking process and actions. (6) has further popularised the EI, by identifying several dimensions, like, self-awareness, motivation, self-regulations, empathy as well as social skills. On the other side, (7) has categorised EI into the ability-based models, which focus on the emotional processing skills and trait-based models, which focuses on emotional self-perceptions. According to (8) within the financial context, EI has been increasingly viewed as the capability which could allow the investors to manage the emotional reactions, such as, fear during the market downturns or overconfidence during the bullish phases. This emotional regulation therefore is critical to maintain the long-term investment discipline and rational evaluation of the information. Based on the viewpoint of (9) investment rationality refers to the extent to which the investors make more informed, consistent and goal-oriented decisions based on the analysis of the objectives instead of emotional impulses. Rational investors in this regard are typically engaged in the long-term planning, diversification and assessment of systematic risks. (10) has identified there are several determinants of the investment rationality, which include financial literacy, risk tolerance, experience, demographic factors as well as cognitive ability.



Figure A: Conceptual Framework

Figure A represents the conceptual framework, which shows, the way emotional intelligence influences the investment rationality among the individual investors in the emerging regional markets of West Bengal. Considering the behavioural finance literature, this framework therefore recognises that investment decisions are not wholly

rational, but these are shaped by the emotional as well as psychological processes (11). Emotional intelligence therefore is conceptualised as the key psychological capabilities which directly as well as indirectly affect the rational investment behaviour. This conceptual framework therefore reflects the objective of the study to assess not only the direct influence of EI on the rationality, but also their roles in mitigating the irrational behaviour during the uncertain market conditions.

- **H1:** Emotional intelligence has influence on investment rationality of the individual investors in emerging regional markets of West Bengal
- **H2:** Different dimensions of emotional intelligence significantly affect investment behaviour under market uncertainty
- **H3:** Investment behaviour has positive influence on individual's investment rationality under market uncertainty

## METHODS

### Research Design

This research study has employed a deductive research approach as this research has grounded in the established theories of the emotional intelligence and behavioural finance, from which the specific relationships have been proposed and empirically tested (12). On the other side, this research study has been adopted a positivist research philosophy as this research study seeks to examine objectively some measurable relationships between the emotional intelligence and investment rationality among the individual investors in the emerging regional markets of West Bengal.

### Data Collection Methods

It should be noted that, primary data are collected by using a structured questionnaire survey, administered to the individual investors in the chosen districts of West Bengal, namely, North 24 PGS, South 24 PGS, Howrah, Hooghly, Bankura. The questionnaire consists of close-ended statements, measured on a five-point Likert scale to capture different dimensions of emotional intelligence, irrational investment behaviour and investment rationality (13). Survey-based data collection is appropriate in this context, as it allows standardisation, while enhance the reliability and facilitate statistical analysis by using SmartPLS4.

### Sampling Methodology/Nature

Moreover, this present research study has used a non-probability purposive sampling technique, while targeting the individual investors who actively participate in the financial markets. Purposive sampling is appropriate as it ensures that respondents possess relevant investment experience and are capable of providing meaningful insights. The total sample size of 75 respondents as PLS-SEM is appropriate for small sample sizes and exploratory models (14). This study has followed quantitative, cross-sectional research design as it is appropriate due to their aim to measure the strengths and direction of relationship between the variables by using numerical data. A cross-sectional design further has allowed that data should be collected at a single point of time, while capturing emotional intelligence of investors and investment behaviour under the existing marker conditions.

### Analytical Techniques

As data analysis has been conducted by using "Smart Partial Least Squares" (SmartPLS4), applying "Partial Least Squares Structural Equation Modelling" (PLS-SEM) to evaluate both the measurement and structural model. Measurements model evaluation therefore consists of reliability and validity test, while structural model assessment has examined part coefficient and mediation effects (15). It is therefore appropriate due to their predictive orientation and ability to handle complex models with mediating variables. Throughout this research study, the ethical principles have been strictly followed, as the participation were voluntary and the anonymity of the respondents have been ensured. The data has been solely used for the academic purposes only and informed consent

has been obtained prior to the data collection.

## RESULTS

### Discussion on Variables

Table 1 represents the variables, its attributes and sources of each variable.

**Table 1:** Source of variables

Variables	Attributes	Code (s)
Emotional Intelligence	Self-Awareness	EI1
	Motivation	EI2
	Empathy	EI3
	Emotional Utilisation	EI4
Investment Behaviour	Overconfidence	IB1
	Herd Behaviour	IB2
	Panic Selling	IB3
	Mental Accounting	IB4
Investment Rationality	Systematic Risk-Return Evaluation	IR1
	Long-Term Investment Orientation	IR2
	Emotional Control	IR3

### Outer Loadings

Below table 2 shows the results of the outer loadings, which indicate the strength of association between the observed indicators and their respective latent constructs.

**Table 2:** Outer loadings of indicators

Indicators	Outer Loadings
<b>EI1</b>	0.603
<b>EI2</b>	0.563
<b>EI3</b>	0.913
<b>EI4</b>	0.878
<b>IB1</b>	0.842
<b>IB2</b>	0.844
<b>IB3</b>	0.841
<b>IB4</b>	0.858
<b>IR1</b>	0.882
<b>IR2</b>	0.717
<b>IR3</b>	0.754

From the above result, it can be seen that, EI has two strong indicators among four, EI3: 0.913 and EI4: 0.878, which confirms the reliability of the good indicators, where other two indicators, EI1: 0.603 and EI2: 0.563 show relatively lower loadings for exploratory research. On the other side, IB has exhibited consistently high loadings, ranging from 0.841 to 0.858, which further has indicated strong convergent validity and reliable measurement of the construct. Similarly, IR also has shown the satisfactory loadings, where all three constructs, IR1, IR2 and IR3 have met the recommended threshold. Overall, this research has supported the adequate indicator reliability, while justify retaining all the constructs for further structural model analysis.

**Construct Reliability and Validity**

Table 3 shows the result of construct reliability and validity, which demonstrate that all the latent variables have met the recommended threshold, which indicate a robust measurement model.

**Table 3:** Cronbach’s alpha, composite reliability and AVE

Constructs	Cronbach’s Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
EI	0.736	0.808	0.836	0.572
IB	0.868	0.874	0.910	0.716
IR	0.725	0.875	0.830	0.621

The values of Cronbach’s alpha for EI are 0.736, IB is 0.868 and IR is 0.725, which have exceeded the minimum acceptable value of 0.70, confirming internal consistent reliability. The values of composite reliability (rho\_a and rho\_c) for all constructs range between 0.808 and 0.910, which further support the strong construct reliability, hence, appropriate for PLS-SEM analysis. Along with this, the AVE score in this context for EI is 0.572, IB is 0.716 and IR is 0.621, which are above threshold, 0.50, hence, establishing the satisfactory convergent validity. Overall, this result confirms that the constructs have been measured the reliability as well as validity, hence, justified the progression to the structural model evaluation.

**Hypotheses Testing**

The result of the structural model shows a strong empirical support for all three proposed hypotheses.

**Table 4:** Hypotheses test

Constructs	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics ( o/STDEV )	P Values	Remarks
EI -> IB	0.558	0.572	0.066	8.448	0.000	Supported
EI -> IR	0.418	0.438	0.058	7.215	0.000	Supported
IB -> IR	0.750	0.764	0.036	20.845	0.000	Supported

From the above table 5, it shows that, direct effect of EI on IR is also positive and significant, hence, indicate that emotional intelligent investors tend to make rational investment decisions, which further support H1. On the other side, the path from EI to IB is positive and statistically significant, which confirm that EI significantly influences the IB under the market uncertainty, hence, support the H2, as p value is less than 0.05. Along with this, the relationship between IB and IR is strong and significant, which also validate H3. Thus, in this regard, it can be stated that, all hypothesised relationships are supported.

**DISCUSSION**

The above findings of this research study show a strong empirical support for the proposed hypotheses and research objectives, hence, reinforcing the theoretical expectation that emotional intelligence (EI) plays an important role to shape the investment rationality in emerging regional markets of West Bengal. The structural model analysis further has demonstrated that EI has both direct and indirect effects on the investment rationality, while it also influences the investment behaviour under the market uncertainty (16). This further aligns with the first objective of this research study, which has examined the influence of EI on the rational investment decisions. The positive and statistically significant path coefficient between EI and IR confirms the H1. It further indicates that emotionally intelligent investors are more capable to regulate their impulses, while making consistent and goal-oriented financial choices.

On the other side, the second objective was to identify different dimensions of EI which significantly has affected the rational investment behaviour of the investors. This measurement model further has revealed that two indicators of EI, hence, EI3 and EI4 has specifically strong loadings. It suggests that self-regulations as well as reflective thinking both are critical dimensions to mitigate irrational tendencies. This finding further support H2, which defines that EI influences the investment behaviour under the market uncertainty. Hence, it is both strong and significant, which has highlighted that emotionally intelligent individuals are equipped better to manage biases, such as, fear-driven panic selling or greed-driven speculation (17). This kind of scenario resonates appropriately with the behavioural finance, which focuses the moderating role of psychological capabilities in counteracting the emotional triggers.

The third objective has focused on evaluating the role of EI to mitigate the irrational investment behaviour during the market volatility. The result in this context has shown that IB has strongly predicted the IR, hence, validate the H3. This suggests that EI could indirectly contribute to the rationality by shaping the investment behaviour patterns under the market uncertainty. Investors with the higher EI are more likely to adopt the disciplined strategies, hence, resist the herd mentality, while maintain the long-term perspectives, even the market condition is facing turbulent (18). This finding is specifically relevant in the context of West Bengal, where limited access to the formal advisory services, while depending on the informal networks often amplify the emotional influences. This suggests that EI acts as a stabilising psychological resource, which has further allowed the investors to navigate the socio-economic uncertainties more effectively.

### CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

Based on the above discussion, it can be stated that, this study has established that EI has significantly influenced the investment rationality among the individual investors in the emerging regional markets of West Bengal. This finding further confirmed all of the hypotheses. Financial literacy initiatives should integrate EI training, while focusing on self-awareness, stress management and impulse the control to complement technical knowledge (19). Both regulators and policymakers should design awareness campaigns which emphasises the emotional competence along with the rational financial planning, specifically in the context of semi-urban and rural markets. The investment advisors should adopt the holistic approaches, which assess not only the financial knowledge, but also the emotional resilience, hence, tailoring the guidance to the investor psychology. Local financial institutions can also leverage the peer learning and group workshops to strengthen the emotional regulation, while reduce the herd behaviour in the context of community-driven investment (20). Research scholars across the world therefore need to explore some specific dimensions associated with the EI, namely, empathy or motivation and their impact on rationality.

Based on the above recommendations, following implications can also be noted, such as,

**Academic Implications:** This study contributes to the context of behavioural finance and its associated literature by empirically validating the EI as a determinant of rationality in the underexplored regional markets.

**Practical Implications:** Financial educators and advisors further gain some actionable insights through which the emotionally informed interventions have been designed, which further can improve the well-being of the investors.

**Policy Implications:** Regulators in this context could enhance the market stability by embedding the EI-focused strategies into the investor protection frameworks.

**Social Implications:** By strengthening EI among the retail investors, the resilience can foster, reduce the susceptibility to the emotional biases, while promote the sustainable financial behaviour in the emerging economies.

Thus, based on the above discussion, it can be stated that, different key dimensions, like, self-regulations and reflective thinking could be emerged as the critical drivers, which further has allowed the investors to mitigate different biases or their limitations, like, panic selling or speculative buying. More significantly, this study has highlighted that in the areas, where the financial literacy and advisory services are limited, EI could act as a stabilised psychological resource, which ensure more consistent and goal-oriented financial choices.

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